PROSPECTUS

AKTIEBOLAGET SKF

(*a public company incorporated with limited liability in Sweden*)

€500,000,000 3.875 per cent. Notes due 25 May 2018

Issue price: 99.813 per cent.

The €500,000,000 3.875 per cent. Notes due 25 May 2018 (the **Notes**) are issued by Aktiebolaget SKF (the **Issuer**).

The Issuer may, at its option, redeem all, but not some only, of the Notes at any time after 25 May 2011 at the Make-Whole Redemption Price, together with any accrued interest. Also, the Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes as described under the Conditions of the Notes. The Notes mature on 25 May 2018.

Application has been made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg Act dated 10 July 2005 (the **Luxembourg Act**) on prospectuses for securities to approve this document as a prospectus and to the Luxembourg Stock Exchange for the listing of the Notes on the Official List of the Luxembourg Stock Exchange and admission to trading on the Luxembourg Stock Exchange's regulated market. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

The Notes will be rated A3 by Moody's Investors Service Limited (**Moody's**) and A- by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (**S&P**). As at the date of this Prospectus S&P and Moody's are established in the European Union and have applied for registration under Regulation (EC) No. 1060/2009 (the **CRA Regulation**), although notification of the corresponding registration decisions have not yet been provided by the relevant competent authority.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 25 May 2011 (the **Closing Date**) with a common safekeeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 5 July 2011 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes in bearer form, serially numbered in the denomination of €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000, each with Coupons attached on issue, only in certain limited circumstances - see "*Summary of Provisions relating to the Notes while represented by the Global Notes*". No Notes in definitive form will be issued with a denomination above €199,000.

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 5.

Joint Lead Managers

BofA Merrill Lynch **Citi** **Deutsche Bank** **HSBC**

The date of this Prospectus is 24 May 2011

This Prospectus comprises a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the **Prospectus Directive**) and for the purposes of the Luxembourg Act.

The Issuer (the **Responsible Person**) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Board of Directors of the Issuer is, to the extent provided by law, responsible for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus should be read and construed on the basis that such documents are incorporated and form part of the Prospectus.

The Joint Lead Managers (as described under "*Subscription and Sale*", below) have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes. No Joint Lead Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offering of the Notes or their distribution.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription and Sale*" below.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and Sweden, see "*Subscription and Sale*".

IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED AS STABILISING MANAGER (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

All references in this document to **U.S. dollars**, **U.S.$** and **$** refer to the currency of the United States of America, to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended, and to **Swedish Kronor** and **SEK** refer to the currency of the Kingdom of Sweden.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

Business risks in general/Changes in economic conditions

The Issuer is the parent company of the SKF group of companies (the **Group**). The Group operates in many different industrial and automotive segments, as well as in many geographical segments which are at different stages of the economic cycle. A general economic downturn at a global level, or in one of the world's leading economies or a change in the economic situation in any of the industry segments in which the Group operates could affect customers' investment plans which in turn could reduce the demand for the Group's products, solutions and services for a period of time. In addition natural disasters, including but not limited to earthquakes, tsunamis and ash clouds, as well as disturbances in the worldwide financial markets, could have a negative impact on the availability of raw materials and components necessary for the Group's manufacturing process and/or the demand for the Group's products, solutions and services. Under certain circumstances any of the risks identified above could have a material adverse effect on the Issuer's business, financial position and results of operations.

Global political environment

There are political and regulatory risks associated with the wide geographical presence of the Group. Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit or otherwise negatively impact the Group's operations. Further terrorism, war, unrest and other hostilities could have a negative effect on the availability of raw materials and components necessary for the Group's manufacturing process and/or the demand for the Group's products, solutions and services and could therefore have a material adverse effect on the Issuer's business, financial position and results of operations.

Competition

Competitive factors, including changes in market penetration, increased price competition, the development and introduction of new products, product designs and technologies by significant existing and new competitors and to a lesser extent small regional companies as well as changes in customer demand on sales, product mix, prices and service quality could have a material adverse effect on the Issuer's business, financial position and results of operations.

Also, the Issuer cannot give any assurance that its competitors do not or will not seek to utilise the Issuer's patents, trademarks and logos when they market their products. Such unauthorised use of the Issuer's intellectual property rights is an infringement of the Issuer's legal rights and may have a material adverse effect on the Issuer's business and brand image.

Changes in manufacturing cost as well as issues affecting manufacturing and production facilities of the Group or its suppliers and its ability to distribute its products

Changes in the costs associated with the Group's various levels of operations including, but not limited to, the effects of unplanned work stoppages, severe interruptions in its production and damage to the equipment, the cost of labour, and the cost and availability of, for example, materials and energy supply from third party suppliers could have a material adverse effect on the Issuer's business, financial position and results of operations.

If critical equipment in the operating facilities is significantly damaged, or there are severe interruptions in its productions, the Group is likely to face setbacks in its ability to manufacture and distribute its products. Such circumstances, to the extent it is unable to find an alternative manufacturing and production facility or repair the damaged facilities or damaged equipment in a timely and cost-efficient manner, could have a material adverse effect on the Group's business, results of operations and financial condition.

Changes in costs for raw materials

The annual cost of raw materials and components is approximately SEK 13 billion, of which steel-based products account for the majority. An increase/decrease of 1 per cent. in the cost of raw materials and components would reduce/increase operating profit by approximately SEK 130 million. Steel scrap is a major ingredient in making bearing steel. A 10 per cent. increase/decrease of market scrap prices would affect the Group's operating profit by SEK 110 million, which is already included in the figure for raw materials and components that impacts the operating profit.

Property and product liability insurance

The Group has the customary insurance programmes with respect to the Group's property and product liability risks. Measures to limit the effect of damages are continually taken and standards for desired safeguard levels are established in order to reduce the probability of material damages and to ensure deliveries to the customers. While the Group holds customary insurance programmes in the amounts the Issuer believes to be appropriate, there can be no assurances that the Group will be able to fully recover such amounts or that recovered amounts will be sufficient to cover the Group's losses.

IT Risks

The Group's operations are dependent on IT-systems and solutions. Routines and procedures are implemented to protect hardware, software and information from being damaged, manipulated, lost or misused. A major break-down of these systems with loss of information may have a material adverse effect on the Group's business, financial position and results of operations.

Retention of key employees

The Group has, and is dependent on, highly knowledgeable and skilled people and it works actively on its ability to attract and retain its employees. New global processes have been developed for recruitment, employee performance and the overall skills of employees. These new processes will enable the Group to further develop the skills within the Group to even higher levels. However, there can be no assurance that the Group will be able to retain and attract all of the key employees that it requires and a lack of highly qualified management and other skilled employees may have an adverse effect on the Group's business, financial position and results of operation.

Work stoppages or strikes

Many of the Group's employees are covered by collective bargaining agreements. The Issuer cannot provide any assurance that it will not encounter strikes or other disturbances occasioned by its unionised labour force, or that, upon the expiration of existing agreements, it will be able to reach new collective bargaining agreements on satisfactory terms or without work stoppages, strikes or similar industrial actions.

Non-satisfactory terms on any collective bargaining agreements could cause the Group's labour costs to increase, which would affect its profit margins negatively. In addition, it is required to consult and seek the advice of its Employee Works' Council in respect of a broad range of matters, which could delay or prevent the completion of certain corporate transactions. While the Group has not experienced any major work stoppages in recent years and expects its current process to proceed amicably, the Issuer cannot provide any assurance that it will not experience lengthier consultations or even strikes, work stoppages or other industrial actions in the future. Any industrial action could disrupt its operations, possibly for a significant period of time, and result in increased wages and benefits or otherwise have a material adverse effect on the Group's business, results of operations and financial condition.

Environmental matters

As an industrial company, the Group is subject to numerous environmental laws and regulations governing, among other things, air emissions, waste water discharge and solid and hazardous waste disposal. The Group has a stringent process for preventing environmental pollution from its manufacturing processes. However, like other long-established industrial companies, the Group is involved in various action plans and remediation projects, resulting from historical activities. Because of stricter laws and regulations - some with retroactive effect- relating to landfill disposal, some of the Group companies are currently involved in the cleaning-up of old landfills, most of which have not been used for many years. The majority of these cases concern so-called superfund sites in the United States. A superfund site is an old landfill or plant site in the United States with soil or groundwater contamination, subject to a remediation programme according to federal law. In most of these cases the Group company was one of many companies contributing to waste disposal at landfill sites in the past and the Group's share is generally very low - a few per cent. or less. Other than this, a few ongoing remedial activities are being carried out in Italy for soil and groundwater contamination. Although the Issuer believes that the ultimate resolution of these issues will not have a material impact on its financial position, it can give no assurance that it will not have a material adverse effect on its business and results of operations. In addition, stricter environmental laws and regulations, sometimes with retroactive effect, may lead to increased expenditure to comply with these laws and regulations. Furthermore, accidental environmental pollution may also expose the Group to substantial liability that could have a material adverse effect on the Issuer's results of operations.

Environmental provisions

The Group has made its best estimate of expected environmental provisions for a number of locations and several superfund sites designated by the U.S. Environmental Protection Agency and U.S. state agencies and the authorities in several other countries. Management believes the ultimate resolution of these issues will not have a material impact on the financial position or results of operations of the Group, but no assurance can be given that actual costs will not exceed the estimates.

Difficulties integrating acquired businesses and achieving anticipated synergies.

The Issuer cannot provide any assurance that it will not experience problems in relation to the integration of acquired companies or that the expected synergies will be achieved within planned timeframes. In addition, the Group may bear expenses and liabilities undisclosed in its due diligence and acquisition processes. The Group cannot guarantee that the integration of acquired entities will occur within the planned timeframes. Moreover, integration costs could be higher than initially anticipated and expected synergies may not be fully achieved. The occurrence of any of the foregoing may have an adverse effect on the Group's business, financial position and results of operations.

Financial risks

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

Foreign currency exchange rate risk

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

Translation exposure

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

Transaction exposure

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

Interest rate risk exposure

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.

Holding company risk

The Issuer performs services of a common Group character. The financial position of the Issuer, being the parent company, is dependent on the financial position and development of its 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 to write down the values of the shares in the subsidiaries.

Equity/Price risk

The Group as at 31 December 2010 held investments in equity securities with quoted stock prices amounting to SEK 645 million, and accordingly, is subject to the risks associated with changes in stock exchange prices and indexes. If the market share price had been 10 per cent. higher/lower as at 31 December 2010 equity would have increased/decreased by SEK 65 million.

Liquidity risk

Liquidity risk, also referred to as funding risk, is defined as the risk that the Group will encounter difficulties in raising funds to meet its 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, as at 31 December 2010 the Group had committed credit facilities of EUR 500 million syndicated by 10 banks that will expire in 2014 and committed credit facilities of SEK 3,000 million that will expire in 2017. Of these facilities, EUR 400 million were utilised in connection with the acquisition of Lincoln.

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 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 majority of these financial institutions have signed an ISDA agreement (International Swaps and Derivatives Association, Inc.). Transactions are made within fixed limits and exposure per counterparty is continuously monitored.

At operational level, the outstanding receivables are continuously monitored locally 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 amounted as at 31 December 2010 to SEK 13,592 million. 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. As at the reporting date, no granting of significant financial guarantees increasing the credit risk and no significant collateral agreements reducing the maximum exposure to credit risk existed.

General risks

Unanticipated claims

Unanticipated claims including, but not limited to, claims or problems relating to intellectual property, product warranty and product liability could have a material adverse effect on the Issuer's business and results of operations.

Litigation

The Group companies are parties to litigation and administrative proceedings relating to their business operations in the ordinary course of business. There is currently no litigation in relation to the Group the likely outcome of which is expected to have a significant effect on the financial position or profitability of the Group. However, there can be no assurance that the Group will not be subject to legal disputes, which may have an adverse effect on the Issuer's business, financial position and results of operation. *Ratings downgrades may increase the Issuer's funding costs and substantially reduce the Issuer's earnings.*

The Issuer's credit rating depends on many factors, some of which are outside of the Issuer's control. If the Issuer were to receive downgrades in its credit rating, it may become necessary to offer increased interest rates in the capital markets in order to obtain financing, which would likely substantially lower the Issuer's profit margins and earnings and negatively affect the Issuer's business and results of operations.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Meetings of Noteholders and Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Fiscal Agent may, without the consent of the Noteholders, agree to any modification of any of the provisions of the Notes subject as described in the conditions of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

Change of law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Eligibility of the Notes for Eurosystem Monetary Policy

The Notes are issued in New Global Note form and are intended upon issue to be held in a manner which would allow Eurosystem eligibility. This means that the Notes are, upon issue, deposited with one of the international central securities depositories (**ICSDs**) as common safekeeper. This does not mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by Eurosystem (**Eurosystem Eligible Collateral**) either upon issue, or at any or all times during their life. Such recognition will depend on satisfaction of the Eurosystem eligibility criteria and other obligations (including the provision of further information) as specified by the European Central Bank from time to time. The Issuer does not give any representations, warranty, confirmation or guarantee to any investor in the Notes that the Notes will at any time during their life, satisfy all or any requirements for Eurosystem eligibility and be recognised as Eurosystem Eligible Collateral. Any potential investor in the Notes should make their own conclusions and seek their own advice with respect to whether or not the Notes constitute Eurosystem Eligible Collateral.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of them.

Credit ratings may not reflect all risks

S&P and Moody's have assigned credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). This is subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

S&P and Moody's are established in the European Union and have applied for registration under Regulation (EC) No. 1060/2009, although notification of the corresponding registration decisions have not yet been provided by the relevant competent authority.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus:

- the auditors report and audited consolidated annual financial statements for the financial year ended 31 December 2009 and 31 December 2010 including the information set out at the following pages in particular:

	2009 Annual Report	**2010 Annual Report**
Consolidated Balance Sheet	Pages 48 to 49	Pages 54 to 55
Consolidated Income Statement	Pages 46 to 47	Pages 52 to 53
Notes to the Consolidated Financial Statements	Pages 53 to 88	Pages 59 to 94
Audit Report	Page 100	Page 106

  Any other information not listed above but contained in such document is incorporated by reference for information purposes only;

- the interim consolidated financial statements for the three months ended 31 March 2011 of the Issuer attached to the Press Release dated 19 April 2011; including the information set out at the following pages in particular:

Balance Sheet	Page 8
Profit and Loss Account	Page 6

  Any other information not listed above but contained in such document is incorporated by reference for information purposes only.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus can be obtained from the registered office of the Issuer, from the specified offices of the Paying Agents for the time being in Luxembourg and from the website of the Luxembourg Stock Exchange (www.bourse.lu).

FINANCIAL INFORMATION

The audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2009 and 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (**IFRS**).

CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form:

The €500,000,000 3.875 per cent. Notes due 25 May 2018 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 13 and forming a single series with the Notes of Aktiebolaget SKF (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated 25 May 2011 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, The Bank of New York, London Branch as fiscal agent and principal paying agent (the **Fiscal Agent**) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the **Paying Agents**).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons**) at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000, each with Coupons attached on issue. No Notes in definitive form will be issued with a denomination above €199,000.

1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon).

2. STATUS

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. NEGATIVE PLEDGE

3.1 Negative Pledge

So long as any of the Notes remains outstanding, the Issuer will ensure that no Relevant Indebtedness of the Issuer or any of its Subsidiaries (as defined below) will be secured by any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future property, assets or revenues of the Issuer or any of its Subsidiaries unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(i) all amounts payable by it under the Notes and the Coupons are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or

(ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Agency Agreement as a resolution duly passed by a majority of not less than three-fourths of the votes cast) of the Noteholders;

provided that the Issuer shall not be required to take such action where (i) the aggregate outstanding principal amount of the Relevant Indebtedness secured by such Security Interests shall not exceed 10 per cent. of the consolidated total assets of the Issuer and its Subsidiaries, as calculated by reference to the then latest audited consolidated accounts of the Issuer or (ii) the Security Interest is on the present or future property, assets or revenues of any company becoming a Subsidiary after the date of issue of the Notes which Security Interest exists at the time of such company becoming a Subsidiary (other than any Security Interest created in contemplation thereof).

3.2 Interpretation

For the purposes of these Conditions:

(a) **Relevant Indebtedness** means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures or other securities which are for the time being quoted or listed on any stock exchange, over-the-counter or other securities market and (ii) any guarantee or indemnity of any such indebtedness; and

(b) **Subsidiary** means a subsidiary within the meaning of chapter 1, section 11 of the Swedish Companies Act (2005:551).

4. INTEREST

4.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 25 May 2011 at the rate of 3.875 per cent. per annum, payable annually in arrear on 25 May (each an **Interest Payment Date**). The first payment (for the period from and including 25 May 2011 to but excluding 25 May 2012 and amounting to €3.875 per €100,000 principal amount of Notes) shall be made on 25 May 2012.

4.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption or purchase unless, upon due presentation, payment of the principal in respect of the Note, any purchase money due under Condition 6.4 is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent and notice to that effect has been given to the Noteholders in accordance with Condition 11.

4.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

4.4 Change of Control Event

If there occurs (i) a Change of Control and within the Change of Control Period (if at the time that Change of Control occurs the Notes are rated by a Rating Agency) a Rating Downgrade in respect of that Change of Control occurs or (ii) a Change of Control (if at such time the Notes are not rated by a Rating Agency) (each a **Step-Up Event**), then from and including the date of the Step-Up Event the interest rate on the Notes shall be determined in Conditions 4.1, 4.2 and 4.3, except that that interest rate in Condition 4.1 shall instead be 8.875 per cent. per annum.

Rating Agency means Moody's Investors Service Limited or Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and their respective successors or any other rating agency or equivalent international standing specified by the Issuer.

A **Rating Downgrade** shall be deemed to have occurred in respect of a Change of Control if within the Change of Control Period the rating previously assigned to the Notes by any Rating Agency is (a) withdrawn or (b) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (c) (if the rating assigned to the Notes by any Rating Agency shall be below an investment grade rating (as described above)) lowered one full rating category (from BB+ to BB or such similar lower or equivalent rating), provided that a Rating Downgrade otherwise arising by virtue of a particular change in rating shall be deemed not to have occurred in respect of a particular Change of Control if the Rating Agency making the change in rating to which this definition would otherwise apply does not publicly announce or publicly confirm that the reduction was the result, in whole or part, of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Change of Control.

A **Change of Control** shall be deemed to have occurred at each time (whether or not approved by the Board of Directors of the Issuer) that any person or persons acting in concert or any person or persons acting on behalf of any such person(s) (the **Relevant Persons**), at any time acquire(s) (A) more than 50 per cent. of the issued or allotted ordinary share capital of the Issuer or (B) such number of shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer, provided that a Change of Control shall be deemed not to have occurred if all or substantially all of the shareholders of the Relevant Person(s) are, or immediately prior to the event which would otherwise have constituted a Change of Control were, the shareholders of the Issuer with the same (or substantially the same) pro rata interest in the share capital of the Relevant Person(s) as such shareholders have, or as the case may be, had in the share capital of the Issuer.

Change of Control Period means the period ending 90 days after the public announcement of the Change of Control having occurred.

5. PAYMENTS

5.1 Payments in respect of Notes

Payments of principal, any purchase moneys due under Condition 6.4 and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

5.2 Method of Payment

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee with or, at the option of the payee, by euro cheque.

5.3 Missing Unmatured Coupons

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 8).

5.4 Payments subject to Applicable Laws

Payments in respect of principal, purchase moneys due under Condition 6.4 and interest on Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7.

5.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 8):

(a) is or falls after the relevant due date;

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and

(c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET2 Settlement Day.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place and **Target2 Settlement Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system is open.

5.6 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

(a) there will at all times be a Fiscal Agent;

(b) there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having its specified office in a European city which so long as the Notes are listed on the Luxembourg Stock Exchange shall be Luxembourg;

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and

(d) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 11.

6. REDEMPTION AND PURCHASE

6.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 25 May 2018.

6.2 Redemption for Taxation Reasons

If:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 7), or any change in the official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 25 May 2011, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts, were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

6.3 Redemption at the Option of the Issuer

The Issuer may at its option having given not less than 30 nor more than 60 days' notice to the Noteholders and the Fiscal Agent in accordance with Condition 11 (which notices shall be irrevocable and shall specify the date fixed for redemption and the applicable record date), redeem all (but not some only) of the Notes at any time after 25 May 2011 at the Make-Whole Redemption Price together with interest accrued.

The **Make-Whole Redemption Price** shall be either (i) par or, if higher (ii) the price per Note (as reported in writing to the Issuer and the Fiscal Agent by a financial adviser selected by the Issuer) equal to the sum of the prevailing yield of the Bundesrepublik Deutschland 4 per cent. due 2018 and 0.15 per cent. provided, however that if a financial adviser approved by the Issuer advises the Issuer and the Fiscal Agent that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other issue of government securities as such financial adviser may recommend.

6.4 Purchases

The Issuer or any of its Subsidiaries (as defined above) may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

6.5 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be reissued or resold.

6.6 Notices Final

Upon the expiry of any notice as is referred to in paragraph 6.2 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

7. TAXATION

7.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

(a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or

(b) presented for payment in Sweden; or

(c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

(e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Presentation Date (as defined in Condition 5).

7.2 Interpretation

In these Conditions:

(a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 11; and

(b) **Relevant Jurisdiction** means Sweden or any political subdivision or any authority thereof or therein having power to tax any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes and Coupons.

7.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

8. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal and purchase moneys due under Condition 6.4) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7.2) in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 5.

9. EVENTS OF DEFAULT

9.1 Events of Default

The holder of any Note may give written notice to the Issuer, effective upon the date of receipt thereof by the Issuer, that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (**Events of Default**) shall have occurred and be continuing:

(a) if default is made in the payment of any principal, purchase moneys due under Condition 6.4, or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal or 14 days in the case of interest; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 45 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or

(c) if (i) any Indebtedness for Borrowed Money (as defined below) (other than under the Notes) of the Issuer becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment (subject to any originally applicable grace period therefor); (iii) any security given by the Issuer for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer in making any payment due (subject to any originally applicable grace period therefor) under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, provided that any such event shall not constitute an Event of Default unless the aggregate amount of the relevant Indebtedness for Borrowed Money and any liability under the guarantee or indemnity concerned in respect of which one or more of the events mentioned above in this paragraph have occurred during the immediately preceding 6 month period exceeds €40,000,000 (or its equivalent in any other currency); or

(d) if any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer otherwise than for the purpose of a merger, reconstruction or amalgamation on terms approved by an Extraordinary Resolution of Noteholders; or

(e) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of a merger, reconstruction or amalgamation complying with the terms of Condition 9.1(d) above, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(f) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the Issuer, is not discharged within 45 days; or

(g) if the Issuer (or its respective directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

9.2 Interpretation

For the purposes of this Condition, **Indebtedness for Borrowed Money** means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any borrowed money, including without limitation any notes, bonds, debentures, debenture stock, loan stock or other securities or any liability under or in respect of any acceptance or acceptance credit.

10. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent or the Paying Agent in Luxembourg, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer and the Fiscal Agent or the Paying Agent, as the case may be, may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. NOTICES

11.1 Notices to the Noteholders

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide and, so long as the Notes are admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, and the rules of that exchange so require, in one daily newspaper published in Luxembourg. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

12. MEETINGS OF NOTEHOLDERS AND MODIFICATION

12.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

12.2 Modification

The Fiscal Agent may agree, without the consent of the Noteholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein which may be of a formal, minor or technical nature or (ii) in any other manner which is not, in the reasonable opinion of the Issuer, materially prejudicial to the interests of the Noteholders. Any modification shall be binding on the Noteholders and the Couponholders and any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 11.

13. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

14. GOVERNING LAW AND SUBMISSION TO JURISDICTION

14.1 Governing Law

The Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes and the Coupons are governed by, and will be construed in accordance with, English law.

14.2 Jurisdiction of English Courts

The Issuer has irrevocably agreed for the benefit of the Noteholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Agency Agreement, the Notes and the Coupons) and accordingly has submitted to the exclusive jurisdiction of the English courts. The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

The Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Notes or the Coupons respectively (together referred to as **Proceedings**) (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Notes or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

14.3 Appointment of Process Agent

The Issuer hereby irrevocably and unconditionally appoints SKF (U.K.) Limited at its registered office for the time being as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

14.4 Other Documents

The Issuer has in the Agency Agreement submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above.

15. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together the ***Global Notes****) which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes. The Notes will be issued in new global note (****NGN****) form.*

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only if:

(a) an event of default (as set out in Condition 9) has occurred and is continuing; or

(b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available; or

(c) the Issuer has or will, as a result of legislative changes in the domicile of the Issuer, become subject to adverse tax consequences which would not be suffered were the Notes in definitive form.

The Issuer will promptly give notice to Noteholders if an Exchange Event occurs. In the case of (a) or (b) above, the holder of the Permanent Global Note, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent and, in the case of (c) above, the Issuer may give notice to the Fiscal Agent of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes in bearer form, serially numbered, in the denomination of €100,000 and integral multiples of €1,000 in excess thereof, up to and including €199,000 (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. No Notes in definitive form will be issued with a denomination above €199,000. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 30 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 5 July 2011, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal, purchase moneys under Condition 6.4 and interest in respect of Notes represented by a

Global Note will, subject as set out below, be made to the bearer who is for the time being shown in the records of Euroclear or Clearstream Luxembourg as the holder of such Global Note on the Business Day prior to the date for payment (the **Record Date**) and, if no further payment falls to be made in respect of the Notes, against surrender of such Global Note to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. The Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg and the nominal amount of the Notes recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Note will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 11, provided that, so long as the Notes are listed on the Luxembourg Stock Exchange, notice will also be given by publication in a daily newspaper published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort* or the *Tageblatt* in Luxembourg. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Fiscal Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notices to the Issuer pursuant to Condition 9) other than with respect to the payment of principal, purchase moneys due under Condition 6.4 and interest on the principal amount of such Notes, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Note in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer in respect of principal, purchase moneys due under Condition 6.4 and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by entry in the records of Euroclear or Clearstream, Luxembourg, as the case may be.

7. Euroclear and Clearstream, Luxembourg

Notes represented by a Global Note are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Notes are held.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be applied by the Issuer for its general corporate purposes.

DESCRIPTION OF THE ISSUER

History and Development of the Issuer

Aktiebolaget SKF (the **Issuer**) was incorporated with registration number 556007-3495 under the laws of Sweden in 1907 and is a limited liability company with an indefinite duration. The Issuer is headquartered and has its registered office in Göteborg, Sweden and its principal offices are located at Hornsgatan 1, SE-415 50 Göteborg, Sweden. The Issuer's telephone number is +46-31-3371000.

The Issuer is the parent company of the global SKF group of companies (**SKF**).

From the outset the Issuer has focused intensively on quality, technical development and marketing. Since it began operating, SKF'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 2010, the number of first filings of patent applications was 251. SKF's technical knowledge and capabilities are within bearings and units, seals, mechatronics, services and lubrication systems.

Organisational Structure

The Issuer is, directly or indirectly, the ultimate holding company of all companies in SKF and its assets are substantially comprised of shares in such companies. Other than corporate management, ownership and Group functions, the Issuer does not conduct any business of material importance and is accordingly dependent on the other companies in the group and the revenues received by them.

The following operating subsidiaries have assets that exceed 10 per cent. of the Issuer's consolidated total assets or contribute more than 10 per cent. to SKF's income from continuing operations.

Company	*Country*	*Holding per cent.*
SKF USA Inc.	USA	100.0
SKF GmbH	Germany	100.0
SKF Sverige AB	Sweden	100.0

Business Overview

General Description

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

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

SKF does business mainly through three divisions: the Industrial Division, which services industrial original equipment manufacturers (**OEMs**), the Service Division, which services aftermarket customers and the Automotive Division, which services automotive OEMs and aftermarket customers. SKF operates in around

40 customer segments, examples of which include cars and light trucks, wind energy, railway, machine tool, medical, food and beverage, and paper industries.

SKF is represented in more than 130 countries with more than 100 manufacturing sites and sales companies supported by about 15,000 distributor locations.

SKF has global certification to IS0 14001 (environmental management systems) and OHSAS 18001 (health and safety) standards. Its operations are also certified to either ISO 9001 or the applicable customer industry standards, e.g. ISO/TS 16949 (automotive), AS9100 (aviation) or IRIS (railway) for quality management systems.

SKF's vision is to "Equip the world with SKF knowledge" and to take the knowledge from over 100 years of operation to develop and deliver products, services and solutions, which enable customers to develop their business successfully and profitably. SKF knowledge can be defined as the combination of the following dimensions (i) the geographical dimension – global and local presence (ii) the customer dimension – industries and segments and (iii) the competence dimension – the five technology platforms.

Customers

SKF supplies products to OEMs that produce many different types of industrial products such as pumps, fans, compressors, motors, gearboxes, machine tools, paper machines, steel mills, printing presses and windmills, to name a few. OEMs of products made in higher volumes include manufacturers of cars, trucks, two-wheelers, automotive components, household appliances and small electric motors. Since the lead time for developing a new generation of these products is normally fairly long, SKF is often involved in the development process years before production starts. Many of SKF's products for these segments are specifically designed for each customer and each application.

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

Together with the largest network of authorised distributors in the bearing industry, SKF provides a unique service organisation. With around 7,000 industrial distributors, SKF is close to its customers worldwide. SKF works actively with its distributors to help customers improve the uptime and efficiency of their production processes. One example of this is real-time vibration analysis of machine operations, where, following a diagnosis, the customer is recommended the right maintenance strategy, work process and optimal level of spare parts. In close collaboration with authorised distributors, SKF logistics operations and e-business portals ensure that SKF's customers also get the right products at the right time, while minimising capital tied up in stock.

The vehicle aftermarket is served by SKF mainly based on a repair kit concept. SKF provides mechanics with appropriate repair kits to help speed up and facilitate repair work, which contain all the necessary components for carrying out the repair. Around 18,000 different kits are currently available and some examples include wheel bearings, timing belts, water pumps and constant velocity joints.

Manufacturing

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

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

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

An increasing share of SKF's research projects primarily target improving lifecycle environmental performance of the customer's applications. This means considering the environmental consequences of a product or manufacturing process, no matter where in the product's life cycle these consequences occur. To support this positive development and foster technologies with better environmental performance, SKF is conducting research in the area of life cycle management. The intention is to continuously build knowledge about the environmental performance of SKF's products and manufacturing processes, and to put that knowledge into practice by adapting day-to-day business methods and tools. Conventional methods for environmental assessment, such as lifecycle assessment and environmental risk assessment, are applied to capture the complex and holistic nature of environmental impacts. However, in the life cycle management research conducted by SKF in collaboration with renowned universities and at industrial competency centres, these methods are further developed to suit industrial needs better.

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

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

SKF's involvement in motor racing includes a technical partnership in Formula 1 with Scuderia Ferrari. This partnership, which has been in place since 1947, gives SKF the opportunity to develop products for the most demanding automotive applications. SKF also works with other Formula 1 teams to develop and provide components for demanding engineering applications primarily in wheel, clutch and gearbox applications. In 2010, an even more extensive Formula 1 involvement allowed SKF to develop and test materials, such as powder metal components, to achieve higher hardness and toughness.

SKF also provides knowledge and technical services in the Kinetic Energy Recovery System (**KERS**) development for Formula 1 applications, which will be used in the 2011 Formula 1 championship, and other motorsport competitions. The mechanical KERS - through a flywheel motor/generator which stores the energy - developed by Williams Hybrid Power, has been equipped with specially greased and sealed SKF bearings to cope with the demanding working environment. By taking part in the development stages of these challenging high-technology applications, SKF has therefore been able to support the technology development in bearing components for electric powertrain applications. SKF has technically supported the development of new sports car concepts and niche production vehicles, all of which aim at reducing energy consumption, while improving performance.

Markets

All competitive statements made in this description of the Issuer in terms of SKF, or SKF, are based on information included in publicly available financial statements, analyst reports, news media and certain internal SKF estimates as well as certificates of standards officially recognised by Det Norske Veritas or Germanischer Lloyds.

The world bearing market

The world bearing market is generally seen as global sales of rolling bearings, comprising ball and roller bearing assemblies of various designs including mounted bearing units. The market recovered dramatically in 2010, and SKF estimates that the global rolling bearing market was worth SEK 300-310 billion, up by around 20 per cent. from last year.

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

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

Asia currently accounts for more than 45 per cent. of the world market, compared to less than 30 per cent. ten years ago. China has been growing rapidly in recent years and now accounts for almost 25 per cent. of the world total. Japan's share of the world bearing market has been declining, and domestic Japanese bearing demand now accounts for around 15 per cent. of the world total. Other Asian markets with sizeable bearing production and showing significant growth in recent years include India, Thailand, Indonesia, Malaysia and the Republic of Korea.

The Chinese bearing market, which is the largest and fastest growing of the emerging markets, is very fragmented with international manufacturers and many local manufacturers. SKF is the leading bearing company, with both imported and locally manufactured products. Europe accounts for around 30 per cent. of the world total, with Germany alone accounting for almost 10 per cent. of the world total. The Americas now represent less than 25 per cent. of world demand, of which the USA, Canada and Mexico together account for almost 85 per cent. In South America, Brazil is the major market and makes up more than 60 per cent. of regional demand.

SKF is the world leader for bearings. In Western Europe, SKF is closely followed by the German Schaeffler Group with its INA and FAG brands among others. SKF is the second largest bearing supplier in North America behind the market-leading US-based company Timken. SKF is the leading supplier in Asia, excluding Japan where the domestic companies NSK, NTN and JTEKT are the leading suppliers. The radial deep groove ball bearing is the most common rolling bearing type, accounting for almost 30 per cent. of the total world bearing demand. Other major ball bearing types are angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub bearing units.

The usage areas for roller bearings have developed more favourably in recent years than those for ball bearings and now account for more than half of world rolling bearing sales. Demand for mounted bearings, or bearing units, varies between 5 per cent. and 10 per cent. in the local markets. Roller bearings are named after the roller shape, such as cylindrical roller bearings, needle roller bearings, tapered roller bearings and spherical roller bearings. All of these are available for loads acting across the shaft (radial bearings) and for loads that are parallel with the shaft (thrust bearings). There are also bearings which contain both balls and rollers simultaneously. The largest roller bearing family is the tapered roller bearing, with almost 20 per cent. of the world bearing market. Sales of these have fallen over the past two decades, as wheel hub units, to a large extent, have replaced tapered roller bearings in automotive wheel applications. In recent years, however, demand has again grown on the back of greater production of heavy-duty and off-highway vehicles needed for infrastructure investments and due to the growth of the wind-energy market.

Actuation and motion control market

This market includes a wide variety of different products in which mechanical components and systems, electric drives and intelligent controls are combined to provide different types of controlled motion. The market for actuation and motion control rebounded in 2010 especially in key segments like semiconductor and machine tools, and is estimated to be worth around SEK 65 billion worldwide. Almost half of the market is in Asia, one third in Europe and the remainder in North and Latin America. The market consists of many suppliers with different backgrounds and offers, from producers of basic mechanical components to specialists in motors, software or controls. SKF's largest competitors are LINAK (Denmark) in the actuator business and THK (Japan) in the linear motion area. There is a clear industrial trend towards a higher use of mechatronic solutions driven by increasingly stringent demands on reliability, flexibility, cost of ownership, energy efficiency and environmental impact.

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

Lubrication systems market

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

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

In 2010, through the acquisition of Lincoln Holdings Enterprises, SKF (already a leading supplier of oil-based lubrication systems) strengthened its position in grease-based lubrication solutions and added a range of lubrication tools and equipment to its portfolio such as hose reels, dispensing systems, meters and gauges. The lubrication systems market is highly fragmented with few truly international suppliers and a large amount of small to mid-sized competitors. SKF's major competitors include Baier & Köppel (Germany), Groeneveld Group (Netherlands), Bijur Delimon (USA), Graco Inc (USA), Dropsa (Italy), and Woerner (Germany).

The polymer seals market

SKF is a leading player in the global polymer seals market. During the economic downturn in 2009 the market fell by an estimated 20 per cent. to between SEK 55-60 billion. The market recovered in 2010 to reach around SEK 70 billion. There are different ways of segmenting the polymer seals market. It can be classified by type of motion into rotating, reciprocating or static seals. It can also be classified depending on the main material used for sealing solution, for example rubber seals, PTFE seals, etc. A common way of segmenting the market is to look at the customer groups: automotive, industrial or aerospace seals. SKF is a significant player in all three customer groups.

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

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

Fluid power seals are used in both mobile and stationary fluid power applications, for example in off-highway, mining, and heavy industry etc. The off-highway applications, where SKF has a strong position, represent the largest part of the market. About 80 per cent. of the fluid power seals are made for reciprocating motion, with hydraulic and pneumatic seals as the main product lines. Asia represents about 50 per cent. of the automotive original equipment seals market, while the rest is split between Europe and the Americas, where Europe has a slightly larger share. Key applications in the automotive seals market that SKF focuses on include engines, chassis, suspension, power steering, transmission, and wheel ends. Transmission seals represent the largest part of the market, with its bonded piston and shaft seals product lines. Most of the applications in automotive involve rotating or static motion. SKF has a strong presence in all rotating applications, including seals integrated into hub bearing units for wheels.

For the aerospace market SKF provides radial lip shaft seals for rotor systems, engines, gearboxes, transmissions, auxiliary power units etc. SKF's seal knowledge is also applied to develop and sell precision elastomeric devices, which are produced by layering elastomers between metallic shims of substrates. This custom-designed product has the ability to carry heavy loads while absorbing, dampening and/or controlling large deflections occurring simultaneously in several directions, and is extensively used in helicopters. The German Freudenberg Group, with its Japanese affiliate Nippon Oil Seal Co, is the largest supplier on the world polymer seals market across all segments. For industrial seals, Trelleborg AB and Parker Hannifin are also important players. For automotive seals, Federal Mogul, Dana, Elring Klinger and Bruss are other important players. For precision elastomeric devices, Lord and Paulstra (belonging to Hutchinson) are the largest suppliers. Overall, SKF is among the top global players with a strong offering in most applications across each segment.

Asset efficiency market

Asset efficiency products and service solutions is a wide-ranging, rapidly expanding business sector, driven by the increasing global competition among capital-intensive industries. By implementing asset efficiency systems, manufacturers can raise the capacity capabilities and productivity of existing assets, reduce energy use and improve quality, health, safety and environmental performance. Emerging markets continue to outpace more established markets and now account for almost 50 per cent. of the whole market. Of this, Asia contributes almost 30 per cent. and Latin America around 20 per cent. North America and Europe together account for almost 50 per cent. In recent years industrial segments such as food and beverage, transportation and pharmaceuticals have increased the use of these technologies joining heavy continuous process industries. The strong demand in emerging markets has also caused a significant increase in power generation and oil and gas business. This is primarily in Asia and the Middle East.

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

SKF Divisions

SKF's business is divided into three divisions, each focusing on specific customer groups worldwide. The divisions are interdependent and provide each other with products, services and know-how, so that each division can fully serve its final customers.

- **Industrial Division**

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

- **Service Division**

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

- **The Automotive Division**

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

Geographical area	***Net sales by customer location*** *(SEK million calculated at the rate for the respective years as at 31 December)*	
	2010	*2009*
Sweden	**1,900**	1,579
Europe excl. Sweden	**26,109**	26,848
North America	**10,783**	9,893
Asia Pacific	**16,412**	12,723
Other	**5,825**	5,184
TOTAL	**61,029**	56,227

Division	***Net sales by Division*** *(SEK million calculated at the rate for the respective years as at 31 December)*	
	2010	*2009*
Industrial Division	**19,424**	19,534
Service Division	**22,029**	19,599
Automotive Division	**18,231**	16,051
Other operations	**1,345**	1,043
TOTAL	**61,029**	56,227

Other operations include businesses managed outside of the three divisions, primarily PEER Bearing Company (**PEER**), Logistics Services and other minor operations, as well as divested businesses. PEER mainly manufactures deep groove ball bearings, agricultural bearings, mounted units and tapered roller bearings to customers mainly located in North America. Logistic Services provides warehousing, transportation, packaging and inventory management based on seamless information and communication technology for SKF and external customers worldwide. Previously published amounts have been reclassified to conform to the current SKF structure in 2010.

Sourcing and demand chain

In 2010, SKF purchased goods and services worth SEK 28 billion from its global supplier base, of which around 50 per cent. related to raw materials and components. For some suppliers it was a challenge to handle the rapid rise in demand for SKF products and solutions during 2010 and capacity was constrained in some areas and some regions. By working closely with strategic suppliers, SKF was able to minimise the impact of supply shortages. 2010 also saw increasing commodity prices worldwide, with a high degree of price volatility. Steel raw materials like scrap increased in price as well as base metals like copper, nickel and aluminium. SKF ran continuous improvement projects over the year with its suppliers to reduce total costs, using tools like Lean and Six Sigma. SKF strengthened its purchasing organisation during 2010 both centrally and in its local and regional presence to support and develop its suppliers more effectively. In addition to the local activities, SKF now has purchasing offices in Shanghai, Mumbai, Chicago and Gothenburg. There was a strong focus in 2010 on developing suppliers in Asia (mainly China and India) due to the increasing manufacturing presence in the region.

SKF runs a specific programme for rationalising the supplier base and developing long-term strategic suppliers, who can be closely linked to the company's growth plans and targets. SKF works closely with these key strategic suppliers and continues to involve them early in the development and decision-making process, to benefit from their expertise and knowledge and to increase supply flexibility. SKF continued to further develop its programme for responsible sourcing with the SKF Care and SKF Code of Conduct as the basis. In 2010, SKF was once again top-ranked in the "Standard for Suppliers" segment in the Dow Jones Sustainability Index. To improve the demand chain's operational efficiency, SKF is implementing its collaborative "Sales & Operations Planning" business process, which will successively improve the demand chain's operational efficiency, reduce capital tied-up in the chain and improve responsiveness to changes in demand. This implementation will continue for a couple of years. The new process will ensure regular exchanges of demand and capacity data between sales, manufacturing and suppliers. SKF is implementing this process on a global scale involving all parts of the supply chain.

Strategic initiatives and financial targets

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

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

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

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

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

During 2010, the strategy for SKF was reconfirmed and focus was set on actions to ensure that SKF gains the full benefit of the improving global demand situation, that SKF is strengthened in the faster growing regions and businesses and that SKF takes full advantage of made investments to support its profitable growth. SKF will continue to develop the platform/segment approach and will increase its focus on developing offerings which help its customers reduce their environmental impact. In order to support this development, SKF has identified three key initiatives.

Firstly, profitable growth will be accelerated through an increased focus on offering all of the technology platforms to existing customers and by capturing new customers. The focus on certain key regions and segments which offer better growth and profit possibilities will be further intensified. In addition, there is a growing normal performance market in certain industries and SKF is addressing this through developing application specific products and by further developing other brands such as PEER, which was acquired in 2008.

The second initiative is to reduce costs and eliminate waste in the business through the application of an initiative called Business Excellence and through a strong focus on cost reduction in the products. One key activity for SKF in the coming years is to build on the success of the Manufacturing Excellence programme launched some years ago and extend this approach to all the main activities and processes of SKF.

The third initiative is to invest in growth. SKF is currently increasing its investments in manufacturing, research and development, and sales and engineering resources.

Capital Expenditures

SKF’s capital expenditures for tangible assets amounted to SEK 1,651 million in 2010 (1,975 million in 2009 and 2,531 million in 2008). Of SKF's total capital expenditures during 2010, approximately SEK 121 million (44 million in 2009) was attributable to environmental investments, the aim of which is to improve both the external environment and the internal working conditions.

Research and development

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

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

In order to further strengthen SKF's global network of R&D centres and laboratories, the SKF Global Technical Centre China was inaugurated in Shanghai in May 2010. The centre will be an integral part of SKF's global network of technical centres. It will play both a global development role for SKF and a regional role, more effectively bringing innovation and technical knowledge closer to SKF's customers in Asia. The new centre will significantly reduce the lead times ensuring that SKF continues to develop the right value-added solutions for meeting current and future customer requirements and will enable SKF to develop a significant critical mass in engineering knowledge on the Chinese and North East Asian market. The centre will have global responsibility for specific, continuous, process- and project-based engineering for SKF and will be a showcase for SKF knowledge and capabilities to customers, distributors and employees in Asia. The Global Technical Centre China in Shanghai complements the Global Testing Centre in Bengaluru, India, opened in 2009.

SKF continued strengthening its relationship with the academic community by collaborating with renowned universities as a strategic measure in maintaining technological leadership. SKF has selected Tsinghua University in China for long-term cooperation on a polymer material R&D project in China, focusing on researching the mechanisms of material ageing.

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

SKF's research projects are organised and run by technology clusters. These are groups of technical experts from throughout SKF, who translate innovation strategies in their respective fields into clear technology programmes, from which product and service solutions are developed for specific customer segments and applications. The cluster experts facilitate and support continuous development of innovative ideas all the way to implementation and market introduction. Encouraging an innovative culture is vital to SKF and every year a number of internal projects are selected and awarded for their exceptional contribution to business, innovation and sustainability. These are part of the SKF Excellence Awards and play an important role in stimulating the pace of innovation at SKF. One of the SKF Excellence Awards 2009, given in 2010, was for creating a new, innovative high speed motor and magnetic bearing solution for large tonnage refrigerant compressors, used for industrial air conditioning and refrigeration. This energy-efficient solution is setting a technological standard in this area of application.

Core areas of technical expertise

SKF’s technical expertise can be found in many different areas and the examples below only highlight a few core areas.

SKF is at the forefront of understanding the interaction and exploitation of steel and heat treatment combinations to meet the ever-increasing demand for load-carrying capability and energy efficiency. SKF is also focused on developing new elastomeric materials and optimised seal-lip tribology to enhance sealing functions, using advanced modelling of the seals. The new generation of materials uses new types of fillers to provide low friction. Magnetic encoders within the seals, combined with sensors, enable the transmission of information to the controlling systems.

Mechatronics is the integration of mechanical and electronic engineering with associated proprietary control strategies for application in SKF’s products and processes. Monitoring operating conditions as close to the contact area as possible gives greater accuracy for studying the performance of a system. In addition to temperature, speed, direction of rotation and vibration, loads can be monitored via sensors integrated into SKF bearings. Responding to the customer’s need for reducing installation cost and time and to increase the life of components, SKF developed products that more efficiently make use of wireless technologies. Combined with a novel, low-power radio system, a battery life is significantly extended, whilst meeting condition-monitoring requirements for maintenance of plant equipment.

SKF has one of the most comprehensive and powerful sets of modelling and simulation packages in the bearing industry, ranging from easy-to-use tools based on the SKF General Catalogue formulae to the most sophisticated calculation and simulation systems. The company’s strategy is to develop a broad range of software packages to satisfy a large number of customer requirements, from fairly simple design checks and moderately complex investigations to the most advanced simulations for bearing and machine design.

The interaction between lubricants and bearing steel is an essential factor and is critical when bearings operate with marginal lubrication. The chemical composition and mechanical properties of the reaction layer formed by the interaction between the lubricant and the bearing steel strongly influence the performance of bearings. Therefore, understanding the composition and mechanics of reaction layers is very important for SKF. Understanding, predicting and controlling the working conditions help reduce bearing friction and wear, and prolong service life. Professor Stathis Ioannides, a world-acknowledged expert in tribology who worked for SKF for nearly 30 years, was presented with the Leonardo da Vinci Award in May 2010 for his synergistic combination of the tribology theory with the technical and practical aspects of the mechanical industry, in his contribution to the design of new rolling bearings.

Acquisitions and investments during 2010

At the end of 2010, SKF completed the acquisition of the US-based lubrication systems company Lincoln Holdings Enterprises Inc., which includes all Lincoln, Alemite and Reelcraft entities and brands and is known collectively as Lincoln Industrial. SKF paid SEK 6,764 million on a cash and debt free basis. Lincoln

Industrial's results will be included in SKF from the first-quarter results of 2011, as part of a newly created business unit for lubrication systems within SKF Industrial Division.

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

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

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

Sustainability

SKF is committed to sustainability – not only as a responsibility but also as one of SKF's strategic drivers – Profitability, Quality, Innovation, Speed and Sustainability. SKF defines sustainability as SKF CARE including Business Care, Environmental Care, Employee Care and Community Care. The principles defined by SKF CARE are the guiding lights that inform how the organisation should conduct business from a social, ethical and environmental perspective and the basis of conducting business at SKF is to respect laws and legislation and abide by universally accepted business ethics, while meeting financial goals.

Business Care encompasses the development of shareholders' value, delivering high quality products and services to customers, ethical business conduct, responsible demand chain and environmental technology development.

Environmental Care can be summarised as SKF's fundamental commitment to constant action to reduce the environmental impact from its own operations, which has long constituted the company's strategy and will continue to do so going forward. Every country where SKF operates has similar legislation covering environmental, health and safety matters. The main difference between countries is the extent to which this legislation is enforced. SKF's policy is to ensure the highest standards of legal compliance, regardless of the location of a unit or the level of enforcement by the authorities. SKF has a stringent process for preventing environmental pollution from its manufacturing processes. However, like other long-established industrial companies, SKF is involved in various action plans, resulting from historical activities as described under Risk Factors. SKF has a group-wide certification according to the international standard for environmental management ISO 14001 and was the first international bearing manufacturer to receive such a certification in 1998. The purpose of having global certification is that all SKF's manufacturing sites, technical and engineering centres, as well as logistics centers, are required to maintain and uphold high performance standards regardless of geographical location or social and economic conditions in the country. The SKF group-wide certificate consisted of 98 sites in 29 countries at the end of 2010. New companies that were added to SKF's ISO 14001 certificate in 2010 were Rosario (Argentina), SKF Solution Factories in Shanghai and Tianjing (China), SKF Industry Services in Shanghai (China), Haridwar (India), Poggio Rusco (Italy), Tver (Russia), and Ladson (US). Companies acquired during 2010 were given a timeframe for implementing the management system, working towards inclusion in SKF's certification scope.

SKF's operations have an impact on the environment through energy use, waste, air and water emissions as well as noise. Operations requiring permits exist in all countries where SKF has manufacturing operations. In Sweden, on 31 December 2010, SKF held permits covering 8.6 per cent. of the overall production volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to the production of bearings, bearing housings and couplings. SKF received no significant directives from the environmental authorities in 2010. No permits were subject to review or revision in 2010.

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

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

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

Employee Care accentuates the focus as an employer on schemes that develop employees' personal and professional skills, whilst creating a motivational work environment and thereby retaining the best resources in the company. Another important area is accidents at work. 105 out of 210 SKF units worldwide achieved zero recordable accidents for four quarters or more in 2010 and the number of recordable accidents has fallen by 90 per cent. per working hour since the Zero Accidents target was established in 2000. Apart from that, health and fitness, HIV/Aids programmes, skills and competence training continued to be a focus area under Employee Care. SKF employees provide their feedback on SKF's performance in relation to company values and key focus areas annually through the global Working Climate Analysis. The analysis also measures the working climate in different departments and individual teams in terms of trust, co-operation, personal development and continuous improvement.

Community Care is important to SKF with over forty thousand employees globally of which more than one third are employed in Central/Eastern Europe, Latin America, Asia, the Middle East and Africa. Providing safe, long-term employment to employees and being a responsible corporate citizen in local communities is essential to SKF's long-term commitment and aspiration to find ways of growing and developing with local communities. SKF encourages its local management teams to become 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 societies. SKF has close to 200 Community Care activities around the world.

Directors and Senior Management

The Articles of Association of SKF provide that the Board shall consist of not fewer than five and not more than ten members (not including employee representatives), with such numbers of deputy members (not more than five) as are elected by the shareholders at the Annual General Meeting. Board members and deputy members serve until the next Annual General Meeting. Under Swedish law, employees have the right to appoint additional members and their deputies.

Directors elected by the Annual General Meeting 2011

Leif Östling

Born 1945. Chairman, Board member since 2005
Board member of ISS A/S, Scania AB and the Confederation of Swedish Enterprise, and Chairman of the Association of Swedish Engineering Industries.

Tom Johnstone

Born 1955. President and Chief Executive Officer of AB SKF.
Board member since 2003
Board member of Investor AB, Husqvarna AB and Chalmers University of Technology, Gothenburg.

Ulla Litzén

Born 1956. Board member since 1998
Board member of Atlas Copco AB, Boliden AB, Alfa Laval AB, Husqvarna AB and NCC AB.

Winnie Fok

Born 1956. Board member since 2004
Board member of Volvo Car Corporation, G4S plc and Kemira Oyj.

Lena Treschow Torell

Born 1946. Board member since 2007
Vice Chairman of Micronic Laser Systems AB and AB ÅF. Board member of SAAB AB, Investor AB, Dagens Industri AB and Chalmers University of Technology Foundation. Chairman of European Council of Applied Sciences and Engineering, and Chairman of MISTRA, the Foundation for Strategic Environmental Research.

Peter Grafoner

Born 1949. Board member since 2008
Board member of Symrise AG, Chairman of VTI Technologies Oy and President of the board of Scania Schweiz AG.

Lars Wedenborn

Born 1958. Board member since 2008
Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group USA and The Grand Hotel.

Joe Loughrey

Born 1949. Board member since 2009
Board member of Hillenbrand, Inc., the Vanguard Group, Oxfam America, The V Foundation for Cancer Research and the Lumina Foundation for Education. Chairman of Conexus Indiana, Chairman of the Advisory Council of the College of Arts and Letters and member of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame.

Jouko Karvinen

Born 1957. Board member since 2010
Board member of the Finnish Forest Industries Federation and of the Confederation of European Paper Industries (CEPI), member of the Business Co-Operation Council and Co-Chairman of the Forest Industry Task Force, EU-Russia Industrialists' Round Table (IRT).

Babasaheb N. Kalyani

Born 1949. Board member since 2011
Chairman of the Kalyani Group, Bharat Forge Ltd, and of a number of other companies in the Kalyani Group. Board member of a number of companies in the Kalyani Group and of Hikal Limited, member of the World Economic Forum, and Founder Chairman of Pratham Pune Education Foundation.

Employee representatives

Lennart Larsson

Born 1948. Board member since 2004
Chairman Unionen, SKF, Gothenburg.

Kennet Carlsson

Born 1962. Board member since 2008 and deputy board member 2001-2008
Chairman Metalworkers' Union, SKF, Gothenburg and SKF World Union Council.

Jeanette Stenborg

Born 1967. Deputy board member since 2005
Employed by AB SKF since 1978. Chairman Metalworkers' Union, SKF Göteborg and SKF Workers World Council, Göteborg.

Marie Petersson

Born 1971. Deputy board member since 2008
Board member Metalworkers' Union, SKF, Gothenburg.

Group Management

*Tom Johnstone**

Born 1955
Employed since 1977
President and Chief Executive Officer
Previous positions within SKF:
Executive Vice President AB SKF and President, Automotive Division and several other positions.
Board member: Investor AB, Husqvarna AB and Chalmers University of Technology, Gothenburg

*Tore Bertilsson**

Born 1951
Employed since 1989
Executive Vice President and Chief Financial Officer
Previous positions within SKF:
Group Treasury Director
Board member: Gamla Livförsäkringsbolaget SEB Trygg Liv, AB Ludvig Svensson, PRI Pensionsgaranti and Ågrenska AB

*Henrik Lange**

Born 1961
Employed since 2003 and 1988-2000
President, Industrial Division
Previous positions within SKF:
Senior Vice President, Group Business Development and several other positions.
Board member: Association of Swedish Engineering Industries, GU School of Executive Education and Partnertech AB

*Vartan Vartanian**

Born 1953
Employed since 1990
President, Service Division

Previous positions within SKF:
Area Director, Europe and several other positions.
Board member: Endorsia.com International AB

*Tryggve Sthen**

Born 1952
Employed since 2003
President, Automotive Division
Board member: Green Cargo

Alan Begg

Born 1954
Employed since 2007
Senior Vice President, Group Technology Development
Board member: NV Bekaert SA

Carina Bergfelt

Born 1960
Employed since 1990
General Counsel and Senior Vice President, Group Legal and Sustainability
Previous positions within SKF:
Legal Counsel, Secretary to the Board since 1996.
Board member: The Association of Exchange-listed Companies

Eva Hansdotter

Born 1962
Employed since 1987
Senior Vice President, Group People and Business Excellence
Previous positions within SKF:
Human Resources Director, Industrial Division and several other positions.
Member of SNS Board of Trustees

Magnus Johansson

Born 1955
Employed since 2004 and 1981-2002
Senior Vice President, Group Demand Chain
Previous positions within SKF:
President, SKF China Co Ltd. and several other positions.
Board member: Wafangdian Bearing Co, Ltd. and West Sweden Chamber of Commerce and Industry

Rakesh Makhija

Born 1951
Employed since 2002
President, Asia
Previous positions within SKF:
Managing Director, SKF India Ltd.
Board member: Kennametal India Ltd.

Manfred Neubert

Born 1953
Employed since 2004
President, SKF GmbH
Board member: WEHACO Hannover
Council member: WEHACO Hannover, Employers association German Metal Industry

Bo-Inge Stensson

Born 1961
Employed since 2006
Senior Vice President, Group Purchasing

Ingalill Östman

Born 1956
Employed since 2008
Senior Vice President, Group Communications and Government Relations
Board member: SOIC AB, FKG and the International Council of Swedish Industry (NIR)

Poul Jeppesen

Born 1953
Employed since 1982
President, North America
Board Member: NAM (National American Manufacturers), MAPI (Manufacturing Alliances), ABMA, American Bearing Manufacturers Association, Family Answers (Charity Organisation)

* Member of Group Executive Committee

To the best of the Issuer's knowledge there are no conflicts of interest between the duties to the Issuer of the persons listed above in this section (**Directors and Group Management**) and their private interests or other duties.

The business address of the Directors and Group Management is Hornsgatan 1, SE- 415 50 Göteborg, Sweden.

Auditors

At the Annual General Meeting 2011 KPMG AB, Authorised Accountants and members of FAR SRS (**KPMG**), were elected as auditors of SKF until the Annual General Meeting 2012. Thomas Thiel is the auditor in charge. KPMG's registered address is Box 16106, SE-103 23 Stockholm, Sweden.

KPMG has no material interest in SKF.

Employees

As at 31 December 2010, the Group had 44,742 registered employees (41,172 at 31 December 2009 and 44,799 at 31 December 2008).

Temporary employees, if on the payroll of an SKF company, are included in the number of employees presented by the Group but are not significant in number. Temporary employees on subcontract from a temporary services firm are not included in the figures.

Geographic specification of average number of employees*

	Year ended as at 31 December:		
	2010	*2009*	*2008*
Sweden	**3,036**	3,020	3,299
France	**3,552**	3,752	4,291
Italy	**4,131**	4,132	4,430
Germany	**5,153**	5,352	5,873
Other Western Europe excluding Sweden	**3,580**	3,395	4,061
Central/Eastern Europe	**3,662**	2,975	3,620
USA	**4,091**	3,829	4,710
Canada	**200**	200	232
Latin America	**2,772**	2,414	2,665
Asia	**9,759**	9,026	9,638
Middle East and Africa	**270**	435	382
	40,206	**38,530**	**43,201**

Registered number of employees by division*

	Year ended as at 31 December:		
	2010	*2009*	*2008*
Industrial Division	**19,922**	17,853	19,429
Service Division	**5,832**	5,725	6,017
Automotive Division	**14,469**	13,480	14,960
Total	**40,223**	**37,058**	**40,406**

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

Most of SKF's employees are unionised. The right of all employees to form and join trade unions is expressed in the SKF Code of Conduct. The Group considers its relationship with its employees to be good.

Major Shareholders

The following table sets forth, as of 29 April 2011, the largest shareholders known by SKF to be owners of any class of SKF's voting securities. The information in this table is based on information furnished to SKF by SIS Ägarservice AB and Euroclear Sweden AB.

	The ten largest shareholders according to voting rights	Number of A shares	Number of B shares	In % of voting rights	In % of share capital
1	Foundation Asset Management AB	21,250,000	33,553,511	28.76	12.04
2	Alecta	2,192,404	20,602,200	4.97	5.01
3	Skandia Life Insurance	4,068,625	722,409	4.84	1.05
4	Swedbank Robur Funds	2,163,841	17,155,765	4.53	4.24
5	SEB Trygg Life Insurance	1,635,224	1,189,576	2.05	0.62
6	AFA Insurance	1,384,900	2,458,133	1.91	0.84
7	AMF Insurance & Funds	0	15,024,629	1.76	3.3
8	SEB Funds	395,242	10,849,608	1.73	2.47
9	Nordea Funds	0	12,113,393	1.42	2.66
10	PRI Pensionsgaranti	925,232	315,000	1.12	0.27

Each A Share entitles the holder to one vote and each B Share to one-tenth of one vote. It was decided at SKF's Annual General Meeting on 18 April 2002 to insert a share conversion clause in the Articles of Association which allows owners of A Shares to convert A shares into B shares. The total number of issued and outstanding A shares and B shares of SKF as of 31 March 2011 was 44,630,604 (9.8 per cent.) and 410,720,464 (90.2 per cent.) respectively. The total number of shares was 455,351,068.

Events After The Year Ended 31 December 2010

Divestments

On 1 February 2011, SKF divested its forging business, Officine Meccaniche Villar Perosa SpA (**OMVP**), in Villar Perosa, Italy to the German based company Neumayer Tekfor Holding GmbH, one of the largest forging companies in Europe. OMVP has about 550 employees and net sales of around EUR 100 million, mainly to other SKF operations. The parties have agreed on continuing the supply and strengthening the cooperation.

At the beginning of the second quarter, SKF sold its cage factory in Gothenburg to the Japanese component manufacturer Nakanishi Metal Works CO., Ltd. The factory, which has 130 employees, is located in SKF's production area in Gothenburg and will continue to supply SKF's production in Gothenburg and elsewhere.

The transactions are fully in line with SKF’s strategy to divest non-core component manufacturing and have a limited impact on the results and cash flow.

TAXATION

Persons considering the purchase, ownership or disposition of the Notes should consult their own tax advisors concerning the tax consequences to any particular Noteholder.

The following summary describes tax consequences of the ownership of the Notes but does not purport to be comprehensive. Except where expressly stated, the summary relates only to the position of those persons who are the absolute beneficial owners of their Notes and the interest thereon and may not apply to special situations, such as those of dealers in securities.

Swedish Taxation

The following summary outlines certain Swedish tax consequences of the acquisition, ownership and disposal of Notes. The summary is based on the laws of the Kingdom of Sweden as currently in effect and is intended to provide general information only. The summary is not exhaustive and does thus not address all potential aspects of Swedish taxation that may be relevant for a potential investor in the Notes and is neither intended to be nor should be construed as legal or tax advice. In particular, the summary does not address the rules regarding reporting obligations for, among others, payers of interest. Specific tax consequences may be applicable to certain categories of corporations, e.g. investment companies and life insurance companies, not described below. Investors should consult their professional tax advisors regarding the Swedish and foreign tax consequences (including the applicability and effect of double taxation treaties) of acquiring, owning and disposing of Notes in their particular circumstances.

Non-resident holders of Notes

As used herein, a non-resident holder means a holder of Notes who is (a) an individual who is not a resident of Sweden for tax purposes and who has no connection to Sweden other than his/her investment in the Notes, or (b) an entity not organised under the laws of Sweden.

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a non-resident holder of Notes should not be subject to Swedish income tax provided that such holder does not carry out business activities from a permanent establishment in Sweden to which the Notes are effectively connected. Under Swedish tax law, no withholding tax is imposed on payments of principal or interest to a non-resident holder of Notes.

Private individuals who are not resident in the Kingdom of Sweden for tax purposes may be liable to capital gains taxation in the Kingdom of Sweden upon disposal or redemption of certain financial instruments, depending on the classification of the particular financial instrument for Swedish income tax purposes, if they have been resident in the Kingdom of Sweden or have lived permanently in the Kingdom of Sweden at any time during the calendar year of disposal or redemption or the ten calendar years preceding the year of disposal or redemption.

Resident holders of Notes

As used herein, a resident holder means a holder of Notes who is (a) an individual who is a resident in Sweden for tax purposes or (b) an entity organised under the laws of Sweden.

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) that are resident holders of Notes, all capital income (e.g. income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

(i) Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the **Laws**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the **Territories**), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the **Law**) mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any

Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes.

Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

SUBSCRIPTION AND SALE

Citigroup Global Markets Limited, HSBC Bank plc, Deutsche Bank AG, London Branch and Merrill Lynch International (the **Joint Lead Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 24 May 2011, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.813 per cent. of the principal amount of Notes, less a combined selling concession and management and underwriting commission. The Issuer will also reimburse the Joint Lead Managers in respect of certain of their expenses, and has agreed to indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

The Kingdom of Sweden

Each Joint Lead Manager has confirmed and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Kingdom of Sweden except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (*lag (1991:980) om handel med finansiella instrument*).

General

No action has been taken by the Issuer or any of the Joint Lead Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Joint Lead Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

1. The issue of the Notes was duly authorised by a resolution of the Board of Directors of the Issuer dated 28 April 2011.

Listing and admission to trading

2. Application has been made to the CSSF to approve this document as a prospectus. Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive. The estimated total expenses related to the admission to trading are EUR 6,845.

Clearing Systems

3. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0630817442 and the Common Code is 063081744.

   The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

4. There has been no significant change in the financial or trading position of the Issuer or the Group since 31 March 2011 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2010.

Litigation

5. Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document with an outcome (or expected outcome) which is likely to have or has in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

6. The auditors of the Issuer are KPMG AB, authorised public accountants, members of FAR SRS and registered with the Public Company Accounting Oversight Board of the United States of America (**PCAOB**), who have audited the Issuer's accounts, without qualification, in accordance with IFRS for each of the two financial years ended on 31 December 2009 and 31 December 2010.

U.S. tax

7. The Notes and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents Available

8. For the period of 12 months following the date of this Prospectus, copies of the following documents will be available for inspection from the specified offices of the Paying Agent for the time being in Luxembourg:

   (a) the constitutional documents (with an English translation thereof) of the Issuer;

   (b) the annual reports and the consolidated and non-consolidated audited financial statements of the Issuer in respect of the financial years ended 31 December 2009 and 31 December 2010. The Issuer currently prepares audited, consolidated and non-consolidated accounts on an annual basis;

   (c) the most recently published audited annual financial statements of the Issuer (together with the audit reports prepared in connection therewith) and the most recently published unaudited interim financial statements (if any) of the Issuer (with an English translation thereof). The Issuer currently prepares unaudited consolidated interim accounts on a quarterly basis; and

   (d) the Subscription Agreement and the Agency Agreement.

   In addition, copies of this Prospectus and each document incorporated by reference is available on the Luxembourg Stock Exchange's website at www.bourse.lu.

Yield

9. The yield relating to the Notes is 3.906 per cent. per annum based on the issue price of the Notes.

THE ISSUER

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