PROSPECTUS

AKTIEBOLAGET SKF

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

€500,000,000 1.875 per cent. Notes due 11 September 2019

Issue price: 99.643 per cent.

The €500,000,000 1.875 per cent. Notes due 11 September 2019 (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 11 September 2012 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 11 September 2019.

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**).

References in this Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to trading on the Luxembourg Stock Exchange's regulated market and have been admitted to the Official List of the Luxembourg Stock Exchange. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Prospectus or the quality or solvency of the Issuer in accordance with Articles 7(7) of the Luxembourg Act. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The Notes will be rated A3 by Moody's Deutschland GmbH (**Moody's**) and A- by Standard & Poor's Credit Market Services Europe Limited (**S&P).** Moody's and S&P are established in the European Union and are registered under Regulation (EC) No. 1060/2009 (as amended). As such Moody's and S&P are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

A security 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 agency.

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 11 September 2012 (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 22 October 2012 (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 6.

Joint Lead Managers

Commerzbank **Deutsche Bank**

Skandinaviska Enskilda Banken AB (publ) **The Royal Bank of Scotland**

The date of this Prospectus is 7 September 2012

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.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROSPECTUS AND OFFERS OF NOTES GENERALLY

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*".

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, DEUTSCHE BANK AG, LONDON BRANCH 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.

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 may wish to consider either on its own or with the help of its financial and other professional advisers, whether it:

(i) has 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) has 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) has 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) understands thoroughly the terms of the Notes and is familiar with the behaviour of any relevant indices and financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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.

PRESENTATION OF INFORMATION

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

In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Prospectus the following factors which could materially adversely affect its business and ability to make payments due under the Notes.

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

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

Litigation, arbitration, antitrust proceedings and unanticipated claims

The Issuer is the parent company of the SKF group of companies (the **Group**). The Group is, and may continue to be, involved in litigation and arbitration both as plaintiff and defendant. Many of these disputes relate to claims arising in the ordinary course of business including, but not limited to, litigation relating to intellectual property, product warranty and product liability. Unanticipated claims could have a material adverse effect on the Issuer's business and results of operations.

SKF and other companies in the bearing industry are part of investigations by the European Commission, the U.S. Department of Justice and the Korea Fair Trade Commission regarding a possible violation of antitrust rules. SKF is fully cooperating with the authorities and is also performing its own internal review. Moreover, SKF is subject to related class action claims by direct and indirect purchasers of bearings in the United States and may face additional follow-on civil actions by both direct and indirect purchasers.

It is likely that the European Commission will impose a fine on SKF. Given the nature of the investigation, the amount of such fine is likely to materially affect the Group's results and cash flow. It is, however, too early to assess when and to what extent such effect may occur and hence can be accounted for.

There can be no assurance that the Group will not become subject to additional legal proceedings, which may have an adverse effect on the Issuer's business, financial position and results of operation.

Business risks in general/Changes in economic conditions

The Group operates in many different industrial and automotive segments, as well as in many geographical segments with different business cycles. 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, terrorism, war, unrest and other hostilities, as well as natural disasters (including but not limited to earthquakes, tsunamis and ash clouds) and 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 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.

Political and regulatory risks

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.

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 costs 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 for raw materials and components is approximately SEK 17 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 170 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 140 million, which is already included in the figure for raw materials and components that impacts the operating profit. Calculations are based on the year-end figures for 2011 as well as on the assumption that everything else is equal.

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. Global processes have been developed for recruitment, employee performance and the overall skills of employees. These 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 the Group's 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 that 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.

Currency 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 U.S.$ exposure for three to twelve months. At year-end 2011, the hedging with derivatives conformed to the Group's 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 the Group's 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 U.S.$ versus the SEK has a positive/negative net currency flow effect on the Group's profit before tax of around SEK 300 million, excluding effects from hedging transactions. With regard to commercial flows, the Group is primarily exposed to the U.S.$ and U.S.$-related currencies against SEK and EUR.

Interest rate risk

The Group defines interest rate risk as the risk of negative fluctuations in the Group's cash flow caused by changes in the interest rates. 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. A decrease/increase of 1 per cent. in interest would have a positive/negative effect on the Group's profit before tax of around SEK 70 million, based on the current position. As at 31 December 2011 the Group has net interest bearing liabilities of SEK 15,604 million.

Holding company risk

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 income for the parent company, as well as a need to write down the values of the shares in the subsidiaries.

Price risks

As at 31 December 2011, the Group held investments in equity securities with quoted stock prices amounting to SEK 385 million and is subject to 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 2011, equity would have increased/decreased by SEK 39 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 2011 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.

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 will be 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 trade 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 to SEK 17,036 million as at 31 December 2011. The exposure is represented by the total financial assets that are carried in the balance sheet with the exception of equity securities. As at 31 December 2011, 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

Ratings downgrades may increase the Issuer's funding costs and substantially reduce the Issuer's earnings.

The long-term rating of the Group by S&P and Moody's is *A-* (since 2003) and *A3* (since 2010). 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

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 to what is described in the conditions of the Notes.

The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.

Withholding under the 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 (as defined in the Conditions of the Notes) 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.

The value of the Notes could be adversely affected by a change in English law or administrative practice

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 and any such change could materially adversely impact the value of any Notes affected by it.

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.

An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an Investor could sell his Notes

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.

If an investor holds Notes which are not denominated in the investor's home currency, such investor will be exposed to movements in exchange rates adversely affecting the value of such investor's holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

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 or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The value of the Notes may be adversely affected by movements in market interest rates

Investment in the Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Notes, this will adversely affect the value of them.

Credit ratings assigned to the Notes may not reflect all the risks associated with an investment in the Notes

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, suspended 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 registered credit rating agencies under the CRA Regulation.

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 on 31 December 2010 and 31 December 2011, including the information set out at the following pages in particular:

	2010 Annual Report	**2011 Annual Report**
Consolidated Balance Sheets....................................	Pages 54 to 55	Pages 86-87
Consolidated Income Statements	Pages 52 to 53	Pages 84-85
Notes to the Consolidated Financial Statements	Pages 59 to 94	Pages 91-126
Audit's Report..	Page 106	Page 142-143

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

- the unaudited interim consolidated financial statements for the six months ended 30 June 2012 of the Issuer attached to the Press Release dated 18 July 2012, including the information set out at the following pages in particular:

Condensed Consolidated Balance Sheets.........................	Page 13
Condensed Consolidated Income Statements...................	Page 11

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 since such documents are either not relevant for investors or covered elsewhere in the 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 annual financial statements of the Issuer for the financial years ended 31 December 2010 and 31 December 2011 and the unaudited interim consolidated financial statements for the six months ended 30 June 2012 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 1.875 per cent. Notes due 11 September 2019 (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 11 September 2012 (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 Mellon, 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 11 September 2012 at the rate of 1.875 per cent. per annum, payable annually in arrear on 11 September (each an **Interest Payment Date**). The first payment (for the period from and including 11 September 2012 to but excluding 11 September 2013 and amounting to €18.75 per €1,000 principal amount of Notes) shall be made on 11 September 2013.

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 6.875 per cent. per annum.

Rating Agency means Moody's Deutschland GmbH or Standard & Poor's Credit Market Services Europe Limited 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 11 September 2019.

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 11 September 2012, 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 11 September 2012 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 3.5 per cent. due July 2019 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* in London 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 22 October 2012, 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* in London 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 on 16 February 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 (0) 31 337 10 00.

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

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 2011, the number of first filings of patent applications was 325. 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. The Issuer performs corporate management, ownership and Group functions 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 net income.

Company	*Country*	*Holding per cent.*
SKF USA Inc.	USA	100.0
SKF GmbH	Germany	100.0
SKF Industrie S.p.A.	Italy	100.0
SKF Oesterreich AG	Austria	100.0

Business Overview

General Description

SKF is a 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, namely 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 to improve performance, reduce energy use and lower total costs, while bringing increased added value to SKF.

Up to and including 2011, SKF's business was primarily carried out by the following three divisions: the Industrial Division, which serviced mainly industrial original equipment manufacturers (**OEMs**); the Service Division, which serviced mainly aftermarket customers; and the Automotive Division, which serviced mainly automotive OEMs and aftermarket customers. As of 1 January 2012, SKF has formed three new business areas to replace the former divisions: SKF Industrial Market, Strategic Industries; SKF Industrial Market, Regional Sales and Service; and SKF Automotive. The main reason for this change is to create an organisation which, it is intended, will be able to better serve the needs of customers within the industrial market.

SKF is present in most industries, including cars and light trucks, aerospace, wind energy, railway, metal, machine tool, medical, and food and beverage.

SKF has more than 130 manufacturing sites in 32 countries and is represented in over 130 countries through its own sales companies and over 15,000 distributor locations.

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

SKF is committed to sustainability which is defined by the Group as SKF Care including Business Care, Environmental Care, Employee Care and Community Care as further detailed on page 43 below.

BeyondZero™ is SKF's strategy to create a positive impact on the environment. It consists of two simultaneous approaches. The first approach, is about reducing the environmental impact from SKF's operations, such as carbon emissions derived from manufacturing SKF's products, and has been driven in many ways. An example is the adoption of the Leadership in Energy & Environmental Design (LEED) building standard - assuring world-class environmental performance for all newly-built facilities around the world. The second approach, recognizes that customers in all segments and industries face multiple (and increasing) pressure to deliver a reduced environmental impact from products, services and processes. The broad industrial and geographical scope of SKF, together with the Group's engineering knowledge, puts the company in an exceptionally strong position to add value by helping customers to address these demands.

SKF's vision is to "Equip the world with SKF knowledge" to take the knowledge gained over the years to develop and deliver products, services and solutions which enable customers today to develop their businesses 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 technology dimension: SKF's five technology platforms.

SKF's core areas of technical expertise

Materials and heat treatment

SKF has an advanced understanding of the interaction and exploitation of steel and heat treatment combinations to meet the ever increasing demand for load carrying capacity and energy efficiency. Through its heat treatment processes, SKF achieves its desired steel properties by controlling the microstructure and the residual stresses in steel. The continuous strive for optimising the interaction between material and heat treatment is now focused on making heat treatment equipment smaller and more energy efficient, while still attaining the material properties required for different applications. New computer based techniques are used to understand deformation behaviour and response of hardened steels under extreme load conditions. Technology development within non-metallic materials, such as polymers and ceramics is also important. SKF focuses primarily on their friction and weight reduction properties, enabling them to support market trends and maintain the sustainable strengths of SKF's products.

In 2011 SKF signed a strategic partnership agreement with CITIC Pacific Special Steel Co., Ltd, with the ambition of creating financial synergy and sustainable development for both parties. In November 2011, SKF received the American Society for Testing and Materials (ASTM International) award, for the numerous contributions to the Association's conferences. SKF's lightweight hub bearing unit is a new wheel end solution of the flanged hub bearing design, which contributes to significant weight reduction, thereby reducing fuel consumption and carbon dioxide emissions. By combining steel, which provides the expected roller bearing performance, with aluminum, as the flanged structural component, the overall weight can be reduced by up to 30 per cent. compared to the standard unit.

Seals

SKF focuses 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. New insights into rubber ageing, rubber friction and wear have been obtained, combining novel experimental methods with advanced simulations.

Mechatronics

This is the integration of mechanical and electronic engineering with associated proprietary control strategies for application in SKF's products and processes. Monitoring operating conditions as close to the contact area as possible gives greater accuracy for studying the performance of a system. In addition to temperature, speed, direction of rotation and vibration, loads can be monitored via sensors integrated into SKF bearings. Responding to the customers' need for reducing installation costs and time and to increase the life of components, SKF develops products that make use of wireless technologies more efficiently.

Modelling and simulation

Modelling and simulation of rolling bearing products requires detailed, accurate information on the role of different materials and associated physical properties, and how contacting surfaces react during rolling contact conditions. The development of such models has focused on different size regimes, typically from the sub-micron level up to full-scale components. SKF has 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 formulas, to more sophisticated calculation and simulation systems. SKF's strategy is to develop a wide range of software packages to satisfy a large number of customer requirements, from fairly simple design checks and moderately complex investigations to more advanced simulations for bearing and machine design.

SKF combines the ability to model generic mechanical systems using shafts, gears, housings, etc. with a precise bearing model for in-depth analysis of the system behaviour in a virtual environment. This SKF program is the result of several years of specific research and development. For dynamic calculations, SKF has programs to study and optimise the complex behaviour of noise and vibration critical bearing applications (e.g. electric motors, gearboxes), providing an in-depth understanding of, and advice on, the dynamic behaviour of an application. For the most precise simulations of the detailed dynamics inside the bearing. SKF software can be seen as a virtual test rig, performing detailed studies of forces, moments etc. under virtually any load condition. The SKF Spindle Simulator is advanced simulation software for analyzing spindle applications. This program takes account of the effect of the operating speed and temperature on the bearing shaft and housing fits, as well as the bearing preload. In addition, at each point in the spindle's duty cycle, it analyses the effect of the external loads on the shaft and the bearings and delivers precise information about each contact for each rolling element on each bearing. The program supports the analysis of spindles and contains detailed models of super-precision bearings.

Tribology and lubrication

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

Manufacturing

SKF is constantly developing its manufacturing processes to optimise investments in equipment and working capital per unit produced, resulting in enhanced quality and improved customer service. The use of Six Sigma methodology plays an important role in strengthening SKF's manufacturing efficiency. All initiatives for continuously improving manufacturing are brought together by Business Excellence for Manufacturing which ensures consistent implementation throughout the Group. SKF Business Excellence was launched in 2010. It is about delivering value to customers in the most effective and efficient way possible, through utilizing the knowledge of employees, partners and the company's technology. Business Excellence builds on many of the initiatives started by the SKF Group over a number of years, the most recent was SKF Manufacturing Excellence. With Business Excellence SKF is expanding the experience from the manufacturing area into other processes and operations within the SKF Group. Business Excellence is more than just about results – it actively challenges the organization to consider whether it is achieving the right results in the best way possible. SKF Manufacturing Excellence focuses on reducing waste and eliminating non-value adding activities. The heart of the system is the people in the production process.

Manufacturing R&D

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

- improved product performance by an advanced selection of steel and heat treatment combination;
- 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 tighter control of manufacturing processes;
- new processes for improving sustainability, employing important, enhanced energy utilisation while reducing the use of process media; and
- new methods for business excellence in manufacturing, resulting in improved equipment utilisation and a stronger culture of active involvement of employees.

Life cycle management research

As defined by the SKF BeyondZero strategy, 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 the use of improved environmental performance technologies, SKF is conducting research in the area of life cycle management. The aim is to constantly improve the knowledge of 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 expertise centres, these methods are further developed to suit industrial needs better.

Intelligent inspection technologies

SKF's commitment 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 information generated to better control and verify the manufacturing processes. This can be used by applying non-destructive testing technologies like vision systems, eddy current, ultrasonic and other technologies built on magnetic properties of heat-treated steel. Combining it with the use of artificial intelligence, it is possible to detect the material defects and improve process control, as well as defining and predicting product properties.

Near net shape forming

Near net shape forming 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 the reduction of allowances in all operations, giving greater performance in SKF's manufacturing channels. Reduced allowances also have a significant impact on the environment as reduction of the manufacturing cycle time will reduce energy consumption and waste. To achieve the full benefit of reduced allowances, SKF is also exploring new ways of manufacturing bearings and components. This could involve new unconventional technologies or combinations thereof, as well as combinations of materials for taking advantage of properties from each material.

SKF's Divisions

As mentioned above, up to and including 2011, SKF's business was primarily carried out by the following three divisions: the Industrial Division, which serviced mainly industrial OEMs; the Service Division, which serviced mainly aftermarket customers; and the Automotive Division, which serviced mainly automotive OEMs and aftermarket customers.

Industrial Division

With manufacturing and operational sites and sales offices across the globe, the Industrial Division worked closely with OEM customers to develop new solutions based on the five technology platforms – bearings and units, seals, mechatronics, services and lubrication systems – to bring increasing value to customers. In addition to the products and solutions already available, a series of new market offers were introduced to the industrial markets during 2011. Many of these solutions strongly focus on helping customers increase their energy efficiency, as industries play an essential role in global greenhouse gas emission reductions and resource-use efficiency.

Service Division

The Service Division served the global industrial aftermarket, providing products and knowledge-based services to increase customers' plant asset efficiency. Solutions are based on SKF's knowledge of bearings, seals, lubrication systems, mechatronics and services, and customers are served by SKF and its network of over 7,000 authorized distributors. The division had five condition monitoring centres, who design and produce world-leading hardware and software. 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 Service Division is also responsible for all SKF's sales in certain markets.

Automotive Division

The Automotive Division served 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 provided energy saving solutions for home appliances, power tools and electric motors. Within the Automotive Division, SKF developed and manufactured 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.

	Net sales by customer location *(SEK million calculated at the rate for the respective years as at 31 December)*	
Geographical area	**2011**	2010
Sweden	**2,152**	1,900
Europe excl. Sweden	**28,183**	26,109
North America	**12,738**	10,783
Asia Pacific	**17,241**	16,412
Other	**5,902**	5,825
TOTAL	**66,216**	61,029

	Net sales by Division *(SEK million calculated at the rate for the respective years as at 31 December)*	
Division	**2011**	2010
Industrial Division	**23,924**	20,050
Service Division	**23,024**	21,403
Automotive Division	**17,771**	18,231
Other operations	**1,497**	1,345
TOTAL	**66,216**	61,029

As of 1 January 2012, SKF has formed three new business areas to replace the former divisions: SKF Industrial Market, Strategic Industries; SKF Industrial Market, Regional Sales and Service; and SKF Automotive. The main reason for this change is to create an organisation which will be able to better serve the need of customers within the industrial market. Industrial Market, Strategic Industries and the Industrial Market, Regional Sales and Service will both focus on managing the total life cycle of the customers' assets and will deliver a full range of products, services and solutions to both OEMs and end-users within different industries. SKF Automotive Division has been renamed to SKF Automotive.

SKF Industrial Market, Strategic Industries

SKF Industrial Market, Strategic Industries consists of seven business units with full responsibility for sales to both OEMs and end-users, as well as business development, manufacturing, and engineering. The business units are: Aerospace, Renewable energy, Industrial drives (comprising the Industrial electrical, Fluid, Transmission and Material handling segments), Off-highway, Traditional energy, Precision (comprising the Machine tool, Medical and Automation segments), and Railways. In addition, the SKF Lubrication business unit is part of this business area.

SKF Industrial Market, Regional Sales and Service

SKF Industrial Market, Regional Sales and Service is responsible for sales to both OEMs and end-users, as well as business development and engineering for the Metals, Pulp and Paper, Mining and Cement, Food and Beverage, and Marine segments. It will also focus on developing advanced services and solutions that improve customer productivity, as well as on developing the SKF sales channels with primary responsibility for SKF distributors and channel partners.

SKF Automotive

SKF Automotive 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 business area provides energy saving solutions for home appliances, power tools and electric motors. SKF Automotive develops and manufactures bearings, seals and related products and services. For the vehicle service market, the business area provides complete repair kits, including a range of drive shafts and constant velocity joints.

Outside these business areas, SKF has two other operations, PEER and SKF Logistics Services, which are not affected by the new structure. PEER mainly manufactures deep groove ball bearings, agricultural bearings, mounted units and tapered roller bearings at its two factories in Xinchang and Changshan in China. PEER helps the SKF Group strengthen its presence in segments such as agriculture, heating, ventilation, air conditioning and mechanical power transmission. SKF Logistics Services manages the flow of components and goods, from the suppliers to SKF and from SKF to the customers, involving integrating information, transportation, material handling, inventory management, warehousing, packaging and security.

SKF's markets

All competitive statements made in this description of the Issuer in terms of 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.

Bearing market

The global bearing market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs including mounted bearing units. SKF estimates that the global rolling bearing market increased in local currency between 5 and 10 per cent. in 2011 over the previous year, to between SEK 310 and 320 billion.

In 2011, the automotive original equipment bearing markets, including two- and three-wheelers, accounted for slightly more than 30 per cent. of world demand. The industrial original equipment bearing markets accounted for almost 40 per cent. of world demand in 2011 and included manufacturers of light and heavy industrial machines and equipment as well as aerospace, off-highway and railway vehicles. 2011 sales through distributors (industrial distribution and the independent vehicle aftermarket) make up around 30 per cent. of world bearing demand, of which around 25 per cent. is related to the vehicle service market and around 75 per cent. to the industrial market.

Asia currently accounts for almost 50 per cent. of the world bearing market, compared with less than 30 per cent. ten years ago. China has been growing rapidly over the last few years supported by the expansion of its domestic railway infrastructure and a robust demand in renewable energy and now accounts for more than 25 per cent. of the total world bearing market demand. Japan's share of the world bearing market has been declining, and domestic Japanese bearing demand now accounts for less than 15 per cent. of the world total. Other Asian markets with 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 the main international bearing companies accounting for about one third of the market while the other two thirds of the market consists of a host of local manufacturers. Some of the largest include: Wafangdian (ZWZ), Luoyang (LYC), Harbin (HRB), Zhejiang Tianma (TMB). Wanxiang Qianchao, and C&U. The Indian bearing market has been growing at the same pace as the Chinese market and now accounts for about 5 per cent. of the world bearing market. The players in that market include international manufacturers and several local manufacturers such as NEI, NRB, ABC and TATA. Europe accounts for less than 25 per cent. of the world market total with Germany alone accounting for almost 10 per cent. The Americas now represent less than 25 per cent. of global demand, of which the USA, Canada and Mexico together account for about 80 per cent. In South America, Brazil is the major market and makes up more than 60 per cent. of regional demand.

SKF is a world leader in the market for bearings. Other major international companies include the Schaeffler Group, Timken, NSK, NTN and JTEKT. Radial deep groove ball bearings are the most common rolling bearing type, accounting for almost 30 per cent. of world bearing demand. Other major ball bearing types include angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub bearing units accounting for more than 10 per cent. of the total world bearing market. Roller bearing account for less than half of the world bearing market. 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 that 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.

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. SKF estimates that the global markets for actuation and motion control increased by 15 per cent. in 2011 over the previous year in local currencies, to around SEK 70 billion worldwide. More than 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 include 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 is active in developing and offering a comprehensive range of mechatronic components, modules and sub-systems for many industrial and consumer applications, which provide extensive customer benefits. SKF's main focus segments in this market include the medical industry, factory automation, semi-conductors and the oil and gas industry. SKF is active in the oil and gas segment and involved in developing products and solutions for sub-sea applications, which are considered to be tomorrow's new technological frontier of this industry. SKF is a leading supplier for heavy duty actuation systems (systems with a high utilization rate), roller screws and magnetic systems solutions, including magnetic bearings, 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.

Polymer seals market

SKF is a leading player in the global polymer seals market. After the economic downturn in 2009 the market recovered in 2010 to reach around SEK 70 billion. During 2011 market growth continued, though at a slower rate during the second half, to reach an estimated SEK 75 billion. In local currencies market growth was estimated at around 15 per cent. for 2011. 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 into rubber seals, PTFE seals, etc. depending on the main material used for sealing solutions. A third way of segmenting the market is to look at the customer groups, namely 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. Even though a slowdown of the growth rate was evident in China and India in 2011, they are still rapidly expanding markets 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. SKF has a good presence in the Asian markets with seals manufacturing, testing and engineering facilities in China, India and South Korea. SKF is continuously investing to further strengthen its Asian presence, including a new seals factory in Mysore, India, which will start production in the first half of 2012.

Industrial seals can be categorised into power transmission seals and fluid system seals, with the latter comprising fluid power seals and fluid handling seals. With its established presence in 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 offering high-end, technology driven solutions. Most power transmission seals are made for rotating applications, with radial and axial shaft seals being the main product groups. Wear sleeves, which are used to repair a worn shaft without dismantling the shaft, are also a key product group where SKF has a strong position.

Fluid power seals are used in both mobile and stationary fluid power applications, for example in off-highway, mining, and heavy industry. 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. SKF has the capability to produce fluid power and fluid handling polymer seals using both machining and moulding technologies. Machined seals, where SKF has a world leading position, can be produced in a variety of profiles and within very short time frames.

Asia represents about 50 per cent. of the automotive OEM seals market while the rest is split between Europe and North and Latin America. Key applications in the automotive seals market that SKF focuses on with the latest technology solutions include powertrain, both in engines and transmissions, wheel ends and chassis. Transmission seals represent the largest part of the market, with its bonded piston and shaft seal product lines. For engine applications, valve stem seals and engine shaft seals are key product groups where SKF has a strong presence. SKF also has a strong position for seals that are integrated into wheel hub bearing units for cars, as well as seals for the heavy truck industry.

SKF offers seals, elastomeric bearings, elastomeric isolators and damping solutions mainly for helicopters. SKF also offers standard radial lip shaft seals for rotor systems, gearboxes, transmissions, and auxiliary power units including landing gear wheels seals and actuator seals. The German Freudenberg Group with its automotive focused Japanese affiliate NOK (Nippon Oil Seal Co) is the largest supplier on the world polymer seals market across all segments. Trelleborg and Parker Hannifin are important players on the industrial seals market, and Federal Mogul, Dana, ElringKlinger and Bruss are significant suppliers of automotive seals. For precision elastomeric devices, Lord and Paulstra (part of the Hutchinson Group) are the largest suppliers. Overall, SKF is among the top global players with a strong offering in most applications across each segment.

Lubrication systems market

SKF estimates that the global lubrication market, consisting of automatic lubrication systems equipment, design and installation and lubrication tools and equipment, was worth around SEK 30 billion in 2011. Automatic 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 critical products aimed at improving the productivity, reliability, energy efficiency, environmental compliance and maintenance of vehicles and industrial machinery. Automatic lubrication systems include pumps, reservoirs, valves, pipes, metering system connectors and controllers. Design and installation services play a significant role. 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 about 40 per cent. of the lubrication systems market, North and Latin America together make up about 25 per cent. of the lubrication systems market, and Asia and the rest of the world account for 35 per cent. of the lubrication systems market. SKF has a strong presence in both the grease and the oil-based lubrication systems market globally. The remainder of the market is highly fragmented with few truly international suppliers and a large amount of small to mid-sized competitors. SKF's competitors include Baier & Koppel (BEKA, Germany), Groeneveld group (Netherlands), Bijur Delimon (USA), Graco (USA), Dropsa (Italy) and Woerner (Germany).

Asset efficiency market

Asset efficiency products and service solutions is a rapidly expanding business sector, driven by increasing global competition among capital intensive industries. Asset efficiency consists of products and services that enable customers to increase the availability and reliability of plant assets, reduce environmental impact and improve health and safety. Typically, this involves using condition-monitoring technologies like vibration, thermography and oil analysis.

Rapidly expanding markets continue to outpace and now account for almost 50 per cent. of the global market. Of this Asia contributes almost 30 per cent. and Latin America around 20 per cent., with North America, Europe and the Middle East together accounting for the remainder. The compounded annual growth rate (**CAGR**) is nearly double in Asia and other rapidly expanding markets to that of the United States and Europe. Developing infrastructure, along with the fast growing energy sector, is driving demand for asset efficiency products and services. Demand in North America and Europe is driven primarily by upgrading existing facilities and growth in the renewable sector. The ageing workforces in North America and Europe, along with corporate downsizing in recent years, have resulted in fewer skilled personnel available on the market place for conducting asset efficiency programmes. This has driven increasing use of outsourced service contracts from SKF along with deployment of remote monitoring solutions supported by Software as a Service (**SaaS**). These leverage skills, improve consistency and reduce start-up and operation costs of asset reliability programmes.

Increasing regulatory requirements driven by health, safety and environmental concerns are requiring customers to inspect and monitor a greater portion of their plant assets with increasing frequency. In most cases this includes traceable documentation. This is resulting in the greater use of mobile inspection and wireless devices.

All of the market factors above are leading to a greater emphasis on life cycle casting and management of key plant assets. This is defined as a more integrated approach from the design manufacture and delivery from the OEM to the installation, use and maintenance from the end-user. SKF plays a role in the entire life cycle process to help lower the total costs.

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 believes it 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.

Customers

SKF supplies products to industrial OEMs that produce many different types of industrial products such as pumps, fans, compressors, motors, gearboxes, machine tools, paper machines, steel mills, printing presses and windmills, to name a few. SKF serves the aerospace industry, including manufacturers of engines, gearboxes and other modules for fixed wing aircraft and helicopters, as well as supplying to maintenance, repair and overhaul suppliers and airlines. SKF also supplies the railway industry, which includes manufacturers of trains, high-speed trains, passenger carriages, freight carriages, railway components and system suppliers and repair workshops. Together with the largest network of authorised distributors in the bearing industry, SKF believes it 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 efficiency of their production processes. One example is SKF's asset management support tools that make it possible to recommend an appropriate maintenance strategy, work process and optimal level of spare parts. Understanding the critical machines and failure modes allow SKF to recommend an appropriate condition monitoring solutions for customers.

Through its SKF Solution Factories, SKF offers an infrastructure for delivering complete, integrated solutions incorporating all technology platforms. Customers can fully utilize SKF's knowledge by combining the full range of SKF's expertise with workshop facilities, providing customised service to end-user customers. In this way, many SKF bearing services and integrated value-adding solutions – such as remanufacturing and customization, application engineering, spindle repair, lubrication applications. mechanical services including mounting, alignment and balancing, remote monitoring centre and training – are readily available to customers. In close collaboration with authorised distributors. SKF Logistics' operations aim to ensure that SKF's customers also get the right products at the right time, while minimising capital tied up in stock.

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

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 by containing all the necessary components for making the repair. More than 19,000 different kits are currently available and some examples include wheel bearings, timing belts, water pumps and constant velocity joints.

Technology research and development

SKF's continued commitment to technology development is important for maintaining and strengthening its technological leadership. During 2011, SKF recorded 620 invention disclosures and successfully applied for 325 first filings of patent applications. SKF has a strong global network of R&D centres and laboratories, as well as established collaborations with major universities and research institutes and established a number of new centres and collaborations in 2011.

R&D expenditure was SEK 1,481 million (1,184 million in 2010), corresponding to 2.2 per cent. (1.9 per cent. in 2010) of annual sales, excluding developing IT solutions. In 2011, SEK 27 million was capitalised development expenditure. SKF's R&D investments rose by around 30 per cent. in local currency, in 2011 compared with 2010. The Group is increasing its activities in the R&D arena with a 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.

Global Technical Centres in Asia

The SKF Global Technical Centre India (GTCI) was inaugurated in Bengaluru, in December 2011. The opening of GTCI is part of SKF's technology strategy to develop a global product development and engineering organisation. The new Global Technical Centre will incorporate the existing Global Testing Centre opened in 2009 and the Automotive Development Centre opened in 2004, both of which are located in Bengaluru. The opening of the centre further reinforces SKF's strategy to open Global Technical Centres near its customers to focus on product innovations on all five SKF technology platforms. The expertise of the centres in Asia ranges from technology and product/process development to engineering and testing, thus aiming to fulfill customers' needs in these expanding markets.

Relationship with the academic community

SKF continued strengthening its relationship with the academic community by collaborating with renowned universities as a strategic measure in maintaining technological leadership. In April 2011, the SKF University Technology Centre for sustainability and environment was established with Chalmers University, Gothenburg, confirming this as a core strategic area for the Group; the focus being on research and development in the areas of technology, manufacturing, business processes and business strategy. In December 2011, the SKF University Technology Centre for condition monitoring and asset management was established with the Technology University, Luleå, Sweden. In 2009, a centre for research for steel was established at Cambridge University, England, while in 2010, the following centres were established: a centre for tribology at the Imperial College, London, and a centre for research for polymer materials at Tsinghua University, China.

Technology clusters

SKF's research projects are organised and run by technology clusters. These are groups of technical experts from throughout the Group, who translate innovation strategies in their respective fields into clear technology programs, 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.

Technology in motor racing

Pursuing excellence in technology, SKF is active in the motorsport industry and invests in advanced development for racing cars, which is expected to generate additional value to the industrial and automotive markets. In 2011, the technical partnership with the Scuderia Ferrari team was renewed, it represents the longest technical cooperation ever in Formula l history. SKF provides several components in this field for the most demanding engineering applications, such as low friction sealing materials, hybrid bearings and solutions for the Kinetic Energy Recovery System (**KERS**).

Capacity and technology investments

In 2011. SKF inaugurated its second bearing factory in Dalian, China. The factory produces medium size bearings, which complements the range of large size bearings produced at the existing factory opened in 2006. SKF had 13 factories in China at the end of 2011. SKF also announced the construction of two new factories, one in Jinan, China, which is expected to support the rapid growth of SKF's business in China and Asia. The factory will be fully operational by the first half of 2012, initially employing about 500 people and primarily manufacturing tapered roller bearings and truck hub bearing units. This is an investment of around SEK 590 million. The other factory will be in Mysore, India, built for sealing solution customers in India and the South-East Asia region. There will be a full range of seals manufactured in Mysore to serve a wide range of automotive and industrial applications. The factory will start deliveries in 2012. These new factories, as with all new SKF facilities, are built to the LEED standard. LEED is an internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies intended to improve performance in metrics such as energy savings, water efficiency, carbon dioxide emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts. In 2011, SKF also decided to expand its bearing production for car hub units in Shanghai, to take advantage of the growth in demand in China for passenger cars. And in Cajamar, Brazil SKF increased capacity by an extension to the factory, adding new production lines to serve the domestic Brazilian market.

Acquisitions and divestments

In 2011, SKF completed two agreements in line with its strategy to divest non-core component manufacturing. On 1 February 2011, SKF's forging business, OMVP, based in Villar Perosa, Italy, was sold to the German-based company Neumayer Tekfor Holding GmbH. OMVP has about 550 employees and net sales of around EUR 100 million, mainly to SKF. At the beginning of quarter two, SKF's cage factory in Gothenburg was sold to the Japanese component manufacturer Nakanishi Metal Works Co., Ltd. The factory has 130 employees and will continue to supply SKF. Additionally two other minor divestments were completed during 2011.

In April 2011, the Group acquired the remaining 50 per cent. of the International Component Supply (ICS) for SEK 6 million, net of cash acquired. The Group's initial 50 per cent. investments in ICS were made in 2001. ICS is located in Brazil and manufactures forged and turned steel rings for bearings and is part of the Automotive Division.

In 2011, the Group had total cash outflows of SEK 6 million for acquisitions of businesses. In 2010, the Group had total cash outflows of SEK 6,799 million for the acquisition of Lincoln (see below) and the minority interest in Berger Vogel, both relating to the Industrial Division.

The remaining 49 per cent. interest in Berger Vogel, Italy was acquired in August 2010 for SEK 35 million. The Group's original investment was made in 2004. On 28 December 2010, the Group acquired 100 per cent. of the shares of Lincoln Holdings Enterprises, Inc (**Lincoln**) from Harbour Group. Lincoln is a leader in the design, manufacture and supply of highly engineered lubrication systems, tools and equipment, and is headquartered in St. Louis, Missouri, USA. Lincoln's three main product lines are automated lubrication systems, hose reels, and grease guns, with focus on grease-based systems. Sales are mainly generated from automated lubrication systems and related products. Major end markets include industrial, energy, off-highway, mining, agriculture and steel. Lincoln has a global footprint with around 50 per cent. of its sales generated in North America, 25 per cent. in Europe and 20 per cent. in Asia Pacific. Lincoln has around 2,000 employees with manufacturing operations in the USA, Asia and Europe. Lincoln is part of lubrication systems within SKF's Industrial Division. The acquisition of Lincoln is in line with SKF's strategy and builds on a series of acquisitions made in the lubrication systems sector over the last six years. Lincoln is highly complementary to SKF's existing lubrication systems business, with limited product and geographical overlap.

Capital Expenditures

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,839 million in 2011 (1,651 million in 2010), whereof approximately SEK 65 million (121 million in 2010) was spent on internal and external environmental improvements. In 2011 the Group's cash outflow for acquisitions of business and non-controlling interests was SEK 6 million. In 2010 the cash outflows were SEK 6,799 million, mainly attributable to the acquisition of Lincoln.

Sustainability

SKF is committed to sustainability, – not only as a responsibility, but also as one of its five 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 of SKF Care guide both the business completed by the Group and the way in which it is carried out.

Business Care

Business Care is built on a strong customer focus and delivering a strong and sustainable financial performance and the right returns for shareholders, which should be achieved in accordance with the highest standards of ethical behaviour.

Environmental Care

Environmental Care focuses on the Group's responsibility to continually strive to reduce the negative impact on the environment from its own operations and those of its suppliers. BeyondZero™ combines this with the strategy to improve customers' environmental performance through products and solutions that reduce environmental impact. SKF's Environmental Care activities include, inter alia, the ISO 14001 Environmental Management System. LEED and Sustainable Factory Rating, application of energy and carbon reporting systems and targets to reduce such emissions, waste management and recycling.

SKF's recently announced BeyondZero™ portfolio defines and quantifies products and solutions which bring significant environmental improvements to the Group's customers. The company has set out its ambitions to significantly expand this part of its business.

SKF has a global partnership with the WWF (World Wide Fund for nature) on the issue of climate change. In May 2012, SKF was accepted into the WWF Climate Savers program, a program for companies setting sector-leading targets for greenhouse gas reduction in their own emissions and working with customers, suppliers and partners to implement innovative solutions for a clean, low-carbon economy.

Employee Care

Employee Care assures a safe working environment and promotes the health, education and well-being of SKF's employees including, inter alia, the Zero Accidents target launched in 2000, upholding and protecting human rights principles and labour standards, surveys to continuously improve the working environment and promotion of health and fitness.

Community Care

Community Care defines the Group's activities which make positive contributions to the communities in which it operates including, inter alia, the SKF Social Policy issued in 2006, financial donations to aid organisations in connection with natural disasters, contributions to education and vocational training to, for example, underprivileged children and disabled young adults and sponsoring of sports events for young people and other forms of sponsorship.

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 (employee representatives excluded), 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 2012 and as at the date of this Prospectus

Leif Östling

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

Ulla Litzén

Board member since 1998
Born 1956
Positions/activities: Board member of Atlas Copco AB, Boliden AB, Alfa Laval AB, Husqvarna AB and NCC AB

Tom Johnstone

Board member since 2003
Born 1955
Positions/activities: Board member of Investor AB and Husqvarna AB.

Winnie Fok

Board member since 2004
Born 1956
Positions/activities: Board member of Volvo Car Corporation, G4S plc and Kemira Oyj

Lena Treschow Torell

Board member since 2007
Born 1946
Positions/activities: Vice Chairman of Micronic Mydata AB and AB ÅF. Board member of SAAB AB, Investor AB and Chalmers University of Technology Foundation. Chairman of European Council of Applied Sciences, Technologies and Engineering, and Chairman of MISTRA, the Foundation for Strategic Environmental Research.

Peter Grafoner

Board member since 2008
Born 1949
Positions/activities: Board member of Symrise AG and Chairman of SAG Group and President of the board of Scania Schweiz AG

Lars Wedenborn

Board member since 2008
Born 1958
Positions/activities: Chairman of NASDAQ OMX Nordic Ltd., and Board member of NASDAQ OMX Group USA, the Grand Hotel and FAM (Foundation Asset Management)

Joe Loughrey

Board member since 2009
Born 1949
Positions/activities: 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

Board member since 2010
Born 1957
Positions/activities: Board member of Nokia Oyj, of the Finnish Forest Industries Federation and of 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).

Baba Kalyani

Board member since 2011
Born 1949
Positions/activities: 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

Niklas Thoresson

Board member since 2012
Born 1974
Positions/activities: Chairman of Unionen, SKF, Gothenburg.

Kennet Carlsson

Board member since 2008 and deputy board member 2001-2008
Born 1962
Positions/activities: Chairman of Metalworkers' Union, SKF, Gothenburg and SKF World Union Council, Gothenburg

Martin Björkman

Deputy board member since 2011
Born 1970
Positions/activities: Board member of Metalworkers' Union, SKF, Gothenburg

Virpi Ring

Deputy board member since 2012
Born 1967
Positions/activities: Second Vice Chairman of Unionen, SKF, Gothenburg and Board member of Higabgruppen

Group Management as at the date of this Prospectus

*Tom Johnstone**
President and Chief Executive Officer
Born 1955
Employed since 1977
Previous positions within SKF: Executive Vice President of AB SKF and President of Automotive Division and several other positions
Board member: Investor AB and Husqvarna AB

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

*Henrik Lange**

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

*Vartan Vartanian**

President of Industrial Market, Regional Sales and Service
Born 1953
Employed since 1990
Previous positions within SKF:
Area Director, Europe and several other positions.
Board member: Endorsia.com International AB

*Tryggve Sthen**

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

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

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

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

Manfred Neubert

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

Bo-Inge Stensson
Senior Vice President, Group Purchasing
Born 1961
Employed since 2006
Previous positions within SKF: Senior Vice President of Group Demand Chain

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

Lars Wilsby

Senior Vice President of Group Business Transformation
Born 1962
Employed since 2005

Rakesh Makhija

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

Poul Jeppesen

President, North America
Born 1953
Employed since 1982
Previous positions within SKF: President of SKF Actuation System and several other positions
Board member: NAM (National American Manufacturers), MAPI (Manufacturing Alliances), ABMA (American Bearing Manufacturers Association), Family Answers, Allentown, PA, USA

* 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 2012 KPMG AB, Authorised Accountants and members of FAR SRS (**KPMG**), were elected as auditors of SKF until the Annual General Meeting 2013. 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 2011, the Group had 46,039 registered employees (44,742 as at 31 December 2010 and 41,172 at 31 December 2009).

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*

	2011	***2010***	*2009*
Sweden	**2,933**	**3,036**	3,020
France	**3,548**	**3,552**	3,752
Italy	**3,418**	**4,131**	4,132
Germany	**5,235**	**5,153**	5,352
Other Western Europe excluding Sweden	**3,982**	**3,580**	3,395
Central/Eastern	**4,023**	**3,662**	2,975
USA	**5,142**	**4,091**	3,829
Canada	**231**	**200**	200
Latin America	**3,393**	**2,772**	2,414
Asia	**10,727**	**9,759**	9,026
Middle East and Africa	**254**	**270**	435

	2011	*2010*	*2009*
Total	**42,886**	**40,206**	**38,530**

Registered number of employees by division*

	2011	*2010*	*2009*
Industrial Division	**20,264**	**20,018**	17,906
Service Division	**6,093**	**5,741**	5,672
Automotive Division	**14,451**	**14,474**	13,480
Total	**40,808**	**40,233**	**37,058**

*Previously published amounts have been restated to conform to the current Group structure in 2011. The structural changes include business units being moved between the divisions and between other operations/Group activities and divisions.

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 31 July 2012, 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	21,000,000	37,850,000	29.5	12.9
2	Alecta	2,192,404	16,372,200	4.6	4.1
3	Swedbank Robur Funds	2,043,947	16,678,025	4.4	4.1
4	Skandia Life Insurance	3,097,436	1,461,890	3.9	1.0
5	AFA Insurance	1,384,900	3,696,989	2.1	1.1
6	AMF Insurance & Funds	0	17,085,390	2.0	3.8
7	SEB Trygg Life Insurance	1,655,224	82,576	2.0	0.4
8	SEB Funds	381,142	9,482,656	1.6	2.2
9	PRI Pensionsgaranti	927,096	284,198	1.1	0.3
10	Government of Norway	0	9,508,261	1.1	2.1

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 August 2012 was 42,649,282 (9.4 per cent.) and 412,701,786 (90.6 per cent.) respectively. The total number of shares was 455,351,068.

Events After The Year Ended 31 December 2011

In the first quarter of 2012, and as further detailed on pages 35–36 above, SKF introduced a new operating structure for the industrial market to further improve focus and support to this market and to strengthen the full asset life cycle approach for each industry.

The Group has in 2012 introduced a new Transfer Pricing Policy and will during a phase out period centralize the majority of the ownership of intellectual property to AB SKF. This means that AB SKF's business model has changed and will shift from being a service provider to being an entrepreneur with the right to the residual profit, taking costs for R&D and other management services.

SKF acquired the New York-based General Bearing Corporation (GBC) and the acquisition was approved by the relevant authorities in the US and China. Sales in 2011, mainly in the US, were around U.S.$ 155 million. GBC has four factories in China and 1,750 employees. General Bearing Corporation will continue to operate as an independent subsidiary within the SKF Group. SKF pays around U.S.$ 125 million on a cash and debt free basis.

SKF launched the BeyondZero™ portfolio with products and solutions which it believes will both improve energy efficiency and reduce the environmental impact. The environmental improvements are validated through a life cycle assessment methodology. SKF aims to quadruple the revenue from the BeyondZero™ portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016.

SKF announced revised targets for its climate strategy. The targets aim to reduce greenhouse gas emissions for SKF, its suppliers and logistics operations. As a result of its climate strategy SKF is now, as the first industrial engineering company, partnering with the World Wildlife Fund (WWF) in their Climate Savers Programme, a program for companies setting sector-leading targets for greenhouse gas reduction in their own emissions and working with customers, suppliers and partners to implement innovative solutions for a clean, low-carbon economy.

SKF signed an agreement to sell the SKF distributor businesses in Australia and New Zealand to US-based Applied Industrial Technologies. The transaction was finished in August 2012.

SKF embarked on a new and customer driven programme harmonising certain key business processes across the company. Over a number of years a new enterprise resource planning process will be implemented supporting demand chain and finance processes.

SKF has, as of 31 August 2012, extended the maturity of its EUR 500 million committed credit facility syndicated by 10 banks until 2017.

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. In addition, the summary does not address Notes that are held on an "investment saving account" (Sw: investeringssparkonto) that are subject to a specific tax regime. 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.

If the Notes are registered with Euroclear Sweden AB or held by a Swedish nominee in accordance with the Swedish Financial Instruments Accounts Act (SFS 1998:1479), Swedish preliminary taxes are withheld by Euroclear Sweden AB or by the nominee on payments of amounts that are considered to be interest for Swedish tax purposes to a private individual (or an estate of a decease individual) that is a resident holder of any 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.

Luxembourg Taxation

The following information is of a general nature only and 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. The information contained within this section is limited to Luxembourg withholding tax issues and 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 as amended (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. 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 will be subject to a withholding tax of 35 per cent.

(ii) Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 as amended (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 will be subject to withholding tax at a rate of 10 per cent.

SUBSCRIPTION AND SALE

Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, Skandinaviska Enskilda Banken AB (publ), and The Royal Bank of Scotland plc (the **Joint Lead Managers**) have, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 7 September 2012, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.643 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. treasury 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:

(b) 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

(c) 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 18 June 2012.

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 XS0827529198 and the Common Code is 082752919.

   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 30 June 2012 and there has been no material adverse change in the financial position or prospects of the Issuer or the Group since 31 December 2011.

Litigation

5. Save as disclosed on page 6, 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 2010 and 31 December 2011.

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 2010 and 31 December 2011. 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 1.930 per cent. per annum based on the issue price of the Notes.

THE ISSUER

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