

SKF



Annual Report 2007

including Sustainability Report

This is SKF

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

- SKF was founded one hundred years ago, in 1907, and grew at a rapid rate to become a global company. As early as 1920, the company was well established in Europe, America, Australia, Asia and Africa. Today, SKF is represented in more than 130 countries. The company has more than 100 manufacturing sites and also sales companies supported by some 15,000 distributor locations. SKF also has a widely used e-business marketplace and an efficient global distribution system.
- From the very beginning, SKF focused intensively on quality, technical development and marketing. Since it began operating, the Group's efforts in the area of research and development have resulted in numerous innovations that have created new standards and new products and solutions in the bearing world. In 2007, the number of first filings of patent applications was 186. SKF's technical knowledge and capabilities are within Bearings and units, Seals, Mechatronics, Services and Lubrication systems.
- The SKF business is organized into three divisions: the Industrial Division and the Service Division, servicing industrial original equipment manufacturer (OEM) and aftermarket customers respectively, and the Automotive Division, servicing both automotive OEM and aftermarket customers. The number of customers is about two million.
- The Group has global ISO 14001 environmental certification and global health and safety management standard OHSAS 18001 certification. Its operations have also been approved for quality certification in accordance with either ISO 9000 or QS 9000.

Key data

	2007	2006
Net sales, SEKm	58,559	53,101
Operating profit, SEKm	7,539	6,707
Profit before taxes, SEKm	7,138	6,387
Basic earnings per share, SEK	10.09	9.48
Diluted earnings per share, SEK	10.07	9.45
Dividend per share, SEK	5.00 ¹	4.50
Cash flow after operating investments before financial items, SEKm	2,126	2,158
Return on capital employed, %	25.4	24.7
Equity/assets ratio, %	39.6	42.4
Additions to tangible assets, SEKm	1,907	1,933
Registered number of employees, 31 December	42,888	41,090

Number of shares 31 December 2007: 455,351,068 whereof A shares: 48,996,034, B shares: 406,355,034.

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



Cover and inside cover: The Ferris wheel at Liseberg amusement park in Göteborg, Sweden.
On page 1 and back inside cover are seen: Fei Xing, Davor Vukovic, Alberto Stango and Eva Barkström, all of them trained in 2007 at SKF Quality Academy.

The trees seen in this annual report are similar to the 500 trees SKF planted in 47 countries on 16 February 2007, SKF's anniversary date.

Photo: Johnér, Ina, Nordicphotos

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

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President's letter



The 100th anniversary of the SKF Group was celebrated in 2007 and a number of events took place during the year to commemorate this historic achievement. We were delighted that the King and Queen of Sweden could honour us with their presence at our gala dinner on 16 February, which we held with our key business partners and employees. It was a year filled with events and a separate section on this can be found on pages 4–5.

2007 was also a year of strong performance for the SKF Group and was the best year in our history – a good start to the second 100 years. Our diluted earnings per share increased by 6.6% to SEK 10.07. The Group's operating profit increased by over 12% to SEK 7,539 million, giving an operating margin of 12.9%, and our sales increased by 10.3% in SEK (13.2% in local currencies) to SEK 58,559 million. Cash flow was strong and even though over SEK 6.6 billion was returned to our shareholders during the year we remain with a healthy balance sheet. As a result, and based on the continued positive outlook for the Group, the Board will recommend to the shareholders meeting an additional distribution of SEK 5.00, which combined with the ordinary dividend will give a return of SEK 10.00 per share or SEK 4,554 million in total.

At the start of the year we announced new long-term financial targets for the SKF Group to have an operating margin of around 12%, a growth of 6–8% per annum in local currencies and a return on capital employed (ROCE) of 24%. In 2007 we clearly operated in line with our targets, despite the negative currency

development and the higher costs and difficult supply situation we faced for raw materials and components.

The SKF Group has a clear strategy to become the knowledge engineering company and this we will achieve through our dedicated customer focus, our platform/segment approach to the market place, and by delivering strong and sustained financial results. These are the guiding lights for us in SKF today and tomorrow.



During the year we took very important steps to continue to strengthen our five platforms and to enable us to deliver knowledge-based solutions to our customers around the world. We invested around SEK 4 billion in organic growth, in acquisitions and in research and development in 2007.

We started production at three new factories in Asia, one in China and two in Korea. We increased our investment levels in a number of our existing operations particularly in Germany and Sweden and announced the investment in three new factories. Two of these will be in India, one for ball bearings in Uttarakhand and one for large size bearings in Gujarat to support this fast growing market for SKF. The third will be in Russia for the production of special wheel units for the Russian railroad.

Some very important acquisitions were made to strengthen the technologies for our platforms. In our mechatronic platform we acquired ABBA, a Taiwanese-headquartered manufacturer of linear guides and we

completed the acquisition of S2M, a leading magnetic bearing company in which SKF previously had a 12% ownership. In our service platform a number of small acquisitions were made to strengthen our competence and local offering and to support our sustainability initiative. In particular, the acquisition of Baker Instruments brings us additional expertise to fully complement our existing knowledge in energy management for our customers.

We are increasing our focus on research, development and engineering in products, solutions and services that will help our customers achieve reduced energy consumption in their operations. During the year we announced our new energy-efficient bearings which help our customers reduce energy loss by at least 30% while having the same service life as standard ISO bearings. These have been well received by our customers and deliveries will start during 2008. The new energy efficient family of bearings combined with our SKF Explorer family gives our customers the most comprehensive range of bearings allowing a variety of possibilities to optimize load carrying, size and energy efficiency. In addition and as part of our service offer, we developed a new client needs analysis (CNA) tool for environment and sustainability to help our customers map and reduce their energy usage. Further development of products, solutions and services in this field are planned for 2008.

A number of new offers were launched during the year for our customers due to our focused platform/segment approach, bringing the number we have launched for the industrial

“ The SKF Group has a clear strategy to become the knowledge engineering company and this we will achieve through our dedicated customer focus, our platform/segment approach to the market place, and through delivering strong and sustained financial results. ”

market in the last three years to over 60 new offers. You can read much more about these new offers in the divisional pages.

2007 was a very good year for growth for the SKF Group. Our sales increased in all regions of the world with particularly strong development in the faster growing regions of Asia and Eastern Europe. We also saw good growth in all of our divisions and our main end markets. The growth seen was clearly ahead of the general industrial production and as such we strengthened our position in most markets and geographies.



In order to ensure our long-term competitiveness, we took two important steps to restructure our business. We announced the closure of our automotive hub unit factory in Glasgow, Kentucky. Production will be moved by mid-2009 to Mexico and combined with the existing manufacturing of automotive products there. In addition we will further reduce our manufacturing in Fontenay le Comte, France, by stopping the manufacturing of components which will now be outsourced. Both these activities will result in some 500 people leaving the SKF Group.

One key focus activity for SKF over the past three years has been the introduction of Six Sigma. This is going very well and today we have 378 Black Belts. Last year we recorded over SEK 300 million in hard savings for our Six Sigma projects, up by 50% from 2006. We are also using Design for Six Sigma more and more in the Group and widening this work to also include customer programmes and customer training.

Sustainability is another area of clear focus for SKF. We have named our efforts in this area – SKF Care. It has four dimensions – Business Care, ensuring we have a strong financial performance and right returns for our shareholders, Environment Care, reducing our negative impact on the environment, Employee Care, having a safe working environment and improving the health and education of our employees, and Community Care, playing an active role in the communities in which we live and operate. SKF Care is a guiding principle for all of us at SKF and our work in this area has given us a number of awards. We have now been in the Dow Jones Sustainability Indexes for eight consecutive years and in the FTSE4Good Index Series for seven consecutive years.

As well as helping our customers reduce their energy consumption and thus their carbon dioxide emissions, we are also focusing on this within our own areas of business. In our factories we have reduced CO₂ emissions by 2.2% in 2007, against a 12% increase in production. We were a little behind our target in this during 2007 but a number of activities started during the year which will yield benefits in the coming years. Our target is significantly more aggressive than any international target.

One key element of SKF Care is Employee Care. Attracting, retaining and developing the right employees for SKF has been a key focus area for a number of years with many training programmes developed both centrally and locally to support this. In addition, we are increasing our activities and contacts with universities and colleges to ensure that

we can be an employer of choice for students when they look for employment. An important part of Employee care is to get feedback on how our current employees feel about SKF. Having a well motivated team of employees is vital for the success of any organization. During the year we conducted our first ever global employee survey, called Working Climate Analysis, which gave us valuable feedback about what we are doing well and what we can improve. Activities are now underway throughout the Group to address areas of improvement.



In summary, 2007, our centenary year, was a very good year for the SKF Group both financially, as we delivered well in line with our targets, and business-wise as we took important steps to further strengthen the Group and to deliver on our vision to become “The knowledge engineering company”.

I want to take this opportunity to sincerely thank ALL SKF employees for their outstanding commitment, drive and support during the year.

Göteborg, 31 January 2008

A handwritten signature in black ink that reads "Tom Johnstone".

Tom Johnstone
President and CEO

SKF 100 years



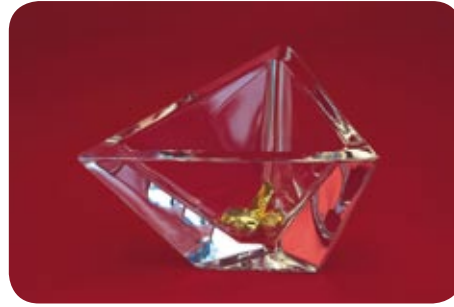
On 16 February 2007, exactly one hundred years after AB SKF was founded, the company started its celebration of the 100-year anniversary with a gala dinner in Göteborg. The King and Queen of Sweden were present and a large number of business partners as well as SKF management from all over the world. SKF employees were chosen at random from 40 countries to visit Göteborg on that day and to be at the dinner celebrations to represent all the employees of the Group.



A clear focus on customers, distributors and employees was a natural priority for all the celebration activities during the anniversary year and it was an excellent opportunity for the SKF Group to further strengthen its relationships with these key stakeholders.



To commemorate the 100-year anniversary, each SKF site was also asked to plant a tree, as a symbol of the entire Group's commitment to sustainability. Close to 500 trees, whereof some can be seen in this annual report, were planted in 47 countries.



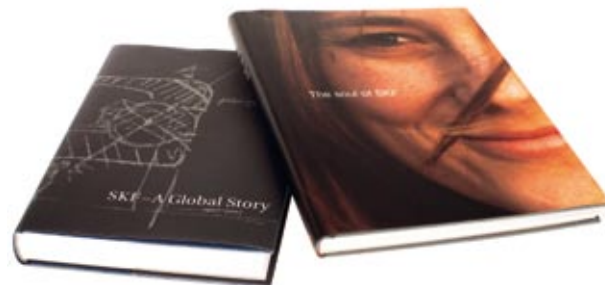
On 16 February 2007, all SKF employees around the world received an anniversary gift, a crystal bowl produced by the Swedish glassmaker Orrefors. Along with the bowl they also received three golden clay nuggets that symbolized the start of SKF. While working as a maintenance engineer at a textile plant, Sven Wingquist, the founder of SKF, had a problem with bearing failure due to the misalignment of shafts as a consequence of machines moving slightly because the factory was built on clay. This problem started his idea of finding a solution, and the result was the invention of the first ever self-aligning ball bearing.



In the same way that SKF started one hundred years ago, on an innovation to solve a problem, SKF started its second centenary with an innovation. This time the focus was on sustainability and helping SKF's customers reduce energy consumption, and therefore reducing carbon dioxide emissions. On 16 February SKF introduced a new family of energy-efficient bearings which reduce energy consumption.



During the year, the Group's President and CEO, Tom Johnstone set out to meet as many customers and employees as possible by visiting 35 different countries, meeting all in all around 5,000 customers and 10,000 employees.



Two books were also produced, one historical, *SKF - A Global Story*, reflecting the Group's development over its first hundred years. The second, *The Soul of SKF*, contains interviews with 54 employees from different parts of the organization from around the world, who share their views, feelings and expectations of SKF. The second book was given to all the employees.



At the same time, three trucks with special exhibition trailers, toured Europe, from east to west, showing customers, employees, students and the general public, SKF's expertise and capabilities in its five technology platforms.



All SKF sites around the world arranged special family days to celebrate the first hundred years. Different countries did it in different ways, according to local customs and traditions, but always focusing on employees and their families.



Through its partnership with the Gothia Cup, the world's largest youth football tournament, SKF has also shown its commitment towards the communities where the Group is active. By arranging local tournaments SKF also made it possible for boys and girls, from 20 different countries, to come to Göteborg and take part in the tournament, which involved about 30,000 young people.

Administration Report

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Shares and shareholders

SKF's shares as of 28 December 2007

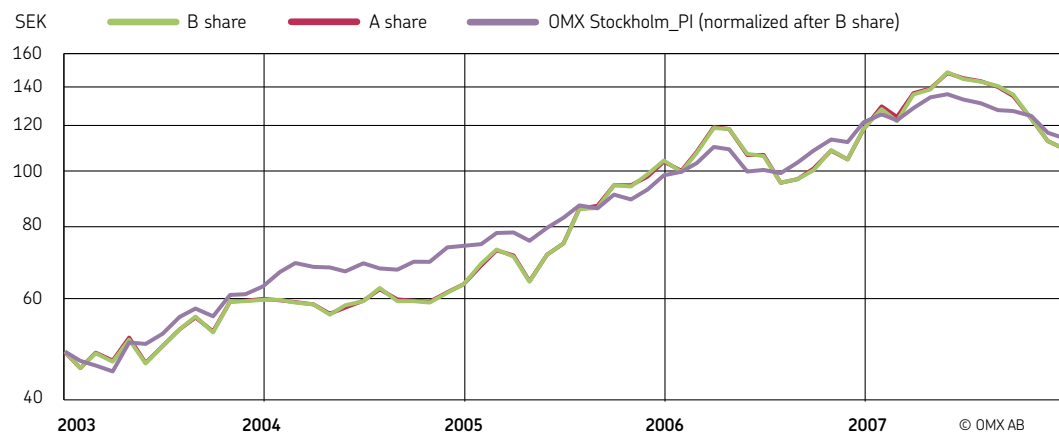
SKF's A and B shares have been quoted on the OMX Nordic Exchange Stockholm since 1914. The total number of shares traded in 2007 was 1,338,731,309. SKF's ADRs are traded on the OTC market in the USA.

A shares, unrestricted	48,996,034
B shares, unrestricted	406,355,034
Total	455,351,068

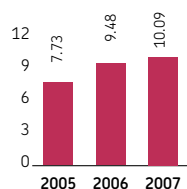
An A share gives the entitlement to one vote and a B share to one-tenth of a vote. It was decided at AB SKF's Annual General Meeting on 18 April 2002 to insert a clause in the Articles of Association which would allow owners of A shares to convert these to B shares. Of the total of 177,940,713 A shares converted to B shares up to December 2007, 536,996 were converted in 2007.

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

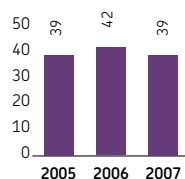
Price trend of SKF's shares



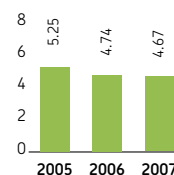
Basic earnings per share, SEK



Shareholders' equity per share, SEK



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



Share savings fund for employees

SKF Allemansfond, a national security savings fund for SKF employees in Sweden, was started in 1984. On 28 December 2007, the SKF Allemansfond had 667 members. 38% of the fund was invested in SKF shares. Assets amounted to SEK 88.6 million.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1,000	42,967	77.3	15,554,202	3.4
1,001 – 10,000	11,083	19.9	31,254,087	6.9
10,001 – 100,000	1,177	2.1	35,463,802	7.8
100,001 –	385	0.7	373,078,977	81.9
	55,612	100.0	455,351,068	100.0

Source: VPC AB (Securities Register Centre) as of 28 December 2007.

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	23,500,000	22,250,000	45,750,000	25,725,000	28.70	10.05
Skandia	3,721,864	2,865,051	6,586,915	4,008,369	4.47	1.45
Alecta	2,244,604	11,900,000	14,144,604	3,434,604	3.83	3.11
Swedbank Robur Funds	2,680,312	6,216,217	8,896,529	3,301,933	3.68	1.95
AFA Sickness Insurance	1,384,900	12,359,006	13,743,906	2,620,800	2.92	3.02
Gamla Livförsäkringsbolaget	2,138,700	496,700	2,635,400	2,188,370	2.44	0.58
SEB Investment Management	642,000	6,164,896	6,806,896	1,258,489	1.40	1.49
AMF Pension	0	10,600,000	10,600,000	1,060,000	1.18	2.33
FPG Försäkringsbolaget						
Pensionsgaranti, ömsesidigt	930,400	497,600	1,428,000	980,160	1.09	0.31
Handelsbanken Funds	0	9,798,445	9,798,445	979,844	1.09	2.15
Total	37,242,780	83,147,915	120,390,695	45,557,569	50.80	26.44

Source: VPC AB's public share register as of 28 December 2007.

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 28 December 2007, about 41% of the share capital was owned by foreign investors, about 51% by Swedish companies, institutions and mutual funds and about 8% by private Swedish investors. Most of the shares owned by investors abroad are registered through trustees, so that the actual shareholders are not officially registered.

Geographic ownership



Per-share data (Definitions, see Note 1)

Swedish kronor/share	2008	2007	2006	2005	2004	2003	2002	2001
Earnings/loss per share		10.09	9.48	7.73	6.42	4.48	5.42	4.76
Dividend per A and B share		5.00 ¹⁾	4.50	4.00	3.00	2.50	2.00	1.50
Total dividends, SEKm	2,277 ¹⁾	2,049	1,821	1,366	1,138	911	683	598
Redemption, SEKm	2,277 ¹⁾	4,554		2,846				
Purchase price of B shares at year-end on the OMX Nordic Exchange Stockholm ²⁾		109.50	118.31	104.28	63.57	59.70	48.53	44.24
Shareholders' equity per share		39	42	39	37	34	36	36
Yield in per cent (B) ²⁾		4.6 ¹⁾	3.8	3.8	4.7	4.2	4.1	3.4
Yield in per cent (B), including share redemption ²⁾		9.1 ¹⁾	12.3		44.0			
P/E ratio, B ²⁾		10.9	12.5	13.5	9.9	13.3	9.0	9.3
Cash flow after operating investments, before financial items per share		4.67	4.74	5.25	-2.05	5.43	5.81	9.38

Years prior to 2003 are reported according to Swedish GAAP.

¹⁾ According to the Board's proposal for the year 2007.

²⁾ The years 2001 to 2006 have been recalculated to reflect the effects of the share split and redemption in 2007.

Additional information

There are no regulations under Swedish law or under the Articles of Association limiting the transferability of SKF shares.

To the best of SKF's knowledge, there exist no agreements between shareholders limiting the right to transfer SKF shares (e.g. by pre-emption or first refusal clauses).

No limitations exist limiting the number of votes which each shareholder may cast at a shareholders' meeting.

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

AB SKF Stock Fund in the US

SKF USA Inc. is offering a majority of its employees a possibility to defer pre-tax earnings into a Defined Contribution Pension Plan. The employees can direct the contributions and the matching contributions by the Company to different mutual funds, including an AB SKF Stock Fund. The contribution to the AB SKF Stock Fund is limited to a maximum of 20% of the total contributions, and assets can not be transferred into the fund. The employees have no rights to vote based on the shares held in the fund. The fund held 888,506 AB SKF B shares at the end of 2007.

Analysts who follow SKF

<i>ABG Sundal Collier</i> Erik Ejerhed	<i>Citigroup Investment Research</i> Mark Fielding	<i>Glitnir</i> Ola Asplund	<i>JP Morgan Securities</i> Nick Paton	<i>SG Securities</i> Roddy Bridge
<i>ABN Amro</i> Lars Glemstedt	<i>Danske Markets Equities</i> Henrik Breum	<i>Goldman Sachs International</i> James Moore	<i>Kaupthing Bank</i> Joakim Höglund	<i>Swedbank Markets</i> Mats Liss
<i>CA Cheuvreux Nordic AB</i> Patrik Sjöblom	<i>Deutsche Bank</i> Johan Wettergren	<i>HQ Bank</i> Hans-Olov Öberg	<i>Merrill Lynch</i> Ben Maslen Mark Troman	<i>UBS</i> Fredric Stahl
<i>Credit Suisse</i> Patrick Marshall	<i>Dresdner Kleinwort Wasserstein</i> Colin Grant	<i>Handelsbanken Capital Markets</i> Peder Frölén	<i>Nordea Markets</i> Johan Trocmé Ann-Sofie Nordh	<i>Öhman Fondkommission</i> Anders Roslund
<i>Carnegie</i> Anders Idborg	<i>Evli Bank</i> Magnus Axén	<i>HSBC</i> Colin Gibson	<i>SEB Enskilda</i> Anders Eriksson	

Report on the business 2007

The Group's net sales increased by 10.3% in 2007, from SEK 53,101 million to SEK 58,559 million. This rise was attributable to volume 7.7%, price/mix 2.4%, structure 3.1% and currency effects -2.9%. The operating profit was SEK 7,539 million (6,707). The profit before tax was SEK 7,138 million (6,387). Earnings per share stood at SEK 10.09 (9.48).

Compared with 2006, exchange rates for the full year 2007, including the effects of translation and transaction flows, had a negative effect on SKF's operating profit of around SEK 640 million.

The Group's net financial items were SEK -401 million (-320). Excluding the revaluation of share swaps, the figure was SEK -405 million (-355). SEK 798 million of the interest-bearing loans was amortized in 2007. Interest-bearing loans at year-end totalled SEK 7,735 million (8,053), while pension provisions amounted to SEK 4,840 million (4,731).

The cash flow after operating investments and before financial items for the year was SEK 2,126 million (2,158). The cash flow includes acquisitions of SEK 1,209 million (2,129). Return on capital employed for the 12-month period ended 31 December was 25.4% (24.7).

SKF's capital expenditure on property, plant and equipment amounted to SEK 1,907 million (1,933). Depreciation was SEK 1,518 million (1,476). The increase in capital expenditure in 2007 reflects the upgrading of existing operations and the addition of new factories and capacity, primarily in Asia, to support the strong growth in the region. Of the Group's total capital expenditure, SEK 166 million (105) was attributable to the improvement of SKF's environment both internally and externally.

Expenditure on research and development was SEK 900 million (875), corresponding to 1.5% (1.6) of annual sales. This does not include the customization of products and services or development expenditure on IT solutions. The number of first filings of patent applications was 186 (175).

Sales trend

Sales for the full year, calculated in local currencies, excluding structural effects and compared to last year, were significantly higher for the Group. Looking at regions, sales were significantly higher in Europe, Asia and Latin America. In North America sales were higher than last year. All the divisions had significantly higher sales compared to last year.

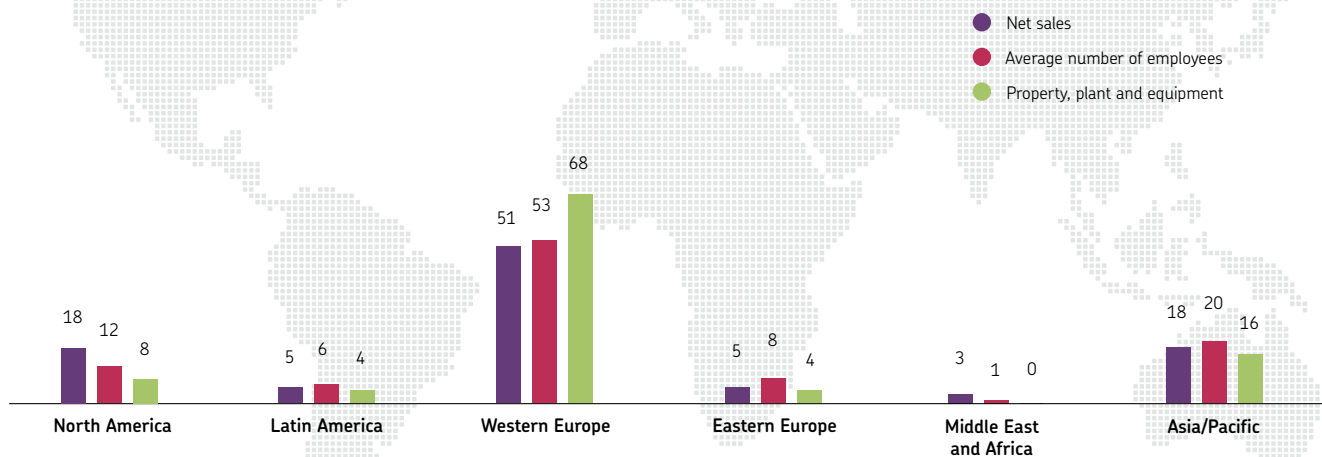
SKF's sales to certain sectors saw a strong performance over the year, in particular in the energy, heavy industrial machinery, off-highway vehicles, cars and light trucks, heavy trucks, vehicle service market, aerospace and railway sectors.

Most important factors influencing the financial results

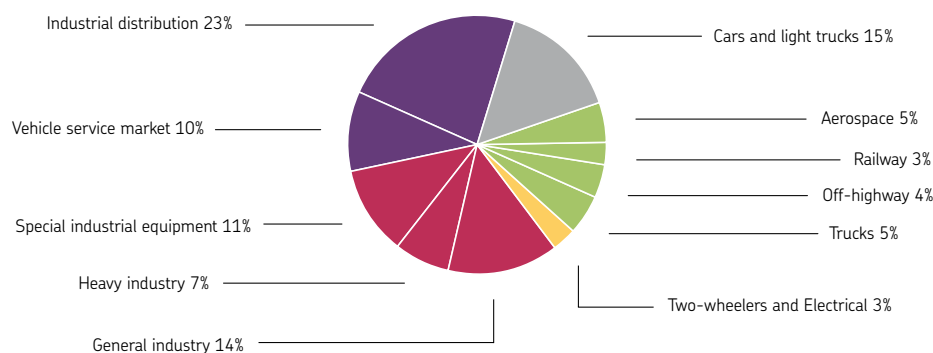
The continued improvement in the SKF Group's financial results in 2007 can be attributed to a continued focus on delivering value to its customers, higher sales, improved pricing, increased productivity and cost control despite higher raw material costs. Another factor that also contributed positively to the results was the effect from the restructuring schemes undertaken in 2005 as well as in 2006.

The strong increase in raw material prices seen in recent years continued throughout 2007 and was addressed at an early stage by the Group, enabling it to offset the negative impact, as in previous years, by cost reductions, increased productivity and improved sourcing and pricing.

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



Net sales by customer segment



The strong demand seen in 2007 led to a shortage of raw materials and components that worsened during the year and negatively impacted the second part of the year, particularly affecting the Industrial Division. The result also includes expenses for restructuring activities of around SEK 300 million and a negative currency effect of an estimated SEK 640 million.

Supplies of raw materials

The main raw materials for the Group are steel and steel-based components. SKF works with partners in order to secure capacity and the right cost on the markets where the company manufactures. To sup-

port SKF's global growth, the company is expanding the number of suppliers worldwide capable of supplying the Group.

SKF's divisions

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

The **Industrial Division** is responsible for sales to industrial Original Equipment Manufacturer (OEM) customers and for the product development and production of a wide range of bearings (in particular spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove

ball bearings and high precision bearings), lubrication systems, linear motion products, by-wire systems and couplings. Examples of new SKF solutions launched include:

- A new tillage disc solution, the SKF Agri Hub for the agricultural industry. Typical machines for this solution are harrows, cultivators, rippers and mouldboards. The relubrication-free unit is easy to install, eco-friendly and improves productivity.
- A new assortment of sealed spherical roller bearings combined with housings, for heavy conveyors. Simplified design for the manufacturers coupled with an eco-friendly solution are some benefits.



One of the new product launches last year was the SKF Dry Lubrication system for beverage bottling conveyor lines. The system eliminates the need to spray thousands of litres of water and soluble lubricant. Instead, this flexible and automated system applies a small amount of food-grade lubricant on the



Photo courtesy of Sidel Group and Krone Inc.

conveyor's chains and guides. This system gives the benefit of improved operator safety by reducing slip hazards, cost savings by eliminating the high volume of water and lubricants, and enhanced line efficiency by avoiding a humid atmosphere that can cause corrosion.



Important new business during the year included:

- A strategic partnership with Caterpillar and design engineering assignments from other off-highway vehicle manufacturers.
- More products and expanded engineering support to wind turbine and gearbox manufacturers. Long-term supply agreements were signed with several leading customers, one of these was Suzlon Energy Ltd.
- Several important projects for passenger and freight vehicles in both Europe, China and Russia. One example is a contract with Bombardier Transportation for tapered roller bearing units for axle box applications to the Île de France suburban trains.
- A new company with GE Aviation was established, which will manufacture and refurbish bearings for GE's engines for large aircrafts.

The **Service Division** is responsible for sales to the industrial aftermarket, mainly via a network of around 7,000 distributor locations. In addition to the sales of products, the division supports customers with knowledge-based service solutions that optimize plant asset efficiency through consulting and mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts. SKF Logistics Services deals with logistics and distribution for both the SKF Group and external customers. The Service Division is also responsible for all SKF sales in certain smaller markets.

Examples of new SKF solutions launched include:

- A certification scheme for the industrial aftermarket, aimed at maintenance partners serving industrial plants and expanded to include electric motor rebuild companies who want to improve their operations and market.
- Expanded reliability systems services for industrial manufacturers, to include energy and sustainability audits and solutions. A new suite of condition monitoring integrated software was introduced along with new hardware.

Important new business during the year included:

- New reliability and maintenance contracts have been signed or renewed with a number of the largest steel producers, wind turbine park operators, oil refineries and with the food and paper industries.
- A new company with Baosteel was established for large bearing remanufacturing facility in China.
- SKF Logistics Services was selected last year to run logistics operations for three major companies, Agfa Graphic, PIAB and Metso Minerals.
- A joint project with Knorr-Bremse Systeme für Schienenfahrzeuge GmbH to develop condition monitoring capability for rolling stock integrated in Knorr-Bremse's brake control systems.
- A partnership with Aker Kvaerner for condition based maintenance for the offshore and onshore oil and gas industry.

The **Automotive Division** is responsible for sales to the manufacturers of cars, light trucks, heavy goods vehicles, buses, two-wheelers, household appliances, power tools and electric motors and for the vehicle service market. The division develops and manufactures bearings, seals and related products and service solutions. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, specialist automotive products and complete repair kits for the vehicle service market including a new product line with drive shafts and control velocity joints.

Examples of new SKF solutions launched include:

- A new high performance wheel bearing solution for the automotive industry that extends service life and reduces fuel consumption.
- A new product line for the European automotive aftermarket, including constant velocity joints, drive shafts and boot kits.

Important new business during the year included:

- Wheel bearing solutions in China for two major car manufacturers. The first was with the Chinese company Shanghai Automotive Industry Cooperation for a new platform, the second was additional business for two new Chery models.
- Wheel bearing solutions in Europe and North America, with Renault, for the new Renault Master platform, Fiat for a new



SKF acquired ABBA Linear Tech Co., Ltd. in Taiwan in 2007. ABBA is a leading manufacturer of profile rail guides and has facilities both in Taiwan and China. In the pictures from the left are Jenny Chuang and Robin Yang.

Alfa Romeo platform and Ford for the new Ford Focus generation in North America.

- SKF and Haldex jointly developed an integrated truck hub unit for the truck industry, with a dual disc brake and fixed calliper. The solution is designed for one million maintenance-free kilometres and has a number of advantages like lower temperatures, lower brake forces, longer maintenance intervals and less mounting space. The first customer is GIGANT, the German trailer axle company.
- The recently launched SKF Wheel End Monitor for a trailer axle manufacturer, Hendrickson in the US, which helps cut back on unplanned stops and reduce preventive maintenance and unnecessary trailer bearing replacements.

Employees

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

An important element of retaining the employees is to continuously monitor the level of employee satisfaction, as well as ensuring that they each have the opportunity of developing themselves to the full potential of their ability and ambition. SKF has used

an employee survey known as the Working Climate Analysis (WCA) since 1996, to measure employee satisfaction and ensure that the SKF values and Code of Conduct are used throughout the organization. The survey is followed by feedback workshops where improvement opportunities are identified and action plans developed. This survey has been carried out at least once every 18 months, at different times in the organization. In 2007, SKF ran the WCA survey at the same time in the entire organization. The response rate was 90% (with an overall score for all statements of 5.11 on a 1-7 scale, a good score). Some important areas were identified that need improvement, such as cross-departmental teamwork. The 2008 survey will again be carried out simultaneously across the organization and will allow SKF to measure the improvement and to identify further opportunities for improvement.

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

Manufacturing

During the year, SKF strengthened and took decisions to further strengthen its manufacturing capacity as well as to further increase efficiency.

SKF started additional production for the fast-growing automotive business in Asia:

- a factory for bearings in Shanghai, China
- a factory for bearings in Busan, Republic of Korea
- a factory for seals in Taegu, Republic of Korea

In addition, SKF decided to further expand its production and announced the following main investments:

- A new factory in Haridwar, Uttarakhand, India for manufacturing ball bearings mainly for the Indian two-wheeler industry. The investment will be around SEK 250 million.
- A new factory in India for manufacturing large size bearings. The investment will amount to around SEK 450 million. The factory is expected to start manufacturing at the end of 2008 and will, when fully utilized, employ about 300 people.
- A new factory in Russia for tapered bearing units to supply to the rapidly expanding Russian railway market. The construction of the new factory will start in September 2008 and will be in operation by April 2010. The Group's investment will amount to

around SEK 235 million and the headcount will be about 150.

- An investment of around SEK 600 million in its facilities in Göteborg, Sweden to increase capacity. Investments include two new bearing channels, two roller channels, a new heat treatment plant, new machining equipment for the production of cages, and up-grading several bearing channels. The investments, some of which were initiated in 2006, will be carried out over 2007 and 2008.

SKF also decided on a number of restructuring activities of which the most important were to close its manufacturing facility at Glasgow in the US, and reduce the number of employees at the Fontenay-le-Comte facility in France. The total cost of these activities will be around SEK 360 million. About SEK 300 million impacted results in the fourth quarter 2007, of which around SEK 270 million was in the Automotive Division and around SEK 30 million in the Industrial Division. The remaining SEK 60 million will be seen during 2008 and 2009. The annual benefit of the scheme, fully implemented from 2010, amounts to around SEK 120 million. The different activities in 2008 and 2009 will affect operations in the US, France and some other countries, and will reduce the headcount by about 500.

Six Sigma continues to grow at SKF

The target for 2007 regarding the number of active Black Belts was met. The number of Six Sigma trained staff is 16 Master Black Belts, 378 Black Belts and 1,614 Green Belts. More than 700 Six Sigma projects were run globally in 2007, with net savings of SEK 302 million. Of these projects 145 were replicated ones, building on improvements introduced previously. Replication of projects and re-using expertise was one of the targets during the year, with a growing number of completed original projects identified as suitable for repeating in other parts of the organization. With the Six Sigma programme now firmly in place, the focus is moving away from deployment and towards consolidation and effectiveness.

The Six Sigma training programme has been updated and new modules have been added to the curriculum. Changes to the curriculum include more lean modules implemented to make SKF Six Sigma even more useful for running in non-manufacturing processes. In addition the curriculum now consists of new e-learning modules that are reducing the time used for classroom training.

Design for Six Sigma (DfSS) became a fully integrated part of the product development process with 58 training waves completed during the year. DfSS is also increasingly being used with SKF's customers. See also glossary page 129.

Acquisitions

SKF acquired companies in 2007 for SEK 1,209 million net of cash to improve the product and solutions portfolio for the platforms and its market presence in key segments/markets.

Bearings and units

- **SKF (Shanghai) Bearing Company Ltd.**
The remaining 40% holding in SKF (Shanghai) Bearing Company Ltd. was acquired. The company was originally set up in 2002 as a partnership with the Shanghai Electric Group Corporation producing high quality small deep groove ball bearings primarily for the Chinese domestic market. The factory is fully operational and currently employs more than 200 people. This factory is part of the Automotive Division.

Mechatronics

- **ABBA Linear Tech Co., Ltd.**
ABBA is a leading Asian manufacturer of profile rail guides. It is headquartered in Taipei, Taiwan with facilities in Taiwan and in China. The ABBA Group employs about 480 people. SKF paid a total amount of SEK 390 million net of cash. With the addition of ABBA's product range, SKF is reinforcing its position in linear guides and strengthening its growth in Asia. This company was included in the income statements as from the third quarter 2007 and is part of the Industrial Division.

- **S2M**

S2M is a leading company in magnetic bearings. The company has about 200 employees and is headquartered in Vernon, France, where it also has its manufacturing facilities. SKF paid around SEK 497 million net of cash. With this acquisition SKF has expanded its range of magnetic bearings and complemented its existing operation in Canada. S2M will be part of SKF's Industrial Division

and will be included as from 2008 in the Group's consolidated income statement, it is included in the balance sheet as from the fourth quarter 2007 by a preliminary purchase price allocation.

Services

- **Baker Instruments Company**
Baker Instruments is a leading manufacturer of testing and diagnostic instruments for electric motor assessment. At acquisition Baker had 62 employees. Baker's sales are mainly focused on the industrial motor users and geographically mainly on the American market. This move into electric motor diagnostics is important to SKF's new energy-efficiency solutions business, and is in line with the SKF Group's move towards supporting its customers in their sustainability efforts. This company was included in the income statements as from the third quarter 2007 and is part of the Service Division.

- **Preventive Maintenance Company Inc. (PMCI)**
PMCI is a market leader in Predictive Maintenance (PdM) services for industrial customers in the pulp & paper, metals, food & beverage, automotive and other industries. PMCI is located in Elk Grove Village, Illinois, USA. The company had 70 employees at acquisition. This acquisition strengthens SKF's market leadership in reliability services, condition monitoring products and maintenance. This company was included in the income statements as from the third quarter 2007 and is part of the Service Division.

Lubrication systems

- **Automatic Lubrication Systems (ALS)**
ALS is a service company for Canadian mobile transportation equipment and industrial machinery customers for SKF centralized lubrication systems. ALS is based in Burlington, Ontario, Canada, and had 13 employees at acquisition. This acquisition will strengthen SKF's distribution network for lubrication systems in Canada. ALS was included in the income statements as from the second quarter 2007 and is part of the Industrial Division.

Sale of business

SKF is continuously reviewing its operations and divesting what it regards as non-core business.

- The forging business at the Lüchow plant in Germany was sold to Hay Speed Umformtechnik GmbH, a company established by the majority of the owners of Johann Hay GmbH & Co KG, one of the largest privately owned forging companies in Germany. The sale price was EUR 33 million and SKF made a profit of around EUR 4 million, which was reported in the second quarter of 2007. SKF's forging business in Lüchow, belonged to the Automotive Division and had a headcount of 222 in 2006 and sales of EUR 74 million.

SKF's deregistration under the US Securities Exchange Act of 1934 came into force

SKF filed Form 15F with the US Securities and Exchange Commission (SEC) to deregister its Class B shares under the US Securities Exchange Act of 1934 and to terminate reporting obligations with respect to its 7 1/8% Notes due 1 July 2007. This deregistration came into force and as a result, SKF will no longer reconcile the financial statements to US GAAP, nor submit an annual report on Form 20-F with the SEC.

Risks and uncertainties in the business

The company operates in many different industrial and automotive segments as well as in many geographical segments that have different economic 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. However, the Group's wide geographical presence and its exposure to different customer segments would normally mean that the business climate is good in some of the regions or segments.

Financial objectives and dividend policy

Financial targets

SKF's long-term financial targets were announced in January 2007.

The targets are:

- an operating margin level of 12%
- sales growth in local currencies of 6-8% per annum
- a return on capital employed of 24%

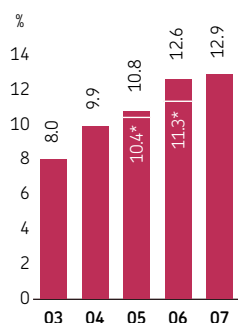
Strategy

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

The strategy includes:

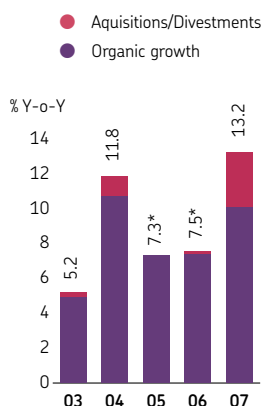
- a clear and dedicated customer focus
- developing new products, solutions and services with higher added value and improved price quality by applying the SKF platform and segment approach
- strengthening the product portfolio within the platforms through greater investment in R&D and through acquisitions
- focusing and investing in faster growing segments and regions
- reducing capital employed and fixed costs
- attracting, retaining and developing the right people.

Operating margin



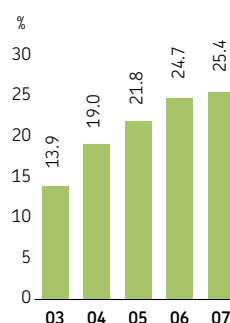
* Excluding income from the previously jointly controlled company Oy Ovako Ab

Sales growth in local currency



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

Return on capital employed



Overall financial objective

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

Financial performance management model

SKF's financial performance management model is a simplified, economic value added model. This model, called Total Value Added (TVA) promotes increased 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 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 trend for the share price over a longer period of time. Variable salary schemes are based on this model. The financial targets are cascaded down to the divisions and business units through SKF's financial performance management model.

Financial position and dividend policy

The capital structure target is a gearing of around 50%, which corresponds to an equity/assets ratio of around 35% or a net debt/equity of around 80%. This will ensure the financial flexibility and enable the Group to continue to invest in the business, while maintaining a strong credit rating. On 31 December 2007 the gearing was 40.1% (39.1), the equity/assets ratio was 39.6% (42.4) and the net debt/equity was 47.5% (19.7). A definition of the key figures above is available in Note 1 of the financial statements.

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 account of 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.

When the financial position of the SKF Group is stronger than the targets described above, an extra 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 shares.

Dividend and redemption

Due to the company's strong performance, cash generation capacity and outlook, the Board of Directors of SKF proposes an increase in the dividend of 11.1%, giving a dividend of SEK 5.00 per share.

Furthermore, the Board of Directors also proposes a 2:1 share split combined with an automatic redemption procedure. Through this procedure, the shareholders will receive one new ordinary share and one redemption share, which will be automatically redeemed for SEK 5.00. The proposal means that SEK 2,277 million will be distributed to the shareholders, in addition to the proposed dividend distribution. The total distribution to shareholders will be SEK 4,554 million.

These proposals are subject to resolutions by the Annual General Meeting in April 2008.

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. 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 OMX Nordic Exchange Stockholm. The proposal is subject to resolutions by the Annual General Meeting in April 2008.

The Annual General Meeting in April 2007 resolved to authorize the Board, until the next Annual General Meeting, to decide on the repurchase of the company's own shares. In 2007, no repurchases were made and the company owns no SKF shares.

Credit rating

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

Financing

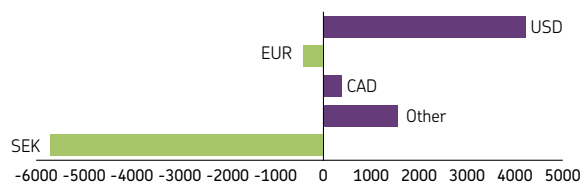
It is SKF's policy that the financing of the Group's operations should be long term. As of 31 December 2007, the average maturity of SKF's loans was 4.5 years.

SKF has issued two separate notes on the European bond market, one amounting to EUR 250 million with a due date of 2010 and one amounting to EUR 500 million with a due date of 2013. According to the conditions of the notes, the notes' interest rate may increase by five per cent in case of a change of control (meaning any party/concerted parties acquiring more than 50% of SKF's share capital or SKF shares carrying more than 50% of the voting rights).

Net currency flows 2007

Currency	Flows, SEKm
USD	4,200
EUR	-400
CAD	360
Other ¹⁾	1,540
SEK	-5,700

¹⁾ Other is a sum comprising 14 different currencies.





SKF is investing around SEK 600 million in its facilities at Göteborg to increase capacity. The investments include a new heat treatment plant, two new bearing channels, two roller channels, new machining equipment for the production of



cages, and upgrading several bearing channels. In the picture is Jamal Ali Hossen, taken from one of the new bearing channels.

Financial risks

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

Currency risk

The SKF Group is subject to both transaction and translation exposure. The Group's princi-

pal commercial flows of foreign currencies pertain to exports from Europe to both North America, Asia and to intra-European business. SKF hedges 100% of the estimated net USD exposure for three to twelve months. This hedging corresponds to around 50% of the total net transaction flows. As of year-end, the lengths of the actual forward contracts conformed to the basic policy. Translation exposure on Group accounts is not hedged.

Interest rate risk

Liquidity and borrowing are 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's policy states that only well established financial institutions are to be approved as counterparties. Exposure per counterpart is continuously monitored.

Liquidity risk

In addition to its own liquidity, AB SKF had committed credit facilities of EUR 500 million at year-end.

More details about risk management and hedging activities can be found in the Consolidated Financial Statements, Note 30.

Sensitivity analysis

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

- The annual cost of purchasing raw material and components is around SEK 17,000 million. Of this amount, steel bars, tubes, components or oil-based products account for the majority. A change of 1% in the cost of raw material and components reduces/increases profit before tax by SEK 170 million.
- An increase of 1% in the cost of wages and salaries (including social security charges) reduces the profit before tax by SEK 152 million.
- A change of 1% in interest rates has no significant influence on the profit before tax, based on current position. The Group had a net short-term financial debt (short-term financial assets less total loans) of SEK 3,878 million on 31 December 2007.
- A weakening/strengthening of 10% in SEK against the USD has a positive/negative effect from net currency flows on the profit before tax of around SEK 400-500 million, excluding any effects by hedging transactions. For the commercial flows the SKF Group is primarily exposed to the USD and to US dollar-related currencies.
- A weakening/strengthening of 5% in the SEK versus all the major currencies has a positive/negative effect of the translation of profits in SEK of around SEK 300 million. The majority of the profit is made outside Sweden, the Group is therefore exposed to translational risks from all the main currencies.

Proposal for principles for remuneration of Group Management 2008

Introduction

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

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

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

Fixed salary

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

Variable salary

The variable salary for a Group Management member is according to a performance-based programme. The purpose of the 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 profit, less the pre-tax cost of capital in the country in which the business is conducted. The TVA result development for the Group correlates well with the trend of the share price over a longer period of time.

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

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 the members of Group Management.

Performance shares

The Board of Directors proposes that a decision be taken at the Annual General Meeting on the introduction of SKF's Performance Share Programme 2008. The programme is proposed to cover a maximum of 310 senior managers and key employees in the SKF Group including Group Management with an opportunity to be allotted, free of charge, SKF Class 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. Under the programme, not more than 1,000,000 Class B shares may be allotted.

The participants in the programme may receive not 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.

SKF's Performance Share Programme 2008 is proposed to replace the long-term part of the variable salary programme included in the principles for remuneration of Group Management decided upon at the Annual General Meeting 2007.

Other benefits

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

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

Pension

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

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

Notice of termination and severance pay

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

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

The Board of Directors may in case of particular grounds deviate from the principles of remuneration decided by the Annual General Meeting.

Preparation of matters relating to remuneration of Group Management

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

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

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 with the following exceptions:

In 2003 Group Management members were allocated stock options in accordance with the SKF Stock Option Programme further described on page 74 in the Annual Report. The exercise period for the stock options allocated in 2003 expires in 2009. The total holding of stock options by Group Management is set out on page 74 in the Annual Report.

As stated above it is proposed that SKF's Performance Share Programme 2008 shall replace the long term part of the variable salary programme included in the principles for remuneration of Group Management decided upon at the Annual General Meeting 2007. Any pay out under the long term part of the earlier variable salary programmes of 2005, 2006 and 2007, respectively, will be made in 2008, 2009 and 2010, respectively. The

maximum variable salary including both the short-term and the long-term part is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies for Group Management members between 60 and 90%.

The pension conditions of the Chief Executive Officer are described on page 72 in the Annual Report.

Certain members of Group Management are covered by the SKF Group's Swedish defined benefit pension plan which is further described on page 73 in the Annual Report.

Certain members of Group Management are in the event of termination of employment at the request of AB SKF, entitled to receive a severance payment which is not related to the years of service amounting to a maximum of two years' salary.

- *Principles for remuneration of Group Management 2007, see Corporate Governance Report on page 30*
- *Remuneration of Group Management 2007, see Note 27.*

Nomination of Board members and changes to the Articles of Association

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

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

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.

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 Göteborg. The headquarters' address is AB SKF, SE-415 50 Göteborg, Sweden.

The company performs Group-wide services. 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 1,191 million (1,023).

Dividend income from consolidated subsidiaries was SEK 2,073 million (2,810).

Additions to investments in subsidiaries were SEK 1,053 million (363) of which SEK 273 million (203) relates to acquisitions from

companies in the SKF Group and SEK 780 million (160) 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 writing down the values of the shares in the subsidiaries. The risk of the financial position of the Parent company being negatively affected is considered small due to the vast diversity of mar-

kets, geographically and operationally in which the subsidiaries operate.

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

Proposed distribution of surplus

Unrestricted equity in the parent company amounts to SEK 6,859 million. The Board of Directors and the President recommend that a dividend of SEK 5.00 per share be paid for the fiscal year 2007 in accordance with the compilation presented on page 91.

Furthermore, the Board of Directors also proposes 2:1 share split combined with an automatic redemption procedure, see page 16.

Sustainability

Reporting

SKF defines sustainability as SKF Care which is made up of four elements, Business Care, Environmental Care, Employee Care and Community Care.

Business Care

Business care is to deliver shareholder value, through achieving the Group's financial targets and realizing the vision.

SKF adheres to the UN Global Compact Ten Principles and correspondingly endorses the principles globally in its operation management. Furthermore, SKF extends good corporate citizenship in its demand chain by its major suppliers worldwide to uphold a similar approach to SKF in business ethics and environmental performance.

In its drive to reach BeyondZero, SKF launched several energy-efficient products and solutions including a new energy-efficient bearing family that outperforms standard ISO products with a minimum 30% energy consumption saving for customers (in the bearing).

SKF is also a partner in the RELIAWIND project, a European Union-sponsored project aimed at developing new technology for highly-efficient wind turbines. This project consists of ten partners representing the full value chain and is expected to be completed by December 2010.

Environmental Care

• Environmental permits

SKF's operations have an impact on the environment in the form of energy consumption, waste, air and water emissions, as well as noise. Operations requiring permits are carried out in all the countries where manufacturing takes place. In Sweden, on 31 December 2007, operating permits covering 9% of the Group's overall production volume were held by SKF in its operations in Göteborg, Katrineholm and Hofors. These permits relate to the production of bearings, bearing housings and couplings. SKF received no significant directives from the environmental authorities in 2007. No permits were subject to review or revision in 2007. The EU's chemical legislation REACH applies to SKF and the company has set out a strategy to comply with this legislation.

• Environmental approval

The SKF Group has Group-wide ISO 14001 certification, which is the international stand-



ard for environmental management. All units are included in a single Group-wide certificate, which, at the end of 2007, encompassed 91 sites in 28 countries. Recently acquired companies work towards a plan for certification.

• Environmental target

The Group has set an annual target of a 5% reduction in carbon dioxide emissions from energy consumption at all its factories, irrespective of production volume increases. The emission reduction was 2.2% in 2007 compared with 2006. During the year, to reflect internationally and locally available methods and data SKF has updated the way CO₂ emissions are calculated. This is further described in the sustainability report.

• 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

By the end of 2005, the SKF Group was certified according to the OHSAS 18001 health and safety management standard. This approval covers 91 sites in 28 countries. OHSAS 18001 is the health and safety equivalent of ISO 14001.

• Towards zero accidents

SKF's drive for achieving zero work-related injuries and illnesses is progressing and is given top priority. Of 204 units, 104 units reported zero accidents for at least one year and accidents rate was reduced by 11% compared with 2006.

• Working Climate Analysis

SKF rolled out for the first year at the same time a Group-wide Working Climate Analysis

Around SEK 1 million was donated in 2007 to support children at the SOS Children's Villages and the World Childhood Foundation.

targeted at all employees. The objective was to obtain employees' feedback on SKF's performance in relation to company values and key focus areas.

Community Care

In its 100-year anniversary celebrations, SKF launched a campaign to raise money for helping children and combating climate change, as an alternative to gifts at meetings and conferences.

Around SEK 1 million was donated in support of the various projects at the SOS Children's Villages and the World Childhood Foundation. SKF purchased more than 2,000 tonnes of Certified Emission Reductions (CER) credits to support a hydro power project in India through the Carbon Neutral Company.

SKF was also the main partner in sponsoring the 2007 Gothia Cup in Göteborg, a football tournament in Sweden where more than 30,000 young people from around the world took part. Local tournaments – "Meet the World" – were hosted by SKF in 20 different countries where the local winning teams were sponsored by SKF to compete at the official Gothia Cup tournament in Göteborg.

Sustainability indices

SKF was included in the Dow Jones Sustainability Indexes for the eighth successive year, and for the seventh successive year in the FTSE4Good Index Series. Furthermore, SKF received the highest ranking by the Folksam Corporate Responsibility Index on environmental performance for the second successive year.

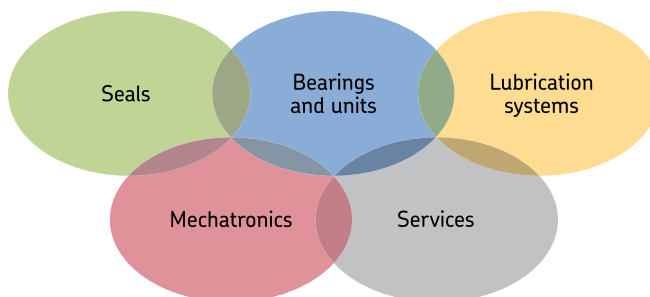
In addition, SKF was awarded the Globe Award for Best CSR Company by Globe Forum and the Social Capitalist Award by Veckans Affärer, a Swedish business journal.

For further information see the Sustainability Report page 107.

SKF – the knowledge engineering company

Customers

Products manufactured by SKF's industrial Original Equipment Manufacturer (OEM) customers include for example pumps, fans, compressors, motors, gearboxes, machine tools, paper machines, steel mills, printing presses and windmills. SKF also supplies the aerospace industry, including manufacturers of engines and gearboxes for fixed wing aircraft and helicopters, as well as maintenance, repair and overhaul organizations. OEM customers in these segments number over ten thousand. Moreover SKF, along with the largest network of authorized distributors in the bearing industry, has developed a truly unique service organization for the industrial industry. With around 7,000 distributor locations, SKF is close to its customers wherever they are in the world. Working with its global distributors, SKF Logistics Services and e-business portals ensure that SKF's customers have the right products at the right time while minimizing capital tied up in stock. SKF also helps customers to improve the efficiency of their production processes. SKF's vast knowledge of bearing vibration analysis and diagnostics can also be used in real-time analysis of machine operation. After a thorough analysis, SKF recommends a maintenance strategy, work processes and an optimum level of spare parts.



The Group's five technology platforms are Bearings and units, Seals, Mechatronics, Services, and Lubrication Systems. SKF utilizes the capabilities of all the platforms to help customers improve their production efficiency and produce competitive offers, see also page 128.

SKF also supplies customers that manufacture products in large volumes. These customers include car and truck makers, the automotive component industry as well as manufacturers of household appliances, small electric motors and two-wheelers. Since the lead-time for developing a new generation of cars or trucks is long, SKF's dialogue and involvement in product development begins several years before the start of production. Almost all automotive products and solutions are specifically designed for each individual customer. SKF also serves the aftermarket for vehicles, which is called the Vehicle Service Market (VSM) business. This business is primarily based on SKF's kit concept. The idea is to offer mechanics a con-

venient solution to help speed up and facilitate repair work by providing repair kits that contain all the necessary components to change wheel bearings, water pumps, timing belts and so on. VSM currently has around 6,000 different kits on the market.

Value creation

Knowledge acquired through supplying demanding customers within one customer segment is utilized for solutions for other customer segments, thereby creating positive synergies.

Throughout its 100-year history SKF has been a technological leader. SKF's fundamental strength is its ability to develop technologies, products and services that create competitive advantages. The company does this by combining its knowledge across the SKF technology platforms, and through innovation and development, creating new value propositions for SKF customers. A key thrust of the company's work is directed towards sustainability: reducing energy losses for a cleaner, brighter environment.

SKF's range has evolved over hundred years from different types of bearings to more unitized modules, integrating knowledge and the capabilities of bearings, sealing solutions, mechatronics, lubrication systems and service solutions.

SKF also focuses on eco-adapted solutions that reduce energy consumption and lessen the impact on the environment.

To further strengthen the platforms SKF will increase its spending on research and development steadily over the next years. SKF's global network of research and development centres and laboratories are complemented by collaboration with major university and research institutes.



Every year SKF acknowledges people in the organization for their outstanding achievements. In 2007 Daniel Figueroa from Chile received the SKF Excellence Award in the Knowledge category for developing the first online condition monitoring solution for mining shovels for the Chilean mining company Codelco. Codelco Chuquicamata's shovels work in a harsh environment in the world's largest open-pit mine. Through technology and engineering know-how Daniel's team developed a new condition monitoring solution based on knowledge from predictive vibration analysis that can be reused for other mining customers. In the picture from left are Tom Johnstone, President and CEO, Daniel Figueroa, Product Manager, and Eva Hansdotter, Senior Vice President, Group Human Resources and Sustainability.

SKF manages the complex portfolio of research projects for the platforms through its technology clusters. These are groups of experts from across SKF in each discipline who translate the technology strategy in their fields of expertise into clear technology roadmaps. They are responsible for planning rapid delivery of agreed programmes. They also provide the consensus needed to drive ideas through to implementation.

Inspiring an innovative culture is vitally important. SKF's prestigious Excellence Awards are an important way of encouraging this. Judged by senior executives at the company, they are awarded annually to projects that provide the highest contribution to business, innovation and sustainability.

Technologies

SKF's core areas of technical expertise include:

- Materials – development of materials properties optimized to suit the application (steel, ceramics, plastics, polymers etc.)
- Tribology and lubrication – reduction of friction and wear through surface engineering and selection and development of lubrication.
- Mechatronics – synergistic integration of mechanical and electronic engineering with intelligent computer control in the design of industrial products and processes.
- Modelling, calculation and simulation – knowledge implemented in SKF's unique software products to predict and enhance product performance for the customer.

SKF is at the forefront in understanding the performance of materials under extreme loads. The company's ability to develop the properties of its steels through heat treatment and control of residual stresses, significantly enhances the performance of its bearings in service.

One important focus of SKF's surface engineering is to reduce friction. This is fundamental to enhancing the contribution, for example, that a bearing can make to reduce the energy consumption of a motor or a pump. Another is wear enhancement, ensuring higher product reliability and life expectancy.

SKF is leading the field in the use of ceramics in rolling element bearings. These provide optimal solutions in applications where lubrication is limited, where contamination can cause problems, or where speed levels are extreme. The successful use of ceramic components demands both extensive understanding of materials and knowledge in safe design, using such hard materials, exploiting their strengths while overcoming their limitations.

A novel polymer-thickened grease and the ways to process this has been patented by SKF. This can extend service life and service intervals, and may lead to the development of tailored lubricants for specific applications.

The integration of electronics and advanced computer control, with the precision mechanical engineering traditionally associated with SKF, is leading to exciting new business opportunities for the Group.

Among the parameters measured are speed, position, temperature, vibration and load. This provides SKF with some unparalleled products both to sell to customers and to apply within SKF's Service Division.

SKF has been the forerunner in bearing design analysis for a long time. Much of this work forms the basis of current international industry standards. At the SKF Engineering & Research Centre in the Netherlands, the company pioneers new advanced computational analysis techniques. Initially developed for its bearing applications, the company now applies modelling and simulation across the entire range of SKF's products. The company's models extend beyond its own components to encompass the environment in which they operate giving customer confidence through SKF knowledge.

Using its suite of advanced technology the company can model anything from an atomic scale to massive engineering systems and structures. Whether the application requires stress analysis, thermal predictions, or the understanding of many other service parameters, SKF modelling can reduce development times and boost performance.

Products

Some examples of new products launched:

Tooth decay detection device

Working with the UK dental health company, IDMoS, SKF has created a scanner for early detection and monitoring of tooth decay. SKF

SKF has developed the customized hardware and software elements of a new product for detecting and monitoring tooth decay. It comprises a handheld sensor and monitoring device (CariesScan) which is linked wirelessly to a central monitor that provides graphic real-time displays of tooth measurements, which can be seen by both dentist and patient (CariesScan Plus). The system has a higher level of accuracy and certainty than existing techniques and without the safety risks associated with the repeated use of x-rays.





The Anti Creeping System Modules (ACSM) for precision rail guides prevents the cage from wandering out of its correct position through an involute gear wheel, made of high-grade brass. Stress on the material is lower and life expectancy is increased. The rails and rolling elements are manufactured

from corrosion-resistant steel. New manufacturing methods have enabled improvements in the rail geometry. This results in higher system stiffness and absolute accuracy of the ACSM precision rail guides.

developed the complex hardware and software system that allows greater accuracy than traditional X-ray methods without the associated dose of radiation. In partnership SKF has developed the system rapidly from prototype to full manufacture, meeting all the stringent regulatory requirements demanded in the medical field.

Energy-efficient bearings

On the day of its 100th anniversary, SKF launched a new range of energy-efficient bearings. These provide at least 30% less friction in the bearing without compromising the service life. They reduce the cost of ownership through energy savings and benefit to the environment. An energy-efficient electric motor, due to be launched by a customer in 2008 shows a saving of 50% in reduced frictional loss in the bearing.

Load sensors

In many applications, the bearing is close to where the load is applied to the system. It therefore provides a good location to measure the system loads for maximum sensitivity of response. SKF is developing sensorized hub bearing units for the automotive industry. These can track wheel forces in all degrees of movement and may improve braking and stability control, contributing to safety in a wide range of vehicles.

Wireless monitoring

SKF is working with ABB and SINTEF on a joint project to develop "fit and forget" devices that can report back on the state of a machine anywhere in the world.

Advanced low power, low cost components, using the technology of microelectromechanical systems combined with SKF's advanced ability to automatically acquire

condition monitoring data. The system transmits the information to the SKF @ptitude Monitoring Suite using emerging and highly robust industrial wireless protocols. The work is sponsored by a consortium of the major oil companies including Statoil, BP and ConocoPhillips and is supported by the Norwegian Government's Petromaks fund.

Technology in motor racing

SKF racing involvement has included a successful technical partnership with Formula One's Scuderia Ferrari since 1947. This partnership means that SKF provides parts for some of the most demanding engineering applications.

Formula One's enthusiasm for rapidly exploiting the very latest technology provides SKF with a unique test bed to shorten time to market for new products. Examples of successes piloted in Formula One and now in industrial use include:

- Ultra low friction sealing materials and solutions
- Enhanced metal ceramic hybrid bearings
- Nitrogen rich stainless steels.

In 2007, the Ferrari team won both the constructors' championship and the drivers' championship.

SKF is also involved in NASCAR in the USA. Since the beginning of the technical partnership with Richard Childress Racing (RCR) in 2005, SKF motor sports engineering team has been successful in assisting RCR in the development of technology to enhance on-track performance. The information developed through the technical partnership with RCR has enabled SKF to enhance its aftermarket products. The 2007 NASCAR NEXTEL Cup season was the best on record for RCR over the past five years, with all three NEXTEL Cup drivers competing for the 2007 Championship.

SKF is also a technical partner for Ducati since 2001. In 2007 the Ducati driver Casey Stoner won the World Superbike Championship. This also ensured Ducati winning the Constructors' championship.

Manufacturing

Advances in SKF's manufacturing efficiency are driven both through continuous improvement activities and through research into step change innovations. Many of these projects are commercially sensitive and represent part of the company's competitive advantage. Today, near net shape forming processes are gaining in importance as steel has become more expensive and more difficult to obtain. Near net shape processes improve efficiency and material utilization, enabling SKF to reduce variations in manufacturing and waste and thereby becoming more environmental friendly. Other programmes include ways of adding artificial intelligence to SKF's manufacturing processes. Inspection and assurance of the company's product quality using vision systems is routine in many plants with increasingly advanced developments being added on a regular basis. Intelligent machining allows automatic optimization of the manufacturing process.

Example of a new manufacturing process: Precision rail guides are manufactured with extreme accuracy and provide a uniform rolling action during operation as a result of their inner geometry. SKF has patented a new method of synchronization, called Anti Creeping System Modules (ACSM), which improves the reliability of the guides. By introducing an advanced manufacturing process, the quality and performance levels of the SKF rail guides have been further enhanced.

The world bearing market

The world bearing markets are usually defined as the global sales of rolling bearings, which comprise ball and roller bearings of various designs. SKF estimates that this market is worth about SEK 250 billion a year, excluding various types of bearing housings but including spherical plain bearings. Asia now accounts for about 40% of the world market, rising from less than 30% over the last ten years. China and Japan each account for about 15%. India, Thailand and the Republic of Korea are also recording high growth rates and have sizeable local bearing production. European markets make up more than 30% of the world total, while North America, including Canada and Mexico, represent less than 25%, calculated in SEK. In South America, Brazil is showing high growth rates and makes up more than 60% of the regional market.

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. SKF is the second largest bearing supplier in North America, with the US-based company Timken being the market leader. SKF is also the leading supplier in the Asian markets outside Japan. The Japanese bearing market is mainly supplied by the domestic manufacturers NSK Ltd, NTN Corp. and JTEKT Corp.

The largest, and also the most rapidly expanding of the emerging markets, is China. It is a very fragmented market with many local manufacturers. SKF is one of the leading bearing companies in China – both as an importer and as a local manufacturer. In recent years, all the major international bearing companies have set up production in the country. China, as well as India, in particular, is expected to see significant growth over the next few years both as a market and global supply base.

The rolling bearing world can also be divided according to different types of bearings. Ball bearings, of various designs, account for more than half the market, while different designs of roller bearings make up the balance. In 2007, however, the markets for roller-type bearings grew significantly as a result of investments in energy production, notably wind power generators, infrastructure, and the mining and basic metals industries.

The most popular ball bearing is the radial deep groove ball bearing, which accounts for

about one third of the total world bearing demand. Other ball bearings are angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and wheel hub bearing units for automotive wheels. The roller bearings are named according to the shape of the rollers, such as cylindrical roller bearings, needle roller bearings, tapered roller bearings or spherical roller bearings.

The largest of the roller bearing families is the tapered roller bearing, with a share of less than 20% of the total world bearing market. Sales of this type of bearing have declined over the past two decades, as wheel hub units that mainly incorporate balls have replaced tapered roller bearings to a large extent in automotive wheel applications. On the back of current infrastructure investments leading to an increase in the production of heavy-duty and off-highway vehicles, demand for tapered roller bearings has again been growing in recent years.

The polymer seals market

SKF is a leading company within the global polymer seals market, which is estimated to be worth around SEK 65 billion. Geographically, the market is almost equally split between the Americas, Europe and Asia. In terms of segments, the market for seals in the industrial and automotive segments account for about 45% each, with aerospace and other segments accounting for 10%.

The German Freudenberg Group (including its partnerships with the Japanese company NOK) is the largest supplier on the world polymer seals market, followed by the US company Parker Hannifin and the Swedish company Trelleborg.

The lubrication systems market

This market is mainly divided into two segments, oil- and grease-based systems. The total world market for both segments including products, services, preventive maintenance and software systems was for 2007 around SEK 20 billion. SKF is the leader in the global oil-lubrication systems market and a strong player in grease lubrication. The largest competitor in lubrication systems is the US Company Lincoln Industrial Corp. Lincoln focuses on grease-lubrication systems and is the largest company in this segment, as well as being leader of the total US market.

The actuation and motion control market

This market includes a wide variety of different products unified by the fact that they all provide linear movements. The industry consists of many companies, some of which have evolved from firms producing mechanical components, while others have specialized in motors or controls. All the companies which provide linear-motion controls combine mechanics, electric motors and controls. The value of the world motion-control market, including systems and components, is around SEK 100 billion. SKF focuses primarily on the medical, health care, machine tool and factory automation segments by providing products such as actuators, linear guides, ball and roller screws or complete sub-systems. SKF's annual growth rate in this business is in the double-digit per cent area. SKF also works with by-wire systems for the aerospace, off-highway and automotive applications.

The asset efficiency market

The market for asset efficiency products and service solutions is a wide-ranging, rapidly expanding business sector, driven by the need for capital-intensive industries to compete in a global market place. Through the effective implementation of asset efficiency programmes, manufacturers can improve the performance of existing assets, decrease energy consumption and improve on critical health, safety and environmental consequences.

This market is being driven by the impact of global competition from emerging markets, higher costs of raw materials and the steadily increasing age of the workforce in most markets. The European, Middle East and North American markets account for nearly 80% of this with the remainder going to Latin America and Asia. However, these two markets have nearly twice the growth rates compared to the other markets.

SKF is a market leader, with services, instrumentation and software designed to address these growing needs. SKF has combined its deep knowledge of industrial customers' applications along with a local SKF service presence to deliver solutions that lead to successful customer implementations. SKF's largest competitor in the market is the Bently-Nevada unit, a part of GE Energy.

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 regulatory system of the OMX Nordic Exchange Stockholm ("Stockholm Stock Exchange").

Swedish Code of Corporate Governance

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

SKF applies the Code. This Corporate Governance Report has been prepared in accordance with the Code. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2007 was also held in accordance with the Code rules. The auditor of the company has reviewed this Corporate Governance Report including the section containing the Board's report on internal control over the financial reporting.

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

valid as of the reports on internal control for 2006 and onwards. These instructions stipulate that it is sufficient to limit the internal control report to a description of the organization of the internal control for financial reporting made on the basis of the Guidance on the Board of Directors' Report on Internal Control over Financial Reporting, issued by FAR SRS (the professional institute for authorized public accountants (auktoriserade revisorer), approved public accountants (godkända revisorer) and other highly qualified professionals in the accountancy sector in Sweden) and the Confederation of Swedish Enterprise (Svenskt Näringsliv). The instructions further stipulate that there is no requirement for the company's auditor to review the report and that the report is to be submitted in a separate section of the Corporate Governance Report. On the basis of the statement from the Swedish Corporate Governance Board, SKF has limited the internal control report for 2007 to a description of the organization of the internal control for the financial reporting and submitted it as a separate section of the Corporate Governance Report, see page 32.

Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2007, 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 September 2007 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 2008.

In a press release dated 11 October 2007, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the Board, had been appointed:

- Claes Dahlbäck, Knut and Alice Wallenberg Foundation (as from November 2007 the shareholding in SKF has been transferred

to Foundation Asset Management Sweden AB, a company owned by the Wallenberg Foundations)

- Bengt-Åke Fagerman, Skandia Liv
- Marianne Nilsson, Robur
- Tomas Nicolin, Alecta

The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2008:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee for the Board of Directors
- proposal for fee for the auditor
- proposal for a Nomination Committee facing the Annual General Meeting of 2009

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2008.

General information about how the company is managed

The Board of Directors has a responsibility for the company's organization and for the oversight of the management of the company's affairs. The Chairman of the Board of Directors shall direct the work of the Board and monitor that the Board of Directors fulfils its obligations. The Board adopts annually written rules of procedure for its internal work and written instructions. For more details on the rules of procedures and the written instructions, see below under the heading "Activities of the Board of Directors".

The President of the company, who is also the Chief Executive Officer, handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board of Directors. The approval of the Board is, for example, required in relation to investments and acquisitions above certain amounts, as well as for the appointment of certain senior managers.

The Board of Directors

The composition of the Board

The Board shall, in addition to specially appointed members and deputies, according to the Articles of Association of SKF, comprise a minimum of five and a maximum of ten Board members, with a maximum of five deputies. The Board members are elected each year at the Annual General Meeting for the period up to the end of the next Annual General Meeting.

Information on the remuneration of the Board members decided upon by the Annual General Meeting can be found in the Consolidated Financial Statements, Note 27.

Ten Board members, including the Chairman, were elected at SKF's Annual General Meeting held in the spring of 2007. 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.



Vito H Baumgartner

Board member since 1998

Born 1940

Education and job experience: Swiss School of Commerce, MIT Program for Senior Executives, retired Group President of Caterpillar Inc
Other assignments: Board member PartnerRe Ltd, Northern Trust Global Services Ltd. and Scania AB

Shareholding (own and/or held by related parties): 2,400 SKF B



Clas Åke Hedström

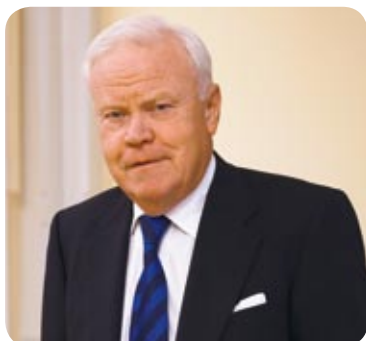
Board member since 2000

Born 1939

Education and job experience: Master of Engineering (the Royal Institute of Technology, Stockholm), retired President and CEO Sandvik AB

Other assignments: Chairman of Sandvik AB
Shareholding (own and/or held by related parties): 10,100 SKF B

Members of the Board of Directors



Anders Scharp

Chairman, Board member since 1992

Born 1934

Education and job experience: Master of Engineering (the Royal Institute of Technology, Stockholm), President AB Electrolux 1981, President and CEO AB Electrolux 1986

Other assignments: Chairman of superior board of Alecta, Chairman of AB Ph. Nederman & Co, Deputy Chairman of Investor AB
Shareholding (own and/or held by related parties): 100,000 SKF B



Ulla Litzén

Board member since 1998

Born 1956

Education and job experience: Master of Science in Economics (Stockholm School of Economics), MBA (Massachusetts Institute of Technology), Managing Director and member of the Management Group, Investor AB 1996-2001, President W Capital Management AB 2001-2005

Other assignments: Board member Atlas Copco AB, Boliden AB, Karo Bio AB, Alfa Laval AB and Rezidor Hotel Group
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 30, President and Chief Executive Officer.



Winnie Kin Wah Fok

Board member since 2004

Born 1956

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

Other assignments: Board member Global Beauty International Limited

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



Eckhard Cordes

Board member since 2006

Born 1950

Education and job experience: Studies of Business Administration (Hamburg University), several management posts within the Daimler-Benz Group and the DaimlerChrysler Group between 1981 and 2005, CEO Franz Haniel & Cie, GmbH, Duisburg since January 2006, CEO Metro AG, Duesseldorf, since November 2007

Other assignments: Chairman of the Management Board of Metro AG, chairman of the Supervisory Board of Celesio AG, chairman of the Supervisory Board of Kaufhof Warenhaus AG and chairman of the Advisory Board of Fiege Holding Stiftung & Co. KG, member of the Supervisory Boards of Rheinmetall AG and Takkt AG, member of the Board of Directors of Air Berlin PLC, member of the European Advisory Council of Rothschild and member of the Stuttgart Essen Advisory Board of Deutsche Bank AG and member of the Investment Committee of EQT.

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

Doctor in Economics (School of Business, Economics and Law, Göteborg University). President and Chairman of Volvo Cars 2000-2006 and member of the Ford Management Board 2006.

Other assignments: Chairman of the Association of Swedish Engineering Industries, vice chairman of the Confederation of Swedish Enterprise, board member of Vattenfall AB, Lindab International AB, Elanders AB and Höganäs 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. (Göteborg University) and Docent in Physics (Chalmers University of Technology, Göteborg). Professor at University of Uppsala and then at Chalmers University of Technology, Göteborg. Vice President at Chalmers University, Göteborg during 1995-2001. Research Director of the Joint Research Centre, European Commission in Brussels 1998-2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) since 2001.

Other assignments: Board member Micronic Laser Systems AB, Saab AB, AB ÅF, Investor AB and Chalmers University of Technology Foundation. Chairman of European Council of Applied Sciences and Engineering, Chairman of MISTRA, the Foundation for Strategic Environmental Research. Member of the Globalisation Committee of the Swedish Government.

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



Leif Östling

Board member since 2005

Born 1945

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

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

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



Hans-Olov Olsson

Board member since 2007

Born 1941

Education and job experience: M.Sc. (Göteborg University) and appointed Honorary

Employee representatives



Göran Johansson

Board member since 1975

Born 1945

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

Other assignments: Chairman Liseberg AB Shareholding (own and/or held by related parties): 400 SKF B



Lennart Larsson

Board member since 2004

Born 1948

Education and job experience: Employed by AB SKF since 1965

Other assignments: Chairman SIF (the Swedish Union of Clerical and Technical Employees in Industry), SKF, Göteborg
Shareholding (own and/or held by related parties): 8 SKF B



Kennet Carlsson

Deputy Board member since 2001

Born 1962

Education and job experience: Employed by AB SKF since 1979

Other assignments: Chairman Metalworkers' Union, SKF, Göteborg, and SKF Workers World Council, Göteborg
Shareholding (own and/or held by related parties): 100 SKF B

Lennart Johansson

Honorary Chairman of the Board of Directors of AB SKF. Passed away in February 2008. Lennart Johansson - In memoriam, see page 125.



Jeanette Stenberg

Deputy Board member since 2005

Born 1967

Education and job experience: Employed by AB SKF since 1987

Other assignments: Board member SIF (the Swedish Union of Clerical and Technical Employees in Industry), SKF, Göteborg
Shareholding (own and/or held by related parties): 0

Auditor

Thomas Thiel

Authorized Public Accountant
KPMG Bohlins AB

Independence requirements

The Board of Directors has been considered to comply with the requirements regarding independence of the Stockholm Stock Exchange and of the Code. The table below shows the Board 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
Anders Scharp		
Vito H Baumgartner	•	•
Ulla Litzén	•	•
Clas Åke Hedström	•	•
Tom Johnstone		•
Winnie Kin Wah Fok	•	•
Leif Östling	•	•
Eckhard Cordes	•	•
Hans-Olov Olsson	•	•
Lena Treschow Torell	•	•

Activities of the Board of Directors

The Board held six meetings in 2007. The Board members were present at the Board meetings as follows:

Name of Board member	Presence/total number of meetings
Anders Scharp	6/6
Vito H Baumgartner	6/6
Ulla Litzén	6/6
Clas Åke Hedström	6/6
Tom Johnstone	6/6
Winnie Kin Wah Fok	6/6
Leif Östling	6/6
Eckhard Cordes	3/6
Hans-Olov Olsson (elected 24 April 2007)	5/6
Lena Treschow Torell (elected 24 April 2007)	5/6
Göran Johansson	4/6
Lennart Larsson	6/6
Kennet Carlsson	6/6
Jeanette Stenberg	6/6

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 2007 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies, the strategic direction and business plan of the Group and management issues.

Work in committees

Remuneration Committee

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

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

The Remuneration Committee held four meetings in 2007. The members of the committee were present at the meetings as follows:

Name of member	Presence/total number of meetings
Anders Scharp	4/4
Vito H Baumgartner	4/4
Leif Östling	4/4

Audit Committee

The Board of SKF has appointed an Audit Committee. The Audit Committee consists of Clas Åke Hedström as Chairman, and the Board members Anders Scharp, Ulla Litzén and Winnie Fok. The tasks of the Audit Committee include i.a. preparations in relation to the nomination of external auditors, review of the scope of the external audit, evaluation of the performance of the external auditors, review of the financial information and review of the internal financial controls.

The Audit Committee held four meetings in 2007. The members of the committee were present at the meetings as follows:

Name of member	Presence/total number of meetings
Anders Scharp	4/4
Ulla Litzén	3/4
Clas Åke Hedström	4/4
Winnie Kin Wah Fok	4/4

Assessment

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

President and Chief Executive Officer

Tom Johnstone

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

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

Shareholdings (own and/or held by related parties) in the company: 41,196 SKF B and stock options allowing him to acquire 90,731 SKF B.

Material shareholdings or other holdings in companies with which the company has important business relationships: 1,450 ABB B, 3,500 Volvo B, 1,200 Electrolux B, 3,200 Husqvarna B and 660 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 the Annual General Meeting in the spring of 2005, KPMG was elected as auditor for AB SKF until the Annual General Meeting in 2009. KPMG was present at the Annual General Meeting in 2005, 2006 and 2007. Thomas Thiel is the auditor in charge.

Thomas Thiel is also the auditor in charge at a number of other listed companies, such as Atlas Copco, Holmen and Swedish Match.

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 2006–2007. These matters have primarily concerned tax advice and attestation services. The total fees for KPMG's services besides auditing in 2007 amount to SEK 2 million, and they amounted to SEK 4 million in 2006.

Principles for remuneration of Group Management

In April 2007, the Annual General Meeting adopted principles for remuneration of Group Management. Group Management is defined as the Chief Executive Officer and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

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

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

Fixed salary

The fixed salary of a Group Management member shall be at a market competitive level. It is based on competence, respons-

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

Variable salary

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

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

The maximum variable salary, including both the short-term and the long-term part according to the programme, is capped at a certain percentage of the fixed annual salary. The percentage is linked to the position of the individual and varies for Group Management members between 60 and 90%.

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 90% of the accumulated annual fixed salary of the members of Group Management.

Other benefits

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

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

Pension

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

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

Notice of termination and severance pay

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

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

The Board of Directors may in case of particular grounds deviate from the principles of remuneration decided by the Annual General Meeting.

Preparation of matters relating to remuneration of Group Management

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

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

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 with the following exceptions:

In 2002 and 2003 Group Management members were allocated stock options in accordance with the SKF Stock Option Programme further described on page 74 in the Annual Report. The exercise periods for the stock options allocated in 2002 and 2003, respectively, expire in 2008 and 2009, respectively. The total holding of stock options by Group Management is set out on page 74 in the Annual Report.

The pension conditions of the Chief Executive Officer are described on page 72 in the Annual Report.

Certain members of Group Management are covered by the SKF Group's Swedish defined pension plan which is further described on page 73 in the Annual Report.

Certain members of Group Management are in the event of termination of employment at the request of AB SKF, entitled to receive a severance payment which is not related to the years of service amounting to a maximum of two years' salary.

Stock related incentive programmes

Between 2001 and 2003, SKF made allocations of stock options within the framework of a Stock Option Programme that was initiated by SKF in 2000. No allocation of stock options has been made since 2003. For more information on the outstanding stock options, see Note 27.

One part of the allotment to the Board, for the time until the next Annual General Meeting has been held, is variable and corresponds to the value of the SKF B share at a certain time. For more information regarding this, see Note 27.

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.

In September 2007 SKF was deregistered from the U.S. Securities & Exchange Commission (SEC). One of the consequences of the deregistration is that SKF is no longer obligated to file certain reports and forms with the SEC, including Forms 20-F and 6-K. In addition, SKF no longer has to comply with the Sarbanes-Oxley Act.

The Board of Directors had one meeting with the auditor in 2007 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with three Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

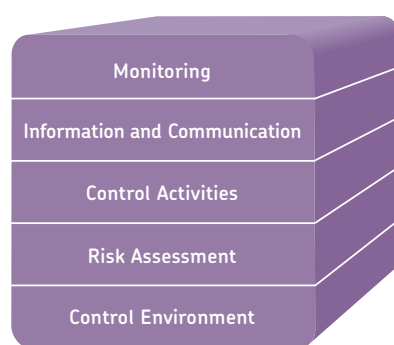
The Board's report on internal control concerning financial reporting for the 2007 financial year

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

Organization of the internal control concerning financial reporting

Due to the SEC deregistration, SKF did not file any report of management and accompanying auditor's report on the internal control concerning financial reporting as per 31 December 2006 according to Section 404 of SOX. 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 inter-related components, where a number of objectives have to be met in each component:



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

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

In the area of control activities, SKF has documented in detail, all the critical finance processes and controls for the Parent company and all main subsidiary companies, covering more than 70% of the Group's net sales and total assets. For smaller subsidiary companies, corresponding to an additional 20% of net sales and total assets, SKF has mapped out and evaluated the adherence to the COSO components. The documentation standards require an extensive risk assessment at Group and subsidiary company level of risks in the area of financial reporting. For all material risks that are identified, action is taken to eliminate the risk or reduce it to an acceptable level. The financial process and control documentation is reviewed annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary and reassessed at least once a year. These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements. Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables the on-line real-time follow-up and monitoring of SKF's financial internal control system.

The COSO internal control framework was implemented in 2005. This work consisted primarily of adapting the process and control descriptions to a common framework, as required by COSO and SOX, and putting in place a comprehensive system for management testing of the controls. All controls assessed as being critical to ensure the effective control over financial reporting were tested in 2006. Following the SEC deregistration 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 is currently in the process of establishing the modified system as a Group standard, also covering those companies that were 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.

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Consolidated income statements

SEKm	Note	Years ended 31 December	
		2007	2006
Net sales	2	58,559	53,101
Cost of goods sold	5, 6	-43,172	-39,493
Gross profit		15,387	13,608
Selling expenses	6	-7,386	-7,104
Administrative expenses	6	-478	-513
Other operating income	7	320	316
Other operating expenses	7	-301	-338
Profit (+)/loss (-) from jointly controlled and associated companies	12	-3	738
Operating profit		7,539	6,707
Financial income	8	968	69
Financial expenses	8	-1,369	-389
Profit before taxes		7,138	6,387
Taxes	9	-2,371	-1,955
Net profit		4,767	4,432
Net profit attributable to:			
Shareholders of AB SKF		4,595	4,317
Minority interests		172	115
Basic earnings per share (SEK)	19	10.09	9.48
Diluted earnings per share (SEK)	19	10.07	9.45

Values by quarter

SEKm	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Full year 2007
Net sales	14,371	14,963	14,155	15,070	58,559
Operating profit	1,886	2,019	1,803	1,831	7,539
Profit before taxes	1,825	1,957	1,646	1,710	7,138
Basic earnings per share (SEK)	2.57	2.71	2.48	2.33	10.09
Diluted earnings per share (SEK)	2.56	2.70	2.48	2.33	10.07

Amounts in parentheses refer to comparable figures for 2006.

Net sales

Net sales amounted to SEK 58,559 m (53,101). The 10.3% increase in net sales compared to 2006 was attributable to structure by 3.1%, to exchange rate effects by -2.9%, to price and mix¹⁾ by 2.4%, and to volume by 7.7%. Net sales, recorded in local currencies, were 13.2% higher in 2007 compared to 2006. Qualifying hedging instruments affected net sales by SEK 72 m.

Operating profit

The operating profit in 2007 amounted to SEK 7,539 m (6,707) resulting in an operating margin of 12.9% (12.6). The restructuring plans to close the factory in Glasgow, USA and to reduce the number of employees at the Fontenay-le-Comte facility in France were announced in December. Around SEK 300 m was charged to the income statement for these activities, whereof SEK 60 m related to impairments. Of this amount around SEK 270 m was taken in the Automotive Division and around SEK 30 m in the Industrial Division.

Exchange rates for the full year 2007, including translation effects and flows from transactions, had a negative effect on operating profit of around SEK 640 m.

2006 included income from the jointly controlled entity, Oy Ovako Ab, of SEK 725 m, representing both results from operations as well as the gain on the sale of Oy Ovako Ab's operating subsidiaries. In 2006, a cost of around SEK 400 m was charged to the income statement as a consequence of a number of restructuring and cost improvement activities. This included impairments, write-offs and restructuring charges.

Cost of goods sold, selling and administrative expenses 2007 amounted to SEK 51,036 m. The costs were divided into 34% salaries, wages and social charges, 3% depreciation, amortization and impairment, 35% raw material and components consumed, and 28% other purchased services, utilities and goods.

Other operating income and other operating expenses include items such as foreign exchange gains and losses arising on operating assets and liabilities, gains and losses on sales of property, plant and equipment and businesses as well as rental revenues. For 2007 this included income of SEK 40 m mainly from the sale of the forging business at the Lüchow factory in Germany. For further details, see Note 7.

Profit before taxes

Profit before taxes 2007 amounted to SEK 7,138 m (6,387). In 2007 the financial income and expense, net, amounted to SEK -401 m (-320) and was negatively affected by increasing interest rates and positively affected by currency effects. Interest costs on post-employment benefits have affected the financial net negatively by SEK 228 m. The financial exchange gains and losses, net, amounted to SEK 38 m (-70).

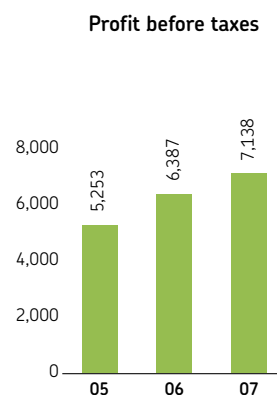
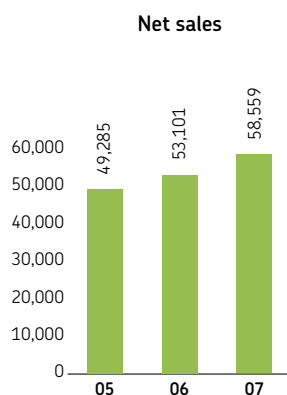
Net profit

Net profit in 2007 amounted to SEK 4,767 m (4,432). The actual tax rate in 2007 was 33% (31).

Diluted earnings per share

Diluted earnings per share are calculated in Note 19.

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	
		2007	2006
ASSETS			
Non-current assets			
Intangible assets	10	3,516	2,586
Property, plant and equipment	11	11,960	11,388
Investments in jointly controlled and associated companies	12	70	54
Long-term financial assets	15	1,360	1,128
Deferred tax assets	9	989	948
Other long-term assets	20	339	247
		18,234	16,351
Current assets			
Inventories	13	11,563	9,939
Trade receivables	14	9,894	8,845
Tax receivables		112	108
Other short-term assets	16	2,164	1,609
Investment in jointly controlled company	12	3	48
Assets classified as held for sale	17	86	335
Other short-term financial assets	15	1,329	1,761
Cash and cash equivalents	15	2,946	7,242
		28,097	29,887
Total assets		46,331	46,238
EQUITY AND LIABILITIES			
Equity attributable to shareholders of AB SKF			
Share capital	18	1,138	1,138
Share premium		564	564
Available-for-sale reserve		367	35
Hedging reserve		27	39
Translation reserve		-633	-955
Retained earnings		16,124	18,152
Equity attributable to minority interests		768	634
		18,355	19,607
Non-current liabilities			
Long-term financial liabilities	22	7,301	7,007
Provisions for post-employment benefits	20	4,840	4,731
Deferred tax provisions	9	1,333	1,243
Other long-term provisions	21	1,484	1,464
Other long-term liabilities		186	141
		15,144	14,586
Current liabilities			
Trade payables		4,904	4,529
Tax payables		737	620
Short-term provisions	21	545	455
Other short-term financial liabilities	22	810	1,218
Other short-term liabilities	24	5,836	5,164
Liabilities related to assets classified as held for sale	17	-	59
		12,832	12,045
Total equity and liabilities		46,331	46,238

Amounts in parentheses refer to comparable figures for 2006.

Assets and liabilities

Inventories at 31 December amounted to SEK 11,563 m (9,939).

The production volume for 2007 was 12% above the volume for 2006. Inventories as a percentage of annual sales totalled 19.8% (18.7). The target for the Group is 18%.

Trade receivables at 31 December amounted to SEK 9,894 m (8,845). The average days of outstanding trade receivables in 2007 were 62 days. The Group aims to reach 57 days. Trade receivables as a percentage of annual net sales totalled 16.9% (16.7).

During 2007, the net book value of property, plant and equipment in Swedish kronor increased by SEK 222 m due to translation effects caused by a weaker Swedish krona, principally compared to the Euro. The value of total assets increased in 2007 by around 2% compared with 2006 due to a weaker Swedish krona.

The Group's equity/assets 2007 were 39.6% (42.4), which is above the average target of 35%. Gearing in 2007 was 40.1% (39.1). The

target for gearing is to operate around 50%. The net debt/equity 2007 was 47.5% (19.7).

Shareholders' equity increased by SEK 322 m (-1,203) due to translation effects caused by a weaker Swedish krona.

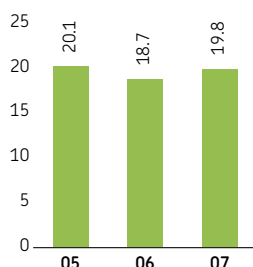
In 2007, SEK 2,049 m (1,821) was distributed to the shareholders of AB SKF. Shareholders' equity was also reduced by SEK 4,554 m as a result of the share redemption. For further details, see Note 18.

Financing

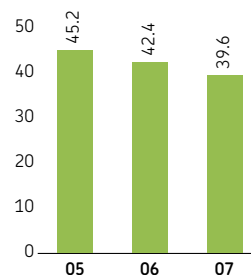
At year end, total interest-bearing loans amounted to SEK 7,735 m (8,053). In 2006, the Group issued a EUR 500 m seven-year note in the European bond market.

Post-employment benefits, net amounted to SEK 4,538 m (4,540). Financial assets totalled SEK 5,635 m (10,131) of which SEK 4,275 m (9,003) consisted of current financial assets. Changes in net interest-bearing liabilities 2007 are disclosed in the Group's consolidated statement of cash flow.

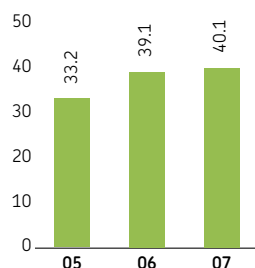
**Inventories, %
of annual net sales**



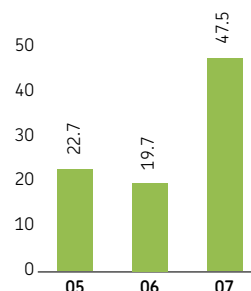
Equity/Assets, %



Gearing, %



Net debt/equity, %



Consolidated statements of cash flow

SEKm	Note	Years ended 31 December	
		2007	2006
Operating activities			
Profit before taxes		7,138	6,387
<i>Adjustments for</i>			
Depreciation, amortization and impairment	6	1,776	1,834
Net gain (-) on sales of property, plant and equipment		-13	-13
Net gain (-) on sales of equity securities		-	-2
Net gain (-) on sales of businesses and assets held for sale		-66	
Other non cash items		706	-434
Income taxes paid		-2,361	-1,947
Contributions to and payments under post-employment defined benefit plans		-418	-413
Jointly controlled and associated companies		-10	186
<i>Changes in working capital</i>			
Inventories		-1,390	-250
Trade receivables		-744	-831
Trade payables		197	442
Other operating assets and liabilities, net		111	68
Net cash flow from operating activities		4,926	5,027
Investing activities			
<i>Operating investments</i>			
Additions to intangible assets	10	-50	-78
Additions to property, plant and equipment	11	-1,907	-1,933
Sales of property, plant and equipment		119	52
Acquisitions of businesses, net of cash and cash equivalents	3	-1,209	-2,129
Sales of businesses and assets held for sale, net of cash and cash equivalents	4	200	-
Pre-liquidation proceeds from Oy Ovako Ab	12	46	1,217
Investments in equity securities		-1	-
Sales of equity securities		2	2
<i>Subtotal operating investments</i>		<i>-2,800</i>	<i>-2,869</i>
Investments in financial and other assets		-636	-2,173
Sales of financial and other assets		1,525	3,018
Net cash flow used in investing activities		-1,911	-2,024
Net cash flow after investments before financing		3,015	3,003
Financing activities			
Proceeds from medium- and long-term loans		127	4,676
Repayment of medium- and long-term loans		-798	-740
Change in short-term loans		7	-55
Payment of finance lease liabilities		-5	-5
Cash dividends to AB SKF's shareholders		-2,049	-1,821
Cash dividends to minority shareholders		-54	-47
Redemption of shares		-4,554	-
Net cash flow used in financing activities		-7,326	2,008
Increase(+)/decrease(-) in cash and cash equivalents		-4,311	5,011
Cash and cash equivalents at 1 January		7,242	2,379
Cash effect excluding acquired companies		-4,355	4,514
Cash effect of businesses acquired	3	44	497
Translation effect		15	-148
Cash and cash equivalents at 31 December		2,946	7,242

Amounts in parentheses refer to comparable figures for 2006.

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

Cash flow after operating investments before financial items

Cash flow after operating investments before financial items, shown in table below, which is the primary cash flow measurement used in the Group, amounted to SEK 2,126 m (2,158). Excluding acquisitions, it amounted to SEK 3,335 m (4,287).

Net cash flow from operating activities

Gross cash flow, defined as operating profit plus depreciation, amortization and impairment, amounted to SEK 9,315 m (8,541). The gross cash flow was 15.9% (16.1) of annual net sales.

A continued good operating profit, which in 2007 amounted to SEK 7,539 m (6,707), contributed to the strong cash flow.

Other non cash items adjust primarily for certain expenses for which cash flow has not yet occurred, the most significant being

expenses for post employment benefits and unrealised gains and losses related to financial instruments.

Subtotal operating investments

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,907 m (1,933). Of this amount, approximately SEK 166 m (105) was invested in measures to improve the environment, both internally and externally.

In 2007, the Group's cash outflow from acquisitions was SEK 1,209 m (2,129), see Note 3.

Cash flow from financing activities

Interest-bearing loans totalled SEK 7,735 m at year end (8,053).

Post-employment benefits, net, amounted to SEK 4,538 m (4,540).

Interest payments amounted to SEK 726 m (328) and interest received to SEK 528 m (363).

The change in cash and cash equivalents was SEK -4,296 m (4,863). In 2007, changes in exchange rates affected cash and cash equivalents by SEK 15 m (-148) mainly attributable to USD and EUR.

Other financial assets, other²⁾, totalled SEK 1,631 m at year end (2,425).

Additional cash flow information (SEKm)

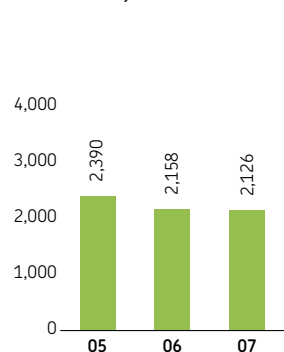
	2007	2006
Cash flow after operating investments before financial items		
Net cash flow from operating activities	4,926	5,027
Subtotal operating investments	-2,800	-2,869
	2,126	2,158

<i>Change in net interest-bearing liabilities (SEKm)</i>	2007 Closing balance	Cash change	Businesses acquired/sold	Other non cash changes	Translation effect	2007 Opening balance
Loans ¹⁾	7,735	-664	114	-103	335	8,053
Post-employment benefits, net	4,538	-418	18	357	41	4,540
Other financial assets, other ²⁾	-1,631	889	-	-97	2	-2,425
Cash and cash equivalents	-2,946	4,355	-44	-	-15	-7,242
Net interest-bearing liabilities	7,696	4,162	88	157	363	2,926

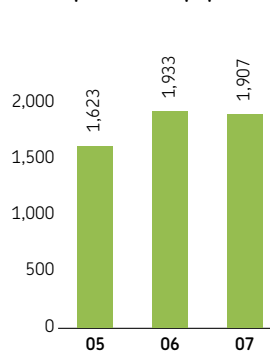
¹⁾ Excludes derivatives, see Note 22.

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

Cash flow after operating investments, before financial items



Additions to property, plant and equipment



Consolidated statements of changes in shareholders' equity

SEKm	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Minority interest	Total
Opening balance 1/1/2006	1,138	564	12	-4	248	15,671	604	18,233
Exchange differences arising on the translation of foreign operations	-	-	-	-	-1,203	9	-68	-1,262
Change in fair value of available-for-sale assets and cash flow hedges	-	-	23	112	-	-	-	135
Release of cash flow hedges	-	-	-	-69	-	-	-	-69
Income and expense recognized directly in equity	-	-	23	43	-1,203	9	-68	-1,196
Profit for the year	-	-	-	-	-	4,317	115	4,432
Total recognized income and expense	-	-	23	43	-1,203	4,326	47	3,236
Exercise of share options	-	-	-	-	-	-24	-	-24
Transactions with minority owners	-	-	-	-	-	-	30	30
Dividends	-	-	-	-	-	-1,821	-47	-1,868
Closing balance 31/12/2006	1,138	564	35	39	-955	18,152	634	19,607
Exchange differences arising on the translation of foreign operations	-	-	-	-	322	-2	13	333
Change in fair value of available-for-sale assets and cash flow hedges	-	-	332	40	-	-	-	372
Release of cash flow hedges	-	-	-	-52	-	-	-	-52
Income and expense recognized directly in equity	-	-	332	-12	322	-2	13	653
Profit for the year	-	-	-	-	-	4,595	172	4,767
Total recognized income and expense	-	-	332	-12	322	4,593	185	5,420
Exercise of share options	-	-	-	-	-	-40	-	-40
Other, including transactions with minority owners	-	-	-	-	-	22	3	25
Redemption of shares	-569	-	-	-	-	-3,985	-	-4,554
Bonus issue	569	-	-	-	-	-569	-	-
Dividends	-	-	-	-	-	-2,049	-54	-2,103
Closing balance 31/12/2007	1,138	564	367	27	-633	16,124	768	18,355

Available-for-sale reserve

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

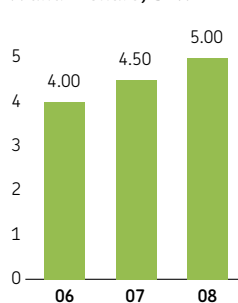
Hedging reserve

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

Translation reserve

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

Paid dividend per A and B share, SEK



A share redemption of SEK 10.00 per share was paid in 2007 in addition to the ordinary dividend of SEK 4.50 per share. The Board of Directors' proposed distribution of surplus for the year 2007, which is subject to approval at the Annual General Meeting in April 2008, includes an ordinary dividend of SEK 5.00 per share and additionally a redemption of SEK 5.00 per share, see Note 18.

Notes to the consolidated financial statements

Amounts in SEK m unless otherwise stated. Amounts in parentheses refer to comparable figures for 2006.

1 Accounting policies

Critical accounting policies

Basis of presentation

The consolidated financial statements of the SKF Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), which includes interpretations from the International Financial Reporting Interpretations Committee (IFRIC). Furthermore, the Group is in compliance with requirements from the Swedish Financial Accounting Standards Council RR 30:06, "Additional Accounting Rules for Group Accounts" as well as relevant interpretations (URA) issued by the Council's Emerging Issues Task Force.

The annual report of AB SKF has been signed by the Board of Directors on 31 January 2008. 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 16 April 2008.

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

Certain prior period amounts have been reclassified to conform to the current period presentation primarily related to the implementation of IFRS 7 "Financial Instruments: Disclosures".

Only one comparative year has been presented in the consolidated financial statements and accompanying notes, resulting from the Group's de-registration from the Securities Exchange Commission in the USA, where two comparative years were required.

Basis of consolidation

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

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

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

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

Business combinations and goodwill

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

Acquired land, buildings and equipment are either appraised by independent valuers, or internally appraised with reference to observable market data. Financial assets and liabilities (including

post-employment benefits), as well as inventories, are valued using references to available market information. The fair values of significant intangible assets are derived either with the assistance of independent valuation experts, or developed internally using appropriate valuation techniques generally based on forecasted future cash flows.

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

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

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

Segment information

The Group's primary segments are based on customer segments representing groups of related industrial and automotive products, and which agree to the Group's operational structure. The secondary segment information is based on geographical location of the customer to whom the sale is made, as well as the geographical location of subsidiaries' assets and capital expenditures. Sales between operating units

1 Accounting policies (cont.)

are based on market conditions. Segment results represent the contribution of the segments to the profit of the Group, and include some allocated corporate expenses. Unallocated items consist mainly of remaining corporate expenses, including some research and development activities, net costs relating to prior organization or disposed operations and profit from certain associated companies.

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

Unallocated assets and liabilities include all tax items and items of a financial, interest-bearing nature, including post-employment benefit assets and provisions. Additionally, unallocated items include items related to central corporate activities, including research and development, as well as items related to previously mentioned unallocated result items included in results of operations.

Inter-segment receivables and payables arising from the sales between Group companies, are not considered segment assets and liabilities as such items are sold to and settled directly with SKF Treasury Centre, the Group's internal bank, thereby becoming financial in nature.

Translation of foreign financial statements

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

Translation of items denominated in foreign currency

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

Assets and liabilities denominated in a foreign currency, primarily receivables and payables, have been translated at the exchange

rates prevailing at the balance sheet date. Exchange gains and losses related to trade receivables and payables and other operating receivables and payables are included in other operating income and other operating expenses. The exchange gains and losses relating to other financial assets and liabilities are included in financial income and financial expenses.

Revenue

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

Revenue is 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.

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.

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,

Exchange rates

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

Country	Unit	Currency	Average rates		Year-end rates	
			2007	2006	2007	2006
China	1	CNY	0.89	0.93	0.88	0.88
EMU-countries	1	EUR	9.24	9.27	9.46	9.05
India	100	INR	16.33	16.22	16.38	15.53
Japan	100	JPY	5.73	6.36	5.71	5.78
United Kingdom	1	GBP	13.50	13.58	12.90	13.48
USA	1	USD	6.74	7.37	6.46	6.88

historical write-off experience, customer creditworthiness and changes in customer payment terms.

Property, plant and equipment (PPE)

Machinery and supply systems, land, buildings, tools, office equipment and vehicles for continuing use or sales of goods or services or for administrative purposes are stated in the balance sheet at cost or deemed cost, less any accumulated depreciation and impairment losses. Deemed cost is the carrying amount of property, plant and equipment at the transition to IFRS, which included revaluations made under previous Swedish GAAP. The Group does not capitalize borrowing costs as part of the cost of constructing property, plant and equipment, rather these are expensed as incurred.

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

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

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

Assets classified as held for sale

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

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

Intangible assets other than goodwill

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

- Patents and similar rights up to 11 years;
- Capitalized software normally 4 years;
- Capitalized customer relationships up to 25 years;
- Capitalized development expenditures up to 25 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.

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

Capitalization of software

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

Research and development

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

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

Leases

A lease agreement that, according to the management's judgment, transfers substantially all the benefits and risks of ownership to the Group, is accounted for as a finance lease. Finance leases are initially recorded as property, plant and equipment at an amount equal to the present value of the minimum lease payments during the lease term. Finance leases are depreciated in a manner consistent with the Group's 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 programs, anniversary bonuses, long-stay and jubilee payments. All such programs are calculated using the projected credit unit method and appropriate assumptions, as described under post-employment benefits, except that all actuarial gains and losses are recognized immediately in the income statement.

Financial assets and financial liabilities

General

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

Recognition

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

Measurement

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

- Available-for-sale

Investments in equity securities (other than interests in jointly controlled and associated companies) and debt securities, except debt securities held by SKF Treasury Centre, are categorized as available for sale. Changes in the fair value of these financial instruments are recognized directly in equity, except for impairment losses which are recognized in the income statement. When the investments are derecognized, the cumulative gain or loss recognized in equity is released from equity and recognised in the income statement. The fair values of quoted equity securities held are based on the current bid price for the securities.

- 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 where there is objective evidence of impairment. 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 and loss

Financial assets, other than those designated as available for sale or loans and receivables, are included in the category financial assets at fair value through profit and loss. The fair value of assets in this category is based on quoted market prices or measured using valuation techniques, mainly discounted cash flow analyses based on observable market data.

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial instruments are designated at fair value through profit and loss 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 and 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. Derivatives with a negative fair value are recognized as financial liabilities. The Group has not yet made use of the option to designate financial liabilities upon initial recognition as financial liabilities 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 measured based on changes in the fair value of the hedge instruments, attributed to the risk hedged. For disclosure purposes, fair values of financial liabilities have been calculated using valuation techniques, mainly discounted cash flow analyses 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.

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 hedge and cash flow hedges, depending on the nature of the hedged item. Derivative instruments which provide effective economic hedges, but for which hedge accounting as defined by IAS 39 is not permitted, are accounted for as trading instruments. Changes in the fair value of these economic hedges are immediately recognized in the income statement as financial items.

Cash flow hedges

Hedge accounting has been applied to derivative financial instruments, which are effective in offsetting the variability in the cash flows from forecasted net sales. Forward exchange and currency option contracts were used as hedge instruments. Changes in the fair value of these derivative financial instruments designated as hedge instruments that meet the criteria for hedging future cash flows, were recognized directly in equity.

In the same period during which the forecasted net sales affects the income statement, the cumulative gain or loss recognized in equity is recycled to the income statement and included in Net sales. 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 equity and is removed from equity and recognized in the income statement as financial items 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 equity is immediately transferred to the income statement under financial items.

Fair value hedges

Hedge accounting has been applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. The interest risk exposure has been hedged by 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.

Share-based payments

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

The option programmes granted in 2001 and 2002, which vested in February 2003 and 2004, respectively, were not required to be valued and recorded in accordance with IFRS 2 on transition to IFRS and

therefore the cost at exercise of these two programmes was recorded in earnings in accordance with previously applied Swedish GAAP.

A provision calculated on the estimated fair value of the options on the reporting date is recorded for social charges to be paid by the employer when the options are exercised. The fair value of the options is calculated as the difference in the exercise price of the options and the market price of the SKF B share.

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

Earnings per share

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

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all dilutive potential ordinary shares, which comprise share options granted to employees. The dilutive effect of options is based on the average market price of the SKF B share and the exercise prices of the options.

Critical accounting policies involving significant management judgement

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

Income taxes

General

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

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

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

1 Accounting policies (cont.)

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

Other taxes

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

Critical accounting policies involving key sources of estimation uncertainty

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

Impairment of intangible assets and property, plant and equipment *Assets with definite useful lives*

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

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

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

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives, once allocated to a CGU, are tested annually for impairment and whenever there is an indication that the asset may be impaired. The impairment test is carried out at the CGU level where an impairment loss is recognized if the carrying amount exceeds the recoverable amount. The impairment loss first reduces 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. The DCF model involves the forecasting of future operating cash flows and includes estimates of revenues, production costs and working capital requirements, as well as a number of assumptions, the most significant being the growth rates and the discount rate.

These forecasts of future operating cash flows are based on:

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

Forecasts of future operating cash flows are adjusted to present value by an appropriate discount rate derived from our 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.

Estimates and assumptions used in the DCF model encompass uncertainty about future events and market conditions and therefore actual outcomes may be significantly different. However, the estimates and assumptions have been reviewed by management, and are consistent with internal forecasts and business outlook.

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 include also existing obligations where it is not probable that an outflow of resources is required, or the outflow cannot be reliably quantified.

Restructuring provisions including termination benefits

Restructuring provisions for 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 actuarial gains and losses and 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 actuarial gains or losses and 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 annually for the most significant plans and on a regular basis for other plans. External actuarial experts are used for these valuations.

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

The most sensitive assumptions are related to the discount rate, expected return on assets, future compensation increases and health

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

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

For all defined 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 as well as any amortized actuarial gains and losses. The past service cost for changes in pension 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.

Change in accounting principles 1 January 2007

The following accounting principles became effective as from 1 January 2007 and, except for additional disclosures as mentioned below, they had no material effect upon the Groups financial statements:

- IFRS 7, "Financial Instruments: Disclosures" requires additional disclosures about financial instruments including risks, which have been incorporated into these financial statements.

1 Accounting policies (cont.)

- IAS 1 "Presentation of Financial Statements: Capital Disclosures" requires disclosures about an entity's capital, which have been incorporated into these financial statements.
- IFRIC 7, "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" provides guidance on how the restatement approach is applied.
- IFRIC 8 "Scope of IFRS 2" provides guidance when making share-based payments.
- IFRIC 9 "Reassessment of Embedded Derivatives" addresses accounting requirements for embedded derivatives.
- IFRIC 10 "Interim Financial Reporting and Impairment" prohibits the reversal of impairment losses on goodwill and financial assets carried at cost made in a previous interim period.

IFRS issued but not effective

The following new accounting interpretations have been issued by the IFRIC and are effective as from 1 January 2008 and are not expected to have a material effect on the Group's financial statements.

- IFRIC 11: "IFRS 2: Group and Treasury Share Transactions" provides guidance on share-based payments involving an entity's own equity instruments.
- ¹⁾ IFRIC 12 "Service Concession Arrangements" provides guidance for the accounting of service concession contracts, which are arrangements for the supply of public services.
- ¹⁾ IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (MFR) and their Interaction", clarifies the asset limitation rules as well as how a minimum funding requirement under a post-employment defined benefit plan affects the accounting.

Numerous new or amended accounting standards and interpretations have been issued by the IASB which will be effective as from 1 January 2009 or later. The impact of these upon the Group has not yet been determined.

- ¹⁾ IFRS 2, "Share Based Payments: Vesting Conditions and Cancellations" (2009), clarifies the terms vesting conditions and cancellations.
- ¹⁾ IFRS 3 "Business Combinations; Comprehensive Revision on Applying the Acquisition Method" and consequential amendments to IAS 27, "Consolidated and Separate Financial Statements" IAS 28 "Associates" and IAS 31, "Joint Ventures" (2010). The more significant changes include the definition of acquisition costs, contingent consideration, the measurement of goodwill and step acquisitions.
- ¹⁾ IAS 1 "Presentation of Financial Statements: A Revised Presentation" (2009), requires, among other things, a statement of comprehensive income to be disclosed.
- ¹⁾ Amendments to IAS 1, "Presentation of Financial Statements" and IAS 32 "Financial Instruments Disclosures" (2009) relates to the disclosure of puttable instruments and obligations arising on liquidation.
- ¹⁾ IAS 23 "Borrowing costs" (2009) requires that borrowing costs be capitalized for assets requiring a significant time for construction.
- IFRS 8 "Operating Segments" (2009) defines the disclosures required about a company's operating segments, geographical information and major customers.
- ¹⁾ IFRIC 13 "Customer Loyalty Programmes" (2009) provides guidance on a company's loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services.

¹⁾ These have not been endorsed by the EU.

Definitions of key figures

The majority of the subsidiaries within the Group report the results of their operations and financial position twelve times a year. 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*
Shareholders' equity and provisions for deferred taxes, as a percentage of total assets at year end.
2. *Equity/assets ratio*
Shareholders' equity as a percentage of total assets at year end.
3. *Gearing*
Loans plus net provisions for post-employment benefits, as a percentage of the sum of loans, net provisions for post-employment benefits and shareholders' 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 shareholder's 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 shareholders' equity*
Profit/loss after taxes as a percentage of twelve months average of shareholders' 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 minority interests divided by the 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.

2 Segment information

Primary segment

The SKF Group is divided into three divisions, each focusing on specific customer groups worldwide. Previously published amounts have been reclassified to conform to the current Group structure in 2007.

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

The Service Division is responsible for sales to the industrial after-market, mainly via a network of around 7,000 distributor locations. In addition to the sales of products, the division supports customers with knowledge-based service solutions to optimize plant asset efficiency

through consulting and mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts. SKF Logistics Services deals with logistics and distribution for both the SKF Group and external customers. The Service Division is also responsible for all Group sales in certain smaller markets.

The Automotive Division is responsible for sales to the manufacturers of cars, light trucks, heavy goods vehicles, buses, two-wheelers, household appliances, power tools and electric motors and for the vehicle service market. The division develops and manufactures bearings, seals and related products and service solutions. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, specialist automotive products and complete repair kits for the vehicle service market including a new product line of control velocity joints.

Other operations generally include business that have been disposed of in the comparative year as well as other minor operations.

SEKm	Net sales		Sales including intra Group sales	
	2007	2006	2007	2006
Industrial Division	19,266	17,176	29,318	26,698
Service Division	19,597	17,984	21,393	19,761
Automotive Division	19,617	17,869	23,795	21,807
Other operations	79	72	79	72
Eliminations	-	-	-16,026	-15,237
	58,559	53,101	58,559	53,101

SEKm	Operating profit		Depreciation, amortization and impairments	
	2007	2006	2007	2006
Industrial Division	3,430	3,027	788	831
Service Division	2,846	2,362	121	101
Automotive Division	1,154	946	855	897
Other operations	0	738	16	10
Eliminations and unallocated items	109	-366	-4	-5
	7,539	6,707	1,776	1,834

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

Of the SKF Group's total income from jointly controlled and associated companies, SEK 0 m (738) was included in Other Operations, SEK -8 m (-2) in Automotive Division, SEK -2 m (1) in Service Division

and SEK 0 m (-1) in Industrial Division. The remainder was reported as unallocated.

See Note 10 and 11 for further information about impairments, and Note 21 for restructuring expenses.

2 Segment information (cont.)

SEKm	Additions to property, plant, equipment and intangible assets		Assets		Liabilities	
	2007	2006	2007	2006	2007	2006
Industrial Division	1,127	965	18,118	15,418	4,342	3,875
Service Division	100	84	6,129	5,074	1,787	1,637
Automotive Division	774	1,185	13,640	13,307	4,088	3,521
Other operations	–	–	–	52	–	–
Eliminations and unallocated items	-44	-223	8,444	12,387	17,759	17,598
	1,957	2,011	46,331	46,238	27,976	26,631

Assets in 2006 for Other operations includes primarily the SKF Group's investment in the jointly controlled company Oy Ovako Ab.

Geographical segments

The SKF Group has more than 100 factories in around 25 countries. Roller bearings, bearing units and seals for the automotive and industrial OEM producers and for the aftermarket are produced in Europe, North America and Asia. Linear motion products and machine tools are made in Europe and Asia.

The SKF Group has some two million customers worldwide. Products for the industrial and automotive aftermarket are sold through a network of distributors and dealers in some 15,000 locations in more than 130 countries. Mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts comprise a relatively small but growing business with customers worldwide.

SEKm	Net sales by customer location		Assets		Additions to property, plant, equipment and intangible assets	
	2007	2006	2007	2006	2007	2006
North America	10,501	10,611	5,648	5,579	104	161
Europe	32,721	28,656	30,415	33,098	1,255	1,125
Asia-Pacific	10,720	9,622	8,521	6,436	529	808
Other	4,617	4,212	2,987	2,372	113	157
Eliminations	–	–	-1,240	-1,247	-44	-240
	58,559	53,101	46,331	46,238	1,957	2,011

3 Acquisitions

SEKm	2007	2006
Fair value of net assets acquired		
Intangible assets	392	586
Property, plant and equipment	147	804
Financial assets	10	6
Purchase of remaining minority holdings	–	8
Minority interests	–2	–42
Financial liabilities	–114	–262
Employee benefits, deferred taxes and provisions	–149	–353
Net working capital and current taxes	248	664
Cash and cash equivalents	44	497
	576	1,908
Change in fair value since previous acquisition	–32	–
Goodwill (subject to changes in PPA for S2M Group and ABBA Group)	674	755
Total consideration	1,218	2,663
Less:		
Cash and cash equivalents acquired	–44	–497
Consideration payable	–2	–37
Payment of consideration on prior year acquisitions	37	–
Cash outflow on acquisitions	1,209	2,129

In 2007, the SKF Group acquired businesses amounting to SEK 1,218 m:

Industrial Division

- ABBA Linear Tech Co. Ltd, a leading Asian manufacturer of linear guidings, based in Taiwan (April 2007);
- Société de Mécanique Magnétique SA (S2M), France, a leading manufacturer of magnetic bearings (December 2007).

Service Division

- Automatic Lubrication Systems Ltd, Canada, a service company to Canadian mobile transportation equipment and industrial machinery customers for the Group's centralized lubrication systems (March 2007);
- Baker Instrument Company, USA, a leading manufacturer of test and diagnostic instruments for electric motor assessment (June 2007);
- Preventive Maintenance Company Inc. (PMCI), USA, a market leader in predictive maintenance services for industrial customers in the pulp & paper, metals, food, automotive and other industries (January 2007).

Automotive Division

- Seal Jet Economos S.A.'s industrial seals business, Argentina (November 2007).

Pro forma income statement information

The pro forma financial information presents net sales and net income as if all of the above acquisitions had been completed on 1 January 2007. These pro forma results include the historical result of the companies, adjusted for the estimated effects relating to fair value adjustments for the period in 2007 prior to acquisition. These pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the result of operations which actually would have resulted had the acquisitions been in effect at the beginning of the year or of future results. The total SKF Group net sales for the year would have been SEK 59,112 m and net profit for the year would have been SEK 4,769 m.

3 Acquisitions (cont.)

S2M Group

The most significant acquisition in 2007 occurred in the Industrial Division, when the SKF Group acquired, in a business combination achieved in stages, an additional 87.48% of the issued share capital in the French company, Société de Mécanique Magnétique SA. The company is headquartered and has manufacturing facilities in Vernon, France. The acquisition was completed 21 December 2007, for a total consideration of SEK 513 m. The purchase price allocation is provisional and will be finalized during 2008 once the review and approval by management is complete.

Goodwill is derived from S2M's strong position in high speed rotating equipment for Oil & Gas, Vacuum and Compressor applications. The acquired operations are largely complementary to SKF's prior magnetic bearings operations in respect of geography, customer base and technology platform. The combination of S2M and SKF creates a strong global partner for OEM's and end users. Additionally, intangible assets other than goodwill were identified. The most significant of these intangibles was assigned to customer relationships and technology. The S2M Group has not contributed to net sales and net profit for the period between the date of acquisition and 31 December, due to being acquired so close to financial year end.

<i>S2M Group (SEKm)</i>	Book value	Fair value adjustments	Fair value
Net assets acquired			
Intangible assets	1	268	269
Property, plant and equipment	73	–	73
Financial assets	1	–	1
Minority interest	-19	17	-2
Financial liabilities	-22	-19	-41
Employee benefits, deferred taxes and provisions	-6	-104	-110
Net working capital and current taxes	86	14	100
Cash and cash equivalents	16	–	16
	130	176	306
Change in fair value since previous acquisition			-32
Goodwill (provisional and subject to changes in PPA)			239
Total consideration			513
Less:			
Cash and cash equivalents acquired			-16
Cash outflow on acquisition			497
Total consideration satisfied by:			
Cash			507
Directly attributable costs			6
Total consideration			513

ABBA Group

In 2007, the SKF Group acquired 100% of the issued share capital in the Taiwanese company ABBA Linear Tech Co. Ltd. The legal transfer had not been completed for 0,7% of the common shares, however no minority interest was presented as it was immaterial. The company is headquartered and has manufacturing facilities in Taipei, Taiwan. The acquisition was completed 20 April 2007, for a total consideration of SEK 417 m. The purchase price allocation is provisional and will be finalized during 2008 once the review and approval by management is complete.

Goodwill is derived from SKF acquiring the technology for the largest product area, being profile rail guides, in the Linear Motion business and a strong position in the fast growing Asian market. The most

common applications are Medical, Factory Automation and Machine Tool. The acquisition is complementary to the SKF Linear Motion business in respect of geography, product assortment, customer base and manufacturing footprint. The combination of the ABBA Group and SKF create a strong Linear Motion partner for OEM's and after market for the future.

Additionally, intangible assets other than goodwill were identified. The most significant of these intangibles was assigned to customer relationships and trademarks.

The ABBA Group contributed SEK 172 m to net sales and SEK 20 m of net profit for the period between the date of acquisition and 31 December. This net profit includes a negative effect relating to fair value adjustments of SEK 12 m.

ABBA Group (SEKm)	Book value	Fair value adjustments	Fair value
Net assets acquired			
Intangible assets	1	49	50
Property, plant and equipment	63	-1	62
Financial assets	9	-	9
Financial liabilities	-63	-12	-75
Employee benefits, deferred taxes and provisions	2	-11	-9
Net working capital and current taxes	82	7	89
Cash and cash equivalents	27	-	27
	121	32	153
Goodwill (provisional and subject to changes in PPA)			264
Total consideration			417
Less:			
Cash and cash equivalents acquired			-27
Cash outflow on acquisition			390
Total consideration satisfied by:			
Cash			402
Directly attributable costs			15
Total consideration			417

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

Industrial Division

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

Automotive Division

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

Service Division

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

3 Acquisitions (cont.)

SNFA Group

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

The SNFA goodwill, amounting to SEK 368 m, is due to SNFA's well known innovative products and strong application engineering. Within aerospace, SNFA has a complementary range of products to the existing SKF Aerospace offerings in engine, gearbox, helicopter and airframe bearings. Within the machine tool business, the combination of SKF

and SNFA will create a full assortment supplier of high precision angular contact ball bearings and high precision cylindrical roller bearings.

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

The SNFA Group contributed SEK 451 m of net sales and SEK 5 m of net loss for the period between the date of acquisition and 31 December 2006. This net loss includes a negative effect relating to fair value adjustments of SEK 57 m.

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

4 Divestments of businesses and of assets held for sale

SEKm	2007	2006
Net assets disposed of		
Property, plant and equipment	152	–
Deferred taxes and provisions	-56	–
Net working capital and current taxes	130	–
	226	–
Profit	66	–
Total consideration	292	–
Consideration receivable	-92	–
Total cash inflow	200	–

Divestments in 2007

The majority of divestments relates to Automotive Division's forging business at the Lüchow plant in Germany. Also included is the disposal group representing the spindle manufacturing business in Italy, as well as the sale of land and buildings related to the closure of the manufacturing plant in South Africa, which both formed part of

the Industrial Division. These divestments are in line with the Group's manufacturing strategy to divest non-core component manufacturing.

Divestments in 2006

No divestments were made in 2006.

5 Research and development

Research and development expenditures totalled SEK 900 m (875). 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 16 m (8).

6 Expenses by nature

SEKm	2007	2006
Employee benefit expense including social charges	17,119	15,766
Raw material and components consumed, including shop supplies	18,729	16,466
Change in work in progress and finished goods	-1,112	-117
Depreciation, amortization, and impairments	1,776	1,834
Other expenses, primarily purchased services, utilities and goods	14,524	13,161
Total operating expenses	51,036	47,110

<i>Depreciation, amortization and impairments were accounted for as (SEKm)</i>	2007			
	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,409	90	66	1,565
Selling expenses	106	66	12	184
Administrative expenses	3	24	–	27
	1,518	180	78	1,776

<i>Depreciation, amortization and impairments were accounted for as (SEKm)</i>	2006			
	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,362	87	113	1,562
Selling expenses	109	35	106	250
Administrative expenses	5	17	–	22
	1,476	139	219	1,834

7 Other operating income and expenses

SEKm	2007	2006
Other operating income		
Profit from sale of property, plant and equipment	30	29
Profit from sale of businesses	40	–
Rental income	9	5
Royalty and commission income	5	6
Exchange gain on trade receivables/payables	217	246
Other	19	30
	320	316
Other operating expenses		
Loss from sale of property, plant and equipment	-8	-2
Exchange loss on trade receivables/payables	-243	-305
Other	-50	-31
	-301	-338

8 Financial income and financial expenses

SEKm	2007	2006
Financial income		
Dividends	5	5
Share swaps	4	35
Interest income and similar items ¹⁾	538	311
Financial exchange gains and losses, net, on financial assets ²⁾	421	-282
	968	69
Financial expenses		
Interest on post-employment benefits	-228	-210
Interest expense and similar items ¹⁾	-758	-391
Financial exchange gains and losses, net, on financial liabilities ²⁾	-383	212
	-1,369	-389
<i>Financial income and financial expenses, net (SEKm)</i>	2007	2006
Loans and receivables	195	-51
Available-for-sale assets	6	6
<i>Financial assets at fair value through profit and loss</i>		
Designated upon initial recognition	122	69
Derivatives used for trading	398	-52
Derivatives used for hedge accounting	264	99
<i>Financial liabilities at fair value through profit and loss</i>		
Derivatives used for trading	-67	-49
Derivatives used for hedge accounting	-300	-92
Financial liabilities measured at amortized cost	-791	-40
Post-employment benefits	-228	-210
	-401	-320

¹⁾ Interest income and interest expense relating to assets and liabilities not in the category fair value through profit and loss amounted to SEK 124 m and SEK -454 m (119 and -292).

²⁾ Net foreign exchange gains/losses on financial instruments measured at fair value through profit or loss amounted to SEK 321 m (-128).

9 Taxes

<i>Taxes on profit before taxes (SEKm)</i>	2007	2006
Current taxes	-2,417	-2,093
Deferred taxes	98	231
Other taxes	-52	-93
	-2,371	-1,955

Deferred taxes for 2007 included a tax benefit of SEK 51 m (65) related to the net change in previously unrecognized deferred tax assets. Of this income, SEK 35 m (31) represented an adjustment of the opening balance of the unrecognized deferred tax assets. The adjustment related to a change in circumstances where profitability improved, which affected the judgment on the realizability of the

related deferred tax asset in future years. Changes in tax rates used to calculate deferred tax had an impact of SEK 128 m (-2), which in 2007 primarily related to changed tax rates in Germany and Italy. In 2007, SEK 1 m (1) of current taxes were related to items charged directly to equity.

<i>Net deferred taxes per type (SEKm)</i>	2007 Closing balance	Acquisitions	Charged to income statement	Charged to equity	Translation effects	2007 Opening balance
Property, plant and equipment	1,141	1	-124	–	28	1,236
Inventories	166	-1	50	–	-6	123
Provisions for post-employment benefits	-627	85	80	–	22	-814
Other	-97	35	-30	–	-3	-99
Tax loss carry-forwards	-237	–	-67	–	-7	-163
Fair value of investments in equity securities and derivative hedging instruments	-2	–	-7	-7	–	12
	344	120	-98	-7	34	295

Shown on the balance sheet as (SEKm)

Deferred tax assets	-989	-1	-38	-7	5	-948
Deferred tax provisions	1,333	121	-60	–	29	1,243
	344	120	-98	-7	34	295

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

Shown on the balance sheet as (SEKm)

Deferred tax assets	-948	-18	-118	–	50	-862
Deferred tax provisions	1,243	275	-113	23	-34	1,092
	295	257	-231	23	16	230

Unrecognized deferred tax assets

At the balance sheet date the SKF Group had unrecognized deferred tax assets of SEK 154 m (184) related to tax loss carry-forwards and SEK 74 m (96) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams. Of these unrecognized deferred tax assets SEK 51 m were related to tax losses which will expire during the period 2008 to 2012.

The remaining unrecognized assets will expire after 2013 and/or may be carried forward indefinitely.

Corporate income tax

The corporate statutory income tax rate in Sweden was 28% in 2007 and 2006. The actual tax rate on profit before taxes was 33% (31).

<i>Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)</i>	2007	2006
Tax calculated on statutory tax rate in Sweden	-1,999	-1,788
Difference between statutory tax rate in Sweden and foreign subsidiaries' weighted statutory tax rate	-354	-176
Other taxes	-52	-93
Permanent differences	-97	12
Tax loss carry-forwards, net of changes in unrecognized deferred tax assets	24	34
Current tax referring to previous years	4	-51
Other	103	107
Actual tax	-2,371	-1,955

Gross value of tax loss carry-forwards

At 31 December 2007, certain subsidiaries had tax loss carry-forwards amounting to SEK 1,685 m (1,412), which are available for offset against future profits.

Such tax loss carry-forwards expire as follows:

2008	157
2009	94
2010	97
2011	115
2012	176
2013 and thereafter	1,046

10 Intangible assets

SEKm	2007 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2007 Opening balance
<i>Acquisition cost</i>								
Goodwill	2,467	–	674	–	–	6	-12	1,799
Patents, trademarks and similar rights	367	1	154	-8	–	4	8	208
Capitalized software	553	14	1	-30	–	0	1	567
Capitalized customer relationships	673	–	202	–	–	-4	13	462
Leaseholds	42	2	–	0	–	3	1	36
Capitalized development	202	31	–	-9	–	-3	4	179
Other intangible assets	121	2	35	-1	–	-32	-1	118
	4,425	50	1,066	-48	–	-26	14	3,369

SEKm	2007 Closing balance	Amort- ization	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2007 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	233	–	–	–	13	0	-7	227
Patents, trademarks and similar rights	73	28	–	-8	6	2	1	44
Capitalized software	396	63	–	-30	–	1	0	362
Capitalized customer relationships	108	53	–	–	–	-3	1	57
Leaseholds	18	2	–	0	–	1	1	14
Capitalized development	28	14	–	-9	–	-12	-1	36
Other intangible assets	53	20	–	0	–	-10	0	43
	909	180	–	-47	19	-21	-5	783
Net book value	3,516	-130	1,066	-1	-19	-5	19	2,586

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

SEKm	2006 Closing balance	Amort- ization	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2006 Opening balance
<i>Accumulated amortization and impairments</i>								
Goodwill	227	–	–	–	128	-24	-15	138
Patents, trademarks and similar rights	44	13	–	–	–	-4	0	35
Capitalized software	362	66	–	-156	–	6	0	446
Capitalized customer relationships	57	25	–	–	–	-3	-3	38
Leaseholds	14	3	–	–	–	0	-2	13
Capitalized development	36	9	–	–	7	–	-3	23
Other intangible assets	43	23	–	–	–	-1	-5	26
	783	139	–	-156	135	-26	-28	719
Net book value	2,586	-61	1,341	-1	-135	6	-147	1,583

In 2007, additions to capitalized software and development included SEK 26 m (18) that was internally generated. No significant impairment losses were recognized during 2007.

Impairment losses related to intangible assets for 2006 totalled SEK 135 m. The most significant was SEK 66 m which related to the impairment of goodwill in the Industrial Division's bearing reconditioning operations in North America, which experienced a significant

loss of market share after a consolidation of competitors. This impairment was based on a value in use using a discount rate of 19%. The previous value in use calculation used 21%. A minor impairment of SEK 15 m was taken on the Jaeger Group goodwill in 2006.

The other impairments in 2006 were minor and related primarily to goodwill in the Automotive Division's DGBB production in China and Service Division's railroad bearing reconditioning operations in Australia.

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

SEKm	Goodwill	
	2007	2006
S2M Group (acquired 2007)	239	–
ABBA Group (acquired 2007)	264	–
SNFA Group (acquired 2006)	376	362
SKF Sealing Solutions NA (acquired 1990)	240	255
Other individual CGUs	1,115	955
Total goodwill	2,234	1,572

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

S2M Group and ABBA Group

Goodwill related to the acquisitions of S2M Group and ABBA Group has only been determined provisionally and will be subject to an annual impairment test in 2008 once the purchase price allocation and allocation of goodwill to the GCU's is reviewed and approved. However, there were no indications that the provisional goodwill would be impaired.

SNFA Group and SKF Sealing Solutions NA

The recoverable amounts for these CGUs have been determined based on the value in use method. As discussed in Note 1, the significant assumptions used in determining value in use are the growth rates and the discount rates. The revenue growth rate was 5% for SNFA and 4% for SKF Sealing Solutions, and the growth rates used to calculate the terminal values were 2.5% for both CGUs. The pre-tax discount rate was 13% for SNFA and 14% for SKF Sealing Solutions.

The Group also evaluates the sensitivity of the recoverable amounts considering a reasonably possible adverse changes in the growth and discount rates, noting no impairment.

11 Property, plant and equipment

SEKm	2007 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2007 Opening balance
<i>Acquisition cost</i>								
Buildings	5,353	117	51	-63	–	152	115	4,981
Land and land improvements	734	29	6	-89	–	2	21	765
Machinery and supply systems	22,351	697	59	281	–	785	458	20,071
Machine toolings, factory fittings, etc	2,895	186	11	-127	–	15	42	2,768
Construction in process including advances	1,052	878	20	-3	–	-972	13	1,116
	32,385	1,907	147	-1	–	-18	649	29,701

SEKm	2007 Closing balance	Depreciation	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2007 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	2,702	142	–	-60	-2	-3	72	2,553
Land improvements	176	4	–	-18	2	0	7	181
Machinery and supply systems	15,235	1,149	–	302	57	40	315	13,372
Machine toolings, factory fittings, etc	2,312	223	–	-121	2	-32	33	2,207
	20,425	1,518	–	103	59	5	427	18,313
Net book value	11,960	389	147	-104	-59	-23	222	11,388

¹⁾ Property, plant and equipment classified as held for sale are reflected under "Other", for additional information see Note 17.

11 Property, plant and equipment (cont.)

SEKm	2006 Closing balance	Additions	Businesses acquired	Disposals	Impair- ments	Other ¹⁾	Translation effects	2006 Opening balance
<i>Acquisition cost</i>								
Buildings	4,981	97	198	-93	-	-12	-289	5,080
Land and land improvements	765	6	48	-10	-	-11	-41	773
Machinery and supply systems	20,071	455	488	-1,026	-	188	-1,347	21,313
Machine toolings, factory fittings, etc	2,768	155	66	-131	-	50	-184	2,812
Construction in process including advances	1,116	1,220	4	-20	-	-942	-68	922
	29,701	1,933	804	-1,280	-	-727	-1,929	30,900

SEKm	2006 Closing balance	Depreciation	Businesses acquired	Disposals	Impair- ments	Other	Translation effects	2006 Opening balance
<i>Accumulated depreciation and impairments</i>								
Buildings	2,553	194	-	-79	34	-254	-150	2,808
Land improvements	181	4	-	-7	2	-1	-9	192
Machinery and supply systems	13,372	1,056	-	-1,030	47	-234	-961	14,494
Machine toolings, factory fittings, etc	2,207	222	-	-125	1	-29	-149	2,287
	18,313	1,476	-	-1,241	84	-518	-1,269	19,781
Net book value	11,388	457	804	-39	-84	-209	-660	11,119

¹⁾ Property, plant and equipment classified as held for sale are reflected under "Other", for additional information see Note 17.

Impairment losses related to property, plant and equipment 2007 amounted to SEK 59 m, including the effect of a reversal of SEK 5 m. The most significant was SEK 55 m related to the Automotive Division's manufacturing facilities in France under restructuring plans announced in December 2007. The reversal of impairments related to an impairment of building in the Industrial Division's operations in South Africa made in 2006. This building was sold at a gain in 2007.

Impairment losses in 2006 for property, plant and equipment amounted to SEK 84 m, including the effect of a reversal of SEK 9 m.

The most significant was SEK 67 m related to the impairment of building and equipment in the Automotive Division's forging and ring production facilities in Eastern Europe which is experiencing problems with volumes. This impairment was based on value in use using a discount rate of 12%.

The other impairments in 2006 were minor and related to individual assets used in the Industrial Division's operations in South Africa, as well as certain assets held for sale in the Industrial Division's spindle operations in Italy. The reversal of impairments related to an impairment of the Aiken operations made in 2005.

<i>Finance leases included in property, plant and equipment consisted of the following (SEKm)</i>	2007	2006
<i>Acquisition value</i>		
Buildings	51	72
Land and land improvements	11	11
Machinery and supply systems	6	7
Machine toolings, factory fittings, etc	2	2
	70	92
<i>Accumulated depreciation</i>		
Buildings	2	24
Machinery and supply systems	2	2
Machine toolings, factory fittings, etc	1	1
	5	27
Net book value	65	65
<i>Tax value of Swedish real estate</i>		
Land and land improvements	96	103
Buildings	481	295
	577	398

For further leasing disclosures, see Note 23.

12 Jointly controlled and associated companies

<i>Investments in jointly controlled and associated companies (SEKm)</i>	2007	2006
Investments in jointly controlled companies	49	86
Investments in associated companies	24	16
	73	102

<i>Income from jointly controlled and associated companies (before taxes) (SEKm)</i>	2007	2006
Jointly controlled companies	-3	735
Associated companies	-	3
	-3	738

2007

The liquidation process of Oy Ovako AB is expected to be finalized in the beginning of 2008. During 2007, AB SKF received SEK 46 m from the liquidation as additional pre-liquidation proceeds.

2006

In November 2006, the jointly controlled entity, Oy Ovako Ab, sold all its operations to a third party and recognized a substantial gain on the

transaction. Consequently, the SKF Group recorded its 26.5% share of this gain amounting to SEK 433 m as income from jointly controlled companies. In December 2006, the joint owners initiated the liquidation process of the remaining Ovako holding companies. Pre-liquidation proceeds were, however, distributed to AB SKF, Wärtsilä Corporation and Rautaruukki Corporation, the joint owners, in December 2006, where AB SKF's share amounted to SEK 1,217 m.

<i>Specification of investments in jointly controlled and associated companies</i>	Holding in per cent	Number of shares	Currency	Nom. value in local currency, millions	2007		2006	
					Book value (SEKm)		Book value (SEKm)	
					Parent Company	Consolidated accounts	Parent Company	Consolidated accounts
<i>Held by Parent company:</i>								
<i>Jointly controlled companies</i>								
Oy Ovako Ab, Finland	26.5	2,650	EUR	3	-	3	39	48
<i>Associated companies</i>								
Endorsia.com International AB, Göteborg, Sweden	20	34,000	SEK	3	9	15	5	9
AEC Japan Co. Ltd., Japan	50	400	JPY	20	1	1	1	1
					10	19	45	58

Specification of investments in jointly controlled and associated companies	Holding in percent	Number of shares	Currency	2007	2006
				Book value in the consolidated accounts (SEKm)	Book value in the consolidated accounts (SEKm)
Held by subsidiaries:					
Jointly controlled companies					
International Component Supply, Ltda, Brazil	50	24,050	BRL	44	38
Associated companies					
CoLinx LLC, USA	20	1	USD	2	2
Mongolia: Seal Jet Mongolia Ltd., Mongolia	30	3,000	USD	1	1
Economos Singapore Pte Ltd., Singapore	50	50,000	SGD	1	1
Other				6	2
Total investments in jointly controlled and associated companies				73	102

12 Jointly controlled and associated companies (cont.)

Aggregated financial statements of jointly controlled and associated companies (SEKm)

	2007	2006
Non-current assets	116	123
Current assets	179	392
Total assets	295	515
Equity	168	342
Non-current liabilities	28	30
Current liabilities	99	143
Total equity and liabilities	295	515
Net sales	719	11,485
Profit before taxes	3	2,898

13 Inventories

SEKm	2007	2006
Raw materials and supplies	2,928	2,318
Work in process	2,246	1,852
Finished goods	6,389	5,769
	11,563	9,939

Inventory values are stated net of a provision for net realizable value of SEK 817 m (802). The amount charged to expense for net realizable

provisions during the year was SEK 64 m (86). Reversals of net realizable provisions during the year were SEK 49 m (45).

14 Trade receivables

SEKm	Carrying amount	Not yet due	Past due, net of allowance			
			1-30 days	31-60 days	61-90 days	> 91 days
2007	9,894	8,812	732	197	68	85
2006	8,845	7,782	724	177	55	107

The carrying amount of trade receivables approximated fair value.

The average days outstanding of trade receivables in 2007 were 62 days (60 days). The Group aims to reach 57 days. Trade receivables as a percentage of annual net sales totaled 16.9% (16.7%).

Included in trade receivables were receivables sold with recourse that amounted to SEK 459 m (0). 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.

SEKm	2007	2006
Allowances as of 1 January	185	212
Additions	35	41
Reversals	-8	-6
Changes through the income statement	27	35
Allowances used to cover write-offs	-18	-56
Business acquired	6	10
Currency translation adjustments	1	-16
Allowances as of 31 December	201	185

15 Other financial assets

SEKm	Other financial assets per category					
	Loans and receivables	Available-for-sale	Fair value through profit and loss		Total	Of which: current
			At initial recognition	Trading		
Loan receivables	533	–	–	–	533	112
Equity securities	–	614	–	–	614	–
Marketable securities	–	–	–	242	242	–
Debt securities	–	19	405	–	424	405
Deposits	395	–	–	–	395	395
Cash and cash equivalent	2,368	3	575	–	2,946	2,946
Derivatives	–	–	–	481	481	417
	3,296	636	980	723	5,635	4,275

SEKm	Other financial assets per category					
	Loans and receivables	Available-for-sale	Fair value through profit and loss		Total	Of which: current
			At initial recognition	Trading		
Loan receivables	421	–	–	–	421	7
Equity securities	–	291	–	–	291	–
Marketable securities	–	–	–	249	249	–
Debt securities	–	25	1,434	–	1,459	1,441
Deposits	240	–	–	–	240	240
Cash and cash equivalent	2,187	3	5,052	–	7,242	7,242
Derivatives	–	–	–	229	229	73
	2,848	319	6,486	478	10,131	9,003

The fair value of instruments measured at amortized cost amounted to SEK 3,371 m in 2007. The fair value of instruments measured at amortized cost in 2006 was not materially different from their carrying amounts.

Equity securities which have quoted market prices amounted to SEK 577 m (243). Additional information regarding derivatives is disclosed in Note 30.

16 Other short-term assets

SEKm	2007	2006
Other current receivables	1,414	904
Receivables from jointly controlled and associated companies	1	1
Prepaid expenses	447	402
Accrued income	186	199
Advances to suppliers	116	103
	2,164	1,609

17 Assets classified as held for sale

<i>Assets classified as held for sale (SEKm)</i>	2007	2006
Property, plant and equipment	53	191
Inventories	18	144
Trade receivables	15	–
	86	335
<i>Liabilities related to assets classified as held for sale (SEKm)</i>		
Provisions for post-employment benefits	–	44
Other provisions	–	6
Other liabilities	–	9
	–	59

2007

Assets classified as held for sale relate to the Industrial Division's bearing reconditioning business in the US, as well as the building in Aiken, USA. Both sales are expected in 2008.

2006

The majority of assets classified as held for sale relate to Automotive Division's forging business at the Luchow plant in Germany. Also included is the disposal group representing the spindle manufacturing business in Italy as well as individual assets from the Aiken plant in the US, which was closed down.

18 Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total ¹⁾	
Opening balance 1/1/2006	50,735,858	404,615,210	455,351,068	1,138
Conversion of A shares to B shares	-1,202,828	1,202,828	–	–
Closing balance 31/12/2006	49,533,030	405,818,038	455,351,068	1,138
Share split 2:1	49,533,030	405,818,038	455,351,068	–
Redemption of shares	-49,533,030	-405,818,038	-455,351,068	-569
Bonus issue	–	–	–	569
Conversion of A shares to B shares	-536,996	536,996	–	–
Closing balance 31/12/2007	48,996,034	406,355,034	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, 177,940,713 A shares have been converted to B shares.

Dividends

In view of the company's strong performance, cash generating capacity and outlook, the Board of Directors proposes an increase in dividend by 11.1% to SEK 5.00 per share to be paid to the shareholders on 24 April 2008. The proposed dividend for 2008 is payable to all shareholders on the VPC AB's public share register as of 21 April 2008. The total estimated dividend to be paid is SEK 2,277 m.

The Board of Directors also proposes a share split 2:1 combined with an automatic redemption procedure. Through this procedure the

shareholders will receive one new ordinary share and one redemption share, which will be automatically redeemed for SEK 5.00. The proposed record day for the share split is on or about 9 May 2008 and payment of the redemption amount is proposed to be made on or about 5 June 2008.

The redemption proposal will result in SEK 2,277 m being distributed to the shareholders, in addition to the proposed dividend distribution. The total distribution to shareholders in 2008 will be SEK 4,554 m.

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

On 3 May 2007, a dividend of SEK 4.50 (4.00) per share was paid to shareholders.

19 Earnings per share

	2007	2006
Net profit attributable to shareholders of AB SKF (SEKm)	4,595	4,317
Weighted number of ordinary shares outstanding	455,351,068	455,351,068
Basic earnings per share (SEK)	10.09	9.48
Dilutive effect of stock option programme 2001-2003	1,051,455	1,493,950
Weighted average diluted number of shares	456,402,523	456,845,018
Diluted earnings per share (SEK)	10.07	9.45

As of 31 December 2007, there were no other potential ordinary shares outstanding besides stock options allocated in 2002 and 2003.

20 Provisions for post-employment benefits

Amount recognized in the consolidated balance sheet (SEKm)	2007			2006		
	Pensions	Other	Total	Pensions	Other	Total
Present value of unfunded defined benefit obligations	812	1,814	2,626	795	2,084	2,879
Present value of funded defined benefit obligations	11,277	196	11,473	11,893	245	12,138
Less: Fair value of plan assets	-10,621	-76	-10,697	-10,575	-69	-10,644
Deficit	1,468	1,934	3,402	2,113	2,260	4,373
Asset limitation	-	-	-	2	-	2
Unrecognized past service costs	16	6	22	9	11	20
Unrecognized actuarial gains/losses (-)	906	208	1,114	215	-26	189
Net post-employment benefit liabilities	2,390	2,148	4,538	2,339	2,245	4,584
<i>Reflected as</i>						
Other long-term assets	-302	-	-302	-191	-	-191
Liabilities related to assets classified as held for sale	-	-	-	44	-	44
Provisions for post-employment benefits	2,692	2,148	4,840	2,486	2,245	4,731
Net post-employment benefit liabilities	2,390	2,148	4,538	2,339	2,245	4,584

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 US. The Swedish plan supplements a statutory pension where benefits are established by national organizations. Plans in Germany, the UK and the US are designed to supplement these countries' social security pensions.

Other post-employment benefits

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

The post-retirement health care plans cover most salaried and hourly employees in the US. These plans provide certain health care and life insurance benefits for eligible retired employees.

The subsidiaries in Italy sponsor termination indemnities, TFR, in accordance with Italian law, which are paid out as a lump sum amount to all employees immediately upon termination, for any reason. As of 1 January 2007, the rules applicable to TFR were amended under new Italian law, resulting in a curtailment during 2007. The subsidiaries are now required to pay the contribution related to current service to an external social security fund as defined by the employees, thus the selected social security fund will assume the obligation to pay the benefit maturing after that date and it is now treated as a defined contribution plan. The obligation to pay the defined benefit matured up to 31 December 2006 will be retained.

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 2007, a curtailment occurred as a result of restructuring activities.

20 Provisions for post-employment benefits (cont.)

<i>Components of total post-employment benefit expense (SEKm)</i>	2007	2006
<i>Defined benefit expense</i>		
Current service cost, net of contribution by plan participants	329	392
Interest cost	725	723
Expected return on assets	-704	-690
Amortization of unrecognized losses	1	11
Curtailments	-49	-
Past service cost	-2	-1
Other	19	20
Post-employment defined benefit expense	319	455
Post-employment defined contribution expense	234	199
Total post-employment benefit expense	553	654
<i>Whereof</i>		
Amounts charged to operating profit	325	444
Amounts charged to financial expense	228	210
Total post-employment benefit expense	553	654
<i>Geographical distribution of total defined benefit obligations (SEKm)</i>		
Europe	8,790	9,153
Americas	5,120	5,686
Rest of the world	189	178
	14,099	15,017
<i>Geographical distribution of total plan assets (SEKm)</i>		
Europe	5,493	5,441
Americas	5,101	5,102
Rest of the world	103	101
	10,697	10,644
<i>Specification of total plan assets (SEKm)</i>		
Government bonds	2,277	2,369
Corporate bonds	900	796
Equity instruments	5,121	5,605
Real estate	1,356	1,064
Other, primarily cash and other financial receivables	1,043	810
	10,697	10,644

The fair value of real estate in the specification of plan assets above includes SEK 75 m (72) related to buildings in the USA and Switzerland

where SKF is the lessee under operating lease arrangements. Lease expenses for SKF under these leases was SEK 8 m (9).

<i>Changes in the present value of the defined benefit obligation (SEKm)</i>	2007			2006		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	12,688	2,329	15,017	13,414	2,505	15,919
Interest cost	620	105	725	616	107	723
Current service cost	308	41	349	294	100	394
Contributions by plan participants	29	11	40	26	12	38
Benefits paid	-666	-208	-874	-660	-212	-872
Actuarial gains (-)/losses	-775	-141	-916	-128	-8	-136
Acquisitions/divestments	2	17	19	121	39	160
Curtailements	-	-149	-149	-3	1	-2
Settlements	-	-	-	-10	-	-10
Other (including reclassifications)	-23	-	-23	25	1	26
Translation differences	-88	-1	-89	-1,007	-216	-1,223
Closing balance 31 December	12,095	2,004	14,099	12,688	2,329	15,017

<i>Changes in the fair value of plan assets (SEKm)</i>	2007			2006		
	Pensions	Other	Total	Pensions	Other	Total
Opening balance 1 January	10,575	69	10,644	10,729	68	10,797
Expected return on assets	700	4	704	687	3	690
Actuarial gains/losses (-)	-11	-	-11	472	-	472
Contributions by employer	68	-	68	64	1	65
Contributions by plan participants	20	-	20	18	-	18
Benefits paid	-524	-	-524	-523	-	-523
Acquisitions/divestments	1	-	1	85	-	85
Settlements	-	-	-	-12	-	-12
Other (including reclassifications)	1	-	1	-1	-	-1
Translation differences	-209	3	-206	-944	-3	-947
Closing balance 31 December	10,621	76	10,697	10,575	69	10,644

Actual return on plan assets	693	1,162
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Expected cash outflows

Expected cash outflows for 2008 are SEK 421 m, which includes contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans.

Multi-employer plans

SKF Group has commitments for retirement pensions and family pensions for office personnel in Sweden which are secured through an insurance policy with Alecta. This is a defined benefit plan covering several employers, a so-called multi-employer plan. Alecta is currently

unable to provide defined benefit accounting for such participants, and therefore premiums paid to Alecta are accounted for as defined contribution expense. Fees for the year paid covering such arrangements amounted to SEK 15 m (18).

Alecta's profit in the form of the so-called collective consolidation level amounted to 152% (143). 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.

20 Provisions for post-employment benefits (cont.)

<i>Principal weighted-average assumptions</i>	2007	2006
<i>Discount rate</i>		
Europe	5.3	4.6
Americas	6.2	5.7
Rest of the world	6.0	5.3
<i>Expected return on plan assets</i>		
Europe	4.7	4.9
Americas	8.9	8.9
Rest of the world	6.4	5.6
<i>Rate of salary increase</i>		
Europe	2.7	3.1
Americas	5.0	5.0
Rest of the world	5.5	4.4
<i>Medical cost trend rate</i>		
USA	9.0	10.0
<i>A one percentage point increase in the assumed medical care cost trend rate</i>		
Effect on the aggregate current service cost and interest cost	3	3
Effect on the defined benefit obligation	45	62
<i>A one percentage point decrease in the assumed medical care cost trend rate</i>		
Effect on the aggregate current service cost and interest cost	-3	-3
Effect on the defined benefit obligation	-39	-54

The assumed medical care cost trend rate at the end of 2007 was 9.0%, and is projected to decline to an ultimate rate of 5.0% beginning in 2014.

<i>Historical information (SEKm)</i>	2007	2006	2005	2004	2003
Total present value of defined benefit obligations	14,099	15,017	15,919	13,521	13,298
Fair value of plan assets	-10,697	-10,644	-10,797	-8,782	-5,636
Deficit	3,402	4,373	5,122	4,739	7,662
Experience adjustments on plan liabilities, losses/gains(-)	171	-220			
Experience adjustments on plan assets, losses (-)/gains	-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.

21 Other provisions

SEKm	2007 Closing balance	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2007 Opening balance
Restructuring provisions	379	274	-174	-4	2	8	273
Environmental provisions	124	16	-51	-5	–	2	162
Warranty provisions	299	145	-66	-39	8	2	249
Long-term employee benefits	462	152	-162	-96	-17	24	561
Other	765	231	-86	-38	-8	-8	674
	2,029	818	-539	-182	-15	28	1,919

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. The restructuring provisions in 2007 include personnel related costs in connection with the closure of the Automotive Division's Glasgow facility in the US as well as costs in connection with personnel reduction activities in the Automotive and the Industrial Division's operations at the Fontenay-le-Comte facility in France.

Provisions for 2006 included costs for closing of the factory in South Africa and other activities to reduce the number of employees in China, South Africa and Italy, among other countries.

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.

22 Other financial liabilities

SEKm	Maturity	2007	2006
Bond loans			
EUR 28 m	2008	269	257
EUR 250 m	2010	2,176	2,152
EUR 500 m	2013	4,616	4,428
USD 97 m	2007	–	665
Other long-term loans	2009-2013	214	169
Medium-term loans	> 3 months	180	135
Short-term loans	=< 3 months	280	247
Derivatives		376	172
		8,111	8,225

The maturities stated in the table above are based on the earliest date on which the loans can be required to be repaid.

The EUR 28 m bond, carries a floating 3 months' interest rate and is therefore carried at a value almost equal to fair value.

The EUR 250 m and EUR 500 m bonds have been hedged by cross-currency interest rate swaps. The fixed EUR interest rates have been

swapped into floating 3 months' SEK interest rates. These bonds, which are subject to fair value hedging, are further described in Note 30. The fair value of these bonds amounted to SEK 6,850 m (6,677).

The fair values of other loans carried at amortized cost were not materially different from their carrying amounts.

Derivatives are carried at fair value and further described in Note 30.

23 Leases

	2007		2006	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
<i>Future minimum lease payments at 31 December (SEKm)</i>				
Within one year	12	304	10	300
Later than one year but within five years	44	628	34	640
Later than five years	48	343	41	360
Total	104	1,275	85	1,300
Less: Interest and executory costs	-25		-18	
Present value of minimum lease payments under finance leases	79		67	
Less: Current portion	-7		-7	
Non-current portion	72		60	

Net rental expense primarily related to operating leases was SEK 335 m (331). The more significant operating leases involve the use of buildings, other office locations as well as machineries in USA,

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

24 Other short-term liabilities

SEKm	2007	2006
Accrued salaries	1,174	995
Vacation pay	721	675
Social charges	442	402
Liabilities to jointly controlled and associated companies	1	–
Other current liabilities	1,644	1,408
Accrued expenses and deferred income	1,854	1,684
	5,836	5,164

25 Assets pledged and contingent liabilities

<i>Assets that have been pledged to secure loans and other obligations (SEKm)</i>	2007	2006
Mortgages on real estate	31	50
Chattel mortgages	–	–
	31	50

Mortgages are stated at the nominal value of the mortgage deeds. The pledged assets secured loans and other obligations of SEK 34 m (41) at 31 December.

<i>Contingent liabilities at nominal values (SEKm)</i>	2007	2006
Guarantees	66	210
Other contingent liabilities	2	2
	68	212

Guarantees were made in respect of leases and loans, supplier guarantees and additionally, in 2006, for minor disposed operations. Guarantees on behalf of the ICS joint venture amounted to SEK 31 m (26).

Other commitments

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

In connection with Oy Ovako Ab's sale of its operations in 2006 to a third party, the joint partners AB SKF, Wärtsilä Corporation and Rautaruukki Corporation were required to provide indemnifications to the buyer customary for such transactions. Any claims under such indemnifications are regulated by an agreement between the joint venture owners. Pre-liquidation proceeds were distributed to the joint owners AB SKF, Wärtsilä Corporation and Rautaruukki Corporation in 2006 and 2007, as a result of the joint owners providing a first demand guarantee relating to claims by creditors. The liquidation is expected to be finalized in 2008.

26 Related parties

<i>The SKF Group's transactions with related parties (SEKm)</i>	2007		2006	
	Associated companies	Jointly controlled companies	Associated companies	Jointly controlled companies
Sales of goods and services	36	3	–	27
Purchases of goods and services	114	205	100	1,643
Receivables as of 31 December	6	–	–	–
Liabilities as of 31 December	6	5	–	–

Oy Ovako Ab became a related party to the SKF Group when it began its operations in May 2005. Oy Ovako Ab had no related party transactions with the SKF Group in 2007, other than pre-liquidation proceeds (see Note 12). However, Oy Ovako AB constituted 69% and 85% of the total sales and purchases, respectively of related party transactions in 2006.

At the end of 2006, Knut och Alice Wallenbergs Stiftelse held 29.0% of the voting rights and 10.0% of the share capital. In November 2007, Knut och Alice Wallenbergs Stiftelse transferred its shares in the Parent company to Foundation Asset Management Sweden AB ("FAM"). FAM is the major shareholder of the Parent company, holding 28.7% of the voting rights and 10.0% of the share capital at the end of 2007.

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 SKF for other than investment purposes. No significant transactions have been identified between the parties with the exception of dividend paid during the year to Knut och Alice Wallenbergs Stiftelse, prior to November 2007.

For related party transactions involving key management, see Note 27.

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

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

Principles in year 2007

In April 2007, the Annual General Meeting adopted principles for remuneration of Group management. These principles are summarized in the Corporate Governance Report, section "Principles for Remuneration of Group Management".

Board of Directors

The Chairman of the Board and the Board members are remunerated in accordance with the decision taken at the Annual General Meeting. At the Annual General Meeting held in 2007 it was decided that the Board be entitled to a fixed allotment of SEK 3,275,000 to be distributed with SEK 800,000 to the Chairman of the Board, with SEK 550,000 to the Deputy Chairman of the Board and with SEK 275,000 to each of the other Board members elected by the Annual General Meeting and not employed by the company. It was further decided that an allotment corresponding to the value of 3,200 SKF B shares be received by the Chairman, an allotment corresponding to the value of 2,400 SKF B shares be received by the Deputy Chairman and an allotment corresponding to the value of 1,200 SKF B shares be received by each of the other Board members elected by the Annual General Meeting and not employed by the company. When deciding upon the amount of the allotment, the value of a share of Series B shall be determined at the average latest payment rate according to the quotations on the OMX Nordic Exchange Stockholm during the five trading days after publication of the company's press release for the financial year 2007. Finally, it was decided that an allotment of SEK 555,000 for committee work shall be divided with SEK 150,000 to the Chairman of the Audit Committee, with SEK 75,000 to each of the other members of the Audit Committee and with SEK 60,000 to each of the members of the Remuneration Committee.

Chief Executive Officer

Tom Johnstone, Chief Executive Officer and President of AB SKF received from the company in year 2007 as salary and other remunerations a total of SEK 11,608,979, of which SEK 3,600,000 was variable salary for 2006 performance. Tom Johnstone's fixed annual salary 2008 will amount to SEK 7,500,000. The variable salary for 2006 and paid in 2007 was according to a performance-based programme divided into two parts, a short-term and a long-term part, both based on the financial performance of the SKF Group established according to the SKF management model which is a simplified economic value-added model called Total Value Added; TVA (see "Financial objectives and dividend policy" for description). The variable salary for 2006 and paid in 2007 only considered the short-term part. The variable salary for 2006 including both the short-term and the long-term part could amount to a maximum of 90% of the fixed annual salary for year 2006.

Tom Johnstone's retirement age is 60 years. Tom Johnstone is entitled to a lifelong defined benefit pension amounting to 37% of

SEK 3,181,536 corresponding to SEK 1,177,168 per year. The amount SEK 3,181,536 shall be adjusted in accordance with the Income Base amount (defined in accordance with Chapter 1 § 6 of the law (1998:674) on income-based retirement pension). The defined benefit pension is gradually earned according to the principles generally applied within the company. The pension is thereafter not conditioned upon future employment. In addition thereto, AB SKF shall pay a yearly premium corresponding to 35% of the difference between Tom Johnstone's fixed annual salary and the amount on which Tom Johnstone's defined benefit pension is calculated as described above. This part of Tom Johnstone's pension is a defined contribution pension and vested. The 2007 cost for Tom Johnstone's total pension benefits was recorded in the amount of SEK 3,206,498. The remuneration to the Chief Executive Officer did not include any stock option entitlements. Tom Johnstone held in the beginning of 2007, from earlier allocations according to the AB SKF Stock Option Programme, described below, stock options allowing him to acquire 90,731 existing SKF B shares. Tom Johnstone has not exercised any stock options during the year and, thus, holds at the end of the year stock options allowing him to acquire 90,731 existing SKF B shares. In the event of termination at the request of AB SKF, Tom Johnstone will receive severance payments amounting to maximum two years' salary.

Group Management

SKF's Group management (exclusive of the Chief Executive Officer), consisting of 12 people at the end of the year, received in 2007, salary and other remunerations amounting to a total of SEK 64,155,178, of which SEK 34,619,104 was fixed annual salary and SEK 14,213,645 was variable salary for 2006 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 SKF management model which is a simplified economic value-added model called Total Value Added; TVA (see "Financial objectives and dividend policy" for description).

The variable salary for 2006 and paid in 2007 only considered the short-term part. The variable salary for 2006 including both the short-term and the long-term part could amount to a maximum percentage of the fixed annual salary for year 2006. The percentage is linked to the position. The remuneration to Group management included SEK 12,733,646 related to options exercised under Stock option programmes 2001-2003, but did not include any new stock option entitlements. Group management held in the beginning of 2007, from earlier allocations according to the AB SKF Stock Option Programme, stock options allowing them to acquire 257,703 existing SKF B shares. Group management has during the year exercised stock options corresponding to 161,888 existing SKF B shares and holds at the end of the year stock options allowing them to acquire 95,815 existing SKF B shares. In the event of termination of employment at

the request of AB SKF of a person in Group management, that person will receive a severance payment amounting to a maximum of two years' salary.

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

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

Salaries and other remunerations to Key Management						
All amounts in SEK	Amounts received					Gross pension costs ²⁾
	Fixed salary/ fixed Board remuneration	Variable salary/ variable Board remuneration ¹⁾	Remuneration for committee work	Exercised options under Stock option programmes 2001-2003	Other benefits	
Board of Directors of AB SKF						
Anders Sharp	800,000	440,640	135,000			
Leif Östling	550,000	330,480	60,000			
Vito H Baumgartner	275,000	165,240	60,000			
Ulla Litzén	275,000	165,240	75,000			
Clas Åke Hedström	275,000	165,240	150,000			
Winnie Fok	275,000	165,240	75,000			
Eckard Cordes	275,000	165,240				
Hans-Olov Olsson	137,500					
Lena Treschow Torell	137,500					
Chief Executive Officer	7,381,998	3,600,000			626,981	3,206,498
Group Management ³⁾	34,619,106	14,213,645		12,733,646	2,588,781	11,964,823
whereof Parent Company	23,075,493	8,346,582		6,107,782	2,213,814	9,968,242
Total received by key management ⁴⁾	45,001,104	19,410,965	555,000	12,733,646	3,215,762	–
whereof Parent Company	33,457,491	13,543,902	555,000	6,107,782	2,840,795	–
Total expensed for key management ⁴⁾	47,359,605	24,768,734	555,000	9,446,483	3,215,762	15,171,321
whereof Parent Company	35,815,992	17,918,916	555,000	6,107,782	2,840,795	13,174,740

¹⁾ Variable Board remuneration was decided in year 2006, but paid in year 2007. The value of the SKF B share has been determined to SEK 137.70 based on the average latest payment rate according to the quotations on the OMX Nordic Exchange Stockholm during the five trading days after the publication of the company's press release for the financial year 2006.

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

³⁾ Includes managers who 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.

⁴⁾ Differences between amounts received and amounts expensed relate to benefits which are paid out in a year other than the year that the benefit was earned. Amounts relate primarily to accrued short-term and long-term variable salary, board remunerations including amounts based on value of SKF B shares, accrued vacations and accumulated leaves. A further difference relates to the Stock option programme 2001-2003 when only options granted 2001 and 2002 are expensed when exercised. See Note 1 for a description of the accounting for share based payments.

27 Remuneration to Key Management (cont.)

AB SKF's Stock option programme

The Stock option programme started in 2000 and grants were made from 2001 until 2003. Since 2004, the remuneration to the SKF Group managers does not include any allocations of stock options. Accordingly, SKF Group managers did not receive any stock options in relation to the 2007 performance.

The allocation of options under the Stock option programme was based on financial performance defined as the Group's management model TVA and varied from year to year depending on whether the financial targets were totally or partly reached. The options under the Stock option programme, which were granted free of charge, are not assignable or transferable and are linked to employment with the SKF Group. The options are valid during a period of six years and are exercisable two years from the date of grant, provided the option holder is still employed with the SKF Group.

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

Costs and exercise of the Stock option programme

In 2007, the costs at exercise of options allocated in 2001 and 2002 under the Stock option programme, excluding social charges, amounted to SEK 58 m (46) of which SEK 9 m (6) related to key management.

At the end of 2007, exercisable stock options granted in 2002 entitling the holders to acquire 263,776 existing SKF B shares had not yet been utilized. Based on the share price for the SKF B share at 31 December 2007, SEK 109.50, and the exercise prices of the underlying shares, the unrealized cost for the SKF Group, excluding social charges, could be estimated to SEK 15 m (69). The cost was not recognized in the income statement of the Group. The future actual cost

for the Group will, however, be determined by the price of the SKF B share at exercise date.

The initial fair value at grant date of the Stock option programme allocated in 2003, was expensed during the vesting period, which ended in February 2005, see Note 1. The expense for 2005 and 2004 amounted to SEK 1 m and SEK 14 m, respectively. As the financial institution's acquisitions of SKF B shares represent, from an accounting perspective only, a repurchase of treasury shares in accordance with IAS 32, the difference in exercise price and share price is recorded as a decrease in equity when these options are exercised. The decrease amounted in 2007 to SEK 40 m (25) of which SEK 3 m (2) related to key management.

At the end of 2007, exercisable stock options granted in 2003 entitling the holders to acquire 1,036,519 existing SKF B shares had not yet been utilized. Based on the price of the SKF B share at 31 December 2007, SEK 109.50, and the exercise price of the underlying shares, the unrealized fair value was estimated to SEK 62 m (105), excluding social charges. The amount was not recognized as a decrease of equity in 2007. The future actual fair value will be determined by the price of the SKF B share at exercise date.

A provision amounting to SEK 13 m (24) has been recorded for social charges payable by the employer when stock options are exercised. A reversal of the provision increased the result with SEK 5 m in 2007. In 2006, an expense was recognized and amounted to SEK 1 m. The social charges have been calculated for all outstanding options at 31 December 2007. The costs recognized for administration and consultancy fees were SEK 1 m (1).

Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF were granted an allotment corresponding to 14,000 SKF B shares (11,600) by the Annual General Meeting of Shareholders in April 2007. The value of the SKF B share will be set at the average latest payment rate quoted on the OMX Nordic Exchange Stockholm during the five trading days following the publication of the SKF Group's press release for the financial year. The liability incurred is recognized over the vesting period and amounted to SEK 2 m (2), including social charges, based on the price of the SKF B share on 31 December 2007, SEK 109.50.

Specification of AB SKF's Stock option programme

	No. of options allocated	No. of people	Exercise price SEK	Theoretical value at allocation SEK	Exercise period	Out-standing options ¹⁾ 1 Jan.	Forfeited total (of which during the year)	Exercised during the year	Average price SEK	Outstanding options ¹⁾ 31 Dec.	SKF B share Closing price 31 Dec.
Grant 2001											
2007	1,872,037	183	37.37	9.82	2003-07	158,354	123,315 (18,724)	139,630	122.00	–	109.50
2006	1,872,037	183	37.37	9.82	2003-07	412,923	97,803 (2)	264,843	120.00	148,078	126.50
Grant 2002											
2007	2,747,285	271	52.83	10.75	2004-08	850,580	171,823 (0)	586,804	132.00	263,776	109.50
2006	2,747,285	271	52.83	10.75	2004-08	1,211,624	160,672 (0)	416,243	117.00	795,381	126.50
Grant 2003											
2007	3,776,672	330	50.04	8.65	2005-09	1,545,650	214,163 (9,261)	499,870	131.00	1,036,519	109.50
2006	3,776,672	330	50.04	8.65	2005-09	1,836,920	191,604 (0)	391,576	120.50	1,445,344	126.50

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

28 Fees to the auditors

<i>Fees to SKF Group statutory auditors were split as follows (SEKm)</i>	2007	2006
Audit fees	33	46
Audit related fees	7	0
Tax fees	2	2
Other fees to auditors	0	2
	42	50
<i>The Parent company's share (SEKm)</i>		
Audit fees	10	9
Audit related fees	0	0
Tax fees	0	0
	10	9

Auditing assignments involve examination of the annual report and financial accounting and the administration by the Board and the President, other tasks related to the duties of a company auditor and consultation or other services that may result from observations noted during such examination or implementation of such other tasks.

All other tasks are defined as other assignments. At the Annual General Meeting of Shareholders in 2005, KPMG Bohlin AB was elected auditor for AB SKF until the Annual General Meeting of Shareholders in 2009.

29 Average number of employees

	2007		2006	
	Number of employees	Whereof men	Number of employees	Whereof men
Parent company in Sweden	195	57%	169	56%
Subsidiaries in Sweden	2,978	82%	2,910	83%
Subsidiaries abroad	38,472	79%	36,701	80%
	41,645	79%	39,780	80%

<i>Geographic specification of average number of employees in subsidiaries abroad</i>	2007		2006	
	Employees	Whereof men	Employees	Whereof men
France	4,257	83%	3,966	83%
Italy	4,580	79%	4,643	80%
Germany	5,859	87%	6,051	88%
Other Western Europe excluding Sweden	4,067	83%	3,856	83%
Central/Eastern Europe	3,394	62%	3,318	63%
USA	4,759	72%	4,539	73%
Canada	240	75%	229	78%
Latin America	2,569	82%	2,248	83%
Asia	8,349	81%	7,228	80%
Middle East and Africa	398	79%	623	79%
	38,472	79%	36,701	80%

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.

The Group also has a policy for the management of financial risks involved in the stock options allocated in 2001-2003. The expense for the Stock option programme (see Note 27) has been partially offset by share swap arrangements.

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 52,000 m (49,300) to SEK 5,700 m (4,990). This amount represented the Group's main transaction exposure excluding hedges.

For the commercial foreign exchange exposure, the SKF Group is primarily exposed to USD and USD-related currencies, as shown in the table below. Therefore the sensitivity analysis regarding net currency flows is based on USD only. The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered.

<i>Net currency flows (SEKm)</i>	2007	2006
USD	4,200	3,970
CAD	360	400
EUR	-400	-200
Other ¹⁾	1,540	820
SEK	-5,700	-4,990

¹⁾ Other is a sum comprising some 14 different currencies.

A sensitivity analysis based on the assumption that the net currency flows in USD will be the same for 2008 shows that an unfavorable change of 10% in the SEK against the USD would have a negative effect on profit before taxes of approximately SEK 390 m (371), including the effects of hedging transactions. At year end, the outstanding hedges covered approximately 6 (3) months of net USD flows.

The sensitivity analysis based on the outstanding positions at 31 December shows that profit before taxes for the year would have increased by SEK 2 m (-76) and decreased by SEK -2 m (2) if SEK had strengthened and weakened, respectively, by 10% against all other currencies. The corresponding effect on the hedge reserve in shareholders equity would have been an increase/decrease by SEK 160 m (34) and SEK -169 m (-34), respectively.

Translation exposure

Translation exposure is defined as the Group's exposure to currency risk arising when translating the results and net assets of foreign subsidiaries to Swedish kronor. In accordance with Group policy, these translation effects on the Group's accounts are not hedged.

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 7,735 m (8,053) and total interest bearing financial assets amounted to SEK 4,540 m (9,611). Liquidity management and borrowing is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced. The objective of the SKF Group is to have a relatively short interest duration on the interest bearing assets and liabilities. At year end the duration was 3 months (3 months).

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.

The large holding of interest bearing assets and loans at year end 2006 was unrepresentative for the year since EUR 500 m was borrowed in December 2006 and mostly paid out as dividend and share redemption in May and June 2007. As a consequence, the sensitivity analysis for 2006 is adjusted to only reflect one month's exposure regarding the EUR 500 m bond. At 31 December 2007, given the prevailing net amount of interest bearing financial assets and interest bearing financial liabilities of SEK -3,195 m (1,558) and duration of 9 months, an unfavorable change of the interest rates for the year by 1% would have reduced post-tax profit for the year by SEK 53 m (8).

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 577 m (243), which are categorized as available for sale. If the market share prices had been 10% higher/lower at 31 December, shareholders' equity would have increased/decreased by SEK 58 m (24).

Liquidity risk

Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter if difficulties occur in raising funds to

meet commitments. Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. In addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks at 31 December 2007. These facilities, which are unutilized, will expire in 2014. A good rating is important in the management of liquidity risks. The long-term rating of the Group by Standard & Poor's and Moody's Investor Service is A- and A3 respectively, both with a stable outlook.

The following tables show the Group's contractually agreed (undiscounted) interest payments and repayments of the non-derivative financial liabilities and the derivatives with payment outflows:

SEKm	Carrying amount	Gross nominal inflow/outflow	Cash flow			
			2008	2009	2010-2012	2013 and thereafter
Bond loans						
EUR 28 m	-269	-276	-276	–	–	–
EUR 250 m	-2,176	-2,551	-74	-74	-2,403	–
EUR 500 m	-4,616	-5,957	-204	-204	-613	-4,936
Other loans	-674	-742	-472	-93	-129	-48
Accounts payable	-4,904	-4,904	-4,904	–	–	–
Derivatives with payment outflows						
Currency forwards: outflows	-23	-14,115	-14,115	–	–	–
Currency forwards: inflows		14,092	14,092	–	–	–
Currency and interest rate swaps: outflows	25	-9,269	-1,092	-351	-3,074	-4,752
Currency and interest rate swaps: inflows		9,301	1,055	273	3,040	4,933
Embedded derivatives: outflows	1	-730	-577	-66	-70	-17
Embedded derivatives: inflows		731	583	64	67	17
		-14,420	-5,984	-451	-3,182	-4,803

All instruments held at 31 December, 2007 and for which payments were already contractually agreed were included. Planning data for future, new liabilities was not included. Amounts in foreign currency were each translated at the closing rate at the reporting date. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before 31 December, 2007. Financial liabilities that can be repaid at any time are always assigned to the earliest possible time period.

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 14,915 m (18,685). 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.

With respect to the financial assets that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

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 2007 and 2006 financial years. Fixed-interest bonds with the amount of EUR 750 m (EUR 750 m) denominated in EUR were designated as hedged items. The changes in the fair values of the hedged items resulting from changes in the Euribor rate 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 effectiveness of the hedging relationship is prospectively tested using the critical terms match method. An effectiveness test is carried out retrospectively at each balance sheet date using the dollar-offset method. The dollar-offset method compares past changes in the fair value of the hedged item expressed in currency units with past changes in the fair values of the used derivatives expressed in currency units. The changes in the fair value of the two transactions are calculated on the basis of the outstanding cash flows at the beginning and end of the test period and are adjusted for accrued interest. All hedging relationships were effective within the range of the ratios of the two past changes in value (between 80 and 125 percent). When the effectiveness was being measured, the change in the credit spread was not taken into account for calculating the change in the fair value of the hedged item.

As the list of the fair values of derivatives shows (see table in the Derivatives section), the Group had designated interest rate derivatives with a net amount of SEK 23 m (-192) as fair value hedges as of 31 December, 2007. The remeasurement of the hedged items resulted in gains of SEK 102 m (130) being recorded in interest expense during the year; the changes in the fair values of the hedging derivatives resulted in losses of SEK -107 m (-133) being recorded on the same line, interest expense.

Cash flow hedges

During 2007, forward exchange contracts and currency options were the derivative financial instruments used by the Group to hedge its foreign currency rate exposure.

The Group's cash flow hedges are only hedges of forecasted sales against foreign currency risks arising from spot rate changes. The hedged items designated in 2007 as well as 2006 were highly probable U.S. dollar sales.

The following table shows the contractual maturities of the hedging instruments and when the hedged item will be recognized in profit or loss:

Nominal amount (USDm)	Maturity	Effect in profit and loss
2	January, 2008	January, 2008
43	February, 2008	May, 2008
2	February, 2008	February, 2008
35	March, 2008	June, 2008
2	March, 2008	March, 2008
50	April, 2008	July, 2008
2	April, 2008	April, 2008
2	May, 2008	May, 2008
2	June, 2008	June, 2008
2	July, 2008	July, 2008
2	August, 2008	August, 2008
2	September, 2008	September, 2008
2	October, 2008	October, 2008
2	November, 2008	November, 2008
150		

In the 2007 financial year, gains totaling SEK 55 m (156) resulting from the change in the fair values of currency derivatives were taken directly to equity (hedging reserve). These changes constitute the effective portion of the hedging relationship. During the year gains of SEK 72 m (135) were transferred from equity (hedging reserve) to net sales. In 2006, a gain of SEK 11 m was transferred from equity into operating profit and a loss of SEK 51 m was reclassified and recognised as financial expense because the hedge designation was revoked. There was no material ineffectiveness of these hedges recorded as of the balance sheet date. A list of the fair values of derivatives is shown in the table in the Derivatives section below.

Derivatives

The following table shows the fair values of the various derivatives carried as at 31 December. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, cash flow hedge) or not. Other derivatives can also be embedded (i.e., a component of a hybrid instrument that contains a non-derivative host contract).

Derivatives (SEKm)	Category	2007	2006
Interest rate and currency swaps			
used for economic hedging	Trading	2	-
used for fair value hedging	Hedge accounting	23	-192
Currency forwards/currency options			
used for economic hedging and trading	Trading	-12	93
used for cash flow hedging	Hedge accounting	-2	-4
Share swaps	Trading	86	164
Electricity derivatives	Trading	7	-
Embedded derivatives	Trading	1	-4
		105	57

31 Men and women in Management and Board

	2007		2006	
	Number of persons	Whereof men	Number of persons	Whereof men
The Group				
Board of Directors of the Parent company incl. President	12	75%	10	80%
Group Management incl. President	13	85%	12	83%

	2007		2006	
	Number of persons	Whereof men	Number of persons	Whereof men
Parent Company				
Board of Directors of the Parent company incl. President	12	75%	10	80%
Group Management incl. President	10	80%	9	78%

32 Events after the balance sheet date

The significant events that have occurred after 31 December 2007, until the date of the signing of this annual report on 31 January 2008 refer to:

- The Board of Directors proposes an increase in the dividend of 11.1%, giving a dividend of SEK 5.00 per share. The Board of Directors also proposes a share split 2:1 combined with an automatic redemption procedure. Through this procedure the shareholders will receive one new ordinary share and one redemption share, which will be automatically redeemed for SEK 5.00. The proposal means that SEK 2,277 m will be distributed to the shareholders, in addition to the proposed dividend distribution. The total distribution to shareholders will be SEK 4,554 m;
- The Board of Directors proposes that the Annual General Meeting resolves to authorize the Board, until the next Annual General Meeting, to decide upon the repurchase of the company's own shares. If shares are repurchased, the Board intends to cancel such own shares through reduction of the share capital. These proposals are subject to resolutions by the Annual General Meeting in April 2008;
- The Group's income and balance sheets, as well as the Parent Company's income and balance sheets, are subject to approval at the Annual General Meeting in April 2008.

Parent Company income statements

SEKm	Note	Years ended 31 December	
		2007	2006
Net sales	1	1,648	1,439
Cost of services provided	5, 9, 15	-1,648	-1,439
Gross profit		0	0
Administrative expenses	5, 9, 15	-324	-326
Other operating income		7	22
Other operating expenses		-1	-9
Operating loss		-318	-313
Financial income	2	3,064	9,191
Impairment loss of financial assets	2	-135	-324
Financial expenses	2	-743	-365
Profit before provisions to untaxed reserves and taxes		1,868	8,189
Provisions to untaxed reserves	3	-245	-315
Taxes	4	111	165
Net profit		1,734	8,039

Parent Company balance sheets

SEKm	Note	As of 31 December	
		2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	5	11	11
Investments in subsidiaries	6	10,214	9,469
Long-term receivables from subsidiaries		7,291	7,335
Investments in jointly controlled and associated companies	6	10	45
Investments in equity securities	7	588	264
Deferred tax assets	4	32	44
Other long-term assets		–	313
		18,146	17,481
Current assets			
Short-term receivables from subsidiaries		1,839	5,174
Other short-term assets	8	245	212
Cash and bank accounts		4	7
		2,088	5,393
Total assets		20,234	22,874
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES			
Shareholders' equity			
Restricted equity			
Share capital (455,351,068 shares, quota value SEK 2.50 per share)		1,138	1,138
Statutory reserve		918	918
Unrestricted equity			
Retained earnings		5,125	2,558
Net profit		1,734	8,039
		8,915	12,653
Untaxed reserves	3	1,120	875
Provisions			
Provisions for pensions and similar commitments	9	133	122
		133	122
Non-current liabilities			
Long-term loans	10	7,072	7,015
Long-term liabilities to subsidiaries		14	817
		7,086	7,832
Current liabilities			
Short-term loans	11	268	665
Trade payables		27	41
Short-term liabilities to subsidiaries		2,392	321
Tax payables		77	140
Other short-term liabilities	12	216	225
		2,980	1,392
Total shareholders' equity, provisions and liabilities		20,234	22,874
Assets pledged	13	0	0
Contingent liabilities	14	3	3

Parent Company statements of cash flow

SEKm	Years ended 31 December	
	2007	2006
Operating activities		
Profit before provisions to untaxed reserves and taxes	1,868	8,189
<i>Adjustments for</i>		
Depreciation, amortization and impairment loss	138	351
Net gain(-) on sales of property, plant and equipment	0	-5
Net gain(-) on sales of equity securities	-252	-4,671
Income taxes paid	-266	-172
Pensions paid	-47	-48
<i>Changes in working capital</i>		
Trade payables	-14	14
Other operating assets and liabilities, net	6,482	-3,081
Net cash flow from operating activities	7,909	577
Investment activities		
Additions to property, plant and equipment	-1	0
Sales of property, plant and equipment	0	6
Investments in subsidiaries	-791	-175
Sales of equity securities	0	5,170
Change in other long-term assets and liabilities, net	-139	-7,621
Net cash flow used in investment activities	-931	-2,620
Net cash flow after investments before financing	6,978	-2,043
Financing activities		
Proceeds from medium- and non-current loans	0	4,516
Repayment of medium- and non-current loans	0	-650
Change in current loans	-378	0
Cash dividends to shareholders	-2,049	-1,821
Redemption of shares	-4,554	-
Net cash flow used in financing activities	-6,981	2,045
Increase(+)/decrease(-) in cash and cash equivalents	-3	2
Cash and cash equivalents at 1 January	7	5
Cash and cash equivalents at 31 December	4	7

<i>Change in net interest-bearing liabilities (SEKm)</i>	2007 Closing balance	Exchange rate effect	Change in items	2007 Opening balance
Loans, long and short term	7,340	325	-665	7,680
Provisions for pensions and similar commitments	133	-	11	122
Liabilities to subsidiaries, long and short term	2,179	-	1,249	930
Receivables from subsidiaries, long and short term	-7,291	-310	2,753	-9,734
Other long-term assets	-	-	300	-300
Financial assets, short term	-4	-	3	-7
Net interest-bearing liabilities	2,357	15	3,651	-1,309

Interest received amounted to SEK 375 m (199). Interest payments amounted to SEK 398 m (342).

Parent Company statements of changes in shareholders' equity

SEKm	Share capital ¹⁾	Statutory reserve	Other restricted reserves	Unrestricted equity	Total
Opening balance 1/1/2006	1,138	918	7	3,230	5,293
Dividend	–	–	–	-1,821	-1,821
Exercise of share options	–	–	–	-24	-24
Change in fair value of investments in equity securities	–	–	-7	29	22
Net of received and paid Group contributions	–	–	–	1,589	1,589
Tax on Group contributions, net	–	–	–	-445	-445
Net profit	–	–	–	8,039	8,039
Closing balance 31/12/2006	1,138	918	–	10,597	12,653
Dividend	–	–	–	-2,049	-2,049
Redemption of shares	-569	–	–	-3,985	-4,554
Bonus issue	569	–	–	-569	–
Exercise of share options	–	–	–	-40	-40
Change in fair value of investments in equity securities	–	–	–	332	332
Net of received and paid Group contributions	–	–	–	1,165	1,165
Tax on Group contributions, net	–	–	–	-326	-326
Net profit	–	–	–	1,734	1,734
Closing balance 31/12/2007	1,138	918	–	6,859	8,915

¹⁾ The distribution of share capital between share types is shown in Note 18 to the consolidated financial statements.

Restricted equity

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

Unrestricted equity

<i>Unrestricted equity includes (SEKm)</i>	2007	2006
Retained earnings	4,764	2,529
Investment revaluation reserve	361	29
Net profit	1,734	8,039
	6,859	10,597

Unrestricted equity include accumulated net profits which can be distributed to shareholders.

Notes to the financial statements of the Parent Company

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2006.

1 Accounting policies

The financial statements of the Parent company are prepared in accordance with the "Annual Accounts Act" and Swedish Financial Accounting Standards Council recommendation RR 32:06, "Accounting for Legal Entities" and statements of Emerging Issues Task Force.

In accordance with RR 32:06, 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.

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

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

The tax legislation in Sweden allows companies to make provisions to untaxed reserves. Hereby, the companies may, with certain limits, allocate and retain profits in the balance sheet instead of immediate taxation. The untaxed reserves are taken into taxation at the time of their dissolution. In the event that the business shows losses, the untaxed reserves may be dissolved in order to cover the losses without any taxation. Group Contributions are reported in accordance with Emerging Issues Task Force (Swedish Financial Accounting Standards Council) URA 7.

2 Financial income, impairment of financial assets and financial expenses

SEKm	2007	2006
Financial income		
Dividends from investments in subsidiaries	2,073	2,810
Other income from investments in subsidiaries	192	4,673
Income from investments in jointly controlled and associated companies	86	1,502
Income/expense from other equity securities and non-current interest investments	663	179
Other interest income and similar items	50	27
	3,064	9,191
Impairment loss of financial assets		
Investments in subsidiaries	-139	-324
Investments in associated companies	4	0
	-135	-324
Financial expenses		
Interest expense and similar items related to subsidiaries	-92	-179
Other financial expense	-651	-186
	-743	-365

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

Provisions to untaxed reserves (SEKm)	2007	2006
Change in tax allocation reserves	-245	-315
	-245	-315
Untaxed reserves (SEKm)		
Accelerated depreciation reserve	2	2
Tax allocation reserves	1,118	873
	1,120	875

4 Taxes

<i>Taxes on profit before taxes (SEKm)</i>	2007	2006
Current taxes	-203	-271
Tax on Group contribution	326	445
Deferred taxes	-12	-9
	111	165

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

<i>Net deferred taxes per type (SEKm)</i>	2007	2006
Provisions for pensions and other similar commitments	20	24
Other	12	20
Deferred tax assets	32	44

Corporate income tax

The corporate statutory income tax rate in Sweden was 28% in 2007 and 2006.

<i>Reconciliation of the statutory tax in Sweden and the actual tax (SEKm)</i>	2007	2006
Tax calculated on statutory tax rate in Sweden	-454	-2,205
Non-taxable dividends and other financial income	648	2,521
Current tax referring to previous years	4	-7
Non-deductible/taxable profit items, net	-87	-144
Actual tax	111	165

5 Property, plant and equipment

SEKm	2007 Closing balance	Additions	Disposals	2007 Opening balance
<i>Acquisition cost</i>				
Buildings	9	0	0	9
Land and land improvements	2	–	0	2
Machine toolings, factory fittings, etc.	11	1	0	10
	22	1	0	21

	2007 Closing balance	Depreciation	Disposals	2007 Opening balance
<i>Accumulated depreciation</i>				
Buildings	2	0	0	2
Land and land improvements	0	–	0	0
Machine toolings, factory fittings, etc.	9	1	0	8
	11	1	0	10

Net book value

Depreciation is included in administrative expenses.

Tax value of real estate

Land and land improvements	2	–	–	2
Buildings	5	–	–	5
	7	–	–	7

6 Investments in subsidiaries, jointly controlled and associated companies

Investments in subsidiaries are specified below. For a specification of investments in jointly controlled and associated companies held by the Parent company, see Note 12 to the consolidated financial statements.

<i>Investments in subsidiaries held by the Parent company on 31 December (SEKm)</i>	2007	Additions	Impairments	Disposals and capital repayments	2006
Investments in subsidiaries	10,214	1,053	-137	-171	9,469
<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	Book value
Manufacturing companies					
SKF USA Inc., Pa., USA	99.9	1,522,651	USD	76	862
SKF Österreich AG, Austria	100	200	EUR	15	176
SKF GmbH, Germany	0.1	–	EUR	0	2
SKF Española S.A., Spain	100	3,650,000	EUR	22	501
SKF Polska Spółka Akcyjna, Poland	90.6	3,353,130	PLN	67	153
SKF Bearings Bulgaria EAD, Bulgaria	100	2,376,230	BGN	2	47
SKF Ukraine, Ukraine	99.7	481,829,623	UAH	104	133
SKF Actuators AB, Göteborg, Sweden	100	1,000	SEK	1	7
SKF do Brasil Limitada, Brazil	99.9	237,130,248	BRL	237	538
SKF Argentina S.A., Argentina	99.9	553,507	ARS	1	17
SKF India Ltd., India	46.7	24,639,048	INR	246	94
SKF Couplings Systems AB, Hofors, Sweden	100	75,000	SEK	8	259
SKF Sealing Solutions AB, Landskrona, Sweden	100	10,000	SEK	1	27
SKF Transmission AB, Jönköping, Sweden	100	16,000	SEK	2	2
SKF Automotive Components Corporation, Republic of Korea	100	3,035,350	KRW	15,177	74
SKF Sealing Solutions Korea Co., Ltd., Republic of Korea	51.0	153,320	KRW	1,533	15
PT. SKF Indonesia, Indonesia	84.2	74,930	IDR	74,930	34
SKF de Mexico S.A. de C.V., Mexico	32.3	108,224,966	MXN	108	65
SKF Technologies (India) Private Limited, India	78.3	626,500,101	INR	627	58
Sales companies					
SKF Danmark A/S, Denmark	100	5	DKK	5	0
SKF Norge A/S, Norway	100	50,000	NOK	5	0
Oy SKF Ab, Finland	100	48,400	EUR	2	12
SKF NV/SA, Belgium	100	167,587	EUR	3	97
SKF Portugal-Rolamentos, Lda., Portugal	95.0	–	EUR	0	4
SKF Ložiska, a.s., Czech Republic	100	430	CZK	43	10
SKF Svéd Golyóscsapágy Zrt., Hungary	100	3,000	HUF	1	0
SKF Canada Limited, Canada	76.9	100,000	CAD	–	0
SKF del Peru S.A., Peru	100	2,565,160	PES	3	0
SKF Chilena S.A.I.C., Chile	100	88,192	CLP	468	0
SKF Venezolana S.A., Venezuela	100	194,832	VEB	195	0
SKF South East Asia & Pacific Pte Ltd., Singapore	100	1,000,000	SGD	1	0
PT. Skefindo Primatama, Indonesia	5.0	5	IDR	5	1
SKF Pakistan Private Limited, Pakistan	100	1,781,293	PKR	18	2
SKF New Zealand Limited, New Zealand	100	375,000	NZD	1	0
SKF Lubrication Competence Center Nordic Region AB, Linköping, Sweden	100	1,000	SEK	0	8
SKF Eurotrade AB, Göteborg, Sweden	100	83,500	SEK	8	12
SKF Multitec AB, Helsingborg, Sweden	100	29,500	SEK	3	5
Monitoring Control Center MCC AB, Kiruna, Sweden	67.5	3,375	SEK	0	1
SKF Condition Monitoring Center (Luleå) AB, Luleå, Sweden	100	5,000	SEK	1	10
Carried forward					3,226

6 Investments in subsidiaries, jointly controlled and associated companies (cont.)

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	Book value
Carried forward					3,226
Other Companies					
SKF (U.K.) Corporate Holdings Ltd., United Kingdom	20.0	6,965,000	GBP	7	120
SKF Holding Maatschappij Holland B.V., The Netherlands	100	60,002	EUR	27	5,042
SKF Engineering & Research Services B.V., The Netherlands	13.4	121	EUR	0	8
SKF Verwaltungs AG, Switzerland	100	500	CHF	0	502
SKF Holding Mexicana, S.A. de C.V., Mexico	98.0	2,268,763	MXN	2	120
SKF (China) Investment Co. Ltd., Peoples Republic of China	100	–	USD	85	602
Barseco (Pty) Ltd., South Africa	100	300	ZAR	0	62
SKF Australia (Manufacturing) Pty. Ltd., Australia	100	1,000,000	AUD	2	0
SKF (Thailand) Ltd, Thailand	92.4	1,847,000	THB	185	37
Scandrive Control AB, Göteborg, Sweden	100	5,000	SEK	1	8
SKF International AB, Göteborg, Sweden	100	20,000	SEK	20	320
Återförsäkringsaktiebolaget SKF, Göteborg, Sweden	100	30,000	SEK	30	80
SKF Förvaltning AB, Göteborg, Sweden	100	125,000	SEK	13	40
SKF Fondförvaltning AB, Göteborg, Sweden	100	10,000	SEK	1	1
Bagaregården 16:7 KB, Göteborg, Sweden	99.9	–	SEK	46 ¹⁾	46
Other holdings					0
					10,214

¹⁾ As the nominal value, the Parent company's share of the equity in the limited partnership company is disclosed.

Investments in major SKF subsidiaries held by other subsidiaries

<i>Name and location</i>	Holding in percent	Owned by subsidiary in:
SKF GmbH, Schweinfurt, Germany	99.9	The Netherlands
SKF Industrie S.p.A, Turin, Italy	100	The Netherlands
SKF France S.A., Montigny-le-Bretonneux, France	100	France
Société de Mécanique S.A, Vernon, France	99.4	France
SKF (U.K.) Ltd., Luton, U.K.	100	United Kingdom
SKF China Ltd., Hong Kong, China	100	Hong Kong
SKF India Ltd., Mumbai, India	0.4	Sweden
SKF India Ltd., Mumbai, India	6.5	United Kingdom
Officine Meccaniche di Villar Perosa S.r.l., Villar Perosa, Italy	100	Italy
RFT S.p.A., Turin, Italy	100	Italy
Willy Vogel AG, Berlin, Germany	100	Germany
SKF Aerospace France, Saint-Vallier-sur-Rhône, France	100	France
SKF Argentina S.A., Buenos Aires, Argentina	10.1	Austria
SKF de Mexico S.A. de C.V., Puebla, Pue, Mexico	67.6	Mexico
SKF Canada Ltd., Scarborough, Canada	23.1	The Netherlands
SKF Sealing Solutions GmbH, Leverkusen-Opladen, Germany	100	Germany
SKF Bearing Industries (Malaysia), Sdn.Bhd., Nilai, Malaysia	100	The Netherlands
SKF Linearsysteme GmbH, Schweinfurt, Germany	100	Germany
SKF Japan Ltd., Tokyo, Japan	100	The Netherlands
SKF B.V., Nieuwegein, The Netherlands	100	The Netherlands
SKF Bearing Services Taiwan Ltd., Taipei, Taiwan	100	The Netherlands
SKF Sverige AB, Göteborg, Sweden	100	Sweden
SKF Mekan AB, Katrineholm, Sweden	100	Sweden
Economos Austria GmbH, Judenburg, Austria	100	Austria
SNFA SA, Valenciennes, France	100	France
SKF Polyseal Inc., Salt Lake City, USA	51.0	USA
Jaeger Industrial Co, Ltd., Taipei, Taiwan	100	Taiwan
ABBA Linear Technology Co, Ltd., Taipei, Taiwan	99.3	Taiwan
Dalian SKF Wazhou Bearings Co, Ltd, Wufangtium, Peoples Republic of China	51.0	Peoples Republic of China
Beijing Nankou SKF Railway Bearings Co, Ltd., Peking, Peoples Republic of China	51.0	Peoples Republic of China
SKF Sealing Solution (Wuho) Co. Ltd., Anhui, Peoples Republic of China	100	Peoples Republic of China

7 Investments in equity securities

<i>Name and location</i>	Holding in percent	Number of shares	Currency	Nominal value in local currency, millions	Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	CNY	79	535
NN, Inc., USA	4.5	700,000	USD	7	43
Other shares and securities					10
					588

8 Other short-term assets

SEKm	2007	2006
Other current receivables	216	166
Prepaid expenses and accrued income	29	46
	245	212

9 Provisions for pensions and similar commitments

<i>Amount recognised in the balance sheet (SEKm)</i>	2007	2006
Present value of unfunded pension obligations	119	113
Present value of funded pension obligations	144	134
Less: Fair value of plan assets	-130	-125
Net provisions for pensions and similar commitments	133	122

For description of pension benefits, see Note 20 to the consolidated financial statements.

<i>Components of pension expense (SEKm)</i>	2007	2006
Pension cost excluding interest cost	6	5
Interest cost	5	4
Return on assets	-5	-5
Pension insurance premiums	47	44
Total pension expense	53	48

10 Long-term loans

SEKm	2007		2006	
	Book value	Fair value	Book value	Fair value
Bonds and debentures	7,072	6,850	7,015	6,837

The current portion of long-term loans is included in short-term loans, see Note 11. Fair value has been calculated by discounting

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

<i>Long-term loans outstanding at 31 December, per currency</i>	2007		2006
	Amount	Interest rate %	Amount
EUR	7,072	3.00 - 4.25	7,015
	7,072		7,015

The long-term bond loans in EUR consist of SEK 4,714 m which has a fixed interest rate until maturity in 2013 and SEK 2,358 m which has

a fixed interest rate until maturity in 2010.

11 Short-term loans

SEKm	2007	2006
Current portion of long-term loans	268	665

12 Other short-term liabilities

SEKm	2007	2006
Other short-term liabilities	6	8
Accrued expenses and deferred income	210	217
	216	225

Accrued expenses and deferred income include accrued interest of SEK 46 m (68).

13 Assets pledged

SEKm	2007	2006
Current financial receivables	0	0

14 Contingent liabilities

SEKm	2007	2006
Guarantees in respect of subsidiaries' obligations	0	0
Other guarantees and contingent liabilities	3	3
	3	3

See Note 25 to the consolidated financial statements for information on other commitments related to the jointly controlled entity Oy Ovako Ab.

15 Salaries, wages, other remunerations, average number of employees and men and women in Management and Board

For the average number of employees – see Note 29 to the consolidated financial statements. For men and women in management and on the Board – see Note 31 to the consolidated financial statements.

For information regarding other benefits to the Board and President and fees for statutory auditors – see Note 27 and 28 to the consolidated financial statements.

SEKm	2007	2006
Salaries, wages and other remuneration	228	186
Social charges (whereof pension cost)	130 (53)	96 (48)

16 Absence due to illness

	2007	2006
Total absence due to illness as a percentage of entire ordinary working hours	0.6%	0.8%
• absence due to illness, men	0.5%	0.3%
• absence due to illness, women	0.8%	1.4%
• employed age –29	0.8%	0.2%
• employed age 30–49	0.6%	0.9%
• employed age 50–	0.5%	0.8%
• long-time absence due to illness (60 days or more) as a percentage of total absence due to illness	5.6%	31.7%

17 Events after the balance sheet date

See Note 32 to the consolidated financial statements.

18 Related parties

Information regarding sales to and costs invoiced from subsidiaries is included in the Administration report. Financial income from and financial expenses to subsidiaries and jointly controlled and associated companies is presented in Note 2. Assets and liabilities attributable to

subsidiaries and jointly controlled and associated companies is presented in the balance sheet.

For related party transactions involving key management, see Note 27 to the consolidated financial statements.

Proposed distribution of surplus

Retained earnings	SEK	5,125,258,178
Net profit for the year	SEK	1,733,525,043
Total surplus	SEK	6,858,783,221
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	4,582,027,881
	SEK	6,858,783,221

¹⁾ Suggested record day for right to dividend, April 21, 2008.

²⁾ Board Members' statement: The members of the Board are of the opinion that the proposed dividend is justifiable considering the demands on Company and Group equity imposed by the type, scope and risks of the business and with regards to the Company's and the Group's financial strength, liquidity and overall position. Shareholders' equity would have been 361,108,950 Swedish kronor lower if financial assets, which have been evaluated according to Chapter 4, 14§ a Annual Accounts Act, had been valued in accordance with lower of cost and net realizable value.

The results of operations and the financial position of the Parent Company, AB SKF, and the Group for the year 2007 are given in the income statements and in the balance sheets together with related notes.

The Board of Directors and the President certify that the annual financial report has been prepared in accordance with generally accepted accounting principles and that the consolidated accounts have been prepared in accordance with the international set of accounting standards referred to in Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, and give a true and fair view of the position and profit or loss of the Company and the Group, and that the management report for the Company and for the Group gives a fair review of the development and performance of the business, position and profit or loss of the Company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group face.

Stockholm, January 31, 2008

Anders Scharp	Winnie Fok	Göran Johansson
Vito H Baumgartner	Leif Östling	Lennart Larsson
Ulla Litzén	Eckhard Cordes	Kennet Carlsson
Clas Åke Hedström	Hans-Olov Olsson	Jeanette Stenborg
Tom Johnstone	Lena Treschow Torell	

Our auditors' report for this Annual Report and the consolidated Annual Report was issued January 31, 2008.

KPMG Bohlins Aktiebolag

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 2007. The annual accounts and the consolidated accounts are presented in the printed version of this document on pages 6-91. The Board of directors and the Managing Director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of directors and the Managing director and significant estimates made by the Board of directors and the Managing director when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for

our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the Managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual 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, 31 January 2008

KPMG Bohlins Aktiebolag

Thomas Thiel

Authorized Public Accountant

The SKF divisions

SKF's business is divided into three divisions, each focusing on specific customer groups worldwide. The divisions are inter-dependent, however, in that they constitute a market within the SKF Group with products, services and know-how on offer to each other to enable any of the divisions to serve its final customers. To obtain a better understanding of the business concept, see also page 21, SKF – the knowledge engineering company.

Content

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98	Service Division
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Industrial Division



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

Henrik Lange
President, Industrial Division

We provide and develop products and solutions for our OEM customers in many customer segments. To continue developing our sales growth we use a customer key account management to serve various technological and industry leading customers. This enables us to better meet their needs and develop solutions for them. The five SKF technology platforms play an important role in identifying solutions meeting these specific industry requirements.

Net sales in 2007 amounted to SEK 19,266 million (17,176). Sales including intra-Group sales totalled SEK 29,318 million (26,698). The operating profit was SEK 3,430 million (3,027), with an operating margin of 11.7% (11.3). The operating profit includes a charge for restructuring activities of around SEK 30 (210) million during the fourth quarter.

The increase in net sales was attributable to organic growth 10.0%, structure 5.0% and currency effects -2.8%. Structure was related to the acquisitions of ABBA Linear Tech Co., Ltd in 2007 and SNFA SAS in 2006.

Sales were significantly higher in Europe and Asia and higher in North America. Some segments that showed significantly higher sales were energy, heavy industrial machinery, off-highway vehicles, aerospace and railways.

The global wind energy industry experienced another year of significant growth. Sales to the wind energy industry were significantly higher compared with 2006 in Asia, North America and Europe. We are actively working closely together with leading wind turbine and gearbox manufacturers in this

fast growing market segment. As one example, we entered during the year a long term supply agreement with Suzlon Energy Ltd.

Off-highway is another segment that showed strong growth. SKF and Caterpillar forged a strategic partnership in 2007. The aim of the partnership is to accelerate the leveraging of our mutual global manufacturing footprints, technical expertise, and knowledge for joint growth. Collaborative projects utilizing Six Sigma methodology are run in order to promote fact based decision making in improving product and process, including extended field life and optimized service intervals for the diversified and broad vehicle range in the Caterpillar product line.

We also developed a parking brake-by-wire solution for tractors together with a leading manufacturer. It is a brake and safety solution that is activated and released automatically, for example when the driver switches off the motor or opens a door, or when the vehicle starts moving. The launch will be made during 2008.

Global air traffic continued to grow strongly in 2007. The organic sales and production of bearings, components and fly-by-wire equipment for the fixed wing aircraft, helicopter and jet engine markets were significantly higher than in 2006. In addition to organic growth, the SNFA aero engine business was integrated with SKF Aerospace in 2007 to further enhance our





SKF utilizes proprietary system calculations and Design For Six Sigma methodology in collaboration with Caterpillar to optimise vehicle system performance and new product introduction.

offer to the aerospace market. In 2007 we entered a partnership with GE Aviation to establish a new company, which will manufacture and refurbish bearings for GE's engines for large aircraft.

The high precision machine tool segment grew significantly in 2007 compared to 2006. Our offer portfolio has been strengthened by the SNFA acquisition which had a favourable impact on both our sales and manufacturing units serving this market.

Our sales to the global lubrication system market progressed very positively and the demand for SKF lubrication solutions was significantly higher compared with last year. Growth was mainly achieved in the segments

machine tool, renewable energy and off-highway. New lubrication application centers were opened in China, India, Brazil, South Africa, Canada, UK and Spain. They act as local providers of engineering support and suppliers of lubrication systems and services to end-users in the respective markets.

The railway industry demands modern rolling stock solutions with high safety and reliability as well as low lifecycle cost. We are participating very successfully in this global trend with several prestigious train development projects for passenger and freight cars. Major orders for freight car wheel-set bearing solutions were secured, specifically in Europe, China and Russia. The decision to build a new

factory in Russia for tapered roller bearing units strengthens our position to and presence in the fast growing Russian railway market.

As an example we signed a contract with Bombardier Transportation to supply the tapered roller bearing units used for axle box applications on the Île de France suburban trains. The total contract value would be around EUR 5 million including options for additional orders. The new suburban train generation will be run by the French railways SNCF and will serve the Greater Paris / Île de France area. The first trains will start running in 2009.

Developing value added solutions for the industrial market

We have developed and launched some 60 new, specific industrial offers since the beginning of 2005, aimed at expanding SKF's business in the target industries. This will, for example, help to produce greater operational reliability, productivity and reduce the maintenance costs of the machine or application.

Solutions for continuous casting in metal industry

From 2005 to 2007 SKF has launched a comprehensive offer portfolio to the continuous casting industry that demonstrates our single face to the market with the Service Division. Today we can offer customers a self-aligning bearing system with a sealed option. SKF ConRo, both for top and lower segments in the continuous casting process, is a sealed relubrication free unit and today an established offer in our portfolio for this



Continuous casters operate in an extremely harsh environment. High temperatures, heavy loads, large volumes of water and contamination present a challenge to equipment reliability and productivity.

In response, SKF has developed a sealed, relubrication-free roller unit incorporating bearings, housings, lubricant, seals and roll bodies called SKF ConRo. Designed for improved reliability, it eliminates the problems and costs associated with the grease systems found on conventional casters. Significant cost savings result as grease consumption and maintenance downtime fall.



SKF launched the SKF Agri Hub for manufacturers of agriculture attachments during 2007. This new hub solution for tillage discs is supplied as a completely integrated, relubrication-free unit, which is easy to fit and reduces maintenance. Productivity can be increased by up to 150%, based on SKF's tests. The SKF Agri Hub sealing solution protects the environment from pollution by minimizing the risk of grease leakage for the duration of the hub's service life.



industry. Utilizing our technologies in reliability systems, we have also developed and launched SKF Caster Analyst, a tool that measures running conditions in the steel making process more precisely. This places us in a strong position to meet specific requirements from our customers in this very challenging industry.

Greater farm productivity

In 2007 we launched SKF Agri Hub for tillage discs, which is a relubrication-free solution for agricultural implements. The farmer's greater demand for higher productivity and also greater respect for the environment are both met with the SKF Agri Hub. Farm productivity can be increased by up to 150%, based on SKF's extensive testing.

Energy-efficient bearings and solutions

Our launch of new energy-efficient bearings took place in February 2007. These products and many other SKF solutions are good examples of our business care from a sustainability perspective. They open up opportunities for developing energy-efficient solutions in various industrial equipments.

Lubrication system for machine tool spindles

SKF Lubrication Systems has developed and delivered a compact robust oil and air lubrication unit for the machine tool industry.

Incorporating an air cleaner, oil lubrication unit and optical sensors, this system provides the optimum quantity of lubrication to a machine tool spindle. The systems have been delivered worldwide to machine tool and spindle manufacturers as well as to SKF factories. Minimizing the lubrication is highly cost-effective, coupled with the more sustainable approach.

Acquisitions

The Taiwanese based ABBA Linear Tech Co., Ltd., a leading Asian manufacturer of linear guides, was acquired in the second quarter. Through this acquisition SKF gains an extended product range and additional sales channels in the Asian market.

In the fourth quarter we also acquired S2M, which is leading in the market of magnetic levitated bearings. SKF was previously a minority shareholder in the company.

S2M is based in Vernon, France and has historically been focused on application segments that include vacuum pumps, turbo expanders and compressors, mainly for the oil and gas industry, as well as small air and gas compressors. The acquisition of S2M fits in with our existing business with the above mentioned industry segments, both geographically and from a product range viewpoint. The acquisition widens our range of magnetic bearings.

Excellence in product development and manufacturing

We are using Six Sigma to achieve operational excellence and to ensure that variations are eliminated in all our processes. One part of Six Sigma is the Design for Six Sigma (DfSS) methodology, which we successfully use in our own product development. Over the year we trained over 100 OEM customers in this methodology.

The roll-out of reaching manufacturing excellence, focusing on reliability and flexibility, has now expanded to cover all bearing factories in the Industrial Division. In terms of flexibility we continued to see double-digit improvements in resetting times in several factories.

The supply of raw material and components was very tight throughout 2007. A lot of effort during the year focused on both securing supply for the coming years and the releases of new suppliers.

Expanding manufacturing base of large sized bearings

The new large size bearing factory in Dalian, China had a very good start and the ramp up has been ahead of plan. Customer interest for this new capacity has been very high.

To further satisfy the global market demand for large size bearings we decided to invest in a new large size bearing factory in India in

2007. The factory will be built in the Gujarat region. First production is expected by the first quarter 2009. By doing this we are well positioned to support the strong Indian market, primarily for the energy and heavy industry segments.

To further satisfy the market growth for large size bearings, we have made significant capacity investment in our existing manufacturing sites in Europe and North America.

Moving forward

The division will continue to create and capture value in the industrial market through launching new market offers to new and current customers and through an enhanced key account management structure. The aim is to continue to grow both organically and via acquisitions. In 2008, the integration of both ABBA Linear Tech Co., Ltd. and S2M will continue, at the same time as new acquisitions will be targeted. In manufacturing, the drive for operational excellence will continue to

further improve flexibility and reliability. Capacity will increase by both eliminating bottlenecks at existing factories and ramping up recently installed capacity invested in during 2007.



Henrik Lange

The SKF industrial market is divided into some 30 industrial customer segments. Those segments are for the OEM's sales grouped into eight main customer categories based on SKF's portfolio of platform offerings, see chart below.

General industry

Fluid power, industrial gearboxes and material handling.

Special industrial machinery

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

Aerospace

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

Heavy industrial machinery

Metalworking (steel), mining, pulp & paper

Railway

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

Off-highway

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

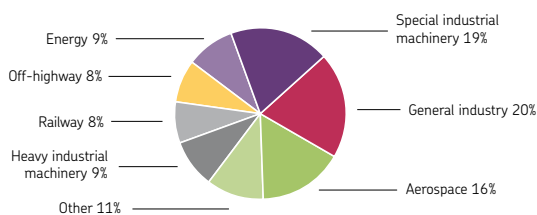
Energy

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

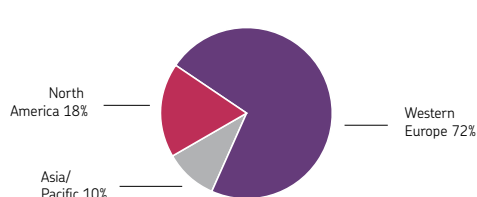
Other

Other businesses

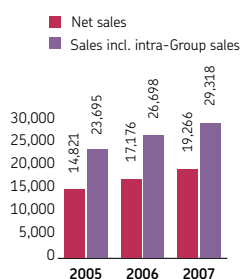
Net sales by customer segment



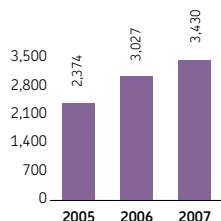
Net sales by geographic area



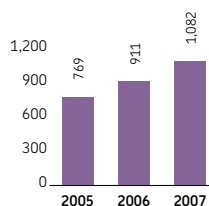
Sales, SEKm*



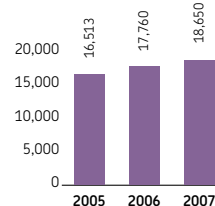
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2007.

Service Division



Phil Knights
President, Service Division

The Service Division is responsible for sales to the industrial aftermarket, mainly via a network of around 7,000 distributor locations. In addition to the sales of products, the division supports customers with knowledge-based service solutions to optimize plant asset efficiency through consulting and mechanical services, predictive and preventive maintenance, condition monitoring, decision-support systems and performance-based contracts. SKF Logistics Services deals with logistics and distribution for both the SKF Group and external customers. The Service Division is also responsible for all SKF sales in certain smaller markets.

The Service Division's strong performance for 2007 can be attributed to the continued successful implementation of our distributor development programme, growth in Reliability Systems, both organically and through acquisitions, additional new customers in logistic services and favourable economic conditions.

Net sales for the division in 2007 amounted to SEK 19,597 million (17,984). Sales including intra-Group sales totalled SEK 21,393 million (19,761). The operating profit was SEK 2,846 million (2,362), with an operating margin of 13.3% (12.0).

The increase in net sales was attributable to organic growth 12.0%, structure 0.8% and currency effects -3.8%.

Sales were significantly higher in all regions.

Market approach

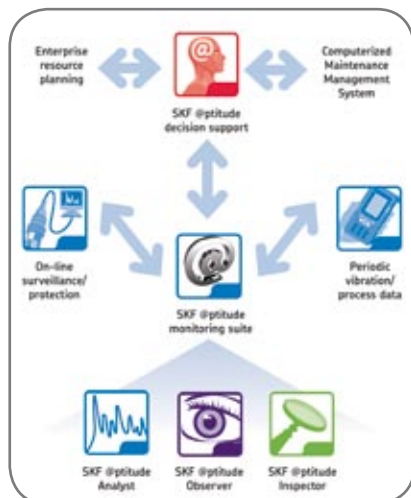
Along with the Industrial Division, we continued to apply SKF's knowledge in developing our industry segment market approach that focuses on lowering customers' Total Cost of Ownership (TCO) and increasing productivity. Numerous new market offers were launched in 2007 to the food & beverage, mining, metals, pulp & paper and oil & gas.

Our key account management teams provide dedicated resources to specific customers who are industrial and technological leaders in their industries. These focused teams have greatly contributed to enhancing our value added TCO propositions and the sales growth for both the Service and Industrial Divisions.

The SKF Document Solution Program (DSP) allows SKF representatives to calculate, with end-user customers, the plant savings they can realize utilizing SKF's products and service solutions. Using the customer's own data, it computes return on investment, breakeven analysis and expected and actual rate of return. This proprietary web-based program continues to build important benchmarking data as customers seek plant maintenance improvements. In 2007, more than 3,400 savings calculations have been approved by customers totalling more than SEK 2,000 million. A version of the DSP for our distributors called DVP was developed and launched during the year.

Industrial distribution

In celebration of SKF's 100th anniversary, we had our first truly global industrial distributor convention. Over 1,200 distributor delegates from 105 countries attended a three-day event in Göteborg, Sweden where our past successes and future plans were shared with these key partners. Of particular interest was the success of our distributor development programme, "More with SKF" that was launched five years ago. This confirmation has inspired us to further continue its development to provide our distributor partners with the tools and support to create differentiation with value added solutions, utilizing SKF's products, services and logistics. This strategic partnership programme helps SKF Authorized Distributors to profitably meet the increasing demands from end-user



Consisting of three modules – Analyst, Inspector, and Observer – the SKF @ptitude Monitoring Suite forms the basis for a completely integrated approach to condition monitoring. The software program enabling fast, efficient and reliable storage, manipulation and retrieval of large amounts of complex machine and plant information. Designed from the ground up with robust open databases and the familiar Windows® interface, this powerful software accepts data from the full range of SKF data collection devices. It interfaces with SKF @ptitude Decision Support to facilitate consistent, reliable decision-making.



Two new demonstration trucks hit the road in 2007, visiting European distributors and end-users. These trucks have been specially designed to exhibit and demonstrate SKF Maintenance Products and services. The trucks have modern interiors providing an exhibition area and training room. A wide range of



SKF maintenance and lubrication products are available on the trucks along with equipment for demonstrating mounting and dismounting techniques. The trucks have been equipped with energy saving solar panels.

customers for more value and reduced total cost of ownership. The following activities in 2007 strengthened our distributor programme:

- Expansion of SKF's 360° Solution programme into additional industries. These solutions coordinate the distributor and SKF values to solve end-user customers' specific application problems.
- SKF Distributor College is an effective web-based tool for building a solid knowledge base among distributor employees and for quickly introducing new employees to our business. It provides a solid base from which distributor personnel can sell effective solutions and boost customer satisfaction. The training portal features courses that help distributors become more successful in virtually all areas of business. There are courses on SKF's products, services and industries, as well as business, marketing and selling. The interactive training design includes animations, role plays and tests, making the learning process engaging and effective. Currently there are 28 courses in 12 languages. In 2007, eight new courses were introduced.
- The new line of SKF power transmission products introduced in selected markets 2006 was expanded into the European market in 2007. The comprehensive product range includes a full assortment of V-belts, pulleys/sheaves, synchronous belts, synchronous sprockets, roller chain, sprockets, couplings, bushings and hubs. These new SKF-branded products are a logical extension to the complete SKF offer

by our distributor partners. This gives customers a single source for all their bearing, seals and power transmission related products from their SKF distributor, which reduces their transaction costs.

SKF Certified Maintenance Partners

The SKF Certified Maintenance Partner (CMP) programme provides an excellent opportunity for qualified distributors to offer added value to end-user customers with entry-level maintenance and reliability services, which are reinforced by SKF Reliability Systems' more advanced capabilities. We expect these partnerships to continue to grow as MRO (Maintenance and Repair Operations) customers favour distributors who are able to provide more value.

New to our SKF certification partnership portfolio in 2007 was the introduction of the SKF Certified Rebuilder programme for electric motors. The programme extends the collaborative network between SKF, selected repair/service firms, and participating SKF Authorized Distributors, CMP's and SKF Reliability Systems.

Electric motors are among the highest in reliability incident reports, a problem that leads to a continual cycle of costly repair and unplanned downtime. While bearing failure is a symptom of motor failure, many motor rebuilders are not trained to investigate the underlining causes of failure like improper maintenance, handling, or installation.

SKF Certified Rebuilders undergo specialized training in motor repair with emphasis

on conformance to exact SKF specifications and standards, root cause failure analysis, bearing installation, lubrication and condition monitoring. The rebuilder firms are audited and re-certified regularly, and the repairs are done using SKF's products.

New products

We continue to expand our product offer to end-users with new or improved bearing-related products as well as maintenance and condition monitoring products and services. Some of our new offerings can be found on page 22 in the technology section of this report.

Two important new tools for the Reliability Systems business were launched during the year:

- The SKF@ptitude Monitoring Suite, a complete integration of our previous condition monitoring software which consists of three modules – Analyst, Inspector, and Observer and it forms the basis for a completely integrated approach to condition monitoring, allowing fast, effective reliable data acquisition, storage, manipulation and retrieval of large amounts of complex machine and plant information. Designed from the ground up with robust open databases and the familiar Windows® interface, this powerful software accepts data from the full range of SKF data collection devices and interfaces with SKF @ptitude Decision support to facilitate consistent, reliable decision-making.



Electrical Repair Service Company, Inc (ERS) is one of the oldest and largest independent electric motor service centres in the US and has teamed up with SKF to become the first SKF Certified Electric Motor Rebuilder. The SKF Certification Programme promotes new quality assurance standards for rebuilt electric motors. Extensive SKF training methods, investments in precision equipment and the use of SKF products are required to meet the high standards set by SKF for certification. The certification process also addresses many of the goals of ERS customers for longer motor life.

- The SKF Client Needs Analysis for Energy and Sustainability, to help companies uncover energy waste and discover energy savings. It is an extensive, plant-wide assessment tool that identifies high-energy consumption areas at an operation. The assessment also examines chemical treatment, lubrication use and other operating processes that could be improved to reduce the environmental impact. When waste areas have been identified by the SKF Client Needs Analysis for Energy and Sustainability, we then offer a range of solutions to reduce them. SKF's solutions can range from machine upgrades to advanced machine maintenance and condition monitoring.

SKF Reliability Systems

Sales by the Reliability Systems business were significantly higher in 2007 than in 2006. Growth came both organically and through acquisitions and alliances.

An alliance formed last year with Meridium, Inc., a leader in enterprise Asset Performance Management (APM) software, increases our software range, services and support to customers globally. The agreement grants SKF non-exclusive rights to license and distribute Meridium Asset Performance Management System software. Additionally, we are a preferred service provider for Meridium, providing consultation, training and services to facilitate implementing asset management methodologies for new and existing customers. This alliance fits well into SKF's expanding asset management services portfolio, and extends Meridium's global reach by leveraging SKF resources. The Meridium offer is a perfect complement to SKF's Asset Efficiency Optimization (AEO)

workflow approach, allowing us to fulfil the optimization aspect of a "living program" for our clients.

We acquired Baker Instruments Company in the US in 2007, a leading manufacturer of test and diagnostic instruments for electric motor assessment. The condition monitoring technologies used by SKF were based on measurement of mechanical properties. This move into electric motor diagnostics is an important addition to our technology. It supports our new energy-efficiency solutions activity and is in line with the SKF Group's move towards supporting our customers in their sustainability efforts. It also adds substantial expertise to our new Certified Electric Motor Rebuilder offer.

The US-based company, Preventive Maintenance Company Inc. (PMCI), was acquired in 2007. PMCI is a market leader in Predictive Maintenance (PdM) services for industrial customers in the pulp & paper, metals, food, automotive and other industries. This acquisition strengthened SKF Reliability Systems' position in services, condition monitoring products and maintenance strategies.

We also acquired Automatic Lubrication Systems (ALS) in Burlington, Canada. ALS is a leading service company to Canadian mobile transportation equipment and industrial machinery customers for SKF Lubrication systems.

SKF has created a company together with one of China's leading steel manufacturers, Baosteel Iron & Steel Group in Shanghai, where SKF holds 60% and management responsibility. The company will be responsible for maintenance and repair operations related to bearings at the Baosteel Group.

SKF and Aker Kvaerner established a partnership in 2007 for condition based maintenance for the offshore and onshore oil and gas industry. Aker Kvaerner is a leading provider of maintenance, modification and operation services in the North Sea. The agreement integrates Aker Kvaerner's competence in engineering, planning and maintenance with our expertise related to rotating equipment, bearing and lubrication technologies and condition monitoring integration and analysis. The initial focus will be on customers and installations in the North Sea and onshore in Norway, with plans to expand internationally.

Reliability services contracts

We continued to sign numerous major new performance-based Integrated Maintenance Solutions (IMS) contracts during 2007 and extend existing ones with customers around the globe. These customers operate principally in the food, paper, hydrocarbon processing and metals industries. We also signed numerous proactive reliability maintenance and predictive maintenance contracts with customers worldwide.

Two notable contracts are:

- A long-term contract signed with ArcelorMittal, the world's number one steel company, as a preferred partner for bearings and related products for ArcelorMittal's operations in Europe. After the first implementation phase in Europe, the contract is planned to be expanded globally. During this period, ArcelorMittal and SKF will implement products and solutions focusing on Total Cost of Ownership (TCO) to reduce the significant cost for steel production. SKF will use the Documented

Solution Program (DSP) to document the savings and cascade the concept to different ArcelorMittal sites.

- A two-year IMS contract signed with the world's leading producer of bleached eucalyptus pulp, Brazilian company Aracruz, focuses on condition monitoring, lubrication, Operator Driven Reliability (ODR) and Risk Based Maintenance (RBM).

Logistic services

SKF Logistics Services provides warehousing, transportation, packaging and value added services for not only the SKF Group worldwide, but also a growing list of other companies. Based on their wide expertise in industrial logistics, SKF Logistics Services offers over 40 third party manufacturers an integrated logistics solution, providing them with a competitive edge in costs, services and flexibility. Today, SKF Logistics Services manages a worldwide transportation network operating out of 28 locations around the world, shipping to 170 countries and some 50,000 customer destinations.

SKF Logistics Services continued to attract new customers over the year. Agfa Graphics, a leader in graphic pre-press, chose our services for global spare parts distribution and handling returns. For Metso Minerals, we run their distribution centre for spare and wear parts, primarily for Europe but also for global markets. We provide HAY Speed Umformtechnik GmbH with warehousing services and packaging support for their components to European OEM's manufacturing engines, gears and axles; and we also operate a central warehouse for distribution of PIAB AB's industrial vacuum components and systems in the European market.

Six Sigma

During 2007 we continued to train project sponsors in their role and responsibilities in Six Sigma. Training has also begun at our Reliability System Condition Monitoring units in Design for Six Sigma, the methodology for creating robust and risk-free products. In the Service Division, Six Sigma projects have contributed to improving the supply chain efficiency of the industrial distribution in

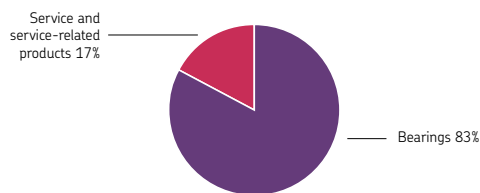
Europe, improving freight recovery costs and reducing time to market.

Moving forward

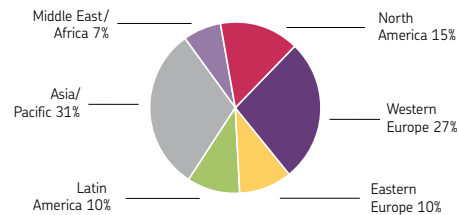
Our forward direction for the Service Division can be summed up in one phrase: "stay the course". As stated in last year's annual report, end-user customers continue to seek greater value from distributors and manufacturers. We will continue to expand our "More with SKF" distributor development programme. Additional Certified Maintenance Partners and Certified Rebuilders will be recruited, the product range will be expanded including further penetration of the mechanical power transmission product range, and additional industry solutions will be added to our "360° Solution" programme. New acquisitions will be sought to further extend our local reliability service capabilities and additional solutions introduced to our plant asset management range.

Phil Knights
Phil Knights

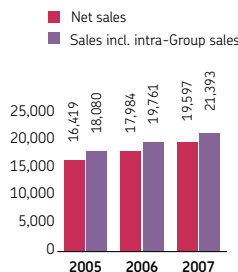
Net sales by customer segment



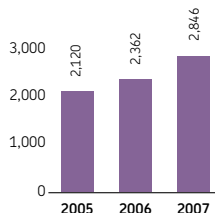
Net sales by geographic area



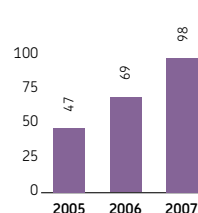
Sales, SEKm*



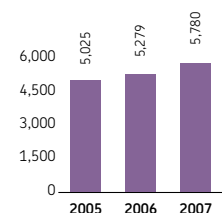
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2007.

Automotive Division



The Automotive Division is responsible for sales to the manufacturers of cars, light trucks, heavy goods vehicles, buses, two-wheelers, household appliances, power tools, and electric motors and for the vehicle service market. The division develops and manufactures bearings, seals and related products and service solutions. Products include wheel hub bearing units, tapered roller bearings, small deep groove ball bearings, seals, specialist automotive products and complete repair kits for the vehicle service market including a new product line with driveshafts and control velocity joints.

Tryggve Sthen
President, Automotive Division

Net sales in 2007 amounted to SEK 19,617 million (17,869), an increase of 9.8%. Sales including intra-Group sales totalled SEK 23,795 million (21,807). The operating profit was SEK 1,154 million (946), with an operating margin of 4.8% (4.3). The operating profit includes restructuring activities of around SEK 270 (170) million during the fourth quarter. Excluding one-off charges, the operating margin was 6.0%.

The increase in net sales was attributable to organic growth 8.3%, structure 3.8%, currency effects -2.3%. Structure is attributable to the acquisitions in 2006 of Economos Austria GmbH and Macrotech Polyseal Inc. and the currency effects come mainly from North and Latin America.

Sales to the car and light truck industry in Europe and North America were higher. Sales to the heavy truck industry in Europe were

significantly higher and significantly lower in North America. Sales to the vehicle service market were significantly higher in Europe, slightly higher in North America and significantly higher in Asia. Sales to the electrical business and to two-wheelers producers were significantly higher in Europe and lower in Asia.

In 2007, the Automotive Division focused on:

- increasing the sales of value added solutions to improve price and product offer mix
- improving our market share in emerging markets
- expanding our market share of the vehicle service market
- improving our efficiency and competitiveness in our operations
- continuing the integration of SKF Polyseal Inc. and SKF Economos GmbH, both seals companies, acquired in 2006.

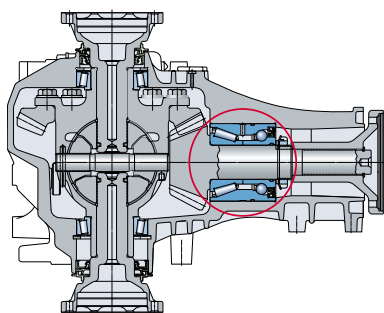
Together with our customers we continuously look at developing and providing more fuel-efficient, sustainable solutions.

In line with the Group's strategy of reducing vertical integration, SKF sold the forging business in Lüchow, Germany, to Hay Speed Umformtechnik GmbH in the first quarter of 2007.

Car segment

We are continuously increasing our competitive strength through offering customized, value added solutions, which help our customers to save time and assembly costs.

During the year we extended our range of innovative solutions that reduce friction and help save energy. In line with our target of contributing to the energy-efficiency of our products, we launched a new high performance wheel bearing solution to extend service



The SKF Hybrid Pinion Unit consists of a tapered roller bearing and angular contact ball bearing, which improves system stiffness, reduces power loss and enhances bearing service life due to optimized raceway profiles and more reliable lubrication conditions. This new solution provides 30% friction reduction compared to existing solutions. The first customer for SKF's hybrid pinion unit is a major transmission supplier.

life and reduce fuel consumption. The new solution contributes to a bearing friction reduction of 20%, which directly helps to reduce CO₂ emissions. We have also developed a new pinion unit solution providing 30% friction reduction compared to existing solutions. The first customer for the SKF's hybrid pinion unit is a major transmission supplier.

Asia is the fastest growing market for the automotive segment and one of SKF's key markets. We continued to strengthen our position in 2007 by developing relationships and business with the Chinese companies Chery and Shanghai Automotive Industry Cooperation (SAIC). Production of products has started on three new car programmes. As a result of new business acquired during the year, we expect the number of new production programmes starting in 2008, to triple to nine. To support the growing demand in Asia, three new factories were opened during the year. These are located in China for the production of bearings and in the Republic of Korea for the production of bearings and seals.

We enjoyed strong growth in Europe and North America during the year. New business was acquired with, for instance, Renault, for the new Renault Master platform, Fiat for a new Alfa Romeo platform and Ford for the new Ford Focus generation in North America.

In order to remain competitive in the North American market we announced the closure

of the manufacturing facility at Glasgow, and the transfer of production to a factory at Puebla, Mexico, in December 2007.

Truck segment

In 2007, the global market continued its strong economic growth in all regions, except for North America, where new emission legislation led to pre-buys in 2006 and a subsequent very weak market in 2007.

One key trend in the truck and trailer market is the reduction of the cost of ownership for end-users, with the emphasis on low maintenance products. We are benefiting from this trend, as wheel end modules are gaining market share over more conventional solutions globally. In line with SKF's target of delivering value added products, the truck segment made some major launches in 2007. SKF and Haldex jointly developed an integrated hub unit for usage together with a dual disc brake and fixed calliper. This is a completely new solution for the commercial vehicle industry where the dual disc brakes has a number of advantages for the user, mainly from a performance and usability perspective, but also the service lifecycle is significantly improved in comparison to existing solutions. The first customer is GIGANT, the German trailer axle company.

To also save costs for end-users, we have developed the wheel end monitor that helps cut back on unplanned stops and reduce pre-

ventative maintenance and unnecessary bearing replacement. The solution helps track possible damage and wear of trailer wheel bearings. We have gained our first order from the company Hendrickson in the USA.

In 2007, we delivered the one millionth truck hub unit to MAN and celebrated this long lasting relationship by presenting MAN with a golden truck hub unit.

The rapidly expanding emerging markets are a priority area and we enjoy a strong position on the Indian truck market. During the year we followed the market's growth and new business was gained with leading truck manufacturers, such as Tata Motors and Mahindra.

We are continuing our activities to improve our competitiveness and reduce costs. The transfer of production of small tapered roller bearings from Germany to existing factories in Brazil and India continued in 2007. We are also continuing to make good progress in increasing component sourcing from Asia and Eastern Europe.

Vehicle Service Market (VSM)

Our European vehicle service market sales enjoyed strong growth, clearly above the market's growth figure. This was driven by adding more than 20 new distributors during the year and the addition of new references to the existing kit range, thereby further increasing our coverage of the European car pool.



When SKF delivered its 1,000,000th truck hub unit to MAN Nutzfahrzeuge AG it was a perfect opportunity of passing over a token of its gratitude for many years trust and very positive business relations. MAN was the first customer in Germany to switch over to SKF's new truck hub units. Today SKF is the sole supplier of MAN's front axles.

In the picture from left are Bernd Stephan, Director of SKF business unit Trucks, Hans-Jürgen Dau, Plant Manager Lüchow and Dr.-Ing. Karl-Viktor Schaller, Board Member Technology and Purchasing of MAN Nutzfahrzeuge AG.



During the year vehicle service market continued to strengthen its aftermarket position by expanding its kit business and providing added value and more features. A new product range including constant velocity joint, driveshaft and boot kits was launched for the European aftermarket. Constant velocity joints are part of the driveshaft and fitted into the wheel bearing on one side and to the differential on the other. They transfer rotational energy from the engine, through the wheel bearings and out to the drive wheels.



We continued to strengthen our position by expanding the business in kits with greater value and added features. A new product line including constant velocity joints, drive shafts and boot kits was launched for the European aftermarket. These products are in line with the SKF's target of reducing customer stock levels to improve their profitability.

In North America, our sales of car parts were rather strong, in particular during the second half of the year. Our sales of heavy truck parts declined during the year driven by a weak market. A new broader and more competitive line of tapered roller bearings for the heavy truck market was launched during the year.

We also enjoyed continued strong growth in the emerging markets of Eastern Europe. Furthermore we added several new distributors to our Chinese network and increased the coverage of the Chinese car pool by extending the kit range.

We are constantly aiming to provide the best possible support to distributors in critical areas such as marketing, logistics and training. One example is EXPONENTIA, a training concept run in cooperation with other Original Equipment (OE) suppliers like Valeo, Tenneco Inc. and TRW Automotive, which provide training and technical support to garages in Europe. Gates Corporation, a leading OE brand in belts, joined EXPONENTIA in 2007. This much-appreciated training concept strengthens the relationship between SKF and garages and received two Gold Awards in 2007 for the best training format in the independent aftermarket in Italy and for service innovations assigned by a jury of 82 journalists in Paris.

Electrical segment

We continued to expand our value added business in washing machine applications in 2007 with sales of condition monitoring and calculation as well as simulation tools. The

first composite drums for front-loaded machines have been developed and are now tested with two major customers.

Following the transfer of our customers' production to Eastern Europe, SKF Bulgaria has started deliveries to a number of customers including Electrolux and Arcelik.

To further increase our competitive strength, we announced a new restructuring scheme in December 2007. We decided to reduce the number of employees at the Fontenay-le-Comte facility in France. This is another important step in the SKF Group's ongoing aim to reduce costs and improve efficiency at our operations.

Two-wheeler segment

We are well-positioned in Asia and a market leader in both India and Indonesia. In 2007 the two-wheeler market as well as SKF sales continued to slow down and were significantly lower than in 2006, due to higher interest rates and high fuel prices.

We have a strong position in India with the leading manufacturers Honda and Bajaj Auto Ltd. We also gained business over the year from Piaggio India for its renewed range of three-wheelers for passenger and goods transportation. Due to cooperation involving both the two-wheeler and car segments, we also gained business from Piaggio for wheel hub units for a four-wheeled light vehicle.

Ducati in Europe renewed several of their models during the year with a significant number of components from us.

Sealing solutions

The Automotive Division develops and produces sealing solutions for the automotive and industrial markets, as well as seals integrated into bearings.

In the automotive seals business, we have continued to develop business with key customers and to expand in Asia. Initial deliveries for a major order of bonded piston seals, which required an expansion of the factory in the Republic of Korea has started. We received a quality award from AW North

Carolina Inc., a supplier of transmission parts to Toyota, for meeting stringent quality requirements for the past two years.

In the industrial seals business, the two acquisitions, SKF Polyseal Inc. and SKF Economos GmbH made in 2006, were successfully integrated, and have further strengthened SKF's market position. To meet growth, a major expansion of the manufacturing facility in Judenburg, Austria has been started. 2007 was the first full year of the launch of a range of rubber outer diameter shaft seals for industrial application in metric sizes, which has been very well received by the market.

In the bearing seals business, we have continued to successfully meet the in-house demand for seals integrated into bearings, which has required both technological innovation and cost competitiveness.

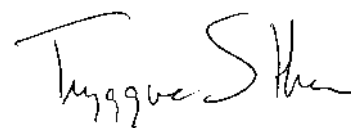
Moving forward

We will continue our efforts to increase efficiency in the North American and European organization in 2008, while expanding in

emerging markets, particularly Asia, in order to secure the full effect of investments. Another focus area is to expand the after-market business globally, including the continuous extension of the product line. We will continue to grow globally in the industrial seals business following the acquisition of the two seals businesses.

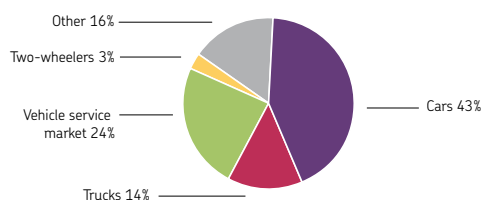
We are also aiming to further increase SKF's sales of value added solutions, by intensifying our work on product development and by fully leveraging our range in the different platforms.

Our range of energy-efficient bearings and solutions is constantly growing and we have a very strong focus on extending our range of innovative solutions that help reduce emissions and save energy.

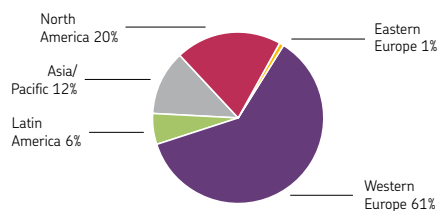


Trygve Sthen

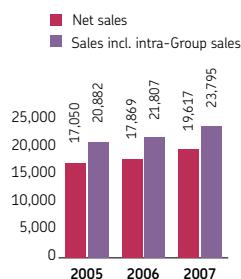
Net sales by customer segment



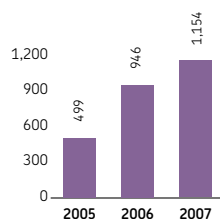
Net sales by geographic area



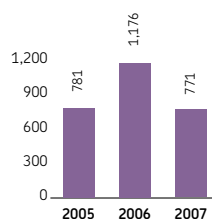
Sales, SEKm*



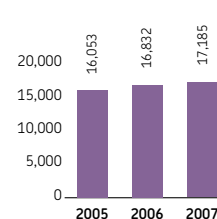
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2007.

Awards

The quality of SKF's products and services is highly esteemed. The following is a list of some of the awards received by the Group in 2007.

Achievment Award, Quality and Delivery targets 2007 • Honda Motorcycle & Scooter, India

Asia Pacific Super Excellent Brand 2006/2007 • Asia Entrepreneur Alliance Worldwide (AEAW), Malaysia

ATA Innovation Award • ATA, the Italian Member Society of FISITA, Italy

Autop (Top Five) certificate 2007/2008 • Autop, Brazil

Award for Mobile Company • The Transportation Research Institute of Hasselt University, Belgium

Best Bearing Brand 2007 Award • AP Magazine Melhor Marca, Portugal

Best Quality Award 2007 • Siemens Large Drives, Germany

Best Quality Supplier Award 2007/2008 • M/s Subros Auto Air-conditioning Systems, India

Best Supplier Award • Lucas TVS, Italy

Best Vendor Award • GEMI Motors India Pvt Ltd., India

The Biggest Bearing Supplier for heavy application • Jornauto, Brazil

Caterpillar MQ11005 Supplier Certification, bronze plaque • Caterpillar, Poland

Certificate of Appreciation • California State Assembly, USA

Certified Data Supplier 2007 • TecDoc, Germany

Fiat Qualitys Award • FIAT, Brazil

Gold Award for best Training format in the aftermarket 2007 • GIPA, Italy

Gold Award for innovation in the services area in the aftermarket 2007 • Equip Auto, France

High level of competence in the global performance evaluation 2006 • Picanol, Belgium

IUTI Award • Instituto Universitario de Tecnología Industrial – IUTI, Venezuela

Outstanding achievements in Safety and Health • Oklahoma Safety Council, USA

Premier Supplier Award • Bell Helicopter, USA

Prix d'Excellence 2007 • Swedish Chamber of Trade, France

Quality Award • AWNC, USA

2007 Safety Culture Award for excellence in successfully establishing safety as a value company • Oklahoma Department of Labor, USA

SHARP (Safety & Health Achievement Recognition Program) Award • Oklahoma Department of Labor, OSHA Division, USA

Supplier Management System - Excellence in general performance as a supplier • Voith Paper, Brazil

2007 Supplier of the Year Award • Hans Hess, Germany

Toyota Quality Award • Toyota, Italy

Zero Defect Supplier • Remy International, Brazil



Sustainability Report

SKF issued its first separate environmental report in 1994. Social, health and safety performances were subsequently added in the environmental report, which became SKF's Sustainability Report. To emphasize that sustainability issues are embedded in all of SKF's operations, financial and sustainability performance data has been integrated in SKF's Annual Report since 2002.

This report is based on the applicable parts of the Global Reporting Initiative's G3 Guidelines and has been subject to an independent review, in accordance with FAR SRS standard RevR 6 Independent limited review of voluntary separate sustainability report and AccountAbility's AA1000 Assurance Standard.

Content

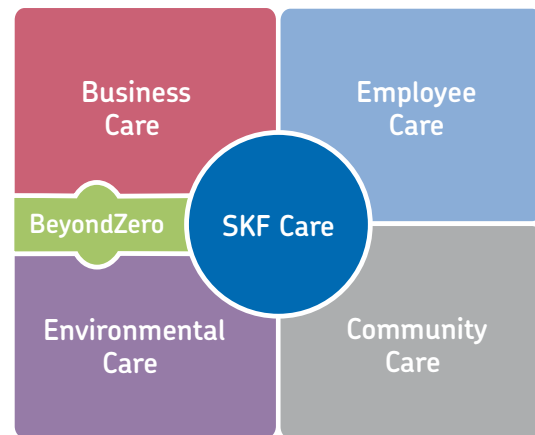
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Sustainability at SKF

As a global company, SKF's policy on sustainability is to work to the highest standards in each country where it operates.

The SKF Group has a significant sphere of environmental and social influence with factories and sales offices as well as a network of 15,000 distributors in over 130 countries. Sustainability is taken seriously at SKF and is regarded as one of the success factors to achieve financial targets in a sustainable manner. It has therefore been incorporated as the fifth business driver for SKF, which are Profitability, Quality, Innovation, Speed and Sustainability.

Sustainability at SKF centres on SKF Care approach to business, the environment, employees, and the community. In each section, SKF has established key focus areas and targets to drive continuous performance improvement.



Organization

The SKF Code of Conduct stipulates that it is the duty of all SKF employees to be seen and acknowledged as economically, socially and ethically responsible.

The implementation of sustainability programmes is driven by the respective SKF divisions and country management organizations. This is monitored and supported by the Corporate Sustainability Department, which reports to the Senior Vice President, Group Human Resources and Sustainability.

Follow-ups on sustainability performance for the Group are submitted to the Group Management at a quarterly basis. This includes Zero Accidents and carbon dioxide emissions reports. Group Management is also updated at an annual basis on SKF's ISO 14001, OHSAS 18001 management systems and key performance indicators. The divisional presidents and human resource directors are updated regularly on the Group's internal audit results on environment, health and safety as well as the SKF Code of Conduct.

Industrial and Automotive Divisions with manufacturing operations worldwide both have during the year appointed managers fully dedicated to ensuring the successful implementation of sustainability programmes.

In each country where the Group has manufacturing or logistics units, there is a country co-ordinator who oversees environment, health and safety (EHS) at the local SKF facilities with the EHS site co-ordinators. Country co-ordinators also act as liaison officers to the corporate staff and a number of them are

members of the corporate EHS audit team, who inspect SKF units at two-yearly intervals to ensure compliance with Group standards and national legislation.

External principles and charters

Global Compact

SKF has taken part in the United Nations Global Compact framework since September 2006, with the aim of enforcing its Ten Principles focusing on human rights, labour, environment and anti-corruption.

Global Compact is an international voluntary initiative instituted by the United Nations to realize the vision of having a more sustainable and inclusive global economy, where both the private and public sectors work together to identify and implement solutions to the challenges of globalization.

External charters

The Business Charter for Sustainable Development was issued by the International Cham-

ber of Commerce (ICC) more than 10 years ago and SKF was quick to endorse it.

As required by the ICC Charter, SKF applies the precautionary approach to the provision of products and services. Regular assessments of environmental risks and programmes for preventive action are a feature of the Group's environmental management system.

In addition, SKF adheres to the OECD Guidelines for Multinational Companies and the ILO Declaration on Fundamental Principles and Rights at Work.

The OECD Guidelines for Multinational Enterprises stress the importance of responsible business conduct by multinational enterprises, owing to the crucial role played by these enterprises in contributing to sustainable development via international investments as well as relationships between suppliers and contractors globally.

Policies and management systems

The SKF Code of Conduct

SKF's responsibilities towards its customers, distributors, suppliers, employees, shareholders and society, are defined in the SKF Code of Conduct, which has its roots in SKF's long tradition as an international company.

The formal document related to business ethics was first issued in 2002 and further underpinned in 2007. It adheres to the Global Compact principles and the OECD Guidelines for Multinational Enterprises.

As a monitoring procedure, SKF introduced internal verification of all units' compliance with the Code of Conduct in 2004. The audit is integrated into the ISO 14001 and OHSAS



18001 audit processes and units are inspected at two-yearly intervals by corporate audit teams.

The SKF Code of Conduct was also added to a new publication called the SKF Commitment launched at the 2007 Group Management Conference. This was to re-enforce the obligation of each employee in abiding by the Code of Conduct.

The SKF Commitment is available in 17 languages and it covers the SKF Vision, Mission, Drivers, Values and Code of Conduct. This booklet is intended for and distributed to all SKF employees but is also a useful communication tool for other stakeholders about the company's corporate culture, way of working, brand and competitive advantages.

The SKF Environmental, Health and Safety Policy

SKF's first environmental policy was issued in 1989. The policy is reviewed regularly and was updated in 1994 and 1999. The policy was also revised in 2001 to increase the emphasis on health and safety.

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

The minimum requirement is for laws and regulations to be upheld in relation to environmental, health and safety matters. Nonetheless the policy also requires SKF units to take these vital issues into consideration during all business activities and decision-making.

The SKF Social Policy

SKF issued its Social Policy in 2006 to promote employees' involvement in commendable local social projects.

The policy aims to support personal development for less privileged people by promoting education, vocational training, local sports and health initiatives. This is carried out through voluntary schemes run by SKF employees and/or financial contributions.

Management systems for environment, health and safety

SKF was the first international bearing manufacturer to receive global certification according to the ISO 14001 international standard for environmental management in 1998. More information can be found on page 114.

The purpose of having global certification is that all SKF companies are required to maintain and uphold high performance



The SKF Commitment covers SKF Vision, Mission, Drivers, Values and Code of Conduct.

standards regardless of geographical locations or social and economic conditions in the country. All SKF manufacturing sites, technical and engineering centres and logistics locations are covered in the audit except for recently acquired companies, which are required to work towards the inclusion to meet the SKF Group's requirements and standards.

SKF was also the first major bearing manufacturer certified as meeting the international standard for occupational health and safety management – OHSAS 18001 – in 2005.

The implementation of OHSAS 18001 Health and Safety Management System at SKF is to assist the Group's drive towards Zero Accidents (work-related injuries and illness) at all units worldwide. This ensures that all SKF units globally have the same high standards in health and safety management. Further information on the SKF Zero Accidents programme is on page 118.

In 2007, these companies were added to the Group's ISO 14001 certificate: Jaeger companies in Pinghu, China, and Taipei, Taiwan, Muurame, Finland, Pianezza, Italy, Dalian, China, and Valenciennes, France. These units together with, Lutsk, Ukraine, and Sopot, Bulgaria, were also included in the OHSAS 18001 certification scope in 2007. The schedule for new acquisitions' inclusion is on page 122.

Stakeholder involvement and communication

Many stakeholders, namely shareholders, investors, customers, analysts, employees, suppliers, national and local authorities and communities have interests in SKF's sustainability performance.

SKF takes a proactive approach in communicating its sustainability initiatives and performance to the stakeholders. This is done regularly via various communication means such as press releases, the Sustainability Report (integrated in the Annual Report), company website, conferences and meetings. The communication approach ensures and underpins SKF's commitment and the integrity of sustainable development initiatives.

More than 800 managers and directors from SKF organizations worldwide gathered at the 2007 Group Management Conference staged in Göteborg, Sweden. This was to celebrate SKF 100th Anniversary but also to enhance the strategic factors for ensuring SKF's continual development and success. The strategic success factors include the SKF Commitment, Sustainability, Connecting Knowledge and Six Sigma.

The annual Capital Market Day was also held in Göteborg where investors and analysts received updates on SKF's performance by the company's Chief Executive Officer, Chief Financial Officer, and the divisional presidents.

SKF also holds annual World Works Council and European Works Council meeting 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 2007 in Göteborg, Sweden.

Communication of SKF's commitment and expectations particularly about sustainability performance to suppliers also took place at the annual SKF Supplier Conference. 50 global suppliers took part at the conference in Göteborg (March 2007) and 31 in India (April 2007) respectively.

Distributor conferences were also hosted in 2007 with sustainability as the conference theme where guest speakers such as Ray Anderson, CEO and founder of Interface Inc. – a company world-renowned for its environmental initiatives – were invited.

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 enforced by independent assurance to ensure stakeholders receive transparent and credible information.

SKF joined the World Business Council for Sustainable Development (WBCSD) in 2005, which is a coalition of about 200 multina-

tional companies with a shared commitment to sustainable development.

Active participation in various business organizations such as the WBCSD and the Association of Swedish Engineering Industries (Teknikföretagen) enables SKF to enter talks with other multinationals on how to contribute to ecologically-balanced and socially-sound economic development.

In addition, SKF collaborated with seven other multinational firms in a forum called Respect Table, which is coordinated by Respect and chaired by Margot Wallström, Vice President of the European Commission.



Respect Table was established in partnership with UN Global Compact to bring about corporate governance and sustainable development discussions among business and political leaders. Together with the other members of Respect Table, SKF took part in a project called Road to Copenhagen, organized by Respect Table, Club of Madrid and GLOBE Europe. The first event took place in Brussels (November 2007) to support to the Global Leadership for Climate Action (GLCA) whose aim was to provide recommendations for action to the UN Framework Convention on Climate Change (UNFCCC) on the post-Kyoto Protocol global agreement in Bali, Indonesia.

Awards and recognition

The Dow Jones Sustainability Index and FTSE4Good Index Series are two internationally-recognized benchmarking indexes related to multinational companies' economic, environmental and social performances.

SKF was included in the Dow Jones Sustainability Indexes for the eighth year in succession since the index was established in

1999. SKF was classified SAM Silver Class in the Industrial Engineering sector. SKF was also included in the FTSE4Good Index Series since its establishment, for the seventh year in succession.

SKF was ranked number 1 among 150 Swedish international organizations in a survey based on responses by SKF, commissioned by the Amnesty Business Group in Sweden. The Amnesty Business Rating is an annual survey of large Swedish companies' performance in dealing with human rights issues, as well as the risks of these companies violating human rights principles.

Globe Forum, a business network of companies, entrepreneurs and researchers awarded SKF for being the "Best Corporate Social Responsibility (CSR) Company" in demonstrating "the best integration and transparency of CSR in business operations and reporting". This achievement was also acknowledged by the Swedish business journal Veckans Affärer, when it presented SKF with the first Social Capitalist Award in Sweden.



In addition to its social performance, SKF also topped the Folksam Corporate Responsibility Index for the second successive year for environmental performance. Folksam is a Swedish insurance company that is also one of the largest investment companies in Sweden with SEK 220 billion in assets (2007). More information on awards and recognition can be found on page 106.

Business Care

Anti-corruption is one of the fundamental focus areas for promoting ethical and healthy economic growth. The Tenth Principle in the fight against corruption was therefore adopted in June 2004 by the UN Global Compact, the largest global corporate citizenship initiative in the world.

SKF endorses both the Global Compact and OECD Guidelines for Multinational Enterprises. SKF takes a non-negotiable stance in upholding good corporate citizenship in corporate governance, business transactions, supply chain and its products and services supplied.

The responsibility of a company in developing, producing and marketing products, solutions and services that satisfy customers' needs and are ultimately safe for their intended use, are equally important. By voluntarily adhering to the Business Charter for Sustainable Development, SKF applies the precautionary approach to the provision of products and services.

In addition to upholding the principles and deploying good corporate citizenship practices, SKF provides range of products and services aimed at achieving energy efficiency for the customers. This is orchestrated through SKF's BeyondZero concept. A further description of BeyondZero can be found on page 111.

Compliance with SKF policies

SKF applies the principles of sound corporate governance through 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 OMX Nordic Exchange Stockholm. SKF's Corporate Governance Report can be found on page 25.



Jiangyin XingCheng Special Steel Works Co., Ltd



steel producers with an annual output of 3 million tonnes.

As per SKF's requirements, XingCheng Special Steel issued a code of conduct similar to SKF's and is ISO 14001 certified.

XingCheng Special Steel has also reported its CO₂ emissions related to SKF's demand and presented its CO₂ reduction achievements as well as ongoing plan.

By utilising gases from blast furnaces, XingCheng Special Steel now generates 50% of its own electricity, which would

One of the major suppliers subject to SKF's requirements for quality, the environment and business ethics is Jiangyin XingCheng Steel Works in China. It is one of China's largest specialised

otherwise have been sourced from coal-fired power plants. This resulted in CO₂ emissions reduction by 400,000 tonnes per year.

An additional reduction of 40,000 tonnes of CO₂ was achieved by investing in blast furnace top pressure recovery turbine units (TRT), to recover the pressure from the furnaces for powering generators.

The latest investment made by the factory is for two sets of waste-heat recovery power generators that reuse the steam from blast furnace and heating furnace-cooling systems. This investment not only generates an additional 150 GWh of electricity per year but also reduces the factory's CO₂ emissions by an additional 130,000 tonnes.

SKF has 18 major active Group suppliers in China. All these suppliers have submitted their code of conduct to SKF for review; all but one have submitted their CO₂ reports and 7 have obtained ISO 14001 certification, with the remaining working towards the certification.

Formulating business ethics into official documents enables systematic compliance assessment and risks identification. SKF's Code of Conduct was formulated in 2002, followed by establishing the compliance monitoring procedures in 2004.

In addition to SKF's Code of Conduct, Group Antitrust Policy and Group Policy on the Use of Gifts and other Favours to Promote Business Contacts and Relationships were set up to promote free and fair trade as well as to endorse honesty and integrity in business relationships. Both policies are governed by Group Legal.

Suppliers and distributors

SKF has many manufacturing units located around the world and source materials and components from global suppliers. The SKF Group's major suppliers have been required to issue an official document of business ethics in line with SKF's Code of Conduct, to be certified according to ISO 14001, and to report carbon dioxide emissions related to SKF demand, followed by a plan for emissions reduction. These requirements, together with others based on quality policies and standards, are stated in the SKF Quality Standard for Suppliers. Suppliers are

required to review and formally agree to the content by signing the agreement.

Most of the major suppliers have issued a code of conduct, meeting SKF's standards and have started to report their carbon dioxide emissions in relation to SKF's demands. More than 50% of these suppliers are presently certified according to ISO 14001 and the remainder are required by SKF to demonstrate their commitment in seeking certification. All major suppliers' quality and sustainability performance are audited by SKF.

Distributors are expected to adhere to SKF's Code of Conduct. SKF will be incorporating the expectation formally into distributor agreements.

BeyondZero

SKF is committed to realizing business objectives in such a way that it minimizes any negative impact, while the positive impact is enhanced. This commitment is leading SKF to developing and providing new environmentally-sound, energy-efficient products and services, as well as introducing effective energy conservation programmes in its operations.

BeyondZero was first launched as a concept in 2005. This concept aims to go beyond the traditional practice of reducing negative

impact towards zero or being environmentally neutral, by striving for an overall positive impact on the environment through a variety of energy-efficient products and solutions.



In conjunction with its 100th Anniversary, SKF launched numerous energy-efficient products and solutions including a new energy-efficient bearing family that outperforms standard ISO products with a minimum 30% energy saving for customers. The demonstration of the potential of these bearings in relation to the reduction of energy consumption of machinery is supported by the EU's LIFE-Environment project. With the support, SKF has also developed an advanced calculation tool – Slewind – for the wind energy industry. Slewind, built on the SKF in-house Orpheus platform, is a software comprising modules for analyzing blade and yaw



SKF's Slewint is an advanced calculation tool developed for analyzing blade and yaw bearings as well as the associated components in wind turbines.

bearings and their associated components in wind turbines. Information on the various products and services was covered in SKF's 2006 Annual Report (including Sustainability) and is available at www.skf.com.

SKF also partners in the RELIAWIND project, an EU-sponsored project aimed at developing new technology for highly-efficient wind turbines. This project consists of ten partners representing the full value chain and is expected to be completed by December 2010.

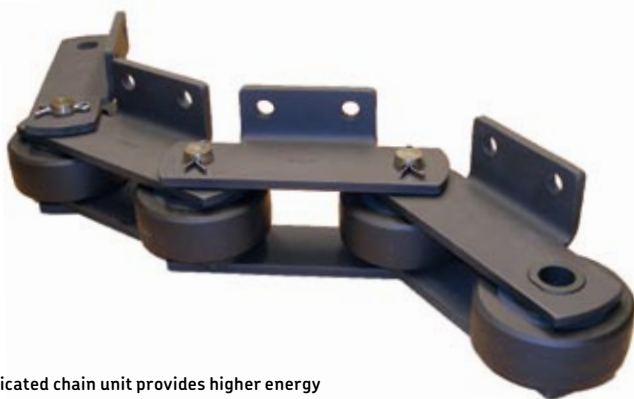
Working with customers from diverse industries around the world provides distinct opportunities for accumulating knowledge. This bank of knowledge is essential when developing new solutions for customers, not least in the area of environmental performance. By combining its expertise on bearings, seals, mechatronics, lubrication and service, SKF works as a partner to customers in all industries, developing environmentally-sound solutions.

Bearing: SKF's dry-lubricated chain unit

A glass wool insulation manufacturer in the USA has installed SKF's dry-lubricated chain unit in its curing oven conveyor chain system and has seen a 90% energy saving, achieving both financial and environmental benefits.

The SKF solution is equipped with roller bearing, allowing higher energy-efficiency compared with conventional plain bearings used in the oven conveyor chain systems.

Another competitive advantage of SKF's dry-lubricated chain unit is the use of graphite cages. Graphite is a non-metallic material found naturally in the environment. It provides good self-lubrication at high temperatures thus eliminates the need for oil consumption. This helps customers to increase production efficiency. Moreover the costs of lubricating the conveyor chain system and waste-lubricant handling are eliminated.



SKF's dry-lubricated chain unit provides higher energy efficiency and eliminates the need for lubrication and thus waste-lubricant handling.

SKF's dry-lubricated chain unit also has a safety benefit by substantially reducing the risks of fire hazard in high temperature production conditions, which commonly occur when the lubricants catch fire in the curing ovens.

Lubrication: SKF Dry-Lubrication System

SKF presented the "SKF Dry Lubrication System" to a major European beverage manufacturer. The innovation requires no water, which in a typical bottling plant would save more than 1,000 m³ of water annually per line, while reducing the need for lubricants by 95%. The cost of waste-water handling was also substantially reduced.

The elimination of spraying a water-soluble lubricant mixture on the flat top chains also helped the customer improve employee safety by reducing the risk of slipping and tripping on wet floors.

The SKF Dry Lubrication System significantly enhances product safety by reducing the risks of bacterial contamination during production process, helping customers maintain high cleanliness levels in the factory. Production efficiency was enhanced as a result of reduced motor corrosion in the conveyor system and reduced maintenance requirements.

Through the SKF Dry Lubrication System solution, SKF showed how it can produce perceptive innovations that financially, environmentally and socially benefit its customers.

Seal: SKF Economos on-site joining seal

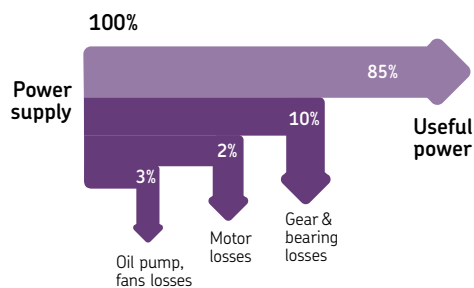
SKF Economos plays an important role in supplying the hydroelectric power industry with better quality, greater reliability and competitive sealing solutions, which in turn bringing environmental benefits.

Without having to compromise the reliability of a non-split rotor blade seal application in turbines, customers can opt for SKF's unique on-site-joining sealing solutions for the same or improved reliability and performance levels as with nonsplit seals.

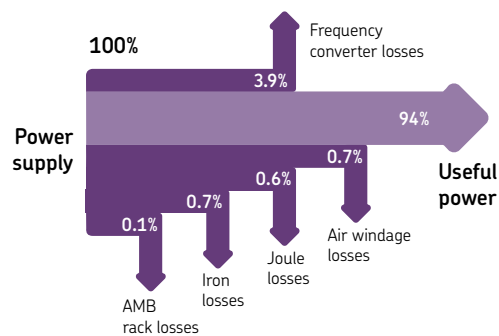
Oil contamination to water cause significant environmental hazards. This can occur when using other on-site-joining rubber seal solutions where the hardening joint can fracture. With SKF's special welding technology and better performance polyurethane material, the risk of contamination is minimized.

Also, SKF's on-site-joining sealing solutions require only 5 to 8 hours to install, which is much less than traditional non-split solutions that usually take days or weeks.

Conventional compressor solution with fixed speed motor, gearbox and oil bearings



New SKF solution based on variable high speed Permanent Magnet (PM) with motor magnetic bearings



The greater efficiency of the seal installations allows water turbines to return to operation, reducing the dependency on less environmentally-friendly power generation such as coal-fired power generation. SKF's innovation also provides better protection for seal metal housings, thus eliminating unscheduled downtime. Repairing worn-out metal housings can also take days where the turbine has to be lifted out for maintenance.

Mechatronics: SKF magnetic bearings in turbomachines

The most common turbomachines today are centrifugal and air compressors.

The traditional technical solution to drive and support a standard range 200kW to 300kW compressor is typically a low speed electrical motor driving the compressor via a mechanical gearbox. The rotor of the compressor is then supported by fluid film bearings.

SKF today provides solutions that allow OEM partners to eliminate both the gearbox and the lubrication system by replacing the low speed motor and gear box with a variable high speed Permanent Magnet (PM) motor. The drive solution is integrated in the compressor solution and is fully supported on active magnetic bearings. The new solution eliminates the energy loss in oil pump, fans, motor, gearbox and bearing.

In a typical fixed speed centrifugal machine, 9% energy efficiency gain could be achieved (see illustration above). For a variable speed compressor the savings derived from the new technology are even higher. In addition to the reduction in power consumption leading to positive environmental effects and reduced operating costs, the new active magnetic bearing solution from SKF also provides greater

operating reliability, reduced maintenance costs and eliminates a bulky hydraulic system.

SKF's recent acquisition of S2M, the leading global company in magnetic bearings solutions, will further strengthen SKF's capability in providing sustainable solutions in the future.

Service: The SKF Client Needs Analysis – Energy and Sustainability

The SKF Client Needs Analysis – Energy and Sustainability is an extensive, web-enabled energy and environmental assessment tool used in industrial operations. Energy-intensive industries such as pulp and paper, mining, and hydrocarbon processing will benefit extensively from the SKF solution. With extensive experience and knowledge of bearings, seals, lubrication, mechatronics and services, SKF helps customers identify and implement energy- and cost-saving measures.

Energy savings come from SKF's support with proactive maintenance, minimizing asset downtime, avoiding costly machine damage, and maximizing the efficiency of the machinery.

The assessment also examines chemical treatments, lubrication use and other operating processes that can be improved to reduce the environmental impact at a facility.

A customer in the cement industry achieved 2% reduction in energy consumption, equivalent to a saving of EUR 20,000 annually, as a result of SKF's analysis. SKF has also helped an oil refinery in the US to increase the plant's daily power output by a further 12 MW, eliminating the need to purchase the required quantity from the local utility company. This led to an annual saving of USD 5 million.

Environmental Care

SKF recognizes the inherent impact production processes have on the environment and as a vital factor in achieving BeyondZero, SKF constantly implements focused actions to minimize this impact.

Before any acquisitions or divestments, environmental due diligence assessment is conducted to determine whether a clean-up is required. Potential liabilities identified by a preliminary (Phase I) investigation may be subject to a further (Phase II) investigation.

Legal and regulatory compliance

Every country where the SKF Group operates has similar rigorous legislation covering the environmental, health and safety sectors. 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 and the level of enforcement by EHS authorities.

A legal non-compliance concerning waste water was identified in 2005 in Karnare, Bulgaria. This issue was described in the 2005 and 2006 Annual Report. A new waste-water treatment plant was installed and in operation since 2006 but is yet to receive the necessary formal approval by the authorities.

SKF has a stringent process for preventing environmental pollution from its manufacturing processes. Nonetheless, 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.

Tools & document for environmental impact

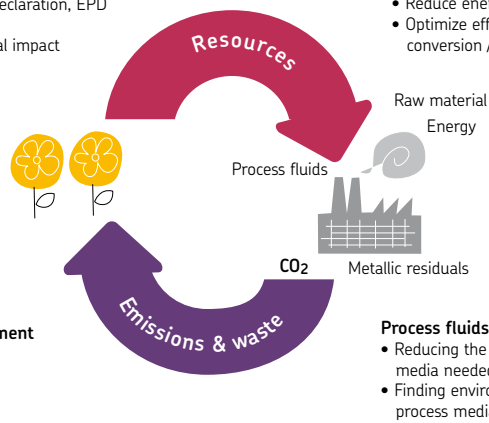
- Environmental product declaration, EPD
- Life-cycle analysis, LCA
- Modelling environmental impact

Waste management

- Process fluids
- Filters
- Metal scrap

Energy management

- Reduce energy demand
- Optimize efficiency of energy conversion / optimize energy usage



Process fluids

- Reducing the amount of process media needed
- Finding environmentally sound process media

The majority of these cases involve 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. Relevant provisions have been made to cover these costs.

ISO 14001

Environmental Management System

All SKF manufacturing sites, technical and engineering centres and logistics locations are certified according to ISO 14001. These sites are included in a single Group-wide certificate, which at the end of 2007, consisted of 91 sites in 28 countries. Newly acquired companies are given a timeframe for implementing the management system. The schedule can be found on page 122.

Sustainable manufacturing

The SKF Sustainable Manufacturing project was deployed in 2007 to systematically identify and map out the environmental impact of SKF's manufacturing. Information collected is essential to orchestrate efforts on minimizing SKF's environmental footprint.

The SKF Sustainable Manufacturing project is made up of four phases with energy management being the first. This was successfully completed with the launch of SKF Energy Toolbox and Energy Training, which aimed at reducing the energy intensity of SKF's manufacturing processes. For more information, see page 115.

Climate change

Continued commitment

The report published in 2007 by the United Nations Inter-governmental Panel on Climate Change, confirms that societies and economic entities must significantly change

the way in which energy is produced and used in order to avoid irreversible damage to the global climate. SKF has recognized the obligations implied by these conclusions for some time, and has acted, and will continue to act to reduce the greenhouse gases released as a result of the Group's energy consumption.

SKF adopts the Greenhouse Gas reporting protocol and broadens its scope of reporting

SKF has voluntarily reported all direct and some indirect emissions of carbon dioxide resulting from manufacturing operations since 2002. This information, along with the annual energy and fuel consumption figures on which it is based, has been published in the annual Sustainability Report.

In 2007, the SKF management team decided that in order to gain a more complete understanding of the global warming impact of the Group's activities, it will be necessary to increase the scope of reporting to include

aspects not currently considered. Examples of emissions that should be measured in the future are those generated as a result of business travel, logistics and out-sourced components or materials. In light of the increased complexity of such reporting, and the need to provide this information to stakeholders in a clear and transparent way, SKF has decided to adopt the Greenhouse Gas reporting protocol, published by the World Business Council for Sustainable Development and the World Resource Institute. This protocol is widely recognized as the most comprehensive and well-supported accounting methodology for the voluntary reporting of greenhouse gases.

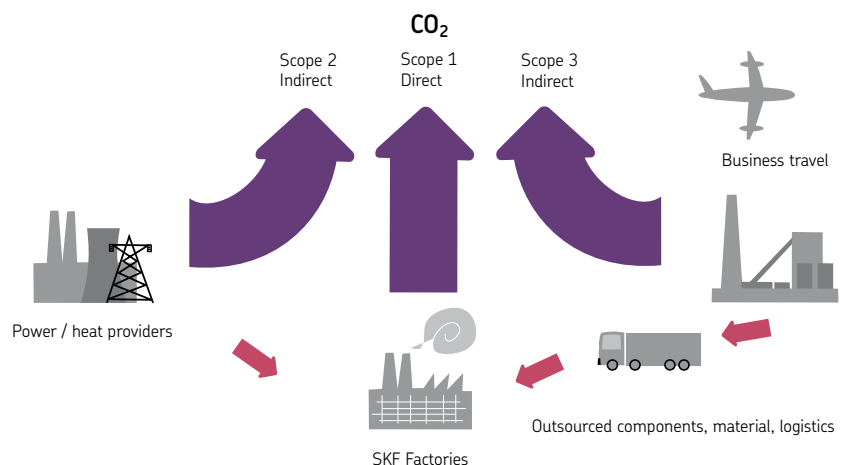
The protocol characterizes an organization's greenhouse gas (GHG) emission into three scopes, as explained in the diagram below.

SKF has established that carbon dioxide (CO₂) is by far the most significant greenhouse gas produced as a result of operations. In addition, considering the main processes directly or indirectly applied, emissions of other greenhouse gases are typically generated in proportion to those of CO₂. For these reasons SKF has, and will continue to only report CO₂ emissions.

Considering this, and applying the GHG protocol, SKF will apply the following definitions in this and future reports:

Scope 1 direct emissions: CO₂ generated as a result of combustion processes deployed at SKF facilities. Examples could be oil or gas used for heating buildings or heat treatment and butane gas used to power fork-lift trucks.

SKF definitions of CO₂ reporting scopes



Scope 2 indirect emissions: CO₂ generated by the producers of electrical energy and district heat consumed by SKF's operations.

Scope 3 indirect emissions: CO₂ generated by suppliers of materials, products and services used by SKF.

SKF has started developing the tools and procedures necessary to measure and report scope 3 emissions. However, obtaining such data with sufficient accuracy is complex, therefore it will not be possible to immediately include all aspects. SKF shall work to gradually develop and implement the measuring and reporting tools. Over the coming years, SKF will aim to report and act on as complete a reflection of its global warming impact as is practically possible.

Re-statement of emissions resulting from purchased electricity

Purchased electricity represents around 70% of the SKF Group's total energy supply and is the most significant source of CO₂ emissions (considering scope 1 and 2). Voluntarily reported CO₂ emissions resulting from purchased electricity are calculated by multiplying the measured electricity consumed by an 'emissions factor' which should reflect the power generation resources used. Emissions factors vary significantly from location to location, depending on the mix of power source (nuclear, coal, hydro etc) - it is therefore necessary for each reporting location to establish a specific emissions factor.

In 2001, when SKF first started to calculate CO₂ emissions, it was found that obtaining reliable emissions factors from suppliers or national authorities was extremely difficult in some locations. In order to overcome this problem, Group guidelines (based on data taken from the Folksam and Finanstidningen Environmental Index 2000) were distributed to all sites. These guidelines allowed sites which were not able to obtain emissions factors from external sources, to calculate them based on certain assumptions of the nature of power supply at the specific location.

More recently, the general availability of supplier or regional authority published emissions factors has improved. Therefore, during 2007 SKF issued all sites with a revised set of guidelines which ensure that the most up to date and reliable source of emission factor is used. This has led to significant changes in the calculated emissions at some sites therefore SKF Group Management has decided to re-state the Group CO₂ results. Due to the difficulties of obtaining

SKF in St. Cyr (France) reduces process fluid electricity demand by 25%, while production increases by 22%



The team pictured at SKF's medium deep groove ball bearing production facility in St Cyr, France, started to work on energy saving projects in 2005. Focusing on the systems which supply the necessary fluids for bearing production, they were able to identify simple and highly effective strategies which resulted in immediate and significant savings. In total they reduced the energy consumption from this part of the plant by more than 1.5 GWh or 25%, between 2005 and 2007, this at the same time as bearing production volume increased by 22%. To put this in perspective, this saving is equivalent to around 1/3 of the typical annual output of a modern wind-turbine.

historical emission factors, only the 2006 figures will be restated. 2006 will become the "base year" and acquisitions or divestments will be adjusted back to this year in accordance with the GHG protocol.

Considering the 2006 figures, the previously calculated total Group CO₂ emissions (419,000 tonnes) will be revised to 573,000 tonnes. It is important to recognize that this revision does not reflect any change in actual energy consumption for 2006, or previous years. These changes will however, provide improved accuracy of the CO₂ emissions data reported and will allow more precise internal quantification of the environmental impact of energy sourcing choices and energy savings actions.

Actions to reduce direct and indirect emissions (scope 1 and 2)

The SKF Group acts to reduce scope 1 and 2 emissions by working on two issues. Firstly, by increasing the energy efficiency of production activities so that less energy is used, and secondly by acting to reduce the amount of carbon emitted during the production of the energy used. These two aspects are often referred to as energy and carbon intensity respectively.

Reduced energy intensity at SKF facilities (scope 1 and 2 - direct and indirect)

During 2007, SKF undertook numerous actions aimed at reducing the energy intensity of the Group's manufacturing facilities. Some significant new developments include:

- All SKF sites with significant energy consumption now have a designated energy coordinator, responsible for running energy saving activities at the site.

- SKF Manufacturing Development Centre has worked with several SKF manufacturing facilities as well as with internal and external experts to develop specific energy management approaches and tools for the Group's manufacturing activities. These include defined procedures for measuring energy use and identifying and implementing energy savings. This information, together with best practice examples, has been launched on the SKF intranet and is available to all relevant personnel.
- An energy management training scheme (aimed specifically at the site energy coordinators) has been developed and will be rolled out throughout SKF in 2008.

As well as providing the knowledge and resources required to deploy effective energy management at SKF, related business processes have also been adapted to ensure effective realization. For example, during the general business planning process, all SKF sites are now required to calculate energy consumption and related CO₂ emissions for the coming year. At the same time, sites are also required to provide quantified energy saving proposals. This data is then aggregated by the divisions and used during the business planning process to select the most effective and efficient energy saving investments from around the Group.

Energy intensity is being developed as a key performance indicator (KPI) for all SKF manufacturing operations. This KPI will be used in conjunction with the existing CO₂ target to drive energy savings and CO₂ emissions reduction.



SKF Logistics Services Centre in Schweinfurt, Germany invested in a major solar panel project, covering its 15,000m² roof structure.

Reduced carbon intensity at SKF facilities (scope 1 and 2 - direct and indirect)

During 2007, SKF continued to act on reducing the carbon intensity of the energy consumed in operations. The Group has been able to achieve this by purchasing certified renewable or low carbon energy at some sites and by direct participation (investment) in renewable energy installations.

An example in 2007 can be found at SKF's Business Technology Park (BTP) in the Netherlands, where a 100% renewable electricity supply contract was agreed. This action resulted in a reduction of CO₂ emissions of more than 2,500 tonnes.

Considering the direct involvement in renewable energy production, SKF announced a major solar power project at the SKF Logistics Services Centre in Schweinfurt, Germany, where a new 15,000m² roof structure will be equipped with solar panels. Construction began in July 2007 and, when completed in 2008, the installation will be the third largest of its kind in Germany. The energy produced will meet 90% of the centre's demand for electricity, and will result in a reduction of around 260 tonnes of CO₂ emissions per year.

Results for 2007

The Group target set out in the 2005 Annual Report was to reduce scope 1 and 2 emissions by 5% per year in absolute terms. This target is widely recognized as one of the toughest set by any industrial enterprise, because of its magnitude and the fact that it is not normalized against any measure of volume.

When compared to the total CO₂ emissions (scope 1 and 2) generated in 2006 and using

the GHG reporting protocol, SKF has achieved an absolute reduction of emissions in 2007 of 2.2%. While this does not meet the Group target, when considered in the context of production volume growth of 12%, it does represent a dramatic reduction in both carbon and energy intensity which has resulted from the concerted efforts of all SKF units.

SKF is confident that the range of actions and initiatives described will increase the speed of improvement during 2008, and reaffirms the continued commitment to the 5% reduction target.

Actions for measuring and reducing other indirect (scope 3) emissions

SKF carried out various projects in 2007 aimed at developing measurement and reduction approaches for scope 3 emissions. The status and objectives of these projects is summarized below.

Business Travel

SKF commissioned a study in 2007 into the environmental impact of the Group's business travel activities. The work was carried out by two postgraduate students at Chalmers University. The study found that in 2006, around 24,000 tonnes of CO₂ were released as a result of SKF's business travel, with the vast majority of these emissions (80%) resulting from flights.

A number of initiatives aimed at reducing these emissions are ongoing, these include:

- A training package – "travel less, manage more" has been developed and is being rolled out to SKF managers. The training encourages the effective use of alternative

meeting formats such as video and web conferencing, as part of an overall approach to leading international teams.

- Several sites have invested in, or are about to invest in state-of-the-art video conferencing equipment.
- General awareness training on the environmental impacts of business travel has been provided for frequent travellers.
- During 2007, the Group revised its company car policy to exclude vehicles with CO₂ emissions greater than 185 gram per kilometre, with the objective of reducing the emissions from company car use.

Tools have been developed to monitor and report CO₂ emissions from flights, and the intention is for this aspect of the Group's scope 3 emissions to be included in the 2008 Annual Report.

Logistics

SKF worked alongside Chalmers University and NTM – the Swedish Network for Transport and Environment in 2007 to understand the CO₂ impact of SKF's European Direct Transportation Network (DTS). The DTS network forms a significant part of the Group's downstream logistical activities and is managed by SKF Logistics Services AB. The investigations found the annual CO₂ emissions resulting from the DTS network amounted to around 10,000 tonnes, mostly resulting from truck freight transportation. Further work is ongoing to investigate the impact of other parts of the logistical operations.

SKF will commence reporting on CO₂ impact from down-stream logistical activities in the 2008 Annual Report, the geographical and operational scope to be applied will be defined in due course.

Outsourced components and raw materials

Previous life cycle assessments have shown the significance of the CO₂ emissions generated by the Group's suppliers during production of the components and materials purchased by SKF. SKF developed and implemented a system in 2007, which allows the Group to track on a quarterly basis, the CO₂ emissions of major direct suppliers which can be attributable to SKF. Several key suppliers were consulted during the development of the reporting system. At the same time the general supplier assessment tools have been adapted to include an evaluation of the future intent shown by suppliers in this regard. These

issues will be added to the existing aspects of supplier performance evaluation, such as quality, costs, delivery speed and flexibility.

Material consumption

SKF also uses various types of materials such as metal, rubber, solvents, hydraulic oil and grease.

Metal consumption was reduced by 49% between 2004 and 2006, which largely was due to the divestment of Ovako steel manufacturing operations. Metal consumption for 2007, in comparison to 2006 rose by 3.8%, with production volumes increase of 12%.

The divestment also caused a significant difference in carbon (coal) consumption between 2004 and 2006, a decline of 90%. Carbon was used by SKF as an alloying element in steel production, not as a fuel. Carbon consumption for 2007 was 442 tonnes, compared to 1,180 tonnes in the previous year.

SKF set a solvent reduction target of 25% over a five-year period, compared to 2002's level and in relation to production volumes. The target was incorporated into the ISO 14001 in order to comply with the EU Council Directive 1999/13/EC on the limitation of volatile organic compound (VOC) emissions. This target was successfully achieved with a drop of 29% compared to 2002's level, while the production volume rose by 37%.

SKF also aimed at eliminating the use of all equipment containing PolyChlorinated Biphenyls (PCBs) at all manufacturing sites. PCB is classified as a highly toxic organic compound that causes harmful health problems. PCB has been eliminated at all sites except for Lutsk, Ukraine and Valenciennes, France where there are a number of PCB transform-

ers on site. An action plan for removal of all equipment containing PCB has been deployed.

The second phase of the SKF Sustainable Manufacturing project will also be focusing on reducing the use of process media in manufacturing as well as substituting it with environmentally-sound process media.

Water

Water consumption by the Group in 2007 was 6.96 million cubic metres, compared with 7.08 million cubic metres in 2006. A downward trend in water consumption has been seen since 2001, reflecting the Group's water conservation activities.

Various individual initiatives were deployed at SKF sites and best practises have been gathered and shared in the Sustainability sections of SKF's Annual Reports. Such cases included the installation of a new penetrant inspection facility equipped with a waste-water treatment in SKF Saint Vallier, France. It successfully reduced waste-water by 85% and used-water is recycled into the process after the filtration process (2006).

SKF's award-winning US factory in Gainesville recycled water condensed from the factory's air conditioning system during the summer as a base for coolant used in grinding operations. Water consumption subsequently fell by 1,000 cubic metres per year. The cost for disposing the waste-water was also saved as the condensed water, which contained traces of oil, was treated previously as a waste product. A further saving of 3,700 cubic metres of water was achieved by improving the method of separating oil from a water-based cleaning fluid used to wash steel bearing components after hardening. Water is recycled for production processes (2002).

SKF Industrie S.p.A, in Airasca, Italy, also reduced water consumption by 750,000 cubic metres in 2004, by investing in closed-circuit systems for cooling of production machines (2004).

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 169,350 tonnes in 2007. The recycling percentages for the main residual products are shown in Table 4, page 123.

Some SKF units have expanded their waste-collecting activities to provide social benefits. Money collected from recycling the waste was donated to help under-privileged people and support animal shelters.

Biodiversity

By the end of 2007, SKF's manufacturing sites, technical and engineering centres and logistics locations covered about 823 hectares. SKF has no activities in protected areas, nor areas of high biodiversity value.

Despite this, SKF carries out various schemes locally for biodiversity protection. One global approach of this was "Planting the SKF Tree" campaign in 2007. All SKF units planted an SKF Tree at each site to mark the 100th Anniversary celebrations. In total, more than 100 SKF units globally have planted almost 500 trees. Some units such as those in China, India and Mexico have combined the event with employee outings or family days where employees and their families were invited to plant the trees together.

SKF in Mexico towards zero accidents



SKF Mexico has been finding it difficult for several years to demonstrate any progress in meeting the Group's target of Zero Accidents. This has been partly due to a lack of awareness and heed taken to the risks of injury and incidents at the workplace.

In order to change the mindset of employees, SKF Mexico implemented a creative and effective way of communicating the importance of safety at work. Employees' children were invited

to visit their parents at work and to attend free safety workshops at SKF.

At the workshops, the children learned about safety precautions and the need for wearing protective clothing and in turn they reinforced the message of safety awareness to their parents. As a result, the SKF factory at Puebla saw a substantial decline in accident rates from 9.58 in 2000 to today's 1.34, whereas the SKF factory in Guadalajara was jubilant over achieving twelve months of an accident-free workplace thus entitling them to their first SKF Zero Accidents white award.

Reported by Jorge Rios, HR & EHS manager

Employee Care

Upholding and protecting human rights principles are of the utmost importance to SKF. This can be seen in the SKF Code of Conduct and is applicable to all its operations worldwide.

Through the World and European Works Councils, which have been in operation in SKF for many years, SKF and its union leaders have developed a long-standing working relationship based on trust.

Any issues relating to significant changes in SKF, be it acquiring or divesting operations, are always discussed and resolved in an open and constructive atmosphere. SKF's Sustainability performance was also introduced to the World Works Council held in Göteborg in September 2007.

Various Employee Care programmes are designed to provide SKF employees with safe and satisfactory working conditions where the individual's rights are respected and employees have equal opportunities for career development. The programmes also focus on employees' skills and skills development to help realize their full potential as well as to developing their pride in, and loyalty to, the company.

The company's mission is to be the preferred employer and its aim is to continually attract, develop and retain the best people in the industry.

Compliance with SKF's Code of Conduct

SKF implemented internal verification as a monitoring procedure for all units' compliance with the Code of Conduct in 2004. The audit is integrated into the ISO 14001 and OHSAS 18001 audit processes.

In addition to the Code of Conduct audit procedure, SKF also established a strictly confidential whistle-blowing procedure where employees can report behaviour or actions breaching the Code of Conduct by sending an email to the company's ethics helpline. This is addressed for the attention of the Senior Vice President, Group Human Resources and Sustainability.

Compliance audits were completed in 2007 at 47 units of which 15 were in Europe, 15 in Asia, 15 in North America, 1 in South America and 1 South Africa.

There were 9 non-compliances with legislation on working hours at SKF units in 2007. These units were in China, Indonesia, Taiwan, India, and South Africa. Corrective actions were implemented in all cases.

Working environment

The percentage of employees in full-time employment was 97% in 2007, while the average retention rate of employees was 94%.

15% of SKF's Group Management was female whereas 25% of the Board of Direc-

tors positions were held by women. At the local level, 77% of SKF units have at least one female in the local management.

SKF rolled out a group-wide Working Climate Analysis (WCA) in 2007. The WCA questionnaires, available in paper and electronic format were distributed to all the employees, aimed at obtaining their feedback on SKF's performance in relation to company values and key focus areas: business, sustainability and knowledge-sharing.

It also measured the working climate in terms of trusts, co-operation, personal development and continuous improvement of different departments and individual teams.

The participation rate for the WCA in 2007 was 90.3% with all 64 countries with SKF operations participating.

Zero Accidents

SKF has monitored accident rates since 1994. A quarterly report is submitted by all SKF units to Group Management for review. Remarkable progress has been achieved by the Group in its drive towards Zero Accidents since being launched in 2000. 104 out of 204 SKF units worldwide achieved a record of no recorded accidents for all four quarters or more.

The target was further reinforced when SKF aimed for the entire Group to be certified according to OHSAS 18001, the international standard for Occupational Health and Safety Management. This single Group-wide certificate covers 91 sites in 28 countries. Recent acquisitions are subject to an inclusion program similar to that of ISO 14001.

As part of OHSAS 18001 certification requirements, all SKF units must have health and safety committees established with management and employee representation. Employees at all sites must undergo health and safety training. Regular hazard and risk assessments on working environment are also a crucial part of OHSAS 18001.

Health and fitness

SKF aims not only to provide a safe working environment to its employees, but it is also equally important to promote health and fitness.

Several SKF units such as those in Sweden, Germany, and Austria offer on-site fitness centres, while many others provide their employees with gym cards for free access to external fitness centres.

Chart 1: This graph shows the accident rate for the SKF Group since 2000, the year the Zero Accidents programme was implemented at SKF.



Note: The accident rate is the average for monitored units within the Group. Some sales and administration offices are not monitored by the Zero Accidents programme, as the safety risks are relatively low in these areas.

The accident rate for the Group is calculated using the formula:

Accident rate = $R \times 200,000/H$

where R = number of recordable accidents

and H = total hours worked

This formula is provided by the US Occupational Safety and Health Administration (OSHA).

SKF in South Africa fights HIV/Aids



Combating the spread of HIV/Aids is one of the eight UN Millennium Development Goals. It is estimated that 39.5 million people worldwide are living with the pandemic and mainly in sub-Saharan Africa.

In order to create awareness among employees, SKF South Africa provides free counselling and voluntary testing programmes through a third-party service provider to all the employees.

This was one of the many activities brought forth by the committee that was set up in 2005, with the aim of providing assistance programmes to employees in combating the spread of HIV/Aids.

SKF South Africa also conducted training on the stigma and discrimination associated with HIV/Aids for employees with the aim of eliminating false perceptions about the HIV/Aids infection.

Reported by Corle Grobler, HR manager

SKF Nankou in China built two badminton courts at the factory's premises for the employees. It was very well-received and the employees often enjoy playing badminton after work as well as during breaks. Several badminton championships have been held in the community by SKF Nankou, fostering a social atmosphere in the community.

Training and development

Individual Development Plan

All SKF employees are entitled to an Individual Development Plan (IDP), which is reviewed regularly through Leadership Review discussions with their managers. The IDP is an essential tool entitling the employees the opportunities to train for career development and greater responsibility.

Each individual's skills profile is assessed according to the job profile during the Leadership Review discussion in order to identify the potential for improvement and further development. Training plans are subsequently listed in the IDP.

SKF colleges

The SKF in-house training centre, SKF College offers a variety of training and consulting services to cater for the development needs of employees to meet business and profession results.

Courses are provided either by SKF specialists or external professionals and cover a wide range of skills and competence develop-

ment such as talent management, business skills, professional skills, people skills, leadership development, and technical training.

SKF inaugurated three new SKF College campuses in 2006 – Pune, India, Shanghai, China, and Elgin, US. This is a stepping-stone for achieving the vision of creating SKF hubs worldwide where knowledge is increased and shared. The next SKF College campus will be in Latin America.

In addition to the individual courses, the SKF College also houses the Six Sigma campus as well as the SKF Quality Academy.

Employee assistance program

SKF in the UK and New Zealand provide employees with access to free counselling and information support offered through a third party.

Employees and their families can seek confidential support, guidance and assistance about personal and professional issues. This is to help promote employee well-being and to provide them with easily accessible means where they can voice their concerns and seek support.

A wide range of specialist services are provided through this Employee Care programme: work-related, family-related, health, home, law, finance, relationships etc. and it is accessible via the internet or by calling a free help-line which is accessible 24 hours a day throughout the year.

Community Care

SKF operates in over one hundred local communities around the world. SKF's fundamental contribution to these communities is its ability to provide safe, long-term employment and being a responsible corporate citizen. Business activities must show respect for local communities and find ways of working alongside authorities and community groups.

Beyond that, SKF encourages its local management to be actively involved in communities not only by providing financial means but also commitment through viable voluntary work and sports activities, education, training, and helping under-privileged society.

Sports

SKF was the main sponsorship partner of the 2007 Gothia Cup in Göteborg, Sweden for over 30,000 young people worldwide.

The Gothia Cup is the largest football tournament in the world for boys and girls between the ages of 11 and 19. SKF also enlarged the Gothia Cup concept to twenty different countries such as Zambia, the Philippines, India, Argentina, South Africa, Romania and Russia, by hosting local "mini" tournaments called "Meet the World". Children that would otherwise not have the opportunity to play at the Gothia Cup in Sweden were invited to take part in local tournaments. The winning team from each country was sponsored by SKF to take part at the official Gothia Cup championship.

Apart from Group sponsorship, many SKF units throughout the world also provide sports activities in their local community. In India, SKF established a sports academy to provide football and cricket training to the local children. Children were not only taught the ideas of winning but also the values of teamwork and equality.

SKF Nilai in Malaysia organizes camping activities in the tropical rainforest to spark interest among children to protect the environment and care for biodiversity.

SKF in Bulgaria sponsored an outdoor playground for some 40 children at an orphanage to help develop their physical, mental and social skills.

Education/vocational training

Illiteracy is one of the main obstacles in eradicating extreme poverty. SKF values knowledge and knowledge-sharing is one of the company's key focus areas. Nonetheless, this drive is not confined to just within SKF. Exter-

nally, SKF looks to provide society with the opportunity for education and training.

Access to primary education varies from region to region. In some countries many girls of school age are deprived of their right to attend school. This accounts for more than half of the 71 million children in the world who lack primary education.

SKF Turkey has supported the Siirt campaign for several years, which pushes for educating girls in the province of Siirt, Turkey.

There were about 640,000 school-age girls in the country without access to primary education and Siirt is one of the 53 provinces where this tendency is greatest. By creating a monitoring tool for school enrolment between girls and boys, as well as speaking to religious leaders and families, SKF Turkey successfully helped the campaign to raise girls' school-enrolment rate from 57 to 90%.

Hands-on training is also a way of sharing knowledge. SKF Steyr in Austria supports a youth organization that provides training in metalwork, woodwork, culinary and office skills to teenagers who had previously dropped out of high school.

SKF in Cajamar, Brazil on the other hand, tutors children from poor villages through games and theatrical play about safety at home, personal hygiene, values and the importance of education.

Helping under-privileged societies

Every society has needs and with a presence in more than one hundred communities, SKF continually finds ways of supporting people that are less fortunate.

From helping leprosy patients and abandoned children in India to single mothers and their children in Ukraine, SKF helped by giving both financial support and voluntary work by the employees.

SKF Thailand combined regular staff outings with visits to poor villages or under-privileged people where employees raised funds, provided blankets, medicine, preserved foods and other necessities for the local people. In Malaysia, SKF employees in Nilai regularly volunteered to help rebuild or construct houses for the poor.

Youths who are mentally and/or physically challenged often face problems in finding employment, which in turn hinders their assimilation into society. SKF Steyr in Austria joined partnership with Basar GemsbH to provide vocational training for teenagers to develop their skills, enhance strengths as well as working on their weaknesses. SKF employees also act as mentors through frequent meetings, and together with the teenagers, set up various outdoor activities to raise awareness about hygiene, nutrition, education and recycling.

To provide better opportunities for the often-neglected children with HIV/Aids, SKF South Africa established a childcare centre in Daveyton on the East Rand to accommodate 40 or more children. In addition, SKF South Africa also adopted the St Francis Care Centre to help children there from two to six years old who nearly all have HIV/Aids.

As a result of SKF's Group-wide Sustainability Awareness Training, SKF Luton in the UK formed a sustainability team to carry out environmental activities. In addition, the team also look for volunteering opportunities in the community for employees. Full-time employees are allowed up to two paid days a year to take part in approved activities. SKF Luton employees have completed improvement work at a local hospice garden, which provides care for adults and children with limited life expectancy.

Fund raising activities are a good way of fostering teamwork between employees while helping people in need. SKF units in various parts of the US often volunteer in different campaigns to raise money and health awareness. USD 419,000 was raised throughout 2007 and the money was donated to charitable organizations such as the Lance Armstrong Foundation, American Cancer Society, Salvation Army, United Way of America and many more.

SKF in China sponsors the SKF Hope School



Sikong Mountain is located far from any city and only had a ragged school facility. SKF China decided to support the construction of a proper school in the village.

On 27 September 2007, the first SKF Hope School was officially inaugurated at Sikong Mountain, Yuexi County in Anhui

In China, some children have no access to basic schooling due to poverty or the lack of schools, teachers and learning facilities in remote villages.

Province. It was a sunny day filled with excited people from SKF, the school, government and local media.

The student representative delivered a speech and happily said "When everyone was looking forward to the Mid Autumn Festival celebration, we were all looking forward to the arrival of the SKF Hope School. We have been looking forward to a proper school for years and SKF has made our dreams come true."

This is just the first SKF Hope School. The company hopes to provide the same opportunity for more children in different parts of the country where they can study without having to freeze during winters or walk tens of kilometres to go to school.

Reported by Connie Cheng,
Sustainability & HR Development Director

SKF in Germany supports mentally handicapped artists



SKF Germany has supported physically or mentally handicapped people for years. For example, in 2004 the company opened the entrance hall of its administration building in Schweinfurt for the art exhibition "Bewegungsfreiheit" (Freedom to Move) by "Kunstwerkstatt OBArt" (OBArt Art Project). OBArt is a social project in Schweinfurt that supports young, mentally handicapped, artists.

The initiative was replicated during SKF's celebration of its 100th Anniversary. Among the activities at Schweinfurt, one important event was the anniversary party, which included local suppliers and authorities being invited to the opening of the OBArt art exhibition "Energie" (Energy) at SKF. EUR 7,000 was raised from the guests through the successful auction of paintings done by the young artists. Even more important was the pleasure of the artists. Klaus Büttner, one of the attending artists said: "I like this auction very much!"

Reported by Walter Ragaller,
Communication, Public & Press Relations manager

Sponsorship

Gothenburg Award on Sustainable Development

SKF is a sponsor of the Gothenburg Award on Sustainable Development, previously known as the City of Göteborg International Environmental Prize. The SEK 1 million award is made annually to individuals or organizations for their significant contribution to sustainable development.

The 2007 award was given to Al Gore for raising public awareness about climate change through public speaking, publishing books, arranging rock concerts and featuring in the renowned documentary film "An Inconvenient Truth".

Previous prize winners include Mrs. Gro Harlem Brundtland, Forest Stewardship

Council and KRAV, 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, Toyota Prius.

Shell Eco-marathon

SKF has been involved in the Shell Eco-marathon event for several years and 2007 was no exception. SKF was the official partner, supplying the participating teams with advice and products.

SKF France set up a website to support all participating teams during their design phase. Specialists were online to provide advice regarding vehicle weight reduction, how to reduce friction, the correct use of lubricants and also to propose products suitable for the specific needs of their vehicles.

During the race, specialists were stationed on the SKF stand to answer questions and give advice to participants about various aspects of automotive mechanical engineering.

SKF gift certificates

SKF created an alternative to regular gifts and souvenirs in conjunction with the 100th Anniversary celebrations. Instead of giving stationery or gadgets as gifts to participants during conferences, meetings or celebrations, SKF hosts were given the opportunity to donate the money on behalf of the participants for environmental or social improvement.

This was very well-received by the employees and around SEK 1 million was collected for two charitable organizations – the SOS Children's Villages and the World Childhood Foundation. At the SOS Children's

Villages, the money will be used to support the building of a new children's village called Astrid Lindgren's Village in Bouar, Central African Republic, equipped with twelve family houses, one kindergarten, a primary school for more than two hundred children and a medical clinic. The World Childhood Foundation is using the donation to fund initiatives by social entrepreneurs to implement innovative methods and models helping children in institutions, abused children, girls and young mothers. One example is the Every Child Project in Ukraine and Moldavia, supporting the possibilities for young mothers to keep their children.

SEK 304,800 was donated to a hydro-power construction project in southern India through The CarbonNeutral Company. The project selected has been approved as a Certified Emission Reductions (CER) project in the Clean Development Mechanism (CDM) under the Kyoto Protocol which requires a high level of transparency. The certification on the reduced amount of carbon dioxide emissions is carried out and granted by the CDM Board of the United Nations Framework Convention on Climate Change. The amount collected from the gift certificate initiative is equivalent to the purchase of 2,015 tonnes of Certified Emission Reductions (CER) credits.



Al Gore was awarded with the 2007 Gothenburg Award on Sustainable Development

Key performance indicators

SKF adopted the "Sustainability Reporting Guidelines" in 2000 when they were issued by the Global Reporting Initiative (GRI). GRI is an international body promoting the voluntary reporting of the economical, environmental and social impact of an organization's activities, products and services. This 2007 report is based on the applicable parts of the G3 Guidelines. The G3 GRI content index can be found on www.skf.com.

Transparency of information

The financial data in this report has been verified externally and subject to a full external audit. The Auditor's Report can be found on page 92. The sustainability data has been reviewed by independent external auditors, in accordance with FAR SRS (the institute for the accounting profession in Sweden) standard RevR 6 Independent limited review of voluntary separate sustainability report and AccountAbility's AA1000 Assurance Standard. The Independent Assurance Report is on page 124.

Reporting scope

The reporting period is January–December 2007. The financial section of the report encompasses all the units within the Group. The section on Environmental Care covers the Group's manufacturing sites, technical and engineering centres and logistics locations. Sales

units are included when they are on 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. The section on Employee Care relates to SKF's manufacturing sites, technical and engineering centres and logistics locations and those units providing installation and maintenance services to customers.

The previous SKF Sustainability Report for 2006 was issued in March 2007, as an integral part of SKF's 2006 Annual Report. The scope of this 2007 report has changed due to the following:

- The establishment of the SKF Dalian LSB factory, China, the acquisitions of Economos - Judenburg, Austria, Muurame, Finland, Valenciennes, France, and Pianezza, Italy, in 2007. Figures from these factories were consolidated in the SKF Group for the first time in 2007.
- The closure of SKF's operation in Uitenhage, South Africa, in 2007. Figures from the factory were included for part of 2007.
- SKF's forging operation in Luechow, Germany, was sold-off in 2007. Figures from the factory were included for part of 2007.
- SKF's factories in Aiken and Springfield, USA, were closed in 2006. Figures from these factories were not included in the 2007 data.

Table 1 Status of ISO 14001 and OHSAS 18001 implementation at recently acquired SKF units

Country	Company	Target date
Canada	SFF Canada Ltd.	2008
China	SKF Technologies Shanghai Co. Ltd.	2008
USA	SKF Polyseal Inc. - Salt Lake City	2008
USA	SKF Polyseal Inc. - LaVerkin	2008
Austria	Economos - Judenburg	2009
France	Economos - Vernouillet	2009
Canada	S2M	2009
USA	Baker Instruments Co.	2009
USA	Preventive Maintenance Co. Inc. (PMCI)	2009
Taiwan	ABBA	2009

In 2007, the Salt Lake City, LaVerkin and Linköping sites were not ISO 14001 / OHSAS 18001 certified according to certification plan. The Salt Lake City and LaVerkin sites were given additional time to complete their certifications due to the fact that they went through an ownership restructuring process in 2007. The Linköping site was taken out of the certification plan due to the small size of their operations.

Table 2 Total consumption of electrical energy, fossil fuels and other hydrocarbons in 2002–2007 for the SKF Group.

	Units	2007	2006	2005	2004	2003	2002
Electrical energy	GWh	1,400	1,390	1,660	1,860	1,770	1,730
Fuel oil	tonnes	1,990	3,590	9,190	13,310	15,000	13,250
Natural gas	1,000 m ³ (std)	38,440	39,100	41,760	39,460	42,350	45,150
Coal ¹⁾	tonnes ²⁾	440	1,180	6,270	11,460	10,240	9,860
Liquefied petroleum gas (LPG)	tonnes	1,300	1,390	11,080	18,220	17,670	17,430
Oils	tonnes	11,310	11,930	11,960	11,880	10,600	10,800
Grease	tonnes	1,730	1,800	1,780	1,750	1,450	1,420
Synthetic rubber	tonnes	5,040	4,790	4,710	4,530	4,530	4,760
Solvents	tonnes	1,600	1,890	2,010	2,030	2,040	2,260
Production volume change	%	+12	+5	+1	+8	+3	

¹⁾ Coal (carbon) was used by SKF as an alloying element in steel production, not as a fuel.

²⁾ Only metric tons are used in this report.

Table 3 Carbon dioxide emissions associated with energy consumption by SKF

Energy source	Carbon dioxide (CO ₂) emissions tonnes*	
	2007	2006**
Scope 1		
LPG	3,896	4,178
Fuel Oil	5,902	11,390
Natural Gas	74,621	77,177
Total	84,419	92,745
Scope 2		
Electricity	434,436	434,243
Heating energy	42,036	46,329
Total	476,472	480,572
Scope 1 and 2	560,891	573,317
Production volume change %	+12	

* Adjusted for acquisitions and divestments in accordance with WBCSD GHG protocol (see www.ghgprotocol.org for details). Unadjusted data available at www.skf.com.

** 2006 figures re-stated with revised emissions factors - see page 115 for detailed explanation.

Table 4 Recycling¹ percentages for main residual products.

Material	Total quantity 2007	Recycling % 2007	Recycling % 2006	Recycling % 2005	Recycling % 2004	Recycling % 2003
Turning chips	92,920	100	100	100	100	100
Other scrap metal	76,600	100	100	100	100	100
Grinding swarf	25,130	67	65	64	62	66
Used oil	5,510	93	76	93	75	73
Paper and cardboard ²⁾	4,220	97	98	98	92	92

¹⁾ Incineration is regarded as recycling if it includes energy recovery.

²⁾ The quantity is probably somewhat underestimated, because some paper is discarded together with miscellaneous waste.

Table 5 A summary of employee performance data for the SKF Group

SKF data	
Percentage of units with independent trade unions	70%
Percentage of units with joint health and safety committees	99%
Units with HIV/AIDS programmes	24%
Percentage of units with women in senior management positions	77%
Percentage of units with freedom of association policy allowing collective bargaining	100%
Non-compliance with child labour laws	0
Registered grievances for forced/compulsory labour	0

Table 6 Health and safety statistics for the SKF Group

Parameter	Result 2007	2006	2005	2004	2003	2002
Number of reporting units ¹⁾	204	197	192	171	162	151
Number of units with zero accidents for one year minimum	104	88	80	59	58	49
Number of units qualifying for "Zero Accidents Award" ²⁾	74	54	55	36	42	32
Number of "recordable" accidents in the Group	537	536	646	833	910	1,175
Accident rate ³⁾	1.53	1.72	2.06	2.69	3.0	3.98
Number of employees (registered) ⁴⁾	42,888	41,090	37,454	39,867	38,700	39,739

¹⁾ Monitoring of automotive, industrial and service units increased during 2003-2007.

²⁾ Requires minimum of 50,000 hours worked in accident-free year to qualify.

³⁾ The accident rate is the average for monitored units within the Group. Some sales and administration offices are not monitored by the Zero Accidents programme, as the safety risks are relatively low in these areas.

⁴⁾ Includes all sales and administration offices.

Independent Assurance Report

To the readers of SKF's sustainability report:

At the request of AB SKF, we have performed a review of SKF's sustainability report 2007. The sustainability report is presented on pages 107-123 of the SKF's Annual Report 2007 including Sustainability Report, and on SKF's website in "Topics related to Annual Report 2007, including Sustainability Report", in the form of environmental performance data, Zero Accidents Award winners and compliance with GRI Guidelines (www.skf.com, Investors and Reports)

Our undertaking consisted of performing a review of quantitative and qualitative information in the sustainability report. The purpose of our review is to express whether we have found any indications that the sustainability report is not, in all material respects, drawn up in accordance with the criteria stated below. The review has been performed in accordance with FAR SRS (the institute for the accountancy profession in Sweden) standard RevR 6 Independent limited review of voluntary separate sustainability report and AccountAbility's AA1000 Assurance Standard.

In accordance with the AA1000 Assurance Standard, we confirm that we are independent of AB SKF and impartial in relation to SKF's stakeholders.

SKF's Executive Management is responsible for the day-to-day activities regarding environment, health, safety, quality and sustainable development, as well as the sustainability report. SKF Executive Management approved the sustainability report in 31 January 2008. Our task is to express an opinion on the sustainability report based on our review.

The sustainability report has been prepared based on applicable parts of the Sustainability Reporting Guidelines, G3, issued by the Global Reporting Initiative (GRI) and specific measurement and reporting principles developed and stated by SKF. Together these form the criteria used in the course of performing our review procedures.

The scope of our review included the following activities:

- Discussions with Senior Executives concerning material sustainability aspects and activities during the reporting period with a special focus on the Groups business risks related to these issues and reporting of these.
- Review of information on the scope and limitations of the content of the sustainability report.
- Review of the Group's principles for reporting sustainability information.
- Discussions with management representatives on the compilation of sustainability data and information, and on the process of developing the sustainability report.

- Review of the Group's system, and routines for registration, accounting and reporting of sustainability performance data.
- Pre-announced visits at five of SKF's sites located in Hanover, Nilai, Poznan, Saint-Cyr and Valenciennes. Interviews with local management and key sustainability personnel in order to ensure that sustainability performance data is reported, in all material respects, in a uniform manner and in accordance with the reporting principles.
- Review of underlying documentation, on a test basis, to assess whether the information in the sustainability report is based on that documentation.
- Review of qualitative information and statements, as well as the report on compliance with legislation, permits and conditions related to sustainability.
- Interviews with certain external and internal stakeholders to verify that SKF responds to important stakeholders' concerns in the sustainability report.
- Overall assessment of the sustainability report to form an opinion as to whether the reported information, in all material respects, reflects stakeholder requirements regarding sustainability information.
- Review to ascertain that the contents of the sustainability report does not contradict other information in Annual Report 2007 including Sustainability Report.
- Discussion with Senior Executives regarding the results of our review.

Based on our review procedures, nothing has come to our attention that indicates that SKF's sustainability report 2007 has not, in all material respects, been prepared in accordance with the above stated criteria.

KPMG Bohlins AB
Göteborg 31 January 2008

Thomas Thiel
Authorized Public Accountant

Karin Sivertsson
Expert member FAR SRS



Lennart Johansson, In memoriam 1921–2008



1943	Joined SKF
1968–1971	Deputy Managing Director
1971–1985	Managing Director
1985–1992	Chairman
1992–2008	Honorary Chairman

Lennart Johansson was born in 1921 in Gamlestaden, Göteborg, Sweden, a stone's throw from SKF, where he spent fifty years working until 1992. He graduated from Göteborg's Technical High School in 1941, and two years later started work at the D factory at SKF. Just over ten years later he was appointed head of the same factory and gradually advanced to manager of what was then called the Gothenburg division. He became deputy Managing Director of the Group with responsibility for manufacturing and information systems and was also in charge of a number of major investment projects. In 1971 he was appointed Managing Director, a position he held until 1985 when he became Chairman of SKF. Upon his retirement as Chairman in 1992 he was appointed Honorary Chairman.

Lennart Johansson was an engineering omnivore, with a special focus on developing grinding machines. He was a gifted construction engineer and innovator, with a passionate interest in all advanced technology from gearboxes to watches of all kinds, from tooling machines to cameras. He was rewarded for his efforts with the Swedish Royal Engineering Academy's Gold Medal, and received Honorary Doctorates of Engineering from Chalmers Institute of Technology and from the University of Sarajevo in Bosnia-Herzegovina.

Many people benefited from his capacity as an industrialist and businessman. He was Chairman of the Federation of Swedish Industries from 1985 to 1987, and was also vice chairman of SAF and the Swedish Metalworking Industries' Association. He was on the boards of, amongst others, Volvo for 20 years, SEB for 15 years, Skanska, Asea, Stora, ESAB, Atlas Copco, Broströms and Investor. Despite all these major assignments he always prioritized his duties at SKF.

At the beginning of the 1970s Lennart Johansson realized that the new Europe would mean major challenges for the company. SKF was also under attack, mainly from competition from the Far East. He began restructuring the Group in a way that still has no equal in European industrial history. The project was called GFSS – Global Forecasting and Supply System. SKF at that time was a large company with a number of relatively independent units throughout Europe manufacturing the whole range sold on their local market. The restructuring led to the Group regarding Europe as a single market, with each factory responsible for a limited part of the range, but supplying it for the whole of the European market. This involved a major re-location of production and jobs between different countries. Lennart Johansson succeeded in convincing governments, trade unions and the company of the need for this dramatic change. The project took almost ten years to complete and ensured SKF retained its world-leading position.

Lennart Johansson was an exciting combination of prominent engineer and strong, brilliant leader. He had a remarkable ability to build consensus at board and management levels and maintained good relations with the unions throughout SKF's international organisation.

His leadership was characterised by simplicity, generosity and human warmth. He always acted with strength and determination.

Those who had the privilege of working closely with Lennart over many years will always remember him as a great leader and good friend. Those of us working at SKF today owe him a huge debt of gratitude.

Management as of 31 December 2007

** member of the Group Executive Committee*



Tom Johnstone



Tore Bertilsson



Henrik Lange



Phil Knights
Senior Vice President, Global Relations
as of 2 April 2008



Vartan Vartanian
President, Service Division
as of 2 April 2008



Trygve Sthen



Carina Bergfelt



Lars G Malmer
Retired on 31 December 2007



Ingalill Östman,
Senior Vice President, Group
Communication as of 1 January 2008



Eva Hansdotter



Tommy G Klein



Bo-Inge Stensson



Giuseppe Donato



Alan Begg



Manfred Neubert

Tom Johnstone*

President and Chief Executive Officer

Born 1955

Master of Arts degree, the University of Glasgow, Honorary Doctor's degree in Business Administration, the University of South Carolina, USA

Employed since 1977. Previous positions within SKF: Executive Vice President AB SKF and President, Automotive Division and several other positions. Board member: Husqvarna AB and the Association of Swedish Engineering Industries
Shareholding in SKF: 41,196 and 90,731 stock options

Tore Bertilsson*

Executive Vice President, AB SKF and Chief Financial Officer

Born 1951

Bachelor of Science in Economics, School of Business, Economics and Law, Göteborg University
Employed since 1989. Previous positions within SKF: Group Treasury Director

Board member: Trygg-stiftelsen, Ågrenska AB and Momentum Maintenance Supply AB
Shareholding in SKF: 10,000 and 49,244 stock options

Henrik Lange*

President, Industrial Division

Born 1961

MBA in international Economics and Business Administration, School of Business, Economics and Law, Göteborg University
Employed since 2003 and 1988-2000. Previous positions within SKF: Senior Vice President, Group Business Development and several other positions.

Phil Knights*

President, Service Division

Born 1948

Bachelor of Arts in Economics, the University of Exeter, and IMD Senior Executive Programme
Employed since 1996 and 1987-1993. Previous positions within SKF: President of South East Asia Pacific operations.

Board member: Endorsia.com International AB
Shareholding in SKF: 55,546

As of 2 April 2008

Senior Vice President, Global Relations

As of 2 April 2008

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.
Shareholding in SKF: 18,529 and 10,000 stock options

Tryggve Sthen*

President, Automotive Division

Born 1952

Master of Science (M.S.E.E.) in Technical Physics and Electrotechnology, Linköping University
Employed since 2003

Carina Bergfelt

General Counsel

Born 1960

Master of Law, Lund University
Employed since 1990. Previous positions within SKF: Legal Counsel, Secretary to the Board since 1996
Board member: The Association of Exchange-listed Companies and Göteborgs Symfoniker AB
Shareholding in SKF: 1,000 and 18,628 stock options

Lars G Malmer

Senior Vice President, Group Communication

Born 1943

School of Journalism, Göteborg
Employed since 1974. Previous positions within SKF: Head of Corporate Communications and several other positions.

Board member: West Sweden Chamber of Commerce and Industry, International Council of Swedish Industries, Chalmers Teknikpark and IHM Business School
Shareholding in SKF: 35,351 and 18,628 stock options

Retired on 31 December 2007.

As of 1 January 2008

Ingaliil Östman

Senior Vice President, Group Communication

Born 1956

Master of Science in Mechanical Engineering, Luleå University of Technology
Employed since 2008
Board member: FVB Sverige ab
Shareholding in SKF: 1,000

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: 9,315 stock options

Tommy G Klein

Senior Vice President, Group Business Development and Six Sigma

Born 1947

Tele Technology, Electromechanical Technology, Malmö

Employed since 2005

Board member: Endorsia.com International AB and Pullmax AB

Shareholding in SKF: 680

Bo-Inge Stensson

Senior Vice President, Group Demand Chain and IT

Born 1961

Master of Science Industrial & Mechanical Engineering, Linköping Institute of Technology
Employed since 2006

Giuseppe Donato

Senior Vice President and Advisor

Born 1944

Degree in Engineering in Electronics and Telecommunications, the Polytechnic University of Turin

Employed since 1979. Previous positions within SKF: President, Electrical Division and several other positions.

Council Member: Confindustria Rome (Proboviro), Unione Industriale Turin, FINSAA - MBA School of the University of Turin and General Council member of ASSONIME_Rome. Appointed "Cavaliere del lavoro" by the President of the Italian Republic on 2 June 2004.

Shareholding in SKF: 5,000

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

Manfred Neubert

President, SKF GmbH

Born 1953

Master of Economics, Business Administration
Employed since 2004

Board member: WEHACO Hannover

Council member: Employers association German Metal Industry

Glossary



SKF's platforms

Bearings & units The broad range of bearing types produced globally by SKF offers customers an assortment of high-quality, high-performance, low-friction, standard and customized solutions to critical and standard applications. Units are product combinations integrated into solutions with unique performance, used in specific applications requiring a compact design, combined performance and light weight.

Lubrication system SKF offers products, solutions and vast support within areas such as industrial lubricants, lubrication consultancy, lubricator equipment, lubrication assessment, lubricant analysis, lubricant recommendations and automatic lubrication systems.

Seals SKF provides innovative solutions in elastomers or engineered plastics to meet the needs of various industries for static, rotating, reciprocating and bearing seals.

Services The service platform delivers value by addressing the entire life cycle of a particular asset. The design phase, is covered by different aspects of engineering consultancy and R&D services. The operations stage, which is the main part of the asset life cycle, is covered by a variety of solutions including services and service-related products focusing on maintenance strategy, predictive maintenance, maintenance and logistic services. The last part of the life cycle is covered by services and service-related products focusing on upgrades, refurbishment, bearing dismounting and mounting, alignment, balancing and post-maintenance testing. A wide spectrum of training is available for customers, on and off site, around the globe.

Mechatronics The mechatronics platform enhances customer value by combining SKF's strong mechanical experience and electronic technology. The platform covers systems for precision multi-axis positioning, intelligent monitoring and by-wire applications, as well as components such as ball & roller screws, actuators, rail guides and sensor modules.

A number of mechanical and electronic products are combined into modules and sub-systems addressing unique needs where SKF has specialist industrial-specific expertise.

The platform and segment approach

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 automotive, wind power, railway, machine tool, medical, food and beverage and the 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 offers with improved performance, reduced energy consumption and reduced total cost, while giving SKF greater added value and better price quality.

AA 1000 Assurance Standard • An internationally recognized standard for assessing, verifying, and strengthening an organization's sustainability reporting. The AA1000 AS is designed to be consistent with, and to enhance, the Global Reporting Initiative (GRI) Sustainability Reporting guidelines. The standard requires the independent auditors to assess a sustainability report against Materiality, Completeness and Responsiveness.

Ball bearings versus roller bearings • The main difference in the performance of these two bearing types is that ball bearings have lower friction than roller bearings, while roller bearings have a higher load-carrying capacity.

By-wire technology • In by-wire systems, the direct mechanical control of a machine is replaced by electronic control.

Carbon dioxide • A common gas with the chemical formula 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.

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.

EHS • Environment, health and safety.

Elastomer • Synthetic rubber.

endorsia.com • An e-commerce network that connects industrial customers, distributors and suppliers via the internet. A dynamic electronic marketplace for branded industrial goods and services. Jointly owned by SKF, Sandvik, Rockwell Automation, INA and Timken.

Ferroalloy • Alloy containing iron and one or more other metals. Used as a raw material in steel mills for obtaining the desired composition of the steel.

Friction • A force that counteracts movement between contact surfaces. Friction is by nature complex and is calculated by means of an empirical factor. Friction consumes energy and generates heat in rotating machinery.

Gigawatt hour (GWh) • One million kilowatt hours (kWh). Measure of electrical energy quantity.

GHG protocol • The GHG Protocol Corporate Standard provides standards and guidance for companies and other organizations preparing a GHG (green house gas) emissions inventory. Through the use of standardized approaches and principles, it provides a clear and transparent reporting mechanism.

Global warming • Increase in the average temperature world-wide, believed to be due to the greenhouse effect.

Greenhouse effect • The effect of certain gases when reaching the atmosphere to cause a reduction of heat radiation from the earth, thereby probably causing global warming.

Hub bearing unit • Easy-to-mount, compact bearing unit for passenger car wheels. It is based on a double-row angular contact ball bearing and has integrated seals. It can be equipped with a sensor suitable for Anti-lock Braking Systems (ABS), traction control and so on.

Integrated Maintenance Solution (IMS) • An IMS contract is an expanded trouble-free operation programme which consists services such as training, installation supervision, root cause failure analysis and the condition monitoring of rotating machinery.

Landfill • Designated area for disposal of waste.

Large size bearings • The range includes standard bearings as well as bearings tailored for specific applications. Bearings with an outside diameter of more than 420 mm are considered as large. The bearings are available both in metric and inch dimensions.

Life cycle analysis • Systematic analysis of all environmental impacts of a product during its entire life cycle, i.e. from raw material to end-of-life product recovery or disposal.

Linear products • A common name for components, units and systems for linear movement. They include linear bearings, profile rail guides, linear ball bearing slides and so on.

Liquefied Petroleum Gas (LPG) • Propane, butane or similar hydrocarbon gas, compressed to liquid form.

Lubricant • Grease, oil or other substance to facilitate the motion of surfaces relative to each other, e.g. in a bearing.

Machine tool bearings • Stringent demands are imposed on bearing arrangements in machine tools and the bearings must have a high level of running accuracy and stiffness, coupled with low friction, in order to obtain machining accuracy.

OHSAS 18001 • Occupational Health and Safety Assessment Series management system targets at controlling occupational health and safety (OH&S) risks as well as to improve performance in the area. It is compatible to ISO 9000 (Quality Management System) and ISO 14001 (Environmental Management System).

Original Equipment Manufacturer • Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gearboxes and so on.

Remediation • Clean-up and restoration of a contaminated site.

Resetting • Re-adjusting the machines in a production channel for the manufacture of various bearing sizes. Reducing resetting time increases the availability of bearing sizes and thus improves customer service. A further benefit is that inventory can be kept at a lower level.

Residual product • Other product than the main product from a production process. It may or may not have a net value. Residual products without a positive net value are wastes.

Self-aligning ball bearing • This bearing type, invented in 1907 by SKF's founder Sven Wingquist, solved one of the largest industrial problems of the time – the continual production stoppages caused by bearing failure. As the alignment of the shafts was not accurate enough for the rigid ball bearings

that were normally used, the bearings failed due to misalignment. The two-row, self-aligning ball bearings accommodated the misalignment without reducing service life, thereby solving the problem.

SKF@ptitude • An online web-enabled source for asset management knowledge that provides access to the global expertise of SKF and its alliance partners. Subscribers gain instant access to a knowledge bank of documents including articles, technical handbooks, best practices and benchmarking information, as well as web-based interactive decision-support services.

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.

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 focus 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 HR.

Seven-year review of the SKF Group¹⁾

<i>SEKm unless otherwise stated</i>	2001	2002	2003	2004	2005	2006	2007
Income statements							
Net sales	43,370	42,430	41,377	44,826	49,285	53,101	58,559
Operating expenses	-39,852	-38,480	-38,189	-40,461	-44,215	-47,110	-51,036
Other operating income and expenses, net	104	40	100	72	85	-22	19
Profit (+)/loss (-) from jointly controlled and associated companies	12	32	19	-3	172	738	-3
Operating profit	3,634	4,022	3,307	4,434	5,327	6,707	7,539
Financial income and expense, net	-514	-480	-506	-347	-74	-320	-401
Profit before taxes	3,120	3,542	2,801	4,087	5,253	6,387	7,138
Taxes	- 909	-1,055	-703	-1,111	-1,646	-1,955	-2,371
Net profit	2,211	2,487	2,098	2,976	3,607	4,432	4,767
<i>Attributable to:</i>							
Shareholders of AB SKF	2,167	2,466	2,042	2,926	3,521	4,317	4,595
Minority interest	44	21	56	50	86	115	172
Balance sheets							
Intangible assets	1,270	1,063	874	1,079	1,583	2,586	3,516
Deferred tax assets	540	604	940	718	862	948	989
Property, plant and equipment	13,599	12,418	11,138	11,012	11,119	11,388	11,960
Non-current financial and other assets	1,814	1,762	836	803	2,263	1,429	1,769
Inventories	9,113	8,987	8,429	8,985	9,931	9,939	11,563
Current financial assets	12,829	12,370	12,858	10,971	13,020	17,848	14,169
Other current assets	1,269	1,473	1,477	1,446	1,571	2,100	2,365
Total assets	40,434	38,677	36,552	35,014	40,349	46,238	46,331
Shareholders' equity	16,815	16,935	15,852	17,245	18,233	19,607	18,355
Provisions for pensions/post employment benefits	7,044	6,076	7,885	4,655	4,916	4,731	4,840
Deferred tax provisions	1,430	1,859	1,124	1,091	1,092	1,243	1,333
Other provisions	3,429	3,271	2,371	1,927	2,210	1,919	2,029
Financial liabilities	6,767	6,007	4,801	5,014	8,215	12,754	13,015
Other liabilities	4,949	4,529	4,519	5,082	5,683	5,984	6,759
Total equity and liabilities	40,434	38,677	36,552	35,014	40,349	46,238	46,331
Key figures²⁾ (in percentages unless otherwise stated)							
Return on total assets	9.9	11.0	9.5	12.7	14.5	16.8	17.1
Return on capital employed	14.9	17.1	13.9	19.0	21.8	24.7	25.4
Return on shareholders' equity	14.3	15.6	13.4	17.9	20.7	23.6	25.5
Operating margin	8.4	9.5	8.0	9.9	10.8	12.6	12.9
Turnover of total assets, times	1.08	1.07	1.10	1.24	1.28	1.27	1.25
Portion of risk-bearing capital	46.3	49.4	46.4	52.4	47.9	45.1	42.5
Gearing	38.6	33.4	37.4	24.9	33.2	39.1	40.1
Equity/assets	41.6	43.8	43.4	49.3	45.2	42.4	39.6
Investments and employees							
Additions to property, plant and equipment	1,403	1,442	1,379	1,401	1,623	1,933	1,907
Research and development expenses	871	767	750	784	837	875	900
Patents - number of first filings	171	158	151	189	176	175	186
Average number of employees	37,636	38,609	37,632	38,502	37,454	39,780	41,645
Number of employees registered at 31 December	38,091	39,739	38,700	39,867	38,748	41,090	42,888

¹⁾ Years prior to 2003 are reported according to Swedish GAAP.

²⁾ See Note 1 to the consolidated financial statements for definitions of key figures.

Three-year review of the SKF divisions/segments¹⁾

<i>SEKm unless otherwise stated</i>	2005	2006	2007
Industrial Division			
Net sales	14,821	17,176	19,266
Sales incl. intra-Group sales	23,695	26,698	29,318
Operating profit	2,374	3,027	3,430
Operating margin ²⁾	10.0%	11.3%	11.7%
Assets and liabilities, net	10,054	11,543	13,776
Registered number of employees	16,513	17,760	18,650
Service Division			
Net sales	16,419	17,984	19,597
Sales incl. intra-Group sales	18,080	19,761	21,393
Operating profit	2,120	2,362	2,846
Operating margin ²⁾	11.7%	12.0%	13.3%
Assets and liabilities, net	3,359	3,437	4,342
Registered number of employees	5,025	5,279	5,780
Automotive Division			
Net sales	17,050	17,869	19,617
Sales incl. intra-Group sales	20,882	21,807	23,795
Operating profit	499	946	1,154
Operating margin ²⁾	2.4%	4.3%	4.8%
Assets and liabilities, net	8,772	9,786	9,552
Registered number of employees	16,053	16,832	17,185

¹⁾ Previously published amounts have been restated to conform to the current Group structure in 2007. The structural changes include business units being moved between the divisions and from other operations to divisions.

²⁾ Operating margin is calculated on sales including intra-Group sales.

General information

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 15.30 on Wednesday, 16 April 2008.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by VPC AB by Thursday, 10 April 2008, and must notify the company before 12 noon on Thursday 10 April 2008 via the internet, www.skf.com, or by letter to

AB SKF

Group Legal

SE-415 50 Göteborg

Sweden

or by fax +46 31 337 16 91

or by telephone +46 31 337 25 50

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered shareholding and advisors, if any. Where representation is being made by proxy, the original of the proxy form shall be sent to the company before the date of the meeting.

Shareholders whose shares are registered in the name of a trustee must have the shares registered temporarily in their own name in order to take part in the meeting. Any such re-registration for the purpose of establishing voting rights shall take place by Thursday, 10 April 2008. This means that the shareholder should give notice of his/her wish to be included in the shareholders' register to the trustee in plenty of time before that date. A re-registration fee will normally be payable to the trustee.

Payment of dividend

The Board of Directors proposes a dividend of SEK 5.00 per share for 2007. 21 April 2008, is proposed as the record date for shareholders to be entitled to receive dividends for 2007. Subject to acceptance by the Annual General Meeting, it is expected that VPC AB will send out notices of payment on 24 April 2008.

Financial information and reporting

AB SKF will publish the following financial reports in 2008:

Year-end report 2007	31 January
Annual Report 2007	12 March
First-quarter report 2008	16 April
Half-year report 2008	15 July
Nine-month report 2008	16 October

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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.

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- Articles of Association
- Code of Conduct
- Environmental policy
- Environmental performance data
- Zero accidents – award winners
- Production sites
- Compliance with GRI Guidelines
- AA1000 Assurance Standard
- Carbon dioxide emissions, data

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