Annual Report 2010

including Sustainability Report

On the cover:
Syahrian Abimanyu, Indonesia

SKF is the main sponsor of the largest youth football tournament in the world – The Gothia Cup. A venue for boys and girls, regardless of social background, culture, and religion, to meet and enjoy playing football.

Meet the World is a pre-event to the Gothia Cup and started in 2007 by SKF to create another global meeting place. Football tournaments are played in several countries across the globe. So far 58 Meet the World tournaments have been held in 28 countries in-volving around 12,000 participants. The best team from each country wins a fully sponsored trip to Sweden, team uniforms and the entry fee to participate in the Gothia Cup. Around 1,000 young people have been to Gothenburg as members of winning teams. SKF Group Headquarters and local SKF companies, together with the Gothia Cup, are the parties responsible for Meet the World.

Vision

To equip the world with SKF knowledge

Mission

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

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

Drivers

- Profitability
- Quality
- Innovation
- Speed
- Sustainability

Values

- Empowerment
- High ethics
- Openness
- Teamwork

Content

Key data

	2010	2009
Net sales, SEKm	**61,029**	56,227
Operating profit, SEKm	**8,452**	3,203
Operating margin, %	**13.8**	5.7
Profit before taxes, SEKm	**7,549**	2,297
Basic earnings per share, SEK	**11.28**	3.61
Diluted earnings per share, SEK	**11.28**	3.61
Dividend per share, SEK	**5.00**[1)]	3.50
Cash flow after operating investments before financing, SEKm	**-2,838**	5,752
Return on capital employed, %	**24.0**	9.1
Equity/assets ratio, %	**36.0**	35.8
Additions to tangible assets, SEKm	**1,651**	1,975
Registered number of employees, 31 December	**44,742**	41,172
Average number of employees	**40,206**	38,530

Number of shares 31 December 2010: 455,351,068, of which 44,915,604 A shares and 410,435,464 B shares.
[1)]Dividend according to the Board's proposed distribution of surplus.

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.

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.

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.

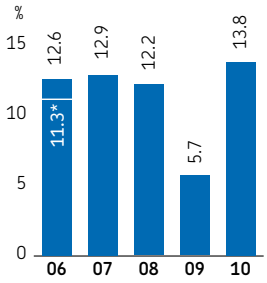
SKF does business mainly through **three divisions:** Industrial Division and Service Division, servicing industrial original equipment manufacturers (OEMs) and aftermarket customers respectively, and Automotive Division, servicing automotive OEMs and aftermarket customers. SKF operates in around 40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

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.

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 2010, the number of first filings of patent applications was 251.

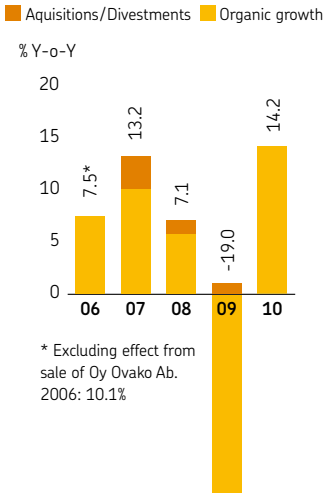
New long-term **financial targets** were set in October 2010. These are to have an operating margin level of 15%, annual sales growth in local currencies of 8% and a return on capital employed of 27%.

Operating margin



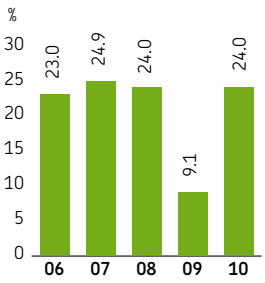
* Excluding income from the previously jointly controlled company Oy Ovako Ab.

Changes in sales in local currency



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

Return on capital employed



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 is a commitment, launched in 2005, stating that SKF is to realize business objectives in such a way that negative environmental impact resulting from our operations is minimized, while positive impact achieved through the use of our solutions by customers 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.

Carbon dioxide (CO_2) 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 CO_2 emissions by a minimum of 5% annually, irrespective of production volume.

President's letter

In 2010, we operated in an improving world economy in nearly all areas of our business, geographically as well as from an industry viewpoint. Last year, I commented on how we responded to the major downturn in demand and production that we saw in 2009. This year, we not only responded well to the improving market but we delivered on our financial targets set in 2007 and took further important steps to strengthen the SKF Group for today and the future.

2010 – a very strong year and investing for the future

In 2010, our sales grew by over 14% in local currencies. To support this, we increased our manufacturing by over 20%. We must remember, however, that we are still operating globally at sales volumes similar to the beginning of 2007. From a results viewpoint, we delivered a record operating profit, record operating margin and a good cash flow. The operating profit for the Group rose to SEK 8,452 million, giving an operating margin of 13.8%. Our earnings per share increased from SEK 3.61 in 2009 to SEK 11.28 in 2010.

The Group's strong financial performance and the positive outlook means that the Board will recommend to the annual shareholders' meeting an increase to the dividend of 43% to SEK 5.00.

There are three main reasons for this strong financial performance. Firstly, our sales team has once again done a tremendous job in delivering value to our customers and getting paid for it. This has been a strong effort from many areas of SKF – not just the sales team visiting the customer, but also those areas supporting this work. We have also gained a number of important new businesses, which you can read about further in the divisional section of this annual report.

Secondly, the steps which we have taken to reduce our cost base and to manage our costs are showing real benefits. These were tough steps to take but we are now building our business from a lower cost base. Finally, the recovery which we have seen in the global markets meant that we saw improving volumes in our sales and manufacturing. All of these points have together given us this strong result and the possibility to further invest in our business in the future and this we are doing.

"This year we not only responded well to the improving market but we delivered on our financial targets set in 2007 and took further important steps to strengthen the SKF Group for today and the future."

Let me highlight some of the steps we have taken to further strengthen SKF during the year.

- Lubrication systems are a very important technology for the SKF Group. SKF made a major entry into this market in 2004 with the acquisition of the German based company, Willy Vogel AG. Since then, we have taken a number of important steps to develop this business and at the end of the year we announced the acquisition of the Lincoln Industrial Group, a US-based lubrication systems group, which has sales of around USD 400 million, nine factories worldwide and around 2,000 employees. The acquisition of Lincoln Industrial will fully complement our existing lubrication systems business from a manufacturing, sales and technology viewpoint, and will help us bring more value to our customers and to our shareholders.

- Our strong focus on working closely with our customers to develop new solutions based on our five technology platforms enabled us to launch over 20 new products and solutions to the automotive and industrial markets during the year. Many of these continue our strong focus on helping our customers reduce their energy consumption. This strong focus will continue and intensify during the coming years.

- Our commitment towards research and development was maintained during the downturn in 2009 and increased in 2010. A new Global Technical Centre in Shanghai, China was opened, which will complement the centre we opened in India in 2009, bringing new product development closer to our customers in these fast developing areas. We also officially opened the University Technical Centre with Imperial College, London, which will focus on supporting SKF in the tribology area. In addition we have signed an agreement with Tsinghua University in Beijing to work on developing new materials for seals.

- To support our growth in faster growing regions and industries, we opened three new factories. Two of these are in India - in Haridwar and Ahmedebad – and the other is in Tver, Russia. This means that SKF has returned to manufacturing in Russia after over 80 years' absence. These factories have been built to the LEED® or equivalent standard and I am delighted that the Tver factory has already received the LEED Gold Award.

- We also announced that we will build two additional factories: a new seals factory in Mysore, India and a second factory for bearings in Dalian, China, which will primarily

produce medium-size bearings for the industrial market. Both these factories will open in late 2011.

- Last year, I commented on how we are establishing SKF Solution Factories around the world to bring SKF knowledge closer to our customers and to support our distributors. These are already showing real benefits and during the year we more than doubled their number to 17.

- The work to bring Manufacturing Excellence into our operations continued with increasing speed and I must say that I am very impressed when I see what we are doing in our factories due to the commitment and drive of all our employees.

- The activities in SKF Care (our name for Sustainability) continued to develop positively with a number of important new initiatives, such as the SKF Forest in China. You can read more about all of our activities in this area in the Sustainability Report which forms a special section in this Annual Report.

- Our work to make SKF a Six Sigma company continues. Our main focus was on improving product availability, reducing capital employed and improving efficiency in our operations. We completed 1,155 projects during the year which will bring SKF annualized savings of SEK 468 million.

> **“Today SKF is more customer focused and is investing in supporting our customers by bringing resources in terms of people, development and factories closer to them.”**

These are just some of the many activities that we carried out during the year and I am sure you will agree that is has been a very active period for the SKF Group.

New strategic initiatives and financial targets

The steps which SKF has taken over a number of years to make the company more robust are paying dividends which can be seen in our results in 2009 and 2010, as well as from the fact that we were now operating around the financial targets which we had set ourselves in 2007. Today SKF is more customer-focused and is investing in supporting our customers by bringing resources, in terms of people, development and factories closer to them. We are also less vertically integrated, having divested our steel business and many of our component factories.

During the year, we reconfirmed the strategy for the SKF Group and focused on actions to ensure that we gain the full benefit of the improving demand situation globally, strengthen SKF in the faster growing regions and businesses and take full advantage of the investments we have made and are making to support our profitable growth.

SKF will continue to develop the platform/segment approach to support our journey to become the knowledge engineering company and will increase our focus on developing offerings which help our customers reduce their environmental impact. To support this development we have identified three key initiatives.

Firstly, we will **accelerate profitable growth** through an increased focus on offering all our technology platforms to our existing customers and by capturing new customers. We see real opportunities to deliver more value for our customers through the technologies which we have at SKF. We will also intensify our focus on certain key regions and segments which offer better growth and profit possibilities. In addition, there is a growing normal performance market in certain industries and we are addressing this through developing application-specific products and by further developing our other brands such as PEER, which we acquired in 2008.

Our second initiative is to **reduce costs and eliminate waste** in our business through the application of Business Excellence and through a strong focus on cost reduction in our products. One key activity for the Group in the coming years is to build on the success of Manufacturing Excellence and extend this approach to all the main activities and processes of SKF. We have already started this in a number of areas, such as product development and finance. This we call SKF Business Excellence and it builds on many of the steps that we have already taken in the Group over a number of years, such as TQM, Six Sigma and of course, Manufacturing Excellence.

The third initiative is to **invest in growth**. We are already increasing our investments in manufacturing, research and development, and sales and engineering resources. We cannot achieve our long-term targets without increasing our “feet on the ground” working with our customers.

I firmly believe that by pursuing these initiatives in all of our operations we have the possibility to raise the bar in our financial performance and have therefore set ourselves new long-term financial targets of a 15% operating margin level, annual growth in local currencies of 8% and a return of capital employed of 27%. Through these initiatives and by operating

In May 2010, the SKF Global Technical Centre China in Shanghai were inaugurated. The centre will bring innovation and technical knowledge closer to customers in Asia.

in line with these targets, we will ensure that SKF has the financial strength to continue to invest in its business and that SKF becomes the knowledge engineering company.

In addition, our work in SKF Care will continue to be a guiding light for all we do at SKF. It was wonderful to see an increased number of football teams supported by SKF attending the Gothia Cup this year, and I expect that there will be even more teams in 2011.

Looking forward to 2011

Looking forward to 2011 we expect to see a positive trend in the macroeconomy overall even if, at this time, it looks like the growth will be lower than what we saw in 2010. World growth will be driven by very good development in the faster growing areas such as Asia, Latin America and Central/East Europe. However, we also expect to see positive growth in the more traditional regions of Western Europe and North America.

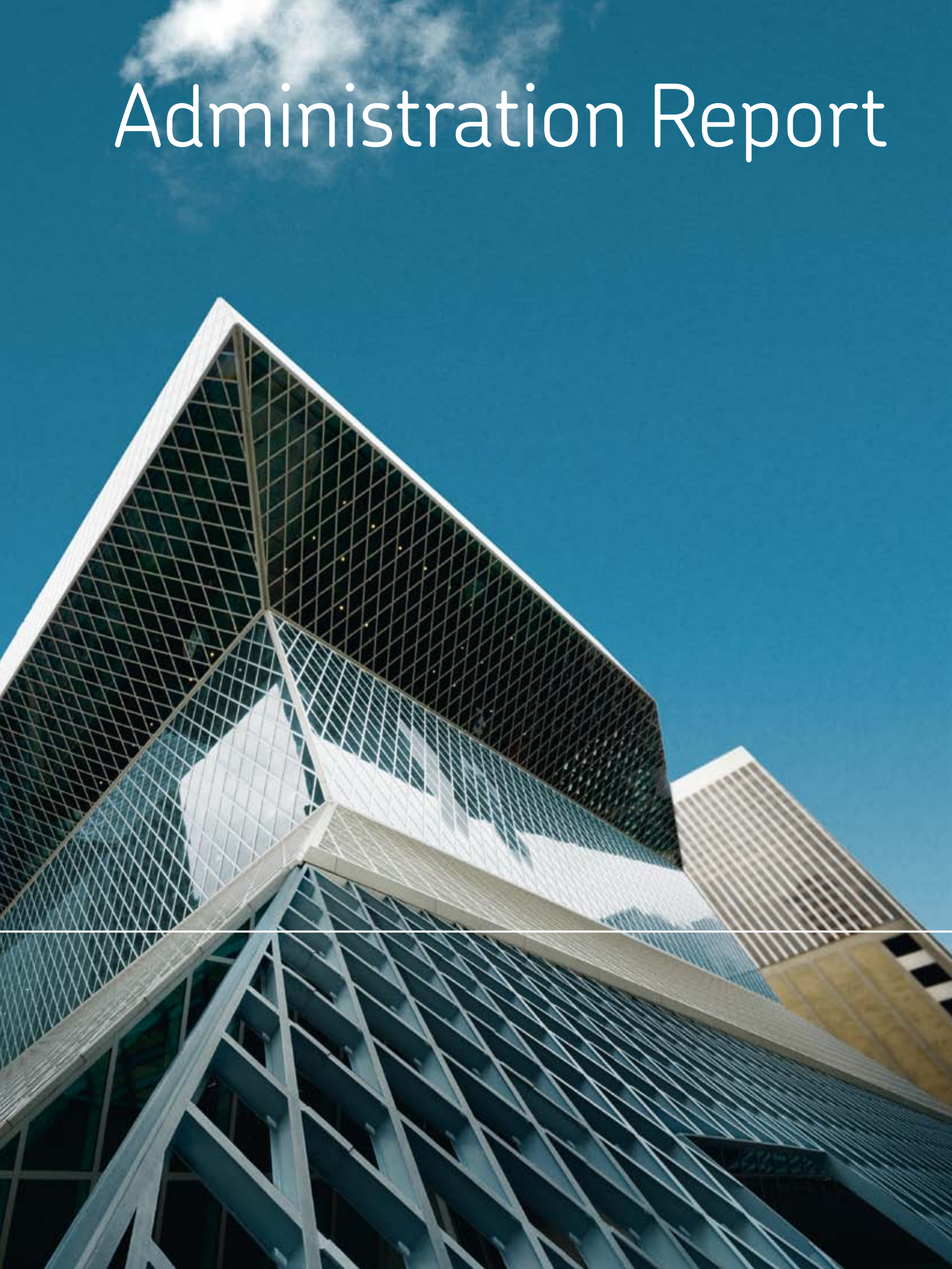
To support our longer-term ambitions and our new financial targets, 2011 will be a year of investment for the SKF Group. While we will face some strong headwinds in 2011 from currencies and higher raw material costs, I firmly believe that we will continue the positive development of the SKF Group, both financially and in the marketplace with our customers and distributors. We have continued to invest in our business in recent years and will further step this up in 2011.

2010 was a very good year for the SKF Group. I want to sincerely thank each and every SKF employee for their support and commitment, for doing a truly outstanding job in 2010 and for their continued support in making SKF the knowledge engineering company.

Tom Johnstone
President and CEO

Content

Administration Report



Shares and shareholders

SKF shares as of 31 December 2010

SKF's A and B shares have been quoted on the NASDAQ OMX Stockholm AB since 1914. The total number of shares traded in 2010 was 808,777,665.

A shares, unrestricted	44,915,604
B shares, unrestricted	410,435,464
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. 505,400 A-shares were converted to B shares in 2010.

A-shares are constituting 9.8% of total number of shares, to be compared to 10% in December 2009 and 43.3% in December 2001.

Changes in share capital 1982–2010	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 bonds	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

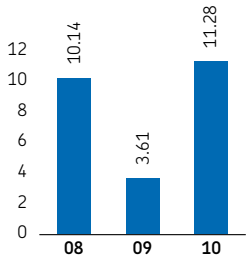
SKF Allemansfond, a national security savings fund for SKF employees in Sweden was started in 1984. On 31 December 2010, the SKF Allemansfond had 4,009 members. 34% of the fund was invested in SKF shares. Assets amounted to SEK 205 million.

Distribution of shareholding

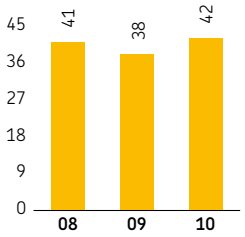
Shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	54,228	81.14	18,008,058	4.70
1,001 – 10,000	11,137	16.66	30,841,011	8.34
10,001 – 100,000	1,107	1.66	32,541,268	5.65
100,001 –	364	0.54	373,960,731	81.31
	66,836	100.0	455,351,068	100.0

Source: Euroclear Sweden AB (Securities Register Centre) as of 31 December 2010.

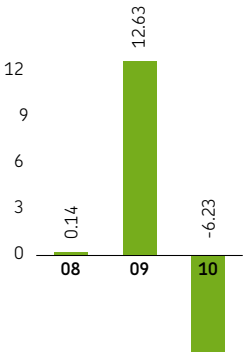
Basic earnings per share, SEK



Equity per share, SEK



Cash flow after investments, before financing per share, SEK



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	28.6	12.0
Skandia	4,075,769	832,871	4,908,640	4,159,056	4.8	1.1
Alecta	2,192,404	19,102,200	21,294,604	4,102,624	4.8	4.7
Swedbank Robur Funds	2,163,841	16,443,182	18,607,023	3,808,159	4.4	4.1
Gamla Livförsäkringsbolaget SEB Trygg Liv	1,635,224	1,019,576	2,654,800	1,737,181	2.0	0.6
AFA Sickness Insurance	1,384,900	3,482,059	4,866,959	1,733,105	2.0	1.1
AMF Pension	0	13,253,923	13,253,923	1,325,392	1.5	2.9
SEB Investment Management	478,440	7,378,324	7,856,764	1,216,272	1.4	1.7
PRI Pensionsgaranti	926,200	332,000	1,258,200	959,400	1.1	0.3
Nordea Investment Funds	0	9,024,777	9,024,777	902,477	1.0	2.0
	34,106,778	**104,422,423**	**138,529,201**	**44,549,017**	**51.6**	**30.5**

Source: Euroclear Sweden AB's public share register as of 31 December 2010.

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 2010, about 41% of the share capital was owned by foreign investors, about 50% by Swedish companies, institutions and mutual funds and about 9% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, so that the actual shareholders are not officially registered.

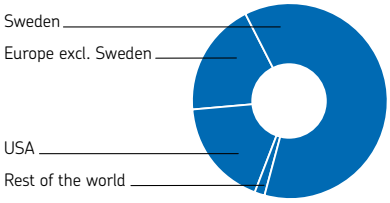
Per-share data *(Definitions, see page 154)*

Swedish kronor/share	2011	2010	2009	2008	2007	2006	2005	2004
Earnings per share		11.28	3.61	10.14	10.09	9.48	7.73	6.42
Dividend per A and B share		5.00[1)]	3.50	3.50	5.00	4.50	4.00	3.00
Total dividends, SEKm	2,277[1)]	1,594	1,594	2,277	2,049	1,821	1,366	1,138
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		191.60	123.60	77.25	104.79	113.22	99.80	60.83
Equity per share		42	38	41	40	42	38	36
Yield in per cent (B)		2.6	2.8	4.5	4.8	4.0	4.0	4.9
Yield in per cent (B), incl. share redemption					9.5	12.8		46.0
P/E ratio, B (share price/earnings per share)		17.0	34.2	7.6	10.4	11.9	12.9	9.5
Cash flow after investments, before financing per share		-6.23	12.63	0.14	4.67	4.74	5.25	-2.05

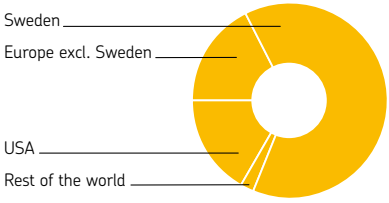
[1)] According to the Board's proposal for the year 2010.

Geographic ownership

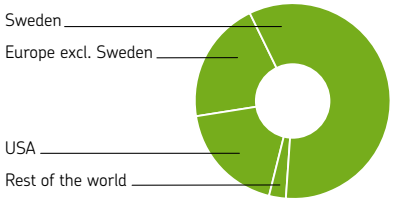
Source: SIS Ownership Data Corp.



2010



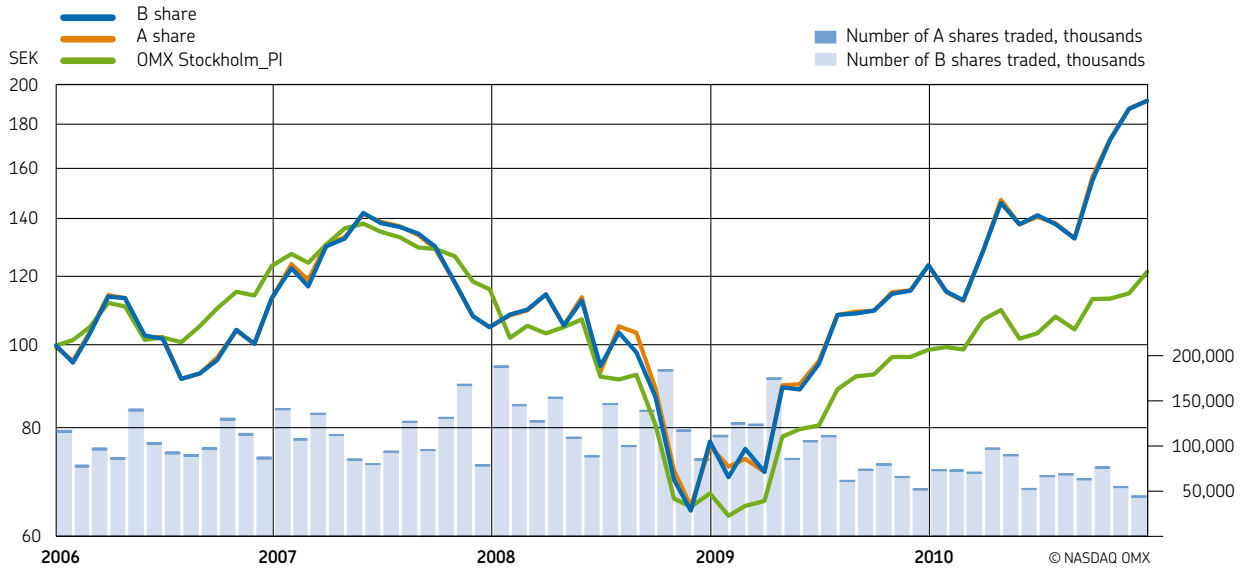
2009



2008

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

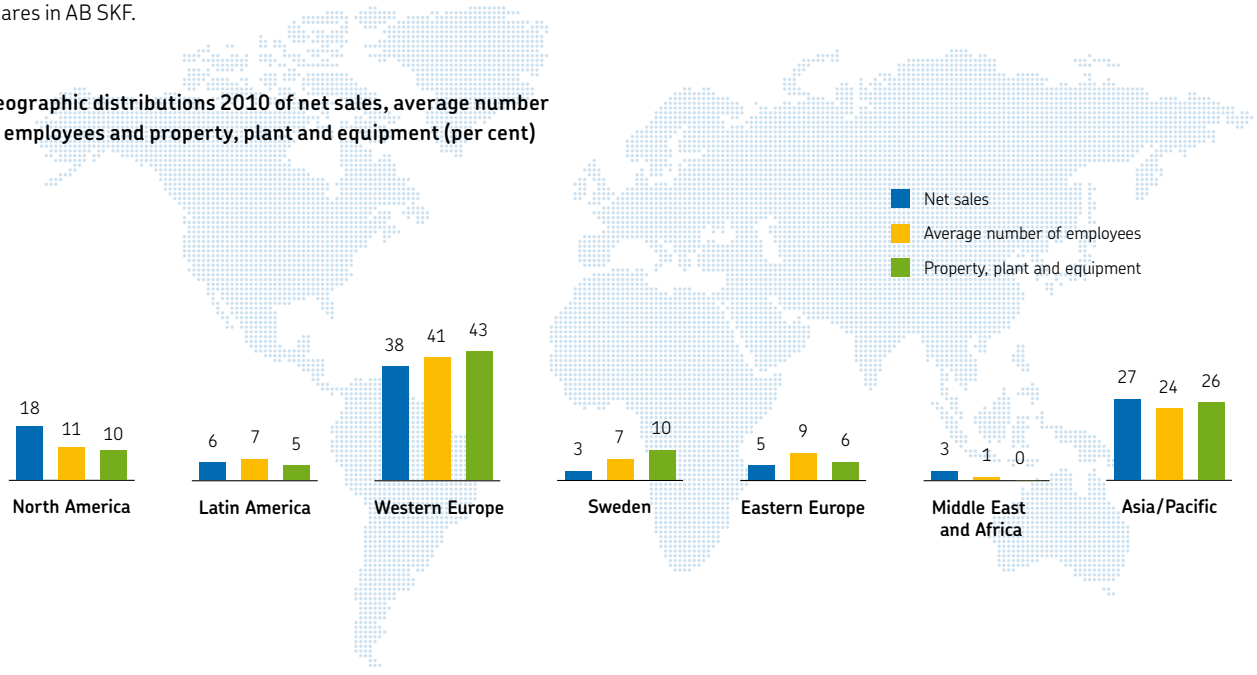
There are no regulations under Swedish law or under the Articles of Association limiting the transferability of SKF shares. Furthermore, to the best of SKF's knowledge, there exist no agreements between shareholders limiting the right to transfer SKF shares (e.g. by pre-emption or first refusal clauses). 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 Board member or employee, which allow them to receive compensation in case of resignation, dismissal without cause, or termination of employment as a consequence of a public takeover bid on the shares in AB SKF.

AB SKF Stock Fund in the USA

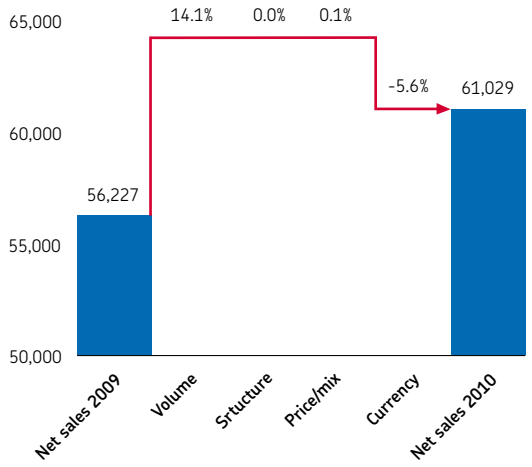
SKF USA Inc. is offering a majority of its employees a possibility to defer pre-tax earnings into a Defined Contribution Pension Plan. The employees can direct the contributions and the matching contributions by the Company to different mutual funds. Through 31 December 2010, deferrals could be invested in an AB SKF Stock Fund. Effective 1 January 2011, deferrals and transfers into this fund are no longer permitted, although employees could maintain balances existing at 1 January 2011. The employees have no direct voting rights based on the shares held in the fund. The fund held 780,748 SKF B shares at the end of 2010.

Geographic distributions 2010 of net sales, average number of employees and property, plant and equipment (per cent)



Report on the business 2010

SKF's net sales rose by 8.6% in 2010, from SEK 56,227 million to SEK 61,029 million. This rise was attributable to volume 14.1%, price/mix 0.1% and currency effects -5.6%.



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

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

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

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

Following the sharp downturn in the business in 2009, the Group's sales improved significantly in 2010 with Asia, Latin America and Central/East Europe as the first regions to show strong growth and with North America and Europe improving as the year progressed. In terms of end markets the improvement in sales in the Automotive Division started in the second half of 2009 and was particularly driven by sales to the car industry, supported on many markets by government incentive schemes. A recovery became apparent in nearly all end markets for the SKF Group in 2010.

Price/mix was relatively unchanged and there were no structural impacts on the Group's sales in 2010. SKF completed a major acquisition at the year-end, which will have a structural impact in 2011.

The stronger Swedish krona had a negative effect on net sales of around SEK 3,100 million.

The operating profit was SEK 8,452 million (3,203), profit before taxes SEK 7,549 million (2,297) and earnings per share SEK 11.28 (3.61). The figures include expenses for restructuring activities of around SEK 90 million and around SEK 100 million due to the acquisition of Lincoln Industrial.

Net financial items were SEK -903 million (-906), including a negative effect of SEK 225 million relating to a loss on the Ovako vendor note. Interest-bearing loans totalled SEK 11,796 million at year-end. Provisions for post-employment benefits, net, amounted to SEK 7,047 million.

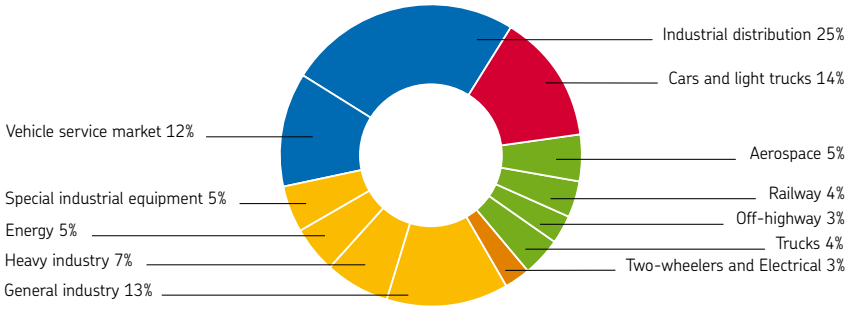
The cash flow after investments before financing was SEK -2,838 million (5,752) and included SEK 6,799 million (241) for acquisitions.

Return on capital employed for the 12-month period ending 31 December was 24.0% (9.1).

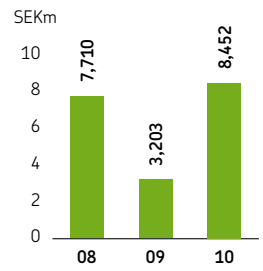
Capital expenditure on property, plant and equipment amounted to SEK 1,651 million (1,975).

Depreciation was SEK 1,644 million (1,764), amortization was SEK 150 million and impairments of intangible and tangible assets was SEK 198 million.

Net sales by customer segment



Operating profit



Factors influencing the financial results

The Group's major ongoing cost reduction activities, combined with the improving volumes both in sales and manufacturing and the continued implementation of the Group's strategy, had a very positive effect on the Group's results and led to a strong operating profit and operating margin for the Group. However, although the recovery in volumes has been strong, volumes at the end of 2010 were still below the levels seen in 2008 and 2007.

To address this lower demand level and to manage the major downturn in 2009, the Group initiated a number of short- and long-term measures to reduce its cost structure and make the company more robust. In mid-2009, by utilizing both government schemes and bilateral agreements with the workforce, SKF had 18,000 employees on short-time work due to the low demand situation. By the end of 2010 most of these employees were back in full-time work. The flexibility of the workforce clearly contributed to the good results, not least by making it possible to quickly return to a normal manning level when demand recovered. The SKF Group also introduced measures to change its manufacturing footprint which today is contributing positively to the results.

Exchange rates, including the effect of translation and transaction flows, had a negative effect on SKF's operating profit of around SEK 400 million.

As the year progressed, SKF faced increased prices for steel and steel-based components.

The steps taken over the past years have been successful in making the company more robust as can be seen by the resilient performance in 2009, despite the major downturn in the business, and the very positive results in 2010.

Capacity and technology investments

Three new factories were opened during the year, two in India, at Haridwar and Ahmedabad, and one in Russia at Tver. These factories, as with all new SKF facilities, are built to the LEED (Leadership in Energy and Environmental Design) or similar standard. The Tver factory received the LEED Gold Award and SKF's new head office in the US received the Platinum Award.

SKF announced construction of two new factories which will open in late 2011. A new seals factory is under construction in Mysore, India and a second factory is being established in Dalian, China to produce medium-sized bearings for the industrial market.

SKF continued to open new SKF Solution Factories with nine being opened during the year bringing the total at the end of 2010 to 17. These SKF Solution Factories gather SKF's expertise under one roof and are already proving beneficial for customers and distributors by making SKF's knowledge more readily accessible to them.

SKF opened a new Global Technical Centre in Shanghai, China to complement the centre opened in India in 2009. These new Global Technical Centres will be an integral part of the SKF Group's global technology network and will bring new product development closer to SKF's customers in these rapidly developing areas. Both of these Global Technical Centres will be expanded in the coming years and will each have around 400 employees.

Acquisitions

At the end of 2010, SKF completed the acquisition of the US-based lubrication systems company Lincoln Holdings Enterprises Inc., which includes all Lincoln, Alemite and Reelcraft entities and brands and is known collectively as Lincoln Industrial.

SKF paid SEK 6,764 million on a cash and debt free basis. Lincoln Industrial's result will be included in the Group from the first-quarter results of 2011, as part of a newly created business unit for lubrication systems within SKF Industrial Division.

Lincoln Industrial is a leading supplier of lubrication systems, tools and equipment, with a consistently strong financial performance. It is headquartered in St. Louis, Missouri, USA, has around 2,000 employees and generated sales of around USD 400 million in 2010.

Lincoln Industrial is highly complementary to SKF's existing lubrication systems business with limited overlap regarding geographical sales coverage, technology and manufacturing footprint. In addition, Lincoln Industrial provides SKF with better access to the lubrication tools and equipment aftermarket in North America. SKF expects to achieve significant synergies from the combination through improved sales opportunities and greater efficiencies.

The acquisition of Lincoln Industrial is in line with SKF's strategy and builds on a series of acquisitions made in the lubrication systems sector over the past six years.

Sourcing and demand chain

In 2010, SKF purchased goods and services worth SEK 28 billion from its global supplier base, of which around 50% related to raw materials and components.

Installation of a Lincoln automatic lubrication system for a wind turbine.

"Lubrication systems is a very important business for SKF and also one of our technology platforms. Combined with our other platforms, it enables us to help our customers reduce friction and energy consumption. The acquisition of Lincoln Industrial, coupled with our existing business, will significantly improve our ability to further support our customers with even better solutions and improve our geographical coverage. We have been following Lincoln Industrial's development for a number of years and I am very pleased that the Lincoln team are now part of the SKF Group."

Tom Johnstone
SKF President and CEO

For some suppliers it was a challenge to handle the rapid rise in demand for SKF products and solutions during 2010 and capacity was constrained in some areas and some regions. By working closely with strategic suppliers, SKF was able to minimize the impact of supply shortages.

2010 also saw increasing commodity prices worldwide, with a high degree of price volatility. Steel raw materials like scrap increased in price as well as base metals like copper, nickel and aluminium. SKF ran continuous improvement projects over the year with its suppliers to reduce total costs, using tools like Lean and Six Sigma.

SKF strengthened its purchasing organization during 2010 both centrally and in its local and regional presence to support and develop its suppliers more effectively. In addition to the local activities, SKF now has purchasing offices in Shanghai, Mumbai, Chicago and Gothenburg. There was a strong focus in 2010 on developing suppliers in Asia, (mainly China and India) due to the increasing manufacturing presence in the region.

SKF runs a specific programme for rationalizing the supplier base and developing long-term strategic suppliers, who can be closely linked to the company's growth plans and targets. SKF works closely with these key strategic suppliers and continues to involve them early in the development and decision-making process, to benefit from their expertise and knowledge and to increase supply flexibility.

SKF continued to further develop its programme for responsible sourcing with the SKF Care and SKF Code of Conduct as the basis. In 2010, SKF was once again top ranked in the "Standard for Suppliers" segment in the Dow Jones Sustainability Index.

To improve the demand chain's operational efficiency, SKF is implementing its collaborative "Sales & Operations Planning" business process, which will successively improve the demand chain's operational efficiency, reduce capital tied up in the chain and improve responsiveness to changes in demand. This implementation will continue for a couple of years. The new process will ensure regular exchanges of demand and capacity data between sales, manufacturing and suppliers. SKF is implementing this process on a global scale involving all parts of the supply chain.

Logistics Services

SKF Logistics Services includes all parts of the physical logistics needs in the supply chain. It 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 combined with the factories' material handling solutions providing 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 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.

Experiences gained over the past few years with the significant fluctuations in demand led to a number of important improvements in the logistics infrastructure in 2010. For example, the development of a new, more flexible way of integrating the SKF Group's different warehouse locations in Europe has enabled a reduction in the amount of transportation through the distribution of goods to customers independent of warehouse locations. In the rapidly developing regions of Latin America and North East Asia, the logistics infrastructure is being developed by establishing two new distribution centres, in China and Uruguay, which will improve the service level to customers in these regions. SKF also started to implement a recently developed transport management system, which will further increase traceability and control over all transport flows.

In all the work carried out by SKF Logistic Services, consideration about the environmental impact has been a major factor. For example, all SKF transport providers must now comply with demanding specifications regarding environmental requirements. Another example is the switch from pure road transport to intermodal solutions combining rail and road. This new way of transporting goods between Sweden and Belgium reduces CO_2 emissions by 50%.

As SKF has the critical mass to distribute goods worldwide it also helps other companies optimize their integrated logistics solutions, giving them a competitive edge in terms of costs, services and flexibility. SKF is able to offer air, sea and road transportation around the world, international distribution centres and local warehouses, plus picking, packing, packaging and inventory management. SKF started offering third party logistics services ten years ago and a majority of customers who started using this service have remained with SKF. In 2010, third party logistics grew even further, not only with the existing customer base that asks for extensions, but also with new customers. SKF signed a five-year contract with Metso Lindemann in 2010, to run their global spare parts warehousing and distribution. Customers will be supplied daily on a worldwide basis from SKF's central distribution centre in Tongeren, Belgium. SKF Logistic Services had already been supplying Metso Mining & Construction Technology with similar integrated logistics solutions since 2008.

Lincoln sales representative explains details about the Lincoln Quicklub lubrication system on a concrete mixer truck.

SKF's business

SKF has been investing in its business in recent years and will step this up in 2011, which is expected to be a year of positive performance, financially and in the market place. There will be some impediments from currencies and higher raw material costs.

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

Together the divisions launched over 20 new products and solutions to the automotive and industrial markets during the year. Many of

these help SKF's customers reduce their energy usage, see pages 29-31. Outside of the divisions SKF has two other business areas, SKF Logistics Services and PEER.

The **Industrial Division** serves industrial OEM customers in around 30 global industry customer segments with a wide range of offerings increasingly with focus on energy efficiency. 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, super-precision bearings and magnetic bearings – as well as lubrication systems, linear motion products, by-wire systems and couplings.

Highlights of 2010:

- Opened new factories in India and Russia
- Started constructing a new factory for medium size bearings in China
- Acquired the US lubrication systems company Lincoln Holdings Enterprises, Inc.
- Entered into several strategic partnerships
- Continued implementing Manufacturing Excellence

Important orders from customers:

- SKF renewed its contract with Chinese locomotive manufacturer CSR Zhuzhou Electric Locomotive Co., Ltd (ZELC) for all axlebox and drive system bearings for 2010.
- SKF signed a four-year contract with WinWinD, a Finnish manufacturer of wind turbines. SKF Nautilus bearing will be the main bearing supplied to WinWinD's 3 MW wind turbines. The new contract also gives SKF the role of developing partner for lubrication, sealing and condition monitoring.
- Sinovel chose the SKF Nautilus bearing for its new generation of wind turbine, the 3 MW.
- SKF supplied prototype gearbox bearings for use in the building and assembly of Hansen gearboxes for the wind industry market in China.
- SKF received an important lubrication order from China's Voith Paper to supply an oil circulation lubrication system, engineering and service. The customer wanted a system with high local content and chose SKF as several components and service are from China and local sub-suppliers.
- Goldwind selected SKF Nautilus bearing for their new 2.5 MW direct drive turbine. The contract is worth around SEK 500 million and is one of the biggest orders ever for SKF in the wind energy industry.

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

Highlights of 2010:

- Opened 9 SKF Solution Factories, now 17 globally.
- Opened new SKF Industry Service Centres: For the wind industry in Shanghai and Houston, the oil and gas industry in Aberdeen and Stavanger and for the marine industry in Rotterdam.
- Added new specialized channels to the distribution network to be closer to customers.
- Developed new products and services helping customers with their environmental challenges.
- Documented customer savings (by using SKF's products and solutions) of over SEK 2.7 billion in 2010, reaching over SEK 14.5 billion over the last ten years.
- Made customers more aware of the existence of non-genuine products (counterfeit), and fought the trade of these.

Important orders from customers:

- SKF assisted S-OIL, a large South Korean oil refinery, increase productivity and reduce production downtime. The SKF solution included the development of asset strategy, defect eliminations and operator driven reliability.
- SKF was awarded a contract with Guohua Energy Investment to supply 180 SKF WindCon systems for monitoring wind turbines and improve reliability maintenance for existing turbines.
- A three-year contract covering a Predictive Maintenance (PdM) solution providing early warnings of machinery and plant deterioration will be delivered to optimize plant reliability to the copper mine company, Konkola Copper Mines Plc (KCM) in Zambia.
- An extended agreement with Brazilian mining company Vale resulted in a contract covering a wide range of products and services, such as SKF data collectors, online systems, SKF Condition Monitoring software and bearings.

The factory for large-sized bearings in Ahmedabad, India.

SKF Solution Factory in Shanghai, China.

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

Highlights of 2010:

- Significantly increased manufacturing footprint and capacity in Asia with a new factory for deep groove ball bearings in Haridwar and start of construction of a new seals factory in Mysore.
- Offered new products to help SKF's customers develop energy-efficient vehicles, example: low friction SKF X-Tracker wheel hub bearing unit.
- Offered new products to meet regional demand from rapidly expanding markets, example: a value-optimized wheel hub bearing unit for small car performance requirements.
- Strengthened vehicle service distributor network in both China and India to keep up with the rapid growth there.
- Launched new kits and products on the vehicle service market, including freewheel alternator pulleys.

Important orders from customers:

- The relationship with Guangdong Fuwa Engineering Manufacturing Co. Ltd., the largest trailer axle manufacturer in the world, was further strengthened by additional deliveries of tapered roller bearings for its trailer axles. SKF also started supplying seals to Fuwa for its new European trailer axle during the year.
- New contracts were signed with PSA in 2010 for both shaft seals and valve stem seals for its new 3 cylinder engine, as well as bearings for the belt driven starter-generator in the new PSA diesel hybrid platform.
- SKF continued launching new solutions for stop/start applications throughout the year. These included the SKF Commutation Sensor-Bearing Unit, which is used for the next generation stop/start systems. Valeo's i-StARS is one example, where SKF received additional orders for the SKF Rotor Positioning Bearing.
- SKF developed the SKF Gear Bearing Unit with Daimler AG in Germany, for its heavy duty engine platform. This is a customized tapered gear bearing unit designed to accommodate heavy loads.

For more information about the SKF Divisions, see page 108.

Kits for the vehicle service market, SKF Vehicle Parts in Gothenburg, Sweden.

PEER

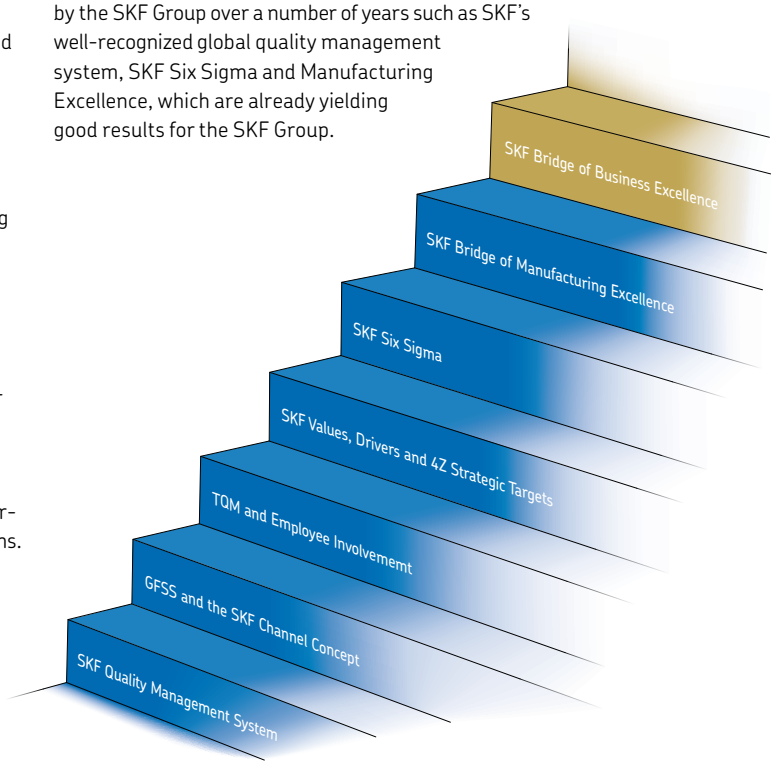
Sales for the PEER operations rose by more than 25%, in local currencies, in 2010 compared with 2009. Its customers are mostly in North America. Sales in Asia and Europe are relatively small, however, this figure nearly doubled over the year. The company mainly manufactures deep groove ball bearings, agricultural bearings, mounted units and tapered roller bearings at its two factories in Xinchang and Changshan, China.

PEER helps the SKF Group strengthen its presence in certain segments, such as agriculture, heating, ventilation, and air conditioning and mechanical power transmission. The company operates as a stand-alone business, acting independently on the market under its brand name PEER, and provides solutions aligned to customer requirements for normal performance applications. Sales under the PEER brand accounts for just under 1.5% of the SKF Group's net sales.

Business Excellence

During 2010, SKF launched an initivative called Business Excellence. It is about delivering value to customers in the most effective and efficient way possible, through fully utilizing the knowledge of employees, partners and the company's technology.

Business Excellence builds on many of the initiatives started by the SKF Group over a number of years such as SKF's well-recognized global quality management system, SKF Six Sigma and Manufacturing Excellence, which are already yielding good results for the SKF Group.



SKF's Six Sigma activities and projects continued to mainly focus on reducing inventories and costs in 2010. As sales volumes rose over the year, an increasing number of projects were also geared towards expanding production capacity and improving availability of products. The combination of SKF Six Sigma and Manufacturing Excellence has led to a successful concept of escalating cases of failures or complex problems discovered in the workplace, as a daily part of the Manufacturing Excellence program, to be tackled by Six Sigma project teams. This leads to permanently eliminating discovered deviations.

Over 40% of all SKF Six Sigma improvement projects in the Group are in non-manufacturing processes. A combination of Lean and Six Sigma methodologies and tools, as part of SKF Six Sigma, has proved

to be a powerful concept for dealing with improvement activities in transactional processes. This will now be further strengthened with the introduction of Business Excellence. Important projects have been carried out, in many cases involving customers or suppliers, in the demand chain and customer management processes to increase availability, reduce costs and lead times and eliminate sales and distribution errors.

The deployment of Design for Six Sigma (DfSS) has been further extended into many functions, not only within the product development organization. For example, customized training programs for SKF key account managers and application engineers have been designed combining parts of DfSS methodology and tools, especially related to the voice of the customer, with some of the traditional Six Sigma DMAIC tools. This improves the ability to better understand and transfer customer requirements to the relevant parties within SKF.

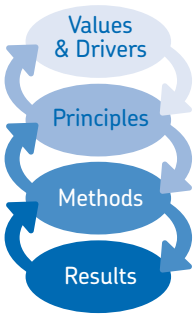
By the end of 2010, SKF had 463 Six Sigma Black Belts and 2,059 Green Belts. In total, 1,155 Six Sigma projects were completed in 2010, which will give SEK 468 million in confirmed annual savings.

Training in Manufacturing Excellence has been carried out at 120 factories, business units and by the end of 2010, SKF's employees worldwide had received more than 77,000 hours of Manufacturing Excellence training. All factories have started their training, although some are at a more advanced stage than others. Measurable benefits included an impact on waste reduction, delivery time and costs. However, the biggest catalyst for achievement, less measurable but very important, was the strong commitment and involvement shown by SKF's employees in the continuous improvement initiatives.

Manufacturing Excellence and SKF Six Sigma are closely linked by the way that Six Sigma methodology offered a systematic way of dealing with problems that arise. An example of how this is being applied is at SKF's factory in Cajamar, Brazil, where they have already achieved substantial efficiency improvements and waste reduction in production channels. A systematic way of working with Manufacturing Excellence has been established, using it as a base complemented with different levels of SKF Six Sigma methodology that can be used whenever a problem, or opportunity for improvement, arises.

SKF is now expanding the experience from the manufacturing area into other processes and operations within the SKF Group starting with customer management, innovation, demand chain, finance and people.

SKF Business Excellence is more than just about results – it actively challenges the organization to consider whether it is achieving the right results in the best way possible. The Business Excellence model adopted by SKF provides a structured approach to this.



Our way of thinking

Developing our way of doing things

Continuously improved when we work correctly

The model starts with the SKF Values and Drivers, which shape the organization's thinking and principles, and which in turn influence the ways of doing things (methods) and outcomes (results). In doing so, the Business Excellence model provides a framework for making the right decisions, continuously and dynamically linking SKF's Values and Drivers to its Results.

The Business Excellence journey is already underway in Product Development as part of the innovation process. Using the Business Excellence principles and philosophies, including extensive use of Design for Six Sigma and having frequent short improvement meetings to identify and fix deviations in real time, a number of product development centres have seen dramatic improvements in project lead times, project delivery precision and the quality of project outputs. Design for Six Sigma (DfSS) is an approach using specific tools for translating customer requirements into engineering specifications giving the product a robust design and allowing an optimal way of manufacturing.

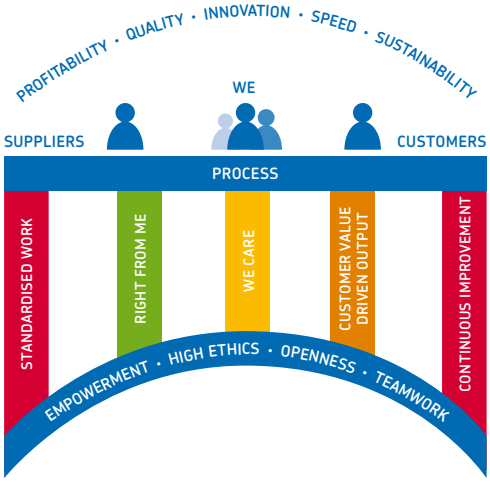
The Bridge of Business Excellence

The SKF Bridge of Business Excellence represents the role of SKF and its customers and suppliers in the process value stream, and the principles and values that support it.

The five Business Excellence principles support the bridge that represents the SKF business processes. These principles are shaped by the SKF values and supported by the methods that in turn lead to SKF's results.

The principles are;

- Standardised Work (safeguarding we fulfil our customers needs effectively and efficiently),
- Right from Me (ensuring our results meet the customers requirement),
- We Care (respect for each other and the external as well as internal environment),
- Customer Value Driven Output (the starting point, ensuring we bring value to our customer in everything we do),
- Continuous Improvement (always challenging and improving our normal working situation, eliminating waste for improved customer satisfaction and competiveness).



Employees

In 2010, as demand successively returned to most market segments, most employees who had been put on part-time were once again back at work full-time. Due to the growth in demand in Asia and the opening of new factories, around one thousand new employees joined the SKF Group in Asia during the year.

The intensive training in Manufacturing Excellence, which continued during the downturn in demand in 2009, played a key role in enabling SKF to rapidly respond to the increasing demand from its customers in 2010. SKF also had sound help from courses tailored for each situation by its own college, with the aim of making SKF responsive to changes and quick to react to them. SKF's college has five campuses located in China, India, the USA, Sweden and Argentina. One important new course that started in 2010 is to train global account managers how to drive change and coordinate resources in a matrix organization.

The results of the 2010 working climate analysis reveal slight improvements, showing that SKF managed the major changes carried out in 2009, with continuing high level of motivation among its employees. The response rate of the working climate analysis was 85.5%, with an overall score for all statements of 5.24 on a 1-7 scale. Some important areas have been identified that require improvement, such as sharing and re-using knowledge.

Human Resource Transformation was started to give SKF more support in satisfying the greater demand for knowledge throughout its global workplace.

"We have and are dependent on highly knowledgeable and skilled people at SKF."

Eva Hansdotter

Interview with Eva Hansdotter, Senior vice president, Group Human Resources and Sustainability *(as of 1 January 2011 – Senior Vice President, Group People and Business Excellence)*

Why is HR Transformation critical for SKF?

We have, and are dependent on, highly knowledgeable and skilled people at SKF. To make our customers and our business benefit from the full value of our people's knowledge and by developing or combining knowledge from different areas to find new solutions, we need to be better at identifying where knowledge lies at SKF. Then we must connect it to where it is needed.

What will the main difference for employees be?

It will become clearer to our employees what knowledge or expertise is critical for SKF and how they can develop this on an individual level. It will be easier for employees to manage their own careers at SKF by having an overview of what development opportunities there are to help them improve their own skills and knowledge.

What's been achieved so far?

New global processes have been developed for recruitment, employee performances and their overall skills. Some of these processes are ready to be introduced while others are still being rounded off. Having an overall IT system in place will make it easier to see what sort of expertise exists throughout the company. This will enable us to create areas of expertise, sharing best practice and taking advantage of the knowledge we have in our global company.

What is the main benefit of HR Transformation?

It will enable us to further develop the skills we have at SKF to even higher levels. We will also fully benefit from the value of our people's knowledge by creating global transparency in where the knowledge resides in the organization. This will enable the development and transfer of this knowledge to reflect the businesses' needs today and tomorrow.

Details of salaries, wages and other remuneration are given in the Consolidated Financial Statements, Note 27.

SKF takes a zero-tolerance approach to counterfeits and in 2010 continued to work hard to make users aware that counterfeit industrial products exist.

Interview with Tina Åström, Director, Group Brand Protection

Why is SKF acting against the counterfeit trade?
Counterfeiting is an illegal activity. Customers who buy these products thinking they are getting genuine products are being cheated. There can also be a threat to public safety since bearings are often part of safety-critical applications. It also has a negative effect on our customers' business and on the SKF brand, which we need to act against.

Customers are being cheated, explain why.
Counterfeit bearings are usually low-cost, no name products, illegally marked with another company's brand and placed in packaging that appears identical to the genuine article. These bearings are usually sold to unsuspecting customers at around the same price as genuine products. Since these products are illegally marketed as SKF's products, the customers expect the same performance as with genuine SKF products - when they don't get it they are cheated.

What can customers do to avoid getting counterfeit products?
The best way for a customer to safeguard authenticity is to source products from authorized distributors or directly from the manufacturer.

Is this an issue for all branded bearing manufacturers?
Yes, definitely. Counterfeit products are a dilemma for all of us. It's also important to know that counterfeit bearings exist on all geographical markets, in all industrial segments and for all types and sizes of bearings, and that seals and grease products are affected as well.

Creating awareness is part of SKF's strategy in fighting counterfeiting, please explain.
Continuous communication activities towards customers and distributors are important to spread the knowledge about the counterfeit trade to help users avoid being cheated. We also work with other branded bearing manufacturers, through the World Bearing Association, by investing in an awareness campaign (www.stopfakebearings.com).

SKF also assist local law enforcement authorities to stop this illegal activity. Is that right?
Yes, let me give you an example. In the spring of 2010 the Spanish police carried out seven raids based on a product complaint from a customer. SKF had investigated the bearing and found it to be counterfeit. One raid led to another and the police ended up seizing 16 tonnes of fake bearings.

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

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

Financial targets

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

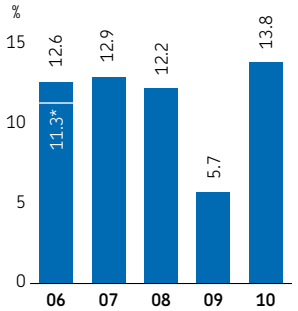
- an operating margin level of 15%
- annual sales growth in local currencies of 8%
- a return on capital employed of 27%

Strategy

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

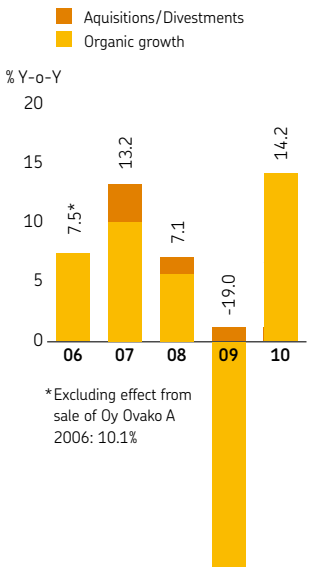
- keeping a clear and dedicated customer focus
- developing new products, solutions and services
- creating and capturing more value by applying the SKF platform and segment approach
- strengthening the product portfolio through greater investment in R&D and through acquisitions
- focusing on rapidly expanding segments and regions
- reducing capital employed and fixed costs
- attracting, retaining and developing the right people.

Operating margin



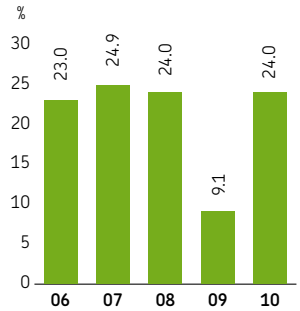
* Excluding income from the previously jointly controlled company Oy Ovako Ab.

Changes in sales in local currency



* Excluding effect from sale of Oy Ovako A 2006: 10.1%

Return on capital employed



SKF Treasury Centre handles the lending and borrowing between the Group's subsidiaries, currency and interest rate risk management, cash management and the Group's netting system. The photos are from the Treasury Centre in Gothenburg, Sweden.

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 2010, the gearing was 48.6% (49.3), the equity/assets ratio 36.0% (35.8) and the net debt/equity ratio 80.5% (68.9).

Gearing: Loans plus net provisions for post-employment benefits, as a percentage of the sum of loans, net provisions for post-employment benefits and equity, all at year end.
Equity/assets ratio: Equity as a percentage of total assets at year end.
Net debt/equity: Total short-term financial assets excluding derivatives minus loans and provisions for post-employment benefits, as a percentage of equity, all at year end.

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

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

Dividend

Due to the strong performance, cash generation capacity and outlook, the Board has decided to propose to the Annual General Meeting an increase in the dividend of 43%, giving a dividend of SEK 5.00 (3.50) per share. This proposal is subject to a resolution by the Annual General Meeting in April 2011.

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 2011.

The Annual General Meeting in April 2010 resolved to authorize the Board, until the next Annual General Meeting, to decide on the repurchase of the company's own shares. In 2010, no repurchases were made and the company owns no SKF shares.

Credit rating

On 31 December 2010, the Group had an A minus (A-) rating with stable outlook for long-term credit from Standard and Poor's and an A3 rating with stable outlook from Moody's Investors Service. SKF intends to keep a strong credit rating, which is reflected in its capital structure targets.

Financing
SKF's policy is to have long-term financing of its operations. As of 31 December 2010, the average maturity of SKF's loans was 3.4 years. SKF has issued one note on the European bond market, with an outstanding amount of EUR 396 million and due date of 2013. Furthermore, SKF has issued two notes on the Swedish bond market, one with an outstanding amount of SEK 556 million and due date of 2011 and one with an outstanding amount of EUR 100 million and due date of 2015. According to the conditions of the notes, the notes' interest rate may increase by 5% in case of a change of control of the company (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 three loans, one amounting to EUR 30 million and one amounting to EUR 100 million with a due date of 2014, and to a loan amounting to EUR 100 million with a due date of 2016. In addition, SKF has two term loans, one amounting to EUR 50 million with a due date of 2013 and one amounting to EUR 400 million with a due date of 2014.

Financial risks

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

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

Interest rate risk
Liquidity and borrowing are managed at Group level. By matching the 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 SEK 3,000 million and EUR 500 million at year-end of which EUR 400 million were utilized in connection with the acquisition of Lincoln Industrial.

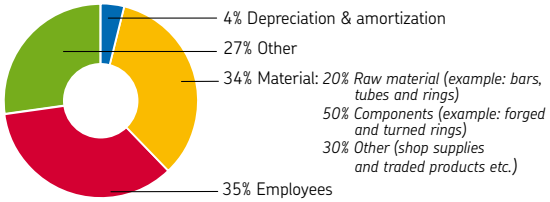
More details about risk management and hedging activities can be found in Consolidated financial statements, Note 28.

Internal control and risk management regarding financial reporting
The Group's systems for internal control and risk management in relation to the preparation of the Consolidated Financial Statement are described in the Corporate Governance Report under the heading "Internal control and risk management regarding financial reporting", page 48.

Sensitivity analysis

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

Cost split 2010, operating expenses SEK 52,438 m

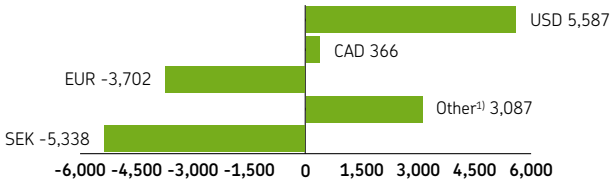


- The annual cost of raw materials and components is around SEK 13.4 billion of which steel-based products account for the majority. An increase/decrease of 1% in the cost of raw materials and components reduces/increases the operating profit by around SEK 130 million. Steel scrap is a major ingredient in making bearing steel. A 10% increase/decrease of market scrap prices affects SKF's operating profit by SEK 110 million, which is already included in the figure for raw materials and components that impacts the operating profit.
- An increase of 1% to wages and salaries (including social security charges) reduces the operating profit by around SEK 163 million.
- A decrease/increase of 1% in interest rates has a positive/negative effect on the profit before tax of around SEK 100 million, based on the current position. The Group had net interest bearing liabilities of SEK 15,435 million on 31 December 2010.

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

Transaction effects: A strengthening/weakening of 5% of the USD versus the SEK has a positive/negative net currency flow effect on the profit before tax of around SEK 250 million, excluding effects from hedging transactions. With regard to commercial flows, the Group is primarily exposed to the USD and US dollar related currencies.

Net currency flows 2010 (SEKm)



[1] *Other is a sum comprising 14 different currencies.*

SKF – the knowledge engineering company

SKF has been a leading technology provider for more than 100 years and is increasing its investment to maintain this leadership. SKF's fundamental strength is its ability to continuously develop 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. It is also built on the foundation of a commitment to develop SKF's employees and its corporate culture. SKF's offer has evolved over many years from primarily being based on different types of bearings to products and services from all five technology platforms including advanced unitized modules, integrating the knowledge and capabilities from the different SKF platforms. A key driver of SKF's technology development today is an increased focus on developing products and services which improve efficiency and reduce energy losses thereby helping to reduce the environmental impact both in its operations and for its customers.

SKF's 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 businesses successfully and profitably. SKF knowledge can be defined as the combination of the following three dimensions:

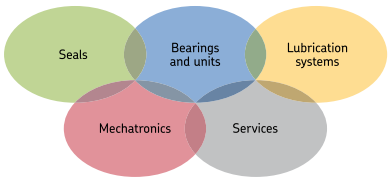
The geographic dimension – global and local presence

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 lots of 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 both develop specific products and services for each industry and also to 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 together with the segments and sales organization to provide advanced integrated solutions for meeting customers' needs to develop new products, improving production efficiency and improving competitiveness and profitability.

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

Customers

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

SKF serves the aerospace industry, including manufacturers of engines, gearboxes and other modules for fixed wing aircraft and helicopters, as well as supplying to maintenance, repair and overhaul suppliers and airlines. SKF also supplies the railway industry, which includes manufacturers of trains, high-speed trains, passenger carriages, freight carriages, railway component and system suppliers and repair workshops.

Together with the largest network of authorized distributors in the bearing industry, SKF provides a unique service organization. With around 7,000 industrial distributors, SKF is close to its customers worldwide. SKF works actively with its distributors to help customers improve the uptime and efficiency of their production processes. One example is 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 OEM's of products made in higher volumes. These customers include manufacturers of cars, trucks, two-wheelers, automotive components, household appliances and small electric motors. Since the lead time for developing a new generation of these products is normally fairly long, SKF is often involved in the development process years before production starts. Many of SKF's products for these segments are specifically designed for each customer and each application.

Goldwind, one of the leading turbine manufacturers in China, selected the SKF Nautilus bearing in 2010 as the main shaft arrangement for its new 2.5 MW direct drive turbine. Goldwind and SKF have been strategic partners since 2006, which has resulted in advanced technology being developed. SKF received Goldwind's award for best overall supplier in 2010.

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. Around 18,000 different kits are currently available and some examples include wheel bearings, timing belts, water pumps and constant velocity joints.

SKF's engineers

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

SKF's engineers are constantly creating new solutions for customer problems. Solutions that improve efficiency, productivity and reduce environmental impact. We'd like to introduce some of our SKF engineers below:

As a Products and Applications Manager I'm in close cooperation with the OEM industry in Europe and Asia. We develop lubrication solutions for valve seats and cylinder liners, which have resulted in several patents and an SKF Excellence Award for sustainability.

Jan Ruiter

My overall task, as a Business Development Analyst, is to keep track of what is happening on the seals market. I identify trends in the market to facilitate that SKF is on the right place at the right time with the right solutions to support our customers.

Lisa Karlsson

I'm an Applications Engineer focused on rotor and gearbox bearings for the wind industry. I work closely with wind turbine manufacturers beginning with their first drive train concept, then pre-selecting bearings type and size, through developing optimal lubrication concept and sealing solutions.

Matthias Hofmann

See SKF's global campaign 2010 on page 156.

The new Global Technical Centre in Shanghai, China will initially focus on testing and providing advanced technical knowledge for design, process and supplier validation. In addition, the centre will conduct bearing analysis for customers and will have a fully equipped laboratory for metallurgy and chemistry.

Technology research and development

SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership. SKF has a strong global network of R&D centres and laboratories, as well as established collaborations with several major universities and research institutes. Important new steps were taken to strengthen this network in 2010 and they will be followed by further steps in the coming years.

R&D expenditure was SEK 1,184 million (1,217), corresponding to 1.9% (2.2) of annual sales, excluding developing IT solutions. In 2010, SEK 30 million were capitalized development expenditure. SKF's R&D spending rose by 5%, in local currency, in 2010 compared with 2009. The Group is increasing its activities in the R&D arena with greater focus on new products and services which have a positive impact on the environment. In addition there has been a greater concentration on strengthening core technologies, launching new products, increasing R&D activities in rapidly developing regions and further strengthening the links with universities and technical colleges. The number of first filings of patent applications was 251 (218).

Global Technical Centres in Asia

In order to further strengthen SKF's global network of R&D centres and laboratories, the SKF Global Technical Centre China was inaugurated in Shanghai in May 2010. The centre will be an integral part of SKF's global network of technical centres. It will play both a global development role for SKF and a regional role more effectively bringing innovation and technical knowledge closer to SKF's customers in Asia. The new centre will significantly reduce the lead times ensuring that SKF continues to develop the right value-added solutions for meeting current and future customer requirements and will enable SKF to develop a significant critical mass in engineering knowledge on the Chinese and North East Asian market. The centre will have global responsibility on specific, continuous, process- and project-based engineering for the SKF Group and will be a showcase of SKF Knowledge and capabilities to customers, distributors and employees in Asia.

The Global Technical Centre China in Shanghai complements the Global Testing Centre in Bengaluru, India, opened in 2009.

Relationships with academic community

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

SKF has selected Tsinghua University in China for long-term cooperation on a polymer material R&D project in China, focusing on researching the mechanisms of material ageing.

University Technology Centres:

Following the SKF University Technology Centre for Steels, which was established in 2009 with the University of Cambridge in the UK, for conducting innovative and long-term research on steels associated with rolling bearing technologies, the SKF University Technology Centre for Tribology was established in 2010 with Imperial College, London. The focus is on research in the area of modelling and simulation of tribological systems with the prime objective of the cooperation to further reduce friction and wear, and therefore extend the associated service life and environmental performance of SKF's 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 are part of the SKF Excellence Awards and play an important role in stimulating the pace of innovation at SKF.

One of the SKF Excellence Awards 2009, given in 2010, was for creating a new, innovative high speed motor and magnetic bearing solution for large tonnage refrigerant compressors, used for industrial air conditioning and refrigeration. This energy-efficient solution is setting a technological standard in this area of application.

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 capability and energy efficiency. Through its unique heat treatment processes SKF controls the microstructure and the residual stresses in steel achieving the right steel properties. The continuous strive for optimizing the interaction between material and heat treatment is now focused on making heat treatment equipment smaller and more energy efficient, while still attaining the material properties required for different applications. New computer-based techniques are used to understand deformation behaviour and response of hardened steels under extreme load conditions. 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, distortion and residual stress development in different

heat treatment stages. Technology development within non-metallic materials, such as polymers, ceramics and coatings, is also important and is increasingly being used in new products in specific applications. SKF focuses strongly on their friction and weight reduction properties, enabling them to support market trends and maintain the sustainable strengths of SKF's products.

Seals

SKF is focused on developing new elastomeric materials and optimized seal-lip tribology to enhance sealing functions, using advanced modelling of the seals. The new generation of materials uses new types of fillers to provide low friction. Magnetic encoders within the seals, combined with sensors, enable the transmission of information to the controlling systems. New knowledge in rubber ageing, rubber friction and wear have been obtained, combining novel experimental methods with advanced simulations. Solid progress has been made within modelling and prediction of the performance of rotating and hydraulic seals. Responding to the continuing demand for speeding up product and prototype development, SKF developed SKF Seal Designer, a simulation tool for the analysis of seal design characteristics. SKF Seal Designer is a global common tool, enabling SKF engineers to design and analyse products in the same way in all design locations worldwide; it shows SKF's commitment to be at the forefront of research and technology on the development of industrial and automotive sealing products.

Mechatronics

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

Responding to the customer's need for reducing installation cost and time and to increase the life of components, SKF developed products that more efficiently makes use of wireless technologies. Combined with a novel, low power radio system, a battery life is significantly extended, whilst meeting condition-monitoring requirements for maintenance of plant equipment.

Modelling and simulation

Modelling and simulation of rolling bearing products requires detailed, accurate information on the role of different materials and associated physical properties, and how contacting surfaces react during rolling contact conditions. The development of such models has focused on different size regimes typically from the sub-micron level up to full scale components. In 2010 a new high performance computer capable of carrying out "virtual experiments" and revealing how molecules and atoms interact in materials, contacting surfaces and lubricant films, was installed at the Engineering Research Centre.

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 formulae 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. For dynamic calculations, SKF has programs to study and optimize the complex behaviour of noise and vibration-critical bearing applications (e.g. electric motors, gearboxes), providing an in-depth understanding of, and advice on, the dynamic behaviour of an application. For the most precise simulations of the detailed dynamics inside the bearing, SKF software can be seen as a virtual test rig, performing detailed studies of forces, moments etc. under virtually any load condition.

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

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

Tribology and lubrication

The interaction between lubricants and bearing steel is an essential factor and is critical when bearings operate with marginal lubrication. The chemical composition and mechanical properties of the reaction layer formed by the interaction between the lubricant and the bearing steel strongly influences the performance of bearings. Therefore, understanding the composition and mechanics of reaction layers is very important for SKF. Understanding, predicting and controlling the working conditions help reduce bearing friction and wear, and prolong service life.

Professor Stathis Ioannides, a world acknowledged expert in tribology who worked for SKF for nearly 30 years, was presented with the Leonardo da Vinci Award in May 2010, for his synergistic combination of the tribology theory with the technical and practical aspects of the mechanical industry, in his contribution to the design of new rolling bearings.

Manufacturing

SKF is constantly developing its manufacturing processes to optimize investments in equipment and working capital per unit produced and to reduce energy consumption resulting in enhanced quality and improved customer service and reduced CO_2 emissions. The use of Six Sigma methodology plays an important role in strengthening manufacturing efficiency. All initiatives for continuously improving manufacturing are brought together by the SKF Bridge of Manufacturing Excellence, which ensures consistent implementation throughout the Group.

Manufacturing Research and Development

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

- Improved product performance of steel and heat treatment. Over the last years considerable investments and implementations have been made in heat treatment equipment in many of the SKF factories.
- Improved material utilization in all manufacturing process steps resulting in reduced waste, manufacturing variations and allowances.
- Intelligent machining and integrating sensors and measuring equipment into machines for more consistent and reliable manufacturing processes.
- Advanced intelligent technologies for vision systems and measuring enabling a tighter control of manufacturing processes.
- New processes for improved sustainability through reducing energy and water consumption and by reducing waste and other process media.
- New methods for manufacturing excellence, resulting in improved equipment utilization and a stronger culture of active involvement of employees.

Life cycle management research

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

To support this positive development and foster technologies with better environmental performance, SKF is conducting research in the area of life cycle management. The intention is to continuously build knowledge about the environmental performance of SKF's products and manufacturing processes, and to put that knowledge into practice by adapting day-to-day business methods and tools.

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

Intelligent inspection technologies

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

Near Net Shape forming

Near Net Shape forming (NNS) is a cluster of technologies from forging, pressing to rolling of rings and rolling elements that aim at forming a component to almost the final shape. This process enables SKF to reduce allowances in all operations, which gives increased performance in manufacturing and also have a significant impact on the environment by reducing the manufacturing cycle time.

Technology in motor racing

SKF's involvement in motor racing includes a technical partnership in Formula 1 with Scuderia Ferrari. This partnership, which has been in place since 1947, gives SKF the opportunity to develop products for the most demanding automotive applications. SKF also works with other Formula 1 teams to develop and provide components for demanding engineering applications primarily in wheel, clutch and gearbox applications.

In 2010, an even more extensive Formula 1 involvement allowed SKF to develop and test materials, such as powder metal components, to achieve higher hardness and toughness.

SKF also provides knowledge and technical services in the Kinetic Energy Recovery System (KERS) development for Formula 1 applications, which will be used in the 2011 Formula 1 championship, and other motorsport competitions. The mechanical KERS - through a flywheel motor/generator which stores the energy - developed by Williams Hybrid Power, has been equipped with specially greased and sealed SKF bearings to cope with the demanding working environment. By taking part in the development stages of these challenging high-technology applications, SKF has therefore been able to support the technology development in bearing components for electric power-train applications.

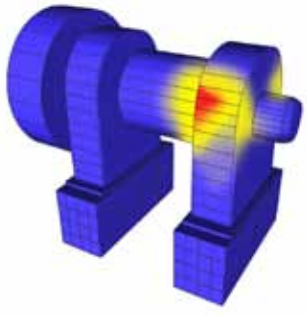
SKF has technically supported the development of new sports car concepts and niche production vehicles, which all aim at reducing energy consumption, while improving performance.

New market offers 2010

SKF Explorer four-row tapered roller bearing was developed from SKF's four-row tapered roller bearing, providing benefits such as higher load-carrying capacity, longer service life, quicker, easier maintenance and better sealing. The bearings are used for rolling mill bearing arrangements, particularly as work roll bearings in hot rolling mills.

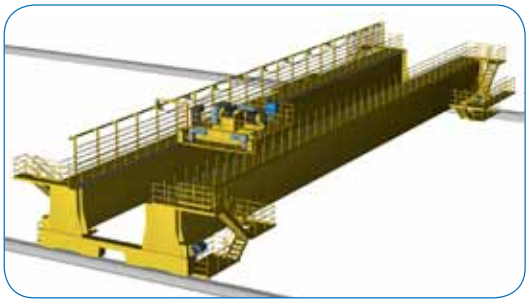
The complete **SKF MetroCon** service for elevators and escalators includes an initial client needs analysis for defining improvements, supplying and installing a condition monitoring system, on-site or remote machine data analysis, plus recommendations for ongoing reliability improvements. Each service package can be tailored to specific customer and operating demands.

SKF Engineering Simulation Services provides accurate, cost-effective diagnosis of structural and machinery problems. SKF's engineers collect real machine data and use it as input for a comprehensive simulation analysis using proprietary SKF software.



SKF solutions for pumps in extreme environment are for deep sub-sea and cryogenic pumps handling liquefied gases, focusing on the oil and gas industry. The solutions feature several advanced bearing materials and designs, which aim to provide the customer with outstanding performance and reliability in extremely demanding, remote environments.

SKF Crane Asset Management applies SKF expertise in crane asset management in heavy industries. The service is a combination of SKF Client Needs Analysis for cranes and criticality assessment. The customer receives a report identifying potential crane maintenance improvements and SKF's recommendations for actions, services and products for achieving them. Target industries are the marine, offshore, steel and port industries.



Using the **SKF Hydraulic Driven Lubricator** equipment like hydraulic hammers and breakers automatically get the right amount of the right lubricant at the right time, and continuously lubricates components while they are in use.

This easy-to-integrate solution has a patented internal pump design that offers higher reliability. Dust and contaminants are minimized to keep machines running longer, without the frequent stops and associated safety risks that manual lubrication involves.

The new generation of **SKF SPEEDI-SLEEVE** wear sleeves offers a quick and simple solution to the problem of worn seal counter faces at shaft ends. The same size seal can be used and the shaft does not need to be dismounted. The surface of the wear sleeve is specially developed for the seal to work under optimal conditions. This results in increased service life and efficiency for the entire system.

Accurately aligning shafts is important for preventing machinery breakdowns, reducing unplanned downtime and helping save energy. Using the **SKF Shaft Alignment Tool TKSA 40,** settings and results can be stored in the internal memory, and downloaded via a USB cable to a PC. Files are easily shared without needing special software. SKF's laser shaft alignment tools facilitate a quicker, easier and more accurate alignment than traditional methods.

SKF Grease Test Kit TKGT 1, a new methodology for quickly and easily assessing grease conditions directly in the field. Users can evaluate the condition of new and used grease. Three different tests are included: consistency, oil bleeding properties and contamination evaluation. This gives a good understanding of the grease's condition, giving the option of making decisions directly in the field.

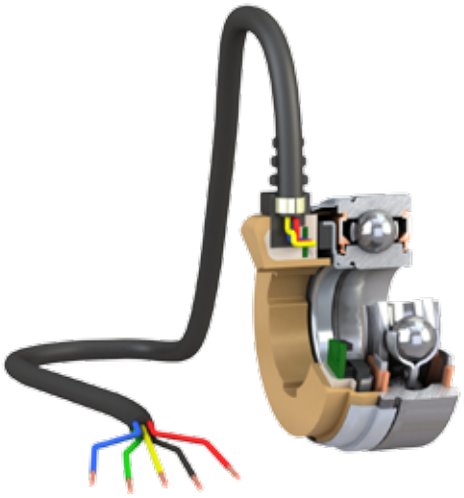
SKF Lubrication Planner software allows you to avoid unplanned machine downtime by establishing a complete mapping of lubrications points and developing and following up your lubrication plan easily and reliably.

It's also possible to create a colour-coded identification system via grease fitting caps and **TLAC 50** tags, which protect the grease fitting from external contamination.

SKF offers an optimized solution for **high sealing performance** in hub bearing units with friction reduction as well as improved reliability and robustness.

SKF offers a new customized product range of **SKF Cam Follower Units,** bearings and seals for petrol and diesel direct injection systems. A cost-effective solution that supports energy and CO_2 reduction. Cam followers are pre-greased ready-to-mount units, suitable for all types of cam drives, tracks and conveyor systems.

SKF's latest generation of wheel hub units, the **low-friction X-Tracker,** provides improved frictional behaviour, obtained through optimized internal geometry, optimized grease quantity and superior raceway finishing/topography, coupled with a low-drag seal. The low friction X-Tracker reduces CO_2 emissions from mid-size cars by up to 1.3 g/km and friction by up to 25%, compared to conventional wheel bearing units. The solution can be customized for any vehicle application.

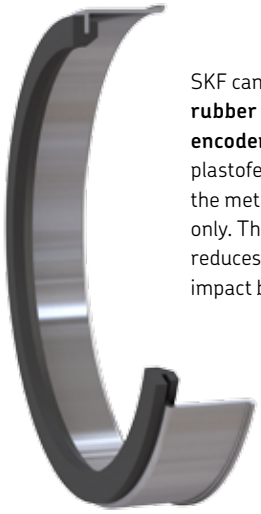


SKF Commutation Sensor-Bearing Unit is designed to support technical approaches to stop/start systems in micro hybrid and mild hybrid applications. This unit has been developed to meet market requirements for accurate, repeatable, permanent magnet, electric motor commutation position measurement. Its particular benefits include ease of integration and tuning to a customer's application, a robust, compact design that can sit close to electric motors without being affected by the surrounding magnetic fields.

SKF can now offer a **pulley unit designed for the alternator** in an engine. This unit has an integrated function with SKF's sprag one-way clutch technology. It reduces the belt load generated by the engine acyclism, prolonging the belt's life.

SKF has extended its car aftermarket range with the **freewheel alternator pulley,** completing the offer for auxiliary drive systems. The offer now includes loose belts, loose pulleys and complete kits like the Multi-V belt kit, including the freewheel alternator pulley.

SKF Drum Support Unit helps reduce costs, energy and water consumption for front loading washing machines. This is a highly integrated, sealed unit that uses a quicker, simpler, moulding process, and includes low friction bearings and seals. It is designed to resist plastic injection temperatures, high rotational speeds and unequal weight distribution.



SKF can now replace the **magnetic rubber with plastoferrite for ABS encoders** in hub bearing units. The plastoferrite is over-moulded with the metallic insert in one operation only. This manufacturing process reduces the negative environmental impact by eliminating glue.

SKF Low Friction Engine Seals reduce CO_2 emissions and improve fuel economy through low friction (up to 55% lower than conventional seals).

SKF One Way Clutch is used in engines with electric cranking for intermittent torque transmission. The unit increases reliability and reduces assembly time. It also integrates many components leading to a weight reduction of 10-20%, compared to conventional designs.

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. The market recovered dramatically in 2010, and SKF estimates that the global rolling bearing market was worth SEK 300-310 billion, up by around 20% from last year.

Demand for rolling bearings used in automotive applications, which began falling back in 2008, started to recover towards the end of 2009, backed up by various government incentives to stimulate demand. The automotive markets, however, flattened out in the second half of 2010. The industrial original equipment and replacement markets continued to be strong until the beginning of 2009, but subsequently weakened throughout the year. They started to recover sharply in the second half of 2010.

The automotive original equipment bearing markets, including two- and three-wheelers, accounted for slightly more than 30% of world demand in 2010. The industrial original equipment bearing markets accounted for almost 40% of world demand and included manufacturers of light and heavy industrial machines and equipment as well as aerospace, off-highway and railway vehicles. Sales through distributors (industrial distribution and the independent vehicle aftermarket) make up around 30% of world bearing demand, of which around 25% is related to the vehicle service market and around 75% to the industrial market.

Asia currently accounts for more than 45% 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 25% of the world total. Japan's share of the world bearing market has been declining, and domestic Japanese bearing demand now accounts for around 15% of the world total. Other Asian markets with sizeable bearing production and showing significant growth in recent years include India, Thailand, Indonesia, Malaysia and the Republic of Korea.

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

Europe accounts for around 30% of the world total, with Germany alone accounting for almost 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.

Wheel hub bearing

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

Cylindrical roller bearing

Angular contact ball bearing

Self-aligning ball bearing

Thrust ball bearing

Needle roller bearing

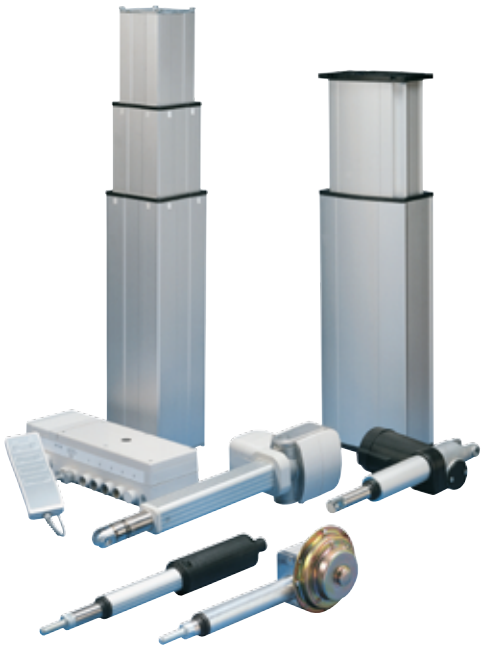
Spherical roller bearing

Tapered roller bearing

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 rebounded in 2010 especially in key segments like semiconductor and machine tools and are estimated to be worth around SEK 65 billion worldwide. Almost half of the market is in Asia, one third in Europe and the remainder in North and Latin America. The market consists of many suppliers with different backgrounds and offers; from producers of basic mechanical compon-ents to specialists in motors, software or controls. Largest competitors are LINAK, Denmark, in the actuator business and THK, Japan, in the linear motion area. There is a clear industrial trend towards a higher use of mechatronic solutions driven by increasingly stringent demands on reliability, flexibility, cost of ownership, energy efficiency and environmental impact.

SKF provides a comprehensive range of mechatronic components, modules and sub-systems for many industrial and consumer appli-cations, 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.



Actuators for linear motion

Lubrication systems market

Automated or centralized lubrication systems provide precise amounts of lubricants – oil or grease – to moving parts, notably bearings, to minimize friction and wear. These systems are increasingly seen as mission-critical products aimed at improving the productivity, reliabil-ity, energy efficiency, environmental compliance and maintenance of vehicles and industrial machinery. Automated lubrication systems include pumps, reservoirs, valves, pipes, metering system connectors and controllers. Design and installation services play a significant role.

The worldwide and regional markets for automated lubrication systems recovered sharply in 2010 from the 35-40% downturn in 2009. Although the world market has not yet reached 2008's demand levels, SKF estimates the global market to be almost SEK 25 billion, up around 25% from 2009. Large industrial processing equipment in the cement, mining and mineral processing, steel and paper industries accounts for almost 50% of global demand, while vehicles – agricultural, mobile mining and construction, trucks and trailers – and industrial machines, such as machine tools and printing machines, each account for around 25% of the market. By region, European markets account for almost 40%, the Americas make up 25%, and Asia and the rest of the world account for 35%.

In 2010, through the acquisition of Lincoln Holdings Enterprises, SKF (already a leading supplier of oil-based lubrication systems) strengthened its position in grease-based lubrication solutions and added a range of lubrication tools and equipment to its portfolio such as hose reels, dispensing systems, meters and gauges.

SKF Centralized Lubrication System

The lubrication systems market is highly fragmented with few truly international suppliers and a large amount of small to mid-sized competitors. SKF's major competitors include Baier & Köppel (BEKA, Germany), Groeneveld Group (Netherlands), Bijur Delimon (USA), Graco Inc (USA), Dropsa (Italy), and Woerner (Germany).

The polymer seals market

SKF is a leading player in the global polymer seals market. During the economic downturn in 2009 the market fell an estimated 20% to between SEK 55-60 billion. The market recovered in 2010 to reach around SEK 70 billion.

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

Asia represents about 40% of the industrial seal market. The remainder is almost equally split between the Americas and Europe. China and India are rapidly expanding regions and are expected to grow faster than Europe and the Americas in years to come. A local presence for supplying the Asian market is critical. Through seals manufacturing facilities in China, India and Republic of Korea, SKF has a good presence in the Asian markets. SKF is continuously investing to further strengthen its Asian footprint.

Industrial seals can be further categorized into power transmission seals, fluid power seals and fluid handling seals.

Coming from the bearing industry, SKF has a strong track record with polymer seals for the power transmission industry and is today a leading player on this market. The majority of power transmission seals are made for rotating applications, with radial and axial shaft seals as well as wear sleeves being the main product groups. Apart from the polymer seal types mentioned, products such as metal face seals and bearing isolators are extensively used in the power transmission market. Today, SKF has a limited presence on this market.

Fluid power seals are used in both mobile and stationary fluid power applications, for example in off-highway, mining, and heavy industry etc. The off-highway applications, where SKF has a strong position, represent the largest part of the market. About 80% of the fluid power seals are made for reciprocating motion, with hydraulic and pneumatic seals as the main product lines.

Asia represents about 50% of the automotive OE seals market, while the rest is split between Europe and the Americas, where Europe has a slightly larger share. Key applications in the automotive seals market that SKF focuses on include engines, chassis, suspension, power steering, transmission, and wheel ends. 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. SKF has a strong presence in all rotating applications, including seals integrated into hub bearing units 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 metallic shims of substrates. This custom designed product has the ability to carry heavy loads while absorbing, dampening and/or controlling large deflections occuring simultaneously in several directions, and is extensively used in helicopters.

The German Freudenberg Group with its Japanese affiliate NOK (Nippon Oil Seal Co) is the largest supplier on the world polymer seals market across all segments. For industrial seals, Trelleborg AB and Parker Hannifin are also important players. For automotive seals, Federal Mogul, Dana, Elring Klinger and Bruss are other important players. For precision elastomeric devices, Lord and Paulstra (belonging to Hutchinson) are the largest suppliers. Overall, SKF is among the top global players with a strong offer in most applications across each segment.

Radial shaft seal with PTFE sealing lip

Metal-cased radial shaft seal

Radial shaft seal with rubber sealing lip

Piston seal

Compact piston seal

Fork seal

SKF ROTOSTAT sealing module with sensor

High pressure valve stem seal

Bonded piston seal

Transmission shaft seal

SKF Microlog
for asset efficiency

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.

Emerging markets continue to outpace and now account for almost 50% of the whole market. Of this Asia contributes almost 30% and Latin America around 20%. North America and Europe together account for almost 50%. In recent years industrial segments such as food and beverage, transportation and pharmaceuticals have increased the use of these technologies joining heavy continuous process industries. The strong demand in emerging markets has also caused a significant increase in power generation and oil and gas business. This is primarily in Asia and the Middle East.

Improving global demand has shifted the focus back to optimizing production. As a result of the drastic restructuring that took place during the recent downturn, customers have greatly reduced in-house capability to achieve asset reliability. In addition, there is a constant emphasis on outsourcing services due to both cost and skilled resource factors on the market. This includes increasing use of hosted services (SaaS, or Software as a Service) and remote diagnostics for customers.

The global manufacturing industry is striving towards integrating more techno-logical 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 for addressing 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 on 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 on the market is the GE Energy unit Bently-Nevada.

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 Institue)

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 1,288 million (1,201).

Dividend income from consolidated subsidiaries amounted to SEK 1,945 million (2,941).

Additions to investments in subsidiaries amounted to SEK 5,089 million (2,625) of which SEK 2 million (5) is related to acquisitions from companies within the SKF Group and SEK 5,087 million (2,620) 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 of remuneration for Group Management is found in the Administration Report for the Group, pages 38-39.

AB SKF's Corporate Governance Report is separated from the annual financial report and is found on pages 40-48.

The Group's systems for internal control and risk management in relation to the preparation of the Consolidated Financial Statement are described in the Corporate Governance Report under the heading "Internal control and risk management regarding financial reporting", page 48.

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 9,434 million. The Board has decided to recommend to the Annual General Meeting a dividend of SEK 5.00 per share for 2010, in accordance with the compilation presented on page 105. This proposal is subject to a resolution by the Annual General Meeting in April 2011.

Sustainability

Reporting

Sustainability is recognized as both a way of working in SKF and a key business driver necessary for achieving 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 whilst upholding business ethics and delivering value to its customers.

SKF expects high levels of integrity and ethical business practices not only from its management and employees but also from its business partners. Specific requirements for business partners are described in the SKF Code of Conduct for Authorised Distributors and the SKF Code of Conduct for Suppliers and Sub-contractors.

SKF's BeyondZero concept, launched in 2005, defines the Group's strategy towards tackling environmental challenges by working simultaneously to reduce the environmental impact of SKF's operations, and provide customers with innovative technologies, products and services which deliver customer value by reducing environmental impact. The former requires SKF to assess and address environmental impacts directly or indirectly resulting from the Group's global manufacturing operations whereas the latter focuses on enhancing environmental performance with SKF's solutions in various customer 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.

Environmental Care

SEK 121 million (44) was spent on internal and external environmental improvements.

- Environmental permits

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

Operations requiring permits exist in all countries where SKF has manufacturing. In Sweden, on 31 December 2010, SKF held permits covering 8.6% of the Group's overall production volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to production of bearings, bearing housings and couplings. SKF received no significant directives from the environmental authorities in 2010. No permits were subject to review or revision in 2010.

The SKF Hope School project started in October 2006 and is one of the means by which SKF supports education in China. Three schools have opened since then: one in Gansu, one in Anhui and another in Yunnan. The picture is from SKF Hope School in Lancang County, Yunnan Province.

• 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 2010, covered 98 sites in 29 countries. Recently acquired companies are part of a plan for certification.

• Environmental targets

The Group has an annual target of a 5% reduction in CO_2 emissions from energy consumption at its factories, irrespective of production volume increases. The emission increase was 9% in 2010 (including the impact of purchased voluntary emissions reductions) compared with a reduction of 18% in 2009.

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 have been identified in extreme water-sensitive areas and SKF has subsequently established water saving targets for 2010 and onwards.

• New facilities

SKF has defined that new facilities constructed for the Group will be built in accordance with the globally recognized LEED standard (Leadership in Energy and Environmental Design – developed by the US Green Building Association) or similar standard. This decision is intended to ensure that all new facilities are designed consistently and constructed to achieve world-class environmental standards in all aspects.

• 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 has been certified according to the health and safety management standard OHSAS 18001. At the end of 2010, the certificate covered 98 sites in 29 countries.

• Towards Zero Accidents

SKF's drive for achieving zero work-related injuries and illnesses is progressing and given top priority. Of 210 units, 105 units reported no accidents for at least one year and the accident rate was 1.18 in 2010, compared with 1.29 in 2009. For more information see page 139.

• Working Climate Analysis

SKF has carried out 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 2010. With a presence in more than 130 countries, SKF units are encouraged to seek active involvement and commitment in local communities, through viable voluntary work, sponsoring sporting activities, education, training, and helping underprivileged local communities. 25 countries submitted Community Care activity reports in 2010, representing a contribution of around SEK 21 million.

Sustainability indexes

SKF was included for the eleventh year in the Dow Jones Sustainability Index and similarly, for the tenth successive year in the FTSE4Good Index Series.

More information on external awards and recognition received by SKF worldwide can be found on page 145. For the complete Sustainability Report 2010, please see page 122.

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

Variable salary

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

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

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

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

Performance Shares

At SKF's Annual General Meetings in 2008, 2009 and 2010, performance share programmes for senior managers and key employees (SKF's Performance Share Programme 2008, 2009 and 2010, respectively) were resolved upon. The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2011. The terms and conditions of the proposed SKF's Performance Share Programme 2011 are in essence the same as the terms and conditions of SKF's Performance Share Programmes 2008, 2009 and 2010, included in the principles of remuneration for Group Management decided at the Annual General Meetings 2008, 2009 and 2010.

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

The number of shares that may be allotted must be related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial year 2011, and the TVA development for the financial year 2013 compared to the financial year 2011. Under the programme, no more than 1,000,000 B shares may be allotted.

Based on the TVA for the financial year 2011, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

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

Following the expiry of the financial year 2013 a comparison is made between TVA for the financial year 2011 and TVA for the financial year 2013. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the participants will thus receive an increased number of shares in final allotment compared to the number preliminary allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminary allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

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

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

Assuming maximum allocation under SKF's Performance Share Programme 2011 and a share price of SEK 180, the cost, including social security costs, is estimated at around SEK 216 million. On the basis of a share price of SEK 230, the cost, including social security costs, is estimated at around SEK 276 million. In addition, administrative costs are estimated at around SEK 2 million.

Other benefits

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

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

Pension

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

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

- The Annual General Meetings 2008, 2009 and 2010 resolved on SKF's Performance Share Programmes 2008, 2009 and 2010, with in essence the same terms and conditions as of the proposed SKF's Performance Share Programme 2011.

  Allotment of shares under SKF's Performance Share Programme 2008 was made in the beginning of 2011. No allotment of shares will be made under SKF´s Performance Share Programme 2009 due to non-fulfillment of the TVA target for the financial year 2009. Any allotment of shares under SKF's Performance Share Programme 2010 will be made during 2013.
- The pension conditions of the President are described on page 88 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 2010 and remuneration of Group Management 2010, see Consolidated Financial Statements Note 25.

Nomination of Board members and notice of General Meeting

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

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

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

Content

Corporate Governance Report

Corporate Governance Report

Introduction

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

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

Information under the Annual Accounts Act Chapter 6, § 6, sections 3-6, are found at the following pages of the Administration Report for the Group:

- Annual Accounts Act Chapter 6, § 6, section 3; see page 11
- Annual Accounts Act Chapter 6, § 6, section 4; see page 12
- Annual Accounts Act Chapter 6, § 6, section 5; see page 39
- Annual Accounts Act Chapter 6, § 6, section 6; see page 22

Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July 2005. A revision of the Code came into force on 1 July 2008 and applied until 31 January 2010. On 22 December 2009 the Swedish Corporate Governance Board presented yet another revision of the Code. The new revised Code came into force on 1 February 2010 and was introduced 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 and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2010 was also held in accordance with the Code rules. The auditor of the company has reviewed this Corporate Governance Report.

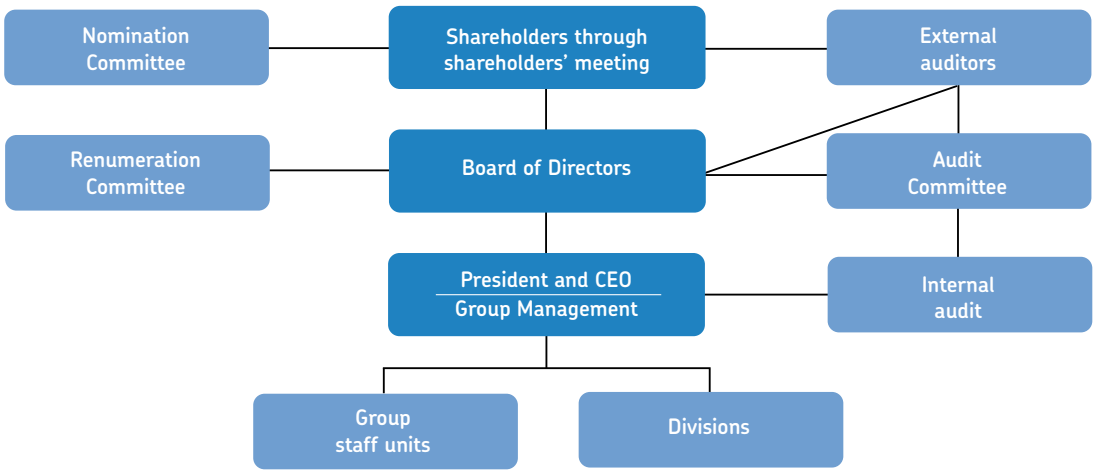
Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2010, 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 2010 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 2011. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release dated 27 September 2010, 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 2011:

- Claes Dahlbäck, Foundation Asset Management
- Hans Sterte, 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 2011:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for fee to the Auditor
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2012

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2011.

General information about how the company is managed

The shareholders' meeting is the company's highest decision-making body. The Annual General Meeting of shareholders shall be held within six months after the end of the financial year. At the Annual General Meeting the shareholders exercise their voting rights for e.g. the composition of the Board of Directors, adoption of principles of remuneration for Group Management and election of external auditors. SKF has issued A and B shares. An A share entitles the shareholder to one vote and a B share to one-tenth of a vote.

The Board of Directors has a responsibility for the company's organization and for the oversight of the management of the company's affairs. The Chairman of the Board of Directors shall direct the work of the Board and monitor that the Board of Directors fulfils its obligations. The Board 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, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. The approval of the Board is, for example, required in relation to investments and acquisitions above certain amounts, as well as for the appointment of certain senior managers. The President is supported by Group Management.

SKF's operations are organized into three divisions; Industrial Division, Service Division and Automotive Division. Further, there are seven Group staff units; Group Finance and IT, Group Technology Development and Quality, Group Legal, Group Human Resources and Sustainability, Group Business Development, Group Demand Chain and Group Communication. See pages 148-149 in the Annual Report 2010.

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 Annual Report 2010, Consolidated Financial Statements, Note 25.

Ten Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2010. 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.

AB SKF's Board members visited SKF's facilities in India in September. Here they can be seen at the SKF College Campus in Pune. The campus opened in 2006 with the aim of offering a wide range of quality training programmes. The Pune Campus is among the five College Campuses of SKF Group and plays a key role in leadership development for SKF in India. The vision of the SKF College globally is to be a world-class provider of sustainable learning for the organization worldwide.

Members of the Board of Directors as of 31 December 2010

Leif Östling
Chairman, Board member since 2005
Born 1945
Education and job experience: Master of Engineering (Chalmers University of Technology, Gothenburg), Bachelor of Economics (School of Business, Economics and Law, University of Gothenburg), and President and CEO of Scania AB since 1994.
Other assignments: Board member of ISS A/S, Scania AB and the Confederation of Swedish Enterprise, and Chairman of the Association of Swedish Engineering Industries.
Shareholding (own and/or held by related parties): 20,000 SKF B

Ulla Litzén
Board member since 1998
Born 1956
Education and job experience: Master of Science in Economics (Stockholm School of Economics), MBA (Massachusetts Institute of Technology), Managing Director and member of the Management Group of Investor AB 1996-2001, and President W Capital Management AB (wholly owned by the Wallenberg Foundations) 2001-2005.
Other assignments: Board member of Atlas Copco AB, Boliden AB, Alfa Laval AB, Husqvarna AB and NCC AB.
Shareholding (own and/or held by related parties): 34,000 SKF B

Tom Johnstone
Board member since 2003
Born 1955
President and Chief Executive Officer of AB SKF.
For more details, see page 47.

Winnie Kin Wah Fok
Board member since 2004
Born 1956
Education and job experience: Bachelor of Commerce (University of New South Wales, Australia) and Senior Advisor of Investor AB and of Husqvarna AB.
Other assignments: Board member of Volvo Car Corporation and G4S plc.
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, vice Chairman Volvo Car Corporation, board member of 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: Vice Chairman of Micronic Laser Systems AB and AB ÅF. Board member of SAAB AB, 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 and vice Chairman of the Management Board of Linde AG during 2000-2001.
Other assignments: Board member of Symrise AG, Chairman of VTI Technologies Oy and of Fashion Style S.á.r.l.
Shareholding (own and/or held by related parties): 0

Lars Wedenborn
Board member since 2008
Born 1958
Education and job experience: Master of Science in Economics (University of Uppsala). Deputy Managing Director and CFO of Alfred Berg 1991-2000, Executive Vice President and CFO of Investor AB 2000-2007, and presently CEO of FAM (Foundation Asset Management) owned by the Wallenberg Foundations.
Other assignments: Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group USA 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 Hillenbrand, Inc., the Vanguard Group, Oxfam America and the Lumina Foundation for Education. Chairman of Conexus Indiana, Chairman of the Advisory Council of the College of Arts and Letters and member of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame.
Shareholding (own and/or held by related parties): 5,000 SKF B

Jouko Karvinen
Board member since 2010
Born 1957
Education and job experience: Master of Science (Tampere University of Technology). Employed by ABB Group Limited from 1987 and served in several international positions; head of the Automation Technology Products Division, and member of the ABB Executive Committee from 2000-2002. President and CEO of Philips Medical Systems, USA, 2002-2006 and appointed to the Board of Management of Royal Philips Electronics in the Netherlands in 2006. CEO of Stora Enso Oyj since March 2007.
Other assignments: Board member of the Finnish Forest Industries Federation and of Confederation of European Paper Industries (CEPI), member of the Election Committee of the Confederation of Finnish Industries (EK), member of the Business Co-Operation Council and Co-Chairman of the Forest Industry Task Force, EU-Russia Industrialists' Round Table (IRT).
Shareholding (own and/or held by related parties): 0

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

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

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

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

Auditor
Thomas Thiel,
Authorized Public Accountant
KPMG AB

Independence requirements

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

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

Activities of the Board of Directors

The Board held eight meetings in 2010. The Board members were present at the Board meetings as follows:

Name of Board member	Presence/total number of meetings
Leif Östling	8/8
Ulla Litzén	8/8
Tom Johnstone	8/8
Winnie Kin Wah Fok	8/8
Hans-Olov Olsson	8/8
Lena Treschow Torell	8/8
Peter Grafoner	8/8
Lars Wedenborn	7/8
Joe Loughrey	8/8
Jouko Karvinen (elected in April 2010)	6/8
Lennart Larsson	8/8
Kennet Carlsson	8/8
Jeanette Stenborg	8/8
Marie Petersson	5/8

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

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

The Board has also issued written instructions on:

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

Issues dealt with by the Board in 2010 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, Peter Grafoner and Jouko Karvinen. The Remuneration Committee prepares matters related to the principles of remuneration for Group Management and employment conditions for the President.

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

The Remuneration Committee held two meetings in 2010. The members of the committee were present at the meetings as follows:

Name of Board member	Presence/total number of meetings
Leif Östling	2/2
Hans-Olov Olsson	2/2
Peter Grafoner	2/2
Jouko Karvinen (elected in April 2010)	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 six meetings in 2010. The members of the committee were present at the meetings as follows:

Name of Board member	Presence/total number of meetings
Leif Östling	6/6
Ulla Litzén	6/6
Lars Wedenborn	5/6

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 of AB SKF and President of Automotive Division.
Other assignments: Board member of Investor AB, Husqvarna AB 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: 1,000 ABB Ltd, 3,500 Volvo B, 600 Electrolux B, 4,800 Husqvarna B and 990 Husqvarna A.

The auditor of the company

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

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

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

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

KPMG has during the last two years only to a limited extent been involved in matters besides the auditing for 2009-2010. These matters have primarily concerned tax advice and attestation services. The total fees for KPMG's services besides auditing in 2010 amount to SEK 5 million, and they amounted to SEK 4 million in 2009.

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 2010 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with three Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

Internal control and risk management regarding financial reporting

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

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

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

In the area of control activities, SKF has previously documented in detail, all the critical finance processes and controls for the parent company and all main subsidiary companies, covering more than 70% of the Group's net sales and total assets. In 2008 SKF implemented these requirements as a Group standard also for smaller subsidiary companies. The documentation standards require an extensive risk assessment at Group and subsidiary company level 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 from 2009 it also covers companies previously excluded from the SOX 404 project.

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

Stockholm, 1 February 2011
The Board of Directors

Auditor's report of the Corporate Governance Report

To the annual meeting of the shareholders in AB SKF, corporate identity number 556007-3495

It is the Board of Directors who is responsible for the Corporate Governance Report for the year 2010 on pages 40-48 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the Corporate Governance Report has been prepared and is consistent with the annual accounts and the consolidated accounts, we have read the Corporate Governance Report and assessed its statutory content based on our knowledge of the company.

In our opinion, the Corporate Governance Report has been prepared and its statutory content is consistent with the annual accounts and the consolidated accounts.

Gothenburg, 28 February 2011
KPMG AB

Thomas Thiel
Authorized Public Accountant

Content

Financial statements

Consolidated income statements

SEKm	Note	Years ended 31 December 2010	2009
Net sales	2	**61,029**	56,227
Cost of goods sold	5, 6	**-44,216**	-45,024
Gross profit		**16,813**	11,203
Selling expenses	6	**-7,729**	-7,512
Administrative expenses	6	**-493**	-403
Other operating income	7	**527**	460
Other operating expenses	7	**-666**	-534
Loss (-)/profit (+) from jointly controlled and associated companies	12	**0**	-11
Operating profit		**8,452**	3,203
Financial income and expenses, net	8	**-903**	-906
Profit before taxes		**7,549**	2,297
Taxes	9	**- 2,253**	-592
Net profit		**5,296**	1,705
Net profit attributable to:			
Owners of AB SKF		**5,138**	1,642
Non-controlling interests		**158**	63
Basic earnings per share (SEK)	17	**11.28**	3.61
Diluted earnings per share (SEK)	17	**11.28**	3.61

Consolidated statements of comprehensive income

SEKm	Note	Years ended 31 December 2010	2009
Net profit		**5,296**	1,705
Other comprehensive income			
Currency translation adjustments		**-1,660**	-798
Available-for-sale assets	14		
Change in fair value		**169**	134
Cash-flow hedges	28		
Change in fair value		**30**	16
Release of cash flow hedges		**-12**	166
Actuarial gains and losses, net	18	**-616**	-888
Income taxes related to components of other comprehensive income	9	**56**	105
Other comprehensive income, net of tax		**-2,033**	-1,265
Total comprehensive income		**3,263**	440
Total comprehensive income attributable to:			
Owners of AB SKF		**3,131**	412
Non-controlling interests		**132**	28

Amounts in parentheses refer to comparable figures for 2009.

General
Lincoln Industrial is included in the Group's balance sheet at 31 December 2010, with no impact on the Group's income statement for the year 2010. Their results will be included in the Group's income statement as from 1 January 2011.

Net sales
Net sales amounted to SEK 61,029 m (56,227). The increase of 8.6% in net sales compared to 2009 was attributable to: volume 14.1%, to price and mix[1] 0.1% and to currency effects -5.6%. Qualifying hedging activities affected net sales by SEK 10 m (-166).

Operating profit
Operating profit amounted to SEK 8,452 m (3,203) resulting in an operating margin of 13.8% (5.7). Non-recurring items impacting operating profit for the full-year amounted to around SEK 190 m, of which around SEK 90 m related to the restructuring programmes announced in 2010 and around SEK 100 m was due to the acquisition of Lincoln Industrial which is described in Note 3.

Exchange rates for the full year 2010, including translation effects and flows from transactions, had a negative effect on operating profit of around SEK 400 m.

Cost of goods sold, selling and administrative expenses amounted to SEK 52,438 m (52,939). The costs were divided into 35% (37) employee benefit expense including social charges, 34% (34) raw material and components consumed, 27% (25) other purchased services, utilities and goods and 4% (4) depreciation, amortization and impairments.

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

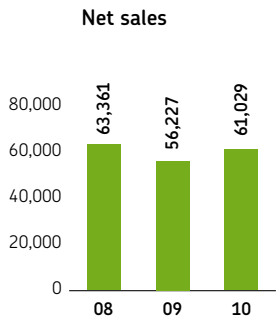
Profit before taxes
Profit before taxes amounted to SEK 7,549 m (2,297). Financial income and expense, net, amounted to SEK -903 m (-906) including SEK 225 m related to a loss on the Ovako vendor note. Interest costs, net, on post-employment benefits have affected the financial net negatively by SEK 267 m (357).

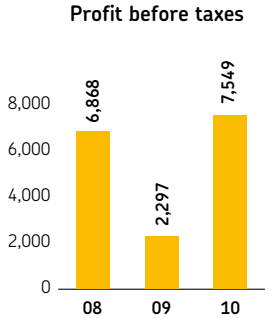
Net profit
Net profit amounted to SEK 5,296 m (1,705). The actual tax rate was 29.8% (25.8).

Values by quarter

SEKm	Quarter 1	Quarter 2	Quarter 3	Quarter 4	**Full year 2010**
Net sales	14,446	15,709	15,465	15,409	**61,029**
Operating profit	1,702	2,239	2,309	2,202	**8,452**
Profit before taxes	1,504	2,047	1,950	2,048	**7,549**
Basic earnings per share (SEK)	2.27	3.09	3.05	2.87	**11.28**
Diluted earnings per share (SEK)	2.27	3.09	3.05	2.87	**11.28**

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





Consolidated balance sheets

SEKm	Note	As of 31 December 2010	2009
ASSETS			
Non-current assets			
Goodwill	*10*	**6,309**	2,759
Other intangible assets	*10*	**4,164**	1,255
Property, plant and equipment	*11*	**12,922**	13,933
Investments in jointly controlled and associated companies	*12*	**87**	87
Long-term financial assets	*14*	**1,257**	1,363
Deferred tax assets	*9*	**1,695**	1,665
Other long-term assets	*18*	**67**	52
		26,501	21,114
Current assets			
Inventories	*13*	**12,879**	11,771
Trade receivables	*14*	**9,859**	8,800
Tax receivables		**261**	406
Other short-term assets	*15*	**2,190**	3,141
Assets held for sale	*4*	**388**	43
Other short-term financial assets	*14*	**751**	1,310
Cash and cash equivalents	*14*	**2,395**	4,430
		28,723	29,901
Total assets		**55,224**	51,015
EQUITY AND LIABILITIES			
Share capital	*16*	**1,138**	1,138
Share premium		**564**	564
Available-for-sale reserve		**434**	265
Hedging reserve		**61**	47
Translation reserve		**-1,127**	669
Retained earnings		**17,865**	14,728
Equity attributable to owners of AB SKF		**18,935**	17,411
Equity attributable to non-controlling interests		**959**	869
		19,894	18,280
Non-current liabilities			
Long-term financial liabilities	*20*	**10,850**	8,987
Provisions for post-employment benefits	*18*	**7,093**	7,020
Deferred tax provisions	*9*	**2,132**	754
Other long-term provisions	*19*	**1,560**	1,521
Other long-term liabilities		**62**	78
		21,697	18,360
Current liabilities			
Trade payables	*20*	**4,476**	3,989
Tax payables		**842**	565
Short-term provisions	*19*	**602**	1,328
Other short-term financial liabilities	*20*	**1,325**	2,018
Other short-term liabilities	*22*	**6,082**	6,475
Liabilities related to assets held for sale	*4*	**306**	–
		13,633	14,375
Total equity and liabilities		**55,224**	51,015

Amounts in parentheses refer to comparable figures for 2009.

Assets and liabilities

The SKF Group's balance sheet at 31 December 2010 includes Lincoln Industrial which was aqcuired on 28 December 2010. Lincoln Industrial's total assets, according to a preliminary purchase price allocation was SEK 8,779 m, of which SEK 7,032 m relates to intangibles including goodwill. The Lincoln Industrial acquisition is described in Note 3.

Inventories amounted to SEK 12,879 m (11,771). Inventories as a percentage of annual sales totalled 21.1% (20.9). The target for the Group is 18%.

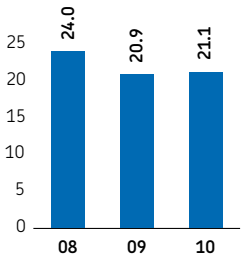
Trade receivables amounted to SEK 9,859 m (8,800). The average days of outstanding trade receivables in 2010 were 58 days (58). The target for the Group is 57 days. Trade receivables as a percentage of annual net sales totalled 16.2% (15.7).

The Group's equity/assets were 36.0% (35.8), which is close to average target of 35%. Gearing was 48.6% (49.3). The target for gearing is to operate around 50%. The net debt/equity was 80.5% (68.9). During 2010, equity decreased by SEK 1,796 m (842) due to translation effects caused by a stronger Swedish krona at 31 December 2010 compared to 2009. In 2010 SEK 1,594 m (1,594) was distributed as ordinary dividend to the owners of AB SKF. For further details, see Note 16.

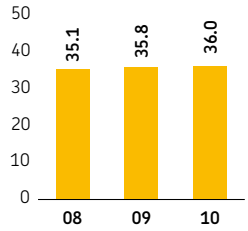
Financing

At year-end, total interest-bearing loans amounted to SEK 11,796 m (10,750). Post-employment benefits, net amounted to SEK 7,047 m (6,993). Financial assets totalled SEK 4,403 m (7,103) of which SEK 3,146 m (5,740) consisted of current financial assets. Changes in net interest-bearing liabilities 2010 are disclosed in the Group's consolidated statements of cash flow.

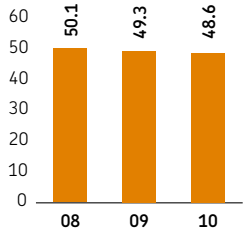
Inventories, % of annual net sales



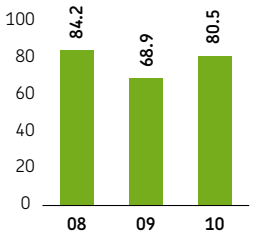
Equity/Assets, %



Gearing, %



Net debt/equity, %



Consolidated statements of cash flow

SEKm	Note	Years ended 31 December 2010	2009
Operating activities			
Operating profit		**8,452**	3,203
Adjustments for			
Depreciation, amortization and impairment	6	**1,992**	2,171
Net gain (-)/loss on sales of property, plant and equipment and equity securities		**-5**	29
Other non-cash items		**-696**	1,263
Income taxes paid		**-1,722**	-1,068
Contributions to and payments under post-employment defined benefit plans		**-466**	-528
Jointly controlled and associated companies		**-2**	-3
Changes in working capital			
Inventories		**-1,438**	2,793
Trade receivables		**-1,315**	1,809
Trade payables		**809**	-630
Other operating assets and liabilities, net		**728**	-896
Interest received		**160**	456
Interest paid		**-357**	-676
Other financial items		**-589**	78
Net cash flow from operating activities		**5,551**	8,001
Investing activities			
Additions to intangible assets	10	**-46**	-55
Additions to property, plant and equipment	11	**-1,651**	-1,975
Sales of property, plant and equipment		**95**	18
Acquisitions of non-controlling interests and businesses, net of cash and cash equivalents acquired	3	**-6,799**	-241
Sales of businesses and equity securities		**12**	4
Net cash flow used in investing activities		**-8,389**	-2,249
Net cash flow after investments before financing		**-2,838**	5,752
Financing activities			
Proceeds from medium- and long-term loans		**4,654**	1,533
Repayment of medium- and long-term loans		**-2,321**	-3,306
Change in short-term loans		**-52**	-275
Other, including payment of finance lease liabilities		**-11**	-6
Cash dividends to AB SKF's shareholders		**-1,594**	-1,594
Cash dividends to non-controlling shareholders		**-28**	-35
Investments in financial and other assets		**-788**	-2,831
Sales of financial and other assets		**996**	2,461
Net cash flow used in financing activities		**856**	-4,053
Increase(+)/decrease(-) in cash and cash equivalents		**-1,982**	1,699
Cash and cash equivalents at 1 January		**4,430**	2,793
Cash effect excluding acquired businesses		**-2,265**	1,699
Cash effect of businesses acquired	3	**283**	–
Translation effect		**-53**	-62
Cash and cash equivalents at 31 December		**2,395**	4,430

Amounts in parentheses refer to comparable figures for 2009.

General

The consolidated statements 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 -2,838 m (5,752). Excluding the cash outflow for acquisitions of SEK 6,799 m, primarily Lincoln Industrial for SEK 6,764 m, it amounted to SEK 3,961 m (5,993).

Net cash flow from operating activities

Gross cash flow, defined as operating profit plus depreciation, amortization and impairment, amounted to SEK 10,444 m (5,374). The gross cash flow was 17.1% (9.6) of annual net sales. The increase was mainly caused by an improvement in operating profit.

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

Net cash flow used in investing activities

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,651 m (1,975), whereof approximately SEK 121 m (44) was spent on internal and external environmental improvements.

In 2010, the Group's cash outflow for acquisitions of business and non-controlling interests was SEK 6,799 m (241), whereof SEK 6,764 m was related to Lincoln Industrial, see Note 3.

Cash flow from financing activities

Interest-bearing loans totalled SEK 11,796 m (10,750) at year end. During the year, the SKF Group arranged new long term financing of EUR 100 m. An additional EUR 400 m was borrowed from already existing lines of credit in conjunction with the Lincoln Industrial acquisition. Loans amounting to EUR 132 m and EUR 100 m were repaid during the year.

Post-employment benefits, net, amounted to SEK 7,047 m (6,993). Interest payments amounted to SEK 357 m (676) and interest received to SEK 160 m (456).

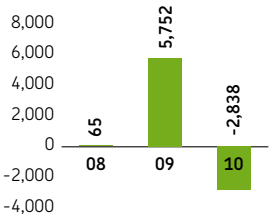
The change in cash and cash equivalents was SEK -2,035 m (1,637). In 2010, changes in exchange rates affected cash and cash equivalents by SEK -53 m (-62) mainly attributable to USD and EUR.

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

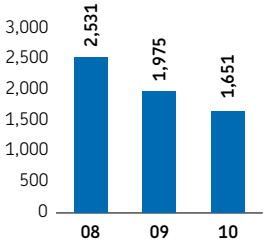
Change in net interest-bearing liabilities (SEKm)	2009 Closing balance	Cash change	Businesses acquired	Other non-cash changes	Translation effect	2009 Opening balance
Loans[1]	10,750	-2,048	–	26	-675	13,447
Post-employment benefits, net	6,993	-528	–	1,520	-322	6 ,323
Other financial assets, other [2]	-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

[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.
[3] Amounts classified as held for sale are included as other non-cash changes, see Note 4.

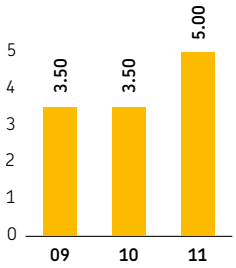
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share, SEK



The Board of Directors' proposed distribution of surplus for the year 2010, which is subject to approval at the Annual General Meeting in April 2011, includes an ordinary dividend of SEK 5.00 per share, see Note 16.

Consolidated statements of changes in equity

	Equity attributable to owners of AB SKF								
SEKm	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Opening balance 1/1/2009	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	–	–	3	–	5	-153	-145	-63	-208
Closing balance 31/12/2009	**1,138**	**564**	**265**	**47**	**669**	**14,728**	**17,411**	**869**	**18,280**
Net profit	**–**	**–**	**–**	**–**	**–**	**5,138**	**5,138**	**158**	**5,296**
Components of other comprehensive income									
Currency translation adjustments	**–**	**–**	**–**	**–**	**-1,634**	**–**	**-1,634**	**-26**	**-1,660**
Change in fair value of available-for-sale assets and cash flow hedges	**–**	**–**	**169**	**30**	**–**	**–**	**199**	**–**	**199**
Release of cash flow hedges	**–**	**–**	**–**	**-12**	**–**	**–**	**-12**	**–**	**-12**
Actuarial gains and losses	**–**	**–**	**–**	**–**	**–**	**-616**	**-616**	**–**	**-616**
Income taxes related to components of other comprehensive income	**–**	**–**	**–**	**-4**	**-169**	**229**	**56**	**–**	**56**
Performance Share Programmes, net[1)]	**–**	**–**	**–**	**–**	**–**	**8**	**8**	**–**	**8**
Dividends	**–**	**–**	**–**	**–**	**–**	**-1,594**	**-1,594**	**-28**	**-1,622**
Non-controlling interests	**–**	**–**	**–**	**–**	**7**	**-28**	**-21**	**-14**	**-35**
Closing balance 31/12/2010	**1,138**	**564**	**434**	**61**	**-1,127**	**17,865**	**18,935**	**959**	**19,894**

[1)] See Note 25 for details.

Available-for-sale reserve
Changes in the valuation of available-for-sale assets are accumulated in this reserve. See Note 1 for the accounting principles.

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

Translation reserve
Exchange differences relating to the translation from the functional currencies of the SKF Group's foreign subsidiaries into SEK are accumulated in the translation reserve. Additionally, gains and losses on hedging instruments meeting the criteria for hedges of net investments in foreign operations, are recognized in the translation reserve net of tax. See Note 28 for details. 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 2009.

1 Accounting policies

Critical accounting policies

Basis of presentation

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

The annual report of the Parent company, AB SKF, has been signed by the Board of Directors on 1 February 2011. 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 28 April 2011.

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

Basis of consolidation

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

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

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

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

Business combinations and goodwill

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

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

Acquisition related costs are expensed as incurred, rather than included in the cost of the acquisition.

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

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

Investments in jointly controlled and associated companies

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

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

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

Classification

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

Segment information

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

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

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

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

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

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

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

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

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

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

Translation of foreign financial statements

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

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

Translation of items denominated in foreign currency

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

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

Revenue

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

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

Contracts and customer purchase orders are generally used to determine the existence of such an arrangement. Shipping documents and customer acceptance are used, when applicable, to verify delivery. 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:

			Average rates		Year-end rates	
Country	Unit	Currency	**2010**	2009	**2010**	2009
China	1	CNY	**1.07**	1.12	**1.03**	1.06
EMU-countries	1	EUR	**9.54**	10.62	**9.00**	10.33
India	100	INR	**15.78**	15.75	**15.14**	15.42
Japan	100	JPY	**8.26**	8.18	**8.34**	7.82
United Kingdom	1	GBP	**11.15**	11.89	**10.53**	11.44
USA	1	USD	**7.23**	7.65	**6.80**	7.20

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

Property, plant and equipment (PPE)

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

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

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

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

Assets classified as held for sale

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

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

Intangible assets other than goodwill

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

- Patents and similar rights up to 11 years;
- Software normally 4 years;
- Customer relationships normally 10-15 years;
- Capitalized development expenditures normally 3-7 years;
- Other intangible assets normally from 3-5 years;
- 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.

Long-term employee benefits
Employee benefits, which are both earned and paid out during employment, and are expected to be settled more than twelve months after they are earned yet before employment ends, are long-term employee benefits. These include part-time retirements programmes, anniversary bonuses, long-stay and jubilee payments. All such programmes are calculated using the projected 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 the income statement. 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
Dept securities except those held by SKF Treasury Centre and strategical investments in equity securities 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 because their fair value cannot be measured reliably.

• Loans and receivables
Financial assets categorized as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade receivables, loans granted, funds held with banks and deposits comprising principally of funds held with landlords and other service providers, for which substantially all initial investment is expected to be recovered.

Loans and receivables are measured at amortized cost using the effective interest method. Impairment losses are recognized if management believes that sufficient objective evidence exists indicating that the asset may not be recovered. On occurrence of default, loans and receivables are derecognised. For disclosure purposes, fair values have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

• Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. The fair value of assets in these sub-categories is based on quoted market prices or measured using valuation techniques, mainly discounted cash flow analyses based on observable market data.

Financial instruments are designated at fair value through profit or loss when the Group manages such investments and makes purchase and sale decisions based on their fair value. Derivatives are categorized as held for trading unless subject to hedge accounting.

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

• Other financial liabilities
Financial liabilities, excluding derivatives, are measured at amortized cost using the effective interest method. 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 financial instruments with inputs that are not based on observable market data.

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

Allowance for doubtful accounts
Management maintains an allowance for doubtful 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 nor are designated for hedge accounting, 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 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, and is recognized in the income statement when the committed or forecasted transaction is recognized in the income statement. However, if the hedged transaction is no longer expected to occur, the cumulative gain or loss reported in the hedging reserve in equity is transferred via other comprehensive income to the income statement 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 funtional 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
The share-based compensation programmes of the Group are mainly equity-settled. The instruments granted are shares and the fair value is the market value at grant date reduced by the present value of future dividends which the employees will not receive until the shares are delivered. The dividend compensation amount is recognized as employee benefit expense separately from the share-based compensation expense.

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

To fulfill AB SKF's obligations under the Performance Share Programme 2008, SKF International AB entered into an equity swap agreement with a financial institution. The agreement includes the possibility to get delivery of SKF shares from the financial institution to the participants of the program. As the financial institution's acquisition of SKF B shares is equivalent to, from an accounting perspective only, a repurchase of treasury shares in accordance with IAS 32, the difference between the fair value at grant date and the share price is recorded as a decrease in equity.

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

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

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

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all potentially dilutive ordinary shares.

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

Significant management judgment is required in determining current tax liabilities and assets as well as deferred tax provisions and assets. The process involves estimating the current tax together with assessing temporary differences arising from differing treatment of items for tax and accounting purposes. In particular, management assesses the likelihood that deferred tax assets will be recoverable from future taxable income.

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

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

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

Impairment of intangible assets and property, plant and equipment
Assets with definite useful lives
Intangible assets with definite useful lives and property, plant and equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The determination is usually performed at the cash generating unit (CGU) level but could also be at the individuel asset level. Factors that are considered important are:

- Underperformance relative to historical and forecasted operating results;
- Significant negative industry or economic trends;
- Significant changes relative to the asset including plans to discontinue or restructure the operation to which the asset belongs.

When there is an indication that the carrying value may not be recoverable based on the above indicators, the profitability of the CGU to which the asset belongs is analyzed to further confirm the nature and extent of the indication. When an indication is confirmed, an impairment loss is recognized to the extent that the carrying amount of the affected CGU exceeds its recoverable amount.

Intangible assets with indefinite useful lives
Goodwill and other intangible assets with indefinite useful lives, once allocated to a CGU, are tested annually for impairment and whenever there is an indication that the asset may be impaired. The impairment test is carried out at the lowest level of CGU or groups of CGUs at which these assets are monitored for internal management purposes. In most cases this is the acquisition level but over time as full integration is reached, can become the product level or sub-segment level. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Any impairment loss would first reduce the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

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

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

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

These forecasts of future operating cash flows are built up from the following time frames:

- *business and strategic plans for a three-year period* representing management's best estimates of future revenues and operating expenses using historical trends, general market conditions, industry trends and forecasts and other currently available information;
- *extrapolated for another seven years* using growth rates determined on an individual CGU basis, reflecting a combination of product, industry and country growth factors;
- *after which a terminal value is calculated* based on the Gordon Growth model, which includes a terminal growth factor representing the real growth rate and inflation expected in the country in which the assets operate.

Forecasts of future operating cash flows are adjusted to present value by an appropriate discount rate derived from the Group's cost of capital, taking into account the country risk premium where applicable, and the systematic risk of the CGU at the date of evaluation. Management determines the discount rate to be used based on the risk inherent in the related activity's current business model and industry comparisons.

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 AA corporate bond indexes that have maturity dates matching the duration of the obligations. In countries where there is no deep market for such bonds, primarily in Sweden, government bonds are used. The expected return on assets is based on the market expectations (at the beginning of each period) for returns over the entire life of the related obligation. In developing the long term rate of return, management considers the historical returns and the future expected return based on current market developments for each asset class as well as the target allocations of the portfolio. The salary growth assumptions reflect the non-current actual experience, the near term outlook and assumed inflation. Health care cost trend rates are developed based on historical cost data, the near term outlook, and an assessment of likely non-current trends.

Actuarial gains and losses arise from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognized 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.

1 Accounting policies (cont.)

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.

Management believes that the following are the most key judgements, assumptions and other estimation uncertainties used in the preparation of the financial statements, where a different opinion or estimate could lead to significant changes to the reported results. The key judgements and estimates used in these areas are described fully in their individual accounting policy descriptions within Note 1:

- Judgements on the realizability of deferred tax assets, see Note 9.
- The estimates and key assumptions used in the calculation of value in use for impairment testing of goodwill and other intangibles with indefinite lives, see Note 10.
- Discount rate on post-employment benefits, see Note 18.

New accounting principles 2010

IASB issued several new or amended accounting standards effective starting 1 January 2010. None of these had a material impact on the SKF Group's financial statements.

Issued but not yet effective

The following have been issued from the IASB and are effective as from 1 January 2011. None of these are expected to have a material effect on the Group's financial statements.

- 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.
- 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.
- 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. and IFRIC 14 amendment "Prepayments of a Minimum Funding Requirement" relates to recognition of voluntary prepayments for minimum funding requirements.
- 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.
- Annual Improvements - May 2010, including amendments to IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13.

The following have been issued from the IASB and are effective for annual periods after 2011 as noted. The effect upon the Group's financial statements has not yet been determined.

* IFRS 9 "Financial instruments- Classification and Measurement" simplifies accounting for financial assets by requiring a single approach to determine whether a financial asset is measured at cost or fair value, basically based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. For financial liabilities, classification and measurement have been moved from IAS 39 to IFRS 9. The main difference is "Fair Value for Financial Liabilities" which requires that if an entity chooses to measure a liability at fair value the portion of the change in its fair value due to changes in the entety's own credit risk will be presented in other comprehensive income (OCI) rather than within the income statement. Derecognition requirements have also been moved from IAS 39 to IFRS 9. (2013)

* IFRS 7 amendment "Disclosures for Transfer Transactions of Financial Assets" requires disclosures of transfer transactions including the possible effects of any remaining risks, as well as the existence of disproportionate transactions occurring near the end of a reporting period. (2012)

* IAS 12 "Recovery of underlying assets" (2012) provides a practical solution for evaluating the recoverability of assets by introducing a presumption that recovery of the carrying amount will normally be through sale. (2012)

* Indicates that these have not yet 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, see Note 1.

The Industrial Division serves industrial OEM customers in around 30 global industry customer segments with a wide range of offerings increasingly with focus on energy efficiency. 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, super-precision bearings and magnetic bearings, as well as lubrication systems, linear motion products, 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 SKF and its network of over 7,000 authorized distributors. The division has five Condition Monitoring Centres, who design and produce world-leading hardware and software. The Service Division is also responsible for all SKF's sales in certain markets. The expanding network of SKF Solution Factories will be the future infrastructure for delivering complete, integrated solutions and services incorporating all SKF's technology platforms.

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

Other operations include businesses managed outside of the three divisions, primarily PEER Bearing Company, Logistics Services and other minor operations, as well as divested businesses. PEER Bearing Company mainly manufactures deep groove ball bearings, agricultural bearings, mounted units and tapered roller bearings to customers mainly located in North America. Logistic Services provides warehousing, transportation, packaging and inventory management based on seamless information and communication technology for the SKF Group worldwide.

Previously published amounts have been reclassified to conform to the current Group structure in 2010.

	Net sales		Sales including intra Group sales		Contribution to Profit before tax	
SEKm	**2010**	2009	**2010**	2009	**2010**	2009
Industrial Division	**19,424**	19,534	**29,607**	28,546	**3,498**	1,551
Service Division	**22,029**	19,599	**22,408**	19,957	**3,036**	2,585
Automotive Division	**18,231**	16,051	**21,989**	19,103	**1,859**	-785
Other operations	**1,345**	1,043	**3,851**	3,212	**341**	158
Subtotal operating segments	**61,029**	56,227	**77,855**	70,818	**8,734**	3,509
Eliminations of intra Group sales	**–**	–	**-16,826**	-14,591	**–**	–
Timing differences in internal sales and others	**–**	–	**–**	–	**-39**	-370
Eliminations and unallocated items, net	**–**	–	**–**	–	**-243**	64
Financial net	**–**	–	**–**	–	**-903**	-906
	61,029	56,227	**61,029**	56,227	**7,549**	2,297

	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
SEKm	**2010**	2009	**2010**	2009	**2010**	2009
Industrial Division	**913**	957	**121**	50	**1,021**	1,486
Service Division	**117**	147	**30**	6	**106**	66
Automotive Division	**694**	769	**47**	128	**593**	579
Other operations	**53**	60	**–**	–	**58**	35
Eliminations and unallocated items	**17**	53	**–**	1	**-81**	-136
	1,794	1,986	**198**	185	**1,697**	2,030

	Assets		Liabilities	
SEKm	**2010**	2009	**2010**	2009
Industrial Division	**28,000**	20,147	**4,608**	4,181
Service Division	**6,992**	6,438	**1,867**	1,619
Automotive Division	**11,624**	12,140	**3,590**	4,067
Other operations	**1,566**	1,497	**614**	495
Subtotal operating segments	**48,182**	40,222	**10,679**	10,362
Financial and tax items	**6,359**	9,174	**22,242**	19,344
Other unallocated items	**683**	1,619	**2,409**	3,029
	55,224	51,015	**35,330**	32,735

Geografic disclosure

SEKm	Net sales by customer location 2010	2009	Non-current assets 2010	2009
Sweden	**1,900**	1,579	**1,402**	1,435
Europe excl. Sweden	**26,109**	26,848	**8,143**	9,931
North America	**10,783**	9,893	**9,315**	2,203
Asia-Pacific	**16,412**	12,723	**4,006**	3,802
Other	**5,825**	5,184	**782**	818
Eliminations	**–**	–	**-145**	-130
	61,029	56,227	**23,503**	18,059

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 15.7% (15.6) were located in the USA, 12.9% (10.9) in China and 12.8% (13.8) in Germany.

Non-current assets exclude financial assets, deferred tax assets and post-employment benefit assets and are shown by region.

Non-current assets are allocated according to the location of the assets. Of the Group's total non-current assets as defined above, 39.4% (11.8) were located in the USA, 9.0% (13.9) in Germany, 8.9% (13.9) in France, 8.3% (9.9) in China and 7.2% (13.5) in Italy.

3 Acquisitions

SEKm	2010	2009
Total fair value of net assets acquired		
Non-current assets, excluding goodwill	**3,501**	–
Current assets	**1,389**	–
Non-current liabilities	**-1,388**	–
Current liabilities	**-344**	–
Remaining non-controlling interests	**35**	211
	3,193	211
Goodwill	**3,889**	21
Total acquisition cost	**7,082**	232
Less:		
Cash and cash equivalents acquired	**-283**	–
Payment of consideration on prior year acquisitions	**–**	9
Cash outflow	**6,799**	241

In 2010, the Group had total cash outflows of SEK 6,799 m for the acquisition of Lincoln Industrial and the minority interest in Berger Vogel, both relating to the Industrial Division. The remaining 49% interest in Berger Vogel, Italy was acquired in August 2010 for SEK 35 m, which was charged directly to equity. The Group's original investment was made in 2004. The acquisition of Lincoln Industrial for SEK 6,764 m, is described below.

In 2009, the Group had cash outflows of SEK 241 m related to the acquisition of the remaining non-controlling interest in SKF Polyseal and a number of deferred payments related to business acquisitions made in previous years. The remaining 49% interest in SKF Polyseal in the USA was acquired for SEK 209 m in April 2009. SKF Polyseal operates under the Automotive Division. The entire amount was charged directly to equity. The Group's original investment was made in 2006.

Acquisition of Lincoln Industrial

On 28 December 2010, the Group acquired 100% of the shares of Lincoln Holdings Enterprises, Inc (Lincoln Industrial) from Harbour Group. Lincoln Industrial is a leader in the design, manufacture and supply of highly engineered lubrication systems, tools and equipment, and is headquartered in St. Louis, Missouri, USA.

Lincoln Industrial's three main product lines are automated lubrication systems, hose reels, and grease guns, with a focus on grease-based systems. Sales are mainly generated from automated lubrication systems and related products. Major end markets include industrial, energy, off-highway, mining, agriculture and steel. The company has a global footprint with around 50% of its sales generated in North America, 25% in Europe and 20% in Asia Pacific. The company has around 2,000 employees with manufacturing operations in the USA, Asia and Europe.

Lincoln Industrial will be part of a newly created business unit for lubrication systems within SKF's Industrial Division. The acquisition of Lincoln Industrial is in line with SKF's strategy and builds on a series of acquisitions made in the lubrication systems sector over the last six years. Lincoln Industrial is highly complementary to SKF's existing lubrication systems business, with limited product and geographical overlap. The acquisition furthers SKF's strategy including:

- improving the lubrication systems platform through Lincoln Industrial's complementary product portfolio.
- increasing the geographical sales coverage in North America and Asia.
- expanding the business to the automotive aftermarket in the USA.
- expanding the manufacturing operations through Lincoln Industrial's strong US and Asian manufacturing footprint.

SKF expects to achieve significant synergies from the combination through improved sales opportunities and greater efficiencies.

Lincoln Industrial is included in the Group's balance sheet at 31 December 2010, with no impact on the Group's income statement for the year 2010. Their results will be included in the Group's income statement as from 1 January 2011.

A preliminary allocation of the acquisition cost to the identifiable assets acquired and liabilities assumed (net assets) was made. All allocations are only preliminary and are expected to be finalized in the second quarter 2011 pending the final audit and asset valuations. The preliminary values are as follows:

SEKm	
Fair value of net assets acquired	
Trademarks	1,020
Customer relationships	1,836
Other intangibles, including patents	287
Plant, property and equipment	358
Trade receivables	441
Inventory	648
Other assets	300
Deferred tax provisions	-1,225
Post-employment benefits	-163
Other liabilities	-344
	3,158
Goodwill	3,889
Total acquisition cost	7,047
Less:	
Cash and cash equivalents acquired	-283
Cash outflow	**6,764**

The acquisition cost is subject only to adjustments for the final audited cash, working capital and indebtedness levels. The acquisition was paid using existing cash and credit facilities. Acquisition related costs of SEK 100 m were expensed, of which SEK 80 m was included as Other operating expense and SEK 20 m was included as Selling expense in the Group's income statement.

Receivables arise from the normal course of business and include an allowance for uncollectibilty of approximately SEK 16 m.

The acquisition of Lincoln Industrial included all Lincoln, Alemite and Reelcraft entities and brands. Consequently the opening balances include a preliminary valuation of trademarks of SEK 1,020 m, which the Group considers to have an indefinite life, as it is intended to continue to promote these brands in the foreseeable future. Preliminary values were allocated to other significant intangibles which included customer relationships to be amortized over an expected life of 15 years.

None of the goodwill is expected to be deductible for tax purposes. The preliminary goodwill arises due to Lincoln Industrial's expected ability to continuously renew its technology resulting in improved sales opportunities as well as their ability to deliver strong financial performance on a consistent basis.

Proforma net sales and net profit

Had Lincoln Industrial been acquired at 1 January 2010, the consolidated revenue for the Group would have amounted to SEK 63,858 m, and consolidated net profit would have been SEK 5,509 m. This unaudited proforma information adds Lincoln Industrial's income statement excluding their acquisition related costs and financing costs, and adjusts for the additional amortizations, depreciations, and inventory costs arising from the fair value adjustments required by IFRS 3. Additionally, net financial costs were adjusted to reflect the change in the Group's net interest bearing liabilities caused by the payment of the purchase price. Income taxes have been included in all proforma adjustments.

4 Assets held for sale

SEKm	2010	2009
Assets held for sale		
Property, plant and equipment	**184**	–
Inventory	**143**	–
Trade receivables and other assets	**61**	–
	388	–
Liabilities related to assets held for sale		
Post-employment benefits	**89**	–
Trade payables	**145**	–
Other provisions and liabilities	**72**	–
	306	–

Assets held for sale include the Automotive Division's forging businesses in Villar Perosa, Italy and Tudela, Spain. Both are expected to be sold in early 2011.

5 Research and development

Research and development expenditures totalled SEK 1,184 m (1,217). 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 3 m (8).

6 Expenses by nature

SEKm	2010	2009
Employee benefit expenses including social charges	**18,155**	19,305
Raw material and components consumed, including shop supplies	**19,373**	16,348
Change in work in process and finished goods	**-1,259**	1,910
Depreciation, amortization, and impairments	**1,992**	2,171
Other expenses, primarily purchased services, utilities and goods	**14,177**	13,205
Total operating expenses	**52,438**	52,939

Depreciation, amortization and impairments were accounted for as (SEKm)	2010			
	Depreciation	**Amortization**	**Impairments**	**Total**
Cost of goods sold	**1,562**	**59**	**72**	**1,693**
Selling expenses	**81**	**88**	**126**	**295**
Administrative expenses	**1**	**3**	**–**	**4**
	1,644	**150**	**198**	**1,992**

Depreciation, amortization and impairments were accounted for as (SEKm)	2009			
	Depreciation	Amortization	Impairments	Total
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

7 Other operating income and expenses

SEKm	2010	2009
Other operating income		
Exchange gain on trade receivables/payables	**423**	358
Profit from sale of property, plant and equipment	**31**	27
Other	**73**	75
	527	460
Other operating expenses		
Exchange loss on trade receivables/payables	**-512**	-439
Loss from sale of property, plant and equipment	**-14**	-20
Acquisition related expenses (Lincoln Industrial)	**-80**	–
Other	**-60**	-75
	-666	-534

8 Financial income and financial expenses

Financial net specified by nature (SEKm)	2010	2009
Interest income	**218**	347
Interest expense	**-368**	-588
Net gains/losses:		
Interest on post-employment benefits, net	**-267**	-357
Exchange differences	**-178**	-176
Dividend income	**4**	3
Other financial income & expense	**-312**	-135
Financial net	**-903**	-906
Reflected as:		
Financial income	**391**	587
Financial expenses	**-1,294**	-1,493
Financial net	**-903**	-906

Other financial income and expense relates mainly to the loss of SEK 225 m on the Ovako vendor note as well as the interest effect resulting from the discounting of provisions.

In 2009 other includes the interest caused by the discounting of provisions, fee expenses of SEK 28 m related to the repayment of loans and impairment of financial receivables of SEK 16 m.

	2010			2009		
Financial net specified by category of financial instruments (SEKm)	**Interest income**	**Interest expense**	**Net gains/ losses**	Interest income	Interest expense	Net gains/ losses
Financial assets/liabilities at fair value through profit or loss						
Designated upon initial recognition	**11**	**–**	**12**	20	–	-2
Derivatives held for trading[1)]	**27**	**-15**	**-907**	21	–	-127
Derivatives held for hedge accounting	**100**	**-81**	**-358**	290	-82	-687
Loans and receivables	**80**	**–**	**419**	16	–	413
Available-for-sale assets	**–**	**–**	**4**	–	–	3
Other financial liabilites	**–**	**-272**	**431**	–	-506	183
Other non-financial liabilitites	**–**	**–**	**-354**	–	–	-448
	218	**-368**	**-753**	347	-588	-665

[1)] Derivates held for trading are mainly derivates held for economic hedging, which mitigate the effect of certain items in the categories Loans and receivables and Other financial liabilities.

See Note 1 for a description of the categories of financial instruments.

Net gains/losses are mainly exchange differences and changes in fair value for all the categories except for other non-financial liabilities, which includes primarily net interest costs on post-employment benefits and the interest caused by the discounting of provisions. Net gain/losses for loans and receivables also includes the loss of SEK 225 m on the Ovako vendor note. An impairment of SEK 16 m is included in the 2009 amount.

9 Taxes

Tax expense (SEKm)	2010 Income statement	2010 Other comprehensive income	2010 Total taxes	2009 Income statement	2009 Other comprehensive income	2009 Total taxes
Current taxes	**-1,904**	**-163**	**-2,067**	-1,065	-145	-1,210
Deferred taxes	**-298**	**219**	**-79**	503	250	753
Other taxes	**-51**	**–**	**-51**	-30	–	-30
	-2,253	**56**	**-2,197**	-592	105	-487

Taxes charged to other comprehensive income includes SEK 229 m (238) related to actuarial gains and losses, SEK -4 m (-49) related to cash flow hedges and SEK -169 m (-84) related to net investment hedges.

Gross deferred taxes per type (SEKm)	2010 Deferred tax assets	2010 Deferred tax provisions	2009 Deferred tax assets	2009 Deferred tax provisions
Intangibles and other assets	**-83**	**1,402**	-98	241
Property, plant and equipment	**-63**	**1,151**	-74	1,337
Inventories	**-392**	**502**	-404	429
Trade receivables	**-37**	**49**	-31	47
Provisions for post employment benefits	**-1,523**	**16**	-1,575	22
Other accruals and liabilities	**-753**	**30**	-797	39
Tax loss carry-forwards	**-257**	**–**	-387	–
Other	**-26**	**421**	-90	430
Gross deferred taxes	**-3,134**	**3,571**	-3,456	2,545
Net deferred taxes presented in the Consolidated balance sheet	**-1,695**	**2,132**	-1,665	754

The increase in deferred tax provisions on intangibles and other assets was caused mainly by the intangibles acquired as part of Lincoln Industrial.

Unrecognized deferred tax assets

SKF Group had total unrecognized deferred tax assets of SEK 249 m (276), whereof SEK 113 m (165) related to tax loss carry-forwards and SEK 136 m (111) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams. Unrecognized deferred tax assets of SEK 35 m are related to tax losses which will expire during the period 2011 to 2015. The remaining unrecognized assets will expire after 2016 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was SEK 11 m (3) relating to the use of tax loss carry-forwards. The change in the balance of unrecognised deferred tax assets that impacted deferred tax expense was SEK 4 m (-22) which resulted from a revised judgement on the realizability of certain tax assets in future years.

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	2010	2009
Tax calculated using statutory tax rate in Sweden	**-1,985**	-604
Difference between statutory tax rate in Sweden and foreign subsidiaries	**-212**	-8
Other taxes	**-51**	-30
Tax credits and similar items	**97**	154
Non-deductible/non-taxable differences	**-90**	-68
Tax loss carry-forwards	**-62**	-110
Current tax referring to previous years	**-14**	-23
Other	**64**	97
Actual tax	**-2,253**	-592

The corporate statutory income tax rate in Sweden was 26.3% (26.3). The actual tax rate on profit before taxes was 29.8% (25.8). There were no material changes in tax rates impacting deferred taxes in 2010 or 2009.

Gross value of tax loss carry-forwards

At 31 December 2010, certain subsidiaries had tax loss carry-forwards amounting to SEK 1,632 m (2,409), which are available for offset against taxable future profits. Such tax loss carry-forwards expire as follows:

2011	76
2012	131
2013	168
2014	210
2015	154
2016 and thereafter	893

10 Intangible assets

SEKm	**2010 Closing balance**	Additions	Businesses acquired	Disposals	Impairments	Other	Translation effects	2010 Opening balance
Acquisition cost								
Goodwill	**6,726**	–	3,889	–	–	–	-215	3,052
Patents, tradenames and similar rights	**1,540**	–	1,038	–	–	–	-56	558
Software	**456**	3	–	-37	–	2	-9	497
Customer relationships	**2,651**	–	1,836	-2	–	–	-88	905
Leaseholds	**30**	–	–	–	–	3	-1	28
Capitalized development	**262**	30	–	–	–	–	-37	269
Other intangible assets	**452**	13	269	–	–	-4	2	172
	12,117	46	7,032	-39	–	1	-404	5,481

SEKm	**2010 Closing balance**	Amortization	Businesses acquired	Disposals	Impairments	Other	Translation effects	2010 Opening balance
Accumulated amortization and impairments								
Goodwill	**417**	–	–	–	131	–	-7	293
Patents, tradenames and similar rights	**225**	33	–	–	–	–	-22	214
Software	**447**	15	–	-36	–	–	-10	478
Customer relationships	**332**	66	–	-2	19	–	-20	269
Leaseholds	**17**	4	–	–	–	–	-1	14
Capitalized development	**96**	16	–	–	–	–	-10	90
Other intangible assets	**110**	16	–	–	–	–	-15	109
	1,644	150	–	-38	150	–	-85	1,467
Net book value	**10,473**	-104	7,032	-1	-150	1	-319	4,014

SEKm	2009 Closing balance	Additions	Businesses acquired	Disposals	Impairments	Other [1)]	Translation effects	2009 Opening balance
Acquisition cost								
Goodwill	3,052	–	21	–	–	-197	-195	3,423
Patents, tradenames and similar rights	558	1	–	–	–	24	-33	566
Software	497	7	–	-47	–	1	-6	542
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	Amortization	Businesses acquired	Disposals	Impairments	Other	Translation effects	2009 Opening balance
Accumulated amortization and impairments								
Goodwill	293	–	–	–	–	–	-11	304
Patents, tradenames and similar rights	214	39	–	–	–	–	-12	187
Software	478	55	–	-47	32	1	-3	440
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

[1)] Includes adjustments related to PEER acquisition made in 2008.

10 Intangible assets (cont.)

In 2010, additions to capitalized software and development included SEK 28 m (20) that was internally generated.

Impairment losses in 2010 totalled SEK 150 m. The most significant was SEK 75 m related to the impairment of goodwill in certain of Industrial Division's mechatronics operations which experienced significantly decreased volumes and revenues. The impairment was based on a value in use model using a discount rate of 9% (11). The remaining impairments in 2010 were individually insignificant and related primarily to goodwill in the Service Division's operations in Europe and the Industrial Division's spindles business in North America which experienced shrinking order-books and increased risks on certain contracts.

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.

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

	Tradename		Goodwill	
SEKm	**2010**	2009	**2010**	2009
Lincoln Industrial (acquired 2010)	**1,020**	–	**3,889**	–
PEER Group (acquired 2008)	**169**	182	**237**	250
S2M Group (acquired 2007)	**–**	–	**269**	309
ABBA Group (acquired 2007)	**–**	–	**251**	248
SNFA Group (acquired 2006)	**–**	–	**352**	404
SKF Sealing Solutions NA (acquired 1990)	**–**	–	**252**	225
Other CGUs	**–**	–	**1,059**	1,323
Total	**1,189**	182	**6,309**	2,759

The goodwill and tradenames included in the above specific CGUs are individual intangible assets with indefinite lives that are material to the SKF Group, whereas the "Other CGUs" are considered individually insignificant. The recoverable amount for the "Other CGUs" are calculated using the same DCF model and assumptions as described in Note 1. The values assigned to the key assumptions and other parameters of the calculation are determined on an individual CGU basis.

The tradenames within Lincoln Industrial and PEER are considered to have indefinite useful lives. The SKF Group anticipates continuing to promote these brands in the foreseeable future.

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

The recoverable amounts for these CGUs have been determined based on value in use except for Lincoln Industrial which is measured at fair value due to the fact that it was aquired 28 December 2010 at market price. As discussed in Note 1, the most significant assumptions used in determining value in use are the discount rates and the growth rates, being both the terminal growth factor and the revenue growth rates. The average revenue growth rate used for the first two time frames covering a ten-year period was 14% (13) for PEER, 17% (19) for S2M, 9% (11) for ABBA, 8% (5) for SNFA and 4% (2) for SKF Sealing Solutions. The terminal growth factors used to calculate the terminal value were 3% (3) for ABBA and 2.5% (2.5) for the remaining CGUs. The pre-tax discount rate was 13% (14) for PEER, 11% (13) for S2M, 9% (11) for ABBA, 11% (13) for SNFA and 13% (14) for SKF Sealing Solutions.

Sensitivity analyses

A number of sensitivity analyses were performed to evaluate if any reasonably possible adverse changes in assumptions would lead to impairment. The analyses focused around decreasing the revenue growth rates and increasing the discount rates by 1 percentage point. No impairments were indicated.

11 Property, plant and equipment

SEKm	**2010 Closing balance**	Additions	Businesses acquired	Disposals	Impair-ments	Other [1]	Translation effects	2010 Opening balance
Acquisition cost								
Buildings	**5,898**	153	66	-57	–	104	-572	6,204
Land and land improvements	**933**	1	146	-14	–	16	-76	860
Machinery and supply systems	**22,568**	552	124	-1,017	–	40	-2,369	25,238
Machine toolings and factory fittings	**3,047**	136	15	-182	–	-55	-294	3,427
Construction in process including advances	**1,610**	809	7	-3	–	-976	-111	1,884
	34,056	1,651	358	-1,273	–	-871	-3,422	37,613

SEKm	**2010 Closing balance**	Depreciation	Businesses acquired	Disposals	Impair-ments	Other [1]	Translation effects	2010 Opening balance
Accumulated depreciation and impairments								
Buildings	**2,917**	182	–	-49	–	-22	-326	3,132
Land improvements	**174**	11	–	-11	–	–	-24	198
Machinery and supply systems	**15,631**	1,194	–	-996	46	-530	-1,730	17,647
Machine toolings and factory fittings	**2,412**	257	–	-168	2	-135	-247	2,703
	21,134	1,644	–	-1,224	48	-687	-2,327	23,680
Net book value	**12,922**	7	358	-49	-48	-184	-1,095	13,933

SEKm	2009 Closing balance	Additions	Businesses acquired	Disposals	Impair-ments	Other[1]	Translation effects	2009 Opening balance
Acquisition cost								
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 [1]	Translation effects	2009 Opening balance
Accumulated depreciation and impairments								
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

[1] Property, plant and equipment classified as held for sale is reflected under "Other", see Note 4.

Impairment losses for 2010 on property, plant and equipment amounted to SEK 48 m and were primarily related to the Automotive Division's forging business in Villar Perosa, Italy, which is also classified as held for sale at year-end. See Note 4.

Impairment losses for 2009 on PPE totalled SEK 118 m and were 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 addtion, 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 were expected to be dismantled, scrapped or otherwise disposed with little or no expected recoverable value.

11 Property, plant and equipment (cont.)

Leased property, plant and equipment consisted of the following (SEKm)	**2010**	2009
Acquisition value		
Buildings	**86**	90
Land and land improvements	**14**	16
Machinery and supply systems	**2**	5
Machine toolings and factory fittings	**2**	1
	104	112
Accumulated depreciation		
Buildings	**12**	7
Machinery and supply systems	**–**	2
Machine toolings and factory fittings	**2**	2
	14	11
Net book value		
	90	101

Tax value of Swedish real estate		
Land and land improvements	**88**	94
Buildings	**474**	472
	562	566

12 Jointly controlled and associated companies

Investments in jointly controlled and associated companies (SEKm)	**2010**	2009
Investments in jointly controlled companies	**60**	60
Investments in associated companies	**27**	27
	87	87

Income from jointly controlled and associated companies (before taxes) (SEKm)	**2010**	2009
Jointly controlled companies	**3**	-4
Associated companies	**-3**	-7
	0	-11

Investments in jointly controlled companies include International Component Supply Ltd in Brazil. Investments in associated companies include primarily CoLinx in the USA and Economos Singapore Pte Ltd.

Aggregated financial statements of jointly controlled and associated companies (SEKm)	**2010**	2009
Non-current assets	**180**	191
Current assets	**193**	177
Total assets	**373**	368
Equity	**231**	226
Non-current liabilities	**25**	28
Current liabilities	**117**	114
Total equity and liabilities	**373**	368
Net sales	**1,135**	980
Profit before taxes	**14**	-8

13 Inventories

SEKm	**2010**	2009
Raw materials and supplies	**3,794**	3,387
Work in process	**1,615**	1,652
Finished goods	**7,470**	6,732
	12,879	11,771

Inventory values are stated net of a provision for net realizable value of SEK 1,147 m (1,269). The amount charged to expense for net realizable provisions during the year was SEK 181 m (314). Reversals of net realizable provisions during the year were SEK 33 m (79).

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
2010	**9,859**	**8,665**	**846**	**197**	**65**	**86**
2009	8,800	7,685	750	182	57	126

The carrying amounts of trade receivables approximated fair value.

The average days outstanding of trade receivables in 2010 were 58 days (58). The Group's target is 57 days. Trade receivables as a percentage of annual net sales totaled 16.2% (15.7).

Trade receivables included receivables sold with recourse amounting to SEK 146 m (117). 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)	**2010**	2009
Allowances as of 1 January	**266**	281
Additions	**56**	61
Reversals	**-47**	-30
Changes through the income statement	**9**	31
Allowances used to cover write-offs	**-5**	-34
Currency translation adjustments	**-7**	-12
Allowances as of 31 December	**263**	266

14 Financial assets (cont.)

2010 Financial assets per category

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss: At initial recognition	Fair value through profit or loss: Trading	Derivatives for hedge accounting	Total	Of which current
Loans and receivables	180	–	–	–	–	**180**	32
Equity securities	–	670	–	–	–	**670**	–
Marketable securities	–	–	–	341	–	**341**	–
Debt securities	–	18	135	–	–	**153**	135
Trade receivables	9,859	–	–	–	–	**9,859**	9,859
Deposits	320	–	–	–	–	**320**	320
Cash and cash equivalent	1,847	–	548	–	–	**2,395**	2,395
Derivatives (Note 28)	–	–	–	245	99	**344**	264
Carrying amount	**12,206**	**688**	**683**	**586**	**99**	**14,262**	**13,005**
Fair Value	**12,203**	**688**	**683**	**586**	**99**	**14,259**	

2009 Financial assets per category

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss: At initial recognition	Fair value through profit or loss: 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 (Note 28)	–	–	–	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	

Financial assets recorded at fair value, which includes the columns Available-for-sale, Fair value through profit or loss, and Derivatives for hedge accounting in the above table, are disclosed below according to the hierarchy that shows the sigificance of the inputs used in the fair value measurements. Level 1 includes financial assets with a quoted price in an active market. Level 2 includes financial assets with inputs based on observable data other than quoted prices in an active market. Level 3 includes inputs that are not based on observable market data. Amounts for equity securities include SEK 25 m valued at cost and consequently not included in the specification below.

Fair value hierarchy for financial assets at fair value (SEKm)	Level 1	Level 2	Level 3	**2010**	Level 1	Level 2	Level 3	2009
Fair value through profit or loss								
Trading securities	358	–	118	**476**	300	–	139	439
Cash and cash equivalents	548	–	–	**548**	1,775	–	–	1,775
Trading derivatives	–	245	–	**245**	–	287	–	287
Available-for-sale								
Equity securities	645	–	–	**645**	476	–	–	476
Debt securities	18	–	–	**18**	21	–	–	21
Derivatives used for hedge accounting	–	99	–	**99**	–	395	–	395
Total	**1,569**	**344**	**118**	**2,031**	2,572	682	139	3,393

Reconciliation of financial assets in Level 3 (SEKm)	2010 Closing balance	Total comprehensive income: Financial net	Total comprehensive income: Other comprehensive income	Withdrawals	Translation effect	2010 Opening balance	Profit/loss related to assets included in closing balance
Fair value through profit or loss							
Trading securities 2010	**118**	**5**	**–**	**-9**	**-17**	**139**	**5**
Trading securities 2009	139	5	–	-9	–	143	5

15 Other short-term assets

SEKm	2010	2009
Advances to suppliers	**145**	146
Prepaid expenses	**397**	434
Accrued income	**136**	196
Other current receivables	**1,512**	2,365
	2,190	3,141

16 Share capital

	Number of shares authorized and outstanding			Share capital
	A Shares	B Shares	Total[1]	(SEKm)
Opening balance 1/1/2009	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
Conversion of A shares to B shares	-505,400	505,400	–	–
Closing balance 31/12/2010	**44,915,604**	**410,435,464**	**455,351,068**	**1,138**

[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, 182,021,143 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 5.00 (3.50) per share to be paid to the shareholders on 6 May 2011. The proposed dividend for 2011 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 3 May 2011. The total proposed dividend to be paid is SEK 2,277 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 statement.

On 7 May 2010, a dividend of SEK 3.50 (3.50) per share was paid to shareholders.

17 Earnings per share

	2010	2009
Net profit attributable to owners of AB SKF (SEKm)	**5,138**	1,642
Weighted average number of ordinary shares outstanding	**455,351,068**	455,351,068
Basic earnings per share (SEK)	**11.28**	3.61
Dilutive shares of stock option programme 2003	**–**	14,468
Weighted average diluted number of shares	**455,351,068**	455,365,536
Diluted earnings per share (SEK)	**11.28**	3.61

Weighted average number of ordinary shares outstanding used in the basic earnings per share calculation 2010 does not consider the equity swap agreement entered into in relation to SKF's Performance Share Programme 2008, see Note 1 under "Share-based compensation". If considered, the weighted average number of ordinary shares outstanding would have been reduced by 9,750 shares, which would have no effect on basic earnings per share. The equity swap agreement would have no effect on weighted average diluted number of shares, nor the diluted earnings per share calculation.

No allotment of performance shares will be made under SKF's Performance Share Programme 2009 due to non-fulfillment of the TVA (Total Value Added) target for the financial year 2009. Consequently there is no effect on earnings per share from that programme. TVA is described in page 22 under "Financial performance management model".

Future allotment of performance shares covered by SKF's Performance Share Programme 2010 requires that all the conditions of the programme are met. Therefore the performance shares are not currently considered dilutive, but may become dilutive in future periods depending on whether the conditions are met and how any shares to be delivered are obtained.

The dilutive effect of options in 2009 was based on the average market price of the SKF B share and the excercise prices of the options. There were no outstanding stock options as of 31 December 2010.

Refer to Note 25 for more information regarding the performance shares and options.

18 Provisions for post-employment benefits

Amount recognized in the consolidated balance sheet (SEKm)	2010			2009		
	Pensions	**Other**	**Total**	Pensions	Other	Total
Present value of unfunded defined benefit obligations	**966**	**1,762**	**2,728**	935	1,943	2,878
Present value of funded defined benefit obligations	**13,520**	**165**	**13,685**	13,494	169	13,663
Less: Fair value of plan assets	**-9,189**	**-79**	**-9,268**	-9,466	-86	-9,552
Deficit	**5,297**	**1,848**	**7,145**	4,963	2,026	6,989
Unrecognized past service cost	**0**	**-9**	**-9**	8	-4	4
Net post-employment benefit liabilities	**5,297**	**1,839**	**7,136**	4,971	2,022	6,993
Reflected as						
Other long-term assets	**-46**	**–**	**-46**	-27	–	-27
Liabilities related to assets as held for sale	**–**	**89**	**89**	–	–	–
Provisions for post-employment benefits	**5,343**	**1,750**	**7,093**	4,998	2,022	7,020
Net post-employment benefit liabilities	**5,297**	**1,839**	**7,136**	4,971	2,022	6,993

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 2010, this reimbursement right totalled SEK 31 m (33).

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 2009 a curtailment occurred as a result of restructuring activities.

Components of total post-employment benefit expense (SEKm)	**2010**	2009
Defined benefit expense		
Current service cost	**371**	355
Interest cost	**787**	867
Expected return on assets	**-598**	-587
Curtailments	**0**	-35
Other including past service cost	**8**	11
Post-employment defined benefit expense	**568**	611
Post-employment defined contribution expense	**329**	316
Total post-employment benefit expense	**897**	927
Whereof		
Amounts charged to operating profit	**630**	570
Amounts charged to financial expense	**267**	357
Total post-employment benefit expense	**897**	927

Geographical distribution of total defined benefit obligations (SEKm)	**2010**	2009
Europe	**9,530**	10,253
Americas	**6,660**	6,087
Rest of the world	**223**	201
	16,413	16,541
Geographical distribution of total plan assets (SEKm)		
Europe	**4,888**	5,237
Americas	**4,249**	4,197
Rest of the world	**131**	118
	9,268	9,552
Specification of total plan assets (SEKm)		
Government bonds	**2,067**	2,010
Corporate bonds	**2,090**	1,764
Equity instruments	**3,832**	4,104
Real estate	**850**	987
Other, primarily cash and other financial receivables	**429**	687
	9,268	9,552

The SKF Group strives to balance risk in the investments of plan assets, by aiming for a range of 30-50% equity instruments with the remainder in lower risk/fixed income investments such as corporate and government bonds.

The fair value of real estate in the specification of plan assets above includes SEK 80 m (90) 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 (10).

18 Provisions for post-employment benefits (cont.)

Changes in the present value of the defined benefit obligation (SEKm)	2010			2009		
	Pensions	**Other**	**Total**	Pensions	Other	Total
Opening balance 1 January	**14,429**	**2,112**	**16,541**	13,547	2,293	15,840
Interest cost	**705**	**82**	**787**	762	105	867
Current service cost	**341**	**30**	**371**	324	31	355
Curtailments	**0**	**0**	**0**	8	-43	-35
Actuarial gains (-)/losses	**728**	**22**	**750**	1,175	61	1,236
Contributions by plan participants	**32**	**12**	**44**	44	12	56
Benefits paid	**-773**	**-161**	**-934**	-792	-221	-1,013
Acquisitions	**326**	**16**	**342**	–	–	–
Other (including reclassifications)	**29**	**12**	**41**	-1	12	11
Translation differences	**-1,331**	**-198**	**-1,529**	-638	-138	-776
Closing balance 31 December	**14,486**	**1,927**	**16,413**	14,429	2,112	16,541

Changes in the fair value of plan assets (SEKm)	2010			2009		
	Pensions	**Other**	**Total**	Pensions	Other	Total
Opening balance 1 January	**9,466**	**86**	**9,552**	9,428	87	9,515
Expected return on assets	**595**	**3**	**598**	583	4	587
Actuarial gains/losses (-)	**138**	**1**	**139**	348	-1	347
Contributions by employer	**86**	**1**	**87**	98	–	98
Contributions by plan participants	**22**	**–**	**22**	28	–	28
Benefits paid	**-532**	**-1**	**-533**	-556	–	-556
Acquisitions	**179**	**–**	**179**	–	–	–
Other (including reclassifications)	**-17**	**–**	**-17**	-15	1	-14
Translation differences	**-748**	**-11**	**-759**	-448	-5	-453
Closing balance 31 December	**9,189**	**79**	**9,268**	9,466	86	9,552
Actual return on plan assets			**737**			934

Accumulated actuarial gains and losses
The balance of accumulated actuarial gains and losses recorded in retained earnings, including social charges, was an accumulated loss of SEK 2,687 m (2,071).

Expected cash outflows
Cash outflows for 2011 are expected to be SEK 478 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 2010 and 2009.

Alecta's profit in the form of the so-called collective consolidation level amounted to 146% (141). The collective consolidation level comprises the fair value of Alecta's assets as a percentage of the insurance commitments calculated in accordance with Alecta's insurance calculation principles and assumptions which are not in conformity with IAS 19.

Sensitivity analysis
An increase of 1 percentage point in the discount rate would decrease the total defined benefit obligation by approximately SEK 1,400 m. A decrease by 1 percentage point in the discount rate would increase the total defined benefit obligation by approximately SEK 1,700 m.

Principal weighted-average assumptions at end of year	**2010**	2009
Discount rate		
Europe	**4.8**	4.8
Americas	**5.3**	6.0
Rest of the world	**4.9**	5.0
Expected return on plan assets		
Europe	**5.0**	5.0
Americas	**7.4**	8.9
Rest of the world	**6.2**	6.2
Rate of salary increase		
Europe	**3.4**	3.4
Americas	**5.0**	5.0
Rest of the world	**7.3**	5.0
Medical cost trend rate		
USA	**8.75**	9.0
A one percentage point increase in the assumed medical care cost trend rate		
Effect on the aggregate current service cost and interest cost	**4**	4
Effect on the defined benefit obligation	**63**	53
A one percentage point decrease in the assumed medical care cost trend rate		
Effect on the aggregate current service cost and interest cost	**-4**	-3
Effect on the defined benefit obligation	**-56**	-47

During 2010, a shift from equities to lower risk investments occurred in the US plan assets, resulting in a lower expected return on asset assumption for year end 2010 over 2009.

The assumed medical care cost trend rate at the end of 2010 was 8.75%, and is projected to decline by 0.25% per year, to an ultimate rate of 4.50% in 2027.

Historical information (SEKm)	**2010**	2009	2008	2007	2006
Total present value of defined benefit obligations	**16,413**	16,541	15,840	14,099	15,017
Fair value of plan assets	**-9,268**	-9,552	-9,515	-10,697	-10,644
Deficit	**7,145**	6,989	6,325	3,402	4,373
Experience adjustments on plan liabilities, losses/gains(-)	**131**	-41	94	171	-220
Experience adjustments on plan assets, losses (-)/gains	**-139**	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	2010 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2010 Opening balance
Restructuring provisions	**431**	146	-656	-80	-19	-105	1,145
Environmental provisions	**87**	3	-7	-3	–	-6	100
Warranty provisions	**256**	102	-61	-37	19	-31	264
Long-term employee benefits	**401**	60	-111	-3	-4	-47	506
Other	**987**	318	-105	-48	-15	3	834
	2,162	629	-940	-171	-19	-186	2,849

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.

During 2010 restructuring costs of around SEK 90 m were taken related to the adjustment of the manufacturing capacity in Sweden which impacted mainly the Industrial Division. An additional amount of around SEK 35 m was taken related to restructuring programmes announced in 2009 in France and Italy. Further some of the restructuring costs taken in 2009 in Germany were reversed due to a quicker recovery in certain markets.

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

		2010		2009	
SEKm	Maturity	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long term financial liabilities					
SEK 1,500 m (Outstanding SEK 556 m)	2011	**–**	**–**	561	561
EUR 500 m (Outstanding EUR 396 m)	2013	**3,681**	**3,796**	4,261	4,273
EUR 150 m (Outstanding EUR 50 m)	2013	**450**	**450**	1,548	1,548
EUR 130 m	2014	**1,170**	**1,176**	1,343	1,343
EUR 400 m	2014	**3,601**	**3,602**	–	–
EUR 100 m	2015	**895**	**895**	–	–
EUR 100 m	2016	**900**	**900**	1,033	1,033
Other long-term loans	2011-2016	**152**	**153**	232	232
Derivatives held for trading		**1**	**1**	9	9
Subtotal long term financial liabilities		**10,850**	**10,973**	8,987	8,999
Short term financial liabilities					
EUR 250 m (Outstanding EUR 132 m)	2010	**–**	**–**	1,371	1,371
SEK 1,500 m (Outstanding SEK 556 m)	2011	**556**	**557**	–	–
Medium-term loans	> 3 months	**26**	**25**	35	35
Trade payables	2011	**4,476**	**4,476**	3,989	3,989
Short-term loans	=< 3 months	**366**	**366**	366	366
Derivatives held for trading		**137**	**137**	170	170
Derivatives held for hedge accounting		**240**	**240**	76	76
Subtotal short term financial liabilities		**5,801**	**5,801**	6,007	6,007
		16,651	**16,774**	14,994	15,006

Only derivatives are classified in the category "Fair value through profit or loss" and fall into Level 2 of the fair value hierarchy for both 2010 and 2009, see Note 1 for a description of the fair value hierarchy. The remaining financial liabilities are classified in the category "Other financial liabilities".

The EUR 150 m and the EUR 400 m loans can be repaid at any time before maturity. The EUR 100 m loan with maturity 2016 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 166 m out of the outstanding EUR 396 m bond and one of the EUR 100 m bonds have been hedged with cross-currency interest rate swaps. The fixed EUR interest rates have been swapped into floating 3 months' 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. The 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.

EUR 30 m of the EUR 130 m loan has been hedged with a cross-currency interest rate swap. The fixed EUR interest rates have been swapped into floating 3 months' SEK interest rates.

The EUR 100 m loan, EUR 100 m out of the EUR 130 m loan, EUR 234 m out of the EUR 396 m bond loan, the EUR 50 m loan and the EUR 400 m 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 8,074 m.

Derivatives are further described in Note 28. Methods used for establishing fair value are described in Note 1. Rates for the loans are disclosed in Note 9 of the Parent company.

21 Leases

	2010		2009	
Future minimum lease payments at 31 December (SEKm)	**Finance Leases**	**Operating Leases**	Finance Leases	Operating Leases
Within one year	**9**	**384**	12	357
Later than one year but within five years	**29**	**859**	39	794
Later than five years	**43**	**478**	58	504
Total	**81**	**1,721**	109	1,655
Less: Interest	**-11**		-17	
Present value of minimum lease payments under finance leases	**70**		92	
Less: Current portion	**-6**		-8	
Non-current portion	**64**		84	

Net rental expense related to operating leases was SEK 551 m (500). 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	**2010**	2009
Accrued salaries	**1,376**	1,098
Vacation pay	**576**	591
Social charges	**437**	411
Liabilities to jointly controlled and associated companies	**7**	11
Other current liabilities	**1,674**	2,465
Accrued expenses and deferred income	**2,012**	1,899
	6,082	6,475

23 Assets pledged and contingent liabilities

Assets that have been pledged to secure loans and other obligations (SEKm)	**2010**	2009
Mortgages on real estate	**28**	30
Chattel mortgages	**46**	67
	74	97

Mortgages are stated at the nominal value of the mortgage deeds. The pledged assets secured loans and other obligations of SEK 11 m (25) at 31 December.

Contingent liabilities at nominal values (SEKm)	**2010**	2009
Guarantees	**40**	43
Other contingent liabilities	**21**	10
	61	53

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 Corportation, 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

	2010		2009	
The SKF Group's transactions with related parties (SEKm)	**Associated companies**	**Jointly controlled companies**	Associated companies	Jointly controlled companies
Sales of goods and services	**31**	**–**	42	–
Purchases of goods and services	**115**	**438**	138	349
Receivables as of 31 December	**5**	**–**	20	–
Liabilities as of 31 December	**2**	**1**	8	–

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 2010 FAM is the major shareholder of the Parent company, holding 28.6% (28.5) of the voting rights and 12.0% (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 2010, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarized below.

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

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

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

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

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

The performance-based programme is primarily based on the short-term financial performance of the SKF Group established according to the SKF management model Total Value Added (TVA). TVA is a simplified economic value added model. This model promotes 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
The Annual General Meeting decided on the introduction of SKF's Performance Share Programme 2010. The terms and conditions of SKF's Performance Share Programme 2010 are in essence the same as the terms and conditions of the programmes for 2008 and 2009 included in the principles of remuneration for Group Management decided at the Annual General Meetings 2008 and 2009 and summarized in the Consolidated Financial Statements Note 25 of the Annual Report 2009. 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.

25 Remuneration to Key Management (cont.)

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

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

Preparation of matters relating to remuneration for Group Management
The Board of Directors of AB SKF has established a Remuneration Committee. The Committee consists of a maximum four Board members. The Remuneration Committee prepares of 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 2010 it was decided that the Board be entitled to a fixed allotment of SEK 3,500,000 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 2010. Finally, it was decided that an allotment of SEK 650,000 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 2010 as salary and other remunerations a total of SEK 8,071,074 of which SEK 256,500 was long-term variable salary decided upon in 2007. Additionally, Tom Johnstone was entitled to short-term variable salary of SEK 2,220,960 related to 2009 performance. The short-term variable salary was, however, not paid out in cash to Tom Johnstone but converted into additional pension contribution. Tom Johnstone's fixed annual salary 2011 will amount to SEK 10,000,000.

The variable salary in 2010 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 22.

Tom Johnstone will in the beginning of 2011 be allotted 3,330 SKF B shares under SKF's Performance Share Programme 2008. SKF's Performance Share Programmes are further described on pages 87 and 90.

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 3,507,178 corresponding to SEK 1,402,871 per year. The amount SEK 3,507,178 shall be adjusted in accordance with the Income Base amount (defined in accordance with Chapter 1 § 6 of the Act (1998:674) on income-based retirement pension) but not more than 5% for each year. The defined benefit pension is gradually earned according to the principles generally applied within the company. The pension is thereafter not conditioned upon future employment. In addition thereto, AB SKF shall pay a yearly premium corresponding to 35% of the difference between Tom Johnstone's fixed annual salary and the amount on which Tom Johnstone's defined benefit pension is calculated as described above. This part of Tom Johnstone's pension is a defined contribution pension. The 2010 cost for Tom Johnstone's total pension benefits was recorded in the amount of SEK 4,437,727.

Group Management
SKF's Group Management, consisting of 13 people at the end of the year, received in 2010 (exclusive of the President) salary and other remunerations amounting to a total of SEK 52,981,776, of which SEK 44,703,351 was fixed annual salary, SEK 786,209 was long-term variable salary decided upon in 2007, and SEK 7,492,216 was short-term variable salary related to 2009 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 22.

Group Management will in the beginning of 2011 be allotted 16,421 SKF B shares under SKF's Performance Share Programme 2008. SKF's Performance Share Programmes are further described on pages 87 and 90.

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

During 2003, the Board decided to introduce a defined contribution supplementary pension plan for Group Management of the Swedish companies within the SKF Group. Since 2005 the retirement age is 62 years. The President is not covered by this pension plan. The plan entitles senior managers covered to receive an additional pension over and above the pension covered by the ITP-plan. The contributions paid for senior managers covered by the defined contribution plan are based on each individual's pensionable salary (i.e. normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding 30 Income Base amounts. Some members of Group Management employed before 2005 have defined benefit pension entitlements relating to previous pension plans. Group Management members are never covered by both defined benefit pension and defined contribution pension for the same part of their pension entitlements.

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	Gross pension costs [2]
	Amounts paid in 2010 [3]	Amounts expensed in 2010 [3]	Amounts paid in 2010 related to 2009 [3]	Amounts expensed in 2010 [3]	Amounts paid in 2010 related to prior years [3]	Amounts expensed in 2010 [3]	Amounts paid and expensed in 2010 [3]	Amounts expensed in 2010 [3]
Board of directors of AB SKF								
Leif Östling	900,000	900,000	369,024	586,624	–	–	175,000	–
Ulla Litzén	325,000	325,000	138,384	219,984	–	–	150,000	–
Winnie Fok	325,000	325,000	138,384	219,984	–	–	–	–
Hans-Olov Olsson	325,000	325,000	138,384	219,984	–	–	75,000	–
Lena Treschow Torell	325,000	325,000	138,384	219,984	–	–	–	–
Peter Grafoner	325,000	325,000	138,384	219,984	–	–	75,000	–
Lars Wedenborn	325,000	325,000	138,384	219,984	–	–	100,000	–
Joe Loughrey	325,000	325,000	138,384	219,984	–	–	–	–
Jouko Karvinen	162,500	325,000	–	229,920	–	–	75,000	–
CEO	7,814,574	7,996,985	2,220,960 [4]	5,670,960	256,500	779,333	–	4,437,727
Group Management [5]	44,703,351	46,365,685	7,492,216	18,671,659	786,209	3,756,760	–	22,945,463
whereof AB SKF	*31,340,046*	*32,901,931*	*5,503,204*	*13,872,320*	*475,081*	*3,167,954*	–	17,767,835
Total	55,855,425	57,862,670	11,050,888	26,699,051	1,042,709	4,536,093	650,000	27,383,190
whereof AB SKF	*42,492,120*	*44,398,916*	*9,061,876*	*21,899,712*	*731,581*	*3,947,288*	*650,000*	*22,205,562*

[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] The short-term variable salary was not paid out in cash to the CEO but converted into a pension contribution.

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

25 Remuneration to Key Management (cont.)

SKF's Performance Share Programmes

At AB SKF's Annual General Meetings in 2008, 2009 and 2010, SKF's Performance Share Programmes 2008, 2009 and 2010 were resolved upon. All three 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, the period commencing 2009 up to and including 2011 for SKF's Performance Share Programme 2009, and the period commencing 2010 up to and including 2012 for SKF's Performance Share Programme 2010.

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

Allotment of shares under SKF's Performance Share Programme 2008 will be made in the beginning of 2011. In total 116,790 SKF B shares will be allotted pursuant to the terms of the programme, based on the degree of achievement of TVA target level for the financial year 2008, and TVA growth of 31 per cent (the financial year 2010 compared to the financial year 2008). No allotment of shares will be made under SKF's Performance Share Programme 2009 due to non-fulfillment of the TVA target for the financial year 2009. If all the conditions included in SKF's Performance Share Programme 2010 are met, allotment of shares shall be made following the expiry of the three year calculation period, i.e. during 2013.

For further details of SKF's Performance Share Programmes, see page 87.

Costs for SKF's Performance Share Programmes

SKF's Performance Share Programmes 2008, 2009 and 2010 are equity settled programmes and the Group accounts for them in accordance with IFRS 2.

The expenses for SKF's Performance Share Programmes 2008, 2009 and 2010, are recognized both directly in equity and as an operating expense over the vesting period 2008-2010, 2009-2011 and 2010-2012, respectively. The expenses are based both on the fair value of the SKF B share at grant date and the number of shares expected to vest on 31 December of each year. The fair value of the SKF B share at grant date was determined as SEK 104 for SKF's Performance Share Programme 2008, SEK 80 for SKF's Performance Share Programme 2009, and SEK 141 for SKF's Performance Share Programme 2010. Amounts expensed in 2010 were SEK 31 m excluding social charges, relating to programmes 2008 and 2010. In 2009 no costs were taken for any programmes.

To fullfill AB SKF's obligations under the Performance Share Programme 2008, SKF International AB entered into an equity swap agreement with a financial institution. The agreement includes the possibilitiy to get delivery of SKF shares from the financial institution to the participants of the programme. The fair value of the swap agreement as per 31 December 2010 was SEK -22 m and was recorded directly in equity.

A provision amounting to SEK 10 m (2), covering all programmes, was recorded for social charges payable by the employer when the shares are allocated. The social charges were calculated for the number of shares expected to vest and were based on the price of the SKF B share on 31 December 2010, SEK 191.60.

Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF was granted an allotment corresponding to 12,800 SKF B shares (11,600) by the Annual General Meeting in April 2010. 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 2010.

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 2010 performance.

In 2009 the last of the options were exercised resulting in a charge to equity of SEK 13 m of which SEK 3 m related to key management.

Specification of AB SKF's Stock option programme

	No. of options allocated	No. of people	Exercise price SEK	Theoretical value at allocation SEK	Exercise period	Out-standing options[1] 1 Jan.	Forfeited total (of which during the year)	Exercised during the year	Average price SEK	Outstanding options[1] 31 Dec.	SKF B share closing price 31 Dec.
Grant 2003											
2010	–	–	–	–	–	–	–	–	–	–	–
2009	3,944,338	330	47.91	8.28	2005-09	694,230	343,133 (119,462)	574,768	70.00	–	123.60

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

Men and women in Board of Directors and Group Management	2010		2009	
The Group	**Number of persons**	**Whereof men**	Number of persons	Whereof men
Board of Directors of the Parent company incl. CEO	**12**	**75%**	11	73%
Group Management incl. CEO	**13**	**77%**	13	77%
Parent Company				
Board of Directors of the Parent company incl. CEO	**12**	**75%**	11	73%
Group Management incl. CEO	**11**	**73%**	10	70%

26 Fees to the auditors

Fees to SKF Group statutory auditors were split as follows (SEKm)	**2010**	2009
Audit fees	**35**	39
Audit related fees	**2**	3
Tax fees	**3**	4
Other fees to auditors	**1**	–
	41	46
The Parent Company's share (SEKm)		
Audit fees	**3**	2
Audit related fees	**1**	1
Tax fees	**–**	–
Other fees to auditors	**–**	–
	4	3

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks. All other tasks are defined as Audit related fees, Tax fees or other fees to auditors. At the Annual General Meeting of Shareholders in 2009, KPMG AB was elected auditor for AB SKF until the Annual General Meeting of Shareholders in 2013.

27 Average number of employees

	2010		2009	
	Number of employees	**Whereof men**	Number of employees	Whereof men
Parent Company in Sweden	**223**	**56%**	220	55%
Subsidiaries in Sweden	**2,813**	**82%**	2,800	82%
Subsidiaries abroad	**37,170**	**78%**	35,510	79%
	40,206	**79%**	38,530	79%

Geographic specification of average number of employees in subsidiaries abroad	2010		2009	
	Number of employees	**Whereof men**	Number of employees	Whereof men
France	**3,552**	**78%**	3,752	80%
Italy	**4,131**	**77%**	4,132	78%
Germany	**5,153**	**87%**	5,352	87%
Other Western Europe excluding Sweden	**3,580**	**83%**	3,395	83%
Central and Eastern Europe	**3,662**	**64%**	2,975	66%
USA	**4,091**	**74%**	3,829	75%
Canada	**200**	**77%**	200	77%
Latin America	**2,772**	**80%**	2,414	81%
Asia	**9,759**	**80%**	9,026	79%
Middle East and Africa	**270**	**75%**	435	74%
	37,170	**79%**	35,510	79%

28 Financial risk management

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

The SKF Group defines its managed capital as the capital employed. One of the Group's long term financial targets is to achieve a return on capital employed of 27%.

The capital structure target of the Group is
– a gearing of around 50%, which corresponds to
– an equity/assets ratio of around 35% or
– a net debt/equity of around 80%

	2010	2009
Total equity, SEKm	**19,894**	18,280
Gearing, %	**48.6**	49.3
Equity/assets ratio, %	**36.0**	35.8
Net debt/equity, %	**80.5**	68.9
Return on capital employed, %	**24.0**	9.1

Definition of these key figures is available on page 154.

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 53,383 m (46,150) to SEK 5,338 m (5,718). This amount represented the Group's main transaction exposure excluding hedges.

The Group's policy has been to hedge the currency flows from 3 to 12 months on average. Hedge accounting as defined by IAS 39 has been limited to USD only.

Net currency flows (SEKm)	**2010**	2009
USD	**5,587**	4,785
CAD	**366**	269
EUR	**-3,702**	-2,026
Other[1)]	**3,087**	2,690
SEK	**-5,338**	-5,718

[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 and to EUR and EUR-related currencies, as shown in the table above. Therefore the sensitivity analysis regarding net currency flows is based only on USD and on EUR. 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 2011 as in 2010, shows that a 10% stronger SEK against the USD would have a negative effect on profit before taxes of approximately SEK 326 m (289), including the effects of hedging transactions. At year end, the outstanding hedges covered approximately 75% of estimated net USD flows for 6 months (4).

A sensitivity analysis based on the assumption that the net currency flows in EUR will be the same for 2011 as in 2010, shows that a 10% stronger SEK against the EUR would have a positive effect on profit before taxes of approximately SEK 368 m (203).

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 10 m (6) 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 (81) and a decrease of SEK 81 m (81), respectively.

Translation exposure

Translation exposure is defined as the Group's exposure to currency risk arising when translating the results and net assets of foreign subsidiaries to SEK. To reduce the translation exposure, the Group may hedge its net investment in foreign subsidiaries up to SEK 9,000 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 18,889 m (17,770) and total interest bearing financial assets amounted to SEK 3,454 m (5,969). Liquidity management and borrowing is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced. The objective of the SKF Group is to have a relatively short interest duration on the interest bearing assets and liabilities.

To manage the interest rate risk and currency risk in the borrowing, the SKF Group uses cross-currency interest rate swaps, where fixed EUR interest rates are swapped into floating SEK interest rates and floating EUR interest rates are swapped into floating SEK interest rates. The Group also has interest rate swaps where fixed SEK interest rates are swapped into floating SEK interest rates.

At 31 December 2010, given the prevailing net amount of interest bearing financial liabilities an unfavourable 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 106 m (62).

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 645 m (476), 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 65 m (48).

Liquidity risk

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

Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. In addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks at 31 December 2010 that will expire in 2014, and committed credit facilities of SEK 3,000 m that will expire in 2017. Of these facilities, EUR 400 m were utilized in connection with the acquisition of Lincoln.

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 and undiscouted interest payments and repayments of the non-derivative financial liabilities and the derivatives with payment outflows.

All instruments held at 31 December 2010 and for which payments were already contractually agreed were included. Planning data for future, new liabilities was not included. Amounts in foreign currency were translated at closing rate. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before 31 December 2010. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

	2010 Cash flows			
SEKm	**2011**	**2012**	**2013-2015**	**2016 and thereafter**
Loans	-1,243	-313	-9,271	-1,879
Trade payables	-4,476	–	–	–
Derivatives				
Outflows	-31,891	-147	-163	–
Inflows	31,995	153	164	–
Total	**-5,615**	**-307**	**-9,270**	**-1,879**

	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

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 13,592 m (15,399). 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 2010 and 2009 financial years. Fixed-interest bonds with the amount of EUR 266 m (250) 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%). 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 -163 m (343) as fair value hedges as of 31 December 2010.

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 2010**	Financial expense 2009
Financial liabilities (hedged items)	**23**	36
Cross-currency interest-rate swaps (hedging instruments)	**-21**	-27
Difference (inefficiency)	**2**	9

Cash flow hedges

During 2010, 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 2010 as well as 2009 were highly probable US dollar sales.

In the 2010 financial year, losses totalling SEK 4 m (gain of 3) 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 gains of SEK 10 m (losses of 166) 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 2010 financial year, gains totalling SEK 34 m (gains of 6) resulting from the change in fair value of the electricity derivatives were taken to other comprehensive income. These changes constitute the effective portion of the hedging relationship. During the year a gain of SEK 2 m (loss of 7) was transferred via other comprehensive income to Cost of goods sold. The ineffective part of the hedges amounted to a loss of SEK 3 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.

	2011			2012		
Nominal value	Q1	Q2	Q3	Q4		Total
Currency derivatives, USDm[1)]	152	62	6	–	–	220
Electricity derivatives, EURm	2	2	1	1	–	6

[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 7.0518.

A list of the fair values of derivatives is shown in the table in the Derivatives section below.

Hedges of net investments

During 2010, net investments in foreign operations totalling EUR 884 m (484) 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 641 m (320) before tax in 2010 and was recognized as a translation difference in other comprehensive income. No amount has been recycled from other comprehensive income to the income statement in 2010 or in 2009.

Derivatives

The following table shows the fair values of the various derivatives carried as at 31 December reflected as assets in Note 14 and liabilities in Note 20. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, 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).

Derivative assets and liabilities, net (SEKm)	Category	**2010**	2009
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	**-163**	343
Economic hedges and trading	Trading	**3**	9
Currency forwards/currency options			
Cash flow hedges	Hedge accounting	**-2**	-14
Economic hedges and trading	Trading	**105**	88
Electricity derivatives			
Cash flow hedges	Hedge accounting	**24**	-10
Embedded derivatives	Trading	**-1**	11
		-34	427

Parent Company income statements

SEKm	Note	Years ended 31 December 2010	2009
Net sales		**1,683**	1,623
Cost of services provided	*5, 8, 12*	**-1,683**	-1,623
Gross profit		**0**	0
Administrative expenses	*5, 8, 12*	**-213**	-101
Other operating income		**0**	8
Other operating expenses		**-14**	-8
Operating loss		**-227**	-101
Income from participations in group companies	*2*	**1,925**	2,761
Financial income	*2*	**295**	522
Financial expenses	*2*	**-502**	-681
Profit after financial items		**1,491**	2,501
Change in untaxed reserves	*3*	**-178**	-145
Profit before tax		**1,313**	2,356
Taxes	*4*	**157**	99
Net profit		**1,470**	2,455

Parent Company statements of comprehensive income

SEKm	Note	Years ended 31 December 2010	2009
Net profit		**1,470**	2,455
Other comprehensive income			
Change in fair value of available-for-sale assets	*7*	**169**	134
Other comprehensive income		**169**	134
Total comprehensive income		**1,639**	2,589

Parent Company balance sheets

SEKm	Note	As of 31 December 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	5	**4**	10
Investments in subsidiaries	6	**22,257**	17,211
Long-term receivables from subsidiaries		**10,591**	8,614
Investments in associated companies	6	**15**	15
Investments in equity securities	7	**645**	476
Deferred tax assets	4	**25**	23
		33,537	26,349
Current assets			
Short-term receivables from subsidiaries		**2,616**	3,472
Other short-term receivables		**132**	200
Prepaid expenses		**4**	9
Cash and cash equivalents		**–**	0
		2,752	3,681
Total assets		**36,289**	30,030
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Restricted equity			
Share capital (455,351,068 shares, quota value SEK 2.50 per share)		**1,138**	1,138
Statutory reserve		**918**	918
		2,056	2,056
Unrestricted equity			
Fair value reserve		**425**	256
Retained earnings		**7,539**	5,441
Net profit		**1,470**	2,455
		9,434	8,152
		11,490	10,208
Untaxed reserves	3	**1,417**	1,240
Provisions			
Provisions for post-employment benefits	8	**162**	144
Other provisions		**3**	7
		165	151
Non-current liabilities			
Long-term loans	9	**10,581**	8,602
Long-term liabilities to subsidiaries		**0**	12
		10,581	8,614
Current liabilities			
Short-term loans	9	**556**	1,361
Trade payables		**17**	17
Short-term liabilities to subsidiaries		**11,792**	8,075
Tax payables		**42**	184
Other short-term liabilities		**29**	19
Accrued expenses and deferred income		**200**	161
		12,636	9,817
Total shareholders' equity, provisions and liabilities		**36,289**	30,030
Assets pledged		**0**	0
Contingent liabilities		**5**	5

Parent Company statements of cash flow

SEKm	Years ended 31 December 2010	2009
Operating activities		
Operating loss	**-227**	-101
Adjustments for		
Depreciation and amortization	**1**	1
Net gain(-) on sales of property, plant and equipment	**-2**	–
Net gain(-) on sales of equity securities	**4**	0
Income taxes paid	**-418**	-4
Payments under post-employment defined benefit plans	**-21**	-14
Exercise of share options	**–**	-11
Changes in working capital		
Trade payables	**0**	-15
Other operating assets and liabilities, net	**3,207**	3,343
Interest received	**292**	519
Interest paid	**-470**	-642
Other financial items	**-29**	-27
Net cash flow from operating activities	**2,337**	3,049
Investment activities		
Additions to property, plant and equipment	**1**	0
Sales of property, plant and equipment	**8**	0
Dividends received from subsidiaries	**1,945**	2,941
Sales of shares in subsidiaries	**18**	1
Investments in subsidiaries	**-5,089**	-2,623
Sales of equity securities	**–**	4
Net cash flow used in investing activities	**-3,117**	323
Net cash flow after investments before financing	**-780**	3,372
Financing activities		
Proceeds from medium- and long-term loans	**4,642**	1,475
Repayment of medium- and long-term loans	**-2,268**	-3,257
Cash dividends to AB SKF's shareholders	**-1,594**	-1,594
Net cash flow used in financing activities	**780**	-3,376
Increase(+)/decrease(-) in cash and cash equivalents	**0**	-4
Cash and cash equivalents at 1 January	**0**	4
Cash and cash equivalents at 31 December	**0**	0

Change in net interest-bearing liabilities (SEKm)	**2010 Closing balance**	Exchange rate effect	Change in items	2010 Opening balance
Loans, long- and short-term	**11,137**	-1,200	2,374	9,963
Provisions for post-employment benefits	**162**	–	18	144
Liabilities to subsidiaries, long- and short-term	**11,671**	–	4,058	7,613
Receivables from subsidiaries, long- and short-term	**-11,297**	1,224	-2,392	-10,129
Cash and cash equivalents	–	–	0	0
Net interest-bearing liabilities	**11,673**	24	4,058	7,591

Change in net interest-bearing liabilities (SEKm)	2009 Closing balance	Exchange rate effect	Change in items	2009 Opening balance
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
Cash and cash equivalents	0	–	4	-4
Net interest-bearing liabilities	7,591	7	647	6,937

Parent Company statements of changes in equity

SEKm	Share capital[1]	Statutory reserve	Total restricted equity	Un-restricted equity	Total
Opening balance 1/1/2009	1,138	918	2,056	6,202	8,258
Net profit	–	–	–	2,455	2,455
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	–	134	134
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**
Net profit	–	–	–	**1,470**	**1,470**
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	–	**169**	**169**
Cost under Performance Share Programmes	–	–	–	**31**	**31**
Received group contributions	–	–	–	**1,645**	**1,645**
Paid group contributions	–	–	–	**-8**	**-8**
Tax effect on group contributions, net	–	–	–	**-431**	**-431**
Dividend	–	–	–	**-1,594**	**-1,594**
Closing balance 31/12/2010	**1,138**	**918**	**2,056**	**9,434**	**11,490**

[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.
Unrestricted equity includes accumulated net profits which can be distributed to shareholders. It also includes the fair value reserve which accumulates the changes in fair value of available-for-sale assets. See the Parent Company Balance Sheet for a specification of unrestricted equity.

Notes to the financial statements of the Parent Company

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2009.

1 Accounting policies

Basis of presentation
The financial statements of the Parent company are prepared in accordance with the "Annual Accounts Act" and The Swedish Financial Reporting Board recommendation RFR 2, "Accounting for Legal Entities" as well as their interpretations.

In accordance with RFR 2, IFRS is applied to the greatest extent possible under Swedish legislation, but full compliance is not possible. The areas in which the Parent company's accounting policies differ from the Group's are described below. For a description of the Group's accounting policies, see Note 1 to the consolidated financial statements.

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

Investments in subsidiaries
Investments in subsidiaries are recorded at acquisition cost, reduced by any impairment.

Untaxed reserves
The tax legislation in Sweden allows companies to make provisions to untaxed reserves. Hereby, the companies may, with certain limits, allocate and retain profits in the balance sheet instead of immediate taxation. The untaxed reserves are taken into taxation at the time of their dissolution. In the event that the business shows losses, the untaxed reserves may be dissolved in order to cover the losses without any taxation. Group Contributions are reported in equity in accordance with The Swedish Financial Reporting Board UFR 2.

Standards affecting presentation and disclosure
IAS 1 amendment "Financial Statement Presentation: a Revised Presentation" primarily introduced a requirement to seperately present non-owner changes in equity. The Parent company has chosen to present such non-owner changes in a "statement of comprehensive income" with individual items presented gross with any tax effect accumulated and presented seperately. Previosly such non-owner changes were presented in the statement of changes in equity with a net of tax presentation. 2009 has been restated accordingly.

2 Financial income and financial expenses

SEKm	**2010**	2009
Income from participations in Group companies		
Dividends from Group companies	**1,945**	2,941
Other financial income from investments in subsidiaries	**4**	1
Impairment of investments in subsidiaries	**-24**	-181
	1,925	2,761
Interest income and similar items		
Interest income from Group companies	**292**	518
Interest income from external parties	**0**	1
Other financial income	**3**	3
	295	522
Financial expenses		
Interest expenses to Group companies	**-182**	-150
Interest expenses to external parties	**-288**	-492
Other financial expense	**-32**	-39
	-502	-681

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

Change in untaxed reserves (SEKm)	**2010**	2009
Change in tax allocation reserves	**-179**	-145
Change in accelerated depreciation reserve	**1**	0
	-178	-145

Untaxed reserves (SEKm)		
Accelerated depreciation reserve	**1**	2
Tax allocation reserves	**1,416**	1,238
	1,417	1,240

4 Taxes

Taxes on profit before taxes (SEKm)	**2010**	2009
Current taxes	**155**	101
Deferred taxes	**2**	-2
	157	99

Taxes attributable to the exercise of share options, accounted for in unrestricted equity, amounted to SEK 0 m (1). In addition tax on Group contribution is SEK 431 m (345).

Net deferred taxes per type (SEKm)	**2010**	2009
Provisions for post-employment benefits	**23**	21
Other	**2**	2
Deferred tax assets	**25**	23

Reconciliation of the statutory tax in Sweden and the current tax (SEKm)	**2010**	2009
Tax calculated using the statutory tax rate in Sweden	**-345**	-620
Non-taxable dividends and other financial income	**512**	774
Other non-deductible and non taxable profit items, net	**-10**	-55
Actual tax	**157**	99

The corporate statutory income tax rate in Sweden was 26.3% in 2010 and 2009

5 Property, plant and equipment

SEKm	**2010 Closing balance**	Additions	Disposals	2009 Opening balance
Acquisition cost				
Buildings	**4**	–	-5	9
Land and land improvements	**0**	–	-2	2
Machine toolings and factory fittings	**13**	1	–	12
	17	1	-7	23

SEKm	**2010 Closing balance**	Depreciation	Disposals	2009 Opening balance
Accumulated depreciation				
Buildings	**1**	0	-1	2
Land and land improvements	**0**	–	–	0
Machine toolings and factory fittings	**12**	1	–	11
	13	1	-1	13
Net book value	**4**			10

Depreciation is included in administrative expenses.
The tax assessment value of the Swedish real estate is SEK 3 m (9), of which SEK 1 m (2) relates to land and land improvements.

6 Investments in subsidiaries and associated companies

Significant investments in subsidiaries are specified below. Investments in associated companies was SEK 15 m (15) and includes a 50% holding in AEC Japan Co. Ltd and a 30% holding in Endorsia.com International AB.

Investments in subsidiaries held by the Parent company on 31 December (SEKm)	**2010**	Additions	Impairm.	Disposals and capital repayments	2009	Additions	Impairm.	Disposals and capital repayments	2009
Investments in subsidiaries	**22,257**	5,089	-25	-18	17,211	2,625	-181	-1	14,768

		2010			2009		
Name and location	Registration number	No. of shares	Holding in percent	Book value	No. of shares	Holding in percent	Book value
Manufacturing companies							
SKF USA Inc., Pa., USA	–	1,000	100	2,234	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	383
SKF Polska Spólka Akcyjna, Poland	–	3,701,466	90.6	156	3,701,466	90.6	156
SKF Bearings Bulgaria EAD, Bulgaria	–	24,664,309	100	183	23,664,309	100	183
SKF Ukraine, Ukraine	–	821,379,918	99.8	113	481,829,623	99.7	34
SKF Actuation system AB, Göteborg, Sweden	556020-4207	–	–	–	1,000	100	7
SKF do Brasil Limitada, Brazil	–	243,461,248	99.9	538	237,130,248	99.9	538
SKF Argentina S.A., Argentine	–	890,144	2.4	3	890,144	2.4	3
SKF India Ltd., India	–	246,390,480	46.7	94	24,639,048	46.7	94
SKF Couplings Systems AB, Hofors, Sweden	556019-4150	7,500	100	259	75,000	100	259
SKF Sealing Solutions AB, Landskrona, Sweden	556133-3625	10,000	100	18	10,000	100	27
SKF Transmission AB, Jönköping, Sweden	556219-5296	–	–	–	16,000	100	2
SKF Automotive Components Corporation, Republic of Korea	–	–	–	–	3,035,000	100	74
SKF Sealing Solutions Korea Co., Ltd., Republic of Korea	–	153,200	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	–	108,224,966	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	187
Sales companies							
SKF Danmark A/S, Denmark	–	5	100	7	5	100	0
SKF Norge A/S, Norway	–	50,000	100	0	50,000	100	0
Oy SKF Ab, Finland	–	48,100	100	12	48,400	100	12
SKF Logistics Services Belgium NV/SA, Belgium	–	29,907,952	99.9	6,236	167,587	99.9	6,236
SKF Portugal-Rolamentos, Lda., Portugal	–	61,601	95.0	4	61,601	95.0	4
SKF Ložiska, a.s., Czech Republic	–	430	100	10	430	100	10
SKF Svéd Golyóscsapágy Zrt., Hungary	–	20	100	0	20	100	0
SKF Canada Limited, Canada	–	100,000	76.9	0	100,000	76.9	0
SKF del Peru S.A., Peru	–	2,564,903	99,9	0	2,565,160	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	35	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	–	5	5.0	1	100	5.0	1
SKF Pakistan Private Limited, Pakistan	–	1,781,295	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				10,802			9,401

6 Investments in subsidiaries and associated companies (cont.)

Name and location	Registration number	2010 No. of shares	2010 Holding in percent	2010 Book value	2009 No. of shares	2009 Holding in percent	2009 Book value
Carried forward	–			10,802			9,401
Other companies							
Trelanoak Limited., United Kingdom	–	6,965,000	100	120	6,965,000	100	120
SKF Holding Maatschappij Holland B.V., The Netherlands	–	60,002	100	5,042	60,002	100	5,042
SKF Belgium NV/SA, Belgium	–	650,505	99,9	3,593	–	–	–
SKF Verwaltungs AG, Switzerland	–	500	100	502	500	100	502
SKF Holding Mexicana, S.A. de C.V., Mexico	–	2,268,763	98.0	104	2,268,763	98.0	120
SKF (China) Investment Co. Ltd., Peoples Republic of China	–	133,400	100	935	133,400	100	935
SKF Korea LTD, Republic of Korea	–	128,667	100	74	–	–	–
SKF Treasury Centre Asia & Pacific Pte Ltd., Singapore	–	61,500,000	100	468	1	100	468
SKF South Africa (PTY) Ltd., South Africa	–	1,422,480	100	43	300	100	43
SKF Australia (Manufacturing) Pty. Ltd., Australia	–	96,500	100	0	96,500	100	0
SKF (Thailand) Ltd, Thailand	–	1,847,000	92.4	37	1,847,000	92.4	37
Scandrive Control AB,Göteborg, Sweden	556354-1548	–	–	–	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
Bagaregården 16:7 KB, Göteborg, Sweden	916622-8529		99.9	52[1)]		99.9	50[1)]
Other holdings				0			0
				22,257			17,211

[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)	2010	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	Peoples Republic of China
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
Lincoln Industrial, USA	100	USA
SKF Taiwan 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
SKF Sealing Solutions (Wuhu) Co. Ltd., Anhui, Peoples Republic of China	100	Peoples Republic of China

7 Investments in equity securities

Name and location	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	**2010 Book value, SEKm**	2009 Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	CNY	33	**586**	456
NN, Inc., USA	4.5	700,000	USD	2	**59**	20
					645	476

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.

Amount recognised in the balance sheet (SEKm)	**2010**	2009
Present value of funded pension obligations	**169**	164
Less: Fair value of plan assets	**-156**	-149
Net obligation	**13**	15
Present value of unfunded pension obligations	**149**	129
Net provisions for post-employment benefits	**162**	144

SEK 162 m of the net provision relates to "Tryggande-lagen".

Change in provision for the year (SEKm)	**2010**	2009
Opening balance 1 January	**144**	155
Pension cost excluding interest expense	**41**	23
Interest expense	**5**	6
Return on plan assets	**-7**	-26
Pension payments	**-21**	-14
Closing balance 31 December	**162**	144

Components of expense (SEKm)		2009
Pension cost excluding interest expense	**41**	26
Interest expense	**5**	6
Return on plan assets	**-7**	-26
Defined benefit expense	**39**	6
Defined contribution expense	**39**	44
Total expense	**78**	50

The calculation of defined benefit pension obligations have been made in accordance with regualtions stipulated by the Swedish Financial Supervisory Authority, FFFS 2007:24 and FFFS 2007:31.

The discount rate for the ITP-plan is 4.0% (4.0) and for the other defined benefit plan it was 3.6% (3.5%). Expected cash outflows for 2011 are SEK 25 m.

9 Loans

SEKm	Maturity	Interest rate	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Bonds						
EUR 250 m (Outstanding EUR 132 m)	2010	3.00	–	–	1,361	1,371
SEK 485 m (Outstanding SEK 111 m)	2011	5.40	**111**	**112**	111	116
EUR 500 m (Outstanding EUR 396 m)	2013	4.25	**3,565**	**3,796**	4,124	4,273
Long-term loans						
SEK 1,015 m (Outstanding SEK 445 m)	2011	2.06	**445**	**445**	445	445
EUR 150 m (Outstanding EUR 50 m)	2013	1.30	**450**	**450**	1,547	1,547
EUR 130 m	2014	3.78	**1,170**	**1,176**	1,342	1,342
EUR 400 m	2014	1.25	**3,601**	**3,602**	–	–
EUR 100 m	2015	2.95	**895**	**895**	–	–
EUR 100 m	2016	1.41	**900**	**900**	1,033	1,033
			11,137	**11,376**	9,963	10,127

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	2010	2009
Salaries, wages and other remuneration	**259**	211
Social charges (whereof post-employment benefit expense)	**177(78)**	137(50)

11 Absence due to illness

	2010	2009
Total absence due to illness as a percentage of total ordinary working hours	**1.2%**	1.3%
• absence due to illness, men	**0.5%**	1.2%
• absence due to illness, women	**2.1%**	1.4%
• employes age – 29	**1.1%**	1.4%
• employes age 30–49	**0.7%**	1.3%
• employes age 50 +	**2.3%**	1.3%
• long-time absence due to illness (60 days or more) as a percentage of total absence due to illness	**39.2%**	50%

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 1,288 m (1,201) . Financial income from and financial expense to subsidiaries is presented in Note 2. Assets and liabilities attributable to subsidiaries are presented in the balance sheet. For related party transactions involving key management, see Note 25 to the consolidated financial statements.

Proposed distribution of surplus

Retained earnings	SEK	7,538,891,329
Net profit for the year	SEK	1,470,006,669
Total surplus	SEK	9,008,897,998
The Board of Directors and the President recommend		
to the shareholders, a dividend of SEK 5.00 per share[1)]	SEK	2,276,755,340[2)]
to be carried forward	SEK	6,732,142,658
	SEK	9,008,897,998

[1)] Suggested record day for right to dividend, May 3, 2011.
[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 2010 are given in the income statements and in the balance sheets together with related notes.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 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, February 1, 2011

Leif Östling *(Chairman)*
Ulla Litzén *(Board member)*
Tom Johnstone *(President and CEO, Board member)*
Winnie Fok *(Board member)*
Hans-Olov Olsson *(Board member)*
Lena Treschow Torell *(Board member)*
Peter Grafoner *(Board member)*
Lars Wedenborn *(Board member)*
Joe Loughrey *(Board member)*
Jouko Karvinen (*Board member*)
Lennart Larsson *(Board member)*
Kennet Carlsson *(Board member)*
Jeanette Stenborg *(Deputy board member)*
Marie Petersson *(Deputy board member)*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued February 28, 2011.

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 2010. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 8-39 and 50-105. 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 February 2011

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 2010:

- **2009 Advanced Safety Production Unit Award,** Dalian Government, China
- **Best Supplier of the Year 2008-09,** Elgi, India
- **Best Supplier Award,** Hanbell, China
- **Best Manager Award 2009, Dalian Personnel Bureau,** Dalian Labor and Social Security Bureau, China
- **2010 Best Overall Supplier,** Goldwind, China
- **Best Product of the Year 2010,** The Golden Mousetrap Award, Design News, USA
- **Best Brand in Corporate Branding,** Asia Pacific Brands Foundation, Malaysia
- **Best Supplier of the year 2010,** APP China Group, China
- **Best Company Award,** Korean authorities, South Korea
- **Best Kaizen Award,** Toyota, India
- **Best Performance in Qualità,** FIAT, Argentina
- **Best Vendor of AHM Tahun 2010,** Honda AHM, Indonesia
- **Best Quality and Delivery Performance,** Chemco Harapan Nusantara, Indonesia
- **Caterpillar MQ11005 Supplier Certification Award (gold level),** Caterpillar, Poland
- **Dalian Xinghai Friendship Award,** Dalian Government, China
- **The Employment Relationship "AA" Trustworthy Unit Award,** Dalian Municipal Government, China
- **FIAT Qualitas award 2010,** FIAT, Brazil
- **Gold Level Green Building Certification to LEED-NC,** LEED, Russia
- **Gjuteribranchens Energipris 2010,** Gjuteribranchen, Sweden
- **Liaoning Friendship Award,** Liaoning Provincial People's Government, China
- **Leadership Award for sustainability,** Johnson Controls, USA
- **NAPA Canada 95% Club Award,** NAPA Canada, Canada
- **Outstanding Q1 supplier,** Deutsche Bahn AG, Germany
- **Oustanding Supplier Award,** Qingjiang Motor (QJEM), China
- **Preferred Supplier Award ,** Bosch, Germany
- **Partner-level Supplier Award,** John Deere, USA
- **Preferred Employer Award 2009,** Dalian Personnel Bureau, Dalian Labor and Social Security Bureau, China
- **Platinum Level LEED Certification for Commercial Interiors,** US Green Building Council, USA

- **Supplier 6 Sigma Assessment,** Caterpillar, Poland
- **Supplier Quality Excellence Recertification Process**
- **MQ11005 Silver for SKF Slewing Bearings,** Caterpillar, France/Belgium
- **Silver Award – TKED1,** Terotech Maintenance fair, Slovenia
- **Sona Kaizen Trophy,** TPM Conference, India
- **The Supply Chain Distinction Award 2010,** World Trade Group, Spain
- **The 2010 Supply Chain Operational Excellence Award,** Global Supply Chain Council, China
- **Svenska Exportpriset 2010,** The Swedish Chamber of Commerce in Germany, the Swedish Trade Council and the Swedish Embassy in Germany, Germany
- **Vendor Awards 2010 – Best Supply Category,** Honda AHM, Indonesia
- **VW Group Award 2010,** Volkswagen, Mexico

SKF's divisions

SKF's business is 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.

SKF operates in around 40 customer segments, for example, cars and light trucks, wind energy, railway, machine tool, medical, food and beverage, and paper industries.

Content

Industrial Division and Service Division serve the industrial market

The two divisions serve the global industrial market and its customers with products, services and solutions. There is a close cooperation that best fulfils customer needs – from original equipment manufacturers (OEM) to end user industries.

Since every industry is unique, the Service Division and the Industrial Division both serve the industrial market, but inject value at different stages of the asset lifecycle. This enables SKF to tailor technology to fit the specific requirements of each industry.

Industrial Division

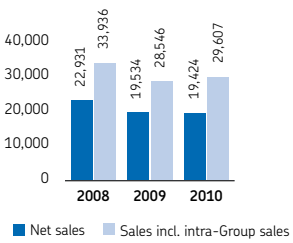
The Industrial Division serves industrial OEM customers in around 30 global industry customer segments with a wide range of offerings increasingly with focus on energy efficiency. These solutions and know-how are also based on the manufacturing of a wide range of bearings – such as spherical and cylindrical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

Service Division

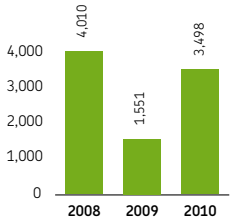
The Service Division serves the global industrial aftermarket providing products and knowledge-based services to increase customers' plant asset efficiency. Solutions are based on SKF's knowledge of bearings, seals, lubrication systems, mechatronics and services, and customers are served by SKF and its network of over 7,000 authorized distributors. The division has five Condition Monitoring Centres, who design and produce world-leading hardware and software. The 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 and services incorporating all SKF's technology platforms.

Industrial Division

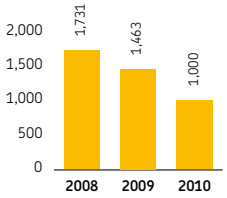
Sales, SEKm*



Operating profit, SEKm*



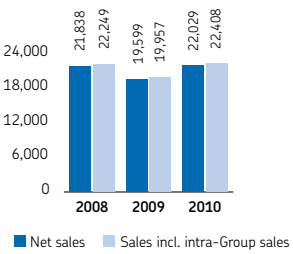
Additions to property, plant and equipment, SEKm*



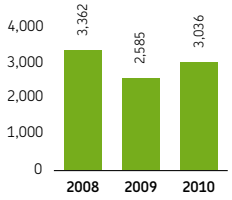
* Previously published figures have been reclassified to conform to Group structure 2010.

Service Division

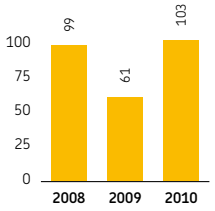
Sales, SEKm*



Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



* Previously published figures have been reclassified to conform to Group structure 2010.

Segments

General industry
Fluid power, industrial gearboxes and material handling.

Special industrial machinery
Food & beverage, machine tools, marine, medical & health care, printing & packaging, 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.

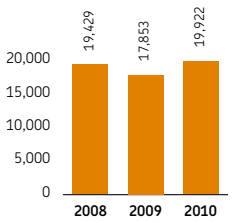
Railway
Axleboxes and sensorized bearing solutions for the railway industry, freight cars, locomotives, multiple units and high-speed vehicles.

Off-highway
Construction, farm & forestry, lift truck drives (so called non-public road vehicles).

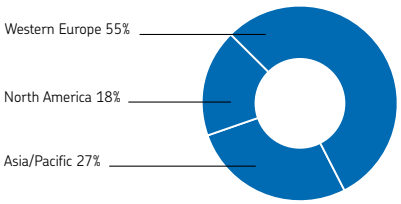
Energy
Renewable power (mainly wind energy), oil & gas, and non-renewable energy industry machineries.

Other
Other businesses.

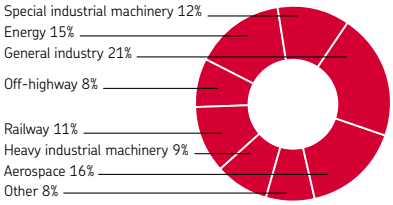
Registered number of employees*



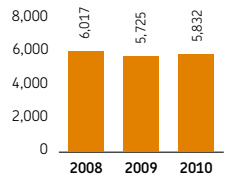
Net sales by geographic area



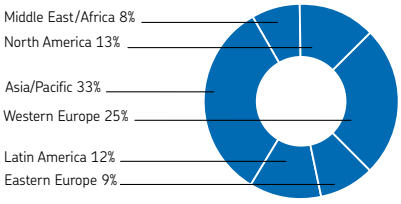
Net sales by customer segment



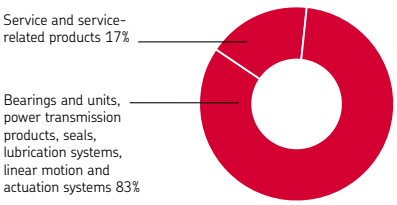
Registered number of employees*



Net sales by geographic area



Net sales by customer segment



Industrial Division

2010's highlights:

- Created record profit levels in the recovery
- Increased sales and presence in rapidly expanding Asian region
- Invested in new factories in India and Russia
- Announced the building of a new factory in China – opening late 2011
- Acquired US lubrication systems company, Lincoln Industrial
- Entered several new strategic partnerships
- Continued implementing Manufacturing Excellence

Net sales in 2010 amounted to SEK 19,424 million (19,534), a fall of 0.5%. Sales including intra-Group sales totaled SEK 29,607 million (28,546). The operating profit was SEK 3,498 million (1,551), with an operating margin of 11.8% (5.4). The operating profit includes expenses for restructuring activities and other one-off items of around SEK 80 million (310). The fall in net sales was attributable to organic growth of 6.0% and currency effects of -6.6%.

After closing the books on one of the toughest years on record, the Industrial Division started a new chapter in 2010. The year can really be defined as one of improved profitability and volume recovery as there was a return to growth in most areas and segments.

Sales in the North American and Asian markets rose significantly during the year, with positive trends in segments such as construction equipment, fluid power, industrial gearboxes, agriculture and pulp and paper. The European market started off poorly in Q1 and Q2 but volumes recovered later in 2010, hitting higher levels than the same period a year earlier.

Sweet and Sour

We continued to be cautious in our optimism in the Industrial Division in 2010 – having to apply the brakes in certain areas, all the while being guided by the 3C program – Customer, Cost and Cash. However, it has been important to dare to push down the accelerator in areas where we have seen potential or growth. We increased our presence in Asia, investing in new factories, and we acquired a major American lubrication systems company to expand our lubrication systems business.

The following are customer segment highlights for 2010:

Aerospace - Slowly gaining altitude

The aerospace market continued to lag in the beginning of 2010, as it entered the economic downturn nearly a full year later than most other industries. Orders for SKF's bearings, components, and fly-by-wire equipment for fixed-wing aircraft, helicopters and jet engines began to bounce back in late 2010, and a full recovery is expected in the coming year.

There was a slight increase in aircraft build rates from two of SKF's top customers, Boeing and Airbus. The commercial aircraft segment stayed steady, including large cabin business jets. The commercial helicopter segment hit rock bottom, while the military helicopter segment was relatively strong.

In an effort to further expand its aeroengine operations in the US, SKF invested more than USD 17 million in building a new heat treatment facility in Falconer, New York.

The Aerospace Global Certificate (AS/EN9100 series) was awarded to SKF in September by Lloyd's, a third-party certification body. It recognizes multi-site companies that have a harmonized way of working in addition to a global management of the business. Very few certificates of this kind are issued in the aerospace business.

Railway – Right on track

The long-term drivers for the business in the railway industry remain positive. However, in 2010 the industry in Europe was negatively affected by the global economic downturn, primarily in the freight segment, as the demand for transport was weak. Some investments were postponed in the passenger segment due to economic constraints in certain markets. China and India both developed strongly thanks to the investments in improved infrastructure and rolling stock.

SKF inaugurated its new railway bearing factory in Tver, Russia, in July. The factory will produce the new generation of pre-lubricated compact tapered bearing units (CTBU). The investment further strengthens SKF's position as a supplier to Russian Railways (RZD). It is one of the first factories in Europe with LEED certification.

SKF expanded its network of Railway Service Centres, with seven now fully operational around the globe.

SKF presented its Life Cycle partnership business model at the world's largest railway exhibition, InnoTrans in Berlin.

Several new orders were signed in 2010, including a deal with CRC (Changchun Railway Vehicles Co., Ltd) the order is worth EUR 6.8 million. SKF also renewed its contract with Chinese locomotive manufacturer CSR Zhuzhou Electric Locomotive Co., Ltd (ZELC) for all axlebox and drive system bearings for 2010 with a contractual value of EUR 14 million. Indian Railways expanded its 2009 order with SKF to supply seals for refurbishing tapered bearing units for freight cars. In 2010, the customer added another 177,000 pieces to the order, bringing the total to 767,000. This is the single largest order released by Indian Railways to any individual supplier for seals.

Energy – Spinning forward

After two years of decline in global energy demand, 2010 started to show some uneven recovery. While Europe and the Americas were lagging, Asia with China and India led the demand increase.

Business grew positively in the traditional energy sector, but deliveries in 2010 still suffered in renewable energy from an overall overcapacity and destocking in the wind industry. However, with the wind business still running at full speed in China, the nation became the single biggest market for SKF in wind energy.

One of the world's largest turbine manufacturers, China's Goldwind, launched its new 2.5 MW turbine in 2010. SKF has been working in close cooperation with Goldwind to develop this turbine, with our reliable SKF Nautilus bearing and other supports. China's other

top turbine manufacturer, Sinovel, has also chosen the SKF Nautilus bearing for its new generation of wind turbine, the 3 MW. In an effort to support the expanding demand for SKF Nautilus in China and other Asian markets, local manufacturing of the bearing began at the SKF Dalian plant during the year.

During 2010 SKF supplied prototype gearbox bearings from the manufacturing operation in Dalian to be used in the building and assembly of Hansen gearboxes for the wind industry market in China. Hansen produces the gearboxes at its manufacturing site in Tianjin, China. This commitment and investments made meant that Hansen was able to source and procure its requirements for this market from a locally based SKF operation, thereby supporting its market strategy.

SKF signed a four-year contract worth EUR 20 million with WinWinD, a Finnish manufacturer of wind turbines. The SKF Nautilus bearing will be the main bearing supplied to WinWinD's 3 MW wind turbines. The new contract also gives SKF the role of developing partner in areas of lubrication, sealing and condition monitoring.

SKF showcased its total offer for the wind industry's major players at both the Husum Wind Energy trade fair in Germany and China Wind Power in Beijing in 2010.

Lubrication – Major platform expansion

SKF has been expanding its lubrication systems business for a number of years now. Acquisitions such as Vogel and Safematic lubrication systems have enabled SKF to offer both automatic and centralized lubrication systems. SKF's sales of lubrication systems improved significantly in 2010 after a major decline in 2009.

The latest acquisition, of US-based Lincoln Industrial, complements SKF's current lubrication systems business both in regards to geographical sales coverage, technology and manufacturing footprint, particularly in North American and Asia. In addition, Lincoln Industrial provides SKF with improved access to the lubrication tools and equipment market.

SKF received an important lubrication order from China's Voith Paper in 2010 to supply an oil circulation lubrication system plus engineering and service (piping). The customer wanted a system with high local content and chose SKF as several components and service are from China and local sub suppliers.

General Industry – Customer successes

Farm equipment manufacturer John Deere recognized SKF USA Inc. as a Partner-level Supplier for 2010, its highest supplier rating, in its Achieving Excellence Program. SKF was selected for its dedication to providing products and service of outstanding quality as well as its commitment to continuous improvement.

SKF's roller screw technology helped major German customer H&T ProduktionsTechnologie, develop a new range of presses. The new technology increases the efficiency, flexibility and precision of the press process with a significant reduction in energy consumption. The Servo Press, driven by an electromechanical solution with SKF roller screws, enables the end user to reduce cost of production and provides the possibility to produce a wider range of products. Seven different sizes of presses are offered by H&T, all of them equipped with SKF's roller screws and SKF's bearing technology.

SKF and Sandvik Mining and Construction signed a long-term strategic partnership agreement in 2010. Key areas of cooperation are global supply of SKF products, extensive R&D surrounding key Sandvik equipment and SKF products, and the reduction in total cost of ownership between the companies.

Manufacturing - Manufacturing Excellence: The journey continues

Manufacturing Excellence really began to bear fruit in 2010. It was the division's single biggest initiative during the year. All major factories have now started their Manufacturing Excellence journey.

It became apparent after the huge volume drops in 2009 that the future is always uncertain so flexibility is crucial. Flexibility is the lead word for everything we do. With Manufacturing Excellence we have cleaned out waste, improved overall quality and lead times, and we have a better working environment with more contented employees. Continuous improvement work is just that – continuous – so we have a long journey ahead, but one we believe has huge potential for us.

In addition to the implementation of Manufacturing Excellence in all major factories during the year, new factories were built.

The Ahmedabad, India factory started running its production lines in April. Medium to large size bearings of various types are manufactured there, serving customer segments such as railways, wind and heavy industries. The total investment amounts to SEK 450 million. The facility was built according to the LEED standard, aimed at minimizing environmental impact.

SKF continued its expansion in China as well. Building is underway on a new medium size bearing factory in Dalian that will complement SKF's existing factory there for large size bearings. The new facility will be operational in 2011.

Turning the page to 2011

As we enter a new decade, a few critical success factors for the Industrial Division really stand out. First and foremost, we must continue our focus in Asia. An expansion in the region requires more than investing in manufacturing; it calls for the building of an infrastructure with regards to IT, demand chain, HR, brand image and more. And we cannot hesitate; speed is key if we are going to tap more into the Asian market.

We must strive after more effective account management and help our customers create and capture value. Delivering more energy-efficient market offers, more solutions and getting involved from the early stages in design and product development, is essential in understanding our key accounts and garnering new business.

And finally, what we learned most from the economic downturn we came through is that finding a balance between braking in certain areas and accelerating in others is critical. We must always question what we can do better, striving for continuous improvement. We will continue to drive Manufacturing Excellence – if we can be leaner and more flexible on our shop floor all the way to our offices throughout the Industrial Division, we will be much better prepared to face new challenges going forward.

Henrik Lange
President, Industrial Division

Service Division

2010's highlights:

- Developing the network of SKF Solution Factories by opening another 9, reaching 17 globally.
- Extending our distribution network by adding new specialized channels to come closer to customers.
- Focusing clearly on key industry segments globally to align resources to better serve customers.
- Developing new products and services helping customers with their environmental challenges.
- Continuing efforts globally to make customers aware of the existence of non-genuine products as well as fighting the trade of counterfeit bearings.

Net sales in 2010 amounted to SEK 22,029 million (19,599), a rise of 12.4%. Sales including intra-Group sales totalled SEK 22,408 million (19,957). The operating profit was SEK 3,036 million (2,585), with an operating margin of 13.5% (13.0). The fall in net sales was attributable to organic growth of 16.1% and currency effects of -3.7%.

Having weathered the financial storms of 2009, 2010 proved successful for the Service Division. By and large, the more established European and North American markets rebounded from the downturn. In the emerging markets we expanded rapidly, and ahead of market growth. The BRIC (Brazil, Russia, India, China) economies proved particularly strong. There were many interesting industry developments during the year, leading to new business opportunities, most notably in the wind, oil and gas, and mining industries, where major investments were made in various parts of the world. This led to greater interest in our solutions to help companies increase their asset reliability as well as employees' health and safety.

What a difference a year makes

A large number of our customers went from capacity reduction and factory shutdowns in 2009, to struggling to keep up with market demand in 2010. The new situation moved the prevention of unplanned shutdowns even higher on their agendas. We were able to step up to the plate and keep customers' machines running.

A key aim is to become a knowledge partner to our customers, making the most of our full portfolio of products and solutions from SKF's five technology platforms. Critical in achieving this is key account management teams made up from a mix of roles and geographical representation. A team operates on a regional, national and global level to support industry-leading customers wherever and whenever needed.

In order to really show the value we deliver, the SKF Documented Solution Program (DSP) makes it possible to calculate possible savings from using our product and service solutions, helping customers to reduce their costs. In 2010 we announced that SKF has documented over SEK 14,500 million saved by its customers by using SKF solutions. In 2010 only the savings reached SEK 2,700 million.

Growing the distributor footprint

There are few places you can go in the world without an SKF authorized distributor. Thanks to these SKF reaches all corners of the global industrial aftermarket, ensuring that we can deliver value to our customers, everywhere.

Demand for distributor products and services increased in 2010, albeit from a lower level. In fact, several distributors used the slump as an opportunity to explore new customer and market territories – which in turn benefited SKF. In some key markets, significant destocking took place and should conclude in early 2011.

We continued to add new types of distributors to our network – specialized in other platforms than bearings, such as lubrication systems and seals, or in certain specialized industries such as agricultural equipment. These new distributors bring expertise to the customers within their particular range.

We have continued working on a global scale to help distributors widen their offers, providing them with the tools and methodologies to solve new problems and deliver more value – and to document it. The SKF Distributor Value Programme (DVP) is a tool developed by SKF so that distributors can identify and measure the value they deliver to customers. DVP is now available in 18 languages.

The number of SKF Certified Maintenance Partners (CMP) is growing. CMP is a unique business model, using the synergy of SKF and the distributor to develop a strong service offering to end user customers, to supply the right solution for the right reason. The CMP's local talent and customer knowledge partnered with SKF's global leadership in reliability engineering is the foundation of the business model, providing the end-user customer with high quality and cost-effective inspection and maintenance services. For the second consecutive year, we ran workshops in Asia to further strengthen CMP in that region.

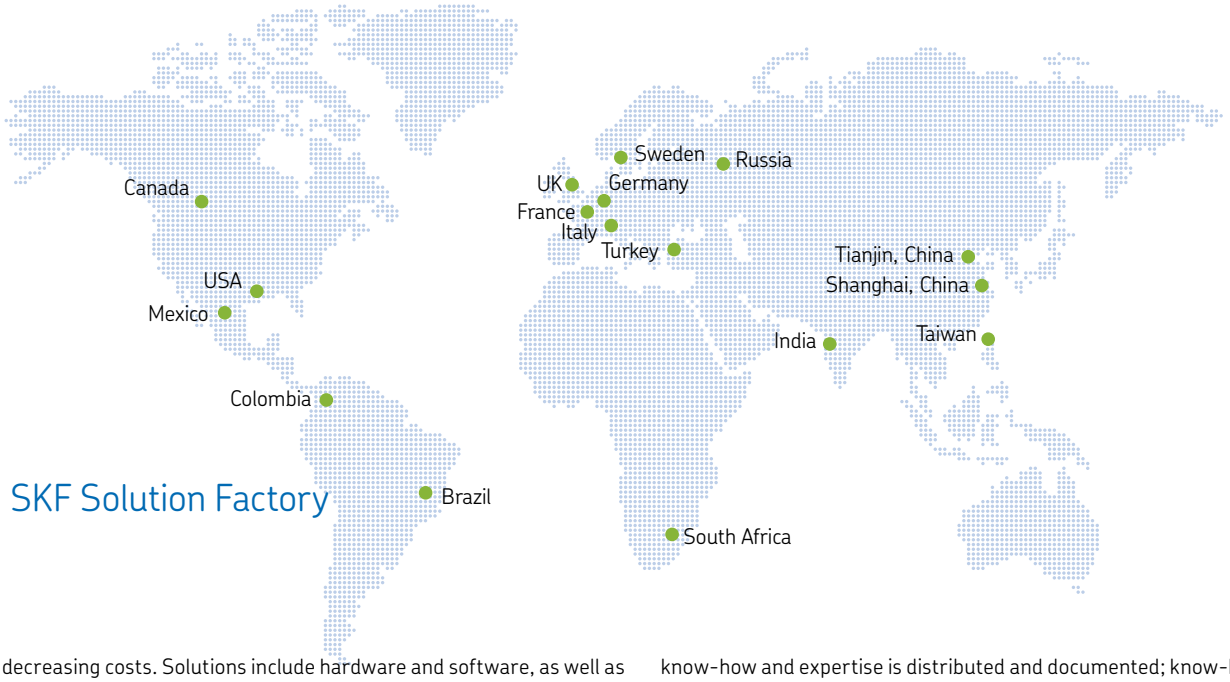
Electric motors are one of the key applications with highest reliability incident reports. The 56 repair shops that have gone through the SKF Certified Rebuilder programme for electric motors are able to offer the right experience and expertise to quickly, efficiently and effectively diagnose and fix electric motors. This is deemed as an extremely valuable service by key end users. To ensure the quality level remains high, all of our certified partners are audited and recertified on a regular basis.

The SKF Distributor College, nearing its tenth anniversary, kept growing in 2010 – the College is nearing its 100,000th issued certificate. The goal is to make it easier for distributors to support their customers through training and properly using SKF products and services. The SKF Distributor College offers more than 34 courses in more than 14 languages.

In other words – in 2010 our distributors stood shoulder to shoulder with SKF on its journey towards becoming a knowledge engineering company.

Optimizing machine performance

The output of the business area SKF Reliability Systems is asset efficiency – optimizing machine performance to enable a plant to increase production, while at the same time maintaining or even



SKF Solution Factory

decreasing costs. 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.

Two main developments contributed to a strong performance for our Reliability Systems in 2010. As mentioned above, production optimization was back in focus for customers as a consequence of the increase in global demand. Moreover, the outsourcing of services increased.

We have expanded our network of Condition Monitoring Centres (CMC) that produce hard- and software for portable online systems. A new CMC has opened its doors in Singapore, to serve the growing Asian market.

In 2010 we signed some exciting new contracts with customers. For example, we expanded our cooperation with the Brazilian mining company Vale, covering a wide range of products and services, such as SKF data collectors, online systems, condition monitoring software and bearings. A three-year contract covering a predictive maintenance (PdM) solution providing early warnings of machinery and plant deterioration will be delivered to optimize plant reliability to the copper mine company, Konkola Copper Mines Plc (KCM) in Zambia.

Expanding the knowledge infrastructure

To serve our customers better, the first SKF Solution Factory was inaugurated in 2008, combining the full range of SKF's expertise within technology platforms with workshop facilities, thereby providing customized service and solutions. In 2010 the network of Solution Factories rapidly grew – by the end of the year there were 17 spread around the world.

One of many companies that benefited from a Solution Factory in 2010, was drive automation company SEW-Eurodrive. The company sent a number of spindles of different designs to the SKF Solution Factory in Tianjin, China for reconditioning. In comparison to sending spindles to Europe, the benefits to SEW are expected to be almost 50% reduced costs, and more than 50% savings on "repair cycle time".

Many Solution Factories have functioned as a knowledge hub for distributors to bring their customers to, and see with their own eyes the full palette of SKF knowledge. One of our biggest distributors brought about 250 customers to its local SKF Solution Factory. The Solution Factories also make up a knowledge-sharing network, where know-how and expertise is distributed and documented; know-how from which customers benefit.

The sealing solution company SKF Economos, specialized in turning and customized hydraulic seals, came under the umbrella of the Service Division in 2010. Several units have been integrated into the setup where we have Solution Factories.

On the horizon

Going forward we will continue to sharpen our tools in order to deliver value to our customers across the world. This means further strengthening and expanding the partnerships with our distributors, as well as an expansion of our network of SKF Solution Factories. By 2015 we aim to have up to 30 SKF Solution Factories in total. Moreover, in close cooperation with the Industrial Division, we are going to put more spotlight on growth industries, where we can bring value to customers throughout the life cycle of their products and operations.

We will strengthen the relationships with our key accounts, making sure we continue to reduce their costs and increase their reliability via our key account management teams. We are also going to mobilize our capabilities to keep up with the growth in the emerging markets, with extra focus on Asia.

Ultimately, for the Service Division, it is not just about delivering value – but doing so consistently, day in and day out.

Vartan Vartanian
President, Service Division

The industrial market

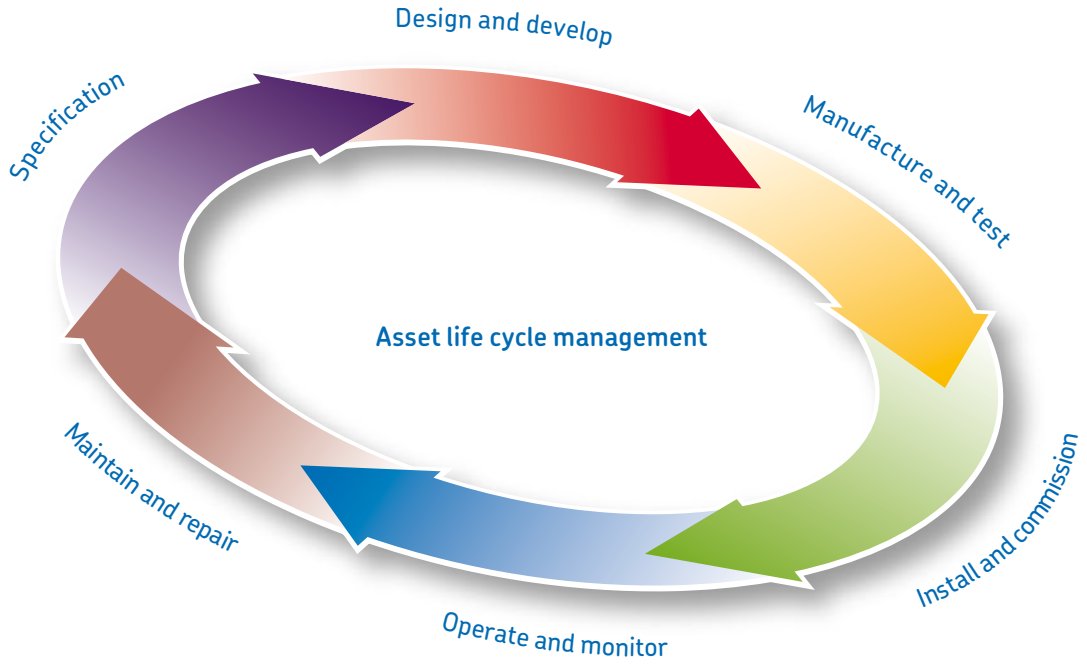
Every industry is unique – with its own requirements and facing different challenges both when it comes to what it produces, and how it produces it. Together the Service and Industrial Divisions serve the industrial market, but inject value at different stages of the asset life cycle.

From specification and design all the way to manufacturing and testing, the Industrial Division helps specify the right components from the start, or design new products to meet specific needs. SKF Engineering Consultancy Services and Six Sigma expertise can assist in design and manufacturing. Moreover, expertise in applying energy and sustainability practices and technologies within SKF's facilities makes it possible to assist customers in improving their environmental footprint in manufacturing operations, whilst saving money through reducing energy consumption.

Once a product is manufactured, it is installed, commissioned and begins its working life. This is where the Service Division comes in, offering a range of mechanical maintenance services to get the most out of the customer's asset. During normal operations, the asset efficiency optimization methodology is used to make the asset more productive and reduce maintenance costs. When the need for maintenance is identified, there is a wide array of specialized tools, mechanical maintenance and repair services offered.

The asset's life cycle "loop" is closed when it is redesigned. By combining our experience and knowledge of the asset gained from all the phases of the life cycle – from R&D to aftermarket services – SKF can contribute to the continuous improvement of an asset.

Here are two examples of how asset life cycle management is applied in the industrial market:



Delivering added value at each phase of the asset life cycle
During each phase of the asset life cycle, SKF technologies and services help customers to optimize machine design and performance, reduce energy consumption and lower Total Cost of Ownership.

Wind industry

Wind farms often operate in remote and harsh conditions, and as an increasing number of them are installed offshore, challenges become even greater.

The Industrial and Service divisions work closely with customers at different stages of a wind farm's life cycle to optimize its reliability and performance. Cooperating with turbine and gearbox developers, the Industrial Division designs innovative technology to improve customer products. One example is the SKF Nautilus bearing, tailored to operate under the tough weather conditions turbines are exposed to on a daily basis.

Making use of SKF's profound understanding of the wind turbine gearbox, and the complex conditions under which it must operate, the Service Division works with wind farm operators /owners to monitor and maintain the turbines. The need for better monitoring inspired the design of the SKF WindCon system, which allows the operator to monitor a turbine or an entire wind farm and predict when maintenance will be necessary. And today, an increasing number of OEMs are building SKF WindCon into their solutions, based on wind farm needs. The data received from the SKF WindCon installations can be analyzed from SKF Wind Industry Service centres, or local remote monitoring centres.

After a visit to the Wind Industry Service Centre in Germany, one of the biggest wind farm operators in China, Guohua Energy Investment Company, set up a field trial for 11 SKF WindCon systems in three different regions of China. The trial was successful, and Guohua has now installed another 58 systems, and 180 were ordered for new turbines that went into service in 2010.

In 2010 SKF also inaugurated a Wind Industry Service Centre at the SKF Solution Factory Shanghai – the third of its kind, answering to the acceleration in the development of large-scale wind power projects in the Asia Pacific region, particularly China.

SKF WindLub, which extends the turbine's service life and reduces operational costs, is a centralized lubrication system for wind turbines that delivers the exact quantity of the appropriate lubricant at the right positions at the right time. Among the benefits of using the right lubrication are simplified maintenance and reduced environmental impact.

The oil and gas industry

Global demand for oil and gas is expected to grow by 30% in the next 20 years, and the challenges of this business are increasing – dealing with new and difficult drilling environments, such as deepwater, as well as strict health, safety and environmental regulations. With the five platform capabilities, 25+ years industry experience, and globally deployed engineering, service and logistics infrastructure, SKF helps its customers to improve at every stage – from rig to refinery.

SKF's technologies are integrated into a wide variety of fluid handling, power transmission and special application equipment such as drilling tools. Special bearing and sealing designs and material solutions in drilling string to deliver performance under mud lubricated conditions, or to deal with higher speeds, temperatures and pressures. SKF can provide turbomachinery with highly reliable, low maintenance variable speed drives and active magnetic bearing systems. In 2010 SKF launched the sub-sea screw pump solution, a specialized bearing solution supporting safe, reliable single-step oil extraction as low as 3,000 meters.

On the service side, SKF can offer a range of solutions. In offshore oil fields for instance, solutions can increase reliability and safety, while reducing maintenance and total cost of ownership. Equipment such as cranes, compressors, generators and motors are subject to heavy loads and tough operating environments. SKF condition monitoring systems are key elements of predictive maintenance in all these applications. Devices are portable and/or wireless to suit customer needs.

One key client making full use of SKF knowledge in the oil and gas industry is Total E&P Indonesie, Indonesian subsidiary of Total E&P, a French oil and gas company. Total E&P Indonesie contracted SKF to develop its combined maintenance and inspection strategy program for one of their new gas extraction and processing plants. One of the major steps that was covered in the project was to determine and develop specific maintenance plans, inspection plans and spare parts strategy for each plant equipment; that then detailed what to do, when to do it, how to do it, and included what tools and equipment will be needed, as well as developing an overall lubrication and greasing schedule to the equipment level.

Automotive Division

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

In 2010, the Automotive Division continued to focus on:

- developing energy-efficient products and solutions
- manufacturing efficiency and competitiveness
- selling value-adding solutions for improving the price/product mix
- rapidly expanding markets, mainly Asia and Latin America
- the vehicle service market.

During the year, we also:

- developed an internal training program for strengthening the relationship with key customers
- adapted manufacturing capacity to new, higher demand levels
- aligned our internal organization to the new market trends.

Two new business units were formed in 2010. The SKF Powertrain and Electrical business unit was set up to focus on new powertrain technologies, addressing both conventional internal combustion technology, as well as electrification and hybrids. The second new business unit, SKF Two-Wheeler, based in Asia, addresses the rapidly expanding two-wheeler market.

The economic downturn, which started in 2008, continued to significantly drive demand down to very low levels in early 2009 at a pace never seen before. Demand started to recover in some segments in the third quarter of 2009 and early in 2010, with customers beginning to invest again and catching up with requirements that had been postponed. We saw demand grow significantly in 2010, and net sales amounted to SEK 18,231 million (16,051), a rise of 13.6%. The increase in net sales was attributable to organic growth of 20.2%, and currency effects of -6.6%.

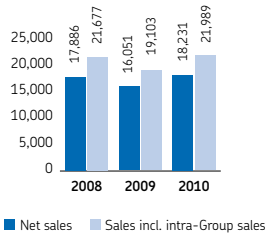
Sales, including intra-Group sales, totalled SEK 21,989 million (19,103). The operating profit was SEK 1,859 million (-785), with an operating margin of 8.5% (-4.1). The operating profit and operating margin progressed strongly to record levels as the result of major actions taken to reduce costs within the division, increase manufacturing in best-cost countries and improve the mix of product and segment sales.

With increasing demand for our products and solutions in 2010 in all segments and regions, and in particular with significant growth in Asia, we have adapted our supply chain processes and capacity, following the economic downturn, to ensure a high level of service to our customers. To support our growth in the Asian region we will build two new factories – a seals factory in Mysore, India, and a factory for automotive bearings in Jinan, China.

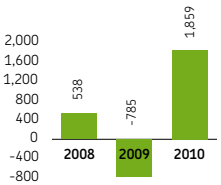
In line with our strategy to divest activities that are not part of our core business, we have sold two of our forging and turning operations. The operation in Tudela, Spain, was sold to Korea Parts & Fasteners Española S.L. and our operation in Villar Perosa, Italy, to Neumayer Tekfor Holding GmbH.

The division continued to benefit from the SKF Bridge of Manufacturing Excellence by applying the program's concepts of empowerment, creating an attitude of "act now – solve permanently", motivating employees to "go and see" and encouraging further training.

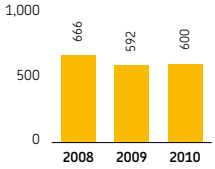
Sales, SEKm*



Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



* Previously published figures have been reclassified to conform to Group structure 2010.

SKF supplies both seals and tapered roller bearings for trailer axles to Guangdong Fuwa Engineering Manufacturing Co. Ltd. in China, the largest trailer axle manufacturer in the world.

Car segment

Global car production recovered significantly, up around 20% from 2009, with approximately 70 million vehicles manufactured. Reducing CO_2 emissions remains a key factor in the passenger car market and different technologies are being developed to support OEMs in reducing hazardous emissions from vehicles. OEMs are developing all-electric cars as well as hybrids for many global markets, and are working to improve the current powertrain, including the adding of new applications such as stop/start systems.

Using simulation software and energy-efficient bearings and seals from SKF, car manufacturers are able to reduce CO_2 emissions by optimizing the architecture in drivelines, engine and wheel-end applications. Many new solutions were developed for customers in 2010, including the low friction X-Tracker wheel hub unit. In addition, our new SKF Seal Designer software is being used by SKF's engineers for seal design analysis and engineering purposes in different vehicle segments.

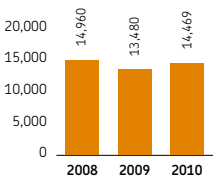
We received several new sealing solution orders in 2010 for engine, transmission and wheel end applications. In Europe, we signed a new contract for the SKF Low Friction Engine Seal with Isuzu. The SKF Low Friction Engine Seal, launched in 2010, provides lower fuel consumption and reducing CO_2 emissions via significantly reduced friction.

New contracts were signed with PSA in 2010 for both shaft seals and valve stem seals for its new 3 cylinder engine, as well as bearings for the belt driven starter-generator in the new PSA diesel hybrid platform, supplied by Bosch. We also provide PSA with wheel bearing units, suspension bearing units, transmission bearings and units, engine units and clutch bearing units.

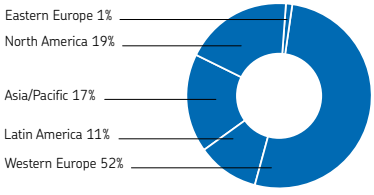
Our business in rapidly expanding markets continued to grow. In China, we received new orders from a number of local OEMs, such as Shanghai Automotive, Guangzhou Automotive, Geely Automobile and Beijing Automotive, primarily for applications such as suspension, gearbox and hub bearing units. In India, Maruti-Suzuki placed orders for a wheel end solution providing optimal performance for the front axle wheel ends for two of their prestigious global models.

We continued to launch new solutions for stop/start applications throughout the year. These include the SKF Commutation Sensor-Bearing Unit, which is used for the next generation stop/start systems. A system featuring a stop/start function cuts off the engine when the vehicle stops at a red light or slows down in congested traffic situations, and restarts it quickly and silently when the driver releases the brake or engages a gear. Valeo's i-StARS is one example, for which we received additional orders for the SKF Rotor Positioning Bearing.

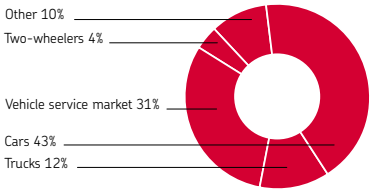
Registered number of employees*



Net sales by geographic area



Net sales by customer segment



Several global OEMs increased their business with us in 2010. Volkswagen placed new orders for both wheel end units and power-train applications, and we were very pleased to receive the VW Group Suppliers Award in North America. General Motors placed several additional orders for different hub solutions, including X-Tracker for many of its successful models.

Many applications are developed for racing cars and the racing arena is an important test bed for new solutions, which can later be applied on standard cars by OEMs in their serial production. In 2010, we received several orders for electric applications. Tesla Motors, USA, continued to order bearings for wheel end and electric motors for its all-electric sports car the Roadster.

Truck segment

Global medium and heavy truck production (above 6 tons) recovered significantly in 2010, up 35% from 2009, with approximately 2.5 million vehicles manufactured.

Emission legislation continued to be an important factor influencing the truck business worldwide. In 2010, fuel economy and low total cost of ownership remained major trends for fleet operators, and we successfully delivered energy-efficient solutions to a number of customers (also in rapidly expanding markets), providing applications for both lower friction and lower weight.

The relationship with Guangdong Fuwa Engineering Manufacturing Co. Ltd., the largest trailer axle manufacturer in the world, was further strengthened during the year by additional deliveries of tapered roller bearings for its trailer axles. We also started to supply seals to Fuwa, based in the southern part of China, for its new European trailer axle.

In Europe, we strengthened our position in the commercial vehicle engine segment by signing contracts for valve stem seals with major truck manufacturers. Valve stem seals help increase engine efficiency, reduce particle emissions and support fleet operators in handling future emission legislation. In Germany, we developed the SKF Gear Bearing Unit with Daimler AG for its heavy duty engine platform. This is a customized tapered gear bearing unit designed to accommodate heavy loads. By reducing friction significantly the unit also reduces fuel consumption and CO_2 emissions.

Vehicle Service Market (VSM)

The SKF vehicle service market portfolio was extended in 2010, adding to the range of more than 18,000 kits already offered worldwide.

Business grew significantly in the vehicle service market, where SKF is well established with a strong market position. A number of activities took place during the year to further increase SKF's market share in both developed and rapidly expanding markets. In China, the distributor network has doubled in the past two years and there are now 40 distributors. In India, the aftermarket distributor network is continuously expanding to serve the growing demand for vehicles. Together with our partners, we have benefited from the market growth and through the tightly-knit network, we successfully introduced a selection of new kits and products in 2010.

In North America, new products in 2010 include the drivetrain kit, intended for both light and heavy duty vehicles. In Europe, the freewheel alternator pulley was launched – making SKF the first supplier to offer a complete auxiliary drive product portfolio for the car aftermarket.

In Mexico, the aftermarket business grew significantly with existing customers in 2010. By focusing on identifying customers' key needs, the active use of catalogues, high delivery accuracy, coupled with a wider product range, we get even closer to our customers and achieve significant growth.

The aftermarket business grew significantly during 2010. SKF Vehicle Service Market now offers more than 18,000 kits to distributors, retailers and garages around the world.

The Haridwar factory in India was opened in April and will primarily serve the two-wheeler manufacturers in Uttarakhand, an emerging industrial hub, and further contribute to the growing vehicle aftermarket.

Two-wheeler segment

Fuel and engine efficiency were major trends for the two-wheeler segment in 2010. Asia remained the major growth area and our new factory in Haridwar, India, was inaugurated in April.

Market demand increased dramatically and to meet this trend we decided to further expand our manufacturing capacity in the region through investments in existing operations.

Value-adding products launched in 2010 include the SKF One Way Clutch, a lightweight unit designed to prevent starter motor failure by restricting reverse rotation when the engine is running. The unitized design also reduces customers' manufacturing costs.

Our factory in Bengaluru, manufacturing products for the two-wheeler segment, won a national award in the Lean Manufacturing Organizations Category from the Confederation of Indian Industry in August 2010. This is a recognition of our constant efforts to reduce CO_2 emissions and our environmental impact.

Our relationship with global customers continued to progress. We received new orders from Honda for deliveries to additional markets, and we now enjoy a preferred supplier relationship with them.

In Europe, we received new fork seal orders for off-road motorcycle front suspensions from WhitePower Suspension Austria. The seal improves fork performance in terms of reduced friction and enhanced dirt protection in off-road applications, as well as minimizing stick-slip effects. This seal also plays an important role in enhancing comfort and feel when riding a motorcycle.

Electrical segment

In 2010, we launched a new application called the SKF Drum Support Unit, a value-adding solution for front-loading washing machines. This solution reduces energy consumption by using energy-efficient bearings, low friction seals and enabling exact alignment of the shaft. Another benefit is the mechanical integration of the drum and the water container. Tests started with a major European OEM in 2010.

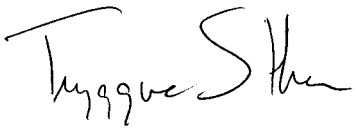
In Europe, we are currently the largest supplier of the bearing and sealing solutions for the washing machines of Whirlpool Europe.

Moving forward

We saw major growth in 2010 and expect demand to keep increasing in 2011, although at a lower pace.

Regionally, Asia has been, and will continue to be, the world's largest growth region for many years to come. Our current manufacturing footprint will be expanded with new factories and increased capacity. Construction of two new factories in China and India will start in 2011, with production starting in 2012. Capacity expansion at our current factories will continue, especially in Mexico and India. Our continuous establishment of manufacturing capacity in rapidly expanding markets will also reduce costs and improve services to our growing customer base in those regions.

We believe we are well-positioned to benefit from the strong growth trends we see globally, thanks to our broad manufacturing base, strong market presence and comprehensive product development portfolio.

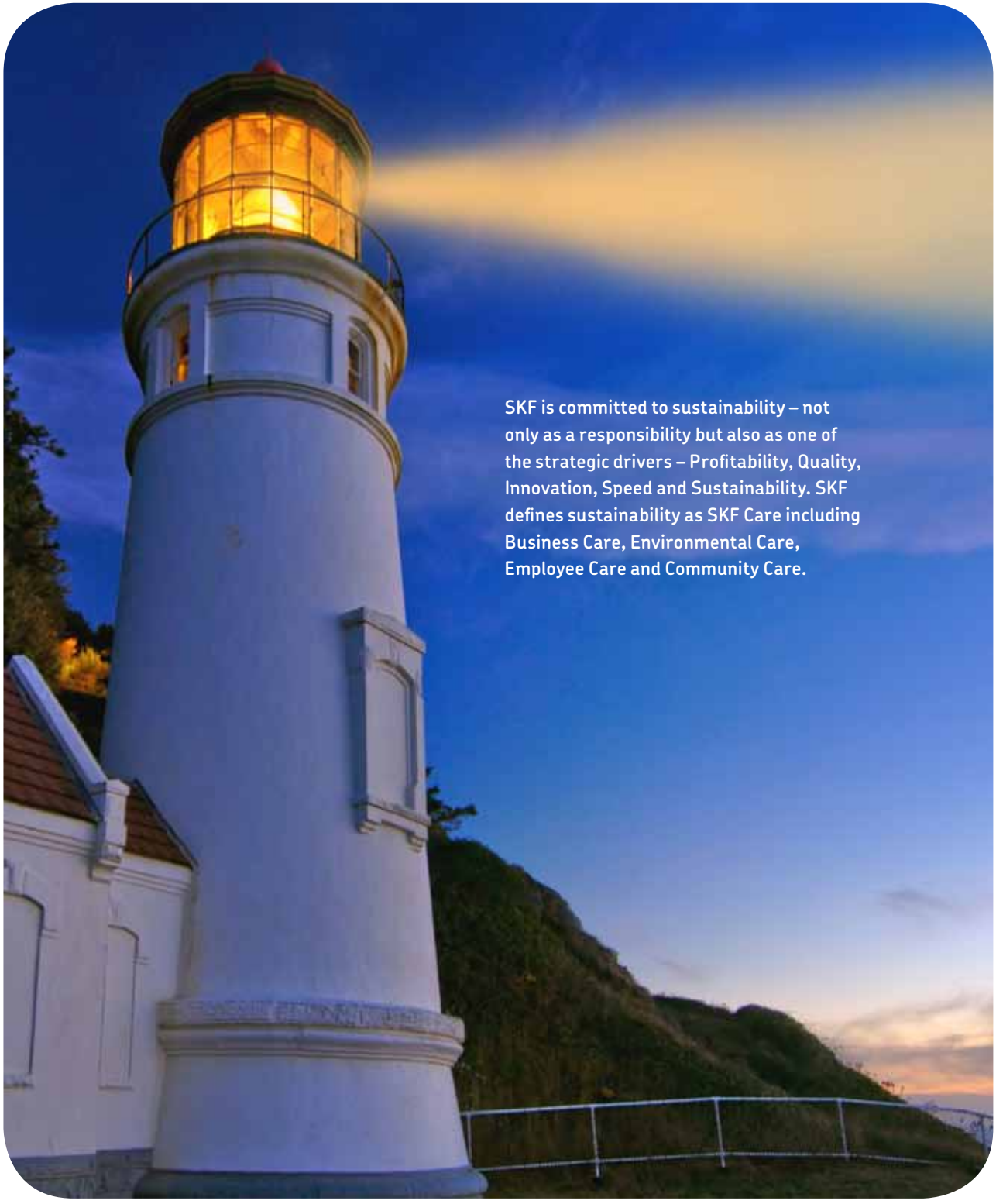


Tryggve Sthen
President, Automotive Division

Content

Sustainability Report

SKF Care – our guiding light



SKF is committed to sustainability – not only as a responsibility but also as one of the strategic drivers – Profitability, Quality, Innovation, Speed and Sustainability. SKF defines sustainability as SKF Care including Business Care, Environmental Care, Employee Care and Community Care.

While the global downturn in 2009 resulted in dramatic volume reductions for the Group, 2010 proved to be a year of solid recovery and excellent profitable growth. The specific business challenges and approaches needed to manage these two sides of the economic cycle have of course been very different. However, the principles defined by SKF Care - the guiding light that informs how the organization conducts business from a social, ethical and environmental perspective, remained resolutely unchanged throughout this period.

A very clear demonstration came during the downturn when the company took particular care to minimize the number and impact of job losses resulting from the necessary restructuring. Working innovatively with employee representatives and governments, it was possible to utilize flexible working agreements, short time working and other schemes, and thereby keep the number of employees asked to leave the Group to an absolute minimum.

Growth and expansion bring other challenges to sustainable development, such as an increased need for energy and resources. SKF took various steps in 2010 to address these challenges, including:

- introducing new initiatives and requirements – such as the adoption of the US Green Building Council's LEED (Leadership in Energy and Environmental Design) standard – assuring worldclass environmental performance for new buildings.
- continuing the successful launch and recognition of products and solutions, which improve environmental performance for the Group's customers.
- sustaining the priority and focus on established SKF Care initiatives, such as environmental lifecycle management, energy and carbon management and community care.

As a result of the consistent demonstration of SKF Care during this exceptionally challenging time, an increase in the internal recognition and strength of the approach has been seen. This ever more vigorous commitment throughout the organization has meant that during 2010, SKF was able to make further, significant progress on the path to sustainable business growth.

Principles and charters

The basis of conducting business at SKF is to respect laws and legislation, and abide 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 that SKF not only commits to the defined Ten Principles in the areas of human rights, labour, environment and anti-corruption, but also commits 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 in the process of introducing lifecycle thinking in its organization, with the aim of understanding the environmental consequences of the phases of a product's total life - from cradle to grave. The accumulated knowledge enables SKF to take a proactive and systematic approach to enhancing its overall environmental performance in all phases of the product life.

Health and safety effects are also critical in the provision of SKF's products and services. The effects are taken into consideration when developing new products. For certain industries such as aerospace, automotive and rail, SKF has to meet stringent industry and customer requirements for quality and product safety. SKF's 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's products are detailed and documented in various ways such as in the SKF Bearing Maintenance Handbook, provided to customers not only for safety reasons, but also for reaching optimum product performance.

Business Care

Business Care encompasses the development of shareholder value, delivering high quality products and services to customers, ethical business conduct, responsible demand chain and environmental technology development. SKF's overall financial objective is to create value for its shareholders, see page 21. This objective must be delivered by the business in accordance with the principles defined by SKF Care. 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.

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 40.

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 continued during 2010. The training covers different 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. One confirmed case of fraud was discovered in 2010. As a result of this case, one SKF employee was dismissed.

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

In 2004, SKF introduced internal auditing of compliance with the Code of Conduct at its units. The audit was integrated into the ISO 14001/OHSAS 18001 audit process, and units were inspected at 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, ethics, environmental issues plus health and safety risks. The objective is to vary the audit frequency according to risk, putting more focus on high risk (such as newly acquired units), and less on long-established units that have shown a good performance. The nominal audit frequency remains two-yearly, but may vary from annually to once every three years, depending on the assessed risk. See page 138 for a summary of the Code of Conduct compliance audits completed in 2010.

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

Responsible Demand Chain

SKF sources globally for its manufacturing and operational units. The sourcing of high quality products from suppliers, which behave in a responsible manner, is imperative in SKF's demand chain, to ensure

that products and services meet or exceed customer requirements and are produced in compliance with the Code of Conduct.

A Responsible Demand Chain Committee was established in 2009. The Committee's main responsibility is to define the related strategy and determine appropriate actions when critical deviations are identified. A responsible demand chain system was also introduced in 2009 and further developed in 2010, to enhance the process of enforcing the Code of Conduct.

The SKF Group Purchasing Policy states that all SKF suppliers shall demonstrate high standards of responsibility, 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.

To inform all suppliers that business with SKF shall be done in compliance with the requirements expressed in the SKF Code of Conduct for Suppliers and Sub-contractors, a clear reference to this code is made in the SKF General Conditions of Purchase. To verify that suppliers conform to these requirements, a number of procedures, tools and approaches have been developed and these are described below.

SKF procedures require that all new suppliers of direct materials must be approved via an on-site audit according to the SKF External Supplier Quality Audit System Procedure. Suppliers' levels of compliance to the environment, health and safety (EHS) requirements and the Code of Conduct for Suppliers and Sub-contractors are included in the audit questionnaire.

In accordance with the procedures, new suppliers are also required to comply with SKF's supplier 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.

Current suppliers are classified in two categories: (1) major suppliers in relation to the size of the business or potential risk for SKF customers, and (2) other suppliers.

Since 2006, all major suppliers have been required to issue a code of conduct in line with SKF's and to be certified according to the ISO 14001 management system. At the end of 2010, out of 156 major suppliers, 121 have developed their own code of conduct and 109 were ISO 14001 certified.

Major suppliers who are defined by SKF as being energy intensive (using a significant amount of energy and resulting environmental impact) are included in the scope of SKF's supplier CO_2 requirements - described on page 135.

In addition major suppliers are regularly audited (at least once every three years) and the audit includes a section related to verification of compliance with EHS and Code of Conduct requirements.

For other (non major) suppliers, a risk assessment tool was developed in 2008 in collaboration between Corporate Sustainability, Group Legal, Group Demand Chain and an independent stakeholder. The risk assessment tool helps identify high-risk suppliers, which 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 and labour rights violations.

By the end of 2010, more than 2,500 risk assessments had been completed on 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 risk have been audited by SKF. Twenty five suppliers/sub-contractors in China were audited during the year and another fifteen in India. A number of SKF's employees have received formal training in the auditing of Code of Conduct compliance, and these personnel are located in the main regions from which SKF sources (Asia, Americas, Europe, and Eastern Europe).

SKF integrates lifecycle management in the product development process

Over the past five years, SKF has set out to accumulate knowledge and data by completing numerous environmental lifecycle assessments (LCA) on the Group's products, processes and solutions. Using the knowledge and data acquired by doing this, it has been possible to develop tools and start to adapt existing procedures in the product development process so that a lifecycle perspective can be integrated. These tools and changes were rolled out during 2010 and are now in implementation.

A clear process to document and address deviations found during audits or other supplier visits is in place. Setting improvement objectives with low-performing suppliers is vital to SKF. SKF states clear criteria to suppliers and depending on the severity of non-compliance, underperforming suppliers are given a time frame to introduce corrective measures. In one case, sourcing has been stopped due to the supplier's lack of willingness to implement relevant corrective measures.

In addition to training and awareness building at various supplier conferences, SKF's suppliers can be awarded the SKF Supplier Excellence Award for their outstanding performance in quality, cost, delivery, innovation and management/sustainability. Further information concerning the Responsible Demand Chain activities can be found on the supplier portal at www.skf.com.

BeyondZero

In 2005 SKF launched the BeyondZero concept, which describes the Group's overall strategy towards environmental sustainability. It consists of two simultaneous approaches:

- to reduce the negative environmental impact resulting from SKF operations
- to innovate and offer new technologies, products, and services that provide customers with enhanced environmental performance (positive impact).

The first element of BeyondZero is about reducing the environmental impact that results from SKF's operations such as the carbon emissions derived from manufacturing SKF's products. Information about how SKF works to reduce these negative environmental impacts can be found in the Environmental Care section in this report.

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

By combining these aspects, BeyondZero describes the Group's ambition to have a net positive impact on the environment (for example a lower total release of carbon dioxide into the atmosphere than would have occurred if SKF did not exist).

The BeyondZero concept is very much aligned with environmental lifecycle thinking, an approach which generates understanding of the environmental impact of a product from cradle to grave (from raw material extraction to manufacture, product use and disposal). If decision makers (for example product developers and designers) only consider one phase in this cycle, then they risk overlooking important impacts in other phases of the product's life. Lifecycle thinking also creates competitive advantage in that it allows the quantification of the environmental impact, the reduction of which can generate cost

Energy and carbon savings in Chinese mining industry with SKF E2 bearing solutions

The mining and mineral processing industry in China uses large amounts of energy and generates a significant proportion of the country's carbon emissions. Conveyors spanning many kilometers are typically used to move mined material and around 6,000 bearings are needed to support a single kilometre. The friction in each bearing adds to the energy which must be provided by the driving motors. Working with customers' engineering teams and maintenance departments during 2009 and 2010, SKF's engineers were able to demonstrate the value of the SKF E2 bearing solution in energy and carbon savings. As a result SKF has won significant new business replacing less efficient solutions in locations from Inner Mongolia to Hunan. SKF's solution saves over 400 tonnes of CO_2 in a typical 6.3 km installation over a five-year period.

savings as well as reduced environmental impact for the Group and its customers. This is why SKF has been persistently investing in implementing and integrating environmental lifecycle management into its core business processes – as exemplified on previous page.

Many examples of customer solutions that realize a positive environmental impact can be found in the three divisional sections in this annual report (pages 108-121). The two additional cases described below provide a good illustration of the fundamental ways in which SKF helps customers reduce environmental impact.

Firstly, SKF **designs** products that have a specific improved environmental performance in and of themselves when applied. A good example is the SKF Energy Efficient (E2) bearing family, which SKF received the 2009 Swedish Innovation Award for and which offers a minimum 30% reduced friction compared to conventional bearings, translating directly to energy savings for customers.

Secondly, SKF **applies** knowledge engineering solutions that enable customer technologies with reduced environmental impact - such as SKF's solutions for the wind industry or solutions developed for vehicle automatic stop/start systems.

From providing knowledge and solutions that help to enable emerging renewable technologies, to delivering solutions designed to directly reduce energy use in existing industrial infrastructure, SKF plans to be at the heart of the cleantech revolution.

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 communication 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, conducted at the same time as 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 Knowledge and solutions help capture more energy from the waves

Working with a customer's R&D team in the UK, SKF's engineers have provided knowledge and solutions that help to enable an innovative device at the heart of wave energy conversion. The device has been developed by MacTaggart Scott, the world renowned marine engineering company, and although still in prototype, it is capable of significantly increasing the amount of wave energy converted to useful energy compared to previous technologies. SKF's knowledge and solutions have been applied in a number of ways, including the electromechanical control of the pump, the bearings and the associated engineering analysis.

More information about how SKF supports the various industries with solutions that deliver environmental added value can be found at www.skf.com.

Environmental Care

It is broadly recognized that industrial activities result in a negative impact on the environment. SKF's BeyondZero strategy aims at breaking this link by providing SKF's customers with innovative products and solutions that realize environmental gain. Nevertheless, the Group's fundamental commitment to constant action to reduce the environmental impact from its own operations has long informed the company's strategy and will continue to do so going forward.

Looking back it is possible to see how this commitment has driven and continues to drive change in the company. Starting with the issue of an environmental policy in the 1980s, followed by the achievement of global ISO 14001 certification in the 1990s, the Group put focus and priority on measuring, managing and reducing the various environmental impacts directly resulting from its plants and facilities. During the last decade, and very much influenced by the lifecycle perspective, this approach has steadily been broadened to include suppliers of energy, materials, components and services. During 2010 further progress has been made in both the continued improvement of SKF direct operations, and the management and influence of indirectly controlled activities.

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 concern 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.

Two SKF units also paid penalties in 2010 to the environmental authorities for minor non-compliances.

Before any acquisitions or divestments an 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's 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 centers, 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 98 sites in 29 countries at the end of 2010. New companies that were added to the Group's ISO 14001 certificate in 2010 were Rosario (Argentina), SKF Solution Factories in Shanghai and Tianjing (China), SKF Industry Services in Shanghai (China), Haridwar (India), Poggio Rusco (Italy), Tver (Russia), and Ladson (US).

Levels of LEED Certification

Companies acquired during 2010 were given a timeframe for implementing the management system, working towards inclusion in the Group's certification scope. The schedule for recently acquired companies' inclusion plan can be found at www.skf.com.

SKF adopts world leading sustainable design and construction standard for new buildings

To meet the constantly evolving needs of SKF's diverse global customer base, and thereby continue the positive development of the Group, SKF is required to design and construct new manufacturing and other facilities. The nature of global economic development means that in many cases, these facilities are constructed in countries where building standards, legislation and enforcement are often less stringent than in (for example) the European Union. SKF requires that, irrespective of the location, all new facilities must be designed and constructed to worldclass standards in terms of environmental performance.

Therefore in 2010 SKF's Group Management defined that all major constructions* undertaken for or by the Group, must be designed and constructed in accordance with the US Green Building Council's (USGBC®) 'Leadership in Energy and Environmental Design' (LEED) or similar standard. This decision was based on the very positive experiences from a number of pilot uses of the standard (see examples). LEED is the most globally recognized standard of this type and takes an holistic approach to building sustainability – covering environmental aspects from design to construction and commissioning. Having this as a consistent SKF standard will assure minimized environmental impact and operating costs due to reduced energy and other utility requirements. The LEED standard is a 'points based' system, with some mandatory categories, and others where it is possible to gain points by applying a specific environmental technology or solution. A certain number of points are required to achieve basic certification. However silver, gold and the highest level, platinum, are also possible if sufficient points are verified by the USGBC.

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

**with a floor area greater than 1,000 square metres*

Climate change

SKF has concluded that carbon dioxide (CO_2) 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 CO_2. For those reasons SKF reports focus on CO_2 emissions.

SKF's new railway facility is the first LEED Gold certified facility in Russia

Work started on the design and construction of SKF's new railway bearing manufacturing unit at Tver, Russia in 2008. The factory will provide the rapidly expanding Russian rail network with latest technology axle bearings and services. As part of the Group's evaluation of the LEED standard for new constructions, it was decided to follow this standard and aim for certification in the project (along with other projects in India and the US). The end result was that in 2010 the facility was awarded Gold level certification – the first in Russia, and the first for a factory in Europe. The building itself uses 40% less energy for lighting, heating and ventilation compared to the LEED defined baseline, and features numerous examples of innovative technological solutions that minimize energy, water and materials use.

For more information go to: http://www.skf.com/portal/skf/home/sustainability.

The SKF Group monitors and reports CO_2 emissions according to the GHG protocol. This characterizes an organization's greenhouse gas inventory into three scopes: scope 1 (direct emissions from onsite 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's manufacturing facilities divided by a measure of manufacturing output for the Group. Carbon intensity is defined as the amount of CO_2 released per units of energy used.

By reducing the carbon and energy intensity at the Group's manufacturing operations, SKF is not only improving environmental performance, but also reducing the associated cost and financial risk. Energy costs and price instability have increased significantly in recent years (a trend that 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.

Reduced energy intensity at SKF facilities

The Group established a network of energy coordinators in 2007 at all sites with an annual energy consumption greater than 0.2 GWh per year. During 2008, a standardized methodology and set of tools were developed with the intention of helping energy coordinators and other production team members identify and drive energy saving actions. A training program was developed and rolled out to transfer this knowledge to the energy coordinators. Divisional energy managers were appointed in the two divisions with manufacturing responsibility (Industrial and Automotive). These divisional coordinators have worked to assure necessary resources, and expertise are provided to the units so that continuous improvement in energy performance can be realized. In 2009, SKF developed a specific KPI (key performance indicator) for energy performance – referred to as background energy and introduced in last years' Sustainability Report. This KPI provides a tool with which to measure and manage energy performance at site and divisional level.

SKF continued to build on its established internal energy management approach in 2010. During the year, the Service Division established a new unit called the Energy Competence Center (ECC), with the specific task of providing expertise and support needed by SKF's facilities around the world. During 2010, eight factories received energy management assistance from the ECC and many more will be included in 2011 and beyond. As a result of the work of the ECC and that of individual site initiatives, numerous energy saving plans and activities have been identified. 2010 also saw the first SKF unit to achieve certification in the recently launched energy management standard - EN 16001. SKF Mekan in Sweden adapted the EHS management system to include this new standard and was awarded the certification in 2010.

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 operations in Sweden, the Netherlands, Germany and Belgium, 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 labeling schemes, SKF considers that by actively participating in these schemes, the Group can make a valuable contribution to their continued development and improvement.

SKF's new corporate head office in the US receives the LEED Platinum award

Poul Jeppesen, President of SKF USA Inc. (second left), and Pennsylvania Governor Edward G. Rendell at the opening ceremony of the facility.

The USGBC awarded its highest level of certification to SKF's new corporate head office in the USA. Because of the nature of the project, the LEED standard for Commercial Interiors was followed. Some of the key building features include:

- an extensive geothermal heating/HVAC system saving more than 30% on heating and cooling costs
- low emitting Greenguard quality refurbished furniture
- daylight harvesting combined with high efficiency lighting that continues to save 30-40% in lighting energy consumption over traditional lighting systems
- Forest Stewardship Council-certified flooring and doors, which help support responsible forestry practices
- water-efficient fixtures that consume 44% less water than conventional fixtures, saving an estimated one million litres per year.

More information can be found at www.skf.com

In addition to low carbon energy procurement, the company has undertaken a number of investigations and activities aimed at finding other solutions that could provide a lower carbon electricity supply to the Group's factories around the world. One clear conclusion from these investigations has been that very large-scale direct investment in renewable energy generation capacity (e.g. so that an entire factory's annual energy requirements could be provided) is not currently viable for SKF. The size of SKF's energy demand means that the scale of investments needed in both the plant and related infrastructure could not be sustained by the company or its investors. Nevertheless, smaller scale direct investments, which can demonstrate and help develop new renewable technologies, can be viable. SKF continues to evaluate and implement various solutions suited to the naturally available renewable energy sources that exist in different locations around the world. Recent examples such as the large solar array at SKF's logistics centre in Germany can be found in previous annual reports. In 2010, SKF installed ground source heat pumps at facilities in the US and China. These installations provide building and heating and cooling requirements with minimal energy (and carbon) input.

Scope 1 and 2 CO_2 results for 2010

As anticipated in last year's report, the impact on production levels resulting from the extraordinary magnitude and speed of the global downturn and recovery, meant that achieving the Group's target of an absolute 5% reduction in carbon emissions in 2010 vs. 2009 was not feasible. Instead the Group defined a 'one-off' specific target for 2010 considering a 5% annualized reduction from the 2008 level. Despite maintaining a high focus and priority on reducing energy and carbon intensity, the Group's scope 1 and 2 emissions increased more rapidly than the total energy use during 2010. In other words the Group's carbon intensity increased.

This increase in carbon intensity was due to the expansion of SKF's manufacturing capacity and production in the rapidly expanding markets - predominantly China and India. SKF's rate of production increase in these areas is such that, despite the use of best energy practice and technology, some increase in the total energy requirement has been inevitable. As purchased electricity represents 70% of the total energy demand for manufacturing, and the major primary energy source for electricity in these markets is coal, the carbon emissions generated per unit of electricity are many times higher than in Sweden or other European countries (where less carbon intensive energy sources are used extensively). This problem has been compounded by the lack of commercially available low carbon electricity sourcing options in these markets, and means that the impact of greater energy use has had a disproportionately large effect on the Group's total emissions. As mentioned, SKF is already making extensive use of low carbon energy sourcing in those countries (mainly in the EU) where this is possible, and therefore making further significant reductions in carbon intensity in these regions was not realistic.

Nevertheless, in 2006, SKF made the commitment to reduce carbon emissions in absolute terms, while at the same time executing an aggressive plan for organic growth. The Group defined this challenge because it reflects the fundamental global question of how to secure reductions in energy-related carbon emissions at the same time as a balanced economic development, and SKF remains dedicated to addressing this challenge.

Considering the issues described, the Group determined that the only practical way to deliver on the 2010 target would be to purchase a quantity of emission reduction certificates. To assure quality and credibility of the type and source of emission reduction certificates chosen, SKF took advice from an external specialist environmental consulting group. Considering this advice, and using SKF's knowledge and network in the Asian industrial market, Voluntary Emission Reduction (VER) certificates which had been produced according to the Voluntary Carbon Standard (VCS) by the state owned Steel Authority of India Limited, were purchased. The VCS has been developed by International Emission Trading Association, World Business Council for Sustainable Development, governments and NGOs, as a flexible mechanism that allows purchasers to reduce greenhouse gases voluntarily.

Energy optimization of heat treatment at SKF Dalian, China – saves 2,500 tonnes of CO_2 annually

Using Six Sigma tools and approach, the SKF production engineering team at the large size bearing factory in Dalian, was able to find significant energy and carbon savings. By careful measurement and analysis of the various and complex process parameters involved in the heat treatment equipment, it was possible to identify savings of 2.9 GWh of electricity per year and around 2,500 tonnes of associated carbon emissions.

The VERs purchased by SKF have been generated at two separate steel plants in India. In both cases the associated revenue will assure that significant and specific project investments in energy efficiency became viable – thus creating an avoidance of carbon emission that would otherwise have occurred. The VERs purchased have been verified by external environmental consultants in accordance with the internationally recognized requirements of the VCS.

Before deciding to buy VERs, the Group evaluated a number of alternative options, including the purchase of Certified Emissions Reductions (CERs) as defined under the UN Clean Development Mechanism. CERs are designed for the much larger compliance market that is dominated by the demand from entities legally required to achieve reductions. The nature of the compliance market is such that if SKF decided not to buy CERs then there would be a large number of compliance buyers who would. On the other hand if SKF did purchase CERs, the relatively small volume required by the Group would mean the impact on the market price would be negligible. Therefore, SKF concluded that a purchase of VERs (where the market entirely depends on voluntary buyers) should have a more direct and significant impact on reductions.

In total, voluntary emission reduction certificates equivalent to 40,000 tonnes of CO_2 have been purchased by SKF, and when subtracted from the Group's result of 508,300 this brings 2010's scope 1 and 2 emissions to 468,300 tonnes (which achieves the specific target of a 5% annualized reduction vs 2008).

Actions for measuring and reducing other indirect (scope 3) emissions

Business travel

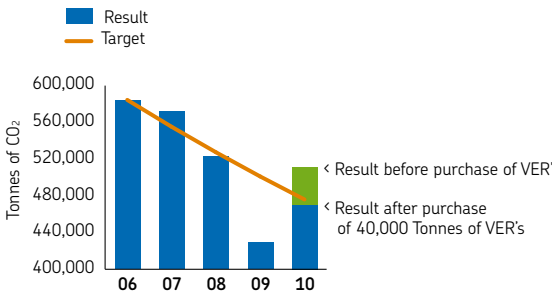
Business travel is a necessary activity for a multinational organization like SKF, and one that inevitably results in CO_2 emissions. Even though the quantity of emissions is relatively small in comparison with those related to the Group's manufacturing or logistics operations, SKF continues to strive to minimize this aspect. The global nature of the Group means that air travel accounts for by far the largest CO_2 emissions in business travel.

In 2008, SKF started to monitor CO_2 emissions from its European and US air travel. Data from other regions has not yet been included because multiple travel agencies are used in these regions, making reliable data collection very difficult. The total CO_2 emissions from air travel in 2010 amounted to 18,680 tonnes, a 47% increase compared to 2009.

This increase is not surprising as in response to the global downturn, SKF established very tight controls on business travel in 2009. Only the most urgent and essential business trips took place during this period, and other activities – such as internal meetings, were held using SKF's established web and video conferencing facilities. While the company recognizes the many benefits of virtual meeting tools, it is also clear that to assure effective global collaboration, people need to meet in person from time to time. Therefore, as the global economic situation started to improve in 2010, SKF decided to relax some of these controls and the amount of business travel increased.

Nevertheless, SKF continued to make extensive use of web conferencing systems in 2010, with over 43,000 net-meetings held. Many of these virtual meetings would previously have taken place physically and hence required business travel and associated emissions.

Result for 2010 scope 1 and 2 carbon dioxide emissions ('000 metric tonnes)



** 2006 to 2009 figures adjusted for acquisitions in accordance with GHG protocol*

Virtual meeting tools in SKF

SKF's employees are encouraged to think carefully about the best way of meeting with colleagues, customers and suppliers. For cases where face-to-face meetings are not needed, the Group has deployed a number of virtual collaboration tools.

With more than 70 state-of-the art video conferencing facilities located at sites in 23 countries, SKF is taking greater advantage of this technology to improve efficiency and reduce carbon emissions and costs.

SKF hosts up to 1,300 web conferences every week – allowing colleagues, business partners and customers to exchange ideas and information with minimal environmental impact, at the same time freeing up many hours of personal and working time.

Video conferencing

Logistics

SKF Logistics Services started reporting and actively driving reductions in emissions resulting from the downstream (from SKF to customer) transportation of goods in 2008. Since then, the scope of reporting has increased and the approach towards driving improvements has evolved. In 2010 the reporting scope included global air and sea freight and the express and road transportation networks within the European Union. Road transportation in markets outside Europe has not yet been included due to the difficulties of obtaining reliable data from logistics providers in these locations. The reporting period has been revised in 2010 to include fourth quarter of the previous year up to third quarter the reporting year. This change was necessary as much of the data needed takes more than three months to become available.

During 2010, SKF took further action to reduce greenhouse gas and other emissions related to the Group's road transportation network such as increased "fill rate". Maximizing the "fill rate" (the % of the vehicle's maximum capacity which is utilized) of trucks that deliver SKF's goods, is critical from an economic and environmental perspective. This is because a high fill rate translates to minimal fuel used per weight of product transported, and therefore SKF has been working hard with the company's transport providers to optimize this important indicator. In 2010, these efforts resulted in a fill rate of 77% compared to 72% in 2009 and this reduced the carbon emissions per tonne kilometer by 12%. Also during 2010, new contracts were signed with road logistic service providers in which fuel consumption requirements were defined. These agreements require average fuel consumption of not more than thirty two litres per hundred kilometres, which is possible when eco-driving techniques are applied with modern trucks.

Rail transportation is generally much more efficient than road from an energy and carbon perspective. Therefore SKF continues to explore the possible use of rail as part of the logistics network. A good example of this approach came in June 2010, when SKF started to use train transportation between the factory in Gothenburg, Sweden and the company's European distribution centre in Belgium. With 48% of the total volume moved between these two locations now carried by rail, an annual reduction in carbon emissions of 230 tonnes has been achieved.

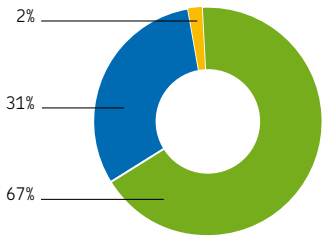
2010 saw a continued close association between SKF and external networks such as the Swedish network for transport and environment (NTM) and the Clean Shipping initiative. Working as a partner in these networks has provided SKF with access to specialist knowledge as well as the possibility of combining with like-thinking organizations and advocating better environmental performance in the transport industry. SKF's main efforts toward reducing the impact of air transportation are focused on avoiding the use of this mode of transport as much as possible. Clearly, there are substantial cost savings as well as environmental gains to be derived when the company is able do so.

SKF's monitoring of logistic-related emissions includes carbon dioxide (CO_2), carbon monoxide (CO), nitrogen dioxide (NO_2), sulphur dioxide (SO_2), particles (PM) and hydrocarbons (HC). Since the monitoring started in 2008 the scope has increased (the monitoring includes more transport connections around the world). In 2010 the total CO_2 emission from SKF Logistics Services transportations within the scope described was 48,200 tonnes while the shipped weight was 401,270 tonnes. The shipped weight in 2009 was 289,000 tonnes and CO_2 emission was 41,000 tonnes, which would be equivalent to approximately 15% reduction per tonne shipped.

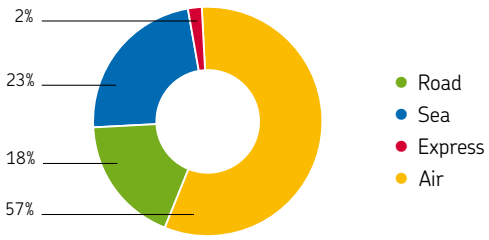
Outsourced components and raw materials

SKF continued to emphasize the importance of energy use and related CO_2 emissions to the Group's suppliers during 2010. Based on the experience gained in recent years and to increase the efficiency of the initiative, the scope of SKF's approach was revised in 2009 to focus only on energy-intensive major suppliers. Narrowing the scope in this way has allowed SKF to ensure a higher level of engagement and support in driving suppliers' CO_2 reductions. SKF requires these companies to provide both quantitative and qualitative data on energy and carbon management so that performance can be evaluated. Of the forty four major suppliers defined as energy intensive, thirty nine have fully complied with SKF's request. In 2010, the Swedish forging supplier Arvika Smide AB won the SKF Supplier Excellence Award for sustainability. One of the main motivators for this award was the company's high focus on reducing energy use and related carbon emissions.

% of shipped weight per transport mode Q4 2009 to Q3 2010



% of carbon emission per transport mode Q4 2009 to Q3 2010



Although the weight of SKF's goods transported by air is less the 2% of the annual total, this generates 57% of the Group's total transport-related carbon emissions. Sea freight is generally a less carbon intensive mode of transport than road or air transportation. However the large distances covered mean that this aspect is the second largest source of transport-related carbon emissions for the Group at 23%. Normal road and express transportation make up the remaining 20% of the reported transport related carbon emissions.

Water harvesting at SKF Bengaluru

Through a combination of technologies such as rainwater harvesting and wastewater recycling a total reduction in water use of more than 50% was achieved in 2010.

Material consumption

SKF uses various types of materials such as metal, rubber, solvents, hydraulic oil and grease. Metal consumption for 2010 increased by 42% to 547,000 tonnes compared to 2009, which mainly is associated with the increase in production. Through the SKF Manufacturing Development Centre, 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 optimizing a variety of more conventional forming processes to achieve the same goal.

In addition to the 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.

Chemical use

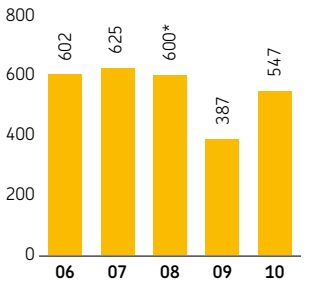
SKF had a solvent reduction target of 25% over a five-year period, compared to 2002's level and in relation to production volumes. The target was incorporated into the environmental management system to comply with EU Council Directive 1999/13/EC on the limitation of volatile organic compound (VOC) emissions. 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 therefore set where SKF aims to achieve a 50% reduction in absolute terms by 2012, compared to 2007's level. The trend of reduction in the previous years was broken in 2010, with an increase of 6%, compared to 2009. However, the increase in VOC was substantially lower that the general increase in production volume.

SKF is working towards eliminating the use of all equipment containing PolyChlorinated Bifenyls (PCBs) at all manufacturing sites. PCB is classified as a highly toxic organic compound that causes health problems. PCB has been eliminated at all sites except for Lutsk, Ukraine, where there are a number of transformers containing PCB on site. Orders have been placed for new PCB-free tranformers, and a systematic replacement program will start at the Lutsk site in 2011.

Ozone depleting substances

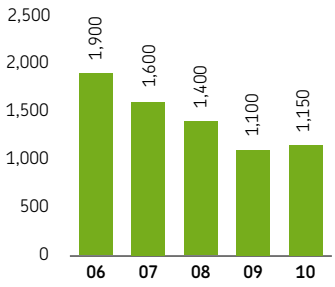
SKF has been monitoring its consumption of ozone depleting substances (ODS) for many years by referring to the Montreal Protocol. Consumption has steadily fallen over the years, supported by a number of local phase-out projects. Overall, the most harmful ODSs have either been substituted with less harmful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

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 (tonne)



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 (as opposed to a producer) of chemicals as defined in the regulation and is complying by communicating both up and down the supply chain. This is to ensure that chemicals used in SKF's products and manufacturing are registered and safe 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's products and activities.

Water consumption and discharge

As the majority of SKF's factories are located in industrial zones, water, to a large extent, is supplied by municipalities. Thus, SKF monitors total water consumption at operating units and not according to water withdrawal by source. Water consumption by the Group in 2010 was 8.3 million cubic metres, compared with 6.9 million cubic metres in 2009.

SKF has established specific targets for reducing water consumption applicable to sites located in areas of water scarcity.

As part of the SKF's global ISO 14001 management system, all operating units are obliged to follow local rules and regulations. This includes waste water handling. Many units have also introduced closed-loop water consumption or installed waste water treatment facilities, such as in the case from Bengaluru, India on previous page.

Waste management/recycling

All SKF units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. All scrap metal from SKF's operations is recycled, totalling 128,000 tonnes in 2010.

A normal waste product from SKF's manufacturing process is grinding swarf. SKF aims at achieving at least an 80% recycling rate for its grinding swarf by 2012. The 2010 recycling percentage of grinding swarf Group-wide was 67%. This is a reduction compared to 2009, and is mainly due to regulatory changes at the Pune site in India which prohibit recycling, and the decision of the recycling company used by the Gainesville site in the US, to no longer accept grinding swarf.

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

Packaging materials

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

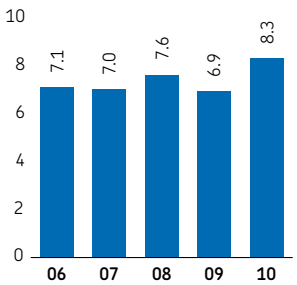
SKF's Group Standard Pallet (GSP) box – pallet base, lid, and collar – is the primary shipping container used, both internally and externally, by SKF. With an average seven to ten-year technical life, GSPs are used and reused in all inbound and outbound shipments.

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

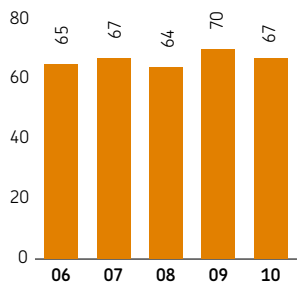
Biodiversity

By the end of 2010, 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's Employee Care accentuates the focus as an employer, on schemes that develop employees' personal and professional skills, whilst creating a motivating work environment, and thereby 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 process and works councils were institutionalized at SKF to ensure that this commitment is observed, regardless of where the operation is located.

In line with the SKF Code of Conduct, the Group must strive to provide employees with opportunities to train for job enrichment and greater responsibility.

More information about SKF's variety of schemes focusing on employee learning and development can be found in one of the following sections – Learning and development.

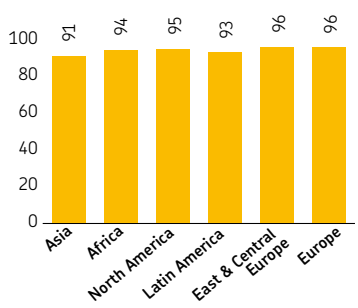
Human rights and labour standards

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 levels of commitment from business partners. For more information about the SKF Code of Conduct and adherence to international principles and charters, please see pages 125 and 126.

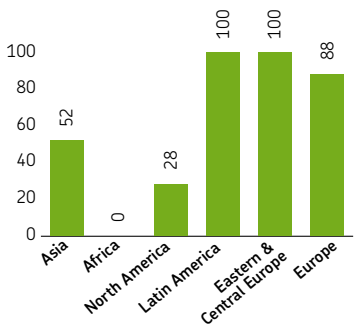
A Code of Conduct compliance audit was established in 2004 with the aim of ensuring that SKF units globally have sound monitoring systems in place for complying with this policy. Audits are performed annually on a sample of units throughout the Group. In 2010 audits were conducted at twenty five units, of which ten were in Europe, seven in Asia, three in the US, two in Russia, and three in Latin America. There were three legal non-compliances with working hours legislation; one in China, one in India and one in South Korea. Corrective action was taken in each case, with documented evidence submitted to the auditor. Apart from these legal non-compliances, there were also other minor non-compliances to the SKF Code of Conduct found. Corrective actions have been carried out accordingly.

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

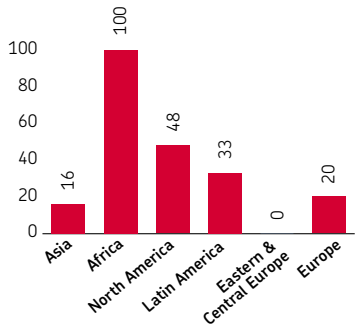
Employee retention rate by region, %



% of SKF units by region with independent trade union



% of SKF units by region with HIV/Aids programme



human rights principles, labour standards, anti-bribery measures together with environmental, health and safety performance. More information can be found on page 126 – 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 contact person. This is addressed for the attention of the Senior Vice President, People and Business Excellence. Immediate action is taken accordingly by SKF on all complaints received. 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, such as acquiring or divesting operations, are always discussed and resolved in an open and constructive atmosphere with union leaders locally and at the World and European Works Councils. SKF signed an International Framework Agreement on labour standards and human rights with its World Works Council in 2003. There is an active and positive co-operation between company management and the union leadership to ensure a high standard of adherence. As part of the due diligence process for major acquisitions, SKF evaluates e.g. various people issues such as human rights and labour rights. The precise approach must be adapted to the specific conditions of each acquisition.

Working environment

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

The survey responses were compiled from sixty five different countries. Because the 2009 survey was a specific survey adapted to better capture employees' feedback during the then prevailing business climate, 2010's result has therefore been compared with 2008's result. There is an overall improvement in the parameters measured, particularly in the aspects of ethical business conduct and fairness, relationship with immediate manager and SKF working towards continuous improvement. SKF employees regarded SKF highest in the aspects of having high business focus in meeting customers' demand and expectation, and regarded the SKF vision as important.

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

The percentage of employees in full-time employment was 97% in 2010, while the retention rate of employees was 95%. At the end of 2010, 30% of the Board of Directors and 23% of SKF's Group Management positions were held by women. Locally, 72% of SKF units have at least one woman in local management

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

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

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

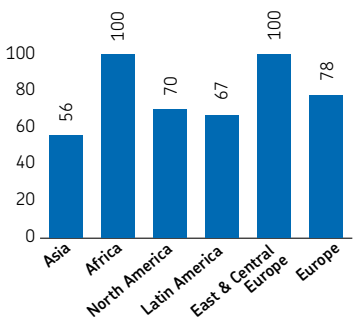
Zero Accidents and OHSAS 18001

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

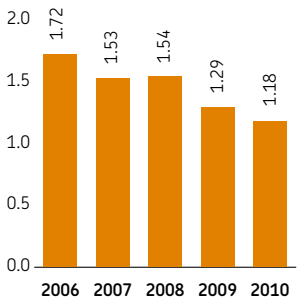
105 out of 210 SKF units worldwide achieved no recorded accidents for a minimum of four consecutive quarters at the end of 2010. 2010's accident rate was 1.18, significantly lower in comparison to 13.78 in 1994 when SKF started monitoring it.

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.

% of female in local site management by region



Accident rate for the SKF Group



The accident rate for the Group is calculated using the formula:

Accident rate = R x 200,000 / H
where R = number of recordable accidents and H = total hours worked

All SKF units globally are to have the same high standards in occupational health and safety management.

The single Group-wide certificate covered 98 sites in 29 countries by the end of 2010. 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.

All new employees are subject to health and safety training. Regular hazard and risk assessments of working environments are also a mandatory part of OHSAS 18001 certification.

Health and fitness

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

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

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

Learning and development

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

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

Utilizing different technological tools and methods – web conferencing, e-learning, classroom setting, group-work, 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 employees to achieve a sustained personal, professional and behavioural development.

To meet the goal of making learning affordable to all SKF organizations which is particularly challenging in some of the fast growing markets, the aim is to have more programmes based on concepts owned or leased by SKF, which can easily be replicated with local internal or external resources as trainers. The establishment of SKF College campuses in 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 for traveling long distances, being away from work and family, as well as the high cost of hiring foreign trainers.

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

SKF has launched a project called HR transformation, focusing on driving and capitalizing knowledge of its global workforce. Please see page 19 for an interview with Eva Hansdotter, Senior Vice President, People and Business Excellence.

On-site gym for SKF employees

Following the sustainability training programme in 2006, one reoccurring idea from UK employees based in Luton was an on-site gym. The local sustainability team took responsibility for the idea, which clearly supported the company's commitment to Employee Care and well-being.

In April 2008 the Luton gym was opened; available 24/7 and free for all Luton-based employees and contractors. The gym has been a huge success and changed the way employees use their time around working hours.

The Luton Sports Committee was set up as a result, to ensure that the gym remained a fun and safe environment. The Committee has also provided other fitness activities during working hours including yoga, badminton and table tennis. It is clear that more Luton employees are choosing to incorporate some physical activity into their working day.

Access to fitness centre, on-site or through third parties, is also offered in other countries such as Sweden, Germany, and Austria.

Community Care

With over forty thousand employees globally, and more than one third in Central/Eastern Europe, Latin America, Asia, and 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.

The SKF Social Policy

The SKF Social Policy was issued in 2006 with the aim of promoting employees' involvement in commendable local social projects. Since 2008, every country management team has been asked to prepare and submit an annual Community Care plan. As a basis for the Community Care plan, local management must assess and define the support that best caters for the local society's needs and contribute to the community's development.

Twenty five countries submitted Community Care reports in 2010. Out of a total contribution of SEK 21 million, SEK 16 million was made up of financial sponsorship to various local charity organizations as well as for sports, cultural or educational events. More than SEK 4 million was donated to help underprivileged people or victims of natural disasters. The remaining share was of in-kind giving and volunteered working hours.

Some of the Community Care activities are highlighted in this Sustainability Report and those of previous years. Further descriptions can also be found at www.skf.com.

Natural crises

Early in 2010, the world was shaken by the news of a catastrophic earthquake in Haiti. Being one of the poorest countries in region, Haiti has long suffered from political instability, various social problems, and environmental degradation. Despite not having any operations in Haiti, SKF made a donation of around SEK 200,000 to SOS Children's Villages, to support their rescue work. Building temporary shelters for the children and providing families in the country with basic necessities such as food and medical care, were SOS Children's Villages' top priority.

A similar magnitude earthquake hit Chile about a month later. SKF units in nearby countries provided immediate help by sending food, clothes or monetary support.

During the summer, the Czech Republic suffered severe flooding. SKF's unit in this country donated SEK 20,000, and ten employees volunteered, providing help to the local residents in Chrastava, one of the cities badly damaged by the flood.

Education and vocational training

SKF appreciates the importance of knowledge and aspires to be the knowledge engineering company, subsequently a competitive leader in the industry. Equally significant is knowledge or education in eradicating poverty. As a result, SKF has been actively involved over the years by providing local communities with access to education and training through scholarships, vocational training, mentorship or sponsorships of events.

One example is the partnership between SKF Bengaluru, India and Samarthanam – a trust for the disabled - working to provide skill training to people with visual or other physical disabilities. The objective is to help increase their chances of finding jobs. The "TechVision" project is a four-month training programme covering computer lessons, English language and personal development courses.

SKF employees visit the centre regularly and talk to the trainees about various issues concerning corporate life: corporate culture, expectations, various business processes and business ethics. SKF has also helped to arrange an external trainer for the trainees in gaining interview skills as well as helping build their confidence.

For more examples of SKF Community Care progammes in other countries including China, Pakistan, the Philippines, and Turkey, please see previous years' Sustainability Reports or visit www.skf.com.

Sport

The Gothia Cup is an annual event in Gothenburg for over 30,000 young people worldwide that SKF has sponsored since 2006. It is the largest football tournament in the world for boys and girls between the ages of eleven and nineteen. Besides being the event's main partner, SKF also organizes local tournaments called "Meet the World" for children who could not afford to go to Sweden. These were held in

seventeen different countries in 2010. To learn more about SKF's Meet the World or the Gothia Cup, please visit www.skf.com.

SKF's Meet the World football tournament was arranged in Indonesia for the first time in 2010. Eight teams with in total 120 children were invited to the competition, where the winning team was sponsored by SKF to compete in Sweden in the summer.

Attended by many local residents, families, and friends of the children, as well as volunteers from SKF, the two-day competition was warmly welcomed by the local community and very well received by the local media. The winning team was also invited to the residence of the Swedish Ambassador, Mrs Ewa Polano, before they embarked on their exciting trip to Sweden to compete in the Gothia Cup.

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.

Helping people

HIV and AIDS remains a major challenge in Kenya as it is one of the greatest public health concerns, with around 1.4 million Kenyans living with HIV and AIDS. HIV/AIDS is more than a health issue as i t also impedes a country's long-term economic and social development agenda.

In addition to various progammes offered to local employees – as a member of the Swedish Workplace HIV/AIDS Programme (SWHAP) – SKF Kenya also formed an association called Neighbours Against Aids (NAA) together with other companies in the region. The primary objective of the initiative is to mitigate the spread of the disease and offer support to those infected and affected.

The first three years after its inception in 2002, focused on HIV/AIDS awareness building among employees and their families. The activity scope gradually broadened to support local communities, through for instance, a feeding programme for forty families in the slums near the SKF office.

A medical camp was recently established where 410 people from the slums turned up for treatment of general illnesses. More serious cases detected were immediately referred to the hospitals. The Nairobi Women's Hospital was also invited to conduct a breast cancer awareness day at the camp. Voluntary doctors, nurses and pharmacists as well as various pharmaceutical companies making donations in time and money have helped to make the event successful and rewarding.

In several other countries, such as the UK and Italy, SKF has set up paid voluntary schemes for local employees to volunteer in local Community Care activities. SKF also organizes food, clothes and book donations and many SKF employees 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. Collectively, SKF factories and offices in the US raised close to SEK 1.7 million in 2010.

Aid and support to hundreds of families in Pakistan

Following weeks of torrential monsoon rain, large areas of Pakistan (estimated at around 20% of the country) were flooded.

In an immediate and locally-driven response, SKF Pakistan set up an aid appeal, encouraging its employees to donate two gross salary days or more with an equal contribution from the company. All employees took part in this voluntary scheme. SKF operations in other countries - Australia, Taiwan and the office of SKF Asia Pacific in Singapore - also pitched in, raising a total of EUR 30,000 for the relief work.

With the donation, SKF Pakistan was able to embark on relief work in Dadu, Sindh, a rural area where neither government nor non-governmental organizations were present.

One hundred tents were erected in the initial phase of the project, accommodating two hundred families who had lost their homes. Medical camps with doctors and medicines, an ambulance service, water filtration plants, mosquito nets and temporary electricity supplies were among the necessities made available to those residing in the area that the inhabitants called the "SKF Village". Knowing that any permanent resolution or proper rebuilding of the village would take some time, a play area, pray area and basic education facilities were also provided.

More than six months have passed since flooding hit the country. Aid and support is still urgently needed by the locals. SKF has continued its work by extending help to three villages nearby. Approximately two hundred houses are being constructed and SKF also plans to set up a school and medical centre for the local villagers, to take a step forward towards the rehabilitation.

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 2010 award went to Ken Sherman and Randal Arauz, in recognition of their respective work in protecting the ocean and preventing shark finning – the killing of sharks purely to collect the fins.

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. The competition aims at promoting higher energy efficiency through innovation and creativity, where 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. The 2010 event was held in Lausitzring, Germany.

Being a partner, SKF GmbH, Germany offered technical support to competing teams in the choice and construction of vehicle bearings as well as delivering components and parts such as bearings and grease.

Joachim Seubert, Sales Director, SKF Automotive Car Business Unit commented, "The Shell Eco-Marathon is a sort of 'Formula 1' for energy-efficient vehicles. Its basic idea corresponds with our SKF philosophy: offering continuously less friction to carmakers resulting in less CO_2 emission and less energy consumption. With our energy-efficient assortment and our SKF know-how we can reduce both friction by up to 30% and CO_2 emission by up to eight grams per kilometer."

Switzerland Solar Impulse

SKF contributes to Solar Impulse, the first aircraft designed to fly day and night without fuel or pollution, demonstrating the immense potential of renewable energy.

The Solar Impulse project objective is to have an airplane take off and fly autonomously, around the world, propelled uniquely by solar energy. SKF joined the project as a Specialized Partner, contributing to developing this unique airplane with products and engineering knowledge in the areas of bearing technology, analytical modelling and virtual testing.

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

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

The SKF Forest

SKF signed a framework agreement with the State Forestry Administration of China (SFA) at the 60th anniversary of diplomatic relations between Sweden and China (May 2010). This kicked start SKF's five-year reforestation project in the country.

China aims at increasing its forest coverage to more than 26% by 2050. SKF, together with SFA, deployed a pilot project in the north-eastern part of China, in Fuxin County, Liaoning Province. The project site consists of barren hills and the area was severely affected by frequent sandstorms due to its close proximity to the Horqin desert.

With the funding provided by SKF, the local forestry department planted more than 300,000 seedlings during the summer of 2010, covering an area of 260 hectares. The learning and experience obtained from the pilot will be the stepping stone in further developing the SKF Forest project into 2011 to 2014.

"We hope this project will make a significant contribution to local development in both social and environmental terms. As the project develops, it will provide stable employment for local people who currently get by on subsistence living. Once the trees are grown, it will prevent soil erosion caused by sandstorms or rainfall. The planted area will also play an important role in water conversation and serve as a shelter for the local flora and fauna.

Equally important, we hope this project will also serve as a medium where the knowledge and competence between the Swedish and Chinese forestry sectors can be shared." states Tom Johnstone, President and CEO of SKF.

Organization, stakeholder participation, awards and recognition

Organization

In 2010 SKF Corporate Sustainability reported 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 SKF's 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 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 resources 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.

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 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, which inspects SKF units to ensure compliance with Group standards and national legislation.

Since 2008, energy coordinators have been nominated at SKF sites with more than 0.2 GWh in annual energy use. In addition, all three divisions have appointed senior managers with responsibility for divisional EHS performance. Close collaboration between the various players is assured through the management system and regular meetings. The annual EHS conference in 2010 took place in Shanghai and all country coordinators, Group and divisional managers with direct EHS responsibilities participated. During this conference, delegates shared the major challenges which must be addressed to assure continued EHS performance gains, agreed on key activities for the coming year and updated one another on important internal and external EHS developments.

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.

Dialogue with the various stakeholders including discussions, visits, questionnaires, and emails/websites, are vital feedback to SKF in its continual improvement in both sustainability performance and communication.

SKF takes a proactive approach to 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), the 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 2010 in Göteborg, Sweden.

An example of how SKF's stakeholder engagement process functions can be seen in the instigation and evolution of the Responsible

Dow Jones Sustainability Indexes
Member 2010/11

MEMBER OF THE INVESTMENT REGISTERS
ETHIBEL PIONEER & EXCELLENCE

FTSE4Good

Participants at the annual environmental, health and safety conference held in Shanghai – December 2010

Demand Chain initiative. In this case, SKF's 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 SKF's Responsible Demand Chain focus. The commitment in the Responsible Demand Chain and expectations of suppliers' sustainability performance are systematically highlighted at SKF's supplier conferences. Local supplier conferences were held in different countries in 2010.

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 in order to ensure that stakeholders receive transparent and credible information.

Active participation in various business organizations such as the Conference Board, Global Compact networks, European network for sustainable business and the Association of Swedish Engineering Industries (Teknikföretagen) enables SKF to share experiences and ideas with other multinationals about how to contribute to ecologically-balanced and socially-sound economic development.

Awards and recognition

Dow Jones Sustainability Indexes (DJSI) are recognized globally in providing asset managers with investment indexes and benchmarks in the field of Sustainability Investing.The first DJSI assessment result was published in 1999 and in 2010 SKF was included in the Dow Jones Sustainability World Indexes (DJSI World) and the European sustainability index (DJSI Europe) for the eleventh year in succession. The 2010 assessment covered a total of fifty eight 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.

SKF has also been included in the FTSE4Good Index Series since the first result was published in 2001. Moreover, SKF 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 17 December 2010 and is being monitored regarding its corporate social responsibility profile since then.

SKF Sustainability Report 2010

The 2010 SKF Sustainability Report covers the reporting period January to December 2010 (if no other information is given). Since 2000, SKF has applied 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 2010. 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 2010 Sustainability Report was subject to a limited assurance, in accordance with Far (the institute for the accounting profession in Sweden) recommendation RevR 6 Assurance of sustainability report. The report of the review on the Sustainability Report is on page 147.

With reference to the GRI G3 Application Level Criteria, the 2010 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 of the Group.

A summary of the 2010 direct economic value generated and distributed, according to the G3 Guidelines is of the following (in million SEK):

- Net sales 61,029
- Cost of goods sold, selling and administrative expenses 52,438 whereof salaries, wages and social charges 35%
- Cash dividends to AB SKF's and minority shareholders 1,594
- Gross taxes 2,253

The SKF Sustainability Report for 2009 was issued in March 2010. The scope of the 2010 report has changed due to the following:

- The additions of the SKF's factories in Haridwar (India), Ladson (US) and Monroe (US). Data from these units were consolidated in the SKF Group for the first time in 2010.

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 2010, and the compliance table to GRI G3 Guidelines (GRI Index Table).

Auditor's Review Report on SKF Sustainability Report

To the readers of SKF's Sustainability Report 2010:

Introduction

We have been engaged by SKF's Board of Directors and the Chief Executive Officer to review the Sustainability Report 2010. The Sustainability Report is presented on page 122-146 of the SKF Annual Report 2010 including Sustainability Report and on SKF's website in "Topics related to Annual Report 2010, including Sustainability Report" in the form of Carbon dioxide emission data, Environmental performance data, Zero Accidents awards and Compliance table to GRI G3 Guidelines (GRI Index Table) (www.skf.com, Investors and Reports). The Board of Directors and Group Management are responsible for the ongoing 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

We have performed our review in accordance with RevR 6 Assurance of sustainability reports issued by Far (the institute for the accountancy profession in Sweden). A review consists of making inquiries, primarily of persons responsible for 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 IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The criteria on which our review is based are the parts of the "Sustainability Reporting Guidelines, G3" published by the Global Reporting Initiative (GRI), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that SKF have developed and disclosed. We consider these criteria suitable for the preparation of the Sustainability Report.

Our review has, based on an assessment of materiality and risk, among other things included the following procedures:

- An update of our knowledge and understanding of SKF's organization and activities.
- Assessment of suitability and application of criteria regarding the stakeholders' need for information.
- Interviews with certain external stakeholders to evaluate whether SKF responds to important stakeholders' concerns in the Sustainability Report.
- Interviews with responsible management at group level and business area level and reading of internal documents with the aim to assess if the qualitative and quantitative information stated in the sustainability report is complete, correct and sufficient.
- An evaluation of the design of the 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 at SKF facilities located in China, Germany and Spain. 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.
- An assessment of the SKF's self-declared application level according to GRI:s guidelines.
- An assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.
- A reconciliation of financial information with SKF's Annual Report 2010.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the information in the SKF's Sustainability Report 2010 has not, in all material respects, been prepared in accordance with the above stated criteria.

Göteborg, 10 March 2011
KPMG AB

Thomas Thiel
Authorized Public Accountant

Karin Sivertsson
Expert member of Far

Management

as of 31 December 2010

Tom Johnstone

Tore Bertilsson

Henrik Lange

Vartan Vartanian

Tryggve Sthen

Alan Begg

Carina Bergfelt

Tom Johnstone*
President and Chief Executive Officer
Born 1955
Master of Arts degree, the University of Glasgow, Honorary Doctor's degree in Business Administration, the University of South Carolina, USA
Employed since 1977
Previous positions within SKF: Executive Vice President AB SKF and President, Automotive Division and several other positions.
Employed since 1977
Board member: Investor AB, Husqvarna AB and Chalmers University of Technology, Gothenburg
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, Göteborg University
Employed since 1989
Previous positions within SKF: Group Treasury Director
Board member: Gamla Livförsäkringsbolaget SEB Trygg Liv, AB Ludvig Svensson, PRI Pensionsgaranti and Ågrenska AB
Shareholding in SKF: 15,000

Henrik Lange*
President, Industrial Division
Born 1961
Bachelor of Science in Economics, School of Business, Economics and Law, Göteborg University
Employed since 2003 and 1988-2000.
Previous positions within SKF: Senior Vice President, Group Business Development and several other positions.
Board member: Association of Swedish Engineering Industries, 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 Institute of Technology
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

As of 1 January 2011
Senior Vice President, Group Technology Development

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

As of 1 January 2011
Senior Vice President, Group Legal and Sustainability

** Member of Group Executive Committee*

Eva Hansdotter

Magnus Johansson

Rakesh Makhija

Manfred Neubert

Bo-Inge Stensson

Ingalill Östman

Eva Hansdotter
Senior Vice President, Group Human Resources and Sustainability
Born 1962
Bachelor of Science in Information Systems, Göteborg University
Employed since 1987
Previous positions within SKF: Human Resources Director, Industrial Division and several other positions.
Member of SNS Board of Trustees
Shareholding in SKF: 1,000

As of 1 January 2011
Senior Vice President, Group People and Business Excellence

Magnus Johansson
Senior Vice President, Group Business Development and Government Relations
Born 1955
Education: Bachelor of Science in Behaviourism, Gothenburg University
Employed since 2004 and 1981-2002
Previous positions within SKF: President, SKF China Co Ltd. and several other positions.
Board member: Wafangdian Bearing Co, Ltd. and West Sweden Chamber of Commerce and Industry

As of 1 January 2011
Senior Vice President, Group Demand Chain

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: WEHACO Hannover, Employers association German Metal Industry
Shareholding in SKF: 800

Bo-Inge Stensson
Senior Vice President, Group Demand Chain
Born 1961
Master of Science Industrial & Mechanical Engineering, Linköping Institute of Technology
Employed since 2006
Shareholding in SKF: 600

As of 1 January 2011
Senior Vice President, Group Purchasing

Ingalill 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, FKG and the International Council of Swedish Industry (NIR)
Shareholding in SKF: 2,000

As of 1 January 2011
Senior Vice President, Group Communications and Government Relations

As of 1 February 2011

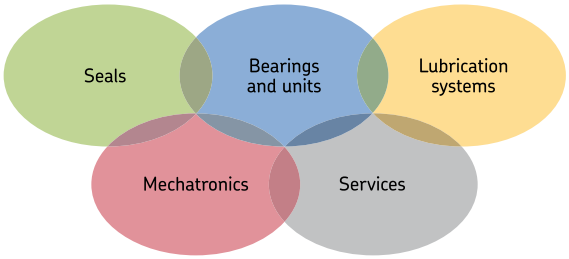
Poul Jeppesen
President,
North America

Born 1953
Engineering , Aalborg Technical College and Business Administration, Silkeborg Business School
Employed since 1982
Board Member: NAM (National American Manufacturers), MAPI (Manufacturing Alliances), ABMA, American Bearing Manufacturers Association, Family Answers (Charity Organization)

SKF's platforms

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

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

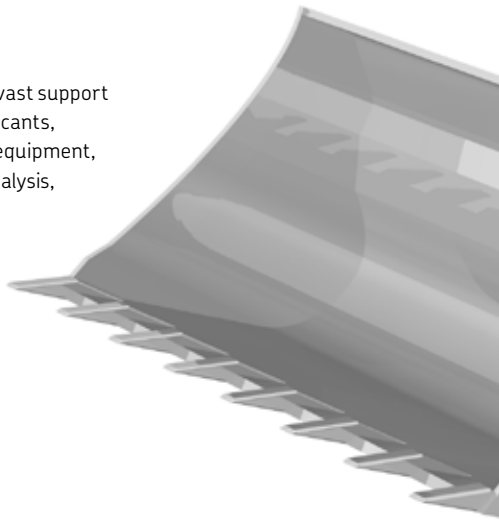


Bearings and units
The broad range of bearing types produced globally by SKF offers customers an assortment of high-quality, high-performance, low-friction, standard and customized solutions to critical and standard applications. Units are product combinations integrated into solutions with unique performance, used in specific applications requiring a compact design, combined performance and light weight.

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

Services
The service platform delivers value by addressing the entire life cycle of a particular asset. The design phase is covered by different aspects of engineering consultancy and R&D services. The operation stage, which is the main part of the asset's life cycle, is covered by a variety of solutions including services and service-related products focusing on maintenance strategy, predictive maintenance, maintenance and logistic services. The last part of the life cycle is covered by services and service-related products focusing on upgrades, refurbishment, bearing dismounting and mounting, alignment, balancing and post-maintenance testing. A wide range of training is available for customers, on- and off-site, around the globe.

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



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

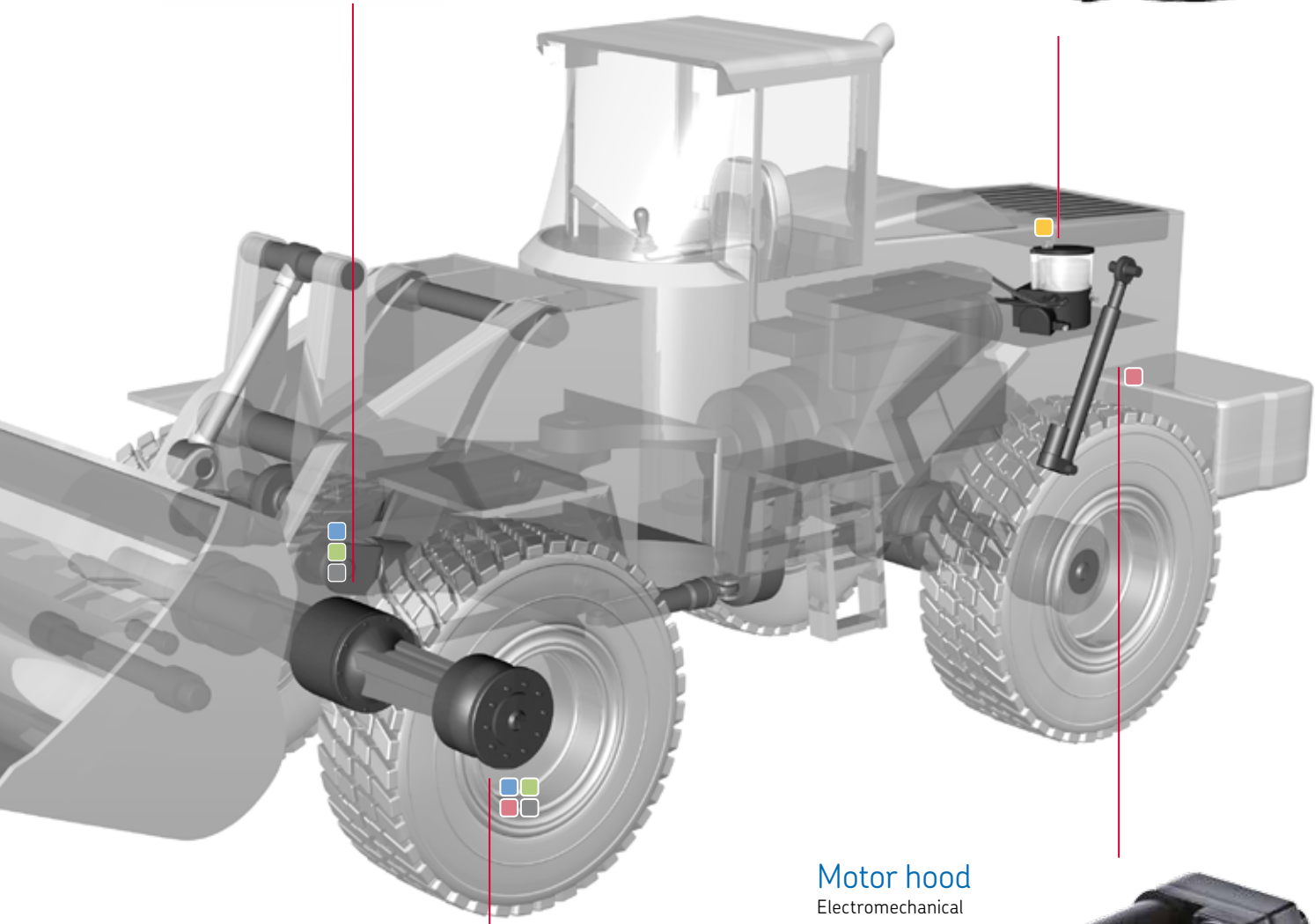
A wheel-loader can be equipped with several products, solutions and services from the five technology platforms; see examples below.

Central gear

Hybrid pinion units

Chassis lubrication

Centralized lubrication systems

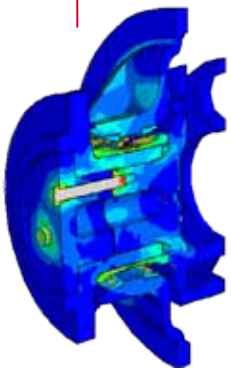


Motor hood

Electromechanical actuators

Wheel end

- Integrated smart wheel bearing units with sensors
- SKF Mudblock cassette seals



Glossary

Accident rate
The accident rate for the Group is calculated using the formula:
Accident rate = R x 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 CO_2. This gas is generated in various processes in nature and in combustion of most fuels. CO_2 contributes to the global greenhouse effect.

Carbon intensity
The amount of CO_2 released during the conversion of the total energy used.

Condition monitoring
By regularly measuring vibration levels in bearings and machines, maintenance factors impacting on bearing service life and machine operation can be controlled. Condition monitoring instrumentation and software enable the early detection of bearing and machinery problems, making it possible for technicians to take the necessary steps in order to address a problem before it results in unanticipated downtime.

Elastomer
Synthetic rubber.

Employee retention rate
1 - (R)/(registered number of employees as of 31 Dec - newly hired during the year + R)
R = number of employees that left during the year

Energy intensity
The total energy used in all forms in the manufacturing facilities divided by an accounting measure of manufacturing output.

Friction
A force that counteracts movement between contact surfaces. Friction is by nature complex and is calculated by means of an empirical factor. Friction consumes energy and generates heat in rotating machinery.

Gigawatt hour (GWh)
One million kilowatt hours (kWh). Measure of electrical energy quantity.

GHG protocol
The GHG Protocol Corporate Standard provides standards and guidance for companies and other organizations preparing a GHG (greenhouse gas) emissions inventory. Through the use of standardized approaches and principles, it provides a clear and transparent reporting mechanism.

Hub bearing unit
Easy-to-mount, compact bearing unit for passenger car wheels. It is based on a double-row angular contact ball bearing and has integrated seals. It can be equipped with a sensor suitable for anti-lock braking aystems (ABS), traction control and so on.

Integrated Maintenance Solution (IMS)
An IMS contract is an expanded trouble-free operation programme which consists of services such as training, installation supervision, root cause failure analysis and the condition monitoring of rotating machinery.

ISO
The International Organization for Standardization (ISO) is an international standard-setting body composed of representatives from various national standards organizations. The organization promulgates worldwide proprietary industrial and commercial standards.

Landfill
Designated area for disposal of waste.

Large size bearings
The range includes standard bearings as well as bearings tailored for specific applications. Bearings with an outside diameter of more than 420 mm are considered as large. The bearings are available both in metric and inch dimensions.

Leadership in Energy & Environmental Design (LEED)
An internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies intended to improve performance in metrics such as energy savings, water efficiency, CO_2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.

Life cycle analysis
Systematic analysis of all environmental impacts of a product during its entire life cycle, i.e. from raw material to end-of-life product recovery or disposal.

Linear products
A common name for components, units and systems for linear movement. They include linear bearings, profile rail guides, linear ball bearing slides and so on.

Lubricant
Grease, oil or other substance to facilitate the motion of surfaces relative to each other, e.g in a bearing.

OHSAS 18001
Occupational Health and Safety Assessment Series management system targets at controlling occupational health and safety risks as well as to improve performance in the area. It is compatible to ISO 14001 (Environmental Management System).

Six Sigma

SKF Six Sigma is a continuous improvement programme within SKF that targets waste and defects in all business processes. SKF Six Sigma projects are run by extensively trained Black Belts and Green Belts, where Black Belts are required to run two projects a year and Green Belts one project a year. Within the SKF Six Sigma programme are a number of tools and methodologies ranging from traditional DMAIC and Design for Six Sigma to Lean and other waste reducing methodologies. The foundations for SKF Six Sigma improvements are that they are fact based and sustainable and contribute to the business objectives.

Design for Six Sigma (DfSS)
A methodology which focuses on developing new products and services to the market with optimal performance levels.

Lean Six Sigma
A methodology which combines tools from both Lean Manufacturing and Six Sigma. Lean focuses on speed and waste, Six Sigma on variation and quality – the result is better quality faster.

Six Sigma for Growth
A customer focused approach and targets improvements in the growth areas such as marketing, sales and distribution.

Transactional Six Sigma
Focuses on people processes such as service, sales and human resources

Original Equipment Manufacturer (OEM)
Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gearboxes and so on.

REACH
The REACH Regulation came into force on 1 June 2007, intended for the Registration, Evaluation, Authorization and Restriction of Chemical substances. Information about the chemical substances used or imported shall be registered in a central database run by the European Chemical Agency (ECHA).

Remediation
Clean-up and restoration of a contaminated site.

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 Care
Sustainability is one of SKF's five business drivers, alongside Profitability, Quality, Innovation and Speed. SKF's approach to sustaining financial and operational excellence centres on the SKF Care concept, which consists of Business Care, Environmental Care, Employee Care, and Community Care.

SKF Internal Control Standard (SICS)
A financial internal control framework, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO), developed by SKF for ensuring that a basic, consistent system of financial internal control is maintained throughout the SKF Group.

SKF Solution Factory
The SKF Solution Factory combine the full range of SKF's expertise within technology platforms with workshop facilities, providing customized service and solutions to customers. This brings many SKF bearing services and integrated value-adding solutions close to the customers – such as remanufacturing and customization, application engineering, spindle repair, lubrication applications, mechanical services including mounting, alignment and balancing, remote monitoring centre and training.

Superfund site
Old landfill or plant site in the United States with soil or groundwater contamination, subject to a remediation programme according to a federal law. Remediation funding is provided by those who contributed to the contamination.

Super-precision bearings
SKF's comprehensive assortment of super-precision bearings is designed for machine tool spindles and other applications that require a high level of running accuracy at high to extremely high speeds. Each bearing type incorporates unique features to make it suitable for specific operating conditions.

Transaction effects
Companies involved in international trade risk that currency exchange rates may change and thereby effect the value of the transactional currency flows.

Translation effects
The risk that a company's equities, assets, liabilities or income will change as a result of the translation of foreign currency into SEK.

Tribology
Tribology is the science and technology of interacting surfaces in relative motion. It includes the study and application of the principles of friction, lubrication and wear.

Working Climate Analysis (WCA)
An annual survey distributed to all employees with the aim of obtaining their feedback on SKF's performance in relation to the company's values and key focus areas.

SKF Business excellence

SKF Business Excellence was launched in 2010. It is about delivering value to customers in the most effective and efficient way possible, through utilizing the knowledge of employees, partners and the company's technology. Business Excellence builds on many of the initiatives started by the SKF Group over a number of years, the most recent was SKF Manufacturing Excellence. With Business Excellence SKF is expanding the experience from the manufacturing area into other processes and operations within the SKF Group. Business Excellence is more than just about results – it actively challenges the organization to consider whether it is achieving the right results in the best way possible. SKF Manufacturing Excellence focuses on reducing waste and eliminating non-value adding activities. The heart of the system is the people in the production process.

Definitions

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

1. Portion of risk-bearing capital
Equity and provisions for deferred taxes, as a percentage of total assets at year end.

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

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

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

5. Return on total assets
Operating profit/loss plus interest income, as a percentage of twelve months 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.

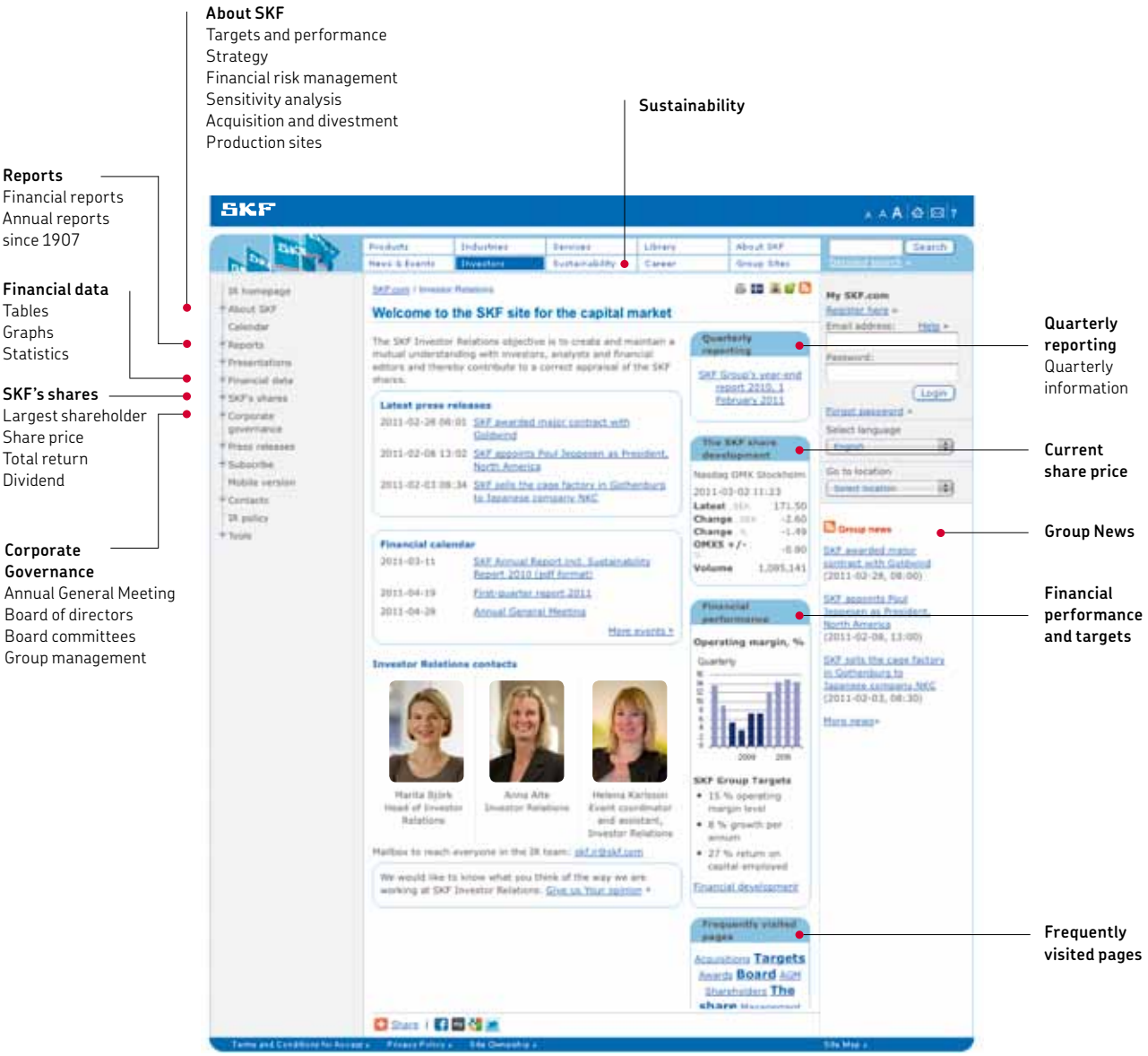
12. P/E ratio
Share price at year end divided by basic earnings per share.

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.

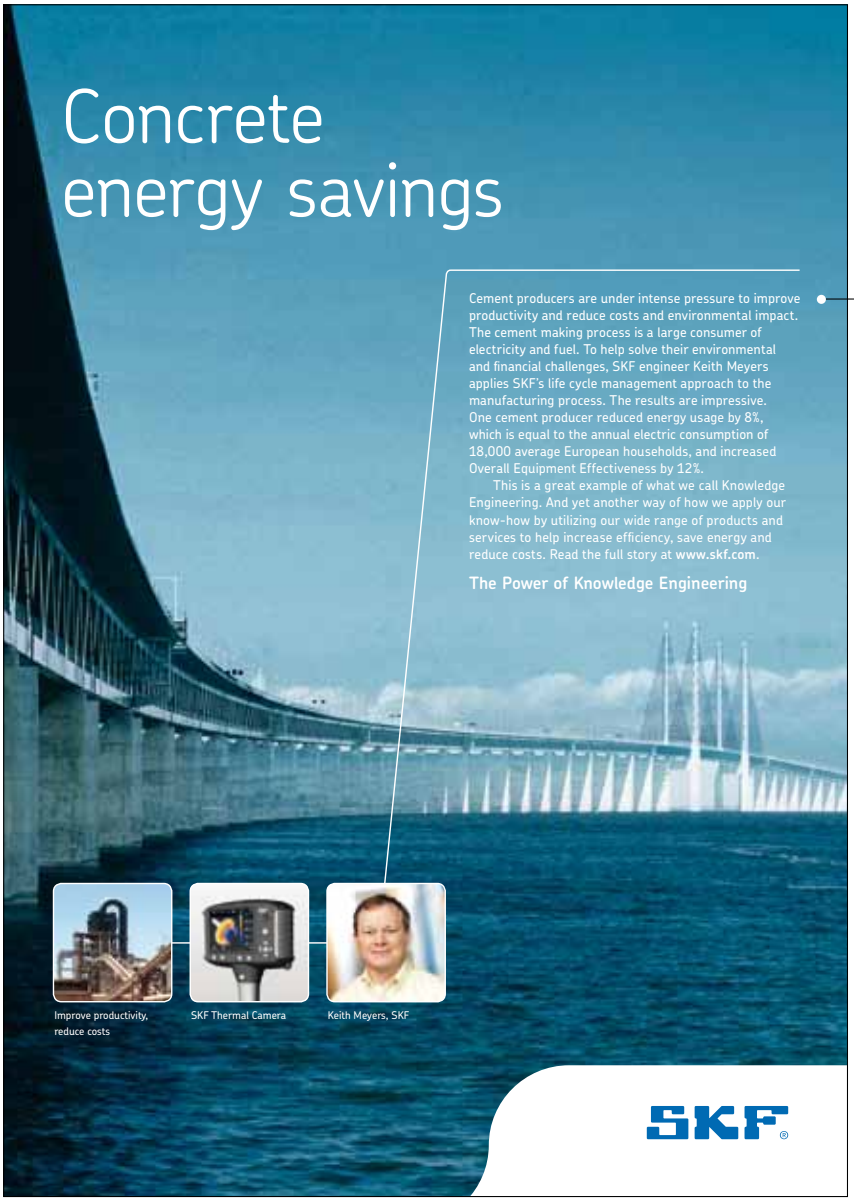
SKF's financial website

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.



SKF's global campaign 2010

This campaign has been used in key markets globally to demonstrate the real Power of Knowledge Engineering, through SKF's engineers, as they show how they help create new solutions for customer problems. Solutions that improve efficiency, productivity and reduce environmental impact.



Cement producers are under intense pressure to improve productivity and reduce costs and environmental impact. The cement making process is a large consumer of electricity and fuel. To help solve their environmental and financial challenges, SKF engineer Keith Meyers applies SKF's life cycle management approach to the manufacturing process. The results are impressive. One cement producer reduced energy usage by 8%, which is equal to the annual electric consumption of 18,000 average European households, and increased Overall Equipment Effectiveness by 12%

This is a great example of what we call Knowledge Engineering. And yet another way of how we apply our know-how by utilizing our wide range of products and services to help increase efficiency, save energy and reduce costs. Read the full story at www.skf.com.

The Power of Knowledge Engineering

Manufacturers of heavy duty vehicles face a new challenge. Future legislation will drastically reduce the allowed emissions from diesel engines. SKF engineer Lisa Karlsson already today offers a solution; the new high pressure valve stem seal. With its robust design, it enables a reduction of blow-by gases and helps reduce CO_2 emissions. The result is increased engine efficiency and improved fuel economy.

Farmers are constantly striving to improve the quality and purity of their products. To help, SKF sales engineer Maurizio Giovannelli offers a solution: independent tillage discs fitted with the relubrication-free SKF Agri Hub. With this innovation, farmers can work more efficiently, instead of spending time with the lube pump. They also reduce the risk of grease contaminating their fields.

Do you know that shipping is the most energy efficient alternative for long-distance transportation? Even so, there are ways to improve the large-scale two-stroke diesel engines that propel the biggest container ships across the oceans. SKF product manager Jan Ruiter offers a solution: SKF centralized cylinder lubrication systems that help reduce CO_2 emissions by 30%. Not a bad way to help fight climate change.

Modern steel allows architects to create the most imaginative designs. SKF engineers, like Dario Rodriguez, work with mills to develop innovative solutions that help produce this steel. Solutions like the SKF ConRo unit; a unit designed to deliver longer service life, reduce operating costs and use up to 65% less grease.

As wind power is gaining momentum, turbine manufacturers are looking for ways to make production more efficient and less costly. SKF engineer Matthias Hofmann offers a solution: the SKF Nautilus main shaft bearing. This innovation enables very compact nacelle designs with main gearboxes or directly-driven generators mounted close to the rotor hub. The result is a drastic reduction in size, weight, maintenance and turbine costs.

Conveyor lines in bottling plants are usually lubricated with a mix of water and lubricants. Thousands of liters of water are contaminated and wasted every day. But SKF engineer Frédéric Rousseau has a smart solution, using no water at all. SKF Dry Lubrication Systems can save 90 m^3 water per bottling line each month.

Seven-year review of the SKF Group

SEKm unless otherwise stated	**2010**	2009	2008	2007	2006	2005	2004
Income statements							
Net sales	**61,029**	56,227	63,361	58,559	53,101	49,285	44,826
Operating expenses	**-52,438**	-52,939	-55,618	-51,036	-47,110	-44,215	-40,461
Other operating income and expenses, net	**-139**	-74	-34	19	-22	85	72
Profit (+)/loss (-) from jointly controlled and associated companies	**0**	-11	1	-3	738	172	-3
Operating profit	**8,452**	3,203	7,710	7,539	6,707	5,327	4,434
Financial income and expense, net	**-903**	-906	-842	-401	-320	-74	-347
Profit before taxes	**7,549**	2,297	6,868	7,138	6,387	5,253	4,087
Taxes	**-2,253**	-592	-2,127	-2,371	-1,955	-1,646	-1,111
Net profit	**5,296**	1,705	4,741	4,767	4,432	3,607	2,976
Attributable to:							
Owners of AB SKF	**5,138**	1,642	4,616	4,595	4,317	3,521	2,926
Non-controlling interests	**158**	63	125	172	115	86	50
Balance sheets							
Intangible assets	**10,473**	4,014	4,654	3,516	2,586	1,583	1,079
Deferred tax assets	**1,695**	1,665	1,342	886	745	738	619
Property, plant and equipment	**12,922**	13,933	14,556	11,960	11,388	11,119	11,012
Non-current financial and other assets	**1,411**	1,502	1,366	2,643	2,032	2,531	773
Inventories	**12,879**	11,771	15,204	11,563	9,939	9,931	8,985
Current financial assets	**13,005**	14,540	15,668	14,169	17,848	13,020	10,971
Other current assets	**2,839**	3,590	3,310	2,365	2,100	1,571	1,446
Total assets	**55,224**	51,015	56,100	47,102	46,638	40,493	34,885
Equity	**19,894**	18,280	19,689	19,009	19,706	17,961	17,099
Provisions for post employment benefits	**7,093**	7,020	6,356	4,600	5,145	5,562	4,805
Deferred tax provisions	**2,132**	754	1,210	1,652	1,130	862	958
Other provisions	**2,162**	2,849	2,339	2,067	1,919	2,210	1,927
Financial liabilities	**16,651**	14,994	18,549	13,015	12,754	8,215	5,014
Other liabilities	**7,292**	7,118	7,957	6,759	5,984	5,683	5,082
Total equity and liabilities	**55,224**	51,015	56,100	47,102	46,638	40,493	34,885
Key figures[1] (in percentages unless otherwise stated)							
Return on total assets	**16.8**	6.5	16.1	17.1	16.1	14.8	12.9
Return on capital employed	**24.0**	9.1	24.0	24.9	23.0	21.9	19.0
Return on equity	**28.4**	9.0	26.3	24.6	23.5	20.6	18.0
Operating margin	**13.8**	5.7	12.2	12.9	12.6	10.8	9.9
Turnover of total assets, times	**1.19**	1.04	1.25	1.25	1.22	1.31	1.26
Portion of risk-bearing capital	**39.9**	37.3	37.3	44.0	44.7	46.5	51.8
Gearing	**48.6**	49.3	50.1	36.9	38.6	34.5	25.7
Equity/assets	**36.0**	35.8	35.1	40.5	42.3	44.4	49.0
Investments and employees							
Additions to property, plant and equipment	**1,651**	1,975	2,531	1,907	1,933	1,623	1,401
Research and development expenses	**1,184**	1,217	1,175	900	875	837	784
Patents - number of first filings	**251**	218	179	186	175	176	189
Average number of employees	**40,206**	38,530	43,201	41,645	39,780	37,454	38,502
Number of employees registered at 31 December	**44,742**	41,172	44,799	42,888	41,090	38,748	39,867

[1] See page 154 for definitions of key figures.

Three-year review of the SKF divisions/segments[1)]

SEKm unless otherwise stated	**2010**	2009	2008
Industrial Division			
Net sales	**19,424**	19,534	22,931
Sales incl. intra-Group sales	**29,607**	28,546	33,936
Operating profit	**3,498**	1,551	4,010
Operating margin[2)]	**11.8%**	5.4%	11.8%
Assets and liabilities, net	**23,392**	15,966	18,224
Registered number of employees	**19,922**	17,853	19,429
Service Division			
Net sales	**22,029**	19,599	21,838
Sales incl. intra-Group sales	**22,408**	19,957	22,249
Operating profit	**3,036**	2,585	3,362
Operating margin[2)]	**13.5%**	13.0%	15.1%
Assets and liabilities, net	**5,125**	4,819	5,661
Registered number of employees	**5,832**	5,725	6,017
Automotive Division			
Net sales	**18,231**	16,051	17,886
Sales incl. intra-Group sales	**21,989**	19,103	21,677
Operating profit	**1,859**	-785	538
Operating margin[2)]	**8.5%**	-4.1%	2.5%
Assets and liabilities, net	**8,034**	8,073	10,015
Registered number of employees	**14,469**	13,480	14,960

[1)] Previously published amounts have been restated to conform to the current Group structure in 2010.
The structural changes include business units being moved between the divisions and between other operations/Group activities and divisions.

[2)] Operating margin is calculated on sales including intra-Group sales.

Per-share data

Definitions, see page 154

Swedish kronor/share unless otherwise stated	2011	2010	2009	2008	2007	2006	2005	2004
Earnings per share		11.28	3.61	10.14	10.09	9.48	7.73	6.42
Dividend per A and B share		5.00[1)]	3.50	3.50	5.00	4.50	4.00	3.00
Total dividends, SEKm	2,277[1)]	1,594	1,594	2,277	2,049	1,821	1,366	1,138
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		191.60	123.60	77.25	104.79	113.22	99.80	60.83
Equity per share		42	38	41	40	42	38	36
Yield in per cent (B)		2.6[1)]	2.8	4.5	4.8	4.0	4.0	4.9
Yield in per cent (B), including share redemption					9.5	12.8		46.0
P/E ratio, B (share price/earnings per share)		17.0	34.2	7.6	10.4	11.9	12.9	9.5
Cash flow after investments, before financing per share		-6.23	12.63	0.14	4.67	4.74	5.25	-2.05

[1)] According to the Board's proposal for the year 2010.

General information

Annual General Meeting
The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 14.30 on Thursday, 28 April 2011. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Wednesday, 20 April 2011, and must notify the company at the latest on Wednesday, 20 April 2011 via the internet, www.skf.com, or by letter to

AB SKF
c/o Computershare AB
Box 610
SE-182 16 Danderyd
Sweden
or by telephone +46 31 337 25 50
(between 09.00 and 16.00)

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered 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 Wednesday, 20 April 2011 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 5.00 per share for 2010. 3 May 2010 is proposed as the record date for shareholders to be entitled to receive dividends for 2010. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Friday, 6 May 2011.

Financial information and reporting
AB SKF will publish the following financial reports in 2011:

Year-end report 2010	1 February
Annual Report 2010	11 March
First-quarter report 2011	19 April
Half-year report 2011	15 July
Nine-month report 2011	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

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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 2010 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 2010
- The compliance table to GRI G3 Guidelines (GRI Index Table).

The SKF employees in the pictures included in this report are:
Page 2-3
From left: Pradip Parmar, Nikolett Orosz, Johan Gavin, Haiyan Wang, Linn Leo, Arabinda Nath and Fumiko Miura O'Keefe
Page 22 – SKF Treasury Centre in Gothenburg, Sweden
From left: Fumiko Miura O'Keefe, Peter Fredriksson, Håkan Backlund Faugust, Anders Hellström and Stefan Nobel
Page 26 – Global Technical Centre China in Shanghai
Windy Yan
Page 120 – SKF Vehicle Parts in Gothenburg, Sweden
From left: Linn Leo and Carina Magnusson
Page 121 – Factory in Haridwar, India
From left: Vinayak Choubey and Devendra Singh
Page 138
Pratik Shah from Ahmedabad, India

The report is originally written in English and translated to Swedish.

PUB GCR/R1 11425 EN · March 2011

Production: AB SKF and Admarco
Photo: SKF Group, Anna Hult, Göran Wink/Scania and Getty Images.
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Paper: Arctic Silk+, FSC-certified
Printing: Billes, FSC-certified

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