



Annual Report 2009

including Sustainability Report



Vision

To equip the world with
SKF knowledge

Mission

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

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

Key data

	2009	2008
Net sales, SEKm	56,227	63,361
Operating profit, SEKm	3,203	7,710
Profit before taxes, SEKm	2,297	6,868
Basic earnings per share, SEK	3.61	10.14
Diluted earnings per share, SEK	3.61	10.13
Dividend per share, SEK	3.50 ¹⁾	3.50
Cash flow after operating investments before financial items, SEKm	5,752	65
Return on capital employed, % ²⁾	9.1	24.0
Equity/assets ratio, % ²⁾	35.8	35.1
Additions to tangible assets, SEKm	1,975	2,531
Registered number of employees, 31 December	41,172	44,799

Number of shares 31 December 2009: 455,351,068, of which 45,421,004 A shares and 409,930,064 B shares.

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

²⁾ 2008 has been restated for change in accounting principle IAS 19 "Employee benefits".

Drivers

- Profitability
- Quality
- Innovation
- Speed
- Sustainability

Values

- Empowerment
- High ethics
- Openness
- Teamwork

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This is SKF

SKF Group is the leading global supplier of products, solutions and services within rolling bearings, seals, mechatronics, services and lubrication systems. Services include technical support, maintenance services, condition monitoring and training.



The SKF Group

SKF was founded in 1907 and grew at a rapid rate to become a global company. As early as 1920, the company was well established in Europe, North and Latin America, 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 about 15,000 distributor locations. SKF also has a widely used e-business marketplace and an efficient global distribution system.

Five technology platforms

SKF groups its technologies in five platforms: Bearings and units, Seals, Mechatronics, Services, and Lubrication Systems. By utilizing capabilities from all or some of the platforms, SKF develops tailor-made offers for each customer segment, helping customers improve performance, reduce energy use and lower total costs, while bringing increased added value to SKF.

Three divisions, 40 segments

SKF does business mainly through three divisions: Industrial Division and Service Division, servicing industrial original equipment manufacturers (OEMs) and after-market customers respectively, and Automotive Division, servicing automotive OEMs and aftermarket customers. SKF operates in around 40 customer segments, whereof examples include cars and light trucks, wind energy, railway, machine tool, medical, food and beverage and paper industries.



Financial targets

SKF's long-term financial targets are to have an operating margin level of 12%, annual sales growth in local currencies of 6-8% and a return on capital employed of 24%.

Certification

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

Research and development

Technical development, quality and marketing have been in focus at SKF since the very start. The Group's efforts in research and development have resulted in numerous innovations, forming bases for new standards, products and solutions in the bearing world. In 2009, the number of first filings of patent applications was 218.



SKF Care

SKF defines sustainability as SKF Care, comprising Business Care, Environmental Care, Employee Care and Community Care. Within each of these four cornerstones, key focus areas and targets are defined to drive continuous performance improvement.

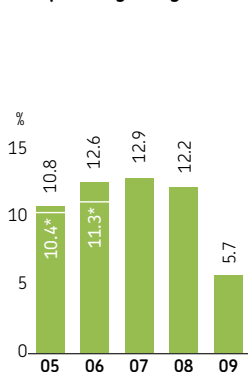
BeyondZero

BeyondZero is a commitment, launched in 2005, stating that SKF is to realize business objectives in such a way that negative environmental impact is minimized, while positive impact is enhanced. BeyondZero goes beyond traditional practice of reducing negative impact by striving for an overall positive environmental impact. BeyondZero influences SKF's development of products and solutions.

CO₂

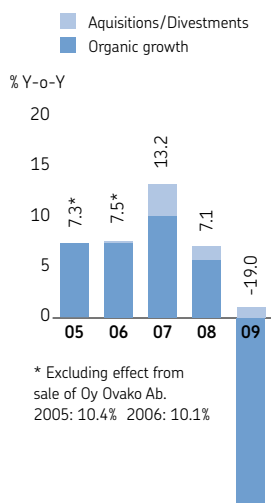
Carbon dioxide (CO₂) is by far the most significant greenhouse gas generated as a result of SKF's operations. Therefore, the Group has set a target to reduce CO₂ emissions by a minimum of 5% annually, irrespective of production volume. In 2009, the reduction was 18%, compared with reduction of 9.1% in 2008 and 2.2% in 2007.

Operating margin



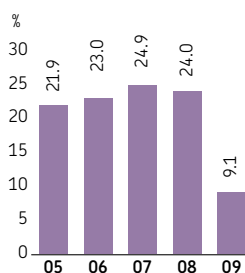
* Excluding income from the previously jointly controlled company Oy Ovako Ab

Changes in sales in local currency



* Excluding effect from sale of Oy Ovako Ab.
2005: 10.4% 2006: 10.1%

Return on capital employed



The years 2005 to 2008 have been restated for change in accounting principle IAS 19 "Employee benefits"



President's letter

In 2009 we faced the most challenging year for business since many decades. The global economy was characterized by a major downturn affecting nearly all segments of business and all regions of the world. This downturn, which was already evident in our automotive business in the second half of 2008, spread to the majority of our businesses in the first half of 2009.

As we went through the year we saw a levelling off in the decline in demand for the Group and some signs of improvement towards the end of the year, however with a mixed picture. Some improvement was evident in our automotive business, primarily driven by the government scrapping incentives, whereas our industrial business remained weak. From a geographical viewpoint we saw improvements in Asia and Latin America as the year developed but North America and Europe remained weak.

As a result of this downturn the SKF Group saw sales drop by 19% in local currencies, or by over 24% in volume terms. We reduced our manufacturing by over 30% compared to the previous year to meet this new level of demand and to reduce our inventories.

The operating profit for the Group declined to SEK 3,203 million, including SEK 1,275 million in one off costs, primarily for restructuring, giving an operating margin of 5.7% compared to 12.2% last year. While we can never be happy with a decline in our profit, I think that against the background of the major drop in demand the SKF Group delivered a good performance. It showed that the efforts that have been put in place to prepare for a downturn, combined with a quick reaction to the decline, gave the expected results and a good foundation to build on in the years ahead.

I am particularly pleased with the cash flow which was a record for the Group at over SEK 5,700 million and gives us a strong financial position. This means that despite a drop in our earnings per share to SEK 3.61 the Board is able to recommend to the annual shareholders' meeting a dividend of SEK 3.50 which is nearly the full net profit.

One key factor in the performance of the Group during 2009 was the strong implementation of a specific programme which we launched in October 2008 to manage this downturn which we call 3C. The 3 Cs stand for Customer, Cost and Cash. SKF increased its activity level with the customers during the year through more time spent in the marketplace, a launch of a number of new products and an increased focus on helping our customers reduce their costs and manage the downturn. In the Service Division we agreed over SEK 3 billion in documented savings for our customers over the year.

In terms of the second "C", Cost, we addressed all areas of our business. Our comparable sales and administration costs were reduced by around 18% in the year in fixed currencies. In our manufacturing

operations, we also had to adjust our manufacturing costs both through using short-time working, which at its peak affected 18,000 employees and by reducing the number of our employees. Since the start of the downturn in the third quarter 2008 about 4,900 people left the SKF Group and about 1,600 will leave as part of the announced programmes. The closure of the hub unit manufacturing operation in Glasgow, USA was completed and the ball bearing plant in Fontenay-le-Comte in France, was closed. Reductions were also made in a number of other operations. We have taken over SEK 1,600 million in restructuring costs within the Group of which SEK 1,275 million were taken in 2009. These are steps which we did not want to take and which I personally deeply regret but with such a significant reduction in our manufacturing volume and the fact that we are now at a new lower level, these steps were necessary to ensure the long-term development of the Group.

The third "C" is for Cash. There was a high focus on cash flow throughout the Group during the year primarily on reducing the working capital in our business with some SEK 2,800 million taken out of inventory during the year in fixed currencies. While we reduced our overall investments by around 20% in 2009 compared to the previous year we continued with the investments in new factories in India and Russia as well as the investments in capacity increases for large size bearings in Sweden and Germany. These investments are focused on faster growing segments and geographies and on improving our total manufacturing footprint. The new factories are being built based on the LEED (Leadership in Energy and Environmental Design) standard for environmental friendliness. We also continued the investments in China to support our development in this market. The second phase in our Dalian investment was opened during the year and we will continue to increase our capacity and range manufactured there. We also increased the manufacturing and testing capabilities in our automotive factory in Shanghai.

Our spending on research and development was kept relatively unchanged in 2009 despite the downturn in the marketplace and in fact we took some important steps for the future. A Global Testing Centre in Bengaluru (Bangalore), India, was opened as a first phase in the establishment of a full Global Technical Centre. We established two University Technical Centres, one with Cambridge University and one with Imperial College London which will support our research initiatives and also raise our profile among students at these important establishments. Additional centres will be opened in the coming



“ We have a strong financial position which will enable us to continue to invest both organically and structurally, to support a long-term positive development for the Group and for our shareholders. ”

years as we look to further strengthen our global R&D activities. I am particularly pleased that the SKF Group won the Swedish Innovation Award for its work on developing the new family of energy-efficient bearings. We are already gaining new enquiries, development projects and business due to our growing range of energy-efficient solutions and we will intensify our efforts in these areas in the coming years.

SKF is unique with its five technology platforms. We work to strengthen our knowledge within and across the platforms to develop new products, solutions and services for our customers. During 2009 we launched over 20 new market offers to our customers. We are continuing to work to bring our knowledge to our customers and in particular the large number of medium and smaller customers and end-users around the world. One such way is the SKF Solution Factories where many of these skills are gathered under one roof. Eight of these Solution Factories have now been opened around the world and the number will increase to 20 in 2010.

One key focus point for SKF in 2009 was to continue developing the competence of our people. We opened the fifth campus of the SKF College in Buenos Aires, Argentina which joins the other campuses in Asia, Europe and the USA. In addition we took the opportunity of the lower activity level at our factories to accelerate the roll out of the initiative for our manufacturing operations which we call “The Bridge of Manufacturing Excellence”. This initiative builds on our previous manufacturing programmes and combines many of our other activities underway in manufacturing including Lean and SKF Six Sigma into one overall initiative. We are already seeing real benefits from this and going forward this will help us support our customers even better.

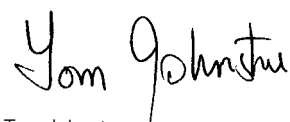
The journey to make SKF a Six Sigma company continued during the year and is a guiding light for our activities throughout the Group. During the year we focused the SKF Six Sigma activities on 3C and have completed projects which will give savings of more than SEK 430 million.

Our work in the area of sustainability, which we call SKF Care, continued during the year and I believe this is increasingly becoming a competitive advantage for the SKF Group. We received a number of important awards in 2009 for our work in this area. In particular the award as leader in the Engineering Sector of the Dow Jones Sustainability Index and the award from Folksam as the best company in environmental and human rights in Sweden are two important examples.

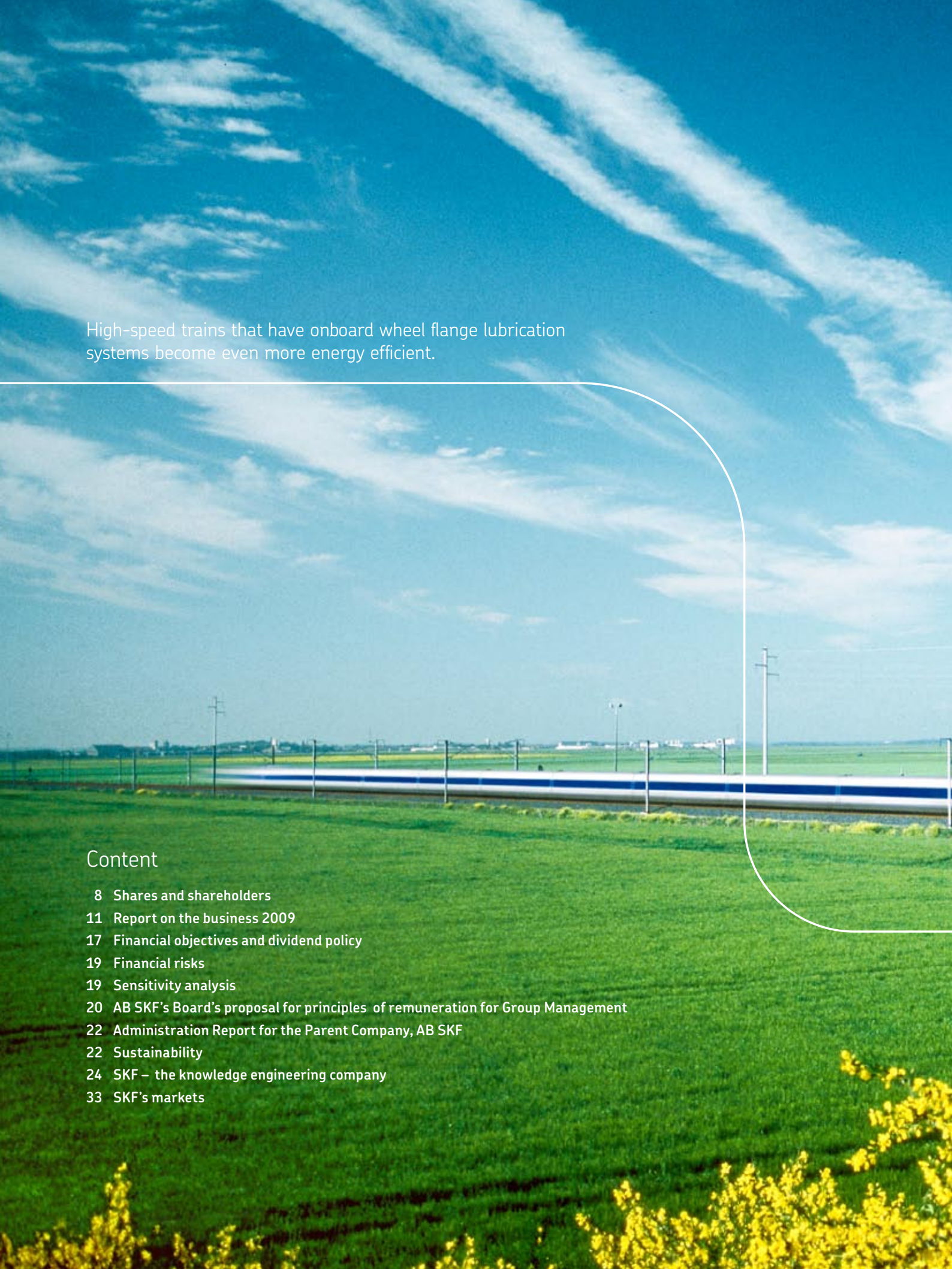
In summary, 2009 was a very difficult year. However, I believe SKF showed its resilience by standing up to the major global downturn and delivering a good result and a very strong cash flow. Our priority was to protect our profit and cash flow over the year and we achieved this. We also took steps to invest in our businesses to support our development going forward. At this point 2010 looks to be a year when we see some recovery in the business but from a significantly lower level than one year ago. We have a strong financial position which will enable us to continue to invest both organically and structurally to support a long-term positive development for the Group and for our shareholders.

I would like to sincerely thank each and every SKF employee for their drive, commitment and understanding as we together manoeuvred our way through the year.

Gothenburg, 28 January 2010



Tom Johnstone
President and CEO



High-speed trains that have onboard wheel flange lubrication systems become even more energy efficient.

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Administration Report



Shares and shareholders

The SKF share as of 31 December 2009

SKF's A and B shares have been quoted on the NASDAQ OMX Stockholm AB since 1914. The total number of shares traded in 2009 was 1,151,265,590. SKF's ADRs are traded on the OTC market.

A shares, unrestricted	45,421,004
B shares, unrestricted	409,930,064
Total	455,351,068

An A share gives the entitlement to one vote and a B share to one-tenth of a vote. It was decided at AB SKF's Annual General Meeting on 18 April 2002 to insert a clause in the Articles of Association which would allow owners of A shares to convert these to B shares. 2,325,030 A shares were converted to B shares in 2009.

A shares are now constituting 10% of total number of shares, to be compared to 10.5% in December 2008 and 43.3% in December 2001.

Changes in share capital 1982–2009	Amount paid SEKm	Share capital SEKm	Number of shares in millions	Quoted value per share, SEK
1982 Bonus issue 1:4	–	1,350	27.0	50.00
1989 Split 4:1	–	1,350	108.0	12.50
1990 Conversion of debentures	62	1,412	113.0	12.50
1997 Conversion of bonds	11	1,423	113.8	12.50
2005 Split 5:1 and redemption	–	1,138	455.3	2.50
2007 Split 2:1 and redemption	–	1,138	455.3	2.50
2008 Split 2:1 and redemption	–	1,138	455.3	2.50

Share savings fund for employees

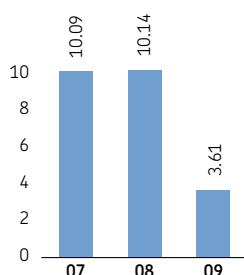
SKF Allemansfond, a national security savings fund for SKF employees in Sweden was started in 1984. On 31 December 2009, the SKF Allemansfond had 1,364 members. 38% of the fund was invested in SKF shares. Assets amounted to SEK 99.3 million.

Distribution of shareholding

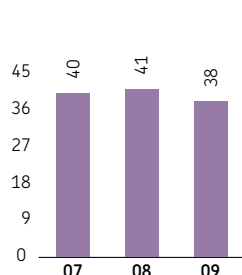
Shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	53,894	80.3	18,594,291	4.1
1,001 – 10,000	11,726	17.4	32,845,280	7.2
10,001 – 100,000	1,142	1.7	32,705,126	7.2
100,001 –	384	0.6	371,206,371	81.5
	67,147	100.0	455,351,068	100.0

Source: Euroclear Sweden AB (Securities Register Centre) as of 31 December 2009.

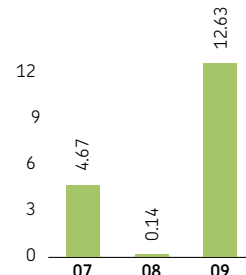
Basic earnings per share, SEK



Equity per share, SEK



Cash flow after investments, before financing per share, SEK



The years 2007 and 2008 have been restated for change in accounting principle IAS 19 "Employee benefits".

The ten largest shareholders	A shares	B shares	Number of shares	Number of votes	In percent of voting rights	In percent of share capital
Foundation Asset Management	21,250,000	33,553,511	54,803,511	24,605,351	28.5	12.0
Skandia	3,975,769	2,050,953	6,026,722	4,180,864	4.8	1.3
Alecta	2,192,404	17,527,200	19,719,604	3,945,124	4.6	4.3
Swedbank Robur Funds	2,432,743	14,472,542	16,905,285	3,879,997	4.5	3.7
AFA Sickness Insurance	1,384,900	5,228,883	6,613,783	1,907,788	2.2	1.5
AMF Pension	0	18,647,577	18,647,577	1,864,757	2.2	4.1
Gamla Livförsäkringsbolaget	1,635,224	1,139,576	2,774,800	1,749,181	2.0	0.6
SEB Investment Management	635,180	7,675,129	8,310,309	1,402,692	1.6	1.8
Nordea Investment Funds	0	10,159,605	10,159,605	1,015,960	1.2	2.2
Försäkringsbolaget PRI Pensionsgaranti, ömsesidigt	902,900	101,400	1,004,300	913,040	1.1	0.2
	34,409,120	110,556,376	144,965,496	45,464,754	52.7	31.7

Source: Euroclear Sweden AB's public share register as of 31 December 2009.

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

As of 31 December 2009, about 36% of the share capital was owned by foreign investors, about 55% by Swedish companies, institutions and mutual funds and about 9% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, so that the actual shareholders are not officially registered.

Per-share data (Definitions, see page 144)

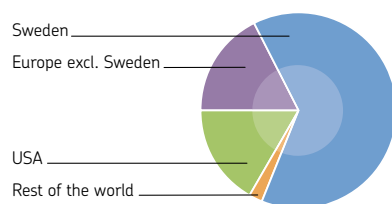
<i>Swedish kronor/share unless otherwise stated</i>	2010	2009	2008	2007	2006	2005	2004	2003
Earnings per share		3.61	10.14	10.09	9.48	7.73	6.42	4.48
Dividend per share		3.50 ¹⁾	3.50	5.00	4.50	4.00	3.00	2.50
Total dividends, SEKm	1,594 ¹⁾	1,594	2,277	2,049	1,821	1,366	1,138	911
Redemption per share				5.00	10.00		6.25	
Total redemption, SEKm			2,277	4,554		2,846		
Purchase price of B shares at year-end on the NASDAQ OMX Stockholm		123.60	77.25	104.79	113.22	99.80	60.83	57.13
Equity per share ²⁾		38	41	40	42	38	36	34
Yield in per cent (B)		2.8 ¹⁾	4.5	4.8	4.0	4.0	4.9	4.4
Yield in per cent (B), including share redemption				9.5	12.8		46.0	
P/E ratio, B		34.2	7.6	10.4	11.9	12.9	9.5	12.8
Cash flow after investments, before financing per share		12.63	0.14	4.67	4.74	5.25	-2.05	5.43

¹⁾ According to the Board's proposal for the year 2009.

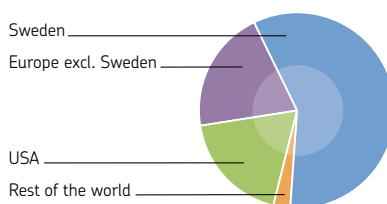
²⁾ The years 2003 to 2008 have been restated for change in accounting principle IAS 19 "Employee benefits".

Geographic ownership

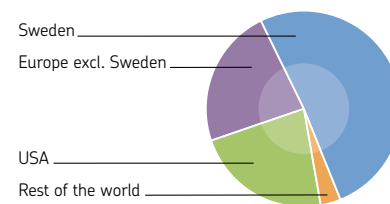
Source: SIS Ownership Data Corp.



2009



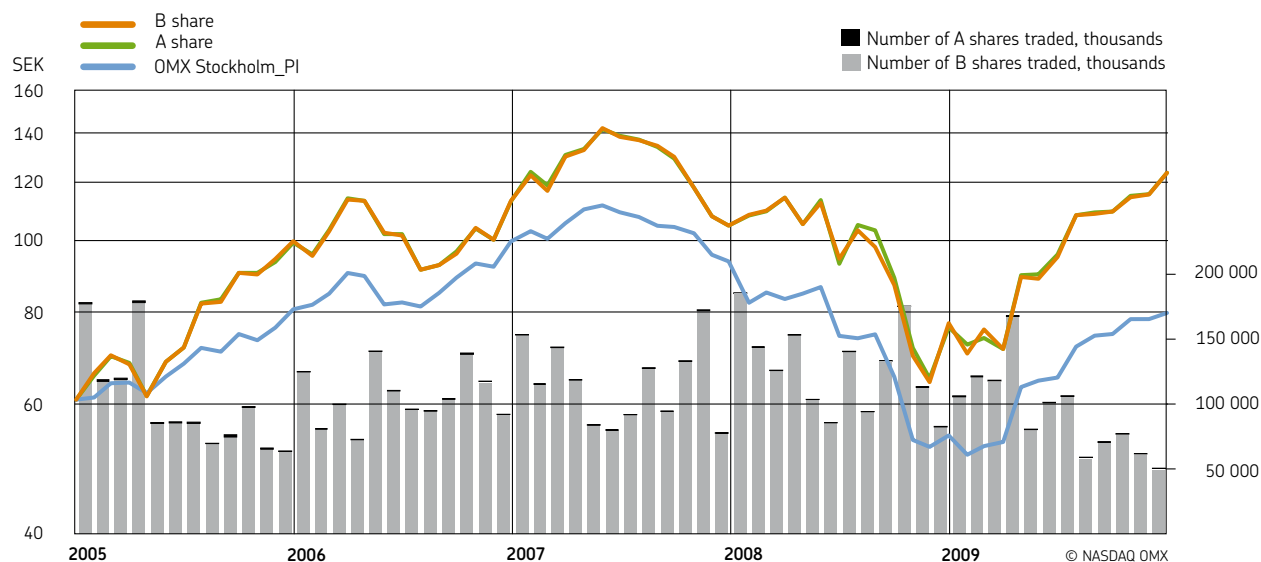
2008



2007

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

Price trend of the SKF shares



Additional information

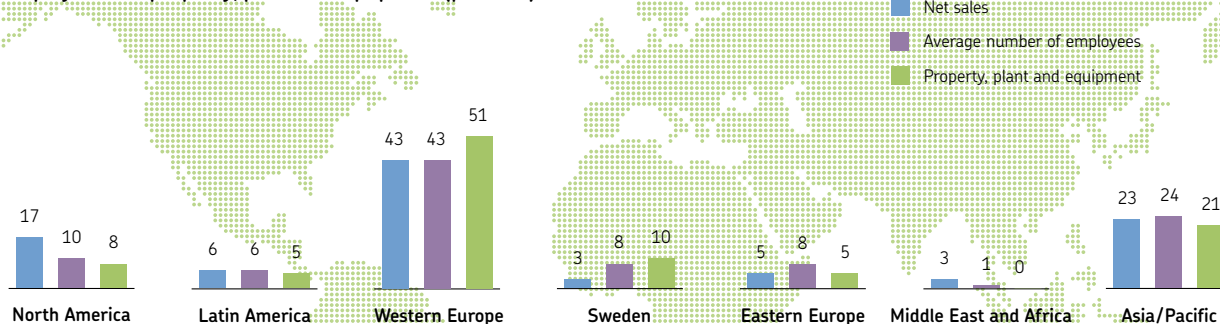
There are no regulations under Swedish law or under the Articles of Association limiting the transferability of SKF shares. Furthermore, to the best of SKF's knowledge, there exist no agreements between shareholders limiting the right to transfer SKF shares (e.g. by pre-emption or first refusal clauses).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

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

AB SKF Stock Fund in the USA

SKF USA Inc. is offering a majority of its employees a possibility to defer pre-tax earnings into a Defined Contribution Pension Plan. The employees can direct the contributions and the matching contributions by the Company to different mutual funds, including an AB SKF Stock Fund. The contribution to the AB SKF Stock Fund is limited to a maximum of 20% of the total contributions, and assets can not be transferred into the fund. The employees have no direct voting rights based on the shares held in the fund. The fund held 845,706 AB SKF B shares at the end of 2009.

Geographic distributions 2009 of net sales, average number of employees and property, plant and equipment (per cent)



Report on the business 2009

SKF's net sales fell by 11.3% in 2009, from SEK 63,361 million to SEK 56,227 million. This fall was attributable to volume -24.3%, price/mix 4.3%, structure 1.0%, and currency effects 7.7%.

The operating profit was SEK 3,203 million (7,710), profit before taxes SEK 2,297 million (6,868) and earnings per share SEK 3.61 (10.14). The figures include expenses for restructuring activities of around SEK 1,275 million, of which about SEK 135 million refers to write-downs and impairments. Excluding restructuring activities the operating profit was SEK 4,478 million (8,050).

Exchange rates, including effects of translation and transaction flows, had a positive effect on SKF's operating profit of around SEK 700 million. Net financial items were SEK -906 million (-842), excluding revaluation of share swaps they were SEK -901 million (-822). Interest-bearing loans totalled SEK 10,750 million at year-end, after repayments of SEK 1,773 million net. Provisions for post-employment benefits, net amounted to SEK 6,993 million (6,323). The cash flow after investments but before financing was SEK 5,752 million (65) and included acquisitions-related payments of SEK 241 million (1,284). Return on capital employed for the 12-month period ending 31 December was 9.1% (24.0).

Capital expenditure on property, plant and equipment amounted to SEK 1,975 million (2,531). Depreciation was SEK 1,764 million (1,607). SEK 44 million (122) was spent on internal and external environmental improvements.

R&D expenditure was SEK 1,217 million (1,175), corresponding to 2.2% (1.9) of annual sales, excluding developing IT solutions. SKF's spending on R&D remained at the same level in absolute figures as for 2008, with the focus continuing to be on the environment, core technologies, new products, strengthening R&D activities in rapidly-expanding regions and strengthening links with universities and technical colleges. The number of first filings of patent applications was 218 (179).

A significant year

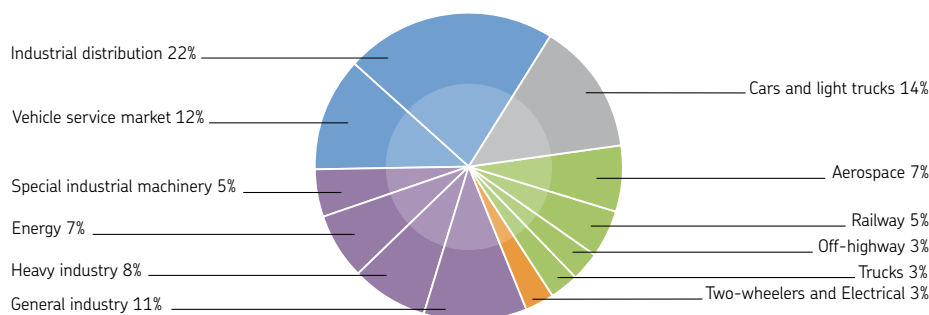
The significant decline in sales volumes started in the autumn of 2008 with a rapid decline in demand in the automotive business, spreading to the main industrial segments by the end of 2008 and the beginning of 2009, and on to aerospace by mid-2009. As the year progressed, government incentives took effect in the automotive industry and the demand for cars started to recover. Overall industrial demand, in particular from OEM customers, continued to fall throughout the year with signs of levelling off towards the end of the year. A few segments, such as railway and the vehicle service market, remained relatively unchanged throughout the year.

SKF has been working systematically over the past ten years to make the company stronger, more robust and capable of handling a market downturn. This enables SKF to be less sensitive to any downturns, with more flexible working arrangements, less tied-up plant and property assets, less working capital and more outsourced material and components. The sales mix has also improved considerably, with a better spread of sales in terms of geographies and customer segments as well as products, solutions and services. The result of these efforts was seen in 2009 when SKF was less affected by the downturn in the business than in previous downturns.

To further ensure that SKF could handle the uncertain market situation in the best possible way, a programme called 3C – Customer, Cost and Cash – started in the fourth quarter 2008, with the following objectives:

- *Customer* – to help customers handle the business environment arising from the fall in demand and increase the number of customer visits, while at the same time strengthening SKF's position through the five platforms and with new energy-efficient solutions.
- *Cost* – to impose strict cost controls and establish permanent changes to the cost structure. Six Sigma activities were redirected to focus on 3C.
- *Cash* – to improve the overall cash position throughout the Group.

Net sales by customer segment



Manufacturing challenges

The severe drop in sales volumes had a significant effect on manufacturing with levels being reduced to meet the lower demand and to reduce inventories.

The manufacturing volume was down by over 30% in 2009 compared to the previous year with nearly all operations affected. This had a major effect on employees working in manufacturing. SKF handled the need for greater manning flexibility through government supported schemes and short-time working agreements, as well as by utilizing specific measures like time banks, flexible shift models, agency workers and other local models. At most, around 18,000 people were working short-time, corresponding to around 5,000 full time workers. Nevertheless, the major decline in volume meant it was unavoidable to also restructure and reduce part of the workforce. Restructuring decisions were taken to adapt the cost base to the new market conditions, as well as to the changing market footprint with many customers moving their businesses to Asia and Eastern Europe.

In 2009, around 3,800 people left SKF due to restructuring and capacity reductions. The closure of the production facility in Glasgow, USA, with predominately automotive manufacturing was completed and the factory in Fontenay-le-Comte, France, which produced small ball bearings primarily for household appliances, electric motors and alternators, was closed.

In total 4,900 people have left the Group since the start of the downturn in the third quarter 2008 and including 2009. In addition, 1,600 people will leave due to the restructuring schemes announced. Overall savings from these activities is estimated to be around SEK 1,050 million when they are fully implemented around mid-2011.

Materials and components supply

The challenges in 2009 were radically different from those experienced in 2008 when material shortages were an issue. It was increasingly important to closely monitor suppliers' financial positions in 2009. SKF was able to secure supplies through closely cooperating with suppliers and strategic sourcing activities, coupled with a strong focus on improved overall cost control. Efforts continued to develop and rationalize SKF's supplier base over the year to underpin regional supplies for greater flexibility and reduce the need for long-distance transportation. A few years ago, SKF's supplier base was very concentrated on Europe and the US. Today, the Group also has a growing supplier base in India and China. When evaluating suppliers, SKF takes a number of factors into consideration, including high ethical standards. The SKF Ethical Demand Chain concept is an integral part of the SKF Group Purchasing Policy, stating that all SKF suppliers will demonstrate high standards of ethics in accordance with the principles of the SKF Code of Conduct.

Capacity and technology investments

In 2009, SKF continued its investment programme in new manufacturing units, albeit at a slower pace than in 2008. Manufacturing capacity rose for large and medium sized bearings in Dalian, China, to support the continuous business growth there and in other parts of Asia, especially in the renewable energy, metalworking, mining, construction and industrial transmission industries. The total investment in the factory at Dalian, covering the two investment phases, will be around SEK 1.1 billion.

The construction of three new factories continued. These factories, two in India and one in Russia, are based on the LEED (Leadership in Energy and Environmental Design) standard for eco-friendliness. Scheduled for opening in the first half of 2010, they will strengthen SKF in these regions' rapidly expanding segments. One factory, for large size bearings, is in Ahmedabad, India, with an investment of

around SEK 450 million. When fully utilized, it will employ around 300 people. Another factory in India, in Haridwar, Uttarakhand, will manufacture ball bearings mainly for the Indian two-wheeler industry. The investment amounts to around SEK 250 million. The third factory, in Tver, Russia, is for the supply of tapered roller bearing units to the rapidly expanding Russian railway industry. This investment will be around SEK 235 million with about 150 employees.

SKF opened a new Global Testing Centre in 2009 in Bengaluru (Bangalore), India, which will be a hub of testing activities ensuring greater focus on customer requirements, cost, quality and operational efficiency. The testing centre will develop into a fully-fledged Global Technical Centre in 2010.

SKF established a new SKF University Technical Centre at Cambridge University. The intention is to carry out research on steels associated with bearing technologies to develop bearings with even greater performance, endurance and energy efficiency. SKF also announced an agreement to establish an additional SKF University Technical Centre at Imperial College London, focusing on tribology.

SKF Bridge of Manufacturing Excellence

SKF introduced the SKF Bridge of Manufacturing Excellence in 2008. This concept for manufacturing excellence is built on five principles – Standardized work, Right from me, We care, Demand driven flow and Continuous improvement – forming a common foundation and a guide for making decisions, understanding decisions by others, continuous improvement work and new method development. More than 100 full-time trainers focused on global implementation, after which employees were actively helped to put what they had learnt into practice. In addition, SKF utilized its lower factory loading level to intensify employee training in the principles and methods for improving manufacturing reliability and flexibility. By combining theoretical and practical training, standards have been raised and SKF's ability of supplying the market at significantly lower inventory levels has been strengthened. See page 28 for more information.

SKF Six Sigma

The SKF Six Sigma programme has now reached a high level of maturity after five years of deployment and is well anchored in the continuous improvement of business and work processes. SKF Six Sigma today encompasses several techniques and tools to address improvement opportunities in all business processes, such as defect elimination and waste and time reduction. Design for Six Sigma is an integral part of the product development processes at SKF.

The launch of the SKF Bridge of Manufacturing Excellence in 2009 has provided an additional opportunity to combine the Lean and Six Sigma methods and using them to complement each other to further strengthen the improvement work in manufacturing.

The SKF Six Sigma activities and projects have been geared towards prioritized improvement areas in 2009, supporting the 3C programme (Customer, Cost and Cash). Three issues have been targeted specifically for Six Sigma projects: reduction of inventories, increased availability and reduction of sales and distribution errors. Furthermore, the maturity of SKF Six Sigma and the current business situation have called for a consolidation of resources, bringing a stronger focus to the utilization rate of the trained project leaders and shortening lead times of projects, as well as reducing the number of new training candidates.

Design for Six Sigma (DfSS) is incorporated in the standard product development processes and is a growing part of the full SKF Six Sigma programme, finding new applications for the techniques and tools. Design for cost, reliability engineering and test strategy is strongly supported by DfSS. There are an increasing number of DfSS projects

The SKF Six Sigma activities and projects have been geared towards prioritized improvement areas in 2009.



Interview with Cornelia Haag, certified Six Sigma Black Belt at SKF in Schweinfurt, Germany

What does your position entail and what responsibilities do you have at SKF?

I work as a Six Sigma Black Belt, which I've been doing since 2006. My main task is helping to achieve continuous, sustainable improvement at the Components business unit at SKF in Schweinfurt, Germany. This covers projects in the production area plus administrative and quality issues.

Can you tell us about a successful project in 2009?

The throughput time in a specific roller channel was too high. We wanted to react more quickly to changes in orders, improve our delivery reliability, while reducing the inventory. To do this we initiated a Six Sigma project.

What kind of methodologies did you use and how?

I followed the Lean Concepts, which mainly focus on waste. It was important to identify time, especially time that did not bring any value

to the manufacturing. An essential step in the project was to control and balance the flow of resources in the production process by replacing only what has been consumed.

What were the benefits and actual savings using this solution?

The actual throughput time in the specific roller channel was reduced by more than 30%. We achieved better service levels for our customers and in addition inventories have been drastically reduced. We also achieved important cost-cutting.

Is it possible to replicate this project in other areas?

Yes of course. Parts of the Lean tools used in this project, e.g. defining buffer and sequence, reducing batch sizes or eliminating paperwork, can also be introduced in other channels and therefore replication is possible.

underway with SKF's customers and there is a clear trend of an increasing interest from customers for joint projects.

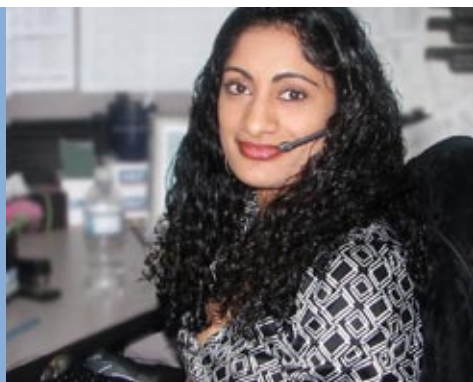
In 2009 SKF continued working with the US Department of Energy's National Renewable Energy Laboratory (NREL) to create a simulation model of a wind energy gearbox using the proprietary SKF advanced simulation tools. SKF has integrated the use of Design for Six Sigma in the project with the aim of optimizing the evaluation of selected bearing arrangements. Using the Design for Six Sigma process enabled a structured approach and toolbox for identifying critical performance-operating parameters. In addition, SKF's monitoring system for wind turbines, SKF WindCon, along with other measuring equipment, provides engineers with real-time comparisons of wind turbine gearbox performance.

NREL's objective with this model is to advance wind turbine designs and thereby serve the mutual interests of wind and gearbox industry stakeholders.

By the end of 2009, SKF had 427 Six Sigma Black Belts and 2,075 Green Belts. In total, 1,110 Six Sigma projects were completed in 2009, which will give SEK 430 million in confirmed annual savings.

SKF Care – awards in the field of sustainability

SKF received a number of important sustainability-related awards in 2009, including being elected the leader in the Engineering sector of the Dow Jones Sustainability Index and getting the Folksam award in Sweden as best company in Environmental and Human Rights. Another important recognition for SKF was winning the 2009 Swedish Innovation Award for the company's innovation and commercialization work on the new family of energy-efficient bearings, launched in 2007 and 2008.



“The course helped me see things from the customer's perspective.”

*Sherry Azeez
Service Division in Canada*

Employees

Internal communication and education was more important than ever for ensuring that all SKF employees had the knowledge required to make SKF perform at its best in 2009's challenging business climate.

SKF has its own college that aims at improving SKF's business results by identifying development needs and providing training programmes resulting in sustainable learning and behavioural change. The SKF College has five campuses located in Shanghai, China; Pune, India; Elgin, USA; Gothenburg, Sweden and Buenos Aires, Argentina, for providing worldwide reach and flexibility in adapting to local needs. Campus Buenos Aires was inaugurated in 2009. A number of new courses started in 2009 including “High Performance Sales Leadership”, “Leading in turbulent times”, “Manufacturing Excellence Boot Camps” and “Leading in change”.

A known challenge is putting new skills into practice. Therefore, courses at an SKF College start with a meeting between the course participant and his/her manager to create a learning implementation plan. The plan is then refined and followed up at various stages during and after the course. Implementation is further enhanced by participants coaching each other for several months after the training. We call this “Learning that sticks”. It is also vital to ensure that all-important training is affordable throughout the SKF global organization. As a consequence, e-training has become increasingly vital. The new customer service training programme was launched globally with the aim of enhancing SKF's phone sales staff's know-how in providing added value to customers. The initial phase of the programme focused on preparing managers to take a coaching role for their employees. The managers were trained in a virtual classroom – using telephone conferencing and sharing documents via the internet. The second phase involved customer service representatives being trained in communication skills and phone selling techniques. The training consisted of e-learning combined with real practice at work with their managers acting as their personal coaches.

One of the participants, Mrs. Sherry Azeez from the Service Division in Canada explains what she learnt most from the course: “The course helped me see things from the customer's perspective. What I mainly learned was a set of questions that we can use in our daily work, making us more proactive in our contacts with customers, enabling us to meet their needs more effectively. Completing parts of the training via e-learning made it easier to fit it into my schedule. I saved time by not having to travel and SKF saved money by not having to pay any travel costs. And I still got coaching during the training from my manager.”

Acquisitions and divestments

In 2009, SKF made payments of SEK 241 million relating to acquisitions made in previous years, in particular the buyout of non-controlling shareholdings.

In April 2009 SKF acquired the remaining 49% of the shares in SKF Polyseal Inc. (formerly Macrotech Polyseal Inc.). The original 51% was acquired in April 2006. SKF Polyseal is based in Salt Lake City, Utah, USA and offers sealing solutions for a wide range of industries.

SKF's divisions

SKF carries out business activities in three divisions, each focusing on specific worldwide customer groups. The divisions are inter-dependent and provide each other with products, services and know-how, so that each division can fully serve its final customers.

All divisions focused significantly over the year on helping customers to reduce their costs as well as reducing costs at their own operations. With the help of the Six Sigma methodology, significant process improvements were achieved. The Industrial Division and the Automotive Division with many manufacturing units had to take measures to reduce operational costs and to improve manufacturing flexibility in order to respond to the huge fall in demand over the year. Short-time working was introduced at the same time as training programmes were run to reinforce employee skills in lean and flexible manufacturing processes and lead-time reduction. As a result of restructuring and capacity reduction, 3,800 people left the company over the year.

A large number of new products were launched in 2009 for both industrial and automotive markets – with 17 new products released in the autumn alone – of which many focused on helping customers reduce their environmental impact, see also pages 30-32.

The **Industrial Division** serves industrial Original Equipment Manufacturer (OEM) customers in some 30 global industry customer segments with a wide range of energy-efficient offerings. These solutions and know-how are also based on the manufacturing of a wide range of bearings – such as spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and super-precision bearings – as well as lubrication systems, linear motion products, magnetic bearings, by-wire systems and couplings.

Highlights in 2009:

- A Memorandum of Understanding for a strategic partnership and a major new contract was signed with Sinovel Wind Co. Ltd, one of the largest wind turbine manufacturers in China.
- SKF strengthened its leading position in the railway industry with several new major orders in Europe, Russia and Asia.
- A new super-precision bearings series was launched, targeting both machine tool applications and other machinery equipment with similar high precision requirements.

- Launch of electronic actuators and Y-bearings for the agriculture vehicle equipment market.
- Launch of the SKF Oil Conditioning Unit, a new value-adding solution, which helps control the oil temperature and filter contaminants that could cause component wear of equipment in the mining, mineral processing, cement and pulp and paper industries.
- Launch of a new SKF profile rail guide series, used for applications that require a combination of high loads and high precision linear movements in, for example, plastic injection moulding, wood working and printing equipment.
- Launch of sealed SKF Explorer spherical roller bearings, designed to keep lubricants in and contaminants out of the bearing.

The **Service Division** serves the global industrial aftermarket providing products and knowledge-based services for increasing customers' plant asset efficiency. Solutions are based on SKF's knowledge of bearings, seals, lubrication systems, mechatronics and services, and customers are served by SKF and its network of over 7,000 authorized distributors. The division runs a network of Condition Monitoring Centres, which design and produce world-leading hardware and software. Service Division is also responsible for all SKF's sales in certain markets. The expanding network of SKF Solution Factories will be the future infrastructure for delivering complete, integrated solutions incorporating all SKF's technology platforms.

SKF Solution Factories help customers fully utilize SKF's knowledge. Following the first SKF Solution Factory in Shanghai, China, opened in 2008, seven more SKF Solution Factories were established in 2009 – in Tianjin (China), Gothenburg (Sweden), Cajamar (Brazil), Turin (Italy), Johannesburg (South Africa), Pune (India), and Taichung City (Taiwan). The network of SKF Solution Factories will be further extended in the coming years. SKF Solution Factories combine the full range of SKF's expertise with workshop facilities, providing customized service to end-user customers. In this way, many SKF bearing services and integrated value-adding solutions – such as remanufacturing and customization, application engineering, spindle repair, lubrication applications, mechanical services including mounting, alignment and balancing, remote monitoring centre and training – are close at hand for customers.

Highlights in 2009:

- The SKF Distributor Value Programme was made available in over 20 languages, helping distributors measure the value they deliver to customers.
- SKF enhanced its authorized distributor network with the addition of distributors with expert knowledge within, for example, lubrication systems and seals.
- The Certified Maintenance Partners (CMP) programme now adds up to over 165 CMPs worldwide. Further growth is expected mainly in Latin America and the Middle East.
- The Certified Rebuilder Programme for electric motors was successfully expanded in Europe and Latin America and is progressing well in Asia.
- SKF Distributor College, an online training tool for SKF distributors, continued to grow in terms of content as well as number of certificates. By the end of the year, the 70,000th certificate was awarded to an SKF distributor employee in Serbia.
- The SKF energy-efficient (E2) bearings were extended through the launch of medium deep groove ball bearings, specially suited for electrical motors.
- Following the successful launch of SKF's power transmission products these are now available on all markets.

- SKF signed a number of new service contracts, for example with Total E&P UK, a subsidiary within the oil and gas company Total Group, with Codelco, a large copper mining firm in Chile, and with Maple Leaf Cement Factory Ltd., a producer of cement and its by-products in Pakistan.
- New service offers were launched, such as the SKF Energy Monitoring Service – Compressed Air System (for detecting air leakages in industrial compressed air systems), the SKF Energy Monitoring Service – Pump Systems (to reduce pump system related energy costs), and the IMx-R, a new online system customized for integrated monitoring and bogey safety system for passenger trains.

The **Automotive Division** serves manufacturers of cars, light trucks, heavy trucks, buses, two-wheelers and the vehicle service market, supporting them in bringing innovative and sustainable solutions to global markets. In addition, the division provides energy-saving solutions for home appliances, power tools and electric motors. Within the Automotive Division, SKF develops and manufactures bearings, seals and related products and services. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, and automotive specialty products for engine, steering and driveline applications. For the vehicle service market, the division provides complete repair kits, including a range of drive shafts and constant velocity joints.

Highlights in 2009

- The development of energy-efficient products and solutions was intensified. SKF and Ricardo signed an agreement to develop energy-efficient solutions to better serve the increasing customer demand from the automotive industry for increased fuel economy and reduced CO₂ emissions.
- Sales of value-adding solutions increased. Magnetic trigger wheels were developed for light duty truck ABS systems. SKF received a new order from Daimler AG for valve stem seals developed for their new heavy duty engine platform. SKF developed a high-pressure valve stem seal for the latest upgrade of Scania's new engines. New orders were received from the Honda Group for projects in different parts of the world and from ZF Sachs for a fork seal.
- Sales increased in emerging markets. SKF was awarded the contract in India for developing and supplying a belt tensioner unit for the Tata Nano car manufactured by Tata Motors. In China, new orders were received from Brilliance Auto for rear wheel bearings, as well as from Volvo Cars for bearings for the Volvo XC60 and Volvo S80 limousine, produced in China. In South America, GM Brazil awarded SKF new orders for clutch bearing units for a new gearbox.
- SKF's market position in the vehicle service market was strengthened with 800 new kits, adding to the range of over 10,000 kits offered worldwide.
- An example of a new solution introduced to the two-wheeler segment is the SKF Rocker Arm Bearing Unit, which saves fuel and reduces vibration.

Logistics Services

SKF's business is supported by its logistics processes and systems, which involve all parts of the logistics needs in the supply chain. SKF Logistics Services provides warehousing, transportation, packaging and inventory management based on seamless information and communication technology for the SKF Group worldwide.

Long distance sourcing coordinates components and semi-finished products from different supplier locations and integrates deliveries into the manufacturing environment reliably and cost-effectively. This concept combines with the factories' material handling solutions and



“It’s impressive to access SKF’s transportation network, with its global solutions, through straightforward integration of IT systems.”

*Christer Söderberg
Global Supply Manager, PIAB*



SKF and PIAB products at SKF’s distribution centre in Tongeren, Belgium, on their way to customers worldwide.

provides an efficient supply of components to channels inside the factories. Finished products are distributed through a global transport network from 28 locations worldwide, shipping to more than 50,000 customers’ locations globally. The distribution structure is built on a few highly specialized warehouses and a transportation set-up where the majority of the departures are according to a fixed time schedule. This provides consistent delivery performance with short lead-times allowing next day deliveries with high cost-efficiency.

As SKF has the critical mass to distribute goods worldwide it helps other companies optimize their integrated logistics solutions, giving them a competitive edge in costs, services and flexibility. Companies are offered air, sea and road transportation around the world, international distribution centres and local warehouses, plus picking, packing, packaging and inventory management. The number of companies exploring this opportunity has grown rapidly over the past five years and 2009 was a record year with the addition of a further ten new customers, bringing the total to more than 50. The need for companies to optimize their logistics infrastructure increased in 2009, compared with years with normal demand, and in addition to new customers SKF also increased its market share with established logistics customers.

Companies can choose a close logistics partnership or just join for a transport solution. SKF started offering third party logistics services ten years ago and a majority of customers who started using this service have remained with SKF. Typical external customers include mid-sized industrial companies with an international market. One example of a company who chose SKF to support their strategy of accelerating sales internationally is the Swedish-based company PIAB, a global leader in industrial vacuum technology. A new distribution set-up was required and SKF is now providing PIAB with smooth, real-time order processing and an easy one-face access to SKF’s global logistics network.

Christer Söderberg, Global Supply Manager, PIAB:
“SKF today runs our European warehousing and distribution activities, including lots of intercontinental transportation. It’s impressive to access SKF’s transportation network, with its global solutions, through straightforward integration of IT systems. SKF has proven to be a solid, reliable partner.”

Protecting the brand

SKF seeks to make users aware of the fact that counterfeit industrial products exist, and recommend authorized sources to safeguard authenticity. Together with the World Bearing Association, comprising

the global leading bearing manufacturers, SKF takes a no-tolerance approach to counterfeits. In 2009, SKF played an active supporting role in the police seizure of 30 tons of counterfeit bearings in the Czech Republic and over 15 tons counterfeit bearings in Greece.

Counterfeit bearings are bearings illegally marked with the SKF brand or another brand and put into packaging that looks genuine. These bearings are sold at the same price as genuine products to unsuspecting product users. Counterfeit bearings exist in many different types and sizes and on all geographical markets. If used in a critical application, counterfeit products could lead to damage or, in the worst case, cause injuries.

Important factors influencing the financial results

Despite a volume decline of 24.3% in 2009, the Group’s operating profit was SEK 3,203 million, with a margin of 5.7%, including restructuring costs of SEK 1,275 million. Excluding restructuring costs the operating profit was SEK 4,478 million with a margin of 8.0%. The efforts over the past years to make SKF more robust and capable of handling a downturn, based on a more efficient cost structure and improved sales mix, contributed significantly to the results of 2009. The implementation of the SKF Bridge of Manufacturing Excellence in the factories around the world also contributed to the performance, with an improvement in KPIs in its first year. The 3C programme helped SKF to strengthen its customer focus, internal cost control and cash flow. A number of Six Sigma activities were redirected to support the 3C programme, with significant positive effects both in terms of cost reduction and cash position. The use of shorter working hours in different forms allowed more flexible manning levels. The weaker SEK impacted positively on the results by around SEK 700 million.

Risks and uncertainties in the business

The company operates in many different industrial and automotive segments as well as in many geographical segments with dissimilar business cycles. A general economic downturn at a global level, or in one of the world’s leading economies, could reduce the demand for the Group’s products, solutions and services for a period of time.

In addition, terrorism and other hostilities, as well as disturbances in worldwide financial markets, could have a negative effect on the demand for the Group’s products and services. There are also political and regulatory risks associated with the wide geographical presence. Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit the SKF Group’s operations.

Financial objectives and dividend policy

Financial targets

SKF's long-term financial targets are:

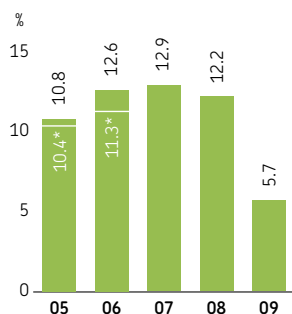
- operating margin level of 12%
- annual sales growth in local currencies of 6-8%
- return on capital employed of 24%

Strategy

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

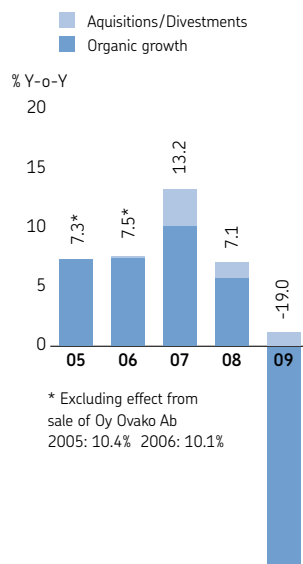
- keeping a clear and dedicated customer focus
- developing new products, solutions and services with higher added value which enable customers to improve their efficiency and performance while lowering their total cost
- improving price quality by applying the SKF platform and segment approach to deliver value to customers
- strengthening the product portfolio through greater investment in R&D and through acquisitions
- focusing on rapidly expanding segments and regions
- reducing capital employed and fixed costs
- attracting, retaining and developing the right people

Operating margin



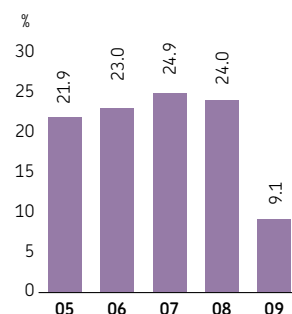
* Excluding income from the previously jointly controlled company Oy Ovako Ab.

Changes in sales in local currency



* Excluding effect from sale of Oy Ovako Ab
2005: 10.4% 2006: 10.1%

Return on capital employed



The years 2005 to 2008 have been restated for change in accounting principle IAS 19 "Employee benefits".



Overall financial objective

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

Financial performance management model

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

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

Financial position and dividend policy

The capital structure target is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business, while maintaining a strong credit rating. On 31 December 2009, the gearing was 49.3% (50.1), the equity/assets ratio 35.8% (35.1) and the net debt/equity ratio 68.9% (84.2). Definitions of key figures can be found on page 144.

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

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

Dividend

The Board has decided to recommend to the Annual General Meeting a dividend of SEK 3.50 per share for 2009. This proposal is subject to a resolution by the Annual General Meeting in April 2010.

Repurchase of the company's own shares

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

The shares may be repurchased by operations on the NASDAQ OMX Stockholm AB. The proposal is subject to a resolution by the Annual General Meeting in April 2010.

The Annual General Meeting in April 2009 resolved to authorize the Board, until the next Annual General Meeting, to decide on the repurchase of the company's own shares. In 2009, no repurchases were made and the company owns no SKF shares.

Credit rating

The Group has an A minus (A-) rating with stable outlook for long-term credit from Standard and Poor's and an A3 rating with negative outlook from Moody's Investors Service. SKF intends to keep a strong credit rating, which is reflected in its gearing target.

Financing

SKF's policy is to have long-term financing of its operations. As of 31 December 2009, the average maturity of SKF's loans was 3.5 years. SKF has issued two notes on the European bond market, one with an outstanding amount of EUR 132 million and due date of 2010 and one with an outstanding amount of EUR 400 million and due date of 2013. Furthermore, SKF has issued one note on the Swedish bond market with an outstanding amount of SEK 556 million and due date of 2011. According to the conditions of the notes, the notes' interest rate may increase by 5% in case of a change of control of the company (meaning any party/concerted parties acquiring more than 50% of SKF's share capital or SKF's shares carrying more than 50% of the voting rights). Similar conditions apply to two loans SKF has with the Nordic Investment Bank (NIB), one amounting to EUR 30 million and due date of 2014 and one amounting to EUR 100 million and due date of 2016, and to a loan SKF has with Swedish Export Credit (SEK) amounting to EUR 100 million and due date of 2014. In addition, SKF has a term loan amounting to EUR 150 million and due date of 2013.

Financial risks

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

Currency risk

SKF is subject to both transaction and translation exposure. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia as well as intra-European business. SKF hedges 75% of the estimated net USD exposure for three to twelve months. This hedging corresponds to around 60% of the total net transaction flows. At year-end, the hedging with derivatives conformed to the Group policy. Translation exposure on Group accounts is hedged to some extent by borrowing in foreign currencies.

Interest rate risk

Liquidity and borrowing are managed at Group level. By matching the 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

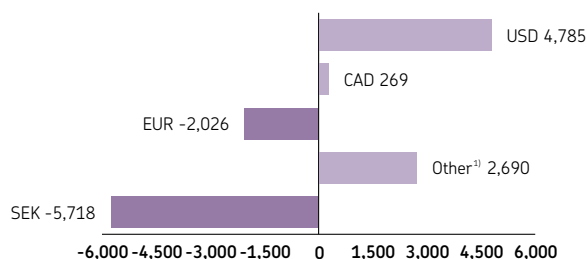
The Group policy states that only well-established financial institutions will be approved as counterparties. Exposure per counterpart is continuously monitored.

Liquidity risk

In addition to its own liquidity, AB SKF had committed credit facilities of EUR 500 million at year-end. More details about risk management and hedging activities can be found in Consolidated financial statements, Note 28.

Net currency flows 2009 (SEKm)

¹⁾ Other is a sum comprising 14 different currencies.



Sensitivity analysis

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

- The annual cost for raw material and components is around SEK 14,000 million, of which steel bars, tubes, components or oil-based products account for the majority. A change of 1% in the cost of raw material and components reduces/increases the profit before tax by around SEK 140 million.
- An increase of 1% to wages and salaries (including social security charges) reduces the profit before tax by around SEK 160 million.
- An increase/decrease of 1% in interest rates has a positive/negative effect on the profit before tax of around SEK 60 million, based on the current position. The Group had net interest bearing liabilities of SEK 11,801 million on 31 December 2009.
- Exchange rates
 - Transaction effects:* A strengthening/weakening of 5% of the USD versus the SEK has a positive/negative net currency flow effect on the profit before tax of around SEK 200-250 million, excluding effects from hedging transactions. With regards to commercial flows the Group is primarily exposed to the USD and US dollar related currencies.
 - Translation effects:* A weakening/strengthening of 5% of the SEK versus all major currencies has a positive/negative effect of the translation of profits in SEK of around SEK 250 million. Most of the profit is made outside Sweden, meaning the Group is exposed to translational risks, from all major currencies.

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

Introduction

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

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

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

Fixed salary

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

Variable salary

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

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

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

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

Performance Shares

At SKF's Annual General Meeting in 2008 and 2009, respectively, it was resolved to introduce a performance share programme for senior managers and key employees (SKF's Performance Share Programme 2008 and 2009, respectively). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2010. The terms and conditions of the proposed SKF's Performance Share Programme 2010 are in essence the same as the terms and conditions of the programmes for 2008 and 2009, respectively, included in the principles of remuneration for Group Management decided at the Annual General Meeting 2008 and 2009, respectively.

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

The number of shares that may be allotted must be related to the degree of achievement of financial targets defined by the Board of Directors in accordance with the SKF Group's TVA management model and must pertain to the period commencing 2010 up to and including 2012. Under the programme, no more than 1,000,000 B shares may be allotted.

The participants in the programme may receive no more than the following number of shares within the various key groups:

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

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

Assuming maximum allocation under SKF's Performance Share Programme 2010 and a share price of SEK 125, the cost, including social security costs, is estimated at around SEK 150 million. On the basis of a share price of SEK 175, the cost, including social security costs, is estimated at around SEK 210 million. In addition, administrative costs are estimated at around SEK 3 million.

Other benefits

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

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

Pension

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

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

Notice of termination and severance pay

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

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

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

Preparation of matters relating to remuneration for Group Management

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

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

Information about remuneration decided upon but not due for payment

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

- In 2005, the SKF Group introduced a performance-based variable salary programme with both a short-term and a long-term element. At AB SKF's Annual General Meeting in 2008, it was resolved that the long-term element of the performance-based variable salary programme be replaced by SKF's Performance Share Programme 2008. The Annual General Meeting 2009 resolved on SKF's Performance Share Programme 2009, with in essence the same terms and conditions as of SKF's Performance Share Programme 2008.

The pay outs relating to the long-term element of the performance-based variable salary programmes 2005 and 2006, respectively, were made in 2008 and 2009, respectively. Any pay out relating to the long-term elements of the variable salary programme 2007 will be made in 2010. The maximum variable salary including both the short-term and the long-term part 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%.

Any allotment of shares under SKF's Performance Share Programmes 2008 and 2009, respectively, will be made during 2011 and 2012, respectively. As stated above the terms and conditions of SKF's Performance Share Programmes 2008 and 2009 are in essence the same as the terms and conditions of the proposed SKF's Performance Share Programme 2010.

- The pension conditions of the President are described on page 82 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions.
- Certain members of Group Management are, in the event of termination of employment at the request of the company, entitled to receive a severance payment which is not related to the number of years' service, but amounting to a maximum of two years' salary

Principles of remuneration for Group Management 2009 and remuneration of Group Management 2009, see Consolidated Financial Statements Note 25.

Nomination of Board members and changes to the Articles of Association

In addition to specially-appointed members and deputies, the company's Board of Directors shall comprise a minimum of five and a maximum of ten members, with a maximum of five deputies.

The Annual General Meeting shall, inter alia, determine the number of Board members and deputy Board members, and preside over the elections of Board members and deputy Board members.

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

Administration Report for the Parent Company, AB SKF

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

The company performs services of a common Group character. Reported net sales refer to services invoiced to subsidiaries. Costs invoiced from subsidiaries are included in the reported cost of services provided and amounted to SEK 1,201 million (1,268).

Dividend income from consolidated subsidiaries amounted to SEK 2,939 million (4,343).

Additions to investments in subsidiaries amounted to SEK 2,625 million (4,735) of which SEK 5 million (99) is related to acquisitions from companies within the SKF Group and SEK 2,620 million (4,636) to capital contributions to existing units.

Risks and uncertainties in the business for the Group are described in the Administration Report for the Group. The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the

products and services provided by the Group could mean lower dividend income for the parent company, as well as a need for write-down of the values in the shares in subsidiaries. Due to the wide spread of markets, geographically as well as operationally in which the subsidiaries operate, the risk that the financial position for the parent company will be negatively affected is assessed as small.

Information on principles for remuneration of Group Management is found in the Administration Report for the Group.

Information required under the Annual Accounts Act Chapter 6, § 2a, is found in the Administration Report for the Group.

Proposed distribution of surplus

Unrestricted equity in the parent company amounted to SEK 8,152 million. The Board has decided to recommend to the Annual General Meeting a dividend of SEK 3.50 per share for 2009, in accordance with the compilation presented on page 99. This proposal is subject to a resolution by the Annual General Meeting in April 2010.

Sustainability



Reporting

Sustainability is recognized as both a way of working in SKF and a key business driver for sustaining long-term growth. The reporting of sustainability performance data has been integrated with the Annual Report since 2002. SKF has internalized the business approach of sustainable development as Business Care, Environmental Care, Employee Care and Community Care.

Values and principles in business conduct, ethics, as well as environmental and social commitments are depicted in various formal documents, such as the SKF Commitment incorporating the SKF Code of Conduct, and other Group policies. Such policies endorse international principles as outlined in, for example, the UN Global Compact.

Business Care

The key element in Business Care is that SKF should achieve its long-term financial targets and give a good return to its shareholders by investing in its people and business, by upholding business ethics and by delivering value to its customers.

SKF expects high integrity and ethical business practices not only from its management and employees but also from its business partners, with the implementation of the SKF Code of Conduct for Authorized Distributors and the SKF Code of Conduct for Suppliers and Sub-contractors.

SKF's BeyondZero concept, launched in 2005, defines the strategy of tackling environmental challenges by working simultaneously on reducing the environmental footprint from SKF's overall operations, and on innovating and offering new technologies, products and services that deliver higher efficiency, eliminate wastes and increase product service life to industries. The former requires SKF to assess and address the environmental impacts resulting from being a global manufacturer, whereas the latter focuses on enhancing the environmental added value of applying SKF's solutions in various applications and industries.

The development of the SKF Energy Efficient (E2) bearings, supported by the EU-Life programme, has successfully demonstrated how SKF innovation delivers both environmental and financial savings for customers. It has also won the 2009 Swedish Innovation Award.

Environmental Care

- Environmental permits

SKF's operations have an impact on the environment through energy use, waste, air and water emissions and noise.

Operations requiring permits exist in all countries where SKF has manufacturing. In Sweden, on 31 December 2009, SKF held permits covering 10% of the Group's overall production volume for its operations in Gothenburg, Katrineholm and Hofors. The permits relate to production of bearings, bearing housings and couplings. SKF received no significant directives from the environmental authorities in 2009. No permits were subject to review or revision in 2009.

The new EU Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals substances (REACH) applies to SKF. SKF has appointed a team responsible for ensuring compliance and timely communication of REACH obligations within the SKF Group as well as to suppliers and customers.

- Environmental management system

SKF has a Group-wide certification according to the international standard for environmental management ISO 14001. All units are included in a single Group-wide certificate, which, at the end of 2009, covered 97 sites in 28 countries. Recently acquired companies are part of a plan for certification.

The environmental permit for SKF Mekan will be reviewed by the authorities during 2010.

- Environmental targets

The Group has an annual target of a 5% reduction in CO₂ emissions from energy consumption at all its factories, irrespective of production volume increases. The emission reduction was 18% in 2009 compared with a reduction of 9.1% in 2008.

SKF has also established a Group target to further reduce the use of solvents by 50% and increase recycling of grinding swarf to 80%, by 2012. Fourteen SKF sites located in extreme water stress areas have been identified and have subsequently established water saving targets for 2010 and onwards.

- Landfills

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

Employee Care

- Health and safety certification

Since the end of 2005, the SKF Group is certified according to the health and safety management standard OHSAS 18001. At the end of 2009, the certificate covered 97 sites in 28 countries.

- Towards Zero Accidents

SKF's drive for achieving zero work-related injuries and illnesses is progressing and given top priority. Of 211 units, 120 units reported no accidents for at least one year and the accident rate was 1.29 in 2009, compared with 1.54 in 2008. For more information see page 132.

- Working Climate Analysis

SKF conducts an annual Group-wide Working Climate Analysis since 2007. The survey aims at obtaining employee feedback on SKF's performance in relation to the company's values and key focus areas.

Community Care

SKF's Community Care programme progressed well in 2009. With presence in more than 130 countries, SKF units are encouraged to seek active involvement and commitment in the local communities, through viable voluntary work, sponsoring sporting activities, education, training, and helping underprivileged local communities. Forty countries submitted Community Care activity reports in 2009, which in total represented a contribution of around SEK 20 million. This was an increase on 2008's result, both in the number of countries and monetary value.

Sustainability indexes

SKF was selected the sector leader for the IEQ Industrial Engineering sector in the 2009 Dow Jones Sustainability Indexes. This was the tenth year SKF was included in the Dow Jones Sustainability Indexes and similarly, for the ninth successive year in the FTSE4Good Index Series.

The annual Folsam Corporate Responsibility Index has positioned SKF as the best performing company in environmental performance for the fourth consecutive year, for demonstrating a high level of preparedness in meeting current and future environmental challenges.

More information on external awards and recognition received by SKF worldwide can be found on page 101. For the complete Sustainability Report 2009, please see page 116.

SKF – the knowledge engineering company

SKF has been a technological leader for more than 100 years and is continuously investing in this leadership in order to maintain and strengthen its competitive advantage. This was also true for 2009 in spite of the lower demand. SKF's fundamental strength lies in its ability to continuously develop technologies, products and services that enhance competitive advantages for its customers while giving the right return on investment for its shareholders. This is achieved by both investing in core technology areas and by combining the knowledge across the SKF technology platforms – Bearings and units, Seals, Mechatronics, Services and Lubrication systems – to develop value propositions for the different industries and customers around the world. SKF's product range has evolved over many years from primarily being based on different types of bearings to products and services from all five technology platforms. It also includes advanced unitized modules, integrating the knowledge and capabilities of some or all of SKF's platforms.

A key driver of SKF's technology development today is sustainability – improving efficiency and reducing energy losses, thereby helping reduce the impact on the environment both within its operations and for its customers.

The SKF vision is "To equip the world with SKF knowledge". To take the knowledge from over 100 years of operation to develop and deliver products, services and solutions which enable customers to develop their business successfully and profitably. SKF knowledge can be defined as the combination of the following three dimensions

● The geographic dimension – global and local presence



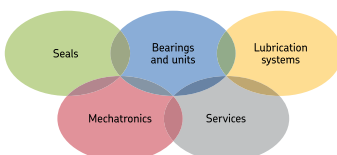
SKF is a global company with a local presence which has primarily been in place since the early years of the SKF Group. Wherever customers are located local expertise, supported by global industrial specialists and technical experts, combine the required SKF skills to be able to make a specific offer for customers which meets their local needs. The global experts draw upon knowledge and successes from similar industries worldwide.

● The customer dimension – industries and segments



SKF's customers can be found in very many industries and industry segments, currently defined as around 40 specialized segments. Each customer and segment has different technical and commercial challenges. Working in so many different industries enables SKF to develop specific products and services for each industry and take knowledge from one industry and apply it to another industry.

● The competence dimension – technology platforms



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

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

Customers

SKF supplies industrial original equipment manufacturers that produce many different types of industrial products such as pumps, fans, compressors, motors, gearboxes, machine tools, paper machines, steel mills, printing presses and windmills, to name a few.

SKF also serves the aerospace industry, including manufacturers of engines and gearboxes for fixed winged aircraft and helicopters, as well as maintenance, repair and overhaul suppliers. SKF also supplies the railway industry, which includes both the manufacturers of normal trains, high speed trains, passenger carriages, freight carriages, railway components, system suppliers and repair workshops.

Together with the largest network of authorized distributors in the bearing industry, SKF provides a unique service organization. With around 7,000 industrial distributor locations, SKF is close to its customers worldwide.

Through this network SKF helps customers improve the efficiency of their production processes. One example is real-time vibration analysis of machine operations, where, following a diagnosis, the customer is recommended the right maintenance strategy, work process and optimal level of spare parts.

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

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

The vehicle aftermarket is served by SKF mainly based on a repair kit concept. SKF provides mechanics with appropriate repair kits to help speed up and facilitate repair work, and which contain all the necessary components for making the repair. More than 10,000 different kits are currently available and some examples are for wheel bearings, timing belts, water pumps and constant velocity joints.

Research and development

SKF has a strong global network of R&D centres and laboratories, as well as established collaborations with several major universities and research institutes. SKF took further steps during the year to strengthen these activities by establishing an additional Global Testing Centre and two University Technology Centres. SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership, and these new centres will be followed by further such activities in the coming years.

Global Testing Centre

SKF inaugurated its Global Testing Centre in Bengaluru (Bangalore), India in November 2009. This centre represents the first step of a three-phase development process to create a Global Technical Centre. It will provide testing, laboratory investigations and product development facilities, ensuring greater focus on customer requirements, quality and speed of development for the region. The aim is to provide faster and more cost-effective support for SKF's activities in the region by applying global testing standards adapted to local customers' specific requirements. The new testing centre will significantly reduce lead times and ensure that SKF has the ability to respond speedily to new product requirements.

University Technology Centres

Steel, heat treatment and tribology are key technologies for SKF and crucial for underpinning SKF's rolling bearing development work. In December 2008 the SKF Group signed an agreement with Cambridge University in the UK to support a University Technology Centre (UTC) on steels. The aim is to conduct research on steel associated with bearing technologies for developing bearings with even greater performance, endurance and energy efficiency.

There is a link between the structure of steel on a microscopic level and the mechanical and physical behaviour developed by certain steel compositions and heat treatments. A deeper understanding of this link will enable SKF to improve the behaviour of steels and thereby prolong and predict the life of bearings.

In December 2009, SKF signed a contract with Imperial College London's Department of Mechanical Engineering to set up the next SKF University Technology Centre on tribology. The objective is to further reduce friction and wear, and therefore extend the associated service life and environmental performance of SKF products.

Technology clusters

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

Swedish Innovation Award

SKF's continued efforts in developing innovative and sustainable solutions based on customer needs and new technology trends, were rewarded in 2009 with the Swedish Innovation Award. With the new family of SKF Energy Efficient (E2) bearings, which reduce energy consumption, SKF is supporting industry by making a significant contribution to saving energy today and in the future. In its statement the jury explained that SKF "combined its 100-year old product with modern research and technology and utilized a new market demand for climate changeover and energy efficiency".

SKF's core areas of technical expertise include:

Materials and heat treatment

SKF is at the forefront of understanding the interaction and exploitation of steel and heat treatment combinations to meet the ever-increasing demand for load-carrying capacity and energy efficiency. Through its unique heat treatment processes SKF achieves excellent steel properties by controlling the microstructure and the residual stresses in steel. The continuous strive for optimizing the interaction between material and heat treatment is now focused on making heat treatment equipment smaller and more energy efficient, while still attaining the material properties required for different applications. New computer-based techniques are used to understand deformation behaviour and response of hardened steels under extreme loading conditions. Thereby the heat treatment processes can be simulated so that the material response under heat treatment can be followed in detail with respect to microstructure development (phase transformation), distortion and residual stress development in



One of the SKF Excellence Awards 2008, given in 2009, was a project for creating and supplying a new and complete programme for condition-based maintenance on ships, giving benefits such as reduced maintenance costs and improved uptime.

Tide Sjø AS chose SKF to provide predictive maintenance services for some of its ferries in Norway. SKF engineers collect data from the generator sets, thruster motors and gearboxes on a monthly or quarterly basis depending on the vessel. The data is analysed and a report is provided to the customer, helping them to take preventive actions for the maintenance onboard. By choosing SKF, Tide Sjø was able to reduce downtime by overcoming issues that negatively affected vessel availability. In the photo: Morten Larsen, SKF Consultant Engineer.

different heat treatment stages. Technology development within non-metallic materials, such as polymers and ceramics, is also important. SKF focuses strongly on their friction and weight reduction properties, enabling it to support market trends and maintain the sustainable strengths of SKF's products.

Seals

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

Mechatronics

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

Modelling and simulation

SKF has one of the most comprehensive and powerful sets of modelling and simulation packages in the bearing industry, ranging from easy-to-use tools based on the SKF General Catalogue formula to the

most sophisticated calculation and simulation systems. The company's strategy is to develop a broad range of software packages to satisfy a large number of customer requirements; from fairly simple design checks and moderately complex investigations to the most advanced simulations for bearing and machine design.

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

The SKF Spindle Simulator is advanced simulation software for analyzing spindle applications. This program takes account of the effect of the operating speed and temperature on the bearing shaft and housing fits as well as the bearing preload. In addition, at each point in the spindle's duty cycle, it analyzes the effect of the external loads on the shaft and the bearings and delivers precise information about each contact for each rolling element on each bearing. The program supports the analysis of spindles and contains detailed models of super-precision bearings. The launch of the SKF Spindle Simulator in 2009 was a milestone for SKF since it is the first SKF simulation software released to SKF's end customers.

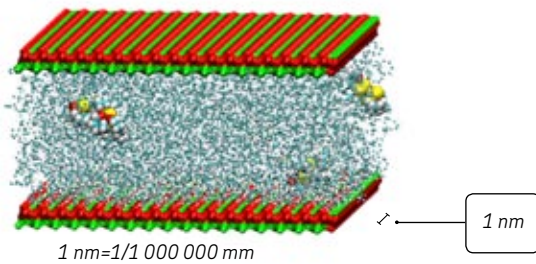
SKF Interactive Engineering Catalogue is an easy-to-use online tool for bearing selection and calculation, for public use at www.skf.com, containing bearings designations, dimensions and drawings of

bearing units, bearing housings, plain bearings and seals. A module for frictional moment of energy-efficient bearing designs is now also published: this calculation model considers the geometrical optimization made in the bearings to reduce friction, as well as surface topography improvements and the use of low-friction lubricants of the energy-efficient bearing.

Tribology and lubrication

The interaction between the lubricant and the surface of the rolling elements is an essential factor in defining bearing performance. Understanding, predicting and controlling these working conditions help reduce bearing friction and wear, and prolong the service life. SKF's world-leading position in these areas was recognized in 2008 by the Tribology Trust. At a ceremony in 2009, HRH Prince Philip, the Duke of Edinburgh, presented the Tribology Gold Medal to SKF and Professor Stathis E. Ioannides, Technical Director for SKF, see photo on page 101. Lubricants are usually highly compressed between the contacting surfaces so that only a few nanometers of lubricant molecules are under very high pressure and temperature. Here, the single molecule structure can make a difference and greatly influence the life and performance of bearings.

SKF researchers have applied modelling approaches like molecular dynamics to understand the behaviour of lubricant molecules during tribological contact and investigate them down to atomic levels. Coupling state-of-the-art molecular modelling and analysis techniques, like interferometry and XPS (X-ray Photoelectron Spectroscopy), SKF researchers carry out advanced scientific investigations to understand more about the molecular mechanism of lubrication and its effects on friction, thereby generating knowledge to further improve bearing performance and extend bearing life.



SKF researchers have applied modelling approaches like molecular dynamics to understand the behaviour of lubricant molecules during tribological contact and investigate them down to atomic levels.

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

Therefore, understanding the composition and mechanics of reaction layers is very important for SKF. By characterizing different reaction layers formed on bearing steel surfaces after experiencing tribological contact, SKF can understand the mechanics of reactions between lubricants and bearing surfaces and how this influences bearing performance.

Manufacturing

SKF constantly improves its manufacturing processes to optimize investments in equipment and working capital per unit produced, resulting in enhanced quality and improved customer service. The use of Six Sigma plays an important role in these efforts. All initiatives for continuous improvements in manufacturing are brought together by the SKF Bridge of Manufacturing Excellence, ensuring consistent implementation throughout the Group.

SKF develops and implements new technologies to increase reliability and flexibility, reduce costs and improve environmental performance. Some examples include:

- Advanced manufacturing processes for improved sustainability, focusing on efficient energy use as well as reduction of process media.
- Improved product performance by optimizing the combination and heat treatment of materials. Investments in new heat-treatment equipment have been made at many factories.
- Near-net-shape forming processes for improved efficiency and material utilization, resulting in less waste, lower manufacturing variations and reduced allowances.
- New methods for manufacturing excellence, resulting in improved equipment utilization and stronger commitment among employees.
- Intelligent machining with integrated sensor and measuring equipment for more consistent and reliable manufacturing processes.
- Advanced intelligent technologies for vision systems and measuring.

Life cycle management

Life cycle management at SKF is a way of integrating environmental considerations into every process and activity throughout the company, aiming at a holistic and proactive approach to environmental management. By applying life cycle management, SKF wants to move from focusing on the environmental impact of production to a life cycle approach of all aspects of the business.

Life cycle studies are performed to gain more knowledge about the environmental impact of SKF's products and operations. The knowledge developed with these studies supports the integration of life cycle management by providing data, which is used to set up tools and guidelines for future development. Methods for life cycle assessments at SKF are continuously developed in line with current state-of-the-art approaches. Life cycle assessment and life cycle management research is carried out in collaboration with renowned universities.

Intelligent inspection technologies

SKF's strive towards Zero Defects has led to the development of advanced technologies for the inspection of products and components. By adding intelligence into the inspection loop, SKF generates information for improving control of the manufacturing processes.

This can be used in the application of non-destructive testing technologies, like eddy current, ultrasonic and other technologies, built on magnetic properties of the heat treated steel. Combining inspection with the use of artificial intelligence it is possible to improve detection of material defects and improve process control, as well as defining and predicting product properties.

Near-net-shape forming

Near-net-shape forming refers to a cluster of technologies, from forging and pressing to rolling of rings and rolling elements, forming a component to almost final shape. This process reduces allowances in all operations, giving increased performance in SKF manufacturing channels. Reduced allowances also positively impact the environment since reduced manufacturing cycle times also reduce energy use and waste.



SKF Bridge of Manufacturing Excellence

The SKF Bridge of Manufacturing Excellence represents a further step in SKF's work on continuous manufacturing improvements, inspired by Zero Defects and Six Sigma methods. The Bridge illustrates the SKF production channels as the link between suppliers and customers, built on five principles for manufacturing excellence, forming SKF's common foundation. These principles, as described below, serve as guidance for the manufacturing and support functions involved in all daily operations at SKF.

- **Standardized Work:** used to define the normal situation – We standardize our activities, interfaces and processes. We visualize and organize our workplace – and act on deviations (to the normal situation) in real time.
- **Right from me:** used to emphasize that we are links in a chain of relationships in which we only produce and deliver quality products or support, we assess the risks, we design for quality, build in functionality in our equipment that can help us, and create commitment with our suppliers.
- **We care:** is about our people and environment. We create empowerment, safe and ergonomic workplaces, develop the employees.
- **We have an efficient use of natural resources and reduce environmental impact.**
- **Demand-driven flow:** The customer drives demand. Therefore we need to achieve continuous flow in everything we do, create flexible, reliable and capable processes and assess our manufacturing capacities.
- **Continuous improvement:** used to challenge our standardized work. We eliminate waste continuously, we experiment as part of our learning process, reduce variations (link with Six Sigma) and use indicators to identify progress and opportunities for improvement.

SKF Mekan in Sweden has been chosen as an SKF Bridge of Manufacturing Excellence Learning Platform. This means that SKF Mekan is used for training and benchmarking both of Manufacturing Excellence experts and operational managers and teams. It also means that SKF Mekan is continuously used to improve best practice, which is seen as a dynamic process and requires continual learning on all levels of the organization.



Interview with Reijo Simontaival, operator at SKF Mekan in Katrineholm, Sweden

For how long have you been working according to the principles of the SKF Bridge of Manufacturing Excellence?

We started in the autumn of 2008.

What has been the most positive thing about this way of working?

We have gained considerably more understanding and respect for each other including our different working tasks. When handing over to a colleague in the next shift, things are more organized, which also has contributed to a better working atmosphere.

Did you experience any special difficulties when implementing the principles?

At the beginning it was very difficult, but when it was obvious that we listened to each other and took each other views into account we became deeply involved and very positive to this way of working.

How come SKF Mekan was chosen as an SKF Bridge of Manufacturing Excellence Learning Platform?

We have been very successful in implementing this way of working, not to mention doing it in a very short time.

How do you spread this working method and the knowledge you have gained about SKF Bridge of Manufacturing Excellence to other SKF factories?

Many companies, both internal and external, come here to learn about the principles of the SKF Bridge of Manufacturing Excellence and how we have managed to implement them.

What has SKF Bridge of Manufacturing Excellence meant for you personally?

We rotate at the different working places today and that means varying our working tasks, which makes the job less monotonous. This has also led to a project, for which I am the team leader, with the purpose to reduce waste at the foundry even further. I enjoy my work very much nowadays.

New products and solutions

In 2009, SKF launched a number of new products and solutions to help customers increase equipment reliability, reduce maintenance costs and the environmental impact. See some examples below:

Electromechanical actuators

for off-highway and outdoor equipment. Proved to be resistant to wide temperature swings, chemicals, dirt, dust, water, shock, vibration and other demanding operating conditions.



SKF sealed spherical roller bearings keep the lubricant in and contaminants out of the bearing. Increase uptime, reduce need for maintenance. No leakage and minimized grease consumption are the main benefits – making them an environmentally friendly choice.



The **SKF Oil Conditioning Unit** is a low-pressure pump filtration unit for removing contaminants from oil reservoir systems, which can be used in heavy industries such as pulp and paper, mining, mineral processing and cement. The unit can be equipped with optional air or water coolers to cool the oil and keep it at desired temperature and viscosity. This reduces premature failures and extends machine service life, which helps end-users cut operating costs and increase productivity.



Y-bearings for agricultural vehicle equipment market are designed to withstand the toughest operating conditions. They reduce downtime and reduce environmental impact.



A new **grease for blade and yaw bearings** in wind turbines. It is of the utmost importance to select the appropriate grease for lubricating the bearings to help increase reliability and avoid unplanned downtime. This grease provides proper lubrication, when the turbine is operating or in stand-still mode, installed onshore, offshore, in cold climate areas, or under other kinds of tough conditions.



SKF profile rail guide series LLT is available in a wide range of sizes, carriages and accessories as well as in various preload and accuracy classes. LLT profile rail guides facilitate the adaptation to individual application demands. This, in combination with their ability to operate at virtually unlimited stroke, opens up almost any design option. The range of possible applications includes material handling, plastic injection moulding, woodworking, printing, packaging and medical devices.



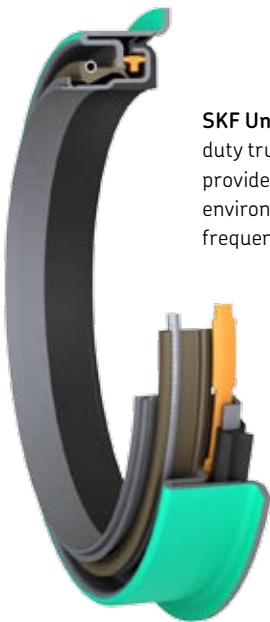
Sealing solutions for all positions in a screw compressor.



A product line of **Hub bearing unit, generation 1**, for small cars.



A new generation of **super-precision bearings**. This assortment delivers improved accuracy and extended bearing service life when compared to previous designs in particular for demanding machine tool applications.



SKF Unitized Pinion Seal for heavy duty truck axles are engineered to provide optimal sealing in aggressive environment. It reduces maintenance frequency, costs and is easy to install.



SKF Turbocharger Ball Bearing Unit is a robust, customized and double row super-precision ball bearing unit that saves fuel consumption and reduces CO₂ emissions compared to the current plain bearing solution. The unit is also more compact, easier to assemble and provides better running accuracy for high system efficiency. Potential applications are turbochargers, superchargers, waste heat recovery turbines and turbo compounding.



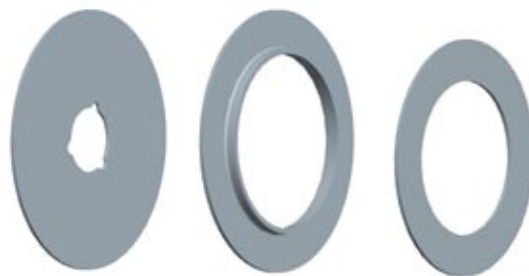
The **SKF Rocker Arm Bearing Unit** saves fuel and reduces vibrations and noise in engine applications for two-wheelers.



An accurate, robust and cost effective **SKF Rotor Positioning Sensor-Bearing Unit** for electric motor control of electric power steering systems.



Telemag CPI is a very stable, strong and robust telescopic pillar dedicated for the height adjustment of industrial workstations. Typical customer applications are assembly lines, packaging tables, monitoring rooms or call centres.



High precision stamped plates for the thrust needle roller bearing in air-condition compressors. They adjust the axial position of the shaft to assure accuracy of the internal axial load distribution on the pistons and the compressor efficiency. The unit is also easier to install because of one piece unitized design.



Large diameter seals and wear sleeves designed to extend service life and replacement intervals in highly abrasive conditions. Targeted market segments are mining, mineral processing, cement and coal powered generating plants.



SKF Machine Condition Advisor simultaneously measures vibration signals and temperature to indicate machine health or bearing damage. It can be used on most industrial machine applications including electrical motors, pumps, compressors, gearboxes, fans and more.



Technology in motor racing

In 2009, SKF's involvement in Formula One included the renewal of the contract with Scuderia Ferrari, which is the longest technical partnership in Formula One. SKF develops and supplies around 150 components for Scuderia Ferrari for some of the most demanding engineering applications in a Formula One car. Racing, and especially Formula One, could be considered SKF's fastest engineering laboratory as it represents a testing ground for innovative solutions, which foster friction and weight reduction as well as overall efficiency improvement. Lessons learned on the track can be successfully transferred to non-racing, industrial applications. SKF has also started to take part in developing new high-technology applications, such as energy-recovery systems (used in the latest Formula One Championship), and in work to find solutions for the challenging new hybrid and electrical power systems.

SKF has contributed to the development of technologies for a new sports car concept with reduced energy use. SKF has focused specially on technological progress in bearings and bearing components for electric motors, such as high-performance deep groove ball bearings, energy-efficient bearings, special greases and low friction seals.

SKF has been very active in Nascar in the US since 1998. In 2005, SKF became an official technical partner to Richard Childress Racing (RCR) and since then, SKF's motorsport engineering team has been successful in assisting RCR with technology development to enhance on-track performance. SKF has also been the official technical partner to Ducati since 2001. Year after year, Ducati has collected a long list of successful results, reinforcing the long technical partnership between the two companies.

SKF's markets

Bearing market

The world bearing market is generally seen as global sales of rolling bearings, comprising ball and roller bearing assemblies of various designs including mounted bearing units. SKF estimates that the global rolling bearing market fell to around SEK 245 billion in 2009 compared to more than SEK 280 billion the previous year, with a drop of more than 30% in local currencies on some markets.

Demand for rolling bearings used in automotive applications began falling back in 2008, while the industrial original equipment and replacement markets continued to show strength into the beginning of 2009. Towards the end of 2009, automotive bearing demand picked up again, albeit from very low levels, boosted largely by various state car-buying incentives.

The automotive original equipment bearing markets accounted for less than 30% of world demand in 2009. The industrial original equipment bearing markets accounted for more than 40% of world demand and included manufacturers of light and heavy industrial machines and equipment as well as aerospace, off-highway and railway vehicles. Sales through distributors (industrial distribution and the independent vehicle aftermarket) together make up 30% of world bearing demand, of which 25% are related to the vehicle and 75% to the industrial business.

Asia currently accounts for more than 40% of the world market, compared to less than 30% ten years ago. China has been growing rapidly in recent years and now accounts for almost one fifth of the world total. Japan's share of the world bearing market has been declining, and domestic Japanese bearing demand now accounts for less than 15% of the world total. Other Asian markets with sizeable bearing production and exhibiting significant growth in recent years include India, Thailand, Indonesia, Malaysia and the Republic of Korea.

The Chinese bearing market, which is the largest and fastest growing of the emerging markets, is very fragmented with international manufacturers and many local manufacturers. SKF is the leading bearing company, with both imported and locally manufactured products.

Europe accounts for around one third of the world total, with Germany alone accounting for more than 10% of the world total. The Americas now represent less than 25% of global demand, of which the USA, Canada and Mexico together account for almost 85%. In South America, Brazil is the major market and makes up more than 60% of regional demand.

SKF is the world leader for bearings. In Western Europe, SKF is closely followed by the German Schaeffler Group with its INA and FAG brands among others. SKF is the second largest bearing supplier in North America behind the market-leading US-based company Timken. SKF is the leading supplier in Asia, excluding Japan where the domestic companies NSK, NTN and JTEKT are the leading suppliers.

The radial deep groove ball bearing is the most common rolling bearing type, accounting for almost 30% of the total world bearing demand. Other major ball bearing types are angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub bearing units.

The usage areas for roller bearings have developed more favourably in recent years than those for ball bearings and now account for more than half of world rolling bearing sales. Demand for mounted bearings, or bearing units, varies between 5% and 10% in the local markets.

Roller bearings are named after the roller shape, such as cylindrical roller bearings, needle roller bearings, tapered roller bearings and spherical roller bearings. All of these are available for loads acting across the shaft (radial bearings) and for loads that are parallel with the shaft (thrust bearings). There are also bearings which contain both balls and rollers simultaneously. The largest roller bearing family is the tapered roller bearing, with almost 20% of the world bearing market. Sales of these have fallen over the past two decades, as wheel hub units to a large extent have replaced tapered roller bearings in automotive wheel applications. In recent years, however, demand has again grown on the back of greater production of heavy-duty and off-highway vehicles needed for infrastructure investments and due to the growth of the wind-energy market.



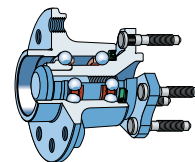
Deep groove ball bearing



Angular contact ball bearing



Self-aligning ball bearing



Wheel hub bearing



Thrust ball bearing



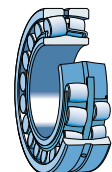
Cylindrical roller bearing



Needle roller bearing



Tapered roller bearing



Spherical roller bearing

International standards

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

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

Polymer seals market

SKF is a leading player in the global polymer seals market. In 2009, the decline in demand for polymer seals was estimated at up to 20% compared to 2008, resulting in a market size of around SEK 55 billion. In Europe and the Americas, the market fell more than 25% in local currencies. The decline in demand for automotive polymer seals was higher than that for industrial polymer seals. Polymer seals can broadly be classified by type of motion into rotating, reciprocating or static seals. Depending on the main material used for sealing, these seals can also be categorized, for example, into rubber seals, PTFE seals, etc. Seals can also be classified according to different customer groups: automotive, industrial or aerospace seals. SKF has a significant presence in all of the three customer groups.

The industrial seals market is almost equally split between the Americas, Europe and Asia. China and India are however rapidly expanding, which means that Asia will most likely surpass the Americas and Europe in the next few years. SKF has a good presence in the Asian markets through seal manufacturing facilities in China, India and Korea. Industrial seals can be categorized into power transmission seals, fluid power seals and fluid handling seals. SKF has a strong and long track record in seals for the power transmission industry and is today a leading player in this market. Around 80% of the power transmission seals are made for rotating applications, with radial shaft seals, which include unitized seals and heavy duty (large diameter) seals as the main product groups. Other sealing products in the power transmission market are metal face seals and bearing isolators, where SKF has a negligible presence today. The largest market for fluid

power seals, which serves both mobile and stationary fluid power applications, is the off-highway industry, where SKF has a strong position, built recently through acquisitions. About 80% of the fluid power seals are made for reciprocating motion, with hydraulic and pneumatic seals as the main product lines.

Asia represents almost 50% of the automotive OE seals market, while the rest is split between Europe and the Americas, where Europe has a slightly larger share than the Americas. The automotive seals market includes seals for powertrain, chassis and wheel-end. Transmission seals represent the largest part of the market, with its bonded piston and shaft seals product lines. Most of the applications in automotive involve rotating or static motion, using polymeric seals. SKF has a strong presence in all rotating applications, including seals integrated into bearing hubs for wheels.

For the aerospace market SKF provides radial lip shaft seals for rotor systems, engines, gearboxes, transmissions, auxiliary power units etc. SKF's seal knowledge is also applied to develop and sell precision elastomeric devices, which are produced by layering elastomers between shims of multiple metallic materials. This custom designed product has the ability to carry heavy loads while absorbing large deflections occurring simultaneously in several directions. These products are extensively used in helicopters.

The German Freudenberg Group (including its partnerships with the Japanese company NOK) is the largest supplier in the world polymer seals market across all segments. For industrial seals, the US company Parker Hannifin, and the Swedish company Trelleborg are also important players. In the automotive segment, the US companies



Radial shaft seal with rubber sealing lip



Radial shaft seal with PTFE sealing lip



Metal-cased radial shaft seal



Compact piston seal



Piston seal



Transmission shaft seal



SKF ROTOSTAT sealing module with sensor



High pressure valve stem seal



Bonded piston seal

Federal Mogul and Dana, and the German companies Bruss and Elring Klinger are other important players. For precision elastomeric devices the US companies, Lord and Paulstra (belonging to Hutchinson, a French company) are the largest suppliers. Overall, SKF is amongst the top global players with a strong offer in most applications across each segment.

Lubrication systems market

This market mainly comprises two segments: oil-based and grease-based systems. The total world market, including products, services and maintenance and software systems, dropped significantly during 2009 and was estimated at slightly above SEK 20 billion. Although the market has dropped during the worldwide economic downturn, the technology, segment and competition structure has not changed very much. SKF is the leading global supplier of oil-based automatic lubrication systems and a large world supplier of grease-based systems. Its largest competitor is the US company Lincoln Industrial Corp., world market leader for grease-based systems as well as overall market leader in the USA.

Actuation and motion control market

This market includes a wide variety of different products in which mechanical components and systems, electric drives and intelligent controls are combined to provide different types of controlled motion. The markets for actuation and motion control fell severely in 2009 and are estimated to be worth around SEK 55 billion worldwide. Almost half of the market is in Asia, one third in Europe and the remainder in North and Latin America and consists of many suppliers with different backgrounds and offers; from producers of basic mechanical components to specialists in motors, software or controls. There is a clear industrial trend towards a higher use of mechatronic solutions driven by increasingly stringent demands on reliability, flexibility, cost of ownership, energy efficiency and environmental impact.

SKF provides a comprehensive range of mechatronic components, modules and sub-systems for many industrial and consumer applications, offering extensive customer benefits. SKF focuses primarily on the oil and gas industry, medical industry and factory automation. SKF is a leading supplier for actuation systems, roller screws and magnetic bearings including controllers, motor drives and high-speed motors. SKF also supplies linear guides, ball screws and complete

systems, such as by-wire systems for aerospace, off-highway and automotive applications. The competition is rather fragmented and specific per product line. Largest competitors are LINAK in the actuator business and THK in the linear motion area.

Asset efficiency market

Asset efficiency products and service solutions is a wide-ranging, rapidly expanding business sector, driven by the increasing global competition among capital-intensive industries. By implementing asset efficiency systems, manufacturers can raise the capacity capabilities and productivity of existing assets, reduce energy use and improve quality, health, safety and environmental performance.

Europe, the Middle East and North America account for about 75% of the market. Latin America and Asia represent about 25% of the market but show nearly twice the growth rates compared to other geographical markets. In recent years industrial segments such as food and beverage, transportation and pharmaceuticals have increased the use of these technologies joining traditional continuous process industries.

Due to the recent global downturn in demand, emphasis has shifted from optimizing production towards using the technology and techniques to reduce costs. This is primarily achieved by reducing maintenance, rework, scrap and energy usage. In addition, there is a continual emphasis towards outsourcing services due to both cost and skilled resource factors in the market.

The global market is striving towards more integration of technologies and business processes. This includes integrating wireless systems into plant equipment and maintenance. The increased scarcity and cost of energy and clean water is also resulting in manufacturers demanding new solutions to address these challenges. Finally, the continued consolidation of capital-intensive industries is requiring suppliers to be able to provide truly global solutions with identical features and qualities across all geographic markets.

SKF is a global leader in this rapidly expanding market. By combining its extensive knowledge of industrial machinery and sustainability demands in economic, technical and environmental terms with its local service presence, SKF can deliver effective implementations of monitoring instrumentation and software solutions to customers worldwide. The largest competitor in the market is the GE Energy unit Bently-Nevada.



Lubrication system



Actuators for linear motion



SKF Microlog for asset efficiency

Marine diesel engines equipped with SKF central cylinder lubrication systems reduce CO₂ emissions.

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Corporate Governance Report



Corporate Governance Report

Introduction

SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote capital market confidence in SKF. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility, that the financial reporting is transparent and that the company in all respects maintains good corporate citizenship.

The corporate governance principles applied by SKF are based on Swedish law, in particular the Swedish Companies Act and the Swedish Annual Accounts Act, and the regulatory system of NASDAQ OMX Stockholm AB (Stockholm Stock Exchange).

Swedish Code of Corporate Governance

In December 2004, the Swedish Code of Corporate Governance was introduced (the "Code"). A revision of the Code came into force on 1 July 2008. A new revision of the Code will come into force on 1 February 2010, which will be applicable in accordance with relevant transitional provisions. The Code is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se.

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code and this Corporate Governance Report has been prepared in accordance with the Code. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2009 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 and risk management regarding financial reporting.

The Board shall according to the Code submit an annual report on the key aspects of the company's systems for internal control and risk management regarding financial reports. The report does not have to include any assessment of how well the internal control has functioned. On the basis of the Code, SKF's systems for internal control and risk management regarding financial reports are described in the internal control report submitted as a separate section of this Corporate Governance Report on page 43.

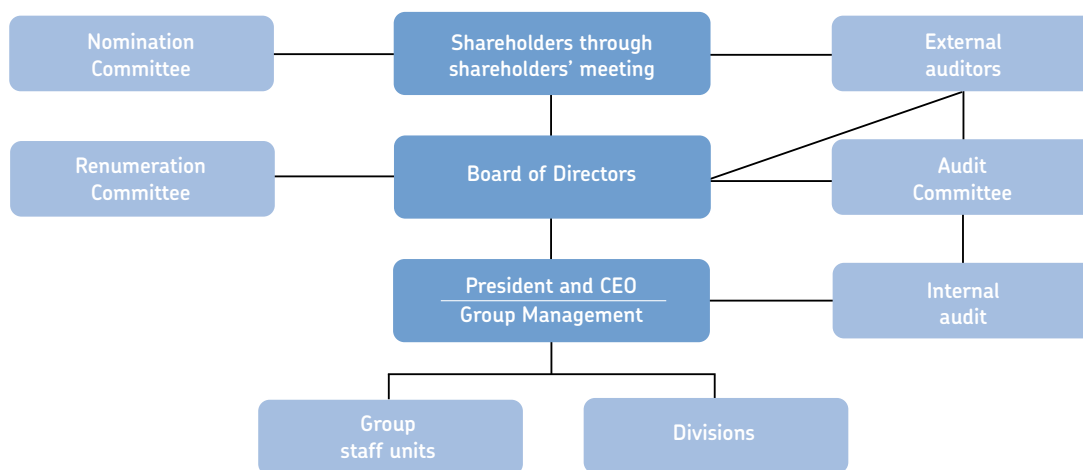
Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2009, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August 2009 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 2010. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release dated 24 September 2009, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the Board, had been appointed in preparation of the Annual General Meeting 2010:

- Claes Dahlbäck, Foundation Asset Management
- Caroline af Ugglas, Skandia Liv
- Ramsay Brufer, Alecta
- Marianne Nilsson, Swedbank Robur Funds

Governance structure



The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2010:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for fee to the auditor
- proposal for a Nomination Committee facing the Annual General Meeting of 2011

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2010.

General information 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 President is supported by Group Management.

SKF's operations are organized into three divisions; Industrial Division, Service Division and Automotive Division. Further, there are seven Group staff units; Group Finance and IT, Group Technology Development and Quality, Group Legal, Group Human Resources and Sustainability, Group Business Development, Group Demand Chain and Group Communication. See pages 142-143.

Each division has operational responsibility for its business. Policies and instructions are in place to ensure that matters of certain importance are referred to the President and/or the Board of Directors.

The Board of Directors

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 25.

Nine Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2009. 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.

Members of the Board of Directors as of 31 December 2009



Leif Östling

Chairman, Board member since 2005

Born 1945

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

Other assignments: Board member of ISS A/S, 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



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, and President W Capital Management AB (wholly owned by the Wallenberg Foundations) 2001-2005.

Other assignments: Board member Atlas Copco AB, Boliden AB, Alfa Laval AB, NCC AB and Rezidor Hotel Group AB.

Shareholding (own and/or held by related parties): 34,000 SKF B



Tom Johnstone

Board member since 2003.

Born 1955

President and Chief Executive Officer of AB SKF.

For more details, see page 42.



Winnie Kin Wah Fok

Board member since 2004

Born 1956

Education and job experience: Bachelor of Commerce, (University of New South Wales, Australia) and Chief Executive EQT Partners Asia Limited, Hong Kong.

Other assignments: Board member Global Beauty International Limited.

Shareholding (own and/or held by related parties): 4,600 SKF A



Hans-Olov Olsson

Board member since 2007

Born 1941

Education and job experience: Master of Science (University of Gothenburg) and appointed Honorary Doctor in Economics (School of Business, Economics and Law, University of Gothenburg). President and Chairman of Volvo Cars 2000-2006 and member of the Ford Management Board 2006. Former Chairman of the Association of Swedish Engineering Industries and former vice Chairman of the Confederation of Swedish Enterprise.

Other assignments: Chairman Chalmers Tekniska Högskola AB, board member of Lindab International AB and Elanders AB and member of the Rothschild European Advisory Board.

Shareholding (own and/or held by related parties): 2,000 SKF B



Lena Treschow Torell

Board member since 2007

Born 1946

Education and job experience: Ph.D. (University of Gothenburg). Professor at University of Uppsala and then at Chalmers University of Technology, Gothenburg. Vice President at Chalmers University, Gothenburg, 1995-1998 and Research Director of the Joint Research Centre, European Commission in Brussels 1998-2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001-2008 and from 2009 Chairman of the Academy.

Other assignments: Board member Micronic Laser Systems AB, Saab AB, AB ÅF, Investor AB, Dagens Industri AB and Chalmers University of Technology Foundation. Chairman of European Council of Applied Sciences and Engineering, and Chairman of MISTRA, the Foundation for Strategic Environmental Research. Shareholding (own and/or held by related parties): 0



Peter Grafoner

Board member since 2008

Born 1949

Education and job experience: Doctor's degree in Engineering (University of Dortmund), Brown Boveri & Cie, several managerial and executive positions within AEG, Chairman of the Management Board of Mannesmann VDO AG 1996-2000, vice Chairman of the Management Board of Linde AG during 2000-2001, CEO of CBR Fashion Holding GmbH and Senior Vice President Vercammen & Cie.

Other assignments: Board member of Symrise AG, Chairman of VTI Technologies Oy and vice Chairman of MASA AG.

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



Lars Wedenborn

Board member since 2008

Born 1958

Education and job experience: Master of Science in Economics (University of Uppsala). Deputy Managing Director and CFO of Alfred Berg 1991-2000, Executive Vice President and CFO of Investor AB 2000-2007, and presently CEO of FAM (Foundation Asset Management) owned by the Wallenberg Foundations.

Other assignments: Chairman of the Board of NASDAQ OMX Nordic Ltd., and Board member of NASDAQ OMX Group USA and The Grand Hotel.

Shareholding (own and/or held by related parties): 10,000 SKF A, 1,500 SKF B



Joe Loughrey

Board member since 2009

Born 1949

Education and job experience: Bachelor of Science degree in Economics and African Studies (University of Notre Dame). Several managerial and executive positions within Cummins over 35 years, the last as vice Chairman of the Cummins Inc. Board 2008-2009, President and Chief Operating Officer of Cummins Inc. 2005-2008 and President of Cummins Engine Business 1999-2005.

Other assignments: Board member of Sauer-Danfoss Inc., Hillenbrand, Inc., the Vanguard Group and the Lumina Foundation for Education, member/past Chairman of the Board of Trustees of the Manufacturing Institute in Washington D.C., Chairman of Conexus Indiana, Chairman of the Advisory Council of the College of Arts and Letters, member of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame and Chairman of AIESEC Life.

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



Jeanette Stenborg

Deputy board member since 2005

Born 1967

Education and job experience: Employed in the SKF Group since 1987.

Other assignments: Board member Unionen, SKF, Gothenburg.

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



Marie Petersson

Deputy board member since 2008

Born 1971

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

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

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

Employee representatives



Lennart Larsson

Board member since 2004

Born 1948

Education and job experience: Employed in the SKF Group since 1965.

Other assignments: Chairman Unionen, SKF, Gothenburg.

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

Auditor

Thomas Thiel

Authorized Public Accountant

KPMG AB



Kennet Carlsson

Board member since 2008 and deputy board member

2001-2008

Born 1962

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

Other assignments: Chairman Metalworkers' Union, SKF, Gothenburg and SKF World Union Council.

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

Independence requirements

The Board of Directors has been considered to comply with the requirements regarding independence of the Code. The table below shows the Board member's independence according to the requirements of the Code in relation to (i) the company and (ii) major shareholders.

Name of the Board members elected by the Annual General Meeting	Independence in relation to the company/senior management	Independence in relation to the major shareholders of the company
Leif Östling	•	•
Ulla Litzén	•	•
Tom Johnstone	•	•
Winnie Kin Wah Fok	•	•
Hans-Olov Olsson	•	•
Lena Treschow Torell	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	•
Joe Loughrey	•	•

Activities of the Board of Directors

The Board held seven meetings in 2009. The Board members were present at the Board meetings as follows:

Name of Board member	Presence/total number of meetings
Leif Östling	7/7
Vito H Baumgartner (retired in April 2009)	2/7
Ulla Litzén	7/7
Clas Åke Hedström (retired in April 2009)	2/7
Tom Johnstone	7/7
Winnie Kin Wah Fok	7/7
Hans-Olov Olsson	6/7
Lena Treschow Torell	7/7
Peter Grafoner	6/7
Lars Wedenborn	7/7
Joe Loughrey (elected in April 2009)	4/7
Lennart Larsson	7/7
Kennet Carlsson	6/7
Jeanette Stenborg	6/7
Marie Petersson	5/7

The Board adopts written rules of procedure annually for its internal work. These rules prescribe i.a.

- the number of Board meetings and when they are to be held
- the items normally included in the Board agenda
- the presentation to the Board of reports from the external auditors.

The Board has also issued written instructions on:

- when and how information required for the Board's assessment of the company's and the Group's financial position shall be collected and reported to the Board
- the allocation of the tasks between the Board and the President.

Issues dealt with by the Board in 2009 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies, the strategic direction and business plan of the Group and management issues.

Remuneration Committee

The Board of AB SKF has established a Remuneration Committee consisting of the Chairman of the Board, Leif Östling, and the Board

members Hans-Olov Olsson and Peter Grafoner. The Remuneration Committee prepares matters related to the principles of remuneration for Group Management and employment conditions for the President.

The principles of remuneration for Group Management shall be submitted to the Board, which shall submit a proposal for such remuneration principles to the Annual General Meeting for approval. The employment conditions for the President shall be approved by the Board.

The Remuneration Committee held two meetings in 2009. The members of the committee were present at the meetings as follows:

Name of member	Presence/total number of meetings
Leif Östling	2/2
Vito H Baumgartner (retired in April 2009)	1/2
Hans-Olov Olsson	1/2
Peter Grafoner (elected in April 2009)	1/2

Audit Committee

The Board of AB SKF has appointed an Audit Committee. The Audit Committee consists of Ulla Litzén, as Chairman, the Chairman of the Board, Leif Östling, and the Board member Lars Wedenborn. 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 four meetings in 2009. The members of the committee were present at the meetings as follows:

Name of member	Presence/total number of meetings
Leif Östling	4/4
Ulla Litzén	4/4
Clas Åke Hedström (retired in April 2009)	2/4
Winnie Kin Wah Fok (retired in April 2009)	2/4
Lars Wedenborn (elected in April 2009)	2/4

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) and 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 of Automotive Division.

Other assignments: Board member Husqvarna AB, the Association of Swedish Engineering Industries and Chalmers University of Technology, Gothenburg.

Shareholdings (own and/or held by related parties) in the company: 133,995 SKF B.

Material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships: 1,500 ABB Ltd, 3,500 Volvo B, 1,200 Electrolux B, 4,800 Husqvarna B and 990 Husqvarna A.

The auditor of the company

The task of the auditor is to review, on behalf of the shareholders, the Annual Report and the accounting and also to review the Board's and the President's management of the company.

The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2009, KPMG was re-elected as auditor for the time up to the closing of the Annual General Meeting in 2013. KPMG was present at the Annual General Meeting. Thomas Thiel is the auditor in charge. Thomas Thiel is also the auditor in charge at a number of other listed companies, such as Atlas Copco, Ratos and Swedish Match.

The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice.

SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, according to rules adopted by the Audit Committee. KPMG applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF.

KPMG has during the last two years only to a limited extent been involved in matters besides the auditing for 2008-2009. These matters have primarily concerned tax advice and attestation services. The total fees for KPMG's services besides auditing in 2009 amount to SEK 4 million, and they amounted to SEK 6 million in 2008.

Financial reporting

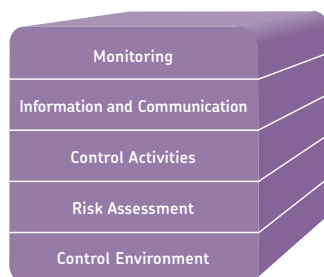
The Board of Directors is responsible for documenting how the quality of the financial reporting is secured and how the company communicates with its auditor.

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

The Board of Directors had one meeting with the auditor in 2009 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 and risk management regarding financial reporting for the 2009 financial year

SKF applies the Internal Control – Integrated Framework launched in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SKF applies a subset of the CobiT standard for IT security. The COSO consists of five interrelated components, where a number of objectives have to be met in each component:



The control environment component is the foundation for the other components. Through its policies, instructions and organizational structure SKF has documented the division of responsibility throughout the SKF organization. This is reflected in the fact that policies and instructions, where applicable, are developed on the basis of internationally accepted standards and/or best practice. Policies and instructions are reassessed annually.

SKF is a process-oriented company and includes integrated risk assessment with the business processes such as business planning. Separate functions or cross functional boards monitor all major risk areas.

In the area of control activities, SKF has previously documented in detail, all the critical finance processes and controls for the parent company and all main subsidiary companies, covering more than 70% of the Group's net sales and total assets. In 2008 SKF implemented these requirements as a Group standard also for smaller subsidiary companies. The documentation standards require an extensive risk assessment at Group and subsidiary company level 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 online real-time follow-up and monitoring of SKF's financial internal control system.

The COSO internal control framework was implemented in 2005. This work consisted primarily of adapting the process and control descriptions to a common framework, as required by COSO, and putting in place a comprehensive system for management testing of the controls. Following SKF's deregistration from the U.S. Securities & Exchange Commission (SEC) in 2007, it was decided that SKF should further develop the financial internal control system. Based on the SOX 404 experience the internal control system was updated and SKF has now established the modified system as a Group standard, also covering those companies that were excluded from the SOX 404 project. SKF has implemented a risk based annual testing programme of critical controls. The test programme is reassessed annually and in 2009 it also covered companies previously excluded from the SOX 404 project.

SKF has an internal audit function whose main responsibility is to ensure adherence to the internal control framework by carrying out annual tests. The internal audit function reports to the Group's Chief Financial Officer and regularly submits reports to the Audit Committee of the Board of Directors. The Board of Directors receives regular financial reports and the Group's financial position and development are discussed at every meeting. The Audit Committee of the Board of Directors reviews all interim and annual financial reports before they are released to the public.

A photograph of a large concrete bridge spanning a body of water. The bridge features a series of concrete piers supporting a steel truss structure. The sky is clear and blue. A white curved line graphic is overlaid on the right side of the image.

Cement manufacturers can achieve monumental energy savings using SKF solutions and services.

Financial statements

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Consolidated income statements

SEKm	Note	Years ended 31 December	
		2009	2008
Net sales	2	56,227	63,361
Cost of goods sold	5, 6	-45,024	-47,075
Gross profit		11,203	16,286
Selling expenses	6	-7,512	-8,089
Administrative expenses	6	-403	-454
Other operating income	7	460	567
Other operating expenses	7	-534	-601
Loss (-)/profit (+) from jointly controlled and associated companies	12	-11	1
Operating profit		3,203	7,710
Financial income	8	45	1,498
Financial expenses	8	-951	-2,340
Profit before taxes		2,297	6,868
Taxes	9	-592	-2,127
Net profit		1,705	4,741
Net profit attributable to:			
Owners of AB SKF		1,642	4,616
Non-controlling interests		63	125
Basic earnings per share (SEK)	17	3.61	10.14
Diluted earnings per share (SEK)	17	3.61	10.13

Consolidated statements of comprehensive income

SEKm	Note	Years ended 31 December	
		2009	2008
Net profit		1,705	4,741
Other comprehensive income			
Currency translation adjustments		-798	2,072
Available-for-sale assets	14		
Change in fair value		134	-239
Cash-flow hedges	28		
Change in fair value		16	-53
Release of cash-flow hedges		166	-100
Actuarial gains and losses, net	18	-888	-2,259
Income taxes related to components of other comprehensive income	9	105	1,088
Other comprehensive income, net of tax		-1,265	509
Total comprehensive income		440	5,250
Total comprehensive income attributable to:			
Owners of AB SKF		412	5,050
Non-controlling interests		28	200

Amounts in parentheses refer to comparable figures for 2008.

Net sales

Net sales amounted to SEK 56,227 m (63,361). The 11.3% decrease in net sales compared to 2008 was attributable to volume by -24.3%, to price and mix¹⁾ by 4.3%, to structure by 1.0% and to currency effects by 7.7%. Net sales, recorded in local currencies, were 19.0% lower in 2009 compared to 2008. Qualifying hedging activities affected net sales by SEK -166 m.

Operating profit

Operating profit amounted to SEK 3,203 m (7,710) resulting in an operating margin of 5.7% (12.2).

During the year, the Group has undertaken restructuring and cost reduction activities to adapt the overall capacity to market conditions. Total costs for restructuring activities in 2009 amounted to around SEK 1,275 m, including write-downs, impairments and curtailments. Of the total costs expensed, SEK 915 m refer to the Automotive Division, SEK 310 m to the Industrial Division and SEK 40 m to the Service Division.

Exchange rates for the full year 2009, including translation effects and flows from transactions, had a positive effect on operating profit of around SEK 700 m.

Cost of goods sold, selling and administrative expenses amounted to SEK 52,939 m (55,618). The costs were divided into 37% (33) employee benefit expense including social charges, 34% (35) raw material and components consumed, and 25% (28) other purchased services, utilities and goods and 4% (4) depreciation, amortization and impairments.

Other operating income and other operating expenses include items such as foreign exchange gains and losses arising on operating assets and liabilities, gains and losses on sales of property, plant and equipment and businesses as well as rental revenues. For further details, see Note 7.

Profit before taxes

Profit before taxes amounted to SEK 2,297 m (6,868). Financial income and expense, net, amounted to SEK -906 m (-842) and includes costs of SEK 50 m related to the early repurchase of outstanding bonds. Interest costs on post-employment benefits have affected the financial net negatively by SEK 357 m (223).

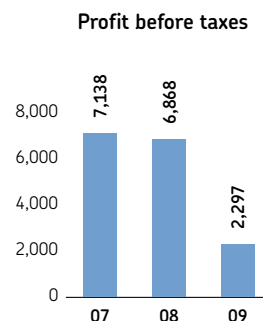
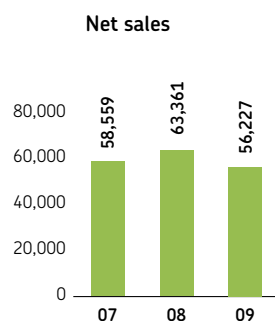
Net profit

Net profit amounted to SEK 1,705 m (4,741). The actual tax rate was 25.8% (31.0).

Values by quarter

SEKm	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year 2009
Net sales	14,849	14,167	13,324	13,887	56,227
Operating profit	768	474	957	1,004	3,203
Profit before taxes	531	312	689	765	2,297
Basic earnings per share (SEK)	0.86	0.69	1.01	1.05	3.61
Diluted earnings per share (SEK)	0.86	0.69	1.01	1.05	3.61

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



Consolidated balance sheets

SEKmn	Note	As of 31 December		As of 1 January
		2009	2008 ¹⁾	2008 ¹⁾
ASSETS				
Non-current assets				
Goodwill	10	2,759	3,119	2,234
Other intangible assets	10	1,255	1,535	1,282
Property, plant and equipment	11	13,933	14,556	11,960
Investments in jointly controlled and associated companies	12	87	80	70
Long-term financial assets	14	1,363	1,221	1,360
Deferred tax assets	9	1,665	1,342	886
Other long-term assets	18	52	65	1,213
		21,114	21,918	19,005
Current assets				
Inventories	13	11,771	15,204	11,563
Trade receivables	14	8,800	11,041	9,894
Tax receivables		406	261	112
Other short-term assets	15	3,141	2,998	2,164
Investment in jointly controlled company	12	–	–	3
Assets classified as held for sale		43	51	86
Other short-term financial assets	14	1,310	1,834	1,329
Cash and cash equivalents	14	4,430	2,793	2,946
		29,901	34,182	28,097
Total assets		51,015	56,100	47,102
EQUITY AND LIABILITIES				
Share capital	16	1,138	1,138	1,138
Share premium		564	564	564
Available-for-sale reserve		265	128	367
Hedging reserve		47	-86	27
Translation reserve		669	1,511	-633
Retained earnings		14,728	15,495	16,778
Equity attributable to owners of AB SKF		17,411	18,750	18,241
Equity attributable to non-controlling interests		869	939	768
		18,280	19,689	19,009
Non-current liabilities				
Long-term financial liabilities	20	8,987	12,809	7,301
Provisions for post-employment benefits	18	7,020	6,356	4,600
Deferred tax provisions	9	754	1,210	1,652
Other long-term provisions	19	1,521	1,562	1,522
Other long-term liabilities		78	176	186
		18,360	22,113	15,261
Current liabilities				
Trade payables		3,989	4,841	4,904
Tax payables		565	252	737
Short-term provisions	19	1,328	777	545
Other short-term financial liabilities	20	2,018	899	810
Other short-term liabilities	22	6,475	7,529	5,836
		14,375	14,298	12,832
Total equity and liabilities		51,015	56,100	47,102

¹⁾ Restated for change in accounting principle IAS 19 "Employee benefits"; see Note 1.

Amounts in parentheses refer to comparable figures for 2008.

Assets and liabilities

Inventories amounted to SEK 11,771 m (15,204). The production volume for 2009 was 30% below the volume for 2008. Inventories as a percentage of annual sales totalled 20.9% (24.0). The target for the Group is 18%.

Trade receivables amounted to SEK 8,800 m (11,041). The average days of outstanding trade receivables in 2009 were 58 days (64). The target for the Group is 57 days. Trade receivables as a percentage of annual net sales totalled 15.7% (17.4).

The Group's equity/assets were 35.8% (35.1), which is close to average target of 35%. Gearing was 49.3% (50.1). The target for gearing is to operate around 50%. The net debt/equity was 68.9% (84.2).

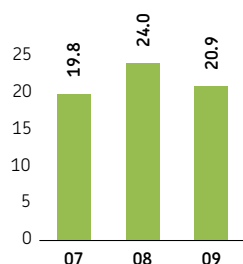
During 2009, equity decreased by SEK 842 m due to translation effects caused by a stronger Swedish krona at 31 December 2009 compared to 2008. In 2009 SEK 1,594 m (2,277) was distributed as ordinary dividend to the owners of AB SKF. For further details, see Note 16.

Financing

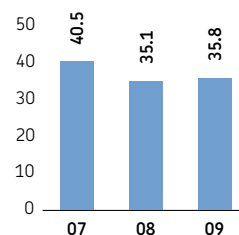
At year end, total interest-bearing loans amounted to SEK 10,750 m (13,447). During the fourth quarter the Group reduced its long-term debt by the early repurchase of around SEK 2 billion of outstanding bonds. For further details see Note 20.

Post-employment benefits, net amounted to SEK 6,993 m (6,323). Financial assets totalled SEK 7,103 m (5,848) of which SEK 5,740 m (4,627) consisted of current financial assets. Changes in net interest-bearing liabilities 2009 are disclosed in the Group's consolidated statement of cash flow.

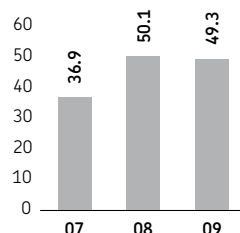
Inventories, %
of annual net sales



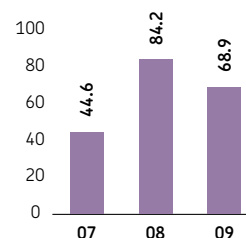
Equity/Assets¹⁾, %



Gearing¹⁾, %



Net debt/equity¹⁾, %



Consolidated statements of cash flow

SEKm	Note	Years ended 31 December	
		2009	2008 ¹⁾
Operating activities			
Operating profit		3,203	7,710
<i>Adjustments for</i>			
Depreciation, amortization and impairment	6	2,171	1,949
Net gain (-) on sales of property, plant and equipment		28	-31
Net gain (-) on sales of equity securities		1	-4
Net gain (-) on sales of businesses and assets held for sale		-	-14
Other non cash items		1,263	201
Income taxes paid		-1,068	-2,783
Contributions to and payments under post-employment defined benefit plans		-528	-450
Jointly controlled and associated companies		-3	-11
<i>Changes in working capital</i>			
Inventories		2,793	-1,609
Trade receivables		1,809	278
Trade payables		-630	-996
Other operating assets and liabilities, net		-896	82
Interest received		456	470
Interest paid		-676	-861
Other financial items		78	-244
Net cash flow from operating activities		8,001	3,687
Investing activities			
Additions to intangible assets	10	-55	-40
Additions to property, plant and equipment	11	-1,975	-2,531
Sales of property, plant and equipment		18	90
Acquisitions of non-controlling interests and businesses, net of cash and cash equivalents	3	-241	-1,284
Sales of businesses and assets held for sale, net of cash and cash equivalents	4	-	93
Proceeds related to liquidation of Oy Ovako Ab		-	44
Sales of equity securities		4	6
Net cash flow used in investing activities		-2,249	-3,622
Net cash flow after investments before financing		5,752	65
Financing activities			
Proceeds from medium- and long-term loans		1,533	3,908
Repayment of medium- and long-term loans		-3,306	-468
Change in short-term loans		-275	246
Other, including payment of finance lease liabilities		-6	94
Cash dividends to AB SKF's shareholders		-1,594	-2,277
Cash dividends to non-controlling shareholders		-35	-61
Redemption of shares		-	-2,277
Investments in financial and other assets		-2,831	-384
Sales of financial and other assets		2,461	869
Net cash flow used in financing activities		-4,053	-350
Increase(+)/decrease(-) in cash and cash equivalents		1,699	-285
Cash and cash equivalents at 1 January		2,793	2,946
Cash effect excluding acquired businesses		1,699	-375
Cash effect of businesses acquired	3	-	90
Translation effect		-62	132
Cash and cash equivalents at 31 December		4,430	2,793

¹⁾ Certain reclassifications have been made to the presentation in the Statement of Cash Flow which are explained in Note 1.

Amounts in parentheses refer to comparable figures for 2008.

The consolidated statement of cash flow have been adjusted for exchange rates arising upon the translation of foreign subsidiaries balance sheets to SEK, as these do not represent cash flow.

Cash flow after investments before financing

Cash flow after investments before financing, which is the primary cash flow measurement used in the Group, amounted to SEK 5,752 m (65). Excluding acquisitions, it amounted to SEK 5,993 m (1,349). The reduction of working capital contributed to the strong cash flow during 2009.

Net cash flow from operating activities

Gross cash flow, defined as operating profit plus depreciation, amortization and impairment, amounted to SEK 5,374 m (9,659). The gross cash flow was 9.6% (15.2) of annual net sales.

Other non cash items adjust primarily for certain expenses for which cash flow has not yet occurred. The most significant items being expenses for post employment benefits and provisions.

Net cash flow used in investing activities

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,975 m (2,531), whereof approximately SEK 44 m (122) was spent on internal and external environmental improvements.

In 2009, the Group's cash outflow from acquisitions was SEK 241 m (1,284), see Note 3.

Cash flow from financing activities

Interest-bearing loans totalled SEK 10,750 m (13,447) at year end. During the year, the SKF Group has arranged new long term financing through two five-year private placements of EUR 100 m and of EUR 30 m. Loans amounting to SEK 944 m and EUR 218 m have been repaid.

Post-employment benefits, net, amounted to SEK 6,993 m (6,323). Interest payments amounted to SEK 676 m (861) and interest received to SEK 456 m (470).

The change in cash and cash equivalents was SEK 1,637 m (-153). In 2009, changes in exchange rates affected cash and cash equivalents by SEK -62 m (132) mainly attributable to USD and EUR.

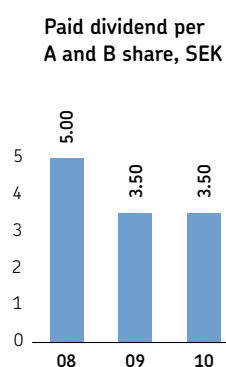
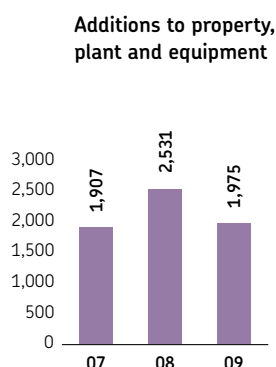
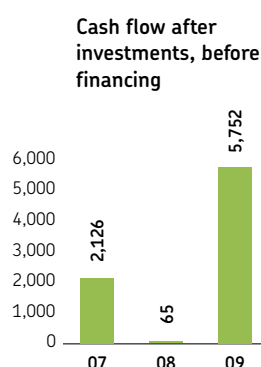
Other financial assets, other, totalled SEK 1,512 m (1,168) at year end.

Change in net interest-bearing liabilities (SEKm)	2009 Closing balance	Cash change	Businesses acquired/sold	Other non cash changes	Translation effect	2009 Opening balance
Loans ¹⁾	10,750	-2,048	–	26	-675	13,447
Post-employment benefits, net	6,993	-528	–	1,520	-322	6,323
Other financial assets, other ²⁾	-1,512	-370	–	-9	35	-1,168
Cash and cash equivalents	-4,430	-1,699	–	–	62	-2,793
Net interest-bearing liabilities	11,801	-4,645	–	1,537	-900	15,809

Change in net interest-bearing liabilities (SEKm)	2008 Closing balance	Cash change	Businesses acquired/sold	Other non cash changes	Translation effect	2008 Opening balance
Loans ¹⁾	13,447	3,686	23	409	1,594	7,735
Post-employment benefits, net	6,323	-450	–	2,518	831	3,424
Other financial assets, other ²⁾	-1,168	485	–	28	-50	-1,631
Cash and cash equivalents	-2,793	375	-90	–	-132	-2,946
Net interest-bearing liabilities	15,809	4,096	-67	2,955	2,243	6,582

¹⁾ Excludes derivatives, see Note 20.

²⁾ Other financial assets exclude equity securities, cash and cash equivalent, derivatives and include other long-term assets less defined benefit assets.



The Board of Directors' proposed distribution of surplus for the year 2009, which is subject to approval at the Annual General Meeting in April 2010, includes an ordinary dividend of SEK 3.50 per share, see Note 16.

Consolidated statements of changes in equity

SEKm	Equity attributable to owners of AB SKF							Non-controlling interests	Total
	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal		
Opening balance 1/1/2008	1,138	564	367	27	-633	16,124	17,587	768	18,355
Change in accounting principles	–	–	–	–	–	654	654	–	654
Restated opening balance 1/1/2008	1,138	564	367	27	-633	16,778	18,241	768	19,009
Net profit	–	–	–	–	–	4,616	4,616	125	4,741
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	1,997	–	1,997	75	2,072
Change in fair value of available-for-sale assets and cash flow hedges	–	–	-239	-53	–	–	-292	–	-292
Release of cash flow hedges	–	–	–	-100	–	–	-100	–	-100
Actuarial gains and losses	–	–	–	–	–	-2,259	-2,259	–	-2,259
Income taxes related to components of other comprehensive income	–	–	–	40	147	901	1,088	–	1,088
Exercise of share options	–	–	–	–	–	-6	-6	–	-6
Redemption of shares	-569	–	–	–	–	-1,708	-2,277	–	-2,277
Bonus issue	569	–	–	–	–	-569	–	–	–
Dividends	–	–	–	–	–	-2,277	-2,277	-61	-2,338
Non-controlling interests and other	–	–	–	–	–	19	19	32	51
Closing balance 31/12/2008	1,138	564	128	-86	1,511	15,495	18,750	939	19,689
Net profit	–	–	–	–	–	1,642	1,642	63	1,705
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	-763	–	-763	-35	-798
Change in fair value of available-for-sale assets and cash flow hedges	–	–	134	16	–	–	150	–	150
Release of cash flow hedges	–	–	–	166	–	–	166	–	166
Actuarial gains and losses	–	–	–	–	–	-888	-888	–	-888
Income taxes related to components of other comprehensive income	–	–	–	-49	-84	238	105	–	105
Exercise of share options	–	–	–	–	–	-12	-12	–	-12
Dividends	–	–	–	–	–	-1,594	-1,594	-35	-1,629
Non-controlling interests and other	–	–	3	–	5	-153	-145	-63	-208
Closing balance 31/12/2009	1,138	564	265	47	669	14,728	17,411	869	18,280

Available-for-sale reserve

This reserve arises on the valuation of available-for-sale financial assets. When an available-for-sale asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realized, is recognized in profit or loss. When an available-for-sale asset is impaired, the portion of the reserve that relates to that financial asset is recognized in profit or loss.

Hedging reserve

The hedging reserve represents hedging gains and losses recognized on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognized in profit or loss when the hedged transaction impacts the profit or loss.

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. Additionally, gains and losses on hedging instruments meeting the criteria for hedges of net investments in foreign operations, are recognized in the translation reserve net of tax. 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 SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2008.

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 the Swedish Financial Reporting Board's RFR 1.2, Supplementary Accounting Rules for Groups, as well as their interpretations (UFR).

The annual report of the Parent company, AB SKF, has been signed by the Board of Directors on 28 January 2010. The income statement and balance sheet, and the consolidated income statement and consolidated balance sheet are subject to adoption at the Annual General Meeting on 29 April 2010.

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

Certain reclassifications have been made in the 2008 comparative year in order to conform to the 2009 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 equity includes the Parent company's equity and the part of the equity in subsidiaries arising after the subsidiary's acquisition.

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

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

Business combinations and goodwill

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

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

Any excess of the cost of acquisition over fair values of net identifiable assets of the acquired business is recognized as goodwill. If such fair values exceed the cost of acquisition, this excess is credited to profit or loss in the period of acquisition.

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

Investments in jointly controlled and associated companies

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

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

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

Classification

The assets and liabilities classified as current are expected to be recovered or settled within twelve months from the balance sheet date. All assets and liabilities expected to be recovered or settled later are classified as non-current.

No other liabilities than loans, financial leases and certain derivative instruments are expected to be settled later than five years from the balance sheet date.

Segment information

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

Operating segments are required to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources and to assess performance. The Group's internal reporting and consequently information to the CODM is structured into the Industrial Division, the Service Division and the Automotive Division and Other operations, each being customer segments representing groups of related industrial and automotive products.

1 Accounting policies (cont.)

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

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

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

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

Segment liabilities include all operating liabilities used and controlled by a segment and consist principally of external trade payables, other provisions, accrued expenses and deferred income.

Segment profit represents the business result generated by the capital employed of the division and includes some centrally allocated corporate expenses.

Reconciling items to Group amounts are mainly related to consolidation eliminations, unallocated items, and some timing differences. Unallocated items include all tax items and items of a financial, interest-bearing nature, including post-employment benefit assets and provisions. Unallocated items also include exchange differences on trade receivables and payables and items related to certain central corporate activities, including research and development. Additionally timing differences exist related to profit allocation linked to inter-company sales.

Asymmetrical allocations affecting the segments relate primarily to post-employment benefits where non-financial expenses are allocated to the segments although related provision is not. Additionally inter-segment receivables and payables relating to sales between segments, are not allocated to the segments as such items are sold to and settled directly with SKF Treasury Centre, the Group's internal bank, thereby becoming financial in nature.

Translation of foreign financial statements

AB SKF's functional currency is the Swedish kronor (SEK), which is also the Group's reporting currency.

All foreign subsidiaries report in their functional currency being the currency of the primary economic environment in which the subsidiary operates. Upon consolidation, all balance sheet items are translated to SEK based on the year-end exchange rates. Income statement items are translated at average exchange rates. The accumulated exchange differences arising from these translations are recognized via other comprehensive income to the translation reserve in equity. Such translation differences are reclassified into the income statement upon the disposal of the foreign operation.

Translation of items denominated in foreign currency

Transactions in foreign currencies during the year have been translated at the exchange rate prevailing at the respective transaction date.

Assets and liabilities denominated in a foreign currency, primarily receivables and payables, have been translated at the exchange rates prevailing at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and other operating expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and financial expenses.

Revenue

Revenue consists of sales of products or services in the normal course of business. Service revenues are defined as business activities, billed to a customer, that do not include physical products or where the supply of any product is subsidiary to the fulfillment of the contract. Sales are recorded net of allowances for volume rebates and sales returns. Accruals for such allowances are recorded at the time of revenue recognition.

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of goods and services is generally recognized when (1) an arrangement with a customer exists, (2) delivery has occurred or services have been rendered, (3) the price is fixed or determinable and (4) collection of the amount due is reasonably assured.

Contracts and customer purchase orders are generally used to determine the existence of such an arrangement. Shipping documents and customer acceptance are used, when applicable, to verify delivery. Whether the price is fixed or determinable is assessed based on the payment terms associated with the transaction. Collectibility is assessed based primarily on the creditworthiness of the customer as determined by credit limit control and approval procedures, as well as the customer's payment history. Approval procedures include approval of new customers by management.

Exchange rates

The following exchange rates have been used when translating the financial statements of foreign subsidiaries operating in the countries shown below into SEK:

Country	Unit	Currency	Average rates		Year-end rates	
			2009	2008	2009	2008
China	1	CNY	1.12	0.94	1.06	1.13
EMU-countries	1	EUR	10.62	9.62	10.33	10.94
India	100	INR	15.75	15.07	15.42	15.94
Japan	100	JPY	8.18	6.38	7.82	8.57
United Kingdom	1	GBP	11.89	12.11	11.44	11.22
USA	1	USD	7.65	6.55	7.20	7.73

Revenues from service and/or maintenance contracts where the service is delivered to the customer at a fixed price is accounted for on a straight-line basis over the duration of the contract or under the percentage-of completion method based on the ratio of actual costs incurred to total estimated costs expected to be incurred. Any anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable.

Property, plant and equipment (PPE)

Machinery and supply systems, land, buildings, tools, office equipment and vehicles are stated in the balance sheet at cost or deemed cost, less any 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. Borrowing costs are included in the cost of property plant and equipment for which construction commenced on or after 1 January, 2009, if a substantial period of time is required to get the asset ready for its intended use. The Group considers a period in excess of one year to be a substantial period of time.

A component approach to depreciation is applied. This means that where items of PPE are comprised of different components having a cost significant in relation to the total cost of the items, such components are depreciated separately. Depreciation is provided on a straight-line basis and is calculated based on cost or deemed cost. The rates of depreciation are based on the estimated useful lives of the assets, which are subject to annual review. These useful lives are based upon estimates of the periods during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological development. The useful lives are:

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

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

Assets classified as held for sale

Assets and disposal groups are classified as held for sale when they are available for immediate sale in their present condition and management is committed to the sale. The sale must be highly probable such that it is expected to be completed within one year.

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

Intangible assets other than goodwill

Intangible assets other than goodwill are stated at initial cost less any accumulated amortization and impairment losses. Amortization is made on a straight-line basis over the estimated useful lives, which are subject to annual review. The useful lives are based to a large extent on historical experience, the expected application, as well as other individual characteristics of the asset. The useful lives are:

- Patents and similar rights up to 11 years;
- Capitalized software normally 4 years;
- Capitalized customer relationships normally 10-15 years;
- Capitalized development expenditures normally 3-7 years;
- Other intangible assets normally from 3-5 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 amortization is made. However these assets are tested for impairment annually and whenever there is an indication that the carrying value may not be recoverable.

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

Internally developed intangibles

The Group's most significant internally developed intangibles are related to product development and software for internal use. Development expenditures are capitalized when in management's judgement it is probable that they will result in future economic benefits for the Group and the expenditures during the development phase can be reliably measured. The Group applies stringent criteria before a development project results in the recording of an asset, which include the ability to complete the project, evidence of technical feasibility and market existence, intention and ability to use or sell the asset. In evaluating product development projects, management considers the existence of a customer order as significant evidence of technological and economic feasibility. In evaluating internal use software, management considers new functionality and /or increased standard of performance to be strong evidence that future economic benefits will be achieved.

All other research expenditures as well as development expenditures not meeting the capitalization criteria are charged to cost of goods sold in the income statement when incurred.

Leases

A lease agreement that, according to the management's judgment, transfers substantially all the benefits and risks of ownership to the Group, is accounted for as a finance lease. Finance leases are initially recorded as property, plant and equipment at an amount equal to the present value of the minimum lease payments during the lease term and as a finance lease obligation. Finance leases are depreciated in a manner consistent with the Group's useful lives for owned property, plant and equipment. Lease payments are apportioned between the finance charge and the reduction in the outstanding finance lease obligation. The finance charge is allocated to periods during the lease term as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Other leases are accounted for as operating leases, where rental expenses are recognized in the income statement, on a straight-line basis, over the lease term.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market value (net realizable value). Raw materials and purchased finished goods are valued at purchase cost. Work in process and manufactured finished goods are valued at production cost. Production cost includes direct production cost such as material and labour, as well as manufacturing overhead as appropriate.

Net realizable value is defined as selling price less costs to complete and costs to sell. As future selling prices and selling costs are not known, management's best estimate, based on current price and cost levels are used. Net realizable value includes 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.

1 Accounting policies (cont.)

Long-term employee benefits

Employee benefits, which are both earned and paid out during employment, and are expected to be settled more than twelve months after they are earned yet before employment ends, are long-term employee benefits. These include part-time retirements 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 recognized immediately in the income statement.

Financial assets and financial liabilities

General

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets include, in particular, cash and cash equivalents, trade receivables and other originated loans and receivables, equity securities and derivative assets. Financial liabilities generally substantiate claims for repayment in cash or another financial asset. In particular, this includes bonds, trade payables, liabilities to banks, finance lease payables and derivative liabilities.

Recognition

Financial assets and financial liabilities are recognized on the Group's balance sheets when the Group becomes a party to the contractual provisions of the instrument. Settlement day recognition is applied for financial assets and liabilities other than derivatives, which are recognized at trade date. Financial instruments are initially recorded at fair value, which is normally equal to cost. Transaction costs are included in the initial measurement of financial assets and liabilities that are not subsequently measured at fair value through profit and loss. In general, financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the entity currently has a right to set off the recognized amounts and intends to settle on a net basis.

Measurement

Subsequent measurement depends on the designation of the instrument, as determined by management, in the following categories:

- Available-for-sale

Strategical investments in equity securities and debt securities, except debt securities held by SKF Treasury Centre, are categorized as available for sale. Changes in the fair value of these financial instruments are recognized in other comprehensive income, except for impairment losses which are recognized in the income statement. Reversals of impairment losses are recognized in the income statement for debt securities but in other comprehensive income for equity securities. When the investments are derecognised, the cumulative gain or loss recognized in the available-for-sale reserve is released and recognized in the income statement. The fair values of quoted equity securities and debt securities held are based on the current bid price for the securities. Equity securities without a quoted price are held at cost.

- Loans and receivables

Financial assets categorized as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include

trade receivables, loans granted, funds held with banks and deposits comprising principally of funds held with landlords and other service providers, for which substantially all initial investment is expected to be recovered.

Loans and receivables are measured at amortized cost using the effective interest method. Impairment losses are recognized if management believes that sufficient objective evidence exists indicating that the asset may not be recovered. Uncertainty is inherent in such judgements about the future and the actual outcome may be different from management's judgement. On occurrence of default, loans and receivables are derecognised. For disclosure purposes, fair values have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

- Financial assets at fair value through profit or loss

Financial instruments are designated at fair value through profit or loss when the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorized as held for trading unless subject to hedge accounting. This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The fair value of assets in these sub-categories is based on quoted market prices or measured using valuation techniques, mainly discounted cash flow analyses based on observable market data.

- Financial liabilities at fair value through profit or loss

Derivatives with a negative fair value that are not subject to hedge accounting are classified as held for trading and reported at fair value through profit and loss.

- Other financial liabilities

Financial liabilities, excluding derivatives, are measured at amortized cost using the effective interest method. Liabilities that are hedged items, where fair value hedge accounting is applied, are stated at their fair value. For disclosure purposes, fair values of financial liabilities have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

Fair value hierarchy

Financial instruments at fair value are classified in a hierarchy that shows the significance of the inputs used in the measurements. Level 1 includes financial instruments with a quoted price in an active market. Level 2 includes financial instruments with inputs based on observable data other than quoted prices in an active market. Level 3 includes inputs that are not based on observable market data.

Derecognition

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

Allowance for doubtful accounts

Management maintains an allowance for doubtful receivables for expected losses resulting from the inability of customers to make required payments. When evaluating the need for an allowance, management considers the aging of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in customer payment terms.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank deposits, debt securities and other liquid investments that have a maturity of three months or less at the time of acquisition.

Hedge accounting

General

The Group applies hedge accounting aimed at reducing risks related to the volatility of balance sheet items and future cash flows, which otherwise would affect the income statement. A distinction is made between fair value hedges and cash flow hedges based on the nature of the hedged item. The Group also applies hedge accounting aimed at reducing foreign currency risks arising from net investments in foreign operations. Derivative instruments which provide effective economic hedges, but for which hedge accounting as defined by IAS 39 is not permitted, are accounted for as trading instruments. Changes in the fair value of these economic hedges are immediately recognized in the income statement as financial items.

Cash flow hedges

Hedge accounting is applied to derivative financial instruments, which are effective in offsetting the variability in the cash flows from forecasted net sales and forecasted electricity consumption. Forward exchange and currency option contracts are used as hedge instruments for forecasted net sales and electricity derivatives for forecasted electricity consumption. Changes in the fair value of these derivative financial instruments designated as hedge instruments and meeting the criteria for hedging future cash flows are recognized in the hedging reserve in equity via other comprehensive income.

In the same period during which the forecasted net sales and electricity consumption affects the income statement, the cumulative gain or loss recognized in the hedging reserve is recycled to the income statement and included in Net sales and Cost of goods sold, respectively. When a hedge relationship is terminated, but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedging reserve. It is recognized in the income statement when the committed or forecasted transaction is recognized in the income statement. However, if the hedged transaction is no longer expected to occur, the cumulative gain or loss reported in the hedging reserve in equity is transferred via other comprehensive income to the income statement under financial items.

Fair value hedges

Hedge accounting is applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. The currency and interest risk exposure is hedged by cross-currency interest rate swaps. Changes in the fair value of these derivative financial instruments designated as hedging instruments and meeting the criteria for fair value hedges are recognized in the income statement under financial items. The carrying amount of the hedged item is adjusted for the gain or loss attributable to the hedged risk. The gain or loss is recognized in the income statement under financial items.

Hedges of net investments in foreign operations

Hedge accounting is applied to financial instruments which are effective in offsetting the exposure to translation differences arising when the result and financial position of foreign operations are translated into the Parent company's presentation currency. Any gain or loss on the hedging instrument meeting the criteria for hedges of net investments is recognized in the foreign currency translation reserve via other comprehensive income.

Share-based compensation

IFRS 2 is applied for share-based compensation programmes granted after 7 November 2002, that had not vested on 1 January 2005. The instruments granted are either options or shares, depending on the programme. The fair value of instruments granted is determined at grant date, taking into account each programme's terms and any market-based performance conditions. The fair value of options granted was determined using Black & Scholes' valuation model and the fair value of shares granted is the market value at grant date reduced by the present value of future dividends which the employees will not receive until the shares are delivered.

The share-based compensation programmes of the Group are mainly equity-settled. The estimated cost for these programmes, which is based on the fair value of the instruments at grant date and the number of instruments expected to vest, is recognized in equity and as an operating expense over the vesting period. The cost for the programmes is adjusted annually by the expectations of vesting and for the forfeitures of the participants' rights that no longer satisfy the programme conditions.

A provision for social costs to be paid by the employer in connection with share-based compensation programmes is calculated based on the fair value of the SKF B-share at each reporting date and expensed over the vesting period.

For share-based option programmes vesting prior to 1 January 2005, the Group has recorded the cost at exercise of the options in earnings in accordance with previously applied Swedish GAAP.

A minor part of the remuneration granted to the Board of Directors of the Parent company is a cash-settled share-based compensation. The liability and expense incurred is recognized over the period when the services are rendered. At each balance sheet date, and ultimately at settlement date, the fair value of the liability is remeasured with any changes in fair value recognized in profit and loss for the period.

Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss attributable to shareholders of the Parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all dilutive potential ordinary shares, which comprise performance shares and share options granted in the share-based payment programmes. The dilutive effect of options is based on the average market price of the SKF B share and the exercise prices of the options. Performance shares are considered dilutive to the degree that vesting conditions are fulfilled at the reporting date.

Income taxes

General

Taxes include current taxes on profits, deferred taxes and other taxes such as taxes on capital, actual or potential withholding on current and expected transfers of income from Group companies and tax adjustments relating to prior years. Income taxes are recognized in the income statement, except to the extent that they relate to items directly taken to other comprehensive income or to equity, in which case they are recognized in other comprehensive income or directly in equity.

Significant management judgment is required in determining current tax liabilities and assets as well as deferred tax provisions and assets. The process involves estimating the current tax 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.

1 Accounting policies (cont.)

Current taxes

All the companies within the Group compute current income taxes in accordance with the tax rules and regulations of the countries where the income is taxable. Provisions have been made in the financial statements for estimated taxes on earnings of subsidiaries expected to be remitted in the following year, but not for taxes, which may arise on distribution of the remaining unrestricted earnings of foreign subsidiaries as they can be distributed free of tax or as the Group does not intend to internally distribute them in the foreseeable future.

Deferred taxes

The Group applies the required balance sheet approach for measuring deferred taxes, where deferred tax assets and provisions are recorded based on enacted tax rates for the expected future tax consequences of existing differences between accounting and tax reporting bases of assets and liabilities, as well as for tax loss and tax credit carry-forwards. Such tax loss and tax credit carry-forwards can be used to offset future income. Deferred tax assets are recorded to the extent that it is probable that sufficient future taxable income will be available to allow the recognition of such benefits.

Other taxes

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

Impairment of intangible assets and property, plant and equipment

Assets with definite useful lives

Intangible assets with definite useful lives and property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The determination is 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 analyzed to further confirm the nature and extent of the indication. When an indication is confirmed, an impairment loss is recognized to the extent that the carrying amount of the affected CGU exceeds its recoverable amount.

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives, once allocated to a CGU, are tested annually for impairment and whenever there is an indication that the asset may be impaired. The impairment test is carried out at the lowest level of CGU or groups of CGUs at which these assets are monitored for internal management purposes. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Any impairment loss would first reduce the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

Calculation of recoverable amount

The recoverable amount is the greater of the estimated fair value less costs to sell and value in use.

In assessing value in use, a discounted cash flow model (DCF) is used. This assessment contains a key source of estimation uncertainty because the estimates and assumptions used in the DCF model encompass uncertainty about future events and market conditions. The actual outcomes may be significantly different. However, estimates and assumptions have been reviewed by management and are consistent with internal forecasts and business outlook.

The DCF model involves the forecasting of future operating cash flows and includes estimates of revenues, production costs and working capital requirements, as well as a number of assumptions, the most significant being the growth rates and the discount rate.

These forecasts of future operating cash flows are based on:

- *business and strategic plans for a three-year period* representing management's best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other currently available information;
 - *extrapolated for another seven years* using growth rates determined on an individual CGU basis, reflecting a combination of product, industry and country growth factors;
 - *after which a terminal value is calculated* based on the Gordon Growth model, which includes a growth factor representing the real growth rate and inflation expected in the country in which the assets operate.
- Forecasts of future operating cash flows are adjusted to present value by an appropriate discount rate derived from the Group's cost of capital, taking into account the country risk premium where applicable, and the systematic risk of the CGU at the date of evaluation. Management determines the discount rate to be used based on the risk inherent in the related activity's current business model and industry comparisons.

Provisions

In general, a provision is recognized when there is a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as provisions is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. As the estimates may involve uncertainty about future events outside the control of the Group, the actual outcomes may be significantly different.

When an obligation does not meet the criteria for recognition it may be considered a contingent liability and disclosed. Contingent liabilities represent possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. They also include existing obligations where it is not probable that an outflow of resources is required, or the outflow cannot be reliably quantified.

Restructuring provisions including termination benefits

Restructuring provisions for programmes that materially change the manner in which the business unit operates are recognized when a detailed formal plan has been established and a public announcement of the plan has occurred, creating a valid expectation that the plan will be carried out. Restructuring provisions often include termination benefits, which can be either voluntary or involuntary. Termination benefits are recognized in accordance with the above, except where there is a service requirement in connection with the benefits, in which case the cost is allocated over the service period.

Restructuring provisions involve estimates of the timing and cost of the planned future activities. The most significant estimates involve

the costs necessary to settle employee severance or other employee separation obligations, as well as the costs involved in contract cancellations and other exit costs. Such estimates are based on historical experience and the expected future cash outflows, based on the current status of negotiations with the affected parties and/or their representatives.

Provisions for 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 funded. For the unfunded plans, benefits paid out under these plans come from the all-purpose assets of the company sponsoring the plan. The related provisions carried in the balance sheet represent the present value of the defined benefit obligation adjusted for unrecognized past service costs.

Under funded defined benefit plans, the assets of the plans are held in trusts legally separate from the Group. The related balance sheet provision or asset represents the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation, taking into account any unrecognized past service cost. However, an asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group, for example in the form of reductions in future contributions or refunds from the plan. When such excess is not available it is not recognized, but is disclosed in the notes.

The projected unit credit method is used to determine the present value of all defined benefit obligations and the related current service cost and where applicable, past service cost. Valuations are carried out quarterly for the most significant plans and annually for other plans. External actuarial experts are used for these valuations.

Estimating the obligations and costs involves the use of assumptions. Such assumptions vary according to the economic conditions of the country in which the plan is located and are adjusted to reflect market conditions at valuation point. However, the actual costs and obligations that in fact arise under the plans may be materially different from the estimates based on the assumptions due to changing market and economic conditions.

The most sensitive assumptions are related to the discount rate, expected return on assets, future compensation increases and health care cost rates. The selection of the discount rate is based on rates

of return on high-quality, 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 from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognized immediately in other comprehensive income and are never reclassified to the income statement.

For all defined benefit plans the cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets (only funded plans), past service cost, curtailments and settlements. The past service cost for changes in benefits is recognized when such benefits vest, or amortized over the periods until vesting occurs.

Interest cost and the expected return on assets to the extent that it covers that plan's interest cost, is classified as financial expense. Other expense items as well as any remaining expected return on assets and all defined contribution expenses are allocated to the operations based on the employee's function as manufacturing, selling or administrative.

The defined benefit accounting described above is applied only in the consolidated accounts. Subsidiaries, as well as the Parent company, continue to use the local statutory pension calculations to determine pension costs, provisions and assets in the stand-alone statutory reporting.

Some post-employment benefits are also provided by defined contribution schemes, where the Group has no obligation to pay benefits after payment of an agreed-upon contribution to the third party responsible for the plan. Such contributions are recognized as expense when incurred.

A portion of the ITP pensions arrangements in Sweden is financed through insurance premiums to Alecta. This arrangement is considered to be a multi-employer plan where defined benefit accounting is required. Alecta is currently unable to provide the information needed to do such accounting. As a result, such insurance premiums paid are currently accounted for as a defined contribution expense.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make estimates and judgements that affect reported assets, liabilities, revenues and expenses. These estimates can be based on historical experiences, other internal/ external sources, and/or assumptions that management believes are reasonable under the circumstances. These estimates also form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual outcomes may differ from management's estimates which could have a significant impact the Group's financial statements.

1 Accounting policies (cont.)

Management believes that the following significant accounting policies contain the most key judgements, assumptions and other estimation uncertainties used in the preparation of the financial statement, where a different opinion or estimate could lead to significant changes to the reported results; income taxes, impairments of intangibles, of property plant and equipment, of financial assets, provisions for post-employment benefits and litigations.

The key judgements and estimates used in these areas are described fully in their individual accounting policy descriptions within Note 1.

Reclassifications in Statement of Cash Flow

Certain reclassifications have been made to the presentation in the statements of cash flow. The starting point is now operating profit rather than profit before tax resulting in additional lines to explain the flows from financial income and expenses. In addition, investments in and sales of short-term financial assets, being part of the Group overall financing program, are classified as financing rather than investing activities. These reclassifications have had no effect on net cash flow. The lines affected are noted below:

2008 (SEKm)	Previously published	As reported
Profit before taxes/operating profit	6,868	7,710
Other non cash items	371	201
Other operating assets and liabilities, net	119	82
Interest received	–	470
Interest paid	–	-861
Other financial items	–	-244
Net cash flow from operating activities	3,687	3,687
Investments in financial and other assets	-384	–
Sales of financial and other assets	869	–
Net cash flow used in investing activities	-3,137	-3,622
Net cash flow after investments before financing	550	65
Investments in financial and other assets	–	-384
Sales of financial and other assets	–	869
Net cash flow used in investing activities	-835	-350
Increase (+)/decrease (-) in cash and cash equivalents	-285	-285

New accounting principles 2009

Voluntary change in accounting principle

The Group has changed the method of recognizing actuarial gains and losses for post-employment defined benefit plans. Effective from 1 January 2009, actuarial gains and losses are immediately recognized in other comprehensive income as they occur. Previously these were allowed to be deferred off balance and amortized into the income statement when their cumulative amount exceeded a certain limit. The Group believes that immediate recognition will improve transparency about their obligations toward current and former employees.

The balance sheet for 2008 has been restated for the cumulative effect of this change in accounting principle, as described below, with corresponding changes to the notes for post-employment benefits and taxes. The income statement for 2008 was not restated as amor-

tised gains and losses, net of tax, were immaterial. However, defined benefit expense as shown in the post-employment benefit note has been restated for the amortised gains and losses to improve comparability with 2009 within the note. The cumulative effect of this change is:

SEKm	Assets	Liabilities	Equity
1 Jan 2008 previously reported	46,331	27,976	18,355
Actuarial gains/losses net*	874	-202	1,076
Tax effect	-103	319	-422
1 Jan 2008 restated	47,102	28,093	19,009
31 Dec 2008 previously reported	56,281	35,683	20,598
Actuarial gains/losses net*	-507	881	-1,388
Tax effect	326	-153	479
31 Dec 2008 restated	56,100	36,411	19,689

* Includes social charges

Standards affecting accounting, presentation and/or disclosure

- IAS 1 amendment "Financial Statement Presentation: a Revised Presentation" primarily introduced a requirement to separately present non-owner changes in equity. The Group has chosen to present such non-owner changes in a "statement of comprehensive income" with individual items presented gross with the tax effect accumulated and presented separately. Previously such non-owner changes were presented in the statement of changes in equity with a net of tax presentation. 2008 has been restated accordingly. Additionally a balance sheet as of the beginning of the comparison year is required if a retrospective change in accounting principle has occurred. Since the Group changed its accounting policy with respect to actuarial gains and losses on defined benefit plans, a restated balance sheet at 1 January 2008 has been presented. The accompanying notes for post-employment benefits and taxes also present restated amounts as of 1 January 2008.

- IFRS 8 "Operating Segments" specifies disclosures for reportable segments. Segments are required to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources to the segments and to assess their performance. Previously, the means of identifying segments was slightly different and segments could only be based on products. The Group's reportable segments, the Divisions, have not changed as a result of this standard.

- IFRS 7 amendment "Improving Disclosures about Financial Instruments" expands the disclosures required in respect of fair value measurements and liquidity risk. The Group has not elected to provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered in this amendment.

- The Group has decided to apply the revised IFRS 3 "Business Combinations", before its mandatory application date (2010), as it was endorsed by the European Commission during the second quarter. This amendment is applied prospectively to all business combinations made on or after 1 January 2009. The revised IFRS 3 continues to require the acquisition method for business combinations, but now requires the expensing of transaction costs, the re-measurement of some contingent payments through the income statement and allows an election on a case by case basis to record "partial" goodwill (only on the Parent's share of net assets) or to record "full" goodwill (on the total acquired net assets, including that related to the non-controlling interest). The Group had no business combinations during 2009, however, these changes can potentially affect the accounting for any

future business acquisition made by the Group. Contingent payments on business combinations which occurred prior to 1 January 2009, will continue to be accounted for under the previous IFRS 3 where such contingent payments resulted in adjustments to goodwill.

- The Group has decided to apply IAS 27 amendment “Consolidated and Separate Financial Statements”, before the mandatory application date (2010), as it was endorsed by the European Commission in the second quarter. The most significant change for the Group under this amendment involves the accounting for changes in minority interests, which are now called “non-controlling interests”. Changes in non-controlling interests of Group subsidiaries occurring on or after 1 January 2009, that do not result in a loss of control will be recognized directly in equity. Previously, goodwill was recorded when the Group purchased minority shareholdings. The new rule was applied during 2009 when the Group purchased the remaining 49% shareholding of SKF Polyseal resulting in a decrease in equity. The retrospective requirements of this amendment had no effect other than presentation changes.

Standards and interpretations having no material impact on the financial statements

- IFRS 1 amendment “First-time Adoption of IFRS, Cost of an Investment” together with IAS 27 amendment, Consolidated Financial Statements “Cost of an Investment”
- IFRS 2 amendment “Share Based Payments: Vesting Conditions and Cancellations”
- IAS 23 amendment “Borrowing Costs, Comprehensive Revision to Prohibit Immediate Expensing” requires that borrowing costs be capitalized for assets requiring a significant time for construction. This applies prospectively for projects that started on or after 1 January 2009. The Group expects that construction projects for new factories to be the only likely asset that would meet the criteria for capitalization, and based on the historical frequency of such items, no material amounts of interest costs are expected to be capitalized in the future.
- IAS 32 amendment “Financial Statement Disclosures: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation” together with consequential amendment to IAS 1 “Financial Statement Presentation”
- IAS 39 amendment and IFRIC 9 amendment “Embedded Derivatives”
- Annual improvements May 2008
- * The following amendments from the Annual Improvements April 2009 project have been adopted as required; IFRS 2 “Share-Based Payments”, IAS 38 “Intangible Assets”, amended paragraph 80 of IAS 39 “Financial Instruments” and IFRIC 9 “Reassessment of Embedded Derivatives”.
- IFRIC 13 “Customer Loyalty Programmes”

IFRS Issued but not effective:

The following have been issued from the IASB and are effective as from 1 January 2010. The Group does not expect any of these to have a significant impact upon the financial statements.

- * IFRS 1 amendment “First-time Adoption of IFRS – Oil and Gas Assets and Determining Whether an Arrangement Contains a Lease” relates only to first time adopters of IFRS.
- * IFRS 2 amendment “Share-based Payment – Group Settled Share-Based Payment Transactions” clarifies how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements.

- IAS 39 amendment “Financial Instruments: Recognition and Measurement – Eligible Hedged Items” clarifies which part of an option can be designated as a hedging instrument for hedge accounting and also clarifies when inflation can be identified as a hedged risk.

- IAS 39 amendment “Financial Instruments: Recognition and Measurement – Embedded Derivatives When Reclassifying Financial Instruments” allows entities to reclassify particular financial instruments out of the ‘at fair value through profit or loss’ category in specific circumstances.

* Remaining amendments from Annual Improvements April 2009

- IFRIC 15 “Agreements for the Construction of Real estate” specifies revenue recognition for real estate developers. The Group is not involved in such activities and no impact is expected.

- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” clarifies the nature of the hedged risk, the amount for which a hedging relation can be designated, which entity in the group can hold the hedging instrument and what to do when the foreign operation is disposed. The Group is already in compliance with IFRIC 16.

- IFRIC 17 “Distribution of Non-Cash Assets to Owners” clarifies how an entity should measure distributions of assets other than cash when it pays dividends to its owners.

- IFRIC 18 “Transfers of Assets from Customers” (July 2009) clarifies the accounting when assets (cash or otherwise) are received from customers. The Group is already in compliance with IFRIC18.

The following have been issued from the IASB and are effective for annual periods after 2010 as noted. The effect upon the financial statement has not yet been determined.

- * IFRS 1 amendment “First-time Adoption of IFRS – Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters” relates only to first time adopters of IFRS. (2011)

- * IAS 24 amendment “Related Party Disclosures – Revised Definition of Related Parties” simplifies the disclosure for government related entities and clarifies the definition of a related party. (2011)

- IAS 32 amendment “Financial Statement Presentation- Classification of Rights Issues” clarifies the accounting for rights issues denominated in another currency than the functional currency of the owner. (2011)

- * IFRIC 14 Amendment “Limit on Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” relates to early payment of contributions to cover minimum funding requirements. (2011)

- * IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” clarifies the accounting when an entity issues shares or other equity instruments to settle a financial liability fully or partially. (2011)

- * IFRS 9 “Financial instruments- Classification and Measurement” simplifies accounting for financial assets by requiring a single approach to determine whether a financial assets is measured at cost or fair value, basically based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Additionally only one impairment method will be allowed. (2013)

* These have not been endorsed by the EU.

2 Segment information

The SKF Group is represented in more than 130 countries with more than 100 manufacturing sites and also sales companies supported by about 15,000 distributor locations. The Group does business mainly through three divisions: Industrial Division, Service Division and Automotive Division. The divisions are each focusing on specific customer segments representing groups of related industrial and automotive products worldwide.

The Industrial Division serves industrial Original Equipment Manufacturer (OEM) customers in some 30 global industry customer segments with a wide range of energy efficient offerings. These solutions and know-how are also based on the manufacturing of a wide range of bearings – such as spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and super-precision bearings – as well as lubrication systems, linear motion products, magnetic bearings, by-wire systems and couplings.

The Service Division serves the global industrial aftermarket providing products and knowledge-based services to increase customers' plant asset efficiency. Solutions are based on SKF's knowledge of bearings, seals, lubrication systems, mechatronics and services, and customers are served by the Group and its network of over 7,000 authorized distributors. The Division runs three Condition

Monitoring Centres, who design and produce world-leading hardware and software. Service Division is also responsible for all SKF's sales in certain markets. The expanding network of SKF Solution Factories will be the future infrastructure for delivering complete, integrated solutions incorporating all SKF's technology platforms.

The Automotive Division serves manufacturers of cars, light trucks, heavy trucks, buses, two-wheelers and the vehicle service market, supporting them in bringing innovative and sustainable solutions to global markets. In addition, the Division provides energy-saving solutions for home appliances, power tools and electric motors. Within the Automotive Division, the Group develops and manufactures bearings, seals and related products and services. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, and automotive specially products for engine, steering and driveline applications. For the vehicle service market, the Division provides complete repair kits, including a range of drive shafts and constant velocity joints.

Other operations include businesses managed outside of the three divisions, primarily PEER Bearing Company, Logistics Services and other minor operations, as well as divested businesses.

Previously published amounts have been reclassified to conform to the current Group structure in 2009.

SEKm	Net sales		Sales including intra Group sales		Profit before tax	
	2009	2008	2009	2008	2009	2008
Industrial Division	19,301	22,862	28,368	33,730	1,551	4,043
Service Division	19,832	21,907	20,190	22,318	2,610	3,326
Automotive Division	16,051	17,886	19,279	21,850	-809	546
Other operations	1,043	706	3,211	3,079	158	104
Eliminations of intra Group sales	–	–	-14,821	-17,616	–	–
Timing differences in internal sales and others	–	–	–	–	-370	-249
Eliminations and unallocated items, net	–	–	–	–	63	-60
Financial net	–	–	–	–	-906	-842
	56,227	63,361	56,227	63,361	2,297	6,868

SEKm	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
	2009	2008	2009	2008	2009	2008
Industrial Division	946	922	50	43	1,458	1,757
Service Division	146	134	6	2	67	101
Automotive Division	775	763	128	42	607	680
Other operations	60	29	–	–	33	77
Eliminations and unallocated items	59	16	1	-2	-135	-44
	1,986	1,864	185	85	2,030	2,571

SEKm	Assets		Liabilities	
	2009	2008	2009	2008
Industrial Division	19,937	23,283	4,112	5,185
Service Division	6,454	7,682	1,620	2,014
Automotive Division	12,223	13,759	4,101	3,689
Other operations	1,497	1,930	495	632
Financial and tax items	9,174	7,484	19,344	21,526
Other unallocated items	1,730	1,962	3,063	3,365
	51,015	56,100	32,735	36,411

Geografic disclosure

The Group's net sales and non-current assets which is defined to exclude financial assets, deferred tax assets and post-employment benefit assets, are shown by region. Net sales are allocated according

to the location of the respective customer. Non-current assets are allocated according to the location of the assets in question.

SEKm	Net sales by customer location		Non-current assets	
	2009	2008	2009	2008
Sweden	1,579	2,209	1,435	1,478
Europe excl. Sweden	26,848	33,062	9,931	10,886
North America	9,893	10,892	2,203	2,553
Asia-Pacific	12,723	12,252	3,802	3,772
Other	5,184	4,946	818	748
Eliminations	–	–	-130	-117
	56,227	63,361	18,059	19,320

Of the Group's total net sales by customer location, 15.6% (15.4) were located in the USA, 13.8% (17.2) in Germany and 10.9% (7.9) in China.

Of the Group's total non-current assets as defined above, 13.9% (15.1) were located in France, 13.9% (13.4) in Germany, 13.5% (14.2) in Italy and 11.8% (12.9) in the USA.

3 Acquisitions

SEKm	2009	2008
Fair value of net assets acquired		
Intangible assets	–	373
Property, plant and equipment	–	196
Remaining non-controlling interest	211	50
Other assets and liabilities, net	–	265
	–	884
Goodwill	21	488
Total consideration	232	1,372
Less:		
Cash and cash equivalents acquired	–	-90
Consideration payable	–	-10
Payment of consideration on prior year acquisitions	9	12
Cash outflow on acquisitions	241	1,284

In 2009, the Group had cash outflows of SEK 241 m related to the acquisition of non-controlling interests and a number of deferred payments related to business acquisitions made in previous years.

Automotive Division

- In April 2009, the remaining 49% interest in SKF Polyseal in the USA was acquired for SEK 209 m. The entire amount was charged directly to equity in accordance with the amended IFRS standards. The Group's original investment was made in 2006.

In 2008 the Group acquired businesses amounting to SEK 1,372 m:

Industrial Division

- QPM Aerospace's metallic rod business (February 2008)

Service division

- Cirval S.A Argentina (October 2008)

Automotive Division

- GLO s.r.l. Italy, (November 2008)
- Remaining 30% of the operations of SKF Automotive Bearings Company in Shanghai, China (December 2008) The Group's original investment was made in 1995.

Other operations

- PEER Bearing Company, USA and its manufacturing units in China and Thailand (September 2008)

PEER Bearing Company

The most significant acquisition in 2008 occurred when SKF Group acquired 100% of PEER Bearing Company and its manufacturing operations in China and Thailand. The company is headquartered in Waukegan, Illinois, USA.

The acquisition was completed 11 September 2008. Goodwill is derived from PEER's position on the North American market in certain segments. Additionally, intangible assets other than goodwill were identified, the most significant being customer relationships and trade names.

In 2009, the PPA was finalized with adjustments noted below. These adjustments were reflected in 2009 and no restatement was made to the 2008 consolidated balance sheet.

3 Acquisitions (cont.)

<i>PEER Bearing Company (SEKm)</i>	Book value	Fair value adjustments	Fair value as reported 2008	Final PPA adjusted in 2009	Deferred payment 2009	Total
Net assets acquired						
Intangible assets	7	315	322	24	–	346
Property, plant and equipment	164	11	175	-20	–	155
Financial liabilities	-19	–	-19	–	–	-19
Employee benefits, deferred taxes and provisions	-3	–	-3	5	–	2
Net working capital and current taxes	144	13	157	151	–	308
Cash and cash equivalents	75	–	75	–	–	75
	368	339	707	160	–	867
Goodwill			387	-160	21	248
Total consideration			1,094	–	21	1,115
Less:						
Cash and cash equivalents acquired			-75	–	–	-75
Cash outflow on acquisition			1,019	–	21	1,040
Total consideration satisfied by:						
Cash			1,054	–	21	1,075
Directly attributable costs			40	–	–	40
Total consideration			1,094	–	21	1,115

4 Divestments of businesses and of assets held for sale

No divestments were made in 2009.

Total cash inflow in 2008 regarding divestments of businesses amounted to SEK 93 m including a SEK 47 m deferred payment from divestments in previous years. The Group sold the operating assets of Roller Bearing Industries, Inc, USA to Greenbrier Companies

USA, a leading supplier of transportation equipment and services to the railway industry. The total consideration was SEK 46 m which included a profit of SEK 14 m. The net book value of assets sold included property, plant and equipment SEK 12 m and net working capital and current taxes SEK 20 m. Roller Bearing Industries was a part of the Industrial Division.

5 Research and development

Research and development expenditures totalled SEK 1,217 m (1,175). Additionally, the Group entered into external research contracts

where the Group produces prototypes of various products on behalf of a third party. Expenses under such contracts were SEK 8 m (8).

6 Expenses by nature

SEKm	2009	2008
Employee benefit expenses including social charges	19,305	18,340
Raw material and components consumed, including shop supplies	16,348	20,318
Change in work in process and finished goods	1,910	-880
Depreciation, amortization, and impairments	2,171	1,949
Other expenses, primarily purchased services, utilities and goods	13,205	15,891
Total operating expenses	52,939	55,618

<i>Depreciation, amortization and impairments were accounted for as (SEKm)</i>	2009			Total
	Depreciation	Amortization	Impairments	
Cost of goods sold	1,675	58	153	1,886
Selling expenses	88	130	32	250
Administrative expenses	1	34	–	35
	1,764	222	185	2,171

Depreciation, amortization and impairments were accounted for as (SEKm)	2008			
	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,522	62	43	1,627
Selling expenses	82	150	42	274
Administrative expenses	3	45	–	48
	1,607	257	85	1,949

7 Other operating income and expenses

SEKm	2009	2008
Other operating income		
Exchange gain on trade receivables/payables	358	455
Profit from sale of property, plant and equipment	27	52
Other	75	60
	460	567
Other operating expenses		
Exchange loss on trade receivables/payables	-439	-546
Loss from sale of property, plant and equipment	-20	-11
Other	-75	-44
	-534	-601

8 Financial income and financial expenses

SEKm	2009	2008
Financial Income		
Interest from financial assets		
– financial assets at fair value through profit or loss	331	343
– financial assets in the rest of the categories	16	70
Net gain/loss and similar items on:		
Loans and receivables	429	496
Available-for-sale assets	3	5
Financial assets at fair value through profit or loss		
– designated upon initial recognition	-2	31
– derivatives held for trading	-49	184
– derivatives held for hedge accounting	-683	369
	45	1,498
Financial Expenses		
Interest from financial liabilities		
– derivatives held for hedge accounting	-82	-363
– other financial liabilities	-506	-431
Net gain/loss and similar items on:		
Financial liabilities		
– derivatives held for trading	-78	-100
– derivatives held for hedge accounting	-4	-3
– other financial liabilities	92	-1,220
Impairment on financial receivables	-16	–
Post employment benefit	-357	-223
	-951	-2,340

The decrease in the interest cost from financial liabilities is mainly due to the repayment of the loans made during the year. Net gains/losses and similar items are mainly exchange differences and changes in fair

value. This category includes also fee expenses related to the repayment of loans during the year by SEK 28 m. Dividends from available-for-sale instruments amounted to SEK 3 m (5).

Tax expense (SEKm)	2009			2008		
	Income statement	Other comprehensive income	Total taxes	Income statement	Other comprehensive income	Total taxes
Current taxes	-1,065	-145	-1,210	-2,165	195	-1,970
Deferred taxes	503	250	753	68	893	961
Other taxes	-30	-	-30	-30	-	-30
	-592	105	-487	-2,127	1,088	-1,039

Deferred taxes included expenses of SEK -86 m (38) related to the net change in unrecognized deferred tax assets. Of this, SEK 22 m (48) represented an adjustment of the opening balance of the previously recognized deferred tax assets. The adjustment related to a change in circumstances where profitability deteriorated, which affected the judgments on the realizability of the related deferred tax asset in future years. There were no changes in tax rates used to calculate

deferred taxes in 2009. In 2008, the impact was SEK 25 m and primarily related to changed tax rate in Sweden.

Taxes charged to other comprehensive income includes SEK 238 m (901) related to actuarial gains and losses, SEK -49 m (40) related to cash flow hedges and SEK -84 m (147) related to net investment hedges.

Deferred taxes per type (SEKm)	2009		2008		1 January 2008
	Deferred tax assets	Deferred tax provisions	Deferred tax assets	Deferred tax provisions	Deferred tax net
Property, plant and equipment	-74	1,337	-74	1,446	1,141
Inventories	-404	429	-400	590	166
Provisions for post employment benefits	-1,575	22	-1,208	24	-195
Trade receivables	-31	47	-16	46	24
Other accruals and liabilities	-765	91	-666	7	-560
Other assets	-98	100	-106	186	91
Tax loss carry-forwards	-387	-	-284	-	-237
Other	-90	487	-109	432	336
	-3,424	2,513	-2,863	2,731	766

Unrecognized deferred tax assets

At the balance sheet date the SKF Group had unrecognized deferred tax assets of SEK 165 m (127) related to tax loss carry-forwards and SEK 111 m (63) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams. Of these unrecognized deferred tax assets SEK 59 m were related to tax losses which will expire during the period 2010 to 2014.

The remaining unrecognized assets will expire after 2015 and/or may be carried forward indefinitely.

Corporate income tax

The corporate statutory income tax rate in Sweden was 26.3% (28.0). The actual tax rate on profit before taxes was 25.8% (31.0).

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	2009	2008
Tax calculated on statutory tax rate in Sweden	-604	-1,923
Difference between statutory tax rate in Sweden and foreign subsidiaries' weighted statutory tax rate	-8	-135
Other taxes	-30	-30
Tax credits and similar items	154	62
Permanent differences	-68	-122
Tax loss carry-forwards, net of changes in unrecognized deferred tax assets	-110	-14
Current tax referring to previous years	-23	-9
Other	97	44
Actual tax	-592	-2,127

Gross value of tax loss carry-forwards

At 31 December 2009, certain subsidiaries had tax loss carry-forwards amounting to SEK 2,409 m (1,910), which are available for offset against taxable future profits. Such tax loss carry-forwards expire as follows:

2010	267
2011	129
2012	197
2013	218
2014	312
2015 and thereafter	1,286

10 Intangible assets

SEKm	2009 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2009 Opening balance
<i>Acquisition cost</i>								
Goodwill	3,052	–	21	–	–	-197	-195	3,423
Patents, trademarks and similar rights	558	1	–	–	–	24	-33	566
Capitalized software	497	7	–	-47	–	1	-6	542
Capitalized customer relationships	905	–	–	–	–	–	-51	956
Leaseholds	28	6	–	–	–	–	-1	23
Capitalized development	269	20	–	–	–	–	-14	263
Other intangible assets	172	21	–	–	–	3	-6	154
	5,481	55	21	-47	–	-169	-306	5,927

SEKm	2009 Closing balance	Amort- ization	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2009 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	293	–	–	–	–	–	-11	304
Patents, trademarks and similar rights	214	39	–	–	–	–	-12	187
Capitalized software	478	55	–	-47	32	1	-3	440
Capitalized customer relationships	269	87	–	–	–	–	-13	195
Leaseholds	14	4	–	–	–	–	-1	11
Capitalized development	90	13	–	–	28	2	-4	51
Other intangible assets	109	24	–	–	7	-1	-6	85
	1,467	222	–	-47	67	2	-50	1,273
Net book value	4,014	-167	21	–	-67	-171	-256	4,654

SEKm	2008 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2008 Opening balance
<i>Acquisition cost</i>								
Goodwill	3,423	–	488	–	–	20	448	2,467
Patents, trademarks and similar rights	566	2	150	–	–	-25	72	367
Capitalized software	542	9	0	-36	–	1	15	553
Capitalized customer relationships	956	–	206	–	–	-46	123	673
Leaseholds	23	1	4	0	–	-27	3	42
Capitalized development	263	24	–	–	–	7	30	202
Other intangible assets	154	4	13	0	–	0	16	121
	5,927	40	861	-36	–	-70	707	4,425

SEKm	2008 Closing balance	Amort- ization	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2008 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	304	–	–	–	40	–	31	233
Patents, trademarks and similar rights	187	93	–	–	–	0	21	73
Capitalized software	440	68	–	-36	2	0	10	396
Capitalized customer relationships	195	64	–	–	–	–	23	108
Leaseholds	11	3	–	0	–	-12	2	18
Capitalized development	51	19	–	–	–	0	4	28
Other intangible assets	85	10	–	–	–	12	10	53
	1,273	257	–	-36	42	0	101	909
Net book value	4,654	-217	861	0	-42	-70	606	3,516

¹⁾ Refer to Note 3.

10 Intangible assets (cont.)

In 2009, additions to capitalized software and development included SEK 20 m (24) that was internally generated.

Impairment losses in 2009 totalled SEK 67 m. The most significant were SEK 32 m related to software and SEK 26 m related to a development project where in both cases, economic benefits were not achieved to the extent expected.

Impairment losses related to intangible assets for 2008 totalled SEK 42 m. The most significant was SEK 40 m related to the impairment of goodwill in the Industrial Division's mechatronics operations, which experienced decreasing volumes and margins. This impairment was based on a value in use using a discount rate of 12%. The previous value in use calculation used 10%.

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

SEKm	Tradename		Goodwill	
	2009	2008	2009	2008
PEER Group (acquired 2008)	182	166	250	430
S2M Group (acquired 2007)	–	–	309	327
ABBA Group (acquired 2007)	–	–	248	289
SNFA Group (acquired 2006)	–	–	404	428
SKF Sealing Solutions NA (acquired 1990)	–	–	225	287
Other individual CGUs	–	–	1,323	1,358
Total	182	166	2,759	3,119

The goodwill included in the above CGUs are individual intangible assets that are material to the Group. The recoverable amounts for the Other individual CGUs were based on value in use, where a DCF model is used. Refer to Note 1 for a description of the model, including assumptions.

The tradename PEER is considered to have an indefinite life as the SKF Group anticipates to continue to promote the "PEER" brand.

assumptions used in determining value in use are the growth rates and the discount rates. The revenue growth rate was 12% for PEER, 10% for S2M, 7% for ABBA, 5% for SNFA and 2% for SKF Sealing Solutions, and the growth rates used to calculate the terminal values were 3.0% for ABBA and 2.5% for the other CGUs. The pre-tax discount rate was 14% for PEER, 13% for S2M, 11% for ABBA, 13% for SNFA and 14% for SKF Sealing Solutions.

PEER Group, S2M Group, ABBA Group, SNFA Group and SKF Sealing Solutions NA

The recoverable amounts for these CGUs have been determined based on the value in use method. As discussed in Note 1, the significant

A number of sensitivity analyses were performed to evaluate if any reasonably possible adverse changes in assumptions would lead to an impairment. The analyses focused around decreasing the growth rates and increasing the discount rates, and showed no impairments.

11 Property, plant and equipment

SEKm	2009 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2009 Opening balance
<i>Acquisition cost</i>								
Buildings	6,204	324	–	-62	–	9	-295	6,228
Land and land improvements	860	44	–	-15	–	7	-42	866
Machinery and supply systems	25,238	622	–	-740	–	516	-1,286	26,126
Machine toolings and factory fittings	3,427	168	–	-174	–	96	-158	3,495
Construction in process including advances	1,884	817	–	-31	–	-645	-83	1,826
	37,613	1,975	–	-1,022	–	-17	-1,864	38,541
SEKm	2009 Closing balance	Depreciation	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2009 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	3,132	186	–	-36	46	-5	-158	3,099
Land improvements	198	15	–	-13	–	1	-11	206
Machinery and supply systems	17,647	1,300	–	-763	72	39	-917	17,916
Machine toolings and factory fittings	2,703	263	–	-169	–	-26	-129	2,764
	23,680	1,764	–	-981	118	9	-1,215	23,985
Net book value	13,933	211	–	-41	-118	-26	-649	14,556

SEKm	2008 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2008 Opening balance
<i>Acquisition cost</i>								
Buildings	6,228	143	64	-103	–	116	655	5,353
Land and land improvements	866	11	7	-15	–	28	101	734
Machinery and supply systems	26,126	848	74	-571	–	385	3,039	22,351
Machine toolings and factory fittings	3,495	208	30	-121	–	96	387	2,895
Construction in process including advances	1,826	1,321	21	-6	–	-710	148	1,052
	38,541	2,531	196	-816	–	-85	4,330	32,385

SEKm	2008 Closing balance	Depreciation	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2008 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	3,099	165	–	-93	0	-15	340	2,702
Land improvements	206	5	–	-2	0	0	27	176
Machinery and supply systems	17,916	1,201	–	-545	43	-99	2,081	15,235
Machine toolings and factory fittings	2,764	236	–	-113	0	13	316	2,312
	23,985	1,607	–	-753	43	-101	2,764	20,425
Net book value	14,556	924	196	-63	-43	16	1,566	11,960

¹⁾ Property, plant and equipment classified as held for sale are reflected under "Other".

Impairment losses for 2009 on PPE totalled SEK 118 m and are primarily related to the restructuring activities within the Automotive Division operations in France as part of the Groups efforts to adopt the overall capacity to market conditions. An impairment of SEK 94 m was taken on the DGBB manufacturing facilities in Fontenay, France where SEK 46 m relates to the factory building and SEK 48 m relates to machinery and equipment. The production continued in the facility during 2009 until November 2009, after which it was closed. In addition, an impairment of SEK 21 m was taken on machinery from certain HUB channels which were closed in the St. Cyr facility.

The impairments reduced the book values of these assets to zero, as they are expected to be dismantled, scrapped or otherwise disposed with little or no expected recoverable value.

Impairment losses for 2008 on property, plant and equipment amounted to SEK 43 m. The most significant were SEK 30 m related to ongoing restructuring activities in the Automotive Division. These impairments are included in the restructuring plans announced in December 2008. The other impairments in 2008 were minor and related to individual assets used in the Automotive Division's operations in France and Italy.

<i>Finance leases included in property, plant and equipment consisted of the following (SEKm)</i>	2009	2008
<i>Acquisition value</i>		
Buildings	90	96
Land and land improvements	16	18
Machinery and supply systems	5	5
Machine toolings and factory fittings	1	3
	112	122
<i>Accumulated depreciation</i>		
Buildings	7	5
Machinery and supply systems	2	2
Machine toolings and factory fittings	2	1
	11	8
Net book value	101	114

For further leasing disclosures, see Note 21.

<i>Tax value of Swedish real estate</i>		
Land and land improvements	94	96
Buildings	472	477
	566	573

12 Jointly controlled and associated companies

<i>Investments in jointly controlled and associated companies (SEKm)</i>	2009	2008
Investments in jointly controlled companies	60	45
Investments in associated companies	27	35
	87	80

<i>Income from jointly controlled and associated companies (before taxes) (SEKm)</i>	2009	2008
Jointly controlled companies	-4	3
Associated companies	-7	-2
	-11	1

<i>Specification of investments in jointly controlled and associated companies</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	2009		2008	
					Book value (SEKm)		Book value (SEKm)	
					Parent Company	Consolidated accounts	Parent Company	Consolidated accounts
<i>Held by Parent Company:</i>								
<i>Associated companies</i>								
Endorsia.com International AB, Göteborg, Sweden	30	51,000	SEK	5	14	18	14	23
AEC Japan Co. Ltd., Japan	50	400	JPY	20	1	1	1	1
					15	19	15	24

Specification of investments in jointly controlled and associated companies	Holding in percent	Number of shares	Currency	2009	2008
				Book value in the consolidated accounts (SEKm)	Book value in the consolidated accounts (SEKm)
Held by subsidiaries:					
Jointly controlled companies					
International Component Supply, Ltda, Brazil	50	26,315	BRL	60	45
Associated companies					
CoLinx LLC, USA	20	1	USD	2	2
Mongolia: Seal Jet Mongolia Ltd., Mongolia	30	3,000	USD	0	0
Economos Singapore Pte Ltd., Singapore	50	50,000	SGD	1	1
Other				5	8
Total investments in jointly controlled and associated companies				87	80

<i>Aggregated financial statements of jointly controlled and associated companies (SEKm)</i>	2009	2008
Non-current assets	191	154
Current assets	177	167
Total assets	368	321
Equity	226	190
Non-current liabilities	28	19
Current liabilities	114	112
Total equity and liabilities	368	321
Net sales	980	840
Profit before taxes	-8	14

13 Inventories

SEKm	2009	2008
Raw materials and supplies	3,387	4,241
Work in process	1,652	2,291
Finished goods	6,732	8,672
	11,771	15,204

Inventory values are stated net of a provision for net realizable value of SEK 1,269 m (1,021). The amount charged to expense for net realizable

provisions during the year was SEK 314 m (170). Reversals of net realizable provisions during the year were SEK 79 m (29).

14 Financial assets

Trade receivables by due date (SEKm)	Carrying amount	Not yet due	Past due, net of allowance			
			1-30 days	31-60 days	61-90 days	> 91 days
2009	8,800	7,685	750	182	57	126
2008	11,041	9,378	1,123	304	109	127

The carrying amount of trade receivables approximated fair value.

The average days outstanding of trade receivables in 2009 were 58 days (64). The Group's target is 57 days. Trade receivables as a percentage of annual net sales totaled 15.7% (17.4).

Trade receivables included receivables sold with recourse

that amounted to SEK 117 m (89). The risk of customer default for these receivables has not been transferred in such a way that the financial assets qualify for derecognition.

The following table shows the development of allowance accounts for credit losses on trade receivables.

Specification of reserve for doubtful accounts (SEKm)	2009	2008
Allowances as of 1 January	281	201
Additions	61	79
Reversals	-30	-23
Changes through the income statement	31	56
Allowances used to cover write-offs	-34	-19
Businesses acquired	-	13
Currency translation adjustments	-12	30
Allowances as of 31 December	266	281

14 Financial assets (cont.)

2009

Financial assets per category							
Fair value through profit and loss							
SEKm	Loans and receivables	Available-for-sale	At initial recognition	Trading	Derivatives for hedge accounting	Total	Of which current
Loans and receivables	451	–	–	–	–	451	23
Equity securities	–	504	–	–	–	504	–
Marketable securities	–	–	–	299	–	299	–
Debt securities	–	21	140	–	–	161	140
Trade receivables	8,800	–	–	–	–	8,800	8,800
Deposits	414	–	162	–	–	576	576
Cash and cash equivalent	2,817	–	1,613	–	–	4,430	4,430
Derivatives	–	–	–	287	395	682	571
Carrying amount	12,482	525	1,915	586	395	15,903	14,540
Fair Value	12,464	525	1,915	586	395	15,885	

2008

Financial assets per category							
Fair value through profit and loss							
SEKm	Loans and receivables	Available-for-sale	At initial recognition	Trading	Derivatives for hedge accounting	Total	Of which current
Loans and receivables	492	–	–	–	–	492	57
Equity securities	–	376	–	–	–	376	–
Marketable securities	–	–	–	247	–	247	–
Debt securities	–	21	71	–	–	92	71
Trade receivables	11,041	–	–	–	–	11,041	11,041
Deposits	307	–	–	–	–	307	307
Cash and cash equivalent	2,579	8	206	–	–	2,793	2,793
Derivatives	–	–	–	329	1,212	1,541	1,399
Carrying amount	14,419	405	277	576	1,212	16,889	15,668
Fair Value	14,440	405	277	576	1,212	16,910	

Additional information regarding derivatives is disclosed in Note 28.
Equity securities which have quoted market price amounted to

SEK 476 m (342). The rest of equity securities are valued at cost.
Methods used for establishing fair value are described in Note 1.

Fair value measurement of financial assets (SEKm)

	Level 1	Level 2	Level 3	2009	Level 1	Level 2	Level 3	2008
Fair value through profit or loss								
Trading securities	300	–	139	439	175	–	143	318
Cash and cash equivalents	1,775	–	–	1,775	206	–	–	206
Trading derivatives	–	287	–	287	–	329	–	329
Available for sale								
Equity securities	476	–	–	476	342	–	–	342
Debt securities	21	–	–	21	29	–	–	29
Derivatives used for hedge accounting								
	–	395	–	395	–	1,212	–	1,212
Total	2,572	682	139	3,393	752	1,541	143	2,436

Total profit or losses								Profit/loss related to assets included in closing balance
Fair value of financial assets in level 3 (SEKm)	Closing Balance 2009	Financial net	Other comprehensive income	Increases	Withdrawals	Transfer out of level 3	Opening Balance 2009	
Fair value through profit or loss								
Trading securities	139	5	–	–	-9	–	143	5
Total	139	5	–	–	-9	–	143	5

15 Other short-term assets

SEKm	2009	2008
Other current receivables	2,365	2,254
Prepaid expenses	434	380
Accrued income	196	259
Advances to suppliers	146	105
	3,141	2,998

16 Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total ¹⁾	
Opening balance 1/1/2008	48,996,034	406,355,034	455,351,068	1,138
Share split 2:1	48,996,034	406,355,034	455,351,068	–
Redemption of shares	-48,996,034	-406,355,034	-455,351,068	-569
Bonus issue	–	–	–	569
Conversion of A shares to B shares	-1,250,000	1,250,000	–	–
Closing balance 31/12/2008	47,746,034	407,605,034	455,351,068	1,138
Conversion of A shares to B shares	-2,325,030	2,325,030	–	–
Closing balance 31/12/2009	45,421,004	409,930,064	455,351,068	1,138

¹⁾ Quota value for all shares is SEK 2.50

An A share has one vote and a B share has one-tenth of one vote. At the Annual General Meeting on 18 April 2002, it was decided to insert a share conversion clause in the Articles of Association which allows owners of A shares to convert those to B shares. Since the decision was taken, 181,515,743 A shares have been converted to B shares.

Dividend policy

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

If the financial position of the SKF Group exceeds the target for capital structure, see Note 28, an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a

redemption scheme or as a repurchase of the company's own share. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Dividend payments

The Board has decided to propose to the Annual General Meeting a dividend of SEK 3.50 (3.50) per share to be paid to the shareholders on 7 May 2010. The proposed dividend for 2010 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 4 May 2010. The total proposed dividend to be paid is SEK 1,594 m.

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

On 29 April 2009, a dividend of SEK 3.50 (5.00) per share was paid to shareholders.

17 Earnings per share

	2009	2008
Net profit attributable to owners of AB SKF (SEKm)	1,642	4,616
Weighted number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	3.61	10.14
Dilutive shares of stock option programme 2003	14,468	471,652
Weighted average diluted number of shares	455,365,536	455,822,720
Diluted earnings per share (SEK)	3.61	10.13

As of 31 December 2009 there were no outstanding stock options.

Future issuance of performance shares covered by SKF's Performance Share Programme requires additional financial objectives that the Board has defined in accordance with the Group's performance

management model TVA (Total Value Added) to be met in future years. Therefore the performance shares are not currently considered dilutive, but may become dilutive in future periods. Refer to Note 25 for more information regarding the options and performance shares.

18 Provisions for post-employment benefits

Amount recognized in the consolidated balance sheet (SEKm)	2009			2008			1 January 2008
	Pensions	Other	Total	Pensions	Other	Total	Total
Present value of unfunded defined benefit obligations	935	1,943	2,878	905	2,072	2,977	2,626
Present value of funded defined benefit obligations	13,494	169	13,663	12,642	221	12,863	11,473
Less: Fair value of plan assets	-9,466	-86	-9,552	-9,428	-87	-9,515	-10,697
Deficit	4,963	2,026	6,989	4,119	2,206	6,325	3,402
Unrecognized past service cost	8	-4	4	-10	8	-2	22
Net post-employment benefit liabilities	4,971	2,022	6,993	4,109	2,214	6,323	3,424
<i>Reflected as</i>							
Other long-term assets	-27	-	-27	-33	-	-33	-1,176
Provisions for post-employment benefits	4,998	2,022	7,020	4,142	2,214	6,356	4,600
Net post-employment benefit liabilities	4,971	2,022	6,993	4,109	2,214	6,323	3,424

Post-employment pension benefits

The Group sponsors defined benefit pension plans in a number of companies, where the employees are eligible for retirement benefits based on pensionable remuneration and length of service. The most significant plans are in Sweden, Germany, the UK and the USA. The Swedish plan supplements a statutory pension where benefits are established by national organizations. Plans in Germany, the UK and the USA are designed to supplement these countries' social security pensions.

Other post-employment benefits

The majority of other post-employment benefits relate to post-retirement health care plans and retirement and termination indemnities.

The US subsidiary sponsors a post-retirement health care plan covering most salaried and hourly employees. The plan provides health care and life insurance benefits for eligible retired employees. The company is entitled to receive a subsidy under the US

Medicare Program Part D, for plan prescriptions drug costs for certain plan participants. At 31 December 2009, this reimbursement right totalled SEK 33 m (32).

The subsidiaries in Italy sponsor termination indemnities, TFR, which are paid out immediately upon termination. As prescribed by Italian law, the TFR obligation related to benefits and services up to 31 December 2006 remains a defined benefit plan and as such is reflected in the Group's balance sheet. Benefits on employee's service from 1 January 2007 are a defined contribution plan where the Italian subsidiaries pay a contribution to an external social security fund as defined by the employee.

The subsidiaries in France sponsor a retirement indemnity plan in accordance with French National Employer/Employee agreements where a lump sum is paid to employees upon retirement. During both 2009 and 2008, a curtailment occurred as a result of restructuring activities.

<i>Components of total post-employment benefit expense (SEKm)</i>	2009	2008
<i>Defined benefit expense</i>		
Current service cost	355	321
Interest cost	867	763
Expected return on assets	-587	-709
Curtailments	-35	-15
Past service cost	4	-17
Other	7	5
Post-employment defined benefit expense	611	348
Post-employment defined contribution expense	316	288
Total post-employment benefit expense	927	636
<i>Whereof</i>		
Amounts charged to operating profit	570	413
Amounts charged to financial expense	357	223
Total post-employment benefit expense	927	636

The increase in total post employment benefit expense is primarily attributable to a significantly lower expected return on assets. The 2009 returns were calculated on the fair value of plan assets at 1 January 2009 being SEK 9,515 m, which were significantly lower

than 1 January 2008 being SEK 10,697 m, with the largest effect coming from the US plan. Additionally stronger euro and dollar currencies in 2009 over 2008 caused a SEK 33 m increase in total expense.

<i>Geographical distribution of total defined benefit obligations (SEKm)</i>	2009	2008
Europe	10,253	9,405
Americas	6,087	6,216
Rest of the world	201	219
	16,541	15,840
<i>Geographical distribution of total plan assets (SEKm)</i>		
Europe	5,237	5,015
Americas	4,197	4,380
Rest of the world	118	120
	9,552	9,515
<i>Specification of total plan assets (SEKm)</i>		
Government bonds	2,010	2,396
Corporate bonds	1,764	1,084
Equity instruments	4,104	3,346
Real estate	987	1,471
Other, primarily cash and other financial receivables	687	1,218
	9,552	9,515

The fair value of real estate in the specification of plan assets above includes SEK 90 m (99) related to buildings in the USA and Switzerland

where the Group is the lessee under operating lease arrangements. Lease expenses for the Group under these leases was SEK 10 m (5).

18 Provisions for post-employment benefits (cont.)

Changes in the present value of the defined benefit obligation (SEKm)

	2009			2008		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	13,547	2,293	15,840	12,095	2,004	14,099
Interest cost	762	105	867	662	101	763
Current service cost	324	31	355	286	35	321
Contributions by plan participants	44	12	56	33	9	42
Benefits paid	-792	-221	-1,013	-725	-196	-921
Actuarial gains (-)/losses	1,175	61	1,236	-286	13	-273
Curtailments	8	-43	-35	-4	-8	-12
Other (including reclassifications)	-1	12	11	29	-3	26
Translation differences	-638	-138	-776	1,457	338	1,795
Closing balance 31 December	14,429	2,112	16,541	13,547	2,293	15,840

<i>Changes in the fair value of plan assets (SEKm)</i>	2009			2008		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	9,428	87	9,515	10,621	76	10,697
Expected return on assets	583	4	587	705	4	709
Actuarial gains/losses (-)	348	-1	347	-2,489	-3	-2,492
Contributions by employer	98	-	98	101	-	101
Contributions by plan participants	28	-	28	18	-	18
Benefits paid	-556	-	-556	-558	-2	-560
Other (including reclassifications)	-15	1	-14	16	-	16
Translation differences	-448	-5	-453	1,014	12	1,026
Closing balance 31 December	9,466	86	9,552	9,428	87	9,515

Actual return on plan assets			934			-1,783
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Accumulated actuarial gains and losses

The balance of accumulated actuarial gains and losses recorded in retained earnings was an accumulated loss of SEK 2,071 m, including social charges.

Expected cash outflows

Expected cash outflows for 2010 are SEK 480 m, which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Multi-employer plans

SKF Group has commitments for retirement pensions and family

pensions for office personnel in Sweden which are secured through an insurance policy with Alecta. This is a defined benefit plan covering several employers, a so-called multi-employer plan. Alecta is currently unable to provide defined benefit accounting for such participants, and therefore premiums paid to Alecta are accounted for as defined contribution expense. Fees for the year paid covering such arrangements were immaterial for both 2009 and 2008.

Alecta's profit in the form of the so-called collective consolidation level amounted to 141% (112). 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.

<i>Principal weighted-average assumptions</i>	2009	2008
<i>Discount rate</i>		
Europe	4.8	5.7
Americas	6.0	6.3
Rest of the world	5.0	4.5
<i>Expected return on plan assets</i>		
Europe	5.0	4.3
Americas	8.9	8.9
Rest of the world	6.2	4.8
<i>Rate of salary increase</i>		
Europe	3.4	3.4
Americas	5.0	5.0
Rest of the world	5.0	4.9
<i>Medical cost trend rate</i>		
USA	9.0	9.0
<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	4	4
Effect on the defined benefit obligation	53	47
<i>A one percentage point decrease in the assumed medical care cost trend rate</i>		
Effect on the aggregate current service cost and interest cost	-3	-3
Effect on the defined benefit obligation	-47	-42

The assumed medical care cost trend rate at the end of 2009 was 9%, and is projected to decline by 0.25% per year, to an ultimate rate of 4.5% in 2027.

<i>Historical information (SEKm)</i>	2009	2008	2007	2006	2005
Total present value of defined benefit obligations	16,541	15,840	14,099	15,017	15,919
Fair value of plan assets	-9,552	-9,515	-10,697	-10,644	-10,797
Deficit	6,989	6,325	3,402	4,373	5,122
Experience adjustments on plan liabilities, losses/gains(-)	-41	94	171	-220	
Experience adjustments on plan assets, losses (-)/gains	358	-2,492	-11	472	

Experience adjustments are a portion of the actuarial gains and losses that arise because of differences between the actuarial assumptions made at the beginning of the period and actual experience during the period.

19 Other provisions

SEKm	2009 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2009 Opening balance
Restructuring provisions	1,145	1,205	-534	-20	-22	-49	565
Environmental provisions	100	2	-15	–	10	-5	108
Warranty provisions	264	126	-44	-35	-6	-9	232
Long-term employee benefits	506	58	-101	-7	-2	-16	574
Other	834	159	-129	-54	-2	–	860
	2,849	1,550	-823	-116	-22	-79	2,339

Restructuring activities include, among other things, plant closures and relocations, as well as significant changes in organizational structure which are expected to be resolved within 18 months.

In 2009 the Group continued its restructuring activities that started at the end of 2008 aimed at reducing its manufacturing output in light of the weakening demand affecting nearly all segments. Of the above net restructuring cost, SEK 815 m relates to the Automotive Division, SEK 310 m relates to the Industrial Division and SEK 40 m relates to the Service Division. The remaining amount relates to central corporate activities. The majority of the costs relate to employee termination and other similar expenses. The main countries affected were France, Germany, Italy, India, the UK and Sweden.

The restructuring provisions in 2008 were taken in connection with activities to adapt the overall capacity to the change in the market conditions. This involved reductions in personnel mainly within the Automotive Division. The main countries affected are the USA, France, Italy, Ukraine, Brazil and Argentina.

Environmental and warranty provisions cover obligations not settled at year-end. Long-term employee benefits primarily include jubilee bonuses and part-time retirement programmes which are provided to employees in certain countries and are expected to be settled before employment ends. Other provisions primarily include litigation, insurance and anti-dumping duties.

20 Financial liabilities

	Maturity	2009		2008	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bonds and long-term loans					
EUR 250 m (Outstanding 132 m)	2010	1,371	1,371	2,737	2,737
SEK 1,500 m (Outstanding 556 m)	2011	561	561	1,526	1,526
EUR 500 m (Outstanding 400 m)	2013	4,261	4,273	5,558	5,609
EUR 150 m	2013	1,548	1,548	1,639	1,639
EUR 130 m	2014	1,343	1,343	–	–
EUR 100 m	2016	1,033	1,033	1,094	1,094
Other long-term loans	2011-2014	232	232	238	238
Medium-term loans	> 3 months	35	35	38	38
Short-term loans	=< 3 months	366	366	617	617
Derivatives					
Trading		179	179	238	238
Hedge accounting		76	76	23	23
		11,005	11,017	13,708	13,759

The EUR 150 m loan can be repaid at any time before maturity. The EUR 100 m loan can be repaid as from 2010. For the rest of bonds and loans, the maturities stated in the table above are based on the earliest date on which they can be required to be repaid.

EUR 84 m out of the outstanding EUR 132 m bond and EUR 166 m out of the outstanding EUR 400 m bond have been hedged by cross-currency interest rate swaps. The fixed EUR interest rates have been swapped into floating 3 months' SEK interest rates. The remaining part of the EUR 132 m bond has been hedged with a forward contract. The EUR 130 m bonds have been hedged by cross-currency interest rate swaps. The floating EUR interest rates have been swapped into floating 3 month's SEK interest rates.

The outstanding SEK 556 m bond is divided into SEK 445 m which

carries a floating 3 month interest rate and SEK 111 m which carries a fixed interest rate. This part with fixed interest rate has been hedged by interest rate swaps. The fixed SEK interest rate has been swapped into floating 3 months' SEK interest rate.

These bonds, which are subject to fair value hedging, are further described in Note 28.

The EUR 150 m and EUR 100 m loans have a one month floating interest rate. These two loans and EUR 234 m out of the EUR 400 m bond loan have been designated as hedge instruments in net investment hedges of foreign operations, see Note 28. The fair value of these EUR loans and bond amounted to SEK 5,080 m.

Derivatives are further described in Note 28.

Methods used for establishing fair value are described in Note 1.

Fair value measurement of Financial Liabilities (SEKm)

	Level 1	Level 2	Level 3	2009	Level 1	Level 2	Level 3	2008
Fair value through profit or loss								
Trading derivatives	–	179	–	179	–	238	–	238
Derivatives used for hedge accounting	–	76	–	76	–	23	–	23
Total	–	255	–	255	–	261	–	261

21 Leases

	2009		2008	
<i>Future minimum lease payments at 31 December (SEKm)</i>	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Within one year	12	357	74	375
Later than one year but within five years	39	794	46	790
Later than five years	58	504	78	350
Total	109	1,655	198	1,515
Less: Interest	-17		-94	
Present value of minimum lease payments under finance leases	92		104	
Less: Current portion	-8		-9	
Non-current portion	84		95	

Net rental expense related to operating leases was SEK 500 m (402). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in the USA,

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

22 Other short-term liabilities

SEKm	2009	2008
Accrued salaries	1,098	1,313
Vacation pay	591	782
Social charges	411	472
Liabilities to jointly controlled and associated companies	11	0
Other current liabilities	2,465	2,547
Accrued expenses and deferred income	1,899	2,415
	6,475	7,529

23 Assets pledged and contingent liabilities

<i>Assets that have been pledged to secure loans and other obligations (SEKm)</i>	2009	2008
Mortgages on real estate	30	32
Chattel mortgages	67	71
	97	103

Mortgages are stated at the nominal value of the mortgage deeds. The pledged assets secured loans and other obligations of SEK 25 m (50) at 31 December.

<i>Contingent liabilities at nominal values (SEKm)</i>	2009	2008
Guarantees	43	55
Other contingent liabilities	10	2
	53	57

Other commitments

In connection with Oy Ovako Ab's sale of its operations in 2006 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.

24 Related parties

<i>The SKF Group's transactions with related parties (SEKm)</i>	2009		2008	
	Associated companies	Jointly controlled companies	Associated companies	Jointly controlled companies
Sales of goods and services	42	0	45	7
Purchases of goods and services	138	349	131	209
Receivables as of 31 December	20	0	11	3
Liabilities as of 31 December	8	0	4	1

In 2007 Knut och Alice Wallenbergs Stiftelse transferred its shares in the Parent company to Foundation Asset Management Sweden AB ("FAM").

FAM's mission is to create, through co-ordination and in an efficient way, good and sustainable return for Knut och Alice Wallenbergs Stiftelse, Marianne och Marcus Wallenbergs Stiftelse and Stiftelsen Marcus och Amalia Wallenbergs Minnesfond (the "Foundations"). Aim of the Foundations is to support research and education through contributions, primarily to Swedish universities.

SKF Group has had no indication that FAM has obtained its ownership interest in the Group for other than investment purposes. No significant transactions have been identified between the parties with the exception of dividend paid during the year to FAM. At the end of 2009 FAM is the major shareholder of the Parent company, holding 28.5% of the voting rights and 12.0% of the share capital.

For related party transactions involving key management, see Note 25.

For a list of subsidiaries, see Note 6 to the financial statements of the Parent company.

25 Remuneration to Key Management

Salaries and other remunerations for SKF Board of Directors, President and Group Management

Principles of remuneration for Group Management

In April 2009, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarized below.

Group Management is defined as the President and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

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

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

Fixed salary

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

Variable salary

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

The performance-based programme is primarily based on the short term financial performance of the SKF Group established according to the Group's 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 result, 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 according to the programme is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies between 40 and 70% for Group Management members.

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

Performance Shares

The Annual General Meeting decided on the introduction of SKF's Performance Share Programme 2009. The terms and conditions of SKF's Performance Share Programme 2009 are in essence the same as the terms and conditions of SKF's Performance Share Programme 2008 included in the principles of remuneration for Group Management decided at the Annual General Meeting 2008 and summarized in the Consolidated Financial Statements Note 26 of the Annual Report 2008. The programme covers a maximum of 310 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF B shares.

The number of shares that may be allotted must be related to the degree of achievement of financial targets defined by the Board of Directors in accordance with the Group's TVA management model and must pertain to the period commencing 2009 up to and including 2011. Under the programme, no more than 1,000,000 SKF B shares may be allotted.

The participants in the programme may receive no more than the following number of shares within the various key groups:

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

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

Assuming maximum allocation under SKF's Performance Share Programme 2009 and a share price of SEK 75, the cost, including social security costs, is estimated at around SEK 90 million. On the basis of a share price of SEK 135, the cost, including social security costs, is estimated at around SEK 162 million. In addition, administrative costs are estimated at around SEK 3 million.

Other benefits

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

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

Pension

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

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

25 Remuneration to Key Management (cont.)

Notice of termination and severance pay

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

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

Preparation of matters relating to remuneration for Group Management

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

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

Board of Directors

The Chairman of the Board and the Board members are remunerated in accordance with the decision taken at the Annual General Meeting. At the Annual General Meeting of AB SKF held in 2009 it was decided that the Board be entitled to a fixed allotment of SEK 3,175,000 to be distributed with SEK 900,000 to the Chairman of the Board and with SEK 325,000 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 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. This compensation will be based on the average latest price paid for the SKF B share on NASDAQ OMX Stockholm AB during the five trading days following the publication of the press release for the financial year 2009. Finally, it was decided that an allotment of SEK 575,000 for committee work shall be divided with SEK 150,000 to the Chairman of the Audit Committee, with SEK 100,000 to each of the other members of the Audit Committee and with SEK 75,000 to each of the members of the Remuneration Committee.

President and Chief Executive Officer

Tom Johnstone, President and Chief Executive Officer of AB SKF received from the company in year 2009 as salary and other remunerations a total of SEK 11,075,643, of which SEK 1,248,300 was long-term variable salary decided upon in 2006 and SEK 1,428,000 was short-term variable salary for 2008 performance. Tom Johnstone's fixed annual salary 2010 will remain unchanged and amounts to SEK 7,500,000.

The variable salary paid in 2009 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 Group's management model which is a simplified economic value-added model called Total Value Added (TVA), see page 18.

The remuneration to Tom Johnstone included SEK 1,126,272 related to 48,637 stock options exercised under AB SKF Stock Option Programme 2003 (described on page 84) during the year, but did not include any new stock option entitlements. Tom Johnstone holds no further stock options. Tom Johnstone may in 2011 and 2012, respectively, be allotted SKF B shares under SKF's Performance Share Programme 2008 and 2009, respectively, described on page 84.

In the event of termination at the request of AB SKF, Tom Johnstone will receive severance payments amounting to maximum two years' salary.

Tom Johnstone's retirement age is 60 years. Tom Johnstone is entitled to a lifelong defined benefit pension amounting to 40% of SEK 3,493,451 corresponding to SEK 1,397,380 per year. The amount SEK 3,493,451 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) but not more than 5% for each year. The defined benefit pension is gradually earned according to the principles generally applied within the company. The pension is thereafter not conditioned upon future employment. In addition thereto, AB SKF shall pay a yearly premium corresponding to 35% of the difference between Tom Johnstone's fixed annual salary and the amount on which Tom Johnstone's defined benefit pension is calculated as described above. This part of Tom Johnstone's pension is a defined contribution pension and vested. The 2009 cost for Tom Johnstone's total pension benefits was recorded in the amount of SEK 4,428,382.

Group Management

SKF's Group Management, consisting of 12 people at the end of the year, received in 2009 (exclusive of the President) salary and other remunerations amounting to a total of SEK 57,051,804, of which SEK 45,637,983 was fixed annual salary, SEK 4,082,128 was long-term variable salary decided upon in 2006, and SEK 6,857,979 was short-term variable salary for 2008 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 programme 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 Group's management model which is a simplified economic value-added model called Total Value Added (TVA), see page 18.

The remuneration to Group Management included SEK 473,714 related to 22,729 stock options exercised under AB SKF Stock Option Programme 2003 (described on page 84) during the year, but did not include any new stock option entitlements. Group Management holds no further stock options. Group Management may in 2011 and 2012, respectively, be allotted SKF B shares under SKF's Performance Share Programme 2008 and 2009, respectively, described on page 84.

In the event of termination of employment at the request of the company of a person in Group Management, that person will receive a severance payment amounting to a maximum of two years' salary.

During 2003, the Board decided to introduce a premium based Swedish supplementary pension plan for Group Management of the Swedish companies within the SKF Group. The retirement age is 62 years. The President is not covered by this pension plan. The plan entitles senior managers covered to receive an additional pension

over and above the pension covered by the ITP-plan. The premiums paid for senior managers covered by the premium based plan are based on each individual's pensionable salary (i.e. normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding 30 Income Base amounts. This pension is a defined contri-

bution pension and vested. A few members of Group Management employed before 2003 have remaining benefit based pension entitlements under previous pension plans. These senior managers are not covered by the premium based pension plan described above.

Amounts in SEK	Fixed salary and other benefits ¹⁾ / fixed Board remuneration		Short-term variable salary / variable Board remuneration		Long-term variable salary / Performance Share Programmes		Remuneration for committee work	Exercised options under Stock Option Programme	Gross pension costs ²⁾
	Amounts paid in 2009 ³⁾	Amounts expensed in 2009 ³⁾	Amounts paid in 2009 related to 2008 ³⁾	Amounts expensed in 2009 ³⁾	Amounts paid in 2009 related to prior years ³⁾	Amounts expensed in 2009 ^{3), 4)}	Amounts paid and expensed in 2009 ³⁾	Amounts paid in 2009 related to prior years ⁵⁾	Amounts expensed in 2009 ³⁾
Board of directors of AB SKF									
Leif Östling	900,000	900,000	232,640	380,960	–	–	175,000	–	–
Ulla Litzén	325,000	325,000	87,240	142,860	–	–	150,000	–	–
Winnie Fok	325,000	325,000	87,240	142,860	–	–	–	–	–
Hans-Olov Olsson	325,000	325,000	87,240	142,860	–	–	75,000	–	–
Lena Treschow Torell	325,000	325,000	87,240	142,860	–	–	–	–	–
Peter Grafoner	325,000	325,000	87,240	142,860	–	–	75,000	–	–
Lars Wedenborn	325,000	325,000	87,240	142,860	–	–	100,000	–	–
Joe Loughrey	162,500	325,000	–	148,320	–	–	–	–	–
Former Board members									
Vito H Baumgartner	162,500	–	87,240	–	–	–	–	–	–
Clas Åke Hedström	162,500	–	87,240	–	–	–	–	–	–
Former CEO	–	–	–	–	–	–	–	1,080,721	–
CEO	7,273,071	7,633,518	1,428,000	528,000	1,248,300	-971,752	–	1,126,272	4,428,382
Group Management ⁶⁾	45,637,983	45,884,798	6,857,979	6,737,908	4,082,128	-2,854,478	–	473,714	14,139,032
whereof AB SKF	28,336,504	28,400,228	4,906,504	4,840,089	2,337,057	-1,979,083	–	473,714	11,838,244
Total	56,248,554	56,693,316	9,216,539	8,652,348	5,330,428	-3,826,230	575,000	2,680,707	18,567,414
whereof AB SKF	38,947,075	39,208,746	7,265,064	6,754,529	3,585,357	-2,950,835	575,000	2,680,707	16,266,626

¹⁾ Other benefits include housing, car and similar items.

²⁾ Represents premiums paid under defined contribution plans as well as gross expenses under defined benefit plans.

³⁾ *Amounts paid* represent the cash outflow and are amounts received by the individual during a specific calendar year. These amounts include remuneration for services rendered during given calendar year such as salary, but can also include remuneration for services rendered in a prior year where payment occurs subsequent to that year, for example the variable salary programmes.

Amounts expensed refer primarily to the costs for the Group for services rendered during a specific calendar year by the individual, but can also include adjustments or reversals related to prior years. Consequently, differences between amounts paid and amounts expensed can arise as timing of the expense can be occurring in a different calendar year than the cash outflow to the individual. The most significant difference relates to the variable salaries and variable Board remuneration, but also include difference related to accrued vacations and accumulated leave. However, no differences exist related to remuneration for committee work.

⁴⁾ Amounts expensed in 2009 include a reversing adjustment related to the long-term variable salary decided upon 2007 to be paid out 2010. The financial performance of the Group did not meet the requirements for a maximum pay out, thus resulting in a partial reversal of amounts previously accrued in 2007 and 2008.

⁵⁾ Options exercised under Stock Option Programme 2003 do not result in any additional expense upon exercise as all expenses were taken during the vesting period. See Note 1 for a description of the accounting for the Stock Option Programmes.

⁶⁾ Includes managers who have joined or left the Group Management during the year accounted in relation to the period that each individual has been a member of Group Management and includes only remuneration in their capacity as Group Management.

25 Remuneration to Key Management (cont.)

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 2009 performance.

The allocation of options under the Stock option programmes was based on the financial performance of the Group established according to 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 programmes, which were granted free of charge, were not assignable or transferable and were linked to employment with the SKF Group. The options were valid during a period of six years and were exercisable two years from the date of grant, provided the option holder was still employed with the SKF Group.

To fulfil its obligations under the Stock option programmes with the employees, AB 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 was settled in cash between AB SKF and the financial institution. There were no holdings of SKF shares by AB SKF and there was no issuance of new shares.

Costs and exercise of the Stock option programme

In 2009, no costs were required for the Stock option programme 2002 since there were no remaining exercisable stock options for this programme. In 2008 the costs excluding social charges amounted to SEK 13 m of which SEK 3 m related to key management.

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. 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 2009 to SEK 13 m (17) of which SEK 3 m (7) related to key management.

At the end of 2009, there were no remaining exercisable stock options from the Stock option programme granted in 2003 and no provisions remained for social charges payable by the employer for exercised stock options. At the end of 2008 a provision of SEK 4 had been recorded for the related social charges.

The costs recognized for administration and consultancy fees were immaterial in 2009 and 2008.

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 ²⁾ 31 Dec.	SKF B share closing price 31 Dec.
Grant 2002											
2009	2,869,252	271	50.58	10.30	2004-08	–	207,261 (0)	–	–	–	123.60
2008	2,869,252	271	50.58	10.30	2004-08	275,486	207,261 (27,810)	247,676	104.00	–	77.25
Grant 2003											
2009	3,944,338	330	47.91	8.28	2005-09	694,230	343,133 (119,462)	574,768	70.00	–	123.60
2008	3,944,338	330	47.91	8.28	2005-09	1,082,536	223,671 (0)	388,305	93.00	694,230	77.25

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

SKF's Performance Share Programmes 2008 and 2009

At AB SKF's Annual General Meeting in 2008 and 2009, respectively, it was resolved to introduce SKF's Performance Share Programme 2008 and 2009, respectively. Both programmes cover each a maximum of 310 senior managers and key employees in the SKF Group, including Group Management, with the opportunity of being allotted, free of charge, SKF B shares. The number of shares that may be allotted must be related to the degree of achievement of financial targets defined by the Board of Directors in accordance with the Group's TVA management model and must pertain to the period commencing 2008 up to and including 2010 for SKF's Performance Share Programme 2008 and the period commencing 2009 up to and including 2011 for SKF's Performance Share Programme 2009.

Under each of the programmes, no more than 1,000,000 class B shares may be allotted. The participants shall not provide any consideration for their rights under the programmes and shall receive compensation for cash dividend during the three year calculation period. Allotment of shares normally requires that the persons covered by each of the programmes are employed in the SKF Group during the entire calculation period.

If all the conditions included in SKF's Performance Share Programme 2008 and 2009, respectively, are met, allotment of shares shall be made free of charge following the expiry of the three year calculation period, i.e. during 2011 for SKF's Performance Share Programme

2008 and during 2012 for SKF's Performance Share Programme 2009.

For further details of SKF's Performance Share Programmes, see page 81.

Costs for SKF's Performance Share Programmes 2008 and 2009

SKF's Performance Share Programme 2008 and 2009, respectively, are equity settled programmes and the Group accounts for them in accordance with IFRS 2.

The cost for SKF's Performance Share Programme 2008 and 2009, respectively, is recognized in equity and as an operating expense over the vesting period 2008-2010 and 2009-2011, respectively. The cost is based both on the fair value of the SKF B share at grant date (which was determined as SEK 104 for SKF's Performance Share Programme 2008 and SEK 80 for SKF's Performance Share Programme 2009) and the number of shares expected to vest on 31 December 2009. No costs were recognized in 2009 and in 2008 the costs amounted to SEK 9 m excluding social charges.

A provision amounting to SEK 2 m (1) was recorded for social charges payable by the employer when the shares are allocated. The social charges were calculated for the number of shares expected to vest and were based on the price of the SKF B share on 31 December 2009, SEK 123.60.

Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF was granted an allotment corresponding to 11,600 SKF B shares (12,800) by the Annual General Meeting in April 2009. This compensation

is based on the average latest price paid for the SKF B share on NASDAQ OMX Stockholm AB during the five trading days following the publication of the press release for the financial year 2009.

Men and women in Board of Directors and Group Management

	2009		2008	
	Number of persons	Whereof men	Number of persons	Whereof men
The Group				
Board of Directors of the Parent company incl. CEO	11	73%	12	75%
Group Management incl. CEO	13	77%	14	79%
Parent Company				
Board of Directors of the Parent company incl. CEO	11	73%	12	75%
Group Management incl. CEO	10	70%	11	73%

26 Fees to the auditors

	2009	2008
<i>Fees to SKF Group statutory auditors were split as follows (SEKm)</i>		
Audit fees	39	29
Audit related fees	3	2
Tax fees	4	4
Other fees to auditors	0	2
	46	37
<i>The Parent Company's share (SEKm)</i>		
Audit fees	2	2
Audit related fees	1	1
Tax fees	0	1
	3	4

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other

tasks. All other tasks are defined as other assignments. At the Annual General Meeting of Shareholders in 2009, KPMG AB was elected auditor for AB SKF until the Annual General Meeting of Shareholders in 2012.

27 Average number of employees

	2009		2008	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	220	55%	219	55%
Subsidiaries in Sweden	2,800	82%	3,080	82%
Subsidiaries abroad	35,510	79%	39,902	78%
	38,530	79%	43,201	78%
<i>Geographic specification of average number of employees in subsidiaries abroad</i>				
	2009		2008	
	Number of employees	Whereof men	Number of employees	Whereof men
France	3,752	80%	4,291	82%
Italy	4,132	78%	4,430	78%
Germany	5,352	87%	5,873	88%
Other Western Europe excluding Sweden	3,395	83%	4,061	83%
Central and Eastern Europe	2,975	66%	3,620	62%
USA	3,829	75%	4,710	73%
Canada	200	77%	232	77%
Latin America	2,414	81%	2,665	84%
Asia	9,026	79%	9,638	74%
Middle East and Africa	435	74%	382	79%
	35,510	79%	39,902	78%

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

The SKF Group defines its managed capital as the capital employed. One of the Group's long term financial targets is to achieve a return on capital employed of 24%.

- The capital structure target of the Group is
- a gearing of around 50%, which corresponds to
 - an equity/assets ratio of around 35% or
 - a net debt/equity of around 80%

	2009	2008
Total equity, SEKm	18,280	19,689*
Gearing, %	49.3	50.1*
Equity/assets ratio, %	35.8	35.1*
Net debt/equity, %	68.9	84.2*
Return on capital employed, %	9.1	24.0*

* Restated for change in accounting principle IAS 19 "Employee benefits".

A definition of these key figures is available on page 144.

The purpose of the targeted and current capital structure is to keep an appropriate balance between equity and debt financing. This will ensure financial flexibility and enable the Group to continue investing in its business while maintaining a strong credit rating. The Group's policy and structure of debt financing are presented below.

The SKF Group's operations are exposed to various types of financial risks; market risks (being currency risk, interest rate risk and other price risks), liquidity risks and credit risks, each being discussed below.

The Group's risk management incorporates a financial policy that establishes guidelines and definitions of currency, interest rate, credit and liquidity risks and establishes responsibility and authority for the management of these risks. The policy states that the objective is to eliminate or minimize risk and to contribute to a better return through the active management of risks. The management of the risks and the responsibility for all treasury operations are largely centralized at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorized for use in the management of financial risks. Financial derivative instruments are used primarily to manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. The Group also uses financial derivative instruments for trading purposes, limited according to Group policy.

Market risk – Currency risk

The Group is exposed to changes in exchange rates in the future flows of payments related to firm commitments and forecasted transactions and to loans and investments in foreign currencies, i.e. transaction exposure. The Group's accounts are also affected by translating the results and net assets of foreign subsidiaries into SEK, i.e. translation exposure.

Transaction exposure

Transaction exposure mainly arises as a result of intra-group transactions between the Group's manufacturing companies and the Group's sales companies, situated in other countries and selling the products to end-customers normally in local currency on their local market. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia and to flows of currencies within Europe. Currency rates and payment conditions to be applied to the internal trade between SKF companies

are set by SKF Treasury Centre. Currency exposure and risk is primarily, and to a large extent, reduced by netting internal transactions. In some countries, transaction exposure may arise from sales to external customers in a currency different from the local currency. The currency flows between SKF companies managed by SKF Treasury Centre were reduced through netting from SEK 46,150 m (62,800) to SEK 5,718 m (5,880). This amount represented the Group's main transaction exposure excluding hedges.

The Group's policy has been to hedge the currency flows for three to twelve months on average. Hedge accounting as defined by IAS 39 has been limited to USD only.

Net currency flows (SEKm)	2009	2008
USD	4,785	4,530
CAD	269	360
EUR	-2,026	-990
Other ¹⁾	2,690	1,980
SEK	-5,718	-5,880

¹⁾ Other is a sum comprising some 14 different currencies.

For the commercial foreign exchange exposure, the SKF Group is primarily exposed to USD and USD-related currencies, as shown in the table above. Therefore the sensitivity analysis regarding net currency flows is based on USD only. The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered.

A sensitivity analysis based on the assumption that the net currency flows in USD will be the same for 2010 shows that an unfavourable change of 10% in the SEK against the USD would have a negative effect on profit before taxes of approximately SEK 289 m (113), including the effects of hedging transactions. At year end, the outstanding hedges covered approximately 75% of estimated net USD flows for 4 months (12).

The sensitivity analysis based on the outstanding positions at 31 December shows that profit before taxes for the year would have decreased and increased by SEK 6 m (1) if SEK had strengthened and weakened, respectively, by 10% against all other currencies. The corresponding effect on the hedge reserve in equity would have been an increase of SEK 81 m (268) and a decrease of SEK 81 m (268), respectively.

Translation exposure

Translation exposure is defined as the Group's exposure to currency risk arising when translating the results and net assets of foreign subsidiaries to Swedish kronor. To reduce the translation exposure, the Group may hedge its net investment in foreign subsidiaries up to SEK 6,500 m according to Group policy.

Market risk – Interest rate risk

The Group defines interest rate risk as the risk of negative fluctuations in the Group's cash flow caused by changes in the interest rates. At year-end, total interest bearing financial liabilities amounted to SEK 17,770 m (19,804) and total interest bearing financial assets amounted to SEK 5,969 m (3,994). Liquidity management and borrowing is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced. The objective of the SKF Group is to have a relatively short interest duration on the interest bearing assets and liabilities. At year end the duration was 8 months (2).

To manage the interest rate risk and currency risk in the borrowing, the SKF Group uses cross-currency interest rate swaps, where fixed EUR interest rates are swapped into floating SEK interest rates and

floating EUR interest rates are swapped into floating SEK interest rates. The Group also has interest rate swaps where fixed SEK interest rates are swapped into floating SEK interest rates.

At 31 December 2009, given the prevailing net amount of interest bearing financial liabilities an unfavorable change of the interest rates for the year by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by SEK 62 m (68).

Market risk – Price risks

Market risks also include other price risks, where the relevant risk variables for the Group are stock exchange prices or indexes.

As of 31 December, the Group held investments in equity securities with quoted stock prices, amounting to SEK 476 m (342), which are categorized as available for sale. If the market share prices had been 10% higher/lower at 31 December, equity would have increased/decreased by SEK 48 m (34).

Liquidity risk

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

Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. In addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks at 31 December 2009. These facilities, which are unutilized, will expire in 2014.

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

The following tables show the Group's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with payment outflows.

All instruments held at 31 December 2009 and for which payments were already contractually agreed were included. Planning data for future, new liabilities was not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before 31 December 2009. Financial liabilities are always assigned to the earliest possible time period when they can be required to be repaid.

2009 Cash flows				
SEKm	2010	2011	2012-2014	2015 and thereafter
Loans	-1,278	-895	-7,708	-1,077
Trade payables	-3,989	–	–	–
Derivatives				
Outflows	-23,975	-93	-182	–
Inflows	24,122	154	300	–
Total	-5,120	-834	-7,590	-1,077

2008 Cash flows				
SEKm	2009	2010	2011-2013	2014 and thereafter
Loans	-532	-3,286	-9,777	-1,266
Trade payables	-4,841	–	–	–
Derivatives				
Outflows	-37,648	-2,496	-3,857	–
Inflows	37,807	2,995	4,693	–
Total	-5,214	-2,787	-8,941	-1,266

Credit risk

Credit risk is defined as the Group's exposure to losses in the event that one party to a financial instrument fails to discharge an obligation. The SKF Group is exposed to credit risk from its operating activities and certain financing activities. With regard to financing activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The major part of these financial institutions has signed an ISDA agreement (International Swaps and Derivatives Association, Inc.). Transactions are made within fixed limits and exposure per counterparty is continuously monitored.

At operational level, the outstanding receivables are locally continuously monitored in each area. The Group's concentration of credit risk related to trade receivables is mitigated primarily because of its many geographically and industrially diverse customers. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.

The maximum exposure to credit risk for the Group amounts to SEK 15,399 m (16,513). The exposure is represented by the carrying amounts of total financial assets that are carried in the balance sheet with the exception of equity securities. No granting of significant financial guarantees increasing the credit risk and no significant collateral agreements reducing the maximum exposure to credit risk existed as of the reporting date.

Hedge accounting

Fair Value Hedges

To hedge the fair value risk of fixed-interest liabilities, the SKF Group used cross-currency interest rate swaps (receive fixed EUR interest, pay SEK variable interest) denominated in EUR in the 2009 and 2008 financial years. Fixed-interest bonds with the amount of EUR 250 m (583) denominated in EUR were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the EUR swap curve were offset against the changes in the value of the interest rate swaps. The aim of this hedging was to transform the EUR fixed-income bonds into variable SEK interest debt, thus hedging the fair value of the financial liabilities.

The bond with an outstanding amount of SEK 556 m has an amount of SEK 111 m with a fixed interest rate. The fair value of the fixed rate loan was hedged against changes in the SEK swap curve by interest rate swaps converting the fixed SEK interest rate loan into a floating SEK interest rate loan.

The effectiveness of the hedging relationship is prospectively tested using the critical terms match method. An effectiveness test is carried out retrospectively at each balance sheet date using the dollar-offset method. The dollar-offset method compares past changes in the fair value of the hedged item expressed in currency units with past changes in the fair values of the used derivatives expressed in currency units. The changes in the fair value of the two transactions are calculated on the basis of the outstanding cash flows at the beginning and end of the test period and are adjusted for accrued interest. All hedging relationships were effective within the range of the ratios of the two past changes in value (between 80 and 125 percent). When the effectiveness was being measured, the change in the credit spread was not taken into account for calculating the change in the fair value of the hedged item.

As the list of the fair values of derivatives shows (see table in the Derivatives section), the Group had designated interest rate derivatives with a net amount of SEK 343 m (1,184) as fair value hedges as of 31 December 2009.

28 Financial risk management (cont.)

The following table shows the changes in the fair value of the hedges recorded in interest expense during the year.

SEKm	Financial expense 2009	Financial expense 2008
Financial liabilities (hedged items)	36	-416
Cross-currency interest-rate swaps (hedging instruments)	-27	413
Difference (inefficiency)	9	-3

Cash flow hedges

During 2009, forward exchange contracts were the derivative financial instruments used by the Group to hedge its foreign currency rate exposure.

Cash flow hedge accounting was applied to hedges of forecasted sales against foreign currency risks arising from changes in USD rates. The hedged items designated in 2009 as well as 2008 were highly probable US dollar sales.

In the 2009 financial year, gains totalling SEK 3 m (loss of 31) resulting from the change in the fair values of currency derivatives were taken to other comprehensive income. These changes constitute the effective portion of the hedging relationship. During the year losses of SEK 166 m (gains of 99) were transferred via other comprehensive income to net sales. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

Cash flow hedge accounting was also applied to hedges of forecasted electricity consumption. Electricity derivatives were used by the factories in Sweden to reduce their exposure to changes in electricity prices.

In the 2009 financial year, gains totalling SEK 6 m (losses of 22) resulting from the change in fair value of the electricity derivatives were taken to other comprehensive income. These changes constitute the effective portion of the hedging relationship. During the year a loss of SEK 7 m (gain of 1) was transferred via other comprehensive income to Cost of goods sold. The ineffective part of the hedges

amounted to a loss of SEK 2 m which was recorded as a financial expense.

The following table shows the contractual maturities of the cash flow hedge instruments. The gain/loss of these hedge instruments will be recognized in profit or loss in the same period during which the forecasted hedged items affect profit or loss, see Note 1.

Nominal value	2010			2011		Total
	Q1	Q2	Q3	Q4		
Currency derivatives, USDm ¹⁾	124	45	–	–	–	169
Electricity derivatives, EURm	1	1	1	1	0.1	4.1

¹⁾The hedging effect of the majority of the USD contracts will be recognized in profit or loss 3 months after maturity. For the outstanding USD hedge contracts the average rate was 7.6302.

A list of the fair values of derivatives is shown in the table in the Derivatives section below.

Hedges of net investments

During 2009, net investments in foreign operations totalling EUR 484 m (417) were hedged by the Group against changes in the EUR/SEK exchange rate. EUR loans were designated as hedge instruments, see Note 20. The result of the hedges totalled SEK 320 m (-522) in 2009 and was recognized in other comprehensive income.

Derivatives

The following table shows the fair values of the various derivatives carried as at 31 December. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge) or not. Other derivatives can also be embedded (i.e. a component of a hybrid instrument that contains a non-derivative host contract).

Derivatives (SEKm)	Category	2009	2008
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	343	1,184
Economic hedges and trading	Trading	9	20
Currency forwards/currency options			
Cash flow hedges	Hedge accounting	-14	28
Economic hedges and trading	Trading	88	-14
Share swaps	Trading	–	15
Electricity derivatives			
Cash flow hedges	Hedge accounting	-10	-23
Economic hedges	Trading	–	1
Embedded derivatives	Trading	11	69
		427	1,280

Parent Company income statements

SEKm	Note	Years ended 31 December	
		2009	2008
Net sales	1	1,623	1,774
Cost of services provided	5, 8, 12	-1,623	-1,774
Gross profit		0	0
Administrative expenses	5, 8, 12	-101	-282
Other operating income		8	15
Other operating expenses		-8	-12
Operating loss		-101	-279
Income from participations in group companies	2	2,761	4,203
Financial income	2	522	434
Financial expenses	2	-681	-703
Profit after financial items		2,501	3,655
Change in untaxed reserves	3	-145	25
Taxes	4	99	105
Net profit		2,455	3,785

Parent Company balance sheets

SEKm	Note	As of 31 December	
		2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	5	10	11
Investments in subsidiaries	6	17,211	14,768
Long-term receivables from subsidiaries		8,614	12,433
Investments in jointly controlled and associated companies	6	15	15
Investments in equity securities	7	476	346
Deferred tax assets	4	23	25
		26,349	27,598
Current assets			
Short-term receivables from subsidiaries		3,472	1,378
Tax receivables		–	56
Other short-term receivables		200	215
Prepaid expenses		9	10
Cash and cash equivalents		0	4
		3,681	1,663
Total assets		30,030	29,261
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Restricted equity			
Share capital (455,351,068 shares, quota value SEK 2.50 per share)		1,138	1,138
Statutory reserve		918	918
		2,056	2,056
Nonrestricted equity			
Fair value reserve		256	122
Retained earnings		5,441	2,295
Net profit		2,455	3,785
		8,152	6,202
		10,208	8,258
Untaxed reserves	3	1,240	1,095
Provisions			
Provisions for post-employment benefits	8	144	155
Other provisions		7	15
		151	170
Non-current liabilities			
Long-term loans	9	8,602	12,417
Long-term liabilities to subsidiaries		12	14
		8,614	12,431
Current liabilities			
Short-term loans	9	1,361	–
Trade payables		17	32
Short-term liabilities to subsidiaries		8,075	7,022
Tax payables		184	–
Other short-term liabilities		19	12
Accrued expenses and deferred income		161	241
		9,817	7,307
Total shareholders' equity, provisions and liabilities		30,030	29,261
Assets pledged		0	0
Contingent liabilities		5	4

Parent Company statements of cash flow

SEKm	Years ended 31 December	
	2009	2008 ¹⁾
Operating activities		
Operating loss	-101	-279
<i>Adjustments for</i>		
Depreciation and amortization	1	1
Net gain(-) on sales of property, plant and equipment	-	0
Net gain(-) on sales of equity securities	0	-4
Income taxes paid	-4	-162
Payments under post-employment defined benefit plans	-14	-9
Exercise of share options	-11	-15
<i>Changes in working capital</i>		
Trade payables	-15	5
Other operating assets and liabilities, net	3,343	1,998
Interest received	519	422
Interest paid	-642	-674
Other financial items	-27	-17
Net cash flow from operating activities	3,049	1,266
Investment activities		
Additions to property, plant and equipment	0	-1
Sales of property, plant and equipment	0	0
Dividends received from subsidiaries	2,941	4,345
Investment in jointly controlled and associated companies	-	-5
Sales of shares in subsidiaries	1	27
Investments in subsidiaries	-2,623	-4,660
Sales of equity securities	4	6
Net cash flow used in investing activities	323	-288
Net cash flow after investments before financing	3,372	978
Financing activities		
Proceeds from medium- and long-term loans	1,475	3,844
Repayment of medium- and long-term loans	-3,257	-268
Cash dividends to AB SKF's shareholders	-1,594	-2,277
Redemption of shares	-	-2,277
Net cash flow used in financing activities	-3,376	-978
Increase(+)/decrease(-) in cash and cash equivalents	-4	0
Cash and cash equivalents at 1 January	4	4
Cash and cash equivalents at 31 December	0	4

	2009 Closing balance	Exchange rate effect	Change in items	2009 Opening balance
<i>Change in net interest-bearing liabilities (SEKm)</i>				
Loans, long- and short-term	9,963	-684	-1,770	12,417
Provisions for post-employment benefits	144	-	-11	155
Liabilities to subsidiaries, long- and short-term	7,613	-	704	6,909
Receivables from subsidiaries, long- and short-term	-10,129	691	1,720	-12,540
Financial assets, short-term	0	-	4	-4
Net interest-bearing liabilities	7,591	7	647	6,937

	2008 Closing balance	Exchange rate effect	Change in items	2008 Opening balance
<i>Change in net interest-bearing liabilities (SEKm)</i>				
Loans, long- and short-term	12,417	1,501	3,576	7,340
Provisions for post-employment benefits	155	-	22	133
Liabilities to subsidiaries, long- and short-term	6,909	-	4,730	2,179
Receivables from subsidiaries, long- and short-term	-12,540	-1,548	-3,433	-7,559
Financial assets, short-term	-4	-	-	-4
Net interest-bearing liabilities	6,937	-47	4,895	2,089

¹⁾ Certain reclassifications have been made to the presentation in the statement of cash flow, which are explained in Note 1.

Parent Company statements of changes in equity

SEKm	Share capital ¹⁾	Statutory reserve	Total restricted equity	Non-restricted equity	Total
Opening balance 1/1/2008	1,138	918	2,056	6,859	8,915
Change in fair value of investments in equity securities	–	–	–	-239	-239
Income and expense recognized directly in equity	–	–	–	-239	-239
Profit for the year	–	–	–	3,785	3,785
Total recognized income and expense	–	–	–	3,546	3,546
Exercise of share options, net	–	–	–	-6	-6
Redemption of shares	-569	–	-569	-1,708	-2,277
Bonus issue	569	–	569	-569	–
Received group contributions	–	–	–	1,016	1,016
Paid group contributions	–	–	–	-520	-520
Tax effect on group contributions, net	–	–	–	-139	-139
Dividend	–	–	–	-2,277	-2,277
Closing balance 31/12/2008	1,138	918	2,056	6,202	8,258
Change in fair value of investments in equity securities	–	–	–	134	134
Income and expense recognized directly in equity	–	–	–	134	134
Profit for the year	–	–	–	2,455	2,455
Total recognized income and expense	–	–	–	2,589	2,589
Exercise of share options, net	–	–	–	-11	-11
Received group contributions	–	–	–	1,337	1,337
Paid group contributions	–	–	–	-26	-26
Tax effect on group contributions, net	–	–	–	-345	-345
Dividend	–	–	–	-1,594	-1,594
Closing balance 31/12/2009	1,138	918	2,056	8,152	10,208

¹⁾ The distribution of share capital between share types is shown in Note 16 to the consolidated financial statements.

Restricted equity includes share capital and statutory reserves which are not available for dividend payments.

Nonrestricted equity includes accumulated net profits which can be distributed to shareholders. See the Parent Company Balance Sheet for a specification of nonrestricted equity.

Notes to the financial statements of the Parent Company

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2008.

1 Accounting policies

Basis of presentation

The financial statements of the Parent company are prepared in accordance with the "Annual Accounts Act" and The Swedish Financial Reporting Board recommendation RFR 2.2, "Accounting for Legal Entities" as well as their interpretations.

In accordance with RFR 2.2, IFRS is applied to the greatest extent possible under Swedish legislation, but full compliance is not possible. The areas in which the Parent company's accounting policies differ from the Group's are described below. For a description of the Group's accounting policies, see Note 1 to the consolidated financial statements.

Post-employment benefits

With regard to pensions, the Group applies IAS 19, "Employee Benefits", where as the Parent company continues to apply FAR SRS's Recommendation RedR 4, "Accounting of Pension Liabilities and Pension Costs", although relevant disclosures of IAS 19 have been made.

Investments in subsidiaries

Investments in subsidiaries are recorded at acquisition cost, reduced by any impairment.

Untaxed reserves

The tax legislation in Sweden allows companies to make provisions to untaxed reserves. Hereby, the companies may, with certain limits, allocate and retain profits in the balance sheet instead of immediate taxation. The untaxed reserves are taken into taxation at the time of their dissolution. In the event that the business shows losses, the untaxed reserves may be dissolved in order to cover the losses without any taxation. Group Contributions are reported in equity in accordance with The Swedish Financial Reporting Board UFR 2.

Reclassifications in the Statement of Cash Flows

Certain reclassifications have been made to the presentation in the statements of cash flow to conform to the Group presentation. See Note 1 to the consolidated financial statements for a description. Additionally dividends from subsidiaries are now shown as investing activities to better reflect the source of the flow. The lines affected are noted below:

2008 (SEKm)	Previously published	As reported
Profit after financial items/operating profit	3,655	-279
Depreciation, amortisation and impairment	155	1
Pension/Post-employment benefit payments	-50	-9
Exercise of share options	-	-15
Other operating assets and liabilities, net	1,308	1,998
Interest received	-	422
Interest paid	-	-674
Other financial items	-	-17
Net cash flow from operating activities	4,907	1,266
Dividends received from subsidiaries	-	4,345
Change in other long-term assets and liabilities, net	-3,641	-
Net cash flow used in investing activities	-8,274	-288
Net cash flow after investments before financing	-3,367	978
Dividend received for subsidiaries	4,345	-
Net cash flow used in investing activities	3,367	-978
Increase (+)/decrease (-) in cash and cash equivalents	-	-

2 Financial items

SEKm	2009	2008
Income from participations in Group companies		
Dividends from Group companies	2,941	4,345
Other income from investments in subsidiaries	1	12
Impairment of investments in subsidiaries	-181	-154
	2,761	4,203
Interest income and similar items		
Interest income from Group companies	518	422
Interest income from external parties	1	0
Other financial income	3	12
	522	434
Financial expenses		
Interest expenses to Group companies	-150	-269
Interest expenses to external parties	-492	-405
Other financial expense	-39	-29
	-681	-703

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

3 Untaxed reserves

<i>Change in untaxed reserves (SEKm)</i>	2009	2008
Change in tax allocation reserves	-145	25
<i>Untaxed reserves (SEKm)</i>		
Accelerated depreciation reserve	2	2
Tax allocation reserves	1,238	1,093
	1,240	1,095

4 Taxes

<i>Taxes on profit before taxes (SEKm)</i>	2009	2008
Current taxes	101	110
Deferred taxes	-2	-5
	99	105

Taxes attributable to the exercise of share options, accounted for in nonrestricted equity, amounted to SEK 1 m (2). In addition tax on Group contribution is SEK 345 m (139).

<i>Net deferred taxes per type (SEKm)</i>	2009	2008
Provisions for post-employment benefits	21	22
Other	2	3
Deferred tax assets	23	25

<i>Reconciliation of the statutory tax in Sweden and the current tax (SEKm)</i>	2009	2008
Tax calculated using the statutory tax rate in Sweden	-620	-1,030
Non-taxable dividends and other financial income	774	1,222
Other non-deductible and non taxable profit items, net	-55	-87
Actual tax	99	105

The corporate statutory income tax rate in Sweden was 26,3% in 2009 and 28% in 2008.

5 Property, plant and equipment

SEKm	2009 Closing balance	Additions	Disposals	2008 Opening balance
<i>Acquisition cost</i>				
Buildings	9	–	–	9
Land and land improvements	2	–	–	2
Machine toolings and factory fittings	12	0	–	12
	23	0	–	23

SEKm	2009 Closing balance	Depreciation	Disposals	2008 Opening balance
<i>Accumulated depreciation</i>				
Buildings	2	0	–	2
Land and land improvements	0	–	–	0
Machine toolings and factory fittings	11	1	–	10
	13	1	–	12
Net book value	10	-1	–	11

Depreciation is included in administrative expenses.

The tax assessment value of the Swedish real estate is SEK 9 m (7), of which SEK 2 m (2) relates to land and land improvements.

6 Investments in subsidiaries, jointly controlled and associated companies

Investments in subsidiaries are specified below. For a specification of investments in jointly controlled and associated companies held by the Parent company, see Note 12 to the consolidated financial statements.

<i>Investments in subsidiaries held by the Parent company on 31 December (SEKm)</i>	2009	Additions	Impairm.	Disposals and capital repayments	2008	Additions	Impairm.	Disposals and capital repayments	2007
Investments in subsidiaries	17,211	2,625	-181	-1	14,768	4,735	-154	-27	10,214

Name and location	Registration number	2009			2008		
		No. of shares	Holding in percent	Book value	No. of shares	Holding in percent	Book value
Manufacturing companies							
SKF USA Inc., Pa., USA	–	1,522,651	99.9	862	1,522,651	99.9	862
SKF Österreich AG, Austria	–	200	100	176	200	100	176
SKF Española S.A., Spain	–	3,650,000	100	383	3,650,000	100	466
SKF Polska Spółka Akcyjna, Poland	–	3,701,466	90.6	156	3,701,466	90.6	153
SKF Bearings Bulgaria EAD, Bulgaria	–	23,664,309	100	183	23,664,309	100	240
SKF Ukraine, Ukraine	–	481,829,623	99.7	34	481,829,623	99.7	75
SKF Actuators AB, Göteborg, Sweden	556020-4207	1,000	100	7	1,000	100	7
SKF do Brasil Limitada, Brazil	–	237,130,248	99.9	538	237,130,248	99.9	538
SKF Argentina S.A., Argentine	–	890,144	2.4	3	890,144	2.4	0
SKF India Ltd., India	–	24,639,048	46.7	94	24,639,048	46.7	94
SKF Couplings Systems AB, Hofors, Sweden	556019-4150	75,000	100	259	75,000	100	259
SKF Sealing Solutions AB, Landskrona, Sweden	556133-3625	10,000	100	27	10,000	100	27
SKF Transmission AB, Jönköping, Sweden	556219-5296	16,000	100	2	16,000	100	2
SKF Automotive Components Corporation, Republic of Korea	–	3,035,000	100	74	3,035,350	100	74
SKF Sealing Solutions Korea Co., Ltd., Republic of Korea	–	153,320	51.0	15	153,320	51.0	15
PT. SKF Indonesia, Indonesia	–	76,380	85.8	35	76,380	85.8	35
SKF de Mexico S.A. de C.V., Mexico	–	108,264,952	32.3	65	108,264,952	32.3	65
SKF Technologies (India) Private Limited, India	–	626,500,101	78.3	187	626,500,101	78.3	149
Sales companies							
SKF Danmark A/S, Denmark	–	5	100	0	5	100	0
SKF Norge A/S, Norway	–	50,000	100	0	50,000	100	0
Oy SKF Ab, Finland	–	48,400	100	12	48,400	100	12
SKF NV/SA, Belgium	–	167,587	99.9	6,236	167,587	99.9	3,657
SKF Portugal-Rolamentos, Lda., Portugal	–		95.0	4		95.0	4
SKF Ložiska, a.s., Czech Republic	–	430	100	10	430	100	10
SKF Svéd Golyóscsapágy Zrt., Hungary	–	20	100	0	20	100	0
SKF Canada Limited, Canada	–	100,000	76.9	0	100,000	76.9	0
SKF del Peru S.A., Peru	–	2,565,160	100	0	2,565,160	100	0
SKF Chilena S.A.I.C., Chile	–	88,192	100	0	88,192	100	0
SKF Venezolana S.A., Venezuela	–	194,832	100	0	194,832	100	0
SKF South East Asia & Pacific Pte Ltd., Singapore	–	1,000,000	100	0	1,000,000	100	0
PT. Skefindo Primatama, Indonesia	–	100	5.0	1	5	5.0	1
SKF Pakistan Private Limited, Pakistan	–	1,781,293	100	2	1,781,293	100	2
SKF New Zealand Limited, New Zealand	–	375,000	100	0	375,000	100	0
SKF Lubrication Competence Center Nordic Region AB, Linköping, Sweden	556124-6082	1,000	100	8	1,000	100	8
SKF Eurotrade AB, Göteborg, Sweden	556206-7610	83,500	100	12	83,500	100	12
SKF Multitec AB, Helsingborg, Sweden	556236-4595	29,500	100	5	29,500	100	5
Monitoring Control Center MCC AB, Kiruna, Sweden	556644-8295	3,375	67.5	1	3,375	67.5	1
SKF Condition Monitoring Center (Luleå) AB, Luleå, Sweden	556236-9263	5,000	100	10	5,000	100	10
Carried forward				9,401			6,959

6 Investments in subsidiaries, jointly controlled and associated companies (cont.)

Name and location	Registration number	2009			2008		
		No. of shares	Holding in percent	Book value	No. of shares	Holding in percent	Book value
Carried forward	–			9,401			6,959
Other companies							
SKF (U.K.) Corporate Holdings Ltd., United Kingdom	–	6,965,000	100	120	6,965,000	100	120
SKF Holding Maatschappij Holland B.V., The Netherlands	–	60,002	100	5,042	60,002	100	5,042
SKF Verwaltungs AG, Switzerland	–	500	100	502	500	100	502
SKF Holding Mexicana, S.A. de C.V., Mexico	–	2,268,763	98.0	120	2,268,763	98.0	120
SKF (China) Investment Co. Ltd., Peoples Republic of China	–		100	935		100	935
SKF Treasury Centre Asia & Pacific Pte Ltd., Singapore	–	1	100	468	1	100	468
Barseco (Pty) Ltd., South Africa	–	300	100	43	300	100	43
SKF Australia (Manufacturing) Pty. Ltd., Australia	–	96 500	100	0	96 5000	100	0
SKF (Thailand) Ltd, Thailand	–	1,847,000	92.4	37	1,847,000	92.4	37
Scandrive Control AB, Göteborg, Sweden	556354-1548	5,000	100	8	5,000	100	8
SKF International AB, Göteborg, Sweden	556036-8671	20,000	100	320	20,000	100	320
Återförsäkringsaktiebolaget SKF, Göteborg, Sweden	516401-7658	30,000	100	125	30,000	100	125
SKF Förvaltning AB, Göteborg, Sweden	556350-4140	124,500	99.9	40	124,500	99.9	40
SKF Fondförvaltning AB, Göteborg, Sweden	556140-0978	0	0	–	10,000	100	1
Bagaregården 16:7 KB, Göteborg, Sweden	916622-8529		99.9	50 ¹⁾		99.9	48 ¹⁾
Other holdings				0			0
				17,211			14,768

¹⁾ The Parent company's share of the equity in the limited partnership company is disclosed as the nominal value.

Investments in major SKF subsidiaries held by other subsidiaries

Name and location (Holding in percent)	2009	Owned by subsidiary in:
SKF GmbH, Schweinfurt, Germany	100	The Netherlands
SKF Industrie S.p.A, Turin, Italy	100	The Netherlands
SKF France S.A., Montigny-le Bretonneux, France	100	France
Société de Mécanique S.A, Vernon, France	99.4	France
SKF (U.K.) Ltd., Luton, U.K.	100	United Kingdom
SKF China Ltd., Hong Kong, China	100	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	Italy
RFT S.p.A., Turin, Italy	100	Italy
Willy Vogel AG, Berlin, Germany	100	Germany
SKF Aerospace France, Saint-Vallier-sur-Rhône, France	100	France
SKF Argentina S.A., Buenos Aires, Argentina	97.5	Switzerland
SKF de Mexico S.A. de C.V., Puebla, Pue, Mexico	67.6	Mexico
SKF Canada Ltd., Scarborough, Canada	23.1	The Netherlands
SKF Sealing Solutions GmbH, Leverkusen-Opladen, Germany	100	Germany
SKF Bearing Industries (Malaysia), Sdn.Bhd., Nilai, Malaysia	100	The Netherlands
SKF Linearsysteme GmbH, Schweinfurt, Germany	100	Germany
SKF Japan Ltd., Tokyo, Japan	100	The Netherlands
SKF B.V., Nieuwegein, The Netherlands	100	The Netherlands
SKF Bearing Services Taiwan Ltd., Taipei, Taiwan	100	The Netherlands
SKF Sverige AB, Göteborg, Sweden	100	Sweden
SKF Mekan AB, Katrineholm, Sweden	100	Sweden
Economos Austria GmbH, Judenburg, Austria	100	Austria
SNFA SA, Valenciennes, France	100	France
SKF Polyseal Inc., Salt Lake City, USA	100	USA
Jaeger Industrial Co, Ltd., Taipei, Taiwan	100	Taiwan
ABBA Linear Technology Co, Ltd., Taipei, Taiwan	99.3	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
PEER companies	100	USA, Peoples Republic of China
SKF Sealing Solution (Wuho) Co. Ltd., Anhui, Peoples Republic of China	100	Peoples Republic of China

7 Investments in equity securities

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	2009 Book value, SEKm	2008 Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	CNY	33	456	330
NN, Inc., USA	4.5	700,000	USD	2	20	12
Other shares and securities					–	4
					476	346

8 Provisions for post-employment benefits

All white collar workers of the Company are covered by the ITP-plan according to collective agreements. Additionally the Company sponsors a complementary defined contribution (DC) scheme for a

limited group of managers. This DC scheme replaced the previous supplementary defined benefit plan which from 2003 is closed for new participants.

<i>Amount recognised in the balance sheet (SEKm)</i>	2009	2008
Present value of funded pension obligations	164	154
Less: Fair value of plan assets	-149	-122
Net obligation	15	32
Present value of unfunded pension obligations	129	123
Net provisions for post-employment benefits	144	155

SEK 144 m of the net provision relates to "Tryggande lagen".

<i>Change in provision for the year (SEKm)</i>	2009	2008
Opening balance 1 January	155	133
Pension cost excluding interest expense	23	15
Interest expense	6	8
Return on plan assets	-26	8
Pension payments	-14	-9
Closing balance 31 December	144	155

<i>Components of expense (SEKm)</i>	2009	2008
Pension cost excluding interest expense	26	15
Interest expense	6	8
Return on plan assets	-26	8
Defined benefit expense	6	31
Defined contribution expense	44	50
Total expense	50	81

Actuarial assumptions:

The calculation of defined benefit pension obligations have been made in accordance with regulations stipulated by the Swedish Financial Supervisory Authority, FFFS 2007:24 and FFFS 2007:31.

The discount rate for the ITP-plan is 4.0% (3.8) and for the other defined benefit plan it was 3.5% (4.2%). Expected cash outflows for 2010 are SEK 18 m.

9 Loans

SEKm	Maturity	Interest rate	2009		2008	
			Carrying amount	Fair value	Carrying amount	Fair value
Bonds						
EUR 250 m (Outstanding 132 m)	2010	3.00	1,361	1,371	2,731	2,737
SEK 485 m (Outstanding 111 m)	2011	5.40	111	116	485	512
EUR 500 m (Outstanding 400 m)	2013	4.25	4,124	4,261	5,455	5,507
Long-term loans						
SEK 1,015 m (Outstanding 445 m)	2011	1.22	445	445	1,014	1,014
EUR 150 m	2013	0.98	1,547	1,547	1,638	1,638
EUR 130 m	2014	3.32	1,342	1,342	–	–
EUR 100 m	2016	1.08	1,033	1,033	1,094	1,094
			9,963	10,115	12,417	12,502

The current portion of bonds is included in short-term loans. Fair value has been calculated by discounting future cash flows at the market interest rate for each maturity.

10 Salaries, wages, other remunerations, average number of employees and men and women in Management and Board

See Note 25 to the consolidated financial statements for information on remuneration to the Board and president as well as men and women in

management and the board. Refer to Note 27 for the average number of employees and to Note 26 for fees to the auditors.

SEKm	2009	2008
Salaries, wages and other remuneration	211	235
Social charges (whereof post-employment benefit expense)	137(50)	157 (81)

11 Absence due to illness

	2009	2008
Total absence due to illness as a percentage of total ordinary working hours	1,3%	1,4%
• absence due to illness, men	1,2%	1,3%
• absence due to illness, women	1,4%	1,4%
• employees age – 29	1,4%	1,3%
• employees age 30–49	1,3%	1,7%
• employees age 50 +	1,3%	0,6%
• long-time absence due to illness (60 days or more) as a percentage of total absence due to illness	50%	54%

12 Related parties

Information regarding sales to and costs invoiced from subsidiaries is included in the reported cost of services provided and amounted to SEK 1,201 m (1,268). 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 are presented in the balance sheet.

For related party transactions involving key management, see Note 25 to the consolidated financial statements.

Proposed distribution of surplus

Retained earnings	SEK	5,440,670,449
Net profit for the year	SEK	2,454,738,675
Total surplus	SEK	7,895,409,124
The Board of Directors and the President recommend to the shareholders, a dividend of SEK 3.50 per share ¹⁾ to be carried forward	SEK	1,593,728,738 ²⁾
	SEK	6,301,680,386
	SEK	7,895,409,124

¹⁾ Suggested record day for right to dividend, May 4, 2010.

²⁾ Board Members' statement: The members of the Board are of the opinion that the proposed dividend is justifiable considering the demands on Company and Group equity imposed by the type, scope and risks of the business and with regards to the Company's and the Group's financial strength, liquidity and overall position.

The results of operations and the financial position of the Parent Company, AB SKF, and the Group for the year 2009 are given in the income statements and in the balance sheets together with related notes.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and give a true and fair view of the position and profit or loss of the Company and the Group, and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm, January 28, 2010

Leif Östling (<i>Chairman</i>)	Lena Treschow Torell (<i>Board member</i>)	Lennart Larsson (<i>Board member</i>)
Ulla Litzén (<i>Board member</i>)	Peter Grafoner (<i>Board member</i>)	Kennet Carlsson (<i>Board member</i>)
Tom Johnstone (<i>President and CEO, Board member</i>)	Lars Wedenborn (<i>Board member</i>)	Jeanette Stenborg (<i>Deputy board member</i>)
Winnie Fok (<i>Board member</i>)	Joe Loughrey (<i>Board member</i>)	Marie Petersson (<i>Deputy board member</i>)
Hans-Olov Olsson (<i>Board member</i>)		

Our auditors' report for this Annual Report and the consolidated Annual Report was issued January 28, 2010.

KPMG AB

Thomas Thiel
Authorized public accountant

Auditors' report

To the Annual General 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 2009. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 6-99. 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 reasonable 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 General 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, 28 January 2010

KPMG AB

Thomas Thiel
Authorized Public Accountant


Awards

SKF's products, solutions and services are highly esteemed. The following is a list of some of the awards received by the Group in 2009:

- **Achievement Award, for achieving the quality and delivery targets 2008-2009**, Honda, India
- **Advanced Safety Production Unit Award**, Safety Production Committee office of DDA, China
- **Award of Excellence**, State of Georgia Department of Labor, SKF Gainesville, USA
- **Best Performing Overhaul Supplier**, Siemens Mobility, United Kingdom
- **Best Project of the Year**, IQPC Sigma Summit Latin American, Brazil
- **Best Vendor award (Quality, Cost, Delivery) 2009**, Astra Honda, Indonesia
- **Brammer Supplier Management Award**, Brammer, United Kingdom
- **Business Mobility Awards 2009**, Flemish Foundation of Trafficknowledge, Belgium
- **The Certificate of Merit 2008-2009**, Government of Karnataka and Karnataka Renewable Energy Development Ltd., India
- **China six Sigma Best Practical Corporation Award**, China International Society of Six Sigma Professionals, China
- **Employment Relationship AA Trustworthy Unit Award**, The Labour Bureau, the General Labour Union and the Entrepreneurship Association of Dalian Economic and Technological Development Area, China
- **Energy Conservation Award 2008-2009**, Karnataka State, India
- **Excellent supplier award 2008-2009**, Baosteel, China
- **Excellent Supplier 2009**, CSR Zhuzhou Electric Locomotive Co. Ltd, China
- **Excellent Supplier 2009**, Goldwind Science and Technology Co., Ltd., China
- **Gold Level Supplier Excellence Recertification**, Caterpillar, Poland
- **Logistics Project of the Year 2009**, MMM Business Media, Belgium
- **NAPA Canada's 95% Club Award**, Napa, Canada
- **National Award for Excellence in Water Management 2009**, Confederation of Indian Industries, India
- **2009 Nexxus Annual Life Science Collaboration Award**, Nexxus, United Kingdom
- **One of the best companies to work for in Brazil 2009**, Magazine Guia VOCÊ S/A-EXAME, Brazil
- **One of the five best Swedish companies in sustainability**, Miljöaktuell, Sweden
- **Premier Supplier Award**, Bell Helicopter, USA
- **2009 Relay for Life, South Atlantic Division, Platinum Level**, American Cancer Society, SKF Gainesville, USA
- **Supplier Award 2009**, Siemens, United Kingdom
- **Svenska Innovationspriset**, Veckans Affärer and ÅF, Sweden
- **Top Ten Suppliers in 2009**, Duferco Steel Processing, South Africa
- **UTC Supplier Gold Award**, Sikorsky, USA



Professor Stathis Ioannides, Technical Director for SKF received the Tribology Trust's Gold Medal in 2009, presented at prize ceremony by HRH Prince Philip, the Duke of Edinburgh. The medal is recognised as the highest honour in tribology research and application.



Disc tillage implements fitted with SKF Agri Hub eliminate the need for relubrication and reduce the risk of grease contamination.

SKF's business is mainly divided into three divisions, each focusing on specific customer groups worldwide. The divisions are interdependent and provide each other with products, services and know-how, so that each division can fully serve its final customers.

To obtain a better understanding of the business concept, see also page 24, SKF – the knowledge engineering company.

SKF's divisions



Content

- 104 Industrial Division
- 108 Service Division
- 112 Automotive Division

Industrial Division

The Industrial Division serves industrial Original Equipment Manufacturer (OEM) customers in some 30 global industry customer segments with a wide range of energy-efficient offerings. These solutions and know-how are also based on the manufacturing of a wide range of bearings – such as spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings and super-precision bearings – as well as lubrication systems, linear motion products, magnetic bearings, by-wire systems and couplings.

Net sales in 2009 amounted to SEK 19,301 million (22,862), a decrease of 15.6%. Sales including intra-Group sales totalled SEK 28,368 million (33,730). The operating profit was SEK 1,551 million (4,043), with an operating margin of 5.5% (12.0). The operating profit includes expenses for restructuring activities and other one-off items of around SEK 310 million (80). The decrease in net sales was attributable to organic growth of -23.9% and currency effects of 8.3%.

In 2009, the Industrial Division focused on:

- quickly responding to and handling the huge drop in sales volumes
- restructuring and cost reduction – about 2,000 people left the division during the year
- implementing short-time working and employee training in lean manufacturing
- keeping a close contact with all major customers
- continuing development of value-adding solutions to growth segments
- increasing sales and presence in emerging markets, mainly Asia

Customer segment highlights 2009

Aerospace

After several years of growth in the aerospace segment, sales and production of bearings, components and fly-by-wire equipment for fixed-wing aircraft, helicopter and jet engine industries weakened gradually in 2009. Different segments responded to the cut in aircraft build rates and reduced their inventories at different times and at different speeds. The business jets segment fell fastest and showed the largest reduction. Medium/heavy helicopters was the most resilient segment. SKF's mix of business in the aerospace segment allowed the different factories to gradually adapt production rates optimally.

SKF's XLNT ceramic bearing technology for helicopter pitch link applications, which has proven very successful in Europe, received its first major US contract from the US Government worth USD 2.2 million. This will run until 2012. SKF's bearings were chosen because of their superior performance with a ten times longer service life than the bearings currently used.

SKF also continued to develop its position with aero engine manufacturers around the

world. During the year, the first bearing deliveries were made from the joint venture between SKF and GE Aviation in South Carolina, USA. A new aero engine gearbox bearing channel was ramped up in Villar Perosa, Italy and the manufacturing extension finalized at the aero engine bearing plant in Valenciennes, France.

Railway

In the railway industry, global markets remained favourable in the passenger segment, with high development and production levels for new intercity and high-speed trains, as well as new and extended underground systems in many cities. This was driven by a worldwide demand for upgrading existing track and rolling stock and signalling for higher speeds and reliability, as well as increasing demand for cost-efficient and eco-friendly transportation. Demand for new rolling stock in the freight segment saw a sharp decline due to weaker demand for goods transportation on the back of the global downturn.

SKF's efforts to strengthen its leading position in the railway industry resulted in several new major orders in Europe and China in 2009. SKF signed a contract with the

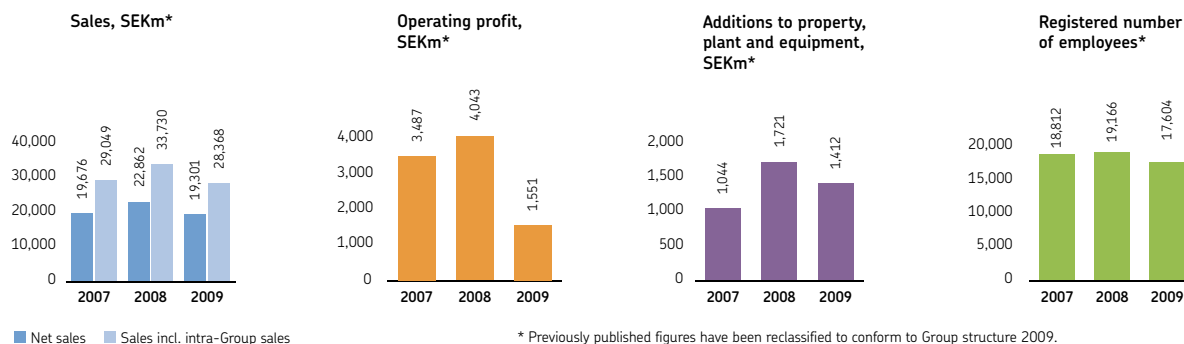




Photo ANSALDOBRED A

For the Italian ETR 500 high-speed train, SKF is supplying SKF Axletronic rail sensors, equipped with sensors to measure speed, temperature and distance.

The SKF Axletronic sensor solution for railway axleboxes can measure speed, temperature, vibration, sense of rotation and distance travelled.



Chinese locomotive manufacturer CSR Zhuzhou Electric Locomotive Co., Ltd (ZELC) with an order value of around EUR 14 million. The latest designed 500 six-axle main line electric locomotives for Chinese railways will be equipped with SKF axleboxes and drive system bearings. SKF received a large order for seals to be used with tapered roller bearing units in freight cars from the Ministry of Railways in India. The seals will be produced by SKF in Bengaluru (Bangalore).

In 2009, the electronic measuring system SKF Axletronic was put into commercial use

in the new European traffic system ERTMS, for harmonization of rail control systems. The new solution consists of a collection of wheel sensors, easily mounted on the axleboxes, which supply a signal to the system that supports the increasing need for trains to cross national borders without lots of different signalling systems installed. It also supports the need for higher traffic capacity. In the railway aftermarket, SKF was awarded Best Performing Overhaul Supplier by Siemens Mobility in the UK.

SKF's industrial market is divided into around 30 industrial customer segments. These are for the OEM's sales grouped into eight main customer segments.

General industry

Fluid power, industrial gearboxes and material handling.

Special industrial machinery

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

Heavy industrial machinery

Metalworking (steel), mining, pulp & paper.

Aerospace

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

Railway

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

Off-highway

Construction, farm & forestry, lift truck drives (so called non-public road vehicles).

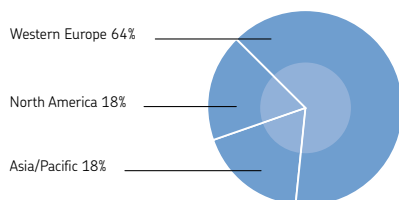
Energy

Renewable power (e.g wind energy), oil & gas, and non-renewable energy industry machineries.

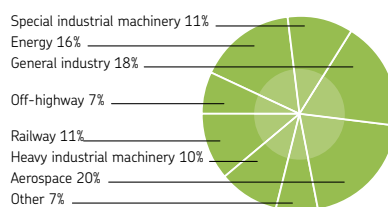
Other

Other businesses.

Net sales by geographic area



Net sales by customer segment





In 2009, SKF signed a Memorandum of Understanding for a strategic partnership with Sinovel Wind Co. Ltd., one of the largest wind turbine manufacturers in China, together with a series of contracts for main shaft bearings and sealing systems for 3 MW wind turbines to be supplied in 2010. When all turbines are integrated into the national grid, it will bring electricity equal to the annual electricity consumption of 250,000 Chinese households.

To meet increasing demands from railway customers, SKF invested to improve production capacity and flexibility both in the Nankou factory in China and the Villar Perosa factory in Italy, resulting in further reduced lead times and greater volumes. Construction of the Russian factory in Tver, which will produce tapered roller bearing units for freight trains, is on schedule for inauguration in 2010.

Energy

SKF is working closely with leading wind turbine and gearbox manufacturers in the renewable energy sector. This sector is rapidly expanding in China, and one important business milestone this year was the signing of a Memorandum of Understanding (MoU) for a strategic partnership with Sinovel Wind Co. Ltd, one of the largest wind turbine manufacturers in China. The MoU provides a platform for a preferred supplier/customer relationship between SKF and Sinovel. The partnership will cover supply chain service system optimization, staff training and development, engineering development and design, as well as resource management. SKF also signed a series of contracts, worth more than SEK 300 million, with Sinovel for main shaft bearings and sealing systems to be supplied and installed in their 3 MW wind turbines in 2010. The majority of these bearings will be produced at SKF's Dalian factory.

The cooperation between SKF and Sinovel started in late 2008 with the East Sea Bridge

Wind Farm, which is the first offshore wind farm in China and the largest of its kind in Asia. The first installed 3 MW turbines were connected to the grid on 4 September 2009. At the opening of the World Expo 2010 in Shanghai, when all turbines are linked to the national grid, the new wind farm is anticipated to generate 260 million kWh annually, equivalent to the electricity consumption of 250,000 Chinese households.

The business opportunity for SKF magnetic bearings and actuators within the oil and gas energy sector is growing. Through the acquisition of S2M (acquired in 2007), SKF is the leading supplier of magnetic bearings to this industry. Additionally, the SKF-S2M technology of magnetic bearings and high speed motors offers great energy efficiency benefits over traditional solutions for industrial applications like refrigerant and air centrifugal compressors. A commercial agreement with Johnson Controls, a leading manufacturer of refrigeration and air conditioning equipment was made during the year to bring the above mentioned technology to the market.

General industry/Special industrial machinery/Off-highway

The machine tool industry experienced a dramatic volume drop in 2009 compared with many other industrial segments. While coping with the necessary business adjustments, SKF strengthened its position in the industry with the continued launch of seven

new super-precision bearing series, targeting both machine tool applications and other machinery equipment with similar high precision requirements. SKF has an unrivalled product and system portfolio for machine tool applications, not only comprising special bearings but also seals, lubrication systems and spindle repair services. Willy Vogel AG (acquired in 2004) was renamed SKF Lubrication Systems Germany AG in July 2009. Systems and products previously marketed under the Vogel brand are marketed and distributed under the SKF brand globally from that same date. SKF is the leading supplier of centralized lubrication systems for the machine tool segment and is also growing within the off-highway, wind energy, material handling and marine segments.

Another new value-adding solution is the SKF Oil Conditioning Unit. This unit helps control the oil temperature and filter contaminants that could cause component wear in equipment in the mining, mineral processing, cement and pulp and paper industries. The SKF solution reduces the risk of failures and extends machinery service life, helping end users to cut operating costs and increase productivity. It also helps to reduce lubrication consumption considerably in equipment used in these industries.

Value-adding solutions are launched regularly to expand SKF's business in target industries among both OE manufactures and end-users. One example in 2009 was the



The majority of the bearings covered in these contracts will be produced in the newly-inaugurated part of the Dalian factory.

market introduction of electronic actuators and Y-bearings to be used in agricultural vehicle equipment, including attachments used for tillage, seeding and harvesting etc. SKF has a comprehensive product and solution portfolio for this industry, addressing the need for increasing farm productivity and cost-efficiency, as well as reducing emissions plus grease and oil consumption.

SKF also launched, and started producing, a new SKF profile rail guide series, used for applications that require a combination of high loads and high precision linear movements in, for example, plastic injection moulding, wood working and printing equipment.

A milestone in the development of spherical roller bearings was the launch in 2009 of sealed SKF Explorer spherical roller bearings. This new generation of sealed spherical roller bearings is designed to keep lubricants in and contaminants out of the bearing. The four main benefits of using the sealed SKF Explorer spherical roller bearings are the significantly reduced need for maintenance; minimized grease consumption; reduced environmental impact and substantially increased uptime of the application. With this launch, SKF now offers the widest range of sealed spherical roller bearings on the market.

Manufacturing

In September, the division inaugurated the second phase at the large-size bearing factory at Dalian, in the Liaoning Province in China. The first phase opened in 2006 and with this second expansion phase (a 25,000 m² facility), the manufacturing capacity for large and medium-sized bearings has now doubled. This is key for serving the Chinese industrial market and also customers in other parts of Asia in the renewable energy, metalworking, mining, construction and industrial transmission industries. The total investment in Dalian amounts to SEK 1.1 billion. When production runs at full capacity the total number of employees will increase from 305 to around 600. SKF was also pleased to receive the Dalian Preferred Employer Award 2008 and the Dalian Trusted Employer Award 2009.

The Indian factory at Ahmedabad, Gujarat, entered its completion phase in 2009 and will be inaugurated in early 2010. The factory will manufacture various medium to large-sized bearings for industrial segments in India such as wind power, railway, off-highway and mining. The factory complies with the SKF Group requirements for environment, safety and health as well as ISO 14001 and OHSAS 18001, and is also aiming for a LEED certification (Leadership in Energy and Environmental Design).

The key focus for achieving operational excellence with the Industrial Division in the last couple of years has been the implementation of the SKF Bridge of Manufacturing Excellence concept. In 2009, despite the drop in demand, SKF continued implementing this concept and extensive time was spent training employees in this methodology. SKF Bridge of Manufacturing Excellence has now been implemented at all major factories of the division and important achievements

have been made in the areas of lead-time reduction, machine reliability improvement and resetting-time reduction.

Six Sigma is applied in all process improvement work, both in product development and manufacturing processes. In 2009, the Six Sigma manufacturing projects focused mostly on operational costs, for example reducing energy use, to support SKF's cash flow objectives.

Moving forward

2009 was the year when the division experienced unparalleled reductions in sales volume. We therefore worked with high energy and focus on downsizing in all related aspects throughout the year and it has paid off both from a result and cash flow perspective. By quickly adapting to the new market conditions the division managed this low level of demand and focused on improving the flexibility during the year.

With this experience fresh in mind it is now more a matter of being cautiously optimistic about the future and making sure that the division accelerates in areas showing growth, while maintaining strong cost control. We will continue developing and delivering energy-efficient customer solutions to the industrial market and striving for operational excellence in everything we do.

Henrik Lange
President, Industrial Division

“We will continue developing and delivering energy-efficient customer solutions to the industrial market and striving for operational excellence in everything we do.”

Henrik Lange



Service Division

The Service Division serves the global industrial aftermarket providing products and knowledge-based services to increase customers' plant asset efficiency. Solutions are based on SKF's knowledge of bearings, seals, lubrication systems, mechatronics and services, and customers are served by SKF and its network of over 7,000 authorized distributors. The division runs three Condition Monitoring Centres, who design and produce world-leading hardware and software. Service Division is also responsible for all SKF's sales in certain markets. The expanding network of SKF Solution Factories will be the future infrastructure for delivering complete, integrated solutions incorporating all SKF's technology platforms.

Net sales in 2009 amounted to SEK 19,832 million (21,907), a decrease of 9.5%. Sales including intra-Group sales totalled SEK 20,190 million (22,318). The operating profit was SEK 2,610 million (3,326), with an operating margin of 12.9% (14.9). The operating profit includes restructuring activities of around SEK 40 million (0). The decrease in net sales was attributable to organic growth of -16.2% and currency effects of 6.7%.

In 2009, the Service Division focused on:

- intensifying work supporting customers in reducing their costs
- launching new product and service offerings optimizing customers' processes
- using Six Sigma to improve and take out costs in internal processes
- fighting the trade of counterfeit bearings and making customers aware of the existence of non-genuine products
- working closely with authorized distributors to adjust stock and cost levels
- opening seven new SKF Solution Factories globally

In 2009, many customers suffered from the severe drop in demand, which affected the division's business. Industries such as metalworking, mining and pulp and paper, drastically reduced output and capacities, whereas the food and beverage industries and energy sectors upheld their production, but at a lower level.

Customer focus

The process of taking the division's offers to the market is led by key account management teams, serving and supporting major industry-leading customers, on a global, regional and local level. A team of sales, technical and logistics experts is dedicated to each key account. In collaboration with customers and SKF's authorized distributors, these teams help SKF to successfully implement programmes for customers worldwide.

To measure and validate delivered value SKF Documented Solution Program (DSP) remains an important tool. Using DSP, possible savings can be calculated from using SKF's product and service solutions, helping customers to reduce their costs. In 2009, more than 4,400 DSP calculations were

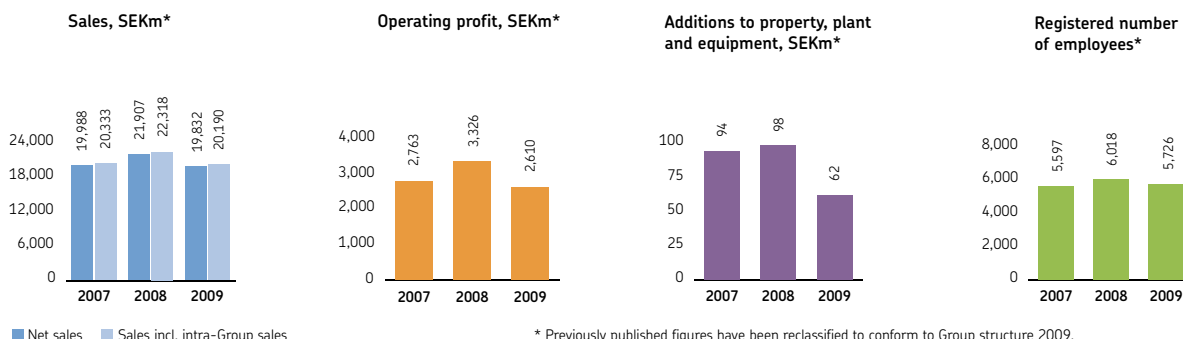
approved, with a total delivered customer value in terms of savings of over SEK 3,300 million.

Industrial distribution

SKF reaches customers worldwide in the global industrial aftermarket through its authorized distributors. In 2009, SKF's distributors significantly reduced stock levels and costs.

The market downturn made it more important than ever for SKF and its distributors to help customers reduce costs and increase efficiency. The SKF Distributor Value Programme (DVP) is a tool developed by SKF, based on the same methodology as DSP, helping distributors identify and measure the value they deliver to customers. In 2009, additional languages were introduced and DVP is now available in over 20 languages.

The SKF authorized distributor network was further enhanced with the addition of distributors in 2009 with expert knowledge of certain platform products, for example lubrication systems and seals, to further improve customer support.





Sapa Heat Transfer in Finspång, Sweden, is a customer enjoying the benefits of the SKF Solution Factory concept. Sapa has worked closely with SKF for a number of years and managed to reduce its maintenance costs and increase up-time in production. SKF supports Sapa with services, products and solutions based on all SKF's technology platforms.

The SKF Solution Factories combine the full range of SKF's expertise within technology platforms with workshop facilities, providing customized service and solutions to customers.

The SKF Certified Maintenance Partners (CMP) programme helps qualified distributors provide added value to customers by offering entry-level maintenance and reliability services. The CMP network is reviewed through a certification process on an annual basis and currently amounts to over 165 CMPs worldwide. Further growth is expected, mainly in Latin America and the Middle East.

The SKF Certified Rebuilder programme for electric motors, introduced to meet customers' needs for improved electric motor reliability, has successfully expanded in Europe and Latin America and is progressing

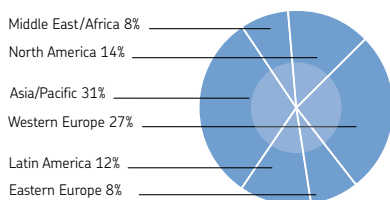
well in Asia. The certified rebuilders undergo specialized training in motor repair with an emphasis on conformance to exact SKF specifications and standards, root cause failure analysis, bearing installation, lubrication and condition monitoring. They are audited and re-certified regularly, and repairs are carried out using SKF's products and tools.

Local distributor meetings were held throughout the year. One example was the workshop which took place in Singapore aimed at launching new innovative products and industry solutions through the SKF Certified Maintenance Partners network in Asia.

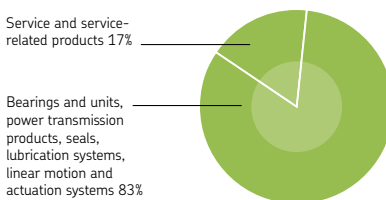
The SKF Distributor College, an online training tool for SKF distributors, continued to grow in terms of content as well as number of certificates in 2009. By the end of the year, the 70,000th certificate was awarded to an SKF distributor employee in Serbia.

The range of SKF Energy Efficient (E2) bearings was extended through the launch of medium deep groove ball bearings, specially suited for electrical motors. To meet the criteria for certain efficiency certifications, producers of electrical motors are increasingly looking for components to improve energy efficiency. Besel S.A., part of the Cantoni Group, is a manufacturer of electrical motors for the world market and one of SKF's customers that is now converting to the SKF energy efficient range.

Net sales by geographic area



Net sales by customer segment





The Chuquibambilla copper mine in Chile is the largest open pit mine in the world, run by the copper producer Codelco (Corporación Nacional del Cobre de Chile). SKF provides a variety of solutions and products, such as large-diameter seals, hydrostatic shoe bearings and lubrication solutions, used in different parts of production.

The SKF power transmission products, introduced to the distributor network in 2006, showed steadily increased sales in 2009 despite an overall market decline. This range is now available on all markets.

SKF Reliability Systems

SKF Reliability Systems provides a comprehensive and integrated service offer, including advanced product and service solutions designed to optimize machinery performance. Customers can meet performance targets by addressing specific reliability and productivity challenges using a vast range of SKF proprietary products, processes and knowledge. Solutions include hardware and software as well as services such as consulting, mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts.

SKF Reliability Systems sales increased in 2009, as customers were focusing on reducing costs and optimizing their processes. SKF Reliability Systems also used Six Sigma to help customers improve their results. For example, unplanned downtime was considerably reduced at the Ri Zhao steel beam plant in China.

Some service contracts signed in 2009:

- A contract with Total E&P UK, covering in-depth vibration data analysis and equipment process analysis as well as other specialist investigations for Total's North Sea onshore and offshore assets.
- A contract with Codelco for the largest copper mine in the world located in Chile. The objective is to reduce costs by avoiding unplanned stops in critical fan applications, as well as increasing productivity using a new solution for their bucket wheels.
- A contract with Maple Leaf Cement in Pakistan. SKF will help Maple Leaf Cement define a strategic maintenance plan and support its maintenance and operation team in implementing new maintenance programmes to reduce downtime and costs.

A number of new service offers were also launched. Some examples:

- Following the introduction in 2007 of the SKF Client Needs Analysis - Energy and Sustainability, SKF Reliability Systems launched the SKF Energy Monitoring Service - Compressed Air System, for detecting air leakages in industrial compressed air systems. Energy is the largest cost component in a compressed air system and air

leaks can cause significant energy waste, sometimes equivalent to as much as 20-30% of the system's output.

- The SKF Energy Monitoring Service - Pump Systems, an energy management program that helps to effectively reduce pump system-related energy costs by as much as 20% or more.
- The IMx-R is a new online system customized for integrated monitoring and bogey safety system for passenger trains.

SKF Solution Factory

The SKF Solution Factories combine the full range of SKF's expertise within technology platforms with workshop facilities, providing customized service and solutions to customers. This brings many SKF bearing services and integrated value-adding solutions - such as remanufacturing and customization, application engineering, spindle repair, lubrication applications, mechanical services including mounting, alignment and balancing, remote monitoring centre and training close to the customers. Sealing solutions by the SKF Economos concept of customized seals produced in-house, are also provided at the SKF Solution Factories.



Codelco is now testing SKF condition monitoring system for mobile equipment in its rope shovels, developed specifically for off-road vehicles. To avoid unplanned stoppages, this vibration monitoring system detects and monitors the state of the mechanical systems, measuring speeds, temperatures, vibration and loads while the equipment is in operation. Data is wirelessly transferred and analyzed, making it possible to plan for maintenance and repairs.

Following the first SKF Solution Factory in Shanghai, China, which opened in 2008, seven more SKF Solution Factories were established in 2009 – in Tianjin (China), Gothenburg (Sweden), Cajamar (Brazil), Turin (Italy), Johannesburg (South Africa), Pune (India), and Taichung City (Taiwan).

The network of SKF Solution Factories will be further extended in the coming years, to make customized SKF service solutions available to more customers worldwide.

Moving forward

The Service Division's business objective is to help improve customer efficiency and productivity, a proven approach in recent years, generating substantial business value.

The establishing of value-adding channels for the SKF platform products and solutions to reach end-users will continue. The range of SKF's power transmission products will also support growth for full compatibility with the core bearing business.

SKF is close to its customers, everywhere. The growing network of SKF Solution Factories will further explore the business opportunities of SKF's technology platforms, not only one by one but also to a greater degree

in combinations. The increasing needs of our customers for optimizing processes and increasing energy efficiency will drive the development of product and service offers. SKF's ability to transform complicated business and technical challenges into simple and practical solutions is key to providing true added value to our customers.

SKF's quality process tools, particularly with Six Sigma methodology, will continue to make the division more efficient, transparent and attractive to customers and distributors, in other words, "Easy to do business with."

N. Sauti

Vartan Vartanian
President, Service Division



"SKF is close to its customers, everywhere."

Vartan Vartanian

Automotive Division

The Automotive Division serves manufacturers of cars, light trucks, heavy trucks, buses, two-wheelers and the vehicle service market, supporting them in bringing innovative and sustainable solutions to global markets. In addition, the division provides energy-saving solutions for home appliances, power tools and electric motors. Within the Automotive Division, SKF develops and manufactures bearings, seals and related products and services. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, and automotive specialty products for engine, steering and driveline applications. For the vehicle service market, the division provides complete repair kits, including a range of drive shafts and constant velocity joints.

Net sales in 2009 amounted to SEK 16,051 million (17,886), a decrease of 10.3%. Sales, including intra-Group sales, totalled SEK 19,279 million (21,850). The operating result was SEK -809 million (546), with an operating margin of -4.2% (2.5). The operating result includes restructuring activities of around SEK 915 million (250). The operating result before restructuring costs was SEK 106 million. The decrease in net sales was attributable to organic growth of -18.3%, structure of 0.4% and currency effects of 7.6%

In 2009, the Automotive Division focused on:

- significantly adapting cost and capacity structure to lower demand levels
- restructuring and cost reduction – about 1,500 people left the division during the year
- increasing manufacturing efficiency and competitiveness
- intensifying development of energy-efficient products and solutions
- increasing sales of value-adding solutions to improve the price/product mix
- increasing sales in emerging markets, mainly Asia and Latin America

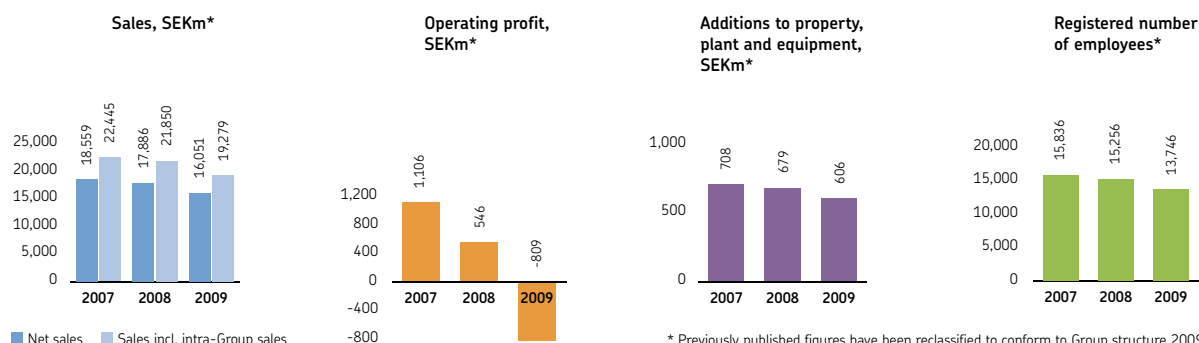
- strengthening SKF's market position in the vehicle service market
- developing cooperation with automotive solution providers

The year began with a dramatic downturn in market demand, a trend that started back in the second half of 2008. Despite lower demand, the Automotive Division managed to show positive results, before restructuring and one-off charges, for the full year. During 2009, SKF restructured its manufacturing operations. In the first quarter of 2009, the closure of the production facility in Glasgow, USA, was completed, six months ahead of schedule. The US automotive seals manufacturing in Elgin and Seneca was transferred to Guadalajara, Mexico. The transfer of production of small tapered roller bearings from Schweinfurt, Germany, to plants in Brazil, India and China was completed and the tapered rollers manufacturing in Schweinfurt, was transferred to Lutsk, Ukraine. In 2009, a decision was made to close down the manufacturing facility for ball bearings in Fontenay-le-Comte, France, and move production to other plants within the Group, the closure was finalized in November. A decision was

also made to restructure the seal manufacturing capacity in Europe, including a capacity reduction in Leverkusen, Germany. Manufacturing capacity increased in Bulgaria and the Ukraine as a result of these restructuring activities.

In 2009, SKF continued to expand its presence and manufacturing capacity in emerging markets. The construction of a factory in Haridwar, northern India, is proceeding on schedule and the factory will be put into operation in the first quarter of 2010. Production capacity was also increased both in Guadalajara and Puebla, Mexico, and in Shanghai, China.

SKF's efforts to maximize efficiency by using Six Sigma in the daily operations continued in 2009. The SAHTI-III Six Sigma project in India was started, following the success of the SAHTI-II project in 2008, this time involving seven strategic suppliers. The purpose is to achieve joint cost savings and manufacturing excellence. In China, SKF was awarded "China Six Sigma Best Practical Corporation Award" by the China International Society of Six Sigma Professionals in May 2009. SKF Brazil was awarded "Best Project of the Year" in the manufacturing category, at the IQPC Sigma Summit Latin America, held in July 2009.





Zytek Engineering has chosen SKF to supply customized and standard deep groove ball bearings for the electric motor generator unit and intermediate shaft of the new Ginetta-Zytek GZ09HS racing car. This is the first racing car to feature an advanced alternative-fuelled hybrid propulsion system that can run on either a normally aspirated V8 (petrol) engine or a 35 kW electric motor, or both.

Further implementation of the SKF Bridge of Manufacturing Excellence at many manufacturing units gave positive effects by learning from experience and spreading best practice through extensive training sessions. One example is the zero-defect status achieved in 2009 at the SKF factory in Jakarta, Indonesia.

Car segment

A number of new energy-efficient solutions for car applications were launched in 2009. Car manufacturers are reducing CO₂ emissions by optimizing the architecture in drive-lines, engine and wheel-end applications, using simulation software and energy-efficient bearings and seals from SKF. New orders were received from a major manufacturer in Europe for ball pinion units and four different types of seals for the dry clutch transmission unit.

SKF continued to receive orders from customers in emerging markets in 2009. In India, SKF was awarded the contract for developing and supplying belt tensioner units for the Tata Nano car by Tata Motors. In China, new orders were received from Brilliance Auto for rear wheel bearings. New orders were also received from Volvo Cars for bearings to the Volvo XC60 and Volvo S80 limousine, produced in China. In South America, GM Brazil placed new orders for clutch bearing units with SKF for a new gearbox.

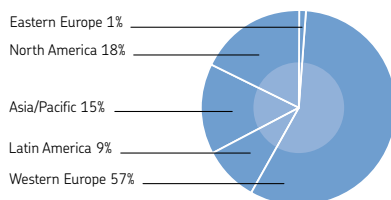
Many applications are developed for racing cars and the racing arena is an important test bed for new solutions, which can be applied later on by the standard car industry OEMs in their large-scale serial production. During the year, SKF received many new orders for electrical applications. From Tesla Motors, USA, a new order was received for bearings for the Tesla Roadster electrical sports car.

Zytek Engineering chose SKF to supply customized and standard deep groove ball bearings for the electric motor generator unit and the intermediate shaft for the new Ginetta-Zytek GZ09HS racing car. This racing car can run on either one or both of two propulsion systems – a petrol engine and a 35kW electric motor, powered by an advanced lithium-ion battery, which can be recharged using a kinetic energy recovery system. Other new orders included the supply of bearings for the electric motor speed reducer and high performance wheel hubs for the all-electric Venturi Fétish sports car.

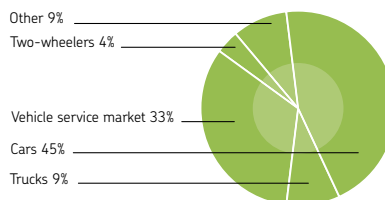
SKF and Ricardo signed an agreement to develop energy-efficient solutions to better serve the increasing customer demand from the automotive industry for increased fuel economy and reduced CO₂.

SKF signed a cooperation agreement with Scuderia Ferrari at the beginning of the year and thereby renewed the technical partnership that has spanned more than 60 years with the Formula One team. SKF's technical know-how and experience have contributed to the development of a number of innovative and advanced solutions over the years. In the USA, SKF received new orders for high performance wheel end bearings from GM for the Corvette ZR1 and Cadillac CTS-V.

Net sales by geographic area



Net sales by customer segment





SKF is supplying high-pressure valve stem seals for Daimler AG's new, heavy-duty engine platform.

Truck segment

Energy-efficient bearings for truck applications continued to generate significant interest from a number of customers worldwide. SKF received new orders for sealing solution applications, including a new order from Daimler AG for high-pressure valve stem seals developed for their new heavy duty engine platform. In Sweden, SKF developed a high-pressure valve stem seal for the latest upgrade of Scania's new engines. Valve stem seals support truck manufacturers' needs for increasing engine efficiency and passing more

stringent Euro 6 emission legislation, including reduction of blow-by gases and ability to handle the increased manifold pressure.

SKF continued receiving new orders from existing customers in emerging markets. In China, SKF signed a new contract with Guangdong Fuwa Engineering Manufacturing Co. Ltd., the largest trailer axle manufacturer in the world, for supplying tapered roller bearings. SKF now supplies both seals and bearings to Fuwa for trailer axles.

SKF continued providing value-adding solutions, and in 2009, SKF delivered the first magnetic trigger wheels for light truck ABS systems, which improve accuracy and performance.

Vehicle Service Market (VSM)

The vehicle aftermarket portfolio was extended by more than 800 new kits in 2009, adding to the range of more than 10,000 kits already offered worldwide.

SKF is represented well in this segment in emerging markets and volumes progressed well during the year. In India, new product lines were added to the range as well as new kits to the existing product lines. The distributor network in China is continuously growing and in 2009, six new distributors were added.

SKF continued to develop its service to end-users. In 2009, SKF participated in the Tec-Man programme, together with Mann Hummel, Mahle, TRW and MSI, to jointly develop and carry out technical training and events.

The Italian company GLO s.r.l. was acquired in 2008 to further strengthen SKF's product range and presence in the European vehicle service market. In 2009, significant efforts were made to integrate GLO's sales



The SKF Vehicle Service Market continued strengthening its position throughout the year and has today more than 10,000 different kits. In 2009, more than 800 new kits were developed and launched for customers worldwide.

SKF Multi V-belt kit contains bearings, pulleys and belt tensioners with exact OE length constructed to eliminate slippage, noise, vibration and to increase service life.



SKF is supplying bearings for the Honda Vario scooter, manufactured in the Honda factory at Cikarang, West Java in Indonesia.

activities with other SKF operational units. GLO mainly manufactures constant velocity joints and drive shafts. In 2009, SKF entered the driveline aftermarket in Brazil and China with the launch of constant velocity joints and drive shafts.

Two-wheeler segment

New solutions for the two-wheeler segment in 2009 include the SKF Rocker Arm Bearing Unit. Consisting of a rocker arm and a bearing unit, it saves fuel and reduces vibrations and noise in engine applications.

Asia remained one of SKF's key markets in the two-wheeler segment. New orders were received from the Honda Group for projects in different parts of the world. India experienced strong growth over the year, and the new production facility in Haridwar, as well as the Application Development Centre in Bengaluru (Bangalore), will continue to give SKF a good base for supporting the two-wheeler customers in the region. The SKF factory in Jakarta, Indonesia, achieved zero-defect status in 2009.

SKF strengthened its position in the high-performance seal segment and received a new order for a fork seal from ZF Sachs. SKF also continued its technology partnership with Ducati, and in 2009, Ducati renewed several of its models with significant use of SKF components.

Electrical segment

Metabo, a manufacturer of electrical tools, launched the Metabo SAG small angle grinder in 2009, equipped with a auto balancing unit developed and customized by SKF. The balancing unit is mounted on the grinder spindle and reduces vibrations, making the use more comfortable and safe. In 2009, AEG also placed new orders with SKF for auto balancing units for their new grinders.

Moving forward

SKF will continue to strengthen its relationships with key customers around the world and in particular in emerging markets. As an innovative knowledge engineering company, SKF can support its customers' success in

growth regions by combining expertise from its technology platforms and offering value-adding solutions.

We believe that the increasing demand for energy-efficient solutions will continue and SKF is well positioned to continue to contribute to this market trend through its global presence and innovative solutions that help customers reduce CO₂ emissions and fuel consumption.

Trygve Sthen
President, Automotive Division

“SKF will continue to strengthen its relationships with key customers around the world and in particular in emerging markets”

Trygve Sthen





Fruit juice bottling plants become safer and less water intensive when conveyor lines are equipped with SKF Dry Lubrication Systems.

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Sustainability Report



SKF Care, pathway to a sustainable business growth

SKF is committed to addressing sustainability – not only as a responsibility but also as one of the business drivers – Profitability, Quality, Innovation, Speed and Sustainability. SKF defines sustainability as SKF Care including Business Care, Environmental Care, Employee Care and Community Care. SKF Care serves as a guiding light for the company's long-term development.

SKF is intensifying its focus in Environmental Care by introducing life cycle thinking in the organization. At the same time SKF is continually developing and promoting various Employee Care programmes both globally and locally.



Like many others, SKF was hit by the low business demand from various industries. As the world experienced a global financial crisis, it also saw the business climate deteriorate dramatically. Different programmes were deployed by SKF throughout the year to improve the company's preparedness for meeting the business cycle turmoil (see Report on the business 2009, page 11 for more information).

Besides focusing on cost-cutting and improving the company's cash flow, SKF has continued investing in operational capacity building, new technology and product innovation, particularly in environmental technology development for both traditional and new clean-tech sectors. Further information can be found under BeyondZero on page 121.

The pursuit of new ways to introduce improvements, mirrors the company's success; not only in terms of financial strength and growth but also in caring for the environment, its employees and the communities around them. SKF is intensifying its focus in Environmental Care by introducing life cycle thinking in the organization. At the same time SKF is continually developing and promoting various Employee Care programmes both globally and locally. Under the focus of Community Care, SKF seeks ways to grow and develop with the local communities by becoming involved with, or supporting, programmes for promoting education, health, sports, or helping the less fortunate.

Conducting business responsibly and respectfully is fundamental to SKF. Nevertheless with an innovative spirit, like its founder, Sven Wingquist, SKF strives for continuous improvement and high performance levels through the SKF Care approach, guiding the company into a long-term, sustainable future.



Business Care

Business Care encompasses maintaining shareholder value, delivering high quality products and services to customers, ethical business conduct, ethical demand chain and environmental technology development. SKF's strategic focus on customer, technology, manufacturing and markets can be found in the section – SKF – the knowledge engineering company, page 24. The following section covers the processes in place to enforce the SKF Code of Conduct and other Group-defined policies at SKF and with its business partners.

Principles and charters

The basis of conducting business at SKF is to respect laws and legislations, and abiding by universally accepted business ethics, while meeting financial goals. SKF's values, principles and responsibilities towards its stakeholders are depicted in various formal documents such as the SKF Code of Conduct and other Group policies.

SKF has participated in the Global Compact since September 2006. This means, SKF not only commits to the defined Ten Principles in the areas of human rights, labour, environment and anti-corruption, but also to communicate its progress accountably and transparently via its annual Communication on Progress report – the SKF Sustainability Report (included in the Annual Report).

In addition, SKF adheres to the OECD Guidelines for Multinational Companies and the ILO Declaration on Fundamental Principles and Rights at Work. The OECD Guidelines stress the importance of responsible business conduct by multinational enterprises, owing to the crucial role played by these enterprises in international investments as well as global sourcing and sub-contracting.

The Business Charter for Sustainable Development was issued by the International Chamber of Commerce (ICC) more than 10 years ago and SKF was quick to endorse it. As required by the ICC Charter, SKF applies a 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 is introducing life cycle thinking in its organization, with the aim of understanding the environmental consequences of different phases during a product's total life and the materials used in manufacturing the product. The accumulated knowledge enables SKF to take a proactive and systematic approach to enhancing its overall environmental performance.

Health and safety impacts are also critical in the provision of all SKF products and services. The impacts are taken into consideration when developing new products. For certain industries such as aerospace, cars and trains, SKF has to meet stringent industrial and customer requirements for quality and product safety. SKF products are subject to regular customer and third party certification audits as well as numerous laboratory and field tests, meeting various industries' standards such as ISO/TS 16949, IRIS, and AS 9100. Safety information and procedures in handling SKF products are detailed in the SKF Bearing Maintenance Handbook, provided to customers not only for safety reason, but also for reaching the most optimum product performance.



SKF's policies and the SKF Code of Conduct

SKF applies the principles of sound corporate governance by maintaining an efficient organizational structure with clear areas of responsibility, transparent financial reporting and good corporate citizenship. The corporate governance principles applied by SKF are based on Swedish law, in particular the Swedish Companies Act, and the regulatory system of the NASDAQ OMX Stockholm. SKF's Corporate Governance Report can be found on page 38.

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

SKF sharpened its internal control management by launching the SKF Internal Control Standard (SICS) in 2008, applicable to all companies, divisions, business areas, departments and functions in the Group. The objective of this standard is to ensure that a basic, consistent system of internal control is maintained throughout the Group.

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

Fraud risk assessments are carried out annually by Group Audit. These are based on the corruption index issued by Transparency International as well as other internally determined fraud risk parameters. The fraud risk assessment is mainly used for determining the legal units to be audited.

The roll-out of the fraud awareness training initiated by Group Audit in 2008 has continued during 2009. The training covers differ-

ent types of fraud, fraud risk management and SKF's whistle-blowing policy. Financial managers and local management must participate in the training.

The Group takes all allegations and complaints submitted seriously. Assessments and investigations are carried out immediately. For more significant cases, external auditors are assigned to the investigation. Three confirmed cases of fraud-related matters occurred in 2009. As a result of these cases, three SKF employees were dismissed from their positions.

The SKF Code of Conduct was issued in 2002, updated in 2007, and re-launched in a new publication called the SKF Commitment. Available in eighteen languages, the SKF Commitment covers SKF's Vision, Mission, Drivers, Values and Code of Conduct. It is distributed to all employees. In addition, discussion workshops that include a presentation and workgroup exercises have been or shall be organized locally for employees, to ensure that the SKF Code of Conduct training is provided to all employees.

Ethical demand chain

SKF sources globally for its manufacturing and operational units worldwide. The sourcing of high quality products from suppliers who behave in an ethical manner is imperative in SKF's demand chain, so as to ensure that products meet or exceed customer requirements and are produced in compliance with the code of conduct.

An Ethical Demand Chain Committee was established in 2009. The Committee's main responsibility is to decide on ethical demand chain strategies and make decisions when finding critical deviations in audit findings. An Ethical Demand Chain Process system was also established in 2009 to enhance the process of enforcing the ethical demand chain at SKF.

The SKF Group Purchasing Policy states that all SKF suppliers shall demonstrate high standards of ethics, in accordance with the principles of the SKF Code of Conduct for Suppliers and Sub-contractors. The Purchasing Policy also applies to all SKF employees in their dealings with suppliers or potential suppliers.

**Reduce negative environmental impact
and increase positive impact in everything
we do, so that the balance is increasingly
positive.**

BeyondZero



In 2004, SKF introduced internal auditing compliance with the Code of Conduct at all units. The audit is integrated into the ISO 14001/OHSAS 18001 audit processes and units are inspected at a two-yearly interval by corporate audit teams. The audit procedure was improved in 2008 by introducing a non-financial risk assessment. This incorporates human rights principles, bribery, environmental issues, plus health and safety risks. The objective is to vary the audit frequency according to risk, putting more focus on high risk and newly acquired units, and less on long-established units with good performance. The normal audit frequency will remain two-yearly, but may vary from annually to once every three years, depending on the risk. See page 131 for a summary of the Code of Conduct compliance audits completed in 2009.

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

All new suppliers of direct materials must be approved by SKF via an on-site audit procedure according to the SKF External Supplier Quality Audit System Procedure. Suppliers' levels of conformity to the environment, health and safety (EHS) standard and the Code of Conduct for Suppliers and Sub-contractors are part of the assessed criteria in the audit questionnaire.

New suppliers are also required to comply with the SKF supplier policies and special requirements defined in the SKF Quality Standard for Suppliers (available at www.skf.com). By signing the Standard, suppliers confirm the adoption of the SKF Code of Conduct for Suppliers and Sub-contractors, the SKF Environmental, Health and Safety Policy as well as the Zero Defects concept as conformance and performance standard.

SKF announced its requirements in 2006 to the existing major suppliers worldwide to issue a set of code of conducts in line with SKF's, be certified according to the ISO 14001 management system and to report CO₂ emissions followed by a reduction plan. As at the end of 2009, out of 198 major suppliers, 115 have developed their own code of conduct and 120 were ISO 14001 certified.

Based on the experience gained so far in the CO₂ reporting programme and in order to increase the efficiency of the initiative, the scope of the CO₂ requirement was revised in 2009 to focus only on energy-intensive major suppliers. Narrowing the scope in this way will allow SKF to ensure a higher level of engagement and support in driving suppliers' CO₂ reductions.

As for non-major suppliers, a risk assessment tool was developed in 2008 in a collaboration between Corporate Sustainability, Group Legal, Group Demand Chain and an independent stakeholder. Although many existing non-major suppliers are assessed and documented according to the same procedure as for major suppliers, the risk assessment tool helps determine high-risk suppliers, who will be subject to additional auditing by SKF. Suppliers are scored based on their relativity in aspects such as geographical locations, number of employees, risk exposure in terms of environment, health and safety, as well as human rights violations.

BeyondZero

BeyondZero was launched in 2005, depicting SKF's strategy and commitment to the environment. It consists of two simultaneous approaches in addressing current and future environmental challenges: 1) to reduce the negative environmental impacts from operations and 2) to innovate and offer new technologies, products, and services, with enhanced environmental added value (positive impact) to customers.

The first part of BeyondZero is about reducing the environmental impact from SKF's manufacturing processes, which is regarded as a responsibility. Information about how SKF works to improve these negative environmental impacts can be found in the Environmental Care section in this report.

The second part of BeyondZero is about SKF offering a range of products and solutions to support existing industries in reaching their environmental goals. This is the differentiator approach, where SKF translates environmental challenges into business opportunities,



The risk assessment tool was piloted in 2009 with a sample of 831 suppliers and sub-contractors in regions where risks of deviation against human and labour rights are potentially high. Based on the evaluation result, suppliers with the highest score (highest risk) were audited by SKF. The tool will be further deployed in 2010.

Setting improvement objectives with low-performing suppliers is vital to SKF. SKF states clear criteria to suppliers and depending on the severity of non-compliances, underperforming suppliers are given a timeframe to introduce corrective measures.

In addition to training and awareness building at various supplier conferences, SKF's suppliers are awarded the SKF Supplier Excellence Awards for their outstanding performance in quality, cost, delivery, innovation and management/sustainability. Further information concerning Ethical Demand Chain activities can be found on the supplier portal at www.skf.com.

partnering customers to bring about new ideas and technologies that are more environmentally-sound.

One example is the SKF Energy Efficient (E2) bearing family, where SKF has received the 2009 Swedish Innovation Award for. Documented savings using the Life Cycle Assessment (LCA) demonstrated that the new bearing innovation offers a minimum 30% energy saving for customers, compared with a standard alternative.

Other successful product and solution launches with significant environmental value gain for customers include SKF's Dry-Lubrication System that eliminates the need of spraying water-soluble lubricant at conveyor systems, commonly found in beverage manufacturers; a complete portfolio of products and services that help deliver up to 8 grams of CO₂ emissions reduction per km in cars; and SKF's Remanufacturing Services which save up to 75% of the cost of a new bearing for customers while extending the bearing life cycle by 50% or more.

Helping existing installed capacity to be more efficient in terms of energy use, resource consumption and waste handling is crucial. It is



equally important to enable new technologies that have the potential to reduce environmental impact such as substituting the reliance on fossil fuel energy generation with renewable energy sources.

SKF is a renowned supplier to wind turbine manufacturers with a variety of solutions ranging from bearings, sealing solutions, grease, monitoring tools to consultancy services. SKF is also a partner in the RELIAWIND project, an EU-sponsored project aimed at developing new technology for highly efficient wind turbines. This project consists of ten partners representing the full value chain and is expected to be completed by December 2010.

Moreover, in 2009 SKF announced partnerships with several key industrial players in environmental technology development. For example, SKF signed a Memorandum of Understanding with one of the largest wind turbine manufacturers in China, Sinovel Wind Co. Ltd, for strategic partnership. SKF is supplying the first offshore wind

farm in the country, the largest of its kind in Asia, which when in operation (World Expo 2010) will supply enough electricity to around 250,000 Chinese households; whereas in Sweden, SKF Sweden partners with Göteborg Energi, a local power supplier, working towards creating a sustainable industry in the area. For the automotive industry, SKF and Ricardo have signed an agreement to develop energy-efficient solutions to better serve the increasing customer demand on fuel efficiency and CO₂ reductions.

More information about how SKF supports the various industries with solutions that deliver environmental added value can be found at www.skf.com.

Marketing and communications

To ensure trustworthiness and credibility, SKF has a Group Communication Policy covering the company's responsibility to provide consistent, factual, information to stakeholders.

Specific communication instructions relating to advertising and publicity, crisis communication, marketing communications and sponsorship, are available via the intranet. All information from the SKF Group, and its dissemination, must conform to local laws and regulations, as well as generally accepted ethical and cultural standards.

In addition to the Group Communication Policy and the specific communication instructions, there are the SKF Group Trademark Policy, the SKF Branding Policy and the Internet Policy. All SKF operations are subject to the SKF Brand Identity audit, incorporated in SKF's internal audit on ISO 14001/ OHSAS 18001 and Code of Conduct.

The SKF brand is one of SKF's most important assets and the goals are to strengthen the image of the company as a top-quality brand, and to ensure that the brand represents not only its products, services and solutions, but also the knowledge engineering company.

SKF Sweden and Göteborg Energi collaborate towards a more sustainable industry

The production facility in Gothenburg uses large amounts of energy. A number of measures have been implemented to help reduce the energy use and thereby the environmental impact.

Examples include recycling of the rejected heat from the heat treatment process to provide heating for the factory, energy-efficient lighting, energy training of personnel and efficient use of compressed air.

Despite a 25% increase in production volumes at the factories in Gothenburg between 2005 and 2009, the electricity use for the same period was reduced by 8 GWh, or around 8%. This corresponds to the energy need of about 500 private houses annually.

SKF in Gothenburg is now taking the next step to reduce environmental impact by working in collaboration with Göteborg Energi on a series of initiatives which aim to strive even further towards sustainable industry in Gothenburg.

The collaboration demonstrates how business and environment go hand in hand, and it involves three areas:

- Climate-smart energy sources for production in Gothenburg, such as district heating, biogas, district cooling and wind power.
- Collaboration in the development of operations and maintenance for energy production in Gothenburg, where SKF will provide maintenance services, lubrication systems, mechatronic solutions and training.
- To run research and development in Gothenburg within wind power technology.

Environmental Care

For decades, SKF has been actively pursuing continuous improvement in its environmental performance worldwide. The Group established its environmental policy in the late '80s and implemented ISO 14001 in 1998. Since then, various specific environmental initiatives have contributed to a continuous reduction of the Group's environmental impacts.

The Group's overall objective is to attain long-term, sustainable profitability. The main task related to this objective is to develop, produce and market products and services that satisfy the needs of the customers while being safe for their intended use. They should be efficient in their use of energy, protective of the environment, and be recyclable or safely disposable.

The SKF EHS Policy



SKF's environmental approach has been externally recognized as world class, but the Group considers that significant potential improvements remain. From product development to innovation, demand chain management to logistics – understanding and acting on environmental impacts through the product life cycle (from cradle to grave) will make further, dramatic improvements possible. These improvements will contribute to reductions in environmental impact (and associated cost and risk) not just in SKF operations, but also those of the Group's customers and suppliers. The Group considers that implementing environmental life cycle management within the existing business processes will be key in taking this next step in environmental performance.

Legal and regulatory compliance

Every country where the SKF Group operates has similar legislation covering environmental, health and safety matters. The main difference between countries is the extent to which this legislation is enforced. SKF's policy is to ensure the highest standards of legal compliance, regardless of the location of a unit or the level of enforcement by the authorities.

SKF has a stringent process for preventing environmental pollution from its manufacturing processes. However, like other long-established industrial companies, SKF is involved in various action plans, resulting from historical activities. Because of stricter laws and regulations – some with a retroactive effect – relating to landfill disposal, some SKF companies are currently involved in cleaning up old landfills, most of

which have not been used for many years. The majority of these cases concerns so-called Superfund sites in the US.

In most of these cases, SKF USA was one of many companies contributing to waste disposal at landfill sites in the past and SKF's share is generally very low – a few per cent or less. Apart from that, a few ongoing remedial activities are being carried out in Italy for soil and ground water contamination. Relevant provisions have been made to cover these costs. Three SKF units have also paid penalties in 2009 to the environmental authorities for administrative non-compliances.

Before any acquisitions or divestments, environmental due diligence assessment is carried out 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.

The SKF Environmental, Health and Safety (EHS) Policy

SKF's first environmental policy was issued in 1989. The policy is reviewed regularly and was updated in 1994 and 1999. The policy was also revised in 2001 to increase the emphasis on health and safety. SKF's EHS Policy describes the company's commitment to both short and long-term contributions in protecting the environment, as well as providing a safe working environment for employees. The minimum requirement is for laws and regulations to be upheld in relation to environmental, health and safety matters. Nonetheless, the policy also requires SKF units to take these vital issues into consideration during all business activities and decision-making.

ISO 14001 Environmental Management System

SKF was the first international bearing manufacturer to receive global certification according to the ISO 14001 international standard for environmental management in 1998. The purpose of having global certification is that all SKF's manufacturing sites, technical and engineering centres as well as logistics centres, are required to maintain and uphold high performance standards regardless of geographical locations or social and economic conditions in the country.

The SKF Group-wide certificate consisted of 97 sites in 28 countries at the end of 2009. New companies that were added to the Group's ISO 14001 certificate in 2009 were: SKF Automotive Technologies Co., Ltd. in Shanghai, China, SKF Machine Tools in Mentor, Baker Instruments in Ft Collins and SKF Actuation System in Armada, US, SKF Economos in Judenburg, Austria, SKF Economos in Vernouillet and S2M in Saint Marcel, France, and ABBA in Taipei, Taiwan.

Companies acquired during 2009 were given a timeframe for implementing the management system, working towards the inclusion in the Group certification scope. The schedule for recently acquired companies' inclusion plan can be found at www.skf.com.

Climate change

SKF has established that carbon dioxide (CO₂) is the most significant greenhouse gas produced as a result of its business activities. In addition, considering the main processes directly or indirectly applied, emissions of other greenhouse gases are typically generated in proportion to those of CO₂. For those reasons SKF reports focus on CO₂ emissions.

The SKF Group monitors and reports CO₂ emissions according to the GHG protocol. This characterizes an organization's greenhouse gas inventory into three scopes: scope 1 (direct emissions from on-site combustion processes), scope 2 (indirect emissions associated with the supply of energy – mainly electricity – to SKF facilities) and scope 3 (all other indirect emissions such as those related to logistics or supply chain).

Actions to reduce direct and indirect emissions related to manufacturing (scope 1 and 2)

In 2006, SKF announced the target to reduce scope 1 and 2 emissions by 5% annually in absolute terms. The corresponding Group strategy drives reductions in both the energy intensity at manufacturing operations and the carbon intensity of the energy used.

Energy intensity is defined as the total energy used in all forms at SKF manufacturing facilities divided by an accounting measure of manufacturing output of the Group. Carbon intensity is defined as the amount of CO₂ released during the conversion of the total energy used.

By reducing the carbon and energy intensity at the Group's manufacturing operations, SKF is not only improving environmental per-

formance, but also reducing the associated cost and financial risk. Energy costs and price instability have increased significantly in recent years (a trend which seems very likely to continue in the medium to long-term) and so the ability to reduce energy use becomes ever more important as a cost reduction measure. Working to reduce the carbon intensity of the Group's energy supply will reduce indirect reliance on fossil fuels as a primary energy source, and this in turn will reduce the long-term financial risk associated with climate change legislation and general capacity constraints for oil and gas.

Reduced energy intensity at SKF facilities

SKF continued to focus on energy management at all facilities in 2009. 2008 saw the launch of a standardized methodology designed to support sites in identifying, prioritizing and implementing energy saving projects or actions. Through the work of the company's network of site energy coordinators, this method produced numerous energy saving actions at SKF sites in 2009. The divisional energy managers have focused on reinforcing and increasing the general competence and strength of SKF's network of energy coordinators in 2009; for example by holding monthly on-line energy coordinator forums. During these forums best available technology as well as best practice examples are presented and discussed.

The global economic downturn began to impact SKF's manufacturing output levels in the later part of 2008, and the effects continued into 2009 with production levels around 35% below 2008. Not surprisingly – the resulting drop in energy use and related CO₂ emissions was significant. In order to comment on the underlying energy performance of the Group it is necessary to establish how much of the change was associated with the drop in volume, and how much could be attributed to energy management activities.

By focusing on the monthly electricity used for manufacturing (which accounts for 70% of the total Group energy use) and correlating this with an accurate measure of production activity it is possible to see the relationship between production and energy use. The graph on page 125 shows the specific energy characteristic of SKF Automotive Division's manufacturing sites.

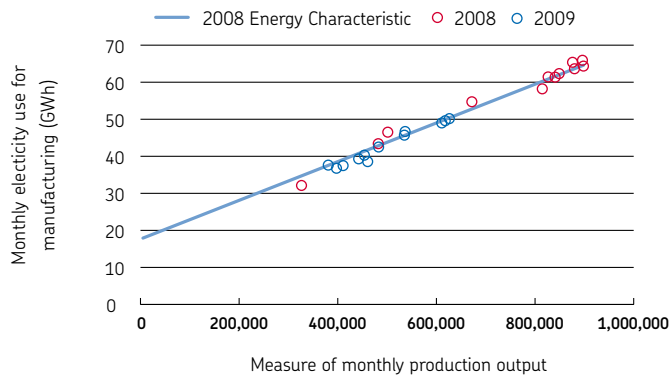
This approach also provides an indication of the energy used that isn't correlated to production output (the intercept on the vertical axis) – referred to in SKF as background energy. Even in state-of-the-art manufacturing operations, some level of background energy is almost inevitable as certain systems will require a minimum level of power whether 10 units or 10,000 are produced. There are however many actions which can be taken to significantly reduce background energy levels – one typical example is shown in the box below.

During 2009, SKF developed tools which allow each manufacturing unit to measure background energy. Using these tools, specific targets

Machine Saver

A team lead by one of the electrical engineers working at SKF's manufacturing facility in Gothenburg has developed a simple but effective solution that helps reduce background energy. The 'Machine Saver' solution works on the same principle as a power saver feature on a typical laptop computer. Software modifications within the control unit allow the machine to sense a defined period of inactivity, and at this point power to all but the essential systems in the machine is switched off. With the system installed machines will automatically avoid background energy use during non-productive spells, off-shifts and weekends for example.

Automotive division - Energy Characteristic 2008 / 2009



The red points show 2008 data, and the blue line (referred to as the energy characteristic) is calculated using statistical analysis of this data. The blue points show the 2009 data. In cases where the blue points appear below the line of the energy characteristic, it can be stated that less energy was used to achieve a given level of output compared to 2008. As the majority of 2009 data appears on or below the 2008 characteristic, it is possible to comment that an improvement in underlying energy efficiency of the division has been achieved.

for reductions in background energy in 2010 have been established. These targets will act in combination with the existing CO₂ reduction targets.

One of the key elements of SKF's overall energy management strategy is to develop ways in which meaningful and relevant energy performance data can be provided to those in the organization (at whatever level) who can act on it. An example of the kind of approach that this aspect of the strategy produces is included below.

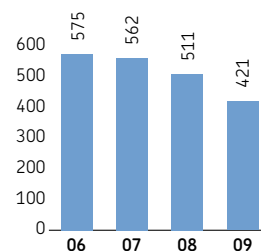
Reduced carbon intensity at SKF facilities (scope 1 and 2 – direct and indirect)

In recent years SKF has acted to secure a lower or zero carbon electricity supply where the market structure provides such options. SKF already purchases certified renewable energy for all operations in Sweden and the Netherlands, and continues to work with electricity suppliers in other markets to find ways of procuring and therefore encouraging the further development of low carbon or carbon-neutral energy. SKF is committed to using the energy purchasing power of the Group to influence the carbon intensity of generation, and despite the relative immaturity of the renewable energy labelling schemes, SKF considers that by actively participating in these schemes, the Group can make a valuable contribution to their continued development and improvement.

SKF also continues to investigate direct or indirect investment in specific renewable energy generation capacity. The most recent example of SKF's commitment to supporting the development of low carbon energy sources in this way is exemplified by SKF Sweden's partnership with Göteborg Energi (see Business Care section, page 122).

Results for 2009

SKF's total scope 1 and 2 CO₂ emissions in 2009 equated to 420,500 tonnes, a drop of 18% compared to 2008 which exceeded the Group's target by 13%. A significant proportion of this reduction must be attributed to the drop in manufacturing output which resulted from the global economic downturn. Nevertheless, the analysis described previously shows that there have been improvements in underlying energy efficiency.



Result for 2009 scope 1 and 2 carbon dioxide emissions ('000 metric tonnes). 2006 to 2008 figures adjusted for acquisitions in accordance with GHG protocol.

Channel energy project

A team including process development engineers and energy coordinators from SKF's manufacturing facility in Schweinfurt, Germany have developed and deployed a state-of-the-art energy monitoring system in one of the newly installed channels at the facility. The system allows operators, channel managers and other interested parties to see individual machine as well as full channel energy performance data. The system not only monitors the direct use of electricity in each machine, but also the use of other 'energy carriers' such as compressed air, grinding water and other fluids. The information can be accessed on-line at any time. The performance data is used to track energy use during different periods and to identify potential improvements and verify their impact.

CO₂ targets for 2010 and beyond

The abnormal effects of the global downturn and anticipated recovery are liable to make the achievement of the Group's 5% absolute reduction target extremely challenging in 2010. As the global economy starts to recover, SKF can anticipate significant increases in manufacturing output and energy requirements. Nevertheless, SKF remains committed to the achievement of significant and absolute reductions in greenhouse gas emissions, and taken over the period from 2006 to 2010, the Group shall endeavor to assure that average annual absolute reductions significantly exceeded 5%.

The 5% absolute CO₂ reduction target was introduced by the Group in 2006. The fact that the target is absolute (and not normalized against some measure of output) reflects SKF's position which is that in order to avoid disastrous climate change, absolute global reductions are required urgently. The target was set at an exceptionally challenging level in order to drive the rapid mobilization of an effective energy and carbon management strategy.

Starting in 2008, SKF monitored CO₂ emissions from its European and US air travel where its activities were largely concentrated. Data from other regions was not included because multiple travel agencies were used in these regions, and this made the data compilation rather challenging. The total CO₂ emissions from air travel in 2009 was 12,700 tonnes, a 31% reduction compared to 2008.

In response to the global downturn and in order to reduce costs, SKF established very tight controls on business travelling during 2009. This meant only the most urgent and essential business trips took place, and other activities – such as internal meetings, were held using SKF's established web and video conferencing facilities. The use of SKF's web conferencing system increased by 76% in 2009, with over 40,000 net meetings held.

It seems likely that SKF's extensive promotion and training in the use of these tools would have resulted in an increase in their use even without specific restrictions on travelling. However, the focus on



Looking beyond 2010, SKF intends to maintain commitment to absolute reductions, however indefinitely maintaining reductions at 5% may not be realistic. Therefore, SKF intends to become involved with external specialist stakeholders to establish a revised absolute reduction target from 2011 onwards.

Actions for measuring and reducing other indirect (scope 3) emissions

Business travel

Business travelling is also an activity that contributes to CO₂ emissions. Despite its smaller absolute emission amount in relation to manufacturing and logistics operations, SKF takes CO₂ emissions from business travelling seriously and has increased its focus in this area as a continual effort in its overall CO₂ emission reduction plan. Due to its multinational operations, air travel accounts for by far the largest CO₂ emissions in business travelling.

reduced travel costs certainly provided an additional impetus in the adoption of virtual meeting tools. Many SKF employees are now experienced in the use of these tools, and recognize other associated benefits (apart from cost and CO₂ emissions) such as increased productivity and time spent with families and therefore the Group expects a sustained high level of usage in future.

Logistics

SKF Logistics Services started monitoring and reporting emissions from transportation of goods via road, sea, and air in 2008, subsequent to research work done in the previous year. This covers the emissions of carbon dioxide (CO₂), carbon monoxide (CO), nitrogen dioxide (NO₂), sulphur dioxide (SO₂), particles (PM) and hydrocarbons.

Due to the complexity and availability of data, monitoring road transportation data is currently limited to within the European Daily Transport System (DTS) network.

The total CO₂ emissions related to logistics in 2009 was 41,000 tonnes where approximately 47% was from air freight, 31% from sea freight and the remaining from road transportation (European DTS).

This equates to a 32% reduction compared to 2008. In 2008 SKF announced a CO₂ emission reduction target of a minimum 5% per tonne-km for all modes of transportation from 2009 onwards. Simultaneously, the Group presented a parallel target of 2% per tonne-km reduction in NO₂, SO₂ and PM, also effective from 2009.

Since 2007, SKF has been working alongside the Swedish Network for Transport and Environment – a non-profit-making Swedish organization hosting forum for sharing knowledge and experience in transportation related environmental impacts. This collaboration has helped SKF to quantify and initiating measures to reduce the CO₂ impact of its DTS network which represents a significant part of the Group's downstream logistical activities. Additionally, SKF Logistics Services is also an active member of the Clean Shipping Project. The project aims at promoting sustainable shipping and has launched the Clean Shipping Index for cargo owners such as SKF, to evaluate the environmental performance of different ships and shipping lines.

Through SKF Manufacturing Development Centre (MDC), SKF is driving the development of a number of solutions aimed at achieving near-net-shape solutions across the full range of SKF's products. These include the use of powder metal metallurgy to 'form' blank components, or components for the final shape with very high precision (requiring very little material removal) as well as the optimization of a variety of more conventional forming processes to achieve the same goal.

In addition to the more obvious cost and quality improvements that can be achieved by this approach, significant environmental benefits are also obtained. These environmental benefits are associated with reduced use and handling of direct materials, reduced waste, as well as reduced energy and use of indirect materials in the manufacturing process.



Outsourced components and raw materials

SKF continued to emphasize the importance of energy use and related CO₂ emissions to the Group's suppliers. Working with suppliers and external stakeholders, further improvements in SKF's overall approach to up-stream CO₂ emissions were made in 2009. The revised approach focuses on major energy intensive suppliers and uses both quantitative and qualitative data to evaluate performance. Suppliers will also be helped to find suitable support resources in order to establish effective energy and carbon management approaches. The first results from this latest approach will be presented in 2011.

Material consumption and recycled input material

SKF uses various types of materials such as metal, rubber, solvents, hydraulic oil and grease. Metal consumption for 2009, in comparison to 2008 declined by 35% to 387,000 tonnes. The data for 2008 was restated to 600,000 tonnes, due to SKF Lüchow factory's material data revision.

Chemical use

SKF had a solvent reduction target of 25% over a five-year period, compared to 2002's level and in relation to production volumes. The target was incorporated into the ISO 14001 in order to comply with EU Council Directive 1999/13/EC on the limitation of volatile organic compound (VOC) emissions. This target was successfully achieved in 2007 with a drop of 29% compared to 2002's level, while the production volume rose by more than 30%. A new target was hence set where SKF aims to achieve a 50% reduction in absolute terms by 2012, compared to 2007's level. A total of 25% reduction was achieved in 2009, compared to the previous year.

SKF is working towards eliminating the use of all equipment containing PolyChlorinated Biphenyls (PCBs) at all manufacturing sites. PCB is classified as a highly toxic organic compound that causes harmful health problems. PCB has been eliminated at all sites except for Lutsk, Ukraine, where there are a number of transformers containing PCB on site. The site has a plan to remove these transformers over the next few years.



Ozone depleting substance

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

REACH

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

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

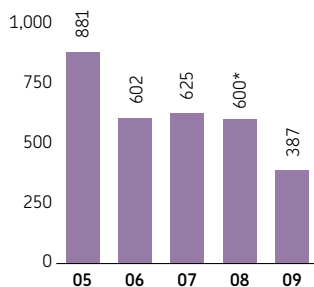
Water consumption and discharge

As the majority of SKF factories are located in industrial zones, water, to a large extent is supplied by municipalities. Thus SKF monitors total water consumption at operating units and not according to water withdrawal by source. Water consumption by the Group in 2009 was 6.9 million cubic metres, compared with 7.6 million cubic metres in 2008.

In 2008, SKF's Group Management determined that specific targets for reduction of water consumption should be established for sites located in areas of water scarcity. SKF has used the 'Global Water Tool' developed by the World Business Council for Sustainable Development to identify units which should be included. During 2009, each affected unit established specific water reduction targets and developed reduction plans to achieve these.

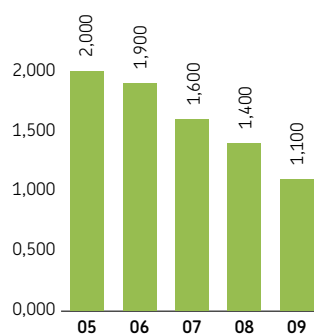
As part of the SKF global ISO 14001 management system, all operating units are obliged to follow and uphold local rules and regulations. This includes wastewater handling. Some units have also introduced closed-loop water consumption or installed wastewater treatment facilities, such as the best practice by SKF Saint Vallier, France, reported in the 2006 SKF Annual Report (including Sustainability Report).

**Metal as raw material
(⁰⁰⁰ tonnes)**



* Data for 2008 was restated to 600,000 tonnes, due to SKF Lüchow factory's material data revision

**Use of Volatile Organic
Compound, VOC (tonnes)**



SKF's global environmental targets:

- 5% CO₂ emissions reduction annually in absolute terms
- 50% VOC reduction in absolute terms by 2012, compared to 2007's level
- 80% recycling rate for grinding swarf by 2012
- Eliminating the use of all equipment containing PCBs at all manufacturing sites
- All manufacturing sites, technical and engineering centres, and logistics centres are certified according to ISO 14001.

Waste management/recycling

All SKF units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. All scrap metal from SKF's operations is recycled, totalling 98,000 tonnes in 2009.

A normal waste product from SKF manufacturing operation is grinding swarf. SKF aims to achieve at least an 80% recycling rate for its grinding swarf by 2012. The 2009 recycling percentage of grinding swarf Group-wide was 70%. Some SKF units have taken the initiative to donate money from waste recycling in supporting local charitable organizations.

Packaging materials

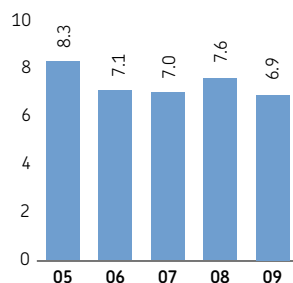
SKF has very strict specifications and requirements concerning packaging materials and the packaging process. As defined in its Packaging Standard S9, all packaging materials must be in compliance with environmental and waste disposal legislation such as the EU Directive 94/62/EC as well as with local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

SKF's Group Standard Pallet (GSP) box – pallet base, lid, and collar – is the primary shipping container for use, both internally and externally, by SKF. With an average seven to ten-year technical life, the GSPs are used and reused in all inbound and outbound shipments. SKF Logistics Services provides component suppliers with the GSPs and the same transport packaging is used when the products are finally shipped to customers. Reusing the same transport packaging eliminates waste and also the need for returning empty packaging boxes. A returnable deposit is refunded when the pallet boxes are returned to SKF Logistics Services.

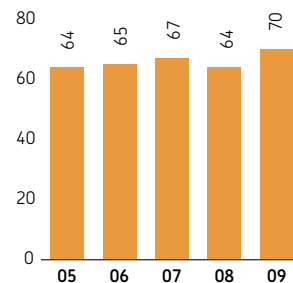
Biodiversity

By the end of 2009, SKF's manufacturing sites, technical and engineering centres, as well as logistics centres, covered about 800 hectares. SKF has no activities in protected areas, nor areas of high biodiversity value.

Water consumption
(million cubic metres)



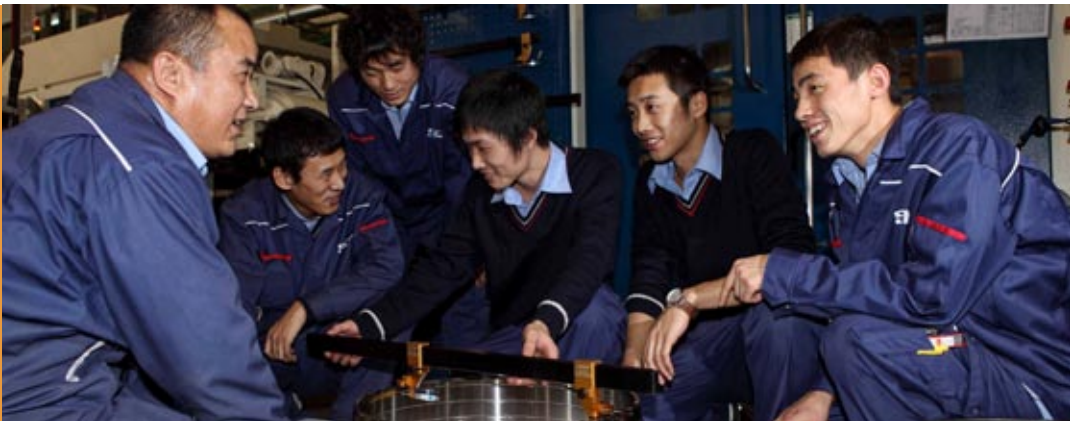
Grinding swarf recycling rate (%)



Employee Care

SKF has cut the number of recordable accidents by 89% per working hour, since the Zero Accidents initiative was launched (2000).

The establishment of SKF College campuses in Argentina, China, India, in addition to campuses in Sweden and the US, is enabling SKF's global curriculum to be locally adapted, and provided in local languages by the local trainers.



SKF's Employee Care accentuates the focus as an employer, on programmes that develop employees' personal and professional skills, whilst creating a satisfying work environment, with that retaining the best resources in the company.

To achieve this, an employer must first and foremost respect and protect an employee's rights on principles such as equality, fairness, freedom of association, and to a safe work environment. Various tools and processes such as the SKF Code of Conduct compliance audits, the SKF Code of Conduct whistle-blower and works councils, were instated at SKF to ensure that this commitment is observed, regardless of where the operation is located.

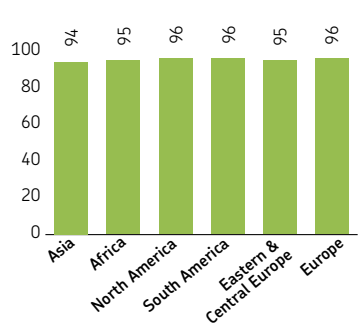
It is also defined as a responsibility at SKF (referring to the SKF Code of Conduct) that the Group must strive to provide employees with opportunities to train for job enrichment and greater responsi-

bility. More information about SKF's variety of programmes focusing on employee learning and development can be found in the following section – Learning and development.

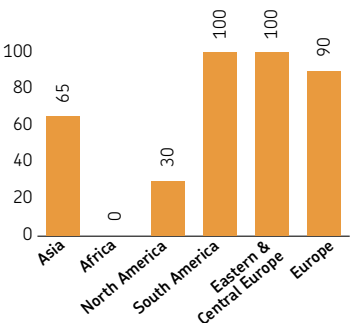
Human rights and labour standards

Upholding and protecting human rights principles and labour standards are of the utmost importance to SKF. Formulating business ethics into official documents enables systematic compliance assessment and risk identification. Consequently, SKF published the SKF Code of Conduct in 2002, covering its responsibilities towards its stakeholders and the policy is applicable to all operations worldwide. The policy has also been used as a reference to establish other documents such as the SKF Code of Conduct for Suppliers and Sub-contractors, and the SKF Code of Conduct for Distributors, demanding similar high

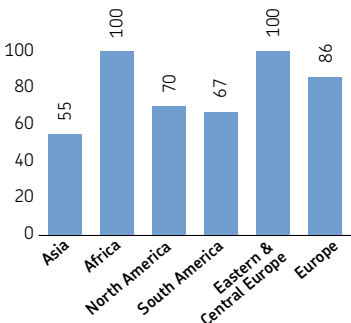
Retention rate by region, %



% of SKF units by region with independent trade union



% of SKF units by region with female in local site management



levels of commitment from business partners. For more information on the SKF Code of Conduct and adherence to international principles and charters, please see pages 119–120.

A Code of Conduct compliance audit was subsequently introduced in 2004 to ensure that SKF units globally have sound monitoring systems in place for complying with this policy. The audit is performed annually on a sample of different units and in 2009 audits were conducted at 22 units, of which 8 are in Europe, 5 in Asia, 6 in North America, 2 in South America, and 1 in South Africa. There was one legal non-compliance against working hours in Indonesia. Corrective action was taken, with documented evidence submitted to the auditor.

There were four cases in 2009 where an employee was found by management to have acted unethically. Two of these cases involved theft of company property, and two were for conflict of interest. The employees were dismissed after investigations.

The above mentioned compliance audit process was enhanced by the introduction of a non-financial risk assessment tool in 2008. The self-assessment tool, to be completed by SKF units, encompasses human rights principles, labour standards, anti-bribery measures together with environmental, health and safety performances. More information can be found on page 119 – under SKF's policies and the SKF Code of Conduct.

A strictly confidential whistle-blowing process is also available for all employees to report behaviour or action breaching the Code of Conduct, by sending an email to the company's whistle-blower. This is addressed for the attention of the Senior Vice President, Group Human Resources and Sustainability. Immediate action is taken accordingly by SKF about all complaints received. For confidentiality reasons and respect to employees who have utilized the tool, SKF does not disclose the number of complaints received and the nature of these complaints.

Issues relating to significant changes at SKF, be it acquiring or divesting operations, are always discussed and resolved in an open and constructive atmosphere with union leaders locally and at the World and European Works Councils. SKF signed an International Framework Agreement on labour standards and human rights with its World Works Council in 2003. There is an active and positive cooperation between company management and the union leadership to ensure a high standard of adherence.

In response to the challenging business climates in 2009, SKF carried out different initiatives to enable flexible manning in the organization. Besides making use of government supported schemes, short-time working agreements and an early retirement programme, SKF offered a variety of training programmes both globally and locally,

during the economic downturn. Some countries took the opportunity to enforce environment, health and safety training in the organization, while others rolled-out training modules to enhance customer service skills.

A training package "Leading in Turbulent Times" is also made available to all SKF managers to support their leadership in managing employees' expectations and leading the organization during tough business conditions.

Working environment

To continuously improve employees' working environment, SKF deployed a global Working Climate Analysis (WCA) in 2007, built upon a tool that was initially launched in 1994. The WCA measures employees' feedback on the company's performance in relation to the company values, key focus areas such as business, sustainability and knowledge sharing. The tool also provides indication in terms of trust, co-operation, personal development and continuous improvement in the individual teams or departments. Follow-up discussions are subsequently conducted by managers with their teams for identifying and implementing improvement plans.

Resulting from the unusual business climate in 2009, the WCA was adjusted to better capture how the current economic downturn has impacted on employees' well-being and their perception of the organization. The survey tool received responses from 68 different countries. The majority of the SKF employees expressed confidence in how SKF was addressing the economic downturn, as well as the company's continued leading position in the industry.

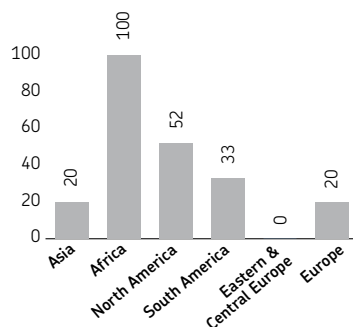
In addition to the survey tool above, SKF also collects employee data annually in terms of retention rate, diversity (units with women in local management), independent trade unions, freedom of association, health and safety committees. The data is compiled from all manufacturing sites, technical and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

The percentage of employees in full-time employment was 97% in 2009, while the retention rate of employees was 95%.

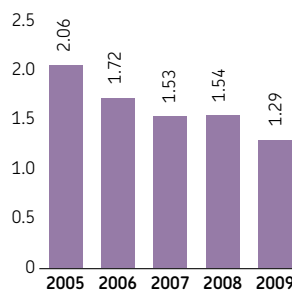
At the end of 2009, 33% of the Board of Directors and 23% of SKF's Group Management positions were held by women. Locally, 76% of SKF units have at least one woman in local management. According to the recent Equality Index analysis performed by Folksam, SKF, over the past five years, has demonstrated a milestone improvement in its work for promoting equality and diversity throughout its organization.

With 66 country managers globally, representing 50 different nationalities, cultural diversity reflects SKF as a global company with local knowledge. SKF recruits, develops and promotes the best local

% of SKF units by region with HIV/Aids programme



Accident rate for the SKF Group



The accident rate for the Group is calculated using the formula:

Accident rate = $R \times 200,000 / H$
 where R = number of recordable accidents
 and H = total hours worked

resources for managing its local and global business units. Cultural diversity is also endorsed when employees are offered international assignments or training programmes abroad.

Job openings at SKF worldwide are posted on the intranet. Employees are entitled to a fair and open application to the positions. SKF's salary scheme is based on a fair and equal calculation and the ratio of male to female salaries is available at the local units, not aggregated at Group level.

Zero Accidents and OHSAS 18001

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

120 out of 211 SKF units worldwide achieved a record of no recorded accidents for a minimum of four consecutive quarters at the end of 2009. The 2009 accident rate was 1.29, significantly lower in comparison to 13.78 in 1994 when SKF started monitoring the accident rate. Since the Zero Accidents target was launched in 2000, SKF has cut the number of accidents by 89% for every working hour.

SKF follows up on all its units' accident rates quarterly and the report is submitted to Group Management and the Board of Directors for review. The Group target was further reinforced when SKF applied for the entire Group to be certified according to Occupation Health and Safety Assessment Series (OHSAS) 18001. SKF was the first major bearing manufacturer certified as meeting OHSAS 18001 in 2005. The objective of implementing the international standard is for all SKF units globally to have the same high standards in occupational health and safety management.

The single Group-wide certificate covered 97 sites in 28 countries by the end of 2009. Recent acquisitions are subject to an inclusion programme similar to ISO 14001. As part of OHSAS 18001 certification requirements, all SKF units must have health and safety committees established with management and employee representation. Employees at all sites must undergo health and safety training. Regular hazard and risk assessments of working environments are also a mandatory part of OHSAS 18001 certification.

Health and fitness

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

28% of SKF's manufacturing sites, technical and research centres as well as logistics centres have HIV/Aids policies or programmes. Previous Sustainability Reports and the company website have reported various HIV/Aids programmes set up by SKF, in countries such as South Africa and Indonesia.

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

2009 saw the outbreak of the new A/H1N1 influenza, also known as "swine flu". The implications for business and health risk prompted SKF to issue a comprehensive information package to all SKF organizations globally. The information package, available on the company intranet and published as a company on-line news article, covered a

general presentation concerning the influenza and a check-list of questions, to increase the organization's preparedness in handling high workforce absenteeism due to the pandemic. Tips and recommendations related to business travel, basic hygiene procedures and symptoms of the infection were also distributed to employees through different means such as notice boards and on the intranet.

Learning and development

All SKF employees are entitled to an Individual Development Plan (IDP), which is reviewed annually through discussions with their managers. Each individual's skills profile is assessed according to the job profile in the review discussion. Training plans for the employee's skills improvement and further development are subsequently listed in the IDP. To further enhance the IDP process and match the SKF Group's strategic competency requirements, SKF has invested in the SKF Group Competency Management system, which is being rolled-out across the organization.

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

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

To meet the goal of making learning affordable to all SKF organizations, which is particularly challenging in some of the emerging markets, the aim is to have more programmes based on concepts owned or leased by SKF, that can easily be replicated with local internal or external resources as trainers. The establishment of SKF College campuses in Argentina, China, India, in addition to campuses in Sweden and the US, is enabling SKF's global curriculum to be locally adapted, and provided in local languages by the local trainers. This reduces the need to travel long distances, be away from work and family, as well as the high cost of hiring foreign trainers. The SKF Competency Management system tool can also be used to measure effective learning and as feedback for SKF Learning and Development.

Under talent management, executives or senior management at SKF are invited to take part in the Global Business Consortium, a high profile SKF programme, run by the London Business School. The Global Leadership Programme, which is a long-term development process, is also in place for candidates with the potential and commitment to develop into senior managerial roles within five years. The objective of both talent management programmes is to develop future leaders for the SKF Group and to enhance global leadership performance.

Apart from the refined learning and development programme offered to employees, SKF also provides highly appreciated training for its business partners. This includes the SKF Distributor College for distributors and the Reliability Maintenance Institute for customers. More information is available in the Services section at www.skf.com.

Community Care

With over forty thousand employees globally, and more than one third in Central/Eastern Europe, Latin America, Asia, the Middle East and Africa, SKF invests strategically in these regions in terms of technology, capacity and helping people to progress. Providing safe, long-term employment to employees and being a responsible corporate citizen in local communities is essential, and SKF's long-term commitment and aspiration is to find ways of growing and developing with local communities. This commitment is clear from the wide range of Community Care programmes deployed by SKF throughout the world, for promoting education, health, sports, and helping the less fortunate.

SKF has created more than 200 Community Care activities in 40 countries around the world.



The SKF Social Policy

The SKF Social Policy was issued in 2006 with the aim of promoting employees' involvement in commendable local social projects. Since 2008, every country management team has been asked to prepare and submit an annual Community Care plan. As a basis for the Community Care plan, local management must assess and define the support that best caters for local society's needs and contribute to the community's development.

SKF's collective Community Care programme progressed well in 2009. Forty countries submitted Community Care activity reports for 2009, which in total represented a contribution of around SEK 20 million. This was an increase on 2008's result, both in the number of countries and monetary value involved.

Some of these Community Care activities have been highlighted in the annual Sustainability Reports and this year is no exception. Further descriptions can also be found at www.skf.com.

Natural crises

In 2009, Australia witnessed the worst bush fires in living memory. Black Saturday, as it was called, destroyed over 100,000 hectares in the region. News was published on SKF's intranet, urging employees locally to visit local blood donation centres to give blood and attention was also focused on raising money for the Australian Red Cross bushfire relief appeal. SKF Australia's employees and distributors, together with SKF's employees from other countries, contributed AUD 15,000 and SKF Australia matched the donations 1:1, to help those affected by the crisis.

Similar immediate response also took place in Italy when a disastrous earthquake hit the region of Abruzzo, in central Italy. Employees at SKF Italy donated one salary hour (in total EUR 21,500) and an additional EUR 25,000 was contributed by SKF Italy.

Meanwhile reports came in from Peru's southern Andes, where early intense cold hit the region. Many local people suffered from pneumonia and other respiratory infections, and hundreds of children died. In response to the urgent need for support, SKF Peru immediately started to collect winter clothes, canned and packaged food, non-prescription medicines and monetary donations. Working together with a local church, the donated items were distributed to the people in Puno. Impelled by the long, extreme cold conditions and the high poverty level in the regions affected, the winter clothes drive was extended to the head office in Sweden, where one tonne of winter clothes for adults and children was successfully collected and sent to Peru.

Education and vocational training

Illiteracy is one of the main obstacles to eradicating extreme poverty. SKF values knowledge and knowledge-sharing is one of the company's key focus areas. Nonetheless, this drive is not confined to SKF's operations. Externally, SKF looks to provide society with the opportunity for education and training.

One example is the sponsorship of the Academy for Renewable Energy Lüchow-Dannenberg, Germany. The SKF factory in Lüchow is the official sponsor of the academy and besides financial support, SKF also hosts lectures there.



Interview with Lynder Choker from Kenya prior to Gothia Cup 2009

How was it to win the Meet the World Tournament?

I was nervous for a whole week and when we won I cried because I was so happy.

Why do you think your team won?

Because we had trained well and are also talented.

What are your expectations, thoughts about the Gothia Cup and Sweden?

I'm expecting to fly to Sweden and win the Gothia Cup.

Is there anything special you would like to see or do when you are in Sweden?

Yes. I would like to walk around and see the good things in Sweden.

What do you want to be when you grow up?

I would like to be a doctor and fight for children's rights, especially girls'.

What is your biggest dream?

My biggest dream is to travel and play football all over the world.

SKF Thailand, on the other hand, employed a creative method of bringing SKF engineering knowledge to students at various universities in the country. An SKF exhibition truck with SKF maintenance products, tours around the country based on a weekly route plan, visiting different colleges and universities. Students are invited to visit the truck for a demonstration and presentation on bearing mounting, dismounting, and laser shaft alignment.

For the children in Anchonga, Huancavelica, one of the poorest regions in Peru, SKF Peru sponsored the building of a classroom for the community's only school. With assistance and coordination from the local NGO, Tierra de Niños, the classroom was inaugurated in March. SKF Peru also launched an internal campaign to collect textbooks for the school's library.

For more examples of SKF Community Care programmes in other countries such as China, Pakistan, the Philippines, and Turkey, please see previous years' Sustainability Reports or visit www.skf.com.

Sport

SKF has sponsored the Gothia Cup in Gothenburg, Sweden for over 30,000 young people worldwide, since 2006. The Gothia Cup is the largest football tournament in the world for boys and girls between the ages of eleven and nineteen. SKF also expanded the Gothia Cup concept, by hosting local "mini" tournaments called "Meet the World" in countries such as Zambia, Malaysia, the Czech Republic, Kenya, and Mexico. Children who could not afford to play at the Gothia Cup in

Sweden were invited to take part in local tournaments. The winning team from each country was sponsored by SKF to take part at the official Gothia Cup championship.

People with physical difficulties may not find participating in certain sports straightforward, for example sailing. Sailability World Inc. (www.sailability.org) is an organization that breaks the barriers to sailing for handicapped people. SKF Business Technology Park in the Netherlands is supporting this initiative, not only with monetary contributions but also engineering knowledge. Together with the volunteers, SKF's mechatronic engineers are developing solutions that enable participants to enjoy the sport comfortably and safely.

In Sweden, SKF has teamed up with Bräcke Diakoni, an organization that focuses on healthcare rehabilitating people with mental and physical disabilities, caused by, for instance, chronic fatigue syndrome. The partnership led to a successful completion of a playground for the children at Stegen Förskola (pre-school) in Gothenburg. A partnership was also arranged between SKF Sweden and SKF Romania, where SKF supported a training centre for children with physical disabilities in Constanta, Romania, run by Bräcke Diakoni.

Helping people

In several countries, e.g. the UK and Italy, SKF has set up paid voluntary schemes for local employees who are given paid working hours to volunteer in local Community Care activities.

SKF also organizes food, clothes and book donations and many SKF employees are taking part in fundraising to support local charitable and health organizations. One example is where many SKF units in the US, volunteered for various events such as the Breast Cancer Walk (Hebron), Relay for Life (Hobart, Seneca, Gainesville), Bowl-a-thon for Friends of Hospice (Kulpsville), Red Cross Blood Drive (San Diego), the SKF United Way Campaign (Elgin) and many more. In total, SKF USA has contributed more than USD 200,000 over the year.

SKF previously reported about some of its programmes in South Africa – childcare centres for children with HIV/Aids, India – orphanage and leprosy centres sponsorships, Austria – mentorship for young people who are mentally and/or physically handicapped, and Germany – a social project that supports young mentally handicapped artists. These activities continued in 2009 and the following are additional highlights from other countries.

In collaboration with other companies in the local community, SKF Kenya pooled resources to help those that are infected and affected by HIV/Aids. It also joined a feeding programme for forty or so families in a slum area and provided HIV/Aids drugs through the assistance of Kenya HIV/Aids Business Council. In Indonesia, SKF organized awareness training for employees and neighbouring communities about HIV/Aids and drug abuse.

Three times per year, SKF Singapore employees volunteer for the local "Meals on Wheels" activity, to deliver packed lunches and dinners to people living alone, ill or with no one to care and cook for them. SKF Singapore also provides monetary contributions to the service centre to buy groceries and toiletries for those in need of help.

Sponsorship

The Göteborg Award for Sustainable Development

SKF is one of the sponsors of the Göteborg Award for Sustainable Development. The SEK 1 million award is given annually to individuals or organizations for their significant contribution to sustainable development.

The 2009 award went to recognize three people who have played critical roles in creating more sustainable cities and urban environments: Dr. Anna Kajumulo Tibaijuka (Tanzania), Enrique Peñalosa (Colombia), and Sören Hermansen (Denmark).

Previous prize winners include Al Gore, Gro Harlem Brundtland, the Forest Stewardship Council and KRAV, the Abahuzamugambi Coffee Cooperative from Rwanda and the Toyota engineers, Takeshi

Uchiyamada, Takehisa Yaegashi and Yuichi Fujii, who developed the world's first commercial hybrid vehicle, the Toyota Prius.

Shell Eco-marathon

The Shell Eco-marathon is an annual educational project organized by Shell, together with other partners such as SKF, to promote higher energy efficiency through innovation and creativity. Participating teams from different schools and universities across Europe compete in designing, building and racing to go the furthest distance using the least amount of energy.

2009's Shell Eco-marathon Europe (7-9 May) took place at the EuroSpeedway Lausitz track in Germany. SKF provided technical advice to different teams and was present at the race event with an exhibition stand, showcasing SKF's engineering knowledge in different products and applications. The new SKF Energy Efficient (E2) bearings and other energy-efficient solutions for the wind industry were among the highlights. Visit www.skf.com for more information and see one of the cars sponsored by SKF, the Indra09.

SKF also sponsors the Shell Eco-marathon Americas in California.

World Solar Challenge

Inspired by the pioneering journey made by Hans Tholstrup in 1982, crossing Australia from Perth to Sydney using the world's first solar car, the World Solar Challenge was formed.

Today's World Solar Challenge carries competing drivers, in their team-designed and built solar-powered vehicles, across 3,000 km from Darwin to Adelaide. SKF is a proud technical partner to one of the competing teams – the Solar Team Twente, which is made up of eighteen students from the University of Twente and Saxion College, in the Netherlands. SKF supports the team with some of the vehicle's most critical components. Solar Team Twente's vehicle has a tilting wing with solar cells, and by tilting the wing towards the sun it will capture more sunlight. The actuators for the tilting mechanism of the wing are from SKF, as well as the high efficiency ball screws that are used for moving the array of solar cells behind the Fresnel lens system. To significantly reduce rolling resistance, the wheel bearings are hybrid ceramic ball bearings, while all other bearings in the vehicle are the award-winning SKF Energy Efficient (E2) bearings.

Solar Team Twente came eighth and was one of the few teams that managed to finish the entire race.



WWF Oasis in Italy

The Chisone River Natural Oasis was set up in 2007. Located in the Alps, it is an area rich in watercourses and an attractive habitat for flora and fauna. The project took off with restoring a 35,000 m² area for the local wildlife such as bird populations, amphibians, butterflies, and insects that are typically found in wetland areas.

With funding from companies like SKF, the European Commission, the Municipality of Villar Perosa, WWF in Pinerolo, the Institute "Franco Marro", and the public, the area witnessed a significant transformation. An educational apiary was set up and the presence of a few beehives has permitted observation activities to be carried out

along with research into the world of bees. Biologists, school children and the public are visiting the area through different themed evenings and field trips.

"SKF decided to concentrate on this project in order to add value to the local district, given its links which now date back over a hundred years when the first production plant was set up in Villar Perosa. The project also serves as an important setting, allowing school children the chance to visit an unspoilt environment, where they can study and understand the importance of nature. This is the conviction that prompted SKF to take part in creating the WWF Oasis in Villar Perosa." SKF Italy

SKF Brazil and SKF Care

Based on consistent work and a high level of motivation and commitment from all levels of the organization, SKF Brazil is today considered one of SKF Care's role models within the Group.



In 2009, SKF Brazil was acknowledged as one of the 150 best companies in Brazil to work for.

Promoting employee health and safety issues

SKF Brazil runs activities throughout the year promoting and integrating environmental, health and safety issues in everyday working life.

During Health Week employees can take part in seminars about the benefits of physical activity, a healthy diet, facts about smoking and other topics. Employees are also offered the opportunity of taking tests to check their blood pressure and cholesterol levels.

Another event focused on annually is the Week of Preventing Accidents – a week when safety issues, both at work and at home, are particularly addressed via information, games and specific exercises. SKF Cajamar showed one of the lowest accident rates throughout the Group, with all the channels at the site having earned different Zero Accidents awards, from Platinum level to Bronze.

Saving energy

In accordance with the Group's Environmental Care strategy and adhering to the environmental policy, employees in the Cajamar facility work continuously to reduce the environmental impacts of the operation. A good example of such focus is the factory's energy and CO₂ reduction project which was completed at the plant in 2009.

A team of employees completed a very thorough audit of the compressed air use in the facility during a scheduled production stop. Leaks and inefficient uses of compressed air were identified and eliminated. As a result, the daily compressed air use was reduced by 18%, equalling annual electricity savings to a value of 114,000 USD.

A role model in manufacturing excellence

SKF Cajamar works according to the 5S methodology in all its manufacturing channels. 5S originates from Japan and is a structured and systematic programme for implementing an orderly, clean and standardized workplace.

The work has led to outstanding results in terms of, for example, preventive actions, problem solving, a better, safer workplace, greater team spirit and productivity. Success is achieved by involving all employees at all levels of the factory to consciously learn and continuously practice the five steps of the methodology: Sorting, Setting in order, Cleaning, Standardizing and Self-discipline.

By making 5S a natural way of working, SKF Cajamar has created a culture of manufacturing excellence and is considered one of the best implementers in the SKF Group. SKF Cajamar received the SKF Zero Defect Award in July, since all its production channels had performed to the SKF Zero Defect standard.

Community Care in Cajamar

SKF's main operation is located in the Cajamar region. To address the needs of underprivileged children here, SKF Brazil runs various activities.

In 2009, SKF Cajamar initiated a volunteer work project together with an NGO partner, Junior Achievement. It concerns teaching middle school classes at the Professora Ana Maria Garrido Orlandim School in Cajamar. SKF managers held classes, once a week over two months, on the topic of the global economy, for children aged 12-13. Since it

was both inspiring and appreciated, plans are underway to prepare additional SKF employee groups for participating in the project.

SKF Cajamar has also continued its SKF Comunidade programme. The aim is to increase the quality of life for needy children by promoting and actively supporting health and educational activities. SKF arranges an SKF Community Day at the SKF Sports Club every second month, where children take part in various playful and interactive activities that stimulate their individual development, creativity and social interaction. Examples of activities include: theatre, sports activities, singing, quizzes and interactive games. Informative sessions by trained staff on topics like health, hygiene, home safety and the importance of education, are also included in the full day agenda.

SKF employees volunteer during the day and act as guides, actors and actresses in the theatre's plays and act as coaches for the different sports games. The active involvement by employees is important and valuable. At the end of an SKF Community Day, employees return

to work feeling inspired from meeting the children, and the youngsters return home with new friends, experiences, memories and knowledge – both looking forward with anticipation to the next time.

SKF Brazil has received the SKF Excellence Award for its SKF Community Care work.

One of the best companies to work for

In 2009, SKF Brazil was acknowledged as one of the 150 best companies in Brazil to work for following a national survey conducted by a leading Brazilian Human Resources Management magazine, *Guia VOCÊ S/A*. The survey looks into the areas of strategy and management, leadership, corporate responsibility, and policies and practices. The latter addresses career opportunities, training and development programmes, as well as compensation and benefits for employees. A total of 550 companies were evaluated.

“ We are of course very proud to be acknowledged as one of the best companies in Brazil to work for. As a good employer we attract and develop motivated employees. To be elected as one of the best companies to work for is also positively influencing our business and our image towards the community. Our customers, distributors and other business partners are recognizing an additional reason for choosing SKF. ”

Donizete C Santos, Managing Director, SKF Brazil



Antonio Marcos Sandri, Quality Assurance Coordinator at SKF Cajamar, receives the SKF Excellence Award for successful 5S and Zero Defect work from Tom Johnstone, President and CEO, and Eva Hansdotter, Senior Vice President, Human Resources and Sustainability.

Organization, stakeholder participation, awards and recognition

Organization

Reporting to the Senior Vice President, Group Human Resources and Sustainability, SKF Corporate Sustainability is responsible for outlining and shaping policies, strategies and targets related to SKF's overall sustainable development. It also supports SKF organizations in assimilating the SKF Care business practice into all operations, whilst teaming up with others such as Group Legal, Group Human Resources, and Group Demand Chain for implementing SKF's values and principles in its various business processes.

The implementation of sustainability programmes is driven by the respective SKF divisions and country management organizations. Follow-ups on sustainability performance for the Group are submitted to Group Management on a quarterly basis. This includes Zero Accidents and carbon dioxide emission reports. Group Management is also updated on an annual basis about SKF's ISO 14001, OHSAS 18001 management systems and key performance indicators.

The divisional presidents and human resource directors are updated regularly about the Group's internal audit results on the environment, health and safety, as well as the SKF Code of Conduct. The Industrial and Automotive Divisions, with manufacturing operations worldwide, have both appointed managers fully dedicated to ensuring the successful implementation of sustainability programmes.

In each country where the Group has manufacturing or logistics centres, there is a country coordinator who oversees the environment, health and safety (EHS) at the local SKF facilities with the EHS site coordinators. Country coordinators also act as liaison officers to the corporate staff and a number of them are members of the corporate EHS audit team, who inspect SKF units to ensure compliance with Group standards and national legislation.

Since 2008, energy coordinators have been appointed at SKF sites with more than 0.2 GWh in annual energy use.

Stakeholder participation and other collaborations

Many stakeholders, namely shareholders, investors, customers, analysts, employees, national and local authorities, as well as local communities, have interests in SKF's sustainability performance. SKF also welcomes feedback from other interest groups.

Dialogues with the various stakeholders ranging from discussions, visits, questionnaires, and emails/websites, are vital feedback to SKF in its continual improvement in both sustainability performances and communications.

SKF takes a proactive approach in communicating its sustainability initiatives and performance to stakeholders. This is done regularly via various channels such as press releases, the Sustainability Report (integrated in the Annual Report), company website, conferences and meetings. Active and transparent communication ensures and underpins SKF's commitment and integrity of sustainable development initiatives.

SKF also holds annual World Works Council and European Works Council meetings where employee representatives meet with Group Management to discuss matters of importance for the Group and employees. The most recent meeting was held in September 2009 in Steyr, Austria.

An example of how SKF's stakeholder engagement process functions can be seen in the instigation and evolution of the ethical demand chain initiative. In this case, the SKF concerns about the need to address the code of conduct issues more specifically in the demand chain were reinforced and supported by the investor stakeholder perspective. This confirmation of the need to focus on this aspect supported the decision to initiate the SKF ethical demand chain process.

Commitment in the ethical demand chain and expectations of suppliers' sustainability performance are systematically highlighted at SKF's supplier conferences. Local supplier conferences were held in different countries.





SKF (Dalian) Bearings and Precision Technologies Co., Ltd. received the prestigious Advanced Safety Production Unit Award from the Dalian Economic and Technology Development Zone Safety Production Committee, for its performance and achievement in production safety in 2009.

Apart from meetings and conferences, questionnaires from investment companies, financial analysts, non-profit making organizations and university students, are also vital to provide feedback about SKF's sustainability performance. SKF's Sustainability Report is subject to third party verification for ensuring that stakeholders receive transparent and credible information.

Active participation in various business organizations such as Respect Table and the Association of Swedish Engineering Industries (Teknikföretagen) enables SKF to enter talks with other multinationals about how to contribute to ecologically-balanced and socially-sound economic development.

The President and CEO of SKF, Tom Johnstone, is also a sought-after guest speaker to many international conferences and discussions. He was invited to a panel discussion at the "Climate and Jobs, the EU's Global Agenda" conference hosted by the Prime Minister of Sweden, Fredrik Reinfeldt. This was held in conjunction with the launch of Sweden's EU Presidency. Apart from that, Johnstone also attended the United Nations Leadership Forum for Climate Change, initiated by the UN Secretary-General Ban Ki-Moon, during the Summit on Climate Change in New York. He was a keynote speaker at the Manufuture Conference, where close to 500 representatives from the EU Commission, companies, research centres, universities and the media gathered. Many of the participants also took interest in visiting SKF headoffice and the factory in Gothenburg, Sweden.

Awards and recognition

Dow Jones Sustainability Indexes (DJSI) are recognized globally in providing asset managers with reliable and objective benchmarks of leading sustainability-driven companies. The first DJSI assessment result was published in 2000 and SKF has since been included in the Dow Jones Sustainability World Indexes (DJSI World) and the pan-European sustainability benchmark (DJSI STOXX) for the tenth year in succession.

The 2009 assessment covered a total of 58 sectors. Only the top 10% of best performing companies in economical, environmental and social performances are selected for inclusion. SKF is included in the IEQ Industrial Engineering sector.

Furthermore, SKF has also been recognized the sector leader, awarded with the best scores in several criteria measured, for instance for its Climate Strategy, Environmental Reporting, Customer Relationship Management and Risk and Crisis Management.

SKF is also included in the FTSE4Good Index Series since the first result was published in 2001. SKF B (SE0000108227) has been selected for inclusion in the Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers (see www.ethibel.org) since 28 January 2005 and recently reconfirmed on 12 June 2009 and is being monitored regarding its CSR profile since then.

SKF continues to top the Folksam Corporate Responsibility Index for the fourth successive year for environmental performance. Folksam is a Swedish insurance company that is also one of the largest investment companies in Sweden with SEK 230 billion in assets.

SKF Sustainability Report 2009

The 2009 SKF Sustainability Report covers the reporting period January to December 2009. Since 2000, SKF has adopted the Global Reporting Initiative's (GRI) reporting guidelines in its sustainability reporting. This report is of no exception and is based on the G3 Guidelines where SKF reports on all Profile Disclosures, Management Approach, relevant Core Performance Indicators and Additional Indicators.

SKF applies the GRI reporting principles for defining content. In the reflection of the report's materiality, all reporting indicators have been carefully evaluated and those that are considered of significant materiality in relation to SKF's economic, environmental and social impact, as well as its sustainability performance, are included in the Sustainability Report. In relation to the principle of stakeholder inclusiveness SKF engages with stakeholders in different ways, taking their opinions into considerations, and catering to their information needs in the Sustainability Report. The SKF Sustainability Report shall reflect the company's significant economical, environmental and social impacts, and thus enabling stakeholders to assess SKF's performance for 2009.

Indicator explanations, where the statistics compilations deviate from the indicator protocol specified, or that are considered to be of less material value to SKF's reporting, are provided in the GRI Index Table. It is available next to the web version of the SKF Annual Report (including Sustainability Report), which can be found at www.skf.com (Investors/Reports).

The principle of ensuring qualitative reporting in terms of accuracy, comparability, clarity, timeliness, balance, and reliability, is highly valued by SKF. To live up to this principle, SKF has been submitting its Reports for third party verification for more than ten years. The 2009 Sustainability Report was subject to a limited assurance, in accordance with FAR SRS (the institute for the accounting profession in Sweden) recommendation RevR 6 Assurance of sustainability report. Report on the review on the Sustainability Report is on page 141.

With reference to the GRI G3 Application Level Criteria, the 2009 Sustainability Report is self-declared to having fulfilled the A application level, which is confirmed by the external auditors.

Reporting scope

SKF's Sustainability Report is included in the Annual Report to emphasize that sustainability issues are embedded in all of SKF's operations. Financial and sustainability performance data have been integrated in SKF's Annual Report since 2002.

The financial section of the report encompasses all the units at the Group. A summary of the 2009 direct economic value generated and distributed, according to the G3 Guideline is of the following (in million SEK):

- Net sales 56,227
- Cost of goods sold, selling and administrative expenses 52,939 whereof salaries, wages and social charges 37%
- Cash dividends to AB SKF's and minority shareholders 1,629
- Gross taxes 592

The SKF Sustainability Report for 2008 was issued in March 2009. The scope of the 2009 report has changed due to the following:

- The additions of GLO in Poggio Rusco (Italy), Cirval in Rosario (Argentina), ABBA Taipei (Taiwan), S2M in Saint Marcel (France), SKF Economos in Vernouillet (France), and SKF Machine Tools in Mentor (US). Data from these units were consolidated in the SKF Group for the first time in 2009.
- The closure of SKF factories in Fontenay-le-Comte (France) and Glasgow (US), where data was included for part of 2009.

Data compilation and reporting

All environmental data reported in the SKF Sustainability Report – Environmental Care was compiled either quarterly or annually using a web-based reporting tool. It covers all the Group's manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

Information is reported at a local operating unit level, aggregated to site, country/division, and Group level. Data verification is performed at each level before submitting to external auditors for verification.

The reporting of greenhouse gas emissions is done according to the Greenhouse Gas Reporting (GHG) protocol published by the World Business Council for Sustainable Development and the World Resource Institute.

Health and safety data was also collected quarterly using the web-based reporting tool above. SKF adopts the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating accident rates.

The SKF Group Employee Data published in the Employee Care section was collected annually, compiled and aggregated from local operating unit levels.

Supportive information for the SKF Sustainability Report is available at www.skf.com, under the reference Topics Related to Annual Report. This includes:

Articles of Association, the SKF Code of Conduct, the SKF Environmental, Health and Safety (EHS) Policy, carbon dioxide emissions data, environmental performance data, Zero Accidents – award winners, productions sites as of 31 December 2009, and the compliance table to GRI G3 Guidelines (GRI Index Table).



Report on the review on the Sustainability Report

To the readers of SKF's 2009 Sustainability Report:

Introduction

We have performed a review of SKF's 2009 Sustainability Report. The Sustainability Report is presented on page 116 – 140 of the SKF Annual Report 2009 including Sustainability Report and on SKF's website in "Topics Related to Annual Report 2009" in the form of Environmental performance data, Carbon dioxide emissions data, Zero Accidents – award winners and Compliance table to GRI G3 Guidelines (GRI Index Table) (www.skf.com, Investors and Reports). It is SKF's Executive Management that is responsible for the continuous activities regarding sustainable development from the perspective of financial, environmental and social responsibility and for the preparation and presentation of the Sustainability Report in accordance with applicable criteria. Our responsibility is to express a conclusion on the Sustainability Report based on our review.

Scope of the review

Our review has been performed in accordance with FAR SRS (the institute for the accountancy profession in Sweden) recommendation RevR 6 Assurance of sustainability report. A review consists of making inquiries, primarily of persons responsible for sustainability matters and for preparing the sustainability report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

The criteria used in the course of performing review procedures are based on applicable parts of the Sustainability Reporting Guidelines, G3 issued by the Global Reporting Initiative (GRI) suitable for the sustainability report, and specific measurement and reporting principles developed and stated by SKF. We consider those criteria to be suitable for our engagement.

Our review has, based on an assessment of materiality and risk, among other things included the following procedures:

- Assessment of suitability and application of criteria in respect to internal and external stakeholders' need of information.
- Interviews with certain external stakeholders to evaluate whether that SKF responds to important stakeholders' concerns in the sustainability report.
- Interviews with responsible management at group level and division level and reading of internal and external documents with the aim to assess if the qualitative and quantitative information stated in the sustainability report is complete, correct and sufficient.
- Evaluation of the design of systems and processes used to obtain, manage and validate sustainability information.
- Analytical review of reported information.
- Review of underlying documentation, on a test basis, to assess whether the information and data in the sustainability report is based on that documentation.
- Pre-announced visits to SKF facilities located in Germany, Italy and Sweden. Interviews with management and key personnel in order to evaluate whether that sustainability performance data are reported, in all material respects, in a uniform manner and in accordance with applicable criteria.
- Review of qualitative information and statements, as well as the report on compliance with legislation, permits and conditions related to sustainability.
- Reconciliation of financial information with SKF's Annual Report 2009.
- Assessment of the SKF's stated application level according to GRI's guidelines.
- Overall impression of the Sustainability Report, and its format, considering the information's mutual conformity with applicable criteria.

Conclusion

Based on our review procedures, nothing has come to our attention that causes us to believe that SKF's 2009 Sustainability Report is not prepared, in all material respects, in accordance with the above stated criteria.

Göteborg, March 10, 2010
KPMG AB

Thomas Thiel
Authorized Public Accountant

Karin Sivertsson
Expert member FAR SRS

Management

as of 31 December 2009



From the left: Tom Johnstone, Tore Bertilsson, Henrik Lange, Vartan Vartanian, Tryggve Sthen, Alan Begg, Carina Bergfelt and Giuseppe Donato.

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, Association of Swedish Engineering Industries and Chalmers University of Technology
Shareholding in SKF: 133,995

Tore Bertilsson*

Executive Vice President and Chief Financial Officer
Born 1951

Bachelor of Science in Economics, School of Business, Economics and Law, Gothenburg University
Employed since 1989.

Previous positions within SKF: Group Treasury Director

Board member: Gamla Livförsäkringsbolaget SEB Trygg Liv, Ågrenska AB, AB Ludvig Svensson and PRI Pensionsgaranti
Shareholding in SKF: 15,000

Henrik Lange*

President, Industrial Division
Born 1961

Bachelor of Science in Economics, School of Business, Economics and Law, Gothenburg University
Employed since 2003 and 1988-2000.

Previous positions within SKF: Senior Vice President, Group Business Development and several other positions.

Board member: West Sweden Chamber of Commerce and Industry, GU School of Executive Education and Partnertech AB
Shareholding in SKF: 2,000

Vartan Vartanian*

President, Service Division
Born 1953

Bachelor of Applied Sciences-Mechanical Engineering, University of Toronto
Employed since 1990.

Previous positions within SKF: Area Director, Europe and several other positions.

Board member: Endorsia.com
International AB
Shareholding in SKF: 10,216

Tryggve Sthen*

President, Automotive Division
Born 1952

Master of Science (M.S.E.E.) in Technical Physics and Electrotechnology, Linköping University
Employed since 2003

Board member: Green Cargo

Alan Begg

Senior Vice President, Group Technology Development and Quality

Born 1954

Masters degree and PhD, University of Cambridge

Employed since 2007

Fellow of Royal Academy of Engineering, UK
Board member: NV Bekaert SA

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 and Göteborgs Symfoniker AB

Shareholding in SKF: 1,000

Giuseppe Donato

Senior Vice President and Advisor

Born 1944

Degree in Electronics and

Telecommunications Engineering,

the Polytechnic University of Turin

Employed since 1979.

Previous positions within SKF: President, Electrical Division and several other positions.

Council member: ANFIA, Confindustria Foreign Investors Council and Unione Industriale Turin



From the left: Eva Hansdotter, Magnus Johansson, Phil Knights, Rakesh Makhija, Manfred Neubert, Bo-Inge Stensson and Ingaliil Östman.

Vice President: Federmeccanica and AMMA Appointed "Cavaliere del lavoro" by the President of the Italian Republic on 2 June 2004.
Shareholding in SKF: 10,000

Eva Hansdotter

Senior Vice President, Group Human Resources and Sustainability
Born 1962
Bachelor of Science in Information Systems, Gothenburg 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: 1,000

As of 1 January 2010

Magnus Johansson

Senior Vice President, Group Business Development and Government Relations
Born 1955
Education: Bachelor of Science in Behaviourism, Gothenburg University
Employed 1981-2002 and since 2004
Previous positions within SKF: President, SKF China Co Ltd. and several other positions.
Board member: Wafangdian Bearing Co, Ltd.

Phil Knights

Senior Vice President, Global Relations
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, Service Division and several other positions.
Board member: Endorsia.com
International AB
Shareholding in SKF: 55,546

As of 1 January 2010

Rakesh Makhija

President, Asia
Born 1951
Bachelor of Technology in Chemical Engineering, Indian Institute of Technology, New Delhi, India
Employed since 2002
Previous positions within SKF: Managing Director, SKF India Ltd.
Board member: Kennametal India Ltd.

Manfred Neubert

President, SKF GmbH
Born 1953
Master of Economics, Business Administration
Employed since 2004
Board member: WEHACO Hannover
Council member: Employers association German Metal Industry
Shareholding in SKF: 800

Bo-Inge Stensson

Senior Vice President, Group Demand Chain and IT
Born 1961
Master of Science Industrial & Mechanical Engineering, Linköping Institute of Technology
Employed since 2006
Shareholding in SKF: 600

Ingaliil Östman

Senior Vice President, Group Communications
Born 1956
Master of Science in Mechanical Engineering, Luleå University of Technology
Employed since 2008
Board member: SOIC AB and FKG
Shareholding in SKF: 1,000

** member of the Group Executive Committee*

Definitions

Key figures

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

1. Portion of risk-bearing capital

Equity and provisions for deferred taxes, as a percentage of total assets at year end.

2. Equity/assets ratio

Equity as a percentage of total assets at year end.

3. Gearing

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

4. Net debt/equity

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

5. Return on total assets

Operating profit/loss plus interest income, as a percentage of twelve months average of total assets.

6. 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.

7. Return on equity

Profit/loss after taxes as a percentage of twelve months average of equity.

8. Operating margin

Operating profit/loss, as a percentage of net sales.

9. Turnover of total assets

Net sales in relation to twelve months average of total assets.

10. Basic earnings/loss per share in SEK

Profit/loss after taxes less non-controlling interests divided by the ordinary number of shares.

11. Yield

Dividend as a percentage of share price at year end.

12. P/E ratio

Share price at year end divided by basic earnings per share.

13. Average number of employees

Total number of working hours of all employees, divided by the normal total working time over the year.

14. Equity per share

Equity excluding non-controlling interests divided by the ordinary number of shares.

SKF's platforms

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

SKF has defined about 40 customer segments in which it operates. Examples of these segments include the cars and light trucks, wind power, railway, machine tool, medical, food and beverage and the pulp and paper industries.

Based on a strong understanding of current and future customer needs and challenges, SKF utilizes the capabilities of all or some of its platforms to develop tailor-made offers for each of its customer segments. In this way, SKF can offer its customers specific products and solutions with improved performance, reduced energy use and reduced total cost, while giving SKF greater added value and better price quality.

Bearings and units

The broad range of bearing types produced globally by SKF offers customers an assortment of high-quality, high-performance, low-friction, standard and customized solutions to critical and standard applications. Units are product combinations integrated into solutions with unique performance, used in specific applications requiring a compact design, combined performance and light weight.



Seals

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

Services

The service platform delivers value by addressing the entire lifecycle of a particular asset. The design phase is covered by different aspects of engineering consultancy and R&D services. The operation stage, which is the main part of the asset's lifecycle, 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 lifecycle is covered by services and service-related products focusing on upgrades, refurbishment, bearing dismounting and mounting, alignment, balancing and post-maintenance testing. A wide range of training is available for customers, on- and off-site, around the globe.



Lubrication 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.

Mechatronics

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



Glossary

Accident rate

The accident rate for the Group is calculated using the formula:

Accident rate = $R \times 200,000/H$

where R = number of recordable accidents
and H = total hours worked

This formula is provided by the US Occupational Safety and Health Administration (OSHA)

Ball bearings versus roller bearings

The main difference in the performance of these two bearing types is that ball bearings have lower friction than roller bearings, while roller bearings have a higher load-carrying capacity.

BeyondZero

BeyondZero is a concept launched in 2005, defining SKF's commitment to realizing the vision of achieving a net positive contribution to the environment. This commitment is leading SKF in developing and providing new environmentally-sound, energy-efficient products and services, as well as introducing effective energy conservation programmes in its operations.

By-wire technology

In by-wire systems, the direct mechanical control is replaced by electronic control.

Carbon dioxide

A common gas with the chemical formula CO₂. This gas is generated in various processes in nature and in combustion of most fuels. CO₂ contributes to the global greenhouse effect.

Carbon intensity

The amount of CO₂ released during the conversion of the total energy used.

Condition monitoring

By regularly measuring vibration levels in bearings and machines, maintenance factors impacting on bearing service life and machine operation can be controlled. Condition-monitoring instrumentation and software enable the early detection of bearing and machinery problems, making it possible for technicians to take the necessary steps in order to address a problem before it results in unanticipated downtime.

Elastomer

Synthetic rubber.

Energy intensity

The total energy used in all forms in the manufacturing facilities divided by an accounting measure of manufacturing output.

Friction

A force that counteracts movement between contact surfaces. Friction is by nature complex and is calculated by means of an empirical factor. Friction consumes energy and generates heat in rotating machinery.

Gigawatt hour (GWh)

One million kilowatt hours (kWh). Measure of electrical energy quantity.

GHG protocol

The GHG Protocol Corporate Standard provides standards and guidance for companies and other organizations preparing a GHG (greenhouse gas) emissions inventory. Through the use of standardized approaches and principles, it provides a clear and transparent reporting mechanism.

Hub bearing unit

Easy-to-mount, compact bearing unit for passenger car wheels. It is based on a double-row angular contact ball bearing and has integrated seals. It can be equipped with a sensor suitable for Anti-lock Braking Systems (ABS), traction control and so on.

Integrated Maintenance Solution (IMS)

An IMS contract is an expanded trouble-free operation programme which consists of services such as training, installation supervision, root cause failure analysis and the condition monitoring of rotating machinery.

ISO

The International Organization for Standardization (ISO) is an international standard-setting body composed of representatives from various national standards organizations. The organization promulgates worldwide proprietary industrial and commercial standards.

Landfill

Designated area for disposal of waste.

Large size bearings

The range includes standard bearings as well as bearings tailored for specific applications. Bearings with an outside diameter of more than 420 mm are considered as large. The bearings are available both in metric and inch dimensions.

Life cycle analysis

Systematic analysis of all environmental impacts of a product during its entire life cycle, i.e. from raw material to end-of-life product recovery or disposal.

Linear products

A common name for components, units and systems for linear movement. They include linear bearings, profile rail guides, linear ball bearing slides and so on.

Lubricant

Grease, oil or other substance to facilitate the motion of surfaces relative to each other, e.g. in a bearing.

OHSAS 18001

Occupational Health and Safety Assessment Series management system targets at controlling occupational health and safety (OH&S) risks as well as to improve performance in the area. It is compatible to ISO 14001 (Environmental Management System).

Original Equipment Manufacturer (OEM)

Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gearboxes and so on.

REACH

The REACH Regulation came into force on 1 June 2007, intended for the Registration, Evaluation, Authorization and Restriction of Chemical substances. Information about the chemical substances used or imported shall be registered in a central database run by the European Chemical Agency (ECHA).

Remediation

Clean-up and restoration of a contaminated site.

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 double-row, self-aligning ball bearings accommodated the misalignment without reducing service life, thereby solving the problem.

SKF Internal Control Standard (SICS)

A financial internal control framework, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO), developed by SKF for ensuring that a basic, consistent system of financial internal control is maintained throughout the SKF Group.

SKF Care

Sustainability is one of SKF's five business drivers, alongside Profitability, Quality, Innovation and Speed. SKF's approach to sustaining financial and operational excellence centres on the SKF Care concept, which consists of Business Care, Environmental Care, Employee Care, and Community Care.

Superfund site

Old landfill or plant site in the United States with soil or groundwater contamination, subject to a remediation programme according to a federal law. Remediation funding is provided by those who contributed to the contamination.

Super-precision bearings

SKF's comprehensive assortment of super-precision bearings is designed for machine tool spindles and other applications that require a high level of running accuracy at high to extremely high speeds. Each bearing type incorporates unique features to make it suitable for specific operating conditions.

Transaction effects

Companies involved in international trade risk that currency exchange rates may change and thereby effect the value of the transactional currency flows.

Translation effects

The risk that a company's equities, assets, liabilities or income will change as a result of the translation of foreign currency into SEK.

Tribology

Tribology is the science and technology of interacting surfaces in relative motion. It includes the study and application of the principles of friction, lubrication and wear.

Working Climate Analysis (WCA)

An annual survey distributed to all employees with the aim of obtaining their feedback on SKF's performance in relation to the company's values and key focus areas.



Six Sigma

SKF Six Sigma is a continuous improvement programme within SKF that targets waste and defects in all business processes. SKF Six Sigma projects are run by extensively trained Black Belts and Green Belts, where Black Belts are required to run two projects a year and Green Belts one project a year. Within the SKF Six Sigma programme are a number of tools and methodologies ranging from traditional DMAIC and Design for Six Sigma to Lean and other waste reducing methodologies. The foundations for SKF Six Sigma improvements are that they are fact based and sustainable and contribute to the business objectives.

Design for Six Sigma (DfSS)

A methodology which focuses on developing new products and services to the market with optimal performance levels.

Lean Six Sigma

A methodology which combines tools from both Lean Manufacturing and Six Sigma. Lean focuses on speed and waste, Six Sigma on variation and quality – the result is better quality faster.

Six Sigma for Growth

A customer focused approach and targets improvements in the growth areas such as marketing, sales and distribution.

Transactional Six Sigma

Focuses on people processes such as service, sales and human resources



Manufacturing excellence

SKF Bridge of Manufacturing Excellence focuses on reducing waste and eliminating non-value adding activities. SKF bases this on the following five principles: Standardised way of working, Right from me, We care, Demand driven flow and Continuous improvement. The heart of the system is the people in the production process, who use these principles everyday to continuously improve their work.

Seven-year review of the SKF Group¹⁾

<i>SEKm unless otherwise stated</i>	2009	2008	2007	2006	2005	2004	2003
Income statements							
Net sales	56,227	63,361	58,559	53,101	49,285	44,826	41,377
Operating expenses	-52,939	-55,618	-51,036	-47,110	-44,215	-40,461	-38,189
Other operating income and expenses, net	-74	-34	19	-22	85	72	100
Profit (+)/loss (-) from jointly controlled and associated companies	-11	1	-3	738	172	-3	19
Operating profit	3,203	7,710	7,539	6,707	5,327	4,434	3,307
Financial income and expense, net	-906	-842	-401	-320	-74	-347	-506
Profit before taxes	2,297	6,868	7,138	6,387	5,253	4,087	2,801
Taxes	-592	-2,127	-2,371	-1,955	-1,646	-1,111	-703
Net profit	1,705	4,741	4,767	4,432	3,607	2,976	2,098
<i>Attributable to:</i>							
Owners of AB SKF	1,642	4,616	4,595	4,317	3,521	2,926	2,042
Non-controlling interests	63	125	172	115	86	50	56
Balance sheets							
Intangible assets	4,014	4,654	3,516	2,586	1,583	1,079	874
Deferred tax assets ¹⁾	1,665	1,342	886	745	738	619	814
Property, plant and equipment	13,933	14,556	11,960	11,388	11,119	11,012	11,138
Non-current financial and other assets ¹⁾	1,502	1,366	2,643	2,032	2,531	773	832
Inventories	11,771	15,204	11,563	9,939	9,931	8,985	8,429
Current financial assets	14,540	15,668	14,169	17,848	13,020	10,971	12,858
Other current assets	3,590	3,310	2,365	2,100	1,571	1,446	1,477
Total assets	51,015	56,100	47,102	46,638	40,493	34,885	36,422
Equity ¹⁾	18,280	19,689	19,009	19,706	17,961	17,099	15,935
Provisions for post employment benefits ¹⁾	7,020	6,356	4,600	5,145	5,562	4,805	7,738
Deferred tax provisions ¹⁾	754	1,210	1,652	1,130	862	958	1,058
Other provisions ¹⁾	2,849	2,339	2,067	1,919	2,210	1,927	2,371
Financial liabilities	14,994	18,549	13,015	12,754	8,215	5,014	4,801
Other liabilities	7,118	7,957	6,759	5,984	5,683	5,082	4,519
Total equity and liabilities	51,015	56,100	47,102	46,638	40,493	34,885	36,422
Key figures²⁾ (in percentages unless otherwise stated)							
Return on total assets ¹⁾	6.5	16.1	17.1	16.1	14.8	12.9	9.5
Return on capital employed ¹⁾	9.1	24.0	24.9	23.0	21.9	19.0	14.0
Return on equity ¹⁾	9.0	26.3	24.6	23.5	20.6	18.0	13.0
Operating margin	5.7	12.2	12.9	12.6	10.8	9.9	8.0
Turnover of total assets, times ¹⁾	1.04	1.25	1.25	1.22	1.31	1.26	1.10
Portion of risk-bearing capital ¹⁾	37.3	37.3	44.0	44.7	46.5	51.8	46.7
Gearing ¹⁾	49.3	50.1	36.9	38.6	34.5	25.7	36.9
Equity/assets ¹⁾	35.8	35.1	40.5	42.3	44.4	49.0	43.8
Investments and employees							
Additions to property, plant and equipment	1,975	2,531	1,907	1,933	1,623	1,401	1,379
Research and development expenses	1,217	1,175	900	875	837	784	750
Patents - number of first filings	218	179	186	175	176	189	151
Average number of employees	38,530	43,201	41,645	39,780	37,454	38,502	37,632
Number of employees registered at 31 December	41,172	44,799	42,888	41,090	38,748	39,867	38,700

¹⁾ The years 2003 to 2008 has been restated for change in accounting principle IAS 19 "Employee benefits".

²⁾ See page 144 for definitions of key figures.

Three-year review of the SKF divisions/segments¹⁾

<i>SEKm unless otherwise stated</i>	2009	2008	2007
Industrial Division			
Net sales	19,301	22,862	19,676
Sales incl. intra-Group sales	28,368	33,730	29,049
Operating profit	1,551	4,043	3,487
Operating margin ²⁾	5.5%	12.0%	12.0%
Assets and liabilities, net	15,825	18,098	13,981
Registered number of employees	17,604	19,166	18,812
Service Division			
Net sales	19,832	21,907	19,988
Sales incl. intra-Group sales	20,190	22,318	20,333
Operating profit	2,610	3,326	2,763
Operating margin ²⁾	12.9%	14.9%	13.6
Assets and liabilities, net	4,834	5,668	5,077
Registered number of employees	5,726	6,018	5,597
Automotive Division			
Net sales	16,051	17,886	18,559
Sales incl. intra-Group sales	19,279	21,850	22,445
Operating profit	-809	546	1,106
Operating margin ²⁾	-4.2%	2.5%	4.9%
Assets and liabilities, net	8,122	10,070	8,724
Registered number of employees	13,746	15,256	15,836

¹⁾ Previously published amounts have been restated to conform to the current Group structure in 2009.

The structural changes include business units being moved between the divisions and from other operations to divisions.

²⁾ Operating margin is calculated on sales including intra-Group sales.

Per-share data

Definitions, see page 144

<i>Swedish kronor/share unless otherwise stated</i>	2010	2009	2008	2007	2006	2005	2004	2003
Earnings per share		3.61	10.14	10.09	9.48	7.73	6.42	4.48
Dividend per A and B share		3.50 ¹⁾	3.50	5.00	4.50	4.00	3.00	2.50
Total dividends, SEKm	1,594 ¹⁾	1,594	2,277	2,049	1,821	1,366	1,138	911
Redemption per share				5.00	10.00		6.25	
Total redemption, SEKm			2,277	4,554		2,846		
Purchase price of B shares at year-end on the NASDAQ OMX Stockholm		123.60	77.25	104.79	113.22	99.80	60.83	57.13
Equity per share ²⁾		38	41	40	42	38	36	34
Yield in per cent (B)		2.8 ¹⁾	4.5	4.8	4.0	4.0	4.9	4.4
Yield in per cent (B), including share redemption				9.5	12.8		46.0	
P/E ratio, B (share price/earnings per share)		34.2	7.6	10.4	11.9	12.9	9.5	12.8
Cash flow after investments, before financing per share		12.63	0.14	4.67	4.74	5.25	-2.05	5.43

¹⁾ According to the Board's proposal for the year 2009.

²⁾ The years 2003 to 2008 have been restated for change in accounting principles IAS 19 "Employee benefits".

SKF's financial website

SKF's financial webpage – www.skf.com/investors – contains detailed and updated financial information, as well as information about SKF's objectives and strategies, corporate governance, Group-related news, etc. The webpage also has a subscription service for receiving press releases and reports by email. A selection of headlines and functions on the webpage is shown below.

About SKF
 Targets and performance
 Strategy
 Financial risk management
 Sensitivity analysis
 Acquisition and divestment
 Production sites

Sustainability

Financial data
 Tables
 Graphs
 Statistics

Reports
 Financial reports
 Annual reports since 1907

The share
 Share price
 Total return
 Dividend
 Largest shareholder

Corporate Governance
 Annual General Meeting
 Board of directors
 Board committees
 Group management

SKF's shares
 Current share price

Targets and performance

Group News

Quarterly hub
 Quarterly information

Tags
 Most frequently used menus

The screenshot shows the SKF investor website interface. The top navigation bar includes links for Products, Industries, Services, Library, About SKF, and Group Sites. The main content area is titled 'Welcome to the SKF site for the capital market' and features sections for 'Latest press releases', 'Financial calendar', and 'Investor Relations contacts'. A sidebar on the left contains a 'My SKF.com' section with login and registration options, and a 'Tags' section listing various topics like Acquisitions, Targets, Board AGM, Shareholders, The share, Management, Overview, Dividend, Code of conduct, Reports, Risk, Sensitivity, Investors, Strategy, Sustainability, and Presentations. The footer contains links for Terms and Conditions, Privacy Policy, Site Ownership, and Site Map.

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 14.30 on Thursday, 29 April 2010. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB (former VPC AB) by Friday, 23 April 2010, and must notify the company at the latest on Friday, 23 April 2010 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 telephone +46 31 337 25 50
(between 09.00 and 16.30)

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered share-holding and advisors, if any. Where representation is being made by proxy, the original of the proxy form shall be sent to the company before the Annual General Meeting.

Shareholders whose shares are registered in the name of a trustee must have the shares registered temporarily in their own name in order to take part in the meeting. Any such re-registration for the purpose of establishing voting rights shall take place by Friday,

23 April 2010 at the latest. This means that the shareholder should give notice of his/her wish to be included in the shareholders' register to the trustee well in advance before that date.

Payment of dividend

The Board of Directors proposes a dividend of SEK 3.50 per share for 2009. 4 May 2010 is proposed as the record date for shareholders to be entitled to receive dividends for 2009. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Friday, 7 May 2010.

Financial information and reporting

AB SKF will publish the following financial reports in 2010:

Year-end report 2009	28 January
Annual Report 2009	12 March
First-quarter report 2010	20 April
Half-year report 2010	15 July
Nine-month report 2010	19 October

The reports are available in Swedish and English. The financial reports are published on SKF's website, www.skf.com, choose Investors and click on Reports. A subscription service for press releases and interim reports is available on the website under Investors, choose Subscribe.

The annual report is sent to those shareholders who have notified the company that they wish to receive a copy.

Reports can also be ordered from SKF Investor Relations

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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 the Administration Report in this Annual Report.

The following topics related to the SKF Annual Report 2009 including Sustainability Report are to be found at www.skf.com, choose Investors and Reports.

- Articles of Association
- SKF Code of Conduct
- The SKF Environmental, Health and Safety (EHS) Policy
- Carbon dioxide emission data
- Environmental performance data
- Zero Accidents awards
- Productions sites as of 31 December 2009
- The compliance table to GRI G3 Guidelines (GRI Index Table).

Cover

Simon Hjalmarsson, who has worked at the factory for large bearings in Gothenburg since 2007, after completing studies at SKF's technical high school.

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Simon Hjalmarsson together with Cielo Yanquen, Market Communications Platform Manager
Lubrication systems

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