Annual Report 2013

Financial, environmental and social performance

SKF

Contents

Key data

	2013	2012
Net sales, SEKm	**63,597**	64,575
Operating profit, SEKm	**3,693**	7,314
Operating margin, %	**5.8**	11.3
Profit before taxes, SEKm	**2,821**	6,408
Basic earnings per share, SEK	**2.00**	10,23
Dividend per share, SEK	**5.50** [1)]	5.50
Cash flow, after investments and before financing SEKm	**-5,342**	3,555
Return on capital employed, %	**7.5**	16.2
Equity/assets ratio, %	**29.8**	37.0
Additions to tangible assets, SEKm	**1,746**	1,968
Registered number of employees, 31 December	**48,401**	46,775
Average number of employees	**45,220**	44,168
SKF BeyondZero portfolio revenue, SEKm	**3,324**	2,972

Number of shares on 31 December 2013: 455,351,068, of which 38,558,266 A shares and 416,792,802 B shares.
[1)] Dividend according to the Board's proposed distribution of surplus.

At Hannover Messe 2013, the SKF Group presented innovative solutions for improving sustainability and profitability for customers across a range of segments. SKF focused on intelligent next-generation products and solutions that give customers measurable increases in profitability and sustainability. The ground-breaking SKF Insight was launched in Hannover, »see next page.

Topics

The following topics can be found at skf.com. Go to Investors and Reports and presentations.

- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Carbon dioxide emission data*
- Environmental performance data*
- Zero Accidents awards*
- Manufacturing units on 31 December 2013
- The compliance table to GRI G3 Guidelines (GRI Index Table)*
- SKF Care – Policies and practices*
- SKF Risk matrix*

** Documents reviewed by PwC.*

The SKF Group is a leading global supplier of products, solutions and services within rolling bearings, seals, mechatronics, services and lubrication systems.

SKF Insight

By combining its core skills in bearing design with its expertise in condition monitoring, SKF has developed wireless and self-powered technologies for "smart" bearings. **Bearings have long been considered the heart of rotating machinery, now SKF makes them the brain as well.** »Read more on page 73.

Vision

To equip the world with SKF knowledge

Mission

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

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

Drivers

- Profitability
- Quality
- Innovation
- Speed
- Sustainability

Values

- Empowerment
- High ethics
- Openness
- Teamwork

This is SKF

The SKF Group 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, asset efficiency optimization, engineering consultancy and training.

Founded in 1907

SKF was founded in 1907 and rapidly grew to become a global company. As early as the 1920s, the company was well-established in all five continents. SKF is present in nearly all industries, including cars and light trucks, marine, aerospace, renewable energy, railway, metal, machine tool, medical and food and beverage.

Business areas

SKF mainly does business through its business areas: SKF Industrial Market – Strategic Industries, SKF Industrial Market – Regional Sales and Service and SKF Automotive. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and services to OEMs and end-users. In addition, SKF has a range of products, solutions, services and expertise that are complimentary to the three business areas. From 1 January 2014, these will be reported as Specialty Business, see page 63.

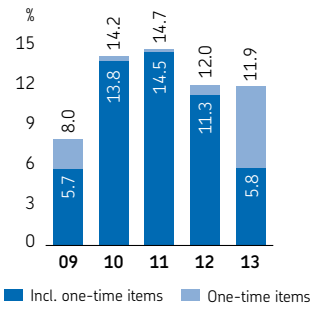
Five technology platforms

SKF groups its technologies on five platforms: Bearings and Units, Seals, Mechatronics, Services, and Lubrication Systems. By utilizing capabilities from all or some of the platforms, the company develops tailor-made offers for each industry, helping customers improve performance, reduce energy use and lower total costs. SKF works with its customers at every stage in the asset life cycle, providing solutions from design right through to maintenance, and back to design upgrades.

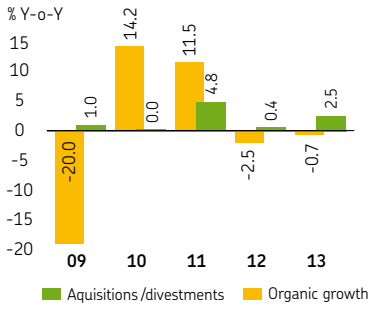
SKF's financial targets

SKF's financial targets are to achieve an operating margin of 15%, annual sales growth in local currencies of 8% and a return on capital employed of 20%. These results shall be obtained by conducting SKF business in accordance with the principles defined by SKF Care.

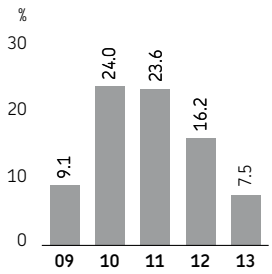
Operating margin



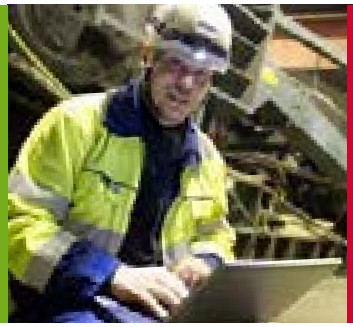
Changes in sales in local currency



Return on capital employed



2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.



Sales and manufacturing

SKF is represented in over 130 countries through its own sales companies and over 15,000 distributor locations. The company has around 165 manufacturing units in 29 countries.

Global certification

The Group 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.

Research and development

The Group's investment in research and development has resulted in numerous innovations, new standards, products, solutions and services. In 2013, SKF recorded 650 (663) invention disclosures and successfully registered 468 (421) first filing patent applications.

SKF BeyondZero

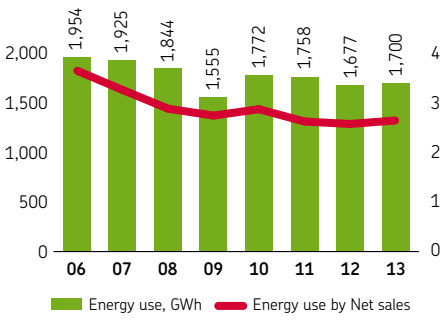
SKF's environmental strategy – SKF BeyondZero – is to create a positive impact on the environment. This is done both by reducing the environmental impact from SKF's own operations, its suppliers and logistics and by providing customers with products and solutions offering superior environmental performance.

SKF BeyondZero consists of two simultaneous approaches:

- to reduce the environmental impact resulting from SKF's operations
- to provide customers with innovative technologies, products and solutions that offer improved environmental performance.

This performance is verified with an SKF developed methodology which is reviewed by external auditors, see pages 70–71.
Total revenue from the SKF BeyondZero portfolio in 2013 was SEK 3,324 million and the Group target is to reach SEK 10 billion by 2016.

Result of energy use at SKF's operations



President's letter

2013 – A challenging year!

As expected the macro environment in 2013 improved a little as we went through the year. All major regions showed some improvement and in many countries this was driven by the automotive industry, while the industrial market remained subdued particularly in Europe and North America.

SKF was impacted by the overall market demand and sales were slightly down organically but improved as the year went on. In Europe and North America organic sales were slightly down while in Latin America we recorded strong growth in our business. Both Asia and the Middle East & Africa recorded modest growth. The operating profit of the Group was heavily impacted by the one-time costs that were taken related to the EU investigation and to restructuring and impairment. If we exclude these, then the operating margin was similar to the previous year at 11.9%, despite the heavy currency headwind.

In line with the strategy and priorities, the Group made two very important acquisitions: Blohm + Voss Industries and Kaydon Corporation. Both companies are excellent additions and not only bring great people they also enable us to better serve key markets with complementary technologies. The Group issued a 750 million Euro bond with a 7-year maturity at a fixed rate of 2.375% to ensure the financing of these acquisitions.

The SKF Group again delivered a good cash flow, excluding acquisitions and divestments, of over 3.1 BSEK. Based on both the operational performance and the outlook for the Group the SKF Board has decided to propose to the shareholders an unchanged dividend of SEK 5.5 to be decided on at the shareholders meeting in March, 2014.

Without doubt the black spot of the year was the provision which we have taken of 3 BSEK for the expected fine from the European Commission regarding their investigation into possible infringement of EU competition law on the supply of bearings to the automotive manufacturing industry in Europe. Even if we believe it has not caused any damage to our business partners this should not have happened. SKF has clear policies, a code of conduct and training in these areas to avoid such things happening. Despite this, and based on our own investigation, we expect a significant fine. SKF has taken a number of major steps to address what happened and also to avoid such things happening again. I can only sincerely apologize to all our business partners and stakeholders for this unacceptable event.

Driving our priorities

SKF has put in place four priorities to drive our business going forward and during the year we made significant progress. These priorities are built around SKF Care – our strategy for sustainability. This Annual Report is also built around SKF Care and the four dimensions of Business Care, Environment Care, Employee Care and Community Care.

The first priority is sustainable profitable growth through using our technologies to widen our ability to serve customers, working with the asset life cycle and launching new products with energy efficiency particularly in focus. In addition,

Tom Johnstone, President and CEO

we are developing our second brand business to serve complementary customers and applications and finally making acquisitions to complement our product, customer and geographical presence.

Our second priority is investment and innovation. Here we are focused on bringing our manufacturing and innovation capabilities closer to our customers and, especially in R&D, speeding up the launch and commercialization of new products. We have also focused on investing in new IT systems and on mobility – bringing SKF knowledge closer to our customers.

Our third priority is cost reduction through Business Excellence and through the cost reduction programme we launched at the end of 2012.

Our fourth priority is capital efficiency – both reducing fixed capital and also reducing net working capital.

> “SKF has put in place four priorities to drive our business going forward and during the year we made significant progress.”

In this report you will see many examples of what we have done to support these priorities but let me highlight a few:

- We acquired two very good companies during the year – Blohm + Voss Industries at the start of the year and Kaydon Corporation in the fourth quarter.

  The technologies and service network of Blohm + Voss is already strengthening our ability to serve the marine industry worldwide. Marine is now almost 4% of Group sales.

  The product portfolio of Kaydon really complements the SKF Group's technologies as does their manufacturing footprint and their customer presence. Even though it is only a few months since they joined the Group we can already see synergies in cost and in servicing our customers.

- We continued to invest in our technology and have once again stepped up our investment in R&D for the Group. We increased the spend to 2.9% of sales and increased the number of patent filings by 11% – around 2 every working day! In 4 years we have doubled the number of patents being registered by SKF. A lot of new products for both the automotive and industrial markets were launched during the year and you can see many of these in this report – sowing seeds today that we will harvest tomorrow. In addition we have announced the establishment of two new Global Technical Centres in Europe supporting the two already in place in Asia.

- SKF participated in the Hannover Fair – the largest industrial fair in the world. Under the theme of "Release the Power" we showed many different industry applications and how our technology platforms can improve performance, reduce downtime and reduce cost for our customers. In addition we launched a number of new and innovative solutions at the fair such as SKF Insight which has the capability to revolutionize our partnership with our customers.

- Regarding cost reduction our Documented Solutions Program (DSP) registers how much we save our customers using SKF knowledge – products, solutions and services. In 2013 our customer approved savings were 4 BSEK bringing the total savings to over 27 BSEK during the last ten years.

- During the year we added 8 number of solutions to the SKF BeyondZero portfolio and sales increased by 12% to 3.3 BSEK. These solutions support the development of renewable energy. They also help our customers increase energy efficiency in their operations and products and improve fuel consumption in vehicles. You can read more about these later in the Annual Report.

- We opened 6 new SKF Solution Factories during the year, bringing the total number to 27 worldwide. We are starting to get the benefit from these in our business and I really feel they are key differentiators in how we can better support our customers.

"We acquired two very good companies during the year – Blohm + Voss Industries at the start of the year and Kaydon Corporation in the fourth quarter."

- The first release of UNITE – our new IT systems - was made for the purchasing area. A very impressive job has been done by the UNITE team in preparing for the first main release this spring.

- Our new purchasing organization was launched and a number of new people in key positions joined. Purchasing is a high priority area for SKF and I am convinced that this new team with a clear mandate will bring improved service at lower cost to the Group. Our target is to reduce our cost by some 1.5 BSEK by the end of 2015 and we are on track to achieve this.

- At the start of 2014 we launched our new ROCE target of 20% and also our new net working capital target of 27% of sales. Specific programmes to address inventory, accounts receivables and account payables have been launched with the objective to reach the net working capital target within 3 –4 years.

- Business Excellence is about bringing value to more customers in the most efficient and effective way – eliminating waste and reducing cost for SKF and our customers. It combines together quality systems, Six Sigma and the right culture. During the year we continued to develop this in all areas of SKF and made some very good progress. In the last five years more than 6,200 Six Sigma projects have been run with savings of some 2.5 BSEK.

- SKF continued to invest in more ways to get our information and knowledge more easily accessible to our customers and employees. During the year we launched an additional 6 apps and now have 36 apps available for either Apple or Google devices. There have now been more than 250,000 downloads of SKF apps. The new SKF Shelf App was launched in the year which significantly improves ways for finding and using SKF product information and knowledge. One new app now being rolled out is an app that significantly reduces time for data collection and the administration process for our customers but also for our employees.

2014 – moving forward towards our targets

The trend of a somewhat improving macro development which we felt as we went through 2013 is expected to continue into 2014 making it a slightly better year. There are differences in growth in the regions with the more traditional developed markets having, it seems, somewhat more momentum than the newer developing markets. However, assuming no major shocks we expect, from a macro viewpoint, steadily and gradually growth in most regions of the world.

The priorities which we are driving in SKF will enable us to benefit from the improving market development. We have taken, and will continue to take, steps to strengthen the Group through our investments in R&D, in launching new products, in acquiring strong companies and brands, in mobility and in investing in new IT systems. We will see more concrete results of these steps during 2014. One key focus will be to deliver a strong cash flow and to restore our balance sheet metrics following the acquisitions in 2013.

I would like to take this opportunity to once again sincerely thank all our stakeholders for their support in 2013. In particular I want to thank all of the SKF employees for an outstanding job in 2013 and for their commitment and support.

Tom Johnstone
President and CEO

»see pages 202–203, SKF's global campaign 2013

Administration Report

Contents

Reporting approach and scope

The SKF Annual Report for 2013 covers the reporting period 1 January to 31 December 2013, if no other information is given. Within the framework of SKF Care, the Group strives towards a fully integrated approach to the many challenges and opportunities presented by sustainability in its broadest sense. As the resulting actions and initiatives are integrated into normal business operations, most are reported in the Business Care section. However, certain aspects which can be better explained under the specific headings of Environmental, Employee and Community Care can be found in these sections.

Annual Report

The SKF Annual Report 2013, Financial, environmental and social performance, follows Global Reporting Initiative´s (GRI) guidelines and, as for previous years, the GRI compliance table and other more detailed information are available at skf.com together with the report (topics related to SKF's Annual Report). SKF has applied the GRI reporting guidelines to its annual sustainability reporting since 2000.

SKF has been publically reporting sustainability information since 1994. Initially, the information was provided in an entirely separate report, which from 1998 was submitted for third party auditing. From 2002, the Annual Report became the Annual Report including Sustainability report, and environmental and social information was included in a separate section which was subject for third party review in accordance with FAR's (the institute for the accounting profession in Sweden) requirements for limited assurance.

In 2011, to better reflect how the business operates, SKF combined financial, environmental and social performance into one single report. In 2013, the reporting approach further evolved when the Administration Report (including financial, environmental and social aspects) was submitted to the Group's external auditors to achieve reasonable assurance according to ISA and the ISAE 3000 international assurance engagement standard. This implies increased robustness of the verification of all the presented sustainability information. With reference to the GRI G3 Application Level Criteria, the SKF Annual Report 2013 is self-declared to having fulfilled the A+ application level, which is confirmed by the external auditors.

Actual environmental and social performance data can be found in the statements, see pages 173–179. A comprehensive overview of SKF's approach to material aspects is included in the document SKF Care – Policies and practices, which can be found at skf.com.

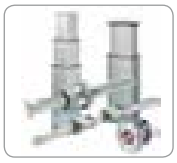
Corporate Governance Report

SKF has chosen to prepare its Corporate Governance report separately from the Administration Report.
»see pages 182–191

SKF's markets

SKF's main addressable markets from a product, solutions and services perspective are described on page 99–105. It is covering bearings, products for linear and actuation and motion control, polymer seals, lubrication systems, products for mechanical power transmission and products and services for asset efficiency.

Bearings market



Linear and actuation and motion control market

Polymer seals market

Lubrication systems market

Mechanical power transmission market

Asset Efficiency Optimization market

SKF Care

In this report financial, environmental and social performances of the Group are presented and discussed in a fully integrated format under the four dimensions of SKF Care, the SKF approach to sustainability. The four dimensions are: Business Care, Environmental Care, Employee Care and Community Care. The principles of SKF Care guide how the Group operates.

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

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. SKF BeyondZero combines this with the strategy to improve customers' environmental performance through products, solutions and services that improve energy efficiency and reduce environmental impact. These are defined, measured and verified through inclusion in the SKF BeyondZero portfolio.

Employee Care assures a safe working environment and promotes the health, education and well-being of SKF's employees.

Community Care defines the Group's activities which make positive contributions to the communities in which it operates.

Stakeholders, material issues and external drivers

Stakeholders

SKF works in different ways to interact with stakeholders such as customers, investors, employee representatives and representatives from wider society. This helps SKF to better understand different stakeholder perspectives and concerns.

Listed below are some examples of how SKF conducts these engagements with various important stakeholders.

Customers

SKF customer input is constantly sought and received via the sales and marketing operations and activities which the Group carries out - from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. In addition, extensive customer perception surveys are carried out regularly, or as requested by SKF's business areas. The input received helps the company to continually improve.

Investors and analysts

SKF takes an active approach in communicating the Group's strategy and performance to existing and potential investors, analysts and financial media. Information is provided through various channels such as the quarterly reports, meetings with investors, telephone conferences, the company's website and press releases. An annual capital markets day is held to present the strategy, targets and the different businesess in more detail. SKF receives feedback from investors via its own questionnaires, feedback collected after investor meetings, continual feedback in discussions and also from specific dialogue meetings.

Employees and union organizations

SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management. The agreements and conclusions from these meetings are acted upon and followed up. Employee representatives are also members of SKF's Board, see SKF's Corporate Governance Report pages 182–191.

In addition, SKF carries out an employee feedback survey, the SKF Working Climate Analysis (WCA), every 18 months. The findings from the WCA are used to drive improvements in the working climate and performance at all levels of the company - from local teams to Group Management.

Communities

The communities in which SKF operate are important stakeholders for the company. Local SKF organizations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, other charity work and sponsoring and local environmental network collaboration.

Non-governmental organizations

SKF is an active participant in various business organizations. SKF utilizes these networks to share experiences and ideas with other companies and develop the company's thinking and approach on many issues.

SKF has established working relationships with certain non-governmental organizations (NGOs) such as the Word Wildlife Fund for Nature (WWF). SKF invites feedback and input from these NGOs about issues such as climate change and other environmental concerns.

Material issues for SKF

SKF has identified a number of issues that are material to the Group and therefore require long-term strategic focus and action. The identification of these issues is a natural part of the overall strategic development process which is driven and overseen by the Group Management and is supported by input from stakeholder dialogues (with investors, customers and employee representatives for example). Based on this, the main material issues – defined as those that are important for the short, medium and long-term success of the Group – can be described as follows:

Customer satisfaction	The fundamental ability to anticipate, meet and exceed customer expectations in terms of value, quality and service in the highly competitive global market place.
Innovation	The capacity to innovate in all aspects – organizationally, technologically and from a business model perspective to support customers in the rapidly changing and evolving markets and industries where SKF is present.
Business conduct	The ability to conduct all business in a highly ethical manner, which complies with all applicable laws and conforms to internationally defined expectations and thus protect the reputation of the Group.
Energy and climate	The ability to reduce related risks and costs while at the same time realizing the significant opportunities that result from the associated environmental and economic constraints.
Environmental protection	The capability to assure that environmental impact resulting from SKF's products, related processes and activities is understood and minimized.
Responsible sourcing	The capability to ensure that SKF's Code of Conduct is understood and adhered to – thereby assuring that workers' health and safety, workers' rights and environmental considerations are addressed by SKF's suppliers.
Diversity	The ability to build a diverse workforce that stimulates innovation and reflects the diversity of the societies and customers which SKF serves.
Talent attraction and retention	The ability to attract and retain people with the skills and abilities needed to achieve the Group's objectives.
Employee relations	The ability to maintain and develop positive working relationships with the workforce.
Health and safety	The ability to assure the health and safety of all SKF's employees and working to protect the health and safety of the customers and users of SKF's products and solutions.
Local community relations	The capacity to create additional value in the communities around SKF's operations, and so enhancing the company's reputation within the community and workforce.

External drivers and trends

SKF's strategy is developed and refined through an understanding of the external drivers and trends which impact, or have the potential to impact, the many markets, regions and industries in which the Group operates. SKF's business is highly diversified from a regional and industry perspective. Specific analysis of these drivers and SKF's approach is only possible at the industry level. This information is provided in the detailed industry information provided on pages 35–65 of this report.

A high level overview of the main material external drivers and trends of relevance to SKF can be found in the table below.

Driver	Impact	SKF's approach
Globalization	Shifts economic activity between the regions of the world – leading to changes in customer needs in the different regions and new opportunities to develop suppliers and business partners.	Establishing R&D in each major region and sales and engineering support close to customers. Balancing SKF's overall manufacturing footprint to best support the Group's customers around the world. Centralizing SKF's global purchasing and establishing a global and regional supplier structure.
Global population growth and increasing wealth per capita	Creates demand for innovative products and solutions that help deliver efficiency gains in the full product life cycle, as the world needs to do more with less.	Applying knowledge engineering to improve customer efficiency in every sense; • Asset efficiency • Energy efficiency • Resource efficiency
Urbanization	Increases the need of infrastructure such as transportation, energy etc.	Supporting customers in transport sectors, energy and other related industries.
Environmental constraints	Creates growth potential for engineering solutions which help reduce environmental impact across all sectors.	SKF BeyondZero strategy – investing to develop customer solutions that help address this driver while at the same time improving efficiency and reducing environmental impact along SKF's supply chain.
Smart systems	Increases demand for integrated, intelligent systems in all industries coupled with rapid technological innovation in this area – leads to business potential.	Bringing new capabilities and value to SKF's customers by investing in the development and integration of electronic solutions and software . Developing app platforms that enhance customer connectivity and support.

Principles and charters

For many years, SKF has endorsed or subscribed to a number of internationally recognized principles, charters and guidelines which promote sustainable, ethical business practices.

- **The United Nations Global Compact** is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

SKF has participated in the Global Compact since 2006. SKF commits to the defined principles within the Global Compact and to communicate its progress via its Annual Report.

- **The International Labour Organization (ILO)** draws up and oversees international labour standards. It brings together representatives of governments, employers and workers to jointly shape policies and programs promoting decent work for all.

SKF adheres to the ILO Declaration on Fundamental Principles and Rights at Work. By doing so SKF commits to upholding basic human values established by the ILO.

- **The International Chamber of Commerce (ICC)** is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity. Its Business Charter for Sustainable Development issued in 1991 defines 16 principles for environmental management.

SKF has endorsed the ICC Charter since 1992 and consequently applies its principles in all its business activities.

As required by the ICC Charter, SKF applies a precautionary approach to the provision and calculation of products and services. This means that any technical claim made by SKF regarding product or operational performance shall be based on conservative assumptions.

- The mission of the **Organisation for Economic Co-operation and Development (OECD)** is to promote policies that will improve the economic and social well-being of people around the world.

SKF endorses and works to apply the OECD Guidelines for Multinational Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.

WWF Partnership

SKF's climate strategy was recognized by the WWF as being best in class in its industry when the world leading environmental group included SKF in their Climate Savers programme in May 2012.

The WWF Climate Savers programme is a global leadership platform transforming business and industry by finding companies who are prepared to take the lead on climate and energy solutions. The member companies set sector-leading targets accepted by the WWF for greenhouse gas reduction in their own operations and work with other companies and partners to implement innovative solutions for a clean, low carbon economy. Achievements are annually monitored and verified by SKF's auditors, ensuring the highest credibility.
»Read more at wwf.panda.org

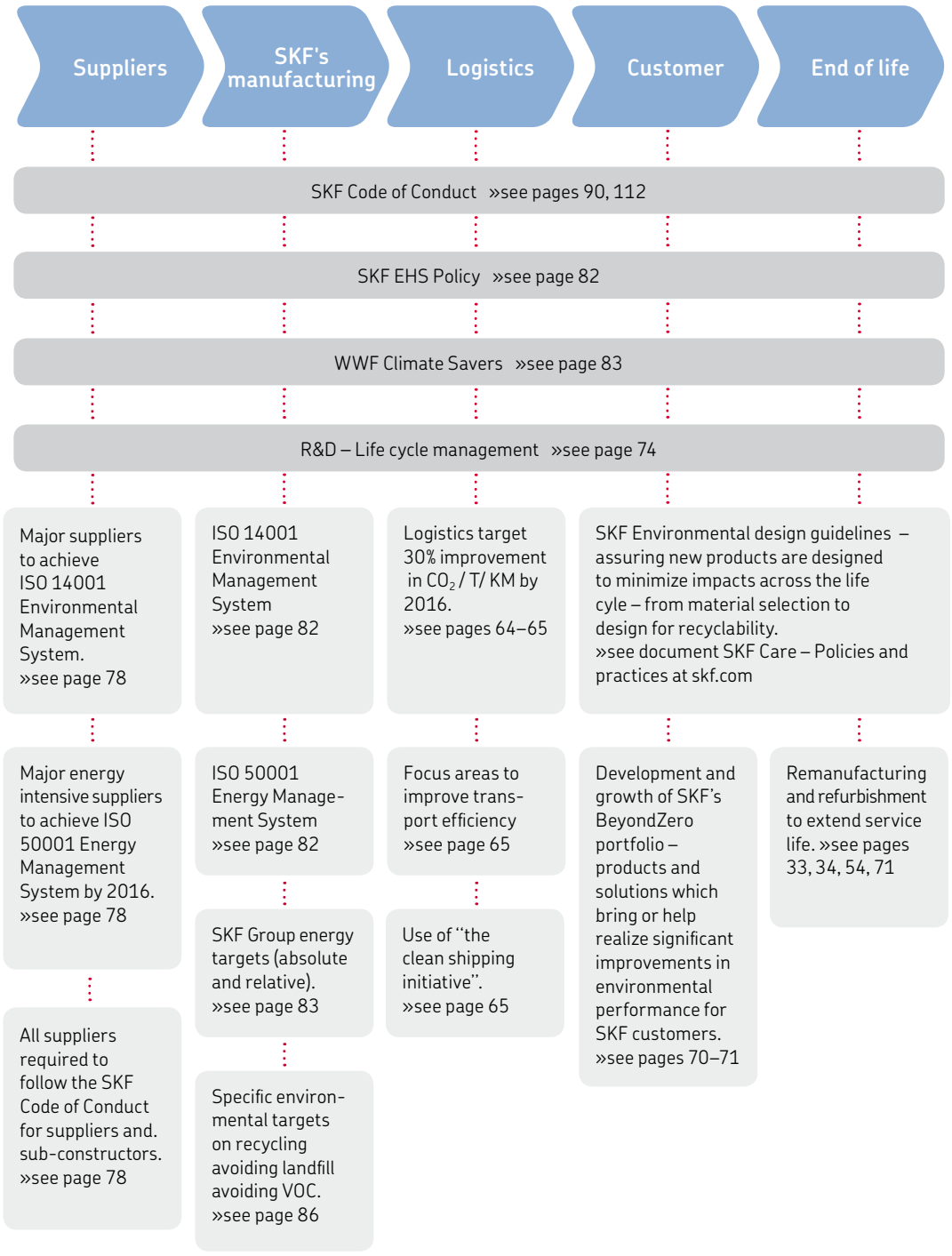
Addressing environmental issues along the full value chain

Impact, issues

Different types of environmental impact occur along SKF's value chain. The chart below provides an overview of some of the policies and initiatives which the Group has integrated into its business activities to effectively address and reduce these impacts.

Value chain

SKF approach



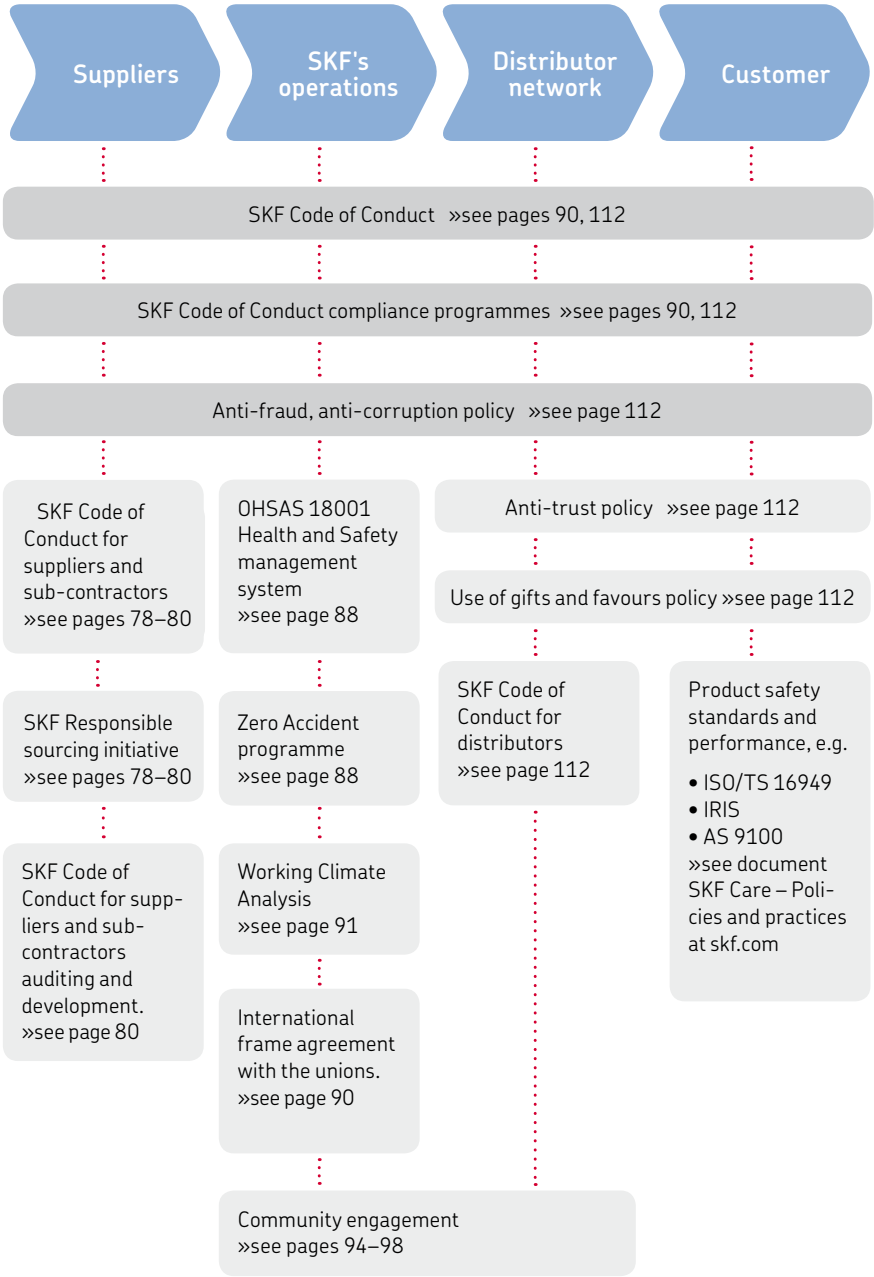
Addressing social issues along the full value chain

Impact, issues

The company works along the full value chain to address issues such as human rights, working conditions, responsible business conduct, equality, diversity and contributions to local communities. The chart below provides an illustration of how this is achieved.

Value chain

SKF approach



Highlights of 2013

First quarter

- The acquisition of the German-based ship components provider Blohm + Voss Industries (BVI) was closed. »see page 26
- SKF's factory in Ahmedabad, India was the first bearing factory in India to be awarded the coveted LEED Gold certification (Leadership in Energy and Environmental Design) by India Green Building Council. »see page 87
- The new manufacturing unit in Pune, India, which will produce housings for bearings was inaugurated.
- A new lubrication systems laboratory was opened in SKF's Global Technical Centre, India.
- For the 13th consecutive year, the FTSE Group confirmed that SKF has been independently assessed according to the FTSE-4Good criteria, and has satisfied the requirements for becoming a member of the FTSE4Good Index Series.

SKF's factory in Ahmedabad, India received LEED gold certificate.

Examples of new business

- Nordex, a leading developer and manufacturer of wind turbines, signed a global agreement with SKF for the delivery of main shaft bearings and lubrication systems.
- Pratt & Whitney and SKF signed a long-term agreement, where SKF will supply engine main shaft bearings, worth around SEK 170 million.
- SKF was selected for a major global frame agreement worth SEK 600 million with a steel and mining company. Over a two-year period SKF will provide industrial bearings and units, seals, mechatronics, and services.
- SKF started to deliver its integrated monotube seal to Öhlins Racing AB.

Second quarter

- The eighth SKF Windfarm Management Conference was held in Warsaw, Poland. This annual event brings together all the important players from the industry to share knowledge and best practice experiences of managing windfarms and improving asset efficiency.
- SKF hosted an Asset Management Conference in Dallas, USA. More than 160 customers signed up for the event, which included presentations covering everything from SKF Life Cycle Management to reliability engineering, condition monitoring and mechanical maintenance.
- SKF and INSA Lyon started a research programme called "Lubricated Interfaces for the Future". This aims to explore the identification, modelling and understanding of the behaviour of lubricants under extreme conditions for aerospace.
- SKF opened two new SKF Solution Factories – one in Madrid, Spain and one in Katowice, Poland. »see page 33
- SKF participated in a project called "SÅNÄTT" whose aim is to reduce the weight of a car by 20-40%. This project is supported by both industry and academia with the common goal of strengthening the competitiveness of the Swedish automotive industry.

Inauguration of the SKF Solution Factory in Madrid, Spain.

Examples of new business

- A 10-year contract worth around SEK 900 million was signed with Turbomeca, a division of the French-based Safran. The contract includes the supply of bearings for the latest Turbomeca helicopter engine, Arrano.
- SKF won service contracts worth more than SEK 200 million to provide companies in Latin America with different asset management services including machine lubrication and condition monitoring. Latin America is the fastest growing region for SKF's service business.
- SKF was awarded a significant contract to supply wheel hub bearing units (HBU3) to the Volvo Car Corporation for their next generation of premium vehicles. The HBU3, is optimized for lower weight and includes high performance seals with reduced friction.

Third quarter

- For the 14th year in a row, SKF was included as one of the world's most sustainable companies, in both the Dow Jones Sustainability World Index (DJSI) and the Dow Jones Sustainability Index for Europe. DJSI rated SKF as best in class for the company's approach to environmental management.
- The factory for medium size bearings in Dalian, China was awarded the LEED Gold certification (Leadership in Energy and Environmental Design). »see page 87
- At the beginning of July, SKF completed the divestiture of its metallic rods business to US-based Precision Castparts Corporation. »see page 28
- In September, SKF opened a gearbox remanufacturing centre at the SKF Solution Factory in Tianjin, China. In addition, this will help its customers to improve the reliability of their driveline machinery. »see page 33
- SKF signed an agreement with Wuhan Iron & Steel Heavy Industry Group Co, Ltd (WISCO Heavy) to establish a remanufacturing centre in Wuhan, China, that will provide remanufacturing services for bearings and continuous caster rolls.

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In Collaboration with RobecoSAM

Examples of new business

- SKF and Fiat signed two agreements for the delivery of wheel hub bearing units for the front and rear wheels for four different models to be sold under the Fiat and Jeep brands. The two agreements are for seven years each, and their combined value is around SEK 1 billion.
- The Chinese car manufacturer, Great Wall Motors, awarded further business to SKF for high pressure valve stem seals for engine valve train and bearing retainers for transmissions. SKF and Great Wall also signed a strategic partnership agreement to increase cooperation for the development of sustainable solutions for energy-efficient vehicles.
- SKF gained a supply agreement with the leading Chinese wind turbine manufacturer Goldwind, worth SEK 100 million for SKF Nautilus bearing units to be delivered in 2013 and 2014.
- SKF received major orders from the Chinese companies Tangshan Loco and Changchun Railway Co for wheel set bearings for high speed trains.
- A major oil and gas exploration and production company in Latin America awarded SKF a three-year contract, worth SEK 43 million, to provide preventive, corrective and predictive maintenance services for its rotating equipment.
- SKF received an order worth SEK 22 million for bearings from a Chinese customer for upgrading local coal power plants aimed at reducing toxic emissions.
- SKF received a SEK 21 million order from a European customer for cryogenic bearings to the application loading arms for Liquefied Natural Gas (LNG) ships.

Fourth quarter

- The acquisition of the US-based company Kaydon Corporation was completed on 16 October. »see page 26
- The ROCE target was reviewed. As of January 2014 the new ROCE target is 20%. »see page 23
- Target for net working capital was set to be 27% of sales. »see page 23
- SKF included a provision of SEK 3 billion in its fourth quarter result. SKF believes that the European Commission may impose a fine on SKF in 2014. »see page 111
- SKF issued senior unsecured notes for EUR 750 million with a seven year maturity and 2.375% coupon rate. The proceeds of the issue was primarily for refinancing the debt related to the acquisition of Kaydon Corporation.
- In 2013, SKF provided around SEK 4 billion in verified savings for customers. From 2003 until 2013, the figure is around SEK 27 billion. The SKF Documented Solutions Program enables SKF to measure and confirm the value delivered. »see page 34
- SKF opened four new SKF Solution Factories: in Toronto, Canada, in Manesar, India, in Urumqi, China and in Abu Dhabi, United Arab Emirates. There are now 27 SKF Solution Factories worldwide. »see page 33
- The SKF Distributor College awarded its 200,000th certificate.

Examples of new business

- SKF signed a long-term contract with one of the leading providers of stone milling technology, for an extremely robust bearing for demanding application conditions. The customer needed a solution for re-designing its gyratory crusher.
- A US-based pump producer for London's Lee Tunnel Project is building its largest-ever waste water pump which will contribute to London's storm water and sewage overflow issues. SKF is providing bearings, lubrication systems and engineering support.
- SKF received an order for compact tapered bearing units from Tikhvin Freight Car Building Plant, affiliated to United Wagon Company LLC. SKF will deliver 40,000 units from its factory in Tver, Russia starting in Q4 2013 and continuing throughout 2014. The value of the order is around SEK 120 million.
- SKF was awarded a contract for locomotive bearings valued at SEK 76 million by CSR Zhuzhou Electric Co., Ltd in China.
- ArcelorMittal Bremen GmbH chose SKF to customize and supply 30 electromechanical actuators for use in the continuous casting of steel.
- SKF gained lubrication business worth SEK 38 million from a heavy industry customer in Peru.
- SKF started deliveries of wheel hub bearing units and MacPherson suspension bearing units to the Volvo Car Corporation for their new factory in Chengdu, China for the newly launched Volvo S60L model.
- SKF was nominated by Hyundai Motors as a supplier of the recently launched robust MacPherson suspension bearing unit (MSBU). The value of the order is around SEK 370 million.

Business Care

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

Evolving into a more robust company

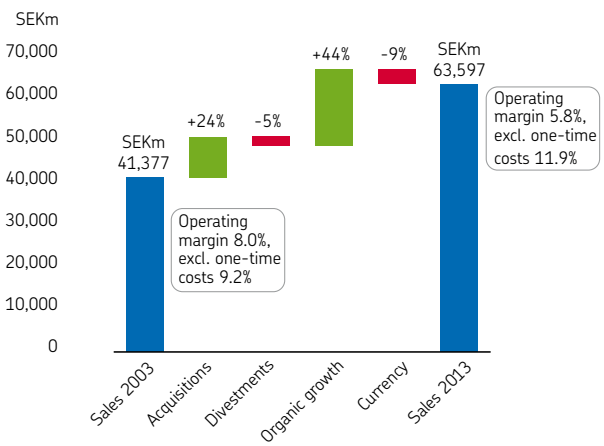
SKF has, during the last fifteen years, evolved into a more robust company, showing a steadily strengthened ability to generate profits and sales growth. The company's operating margin has shown a very positive development over a number of years due to clear actions to reduce capital intensity and improve the business mix.

SKF has made important changes to its fixed costs over the years such as divesting and outsourcing steel and component manufacturing. Important divestments were made covering the steel manufacturing operations in 2006 and various component manufacturing activities such as balls and rollers, cages and forged and turned rings.

Significant steps have also been taken to increase sales growth through increasing focus on faster growing industries and regions, increased investments in R&D and launching new products and the addition of technologies such as lubrication systems. A number of key acquisitions have been made in all the five technology platforms of the Group enabling it to be a better partner to its customers. For example, SKF was not a major player in the automated lubrication systems business less than ten years ago and today is now a market leader. From a geographical viewpoint, sales in Asia have nearly doubled as a part of the SKF Group sales in the last decade. SKF's sales to the industrial market have increased in the same period to around 70% of Group sales. SKF's strength comes from its customer focus and ability to continuously innovate to develop new products, solutions and services which meet the different customers' needs in the many different industries which SKF serves. It is about creating and delivering value to customers and about being paid for this, see pages 35–65.

Investments have been made in manufacturing in faster growing and best cost countries to support the growth and improve the Group's competitiveness.

Growth and operating margin 2003–2013



Performance 2013

First quarter

Sales were lower than expected and significantly lower than the record sales in the first quarter 2012. There was uncertainty and caution in the market place and this affected SKF's sales, especially in the industrial businesses and in North America. There were mixed signals in the economy that made the outlook uncertain.

Second quarter

Sales were somewhat better in the second quarter but there was no major improvement on the industrial markets around the world. Despite this SKF took a number of important orders particularly in aerospace and the service business. The mixed signals in the economy continued.

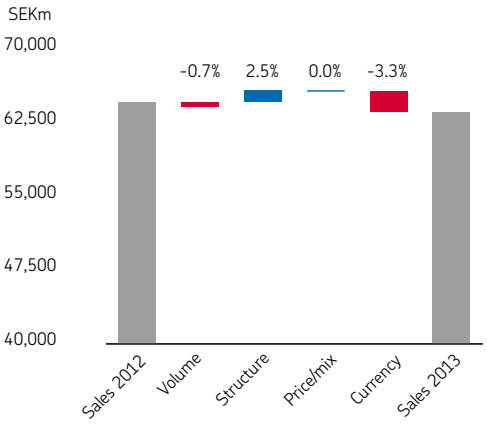
Third quarter

Sales in the quarter progressed well in the automotive business which benefited from improved demand particularly in trucks and the vehicle service market. Sales in the industrial business were somewhat lower than expected. However positive trends were seen in SKF's aerospace, renewable energy and railway businesses. There was a lack of traction in a number of other industrial markets.

Fourth quarter

Sales volumes rose by 7% over the quarter, which is the largest single quarterly growth reported since Q3 2011. The mix over the quarter particularly favoured the Automotive OEM business but also the Industrial OEM business. SKF expects Q1 2014 to report slightly better volumes versus Q4 2013.

Net sales 2012 bridge to 2013



Volume: *the sales figure without any effect from changes in price/mix, structure or currency.*
Structure: *the impact from acquiring or divesting a company or business.*
Price/mix: *refers to the change in average price which the Group receives from the sale of its products, where "price" refers to price changes on existing products to existing customers, and "mix" refers to volume shifts between various customer industries and products with different price levels.*
Currency: *the translation of local sales figures into Swedish krona.*

Main factors influencing the operating profit for 2013

Volume: was relatively unchanged

Manufacturing: was relatively unchanged

Price/mix: was relatively unchanged. The stronger demand for the automotive business and weaker demand for the industrial business negatively affected the mix for the year.

Currency impact: had a negative effect on SKF's operating profit of around SEK 660 million.

One-time items: in total SEK 3,875 million consisting of:

- a provision of SEK 3 billion referring to a probable fine in relation to the ongoing investigation by the European Commission
- other one-time items of around SEK 875 million, whereof around SEK 500 million refers to the ongoing restructuring programme, SEK 260 million to the Kaydon Corporation acquisition (whereof SEK 200 million refers to the inventory revaluation to fair value) and SEK 115 million other one-time items including impairments.

Savings: amounted to around SEK 800 million, all from the ongoing cost reduction programme.

Strategy and targets

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

This objective shall be met by conducting all aspects of the Group's business in accordance with the principles defined by SKF Care, thereby taking financial, social and environmental considerations into account.

SKF's business strategy for achieving sustainable profitable growth and financial targets includes:

- keeping a clear and dedicated customer focus. »see page 32
- deploying the asset life cycle concept. »see page 32
- using second brands to reach new markets and customers. »see page 67
- strengthening the product portfolio through increased investment in R&D and through acquisitions. »see pages 72, 26
- creating and capturing more value by applying the SKF platform and industry approach. »see page 198
- realizing a positive impact on the environment by:
  - reducing the negative environmental impact from SKF's operations
  - providing customers innovative technologies, products, and services that reduce customers environmental impact. »see pages 70–71, 81–87
- focusing on rapidly expanding industries and regions. »see pages 20, 30, 75
- using Business Excellence to improve efficiency in the business, reduce waste and costs. »see page 29
- optimizing capital employed. »see page 28
- developing and protecting the SKF brand. »see page 67
- attracting and retaining the right people. »see pages 88–93

New ROCE target as of 1 January 2014

Since the ROCE target of 27% was established in autumn 2010, the SKF Group has made a number of important acquisitions such as Lincoln Industrial, General Bearing Corp, Blohm + Voss Industries and most recently Kaydon Corporation.

Mainly as a result of these acquisitions, goodwill and other intangible assets have risen from around SEK 3,400 million before the Lincoln acquisition to around SEK 19,000 million at the end of 2013. The ROCE target has therefore been reviewed taking account of this change in goodwill and other intangible assets combined with the current growth and operating margin targets. The new ROCE target is 20%.

SKF's financial targets:

Operating margin

15%

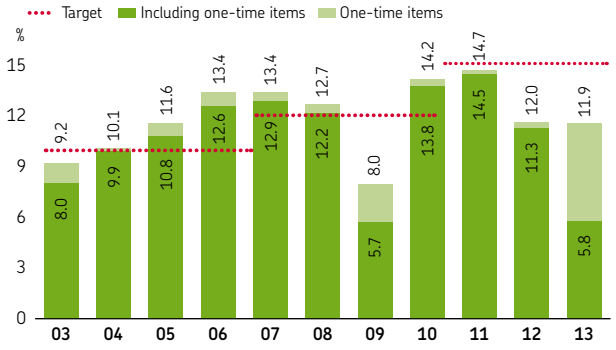
Annual sales growth in local currencies

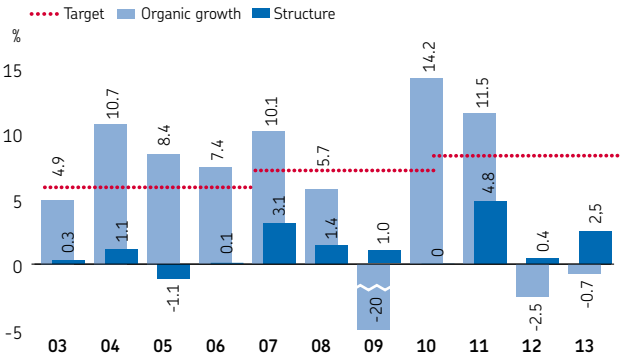
8%

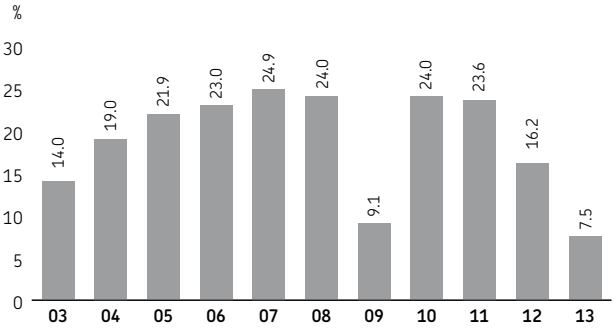
Return on capital employed

20%

SKF's performance 2003–2013*







* 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

Climate strategy

SKF's climate strategy, built on SKF BeyondZero, tackles the greenhouse gas (GHG) impact in the full life cycle and the full value chain of SKF's products and solutions. Aggressive targets have been established which aim at reducing GHG emissions for SKF's own operations, suppliers (raw material and components) logistics operations (transport and distribution) and customers (products and solutions).

In recognition of the world leading scope and ambition levels set out by these targets, SKF has been welcomed into the Climate Savers by the WWF. Climate Savers is a programme which recognizes only the sector leading companies in the area of climate change mitigation, see page 83.

SKF monitors and reports carbon dioxide (CO_2) emissions according to the Greenhouse Gas Protocol. CO_2 is concluded to be the most significant greenhouse gas produced as a result of its business activities. The GHG Protocol categorizes an organization's GHG inventory into three scopes: scope 1, including direct emissions from onsite combustion processes, scope 2, including the indirect emissions associated with the supply of electricity and heat to SKF facilities and scope 3, including all other indirect emissions, such as those related to raw material and components, logistics or business travel.

SKF is playing a leading role in developing credible and transparent methodologies for calculating GHG emissions savings which result from the use of energy and carbon saving solutions at customers (sometimes referred to as scope 4).

Climate targets

SKF's climate strategy is focusing on four areas where SKF has the possibility to drive significant improvements defined by the following targets:

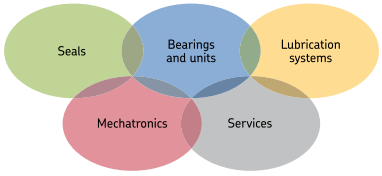
SKF's own operations »see page 84	Reduce the total annual energy use of the SKF Group by 5% below 2006's level by 2016. Reduce the energy use per production output by 5% year-on-year.
Raw material and components »see page 80	100% of SKF's energy-intensive major suppliers certified according to ISO 50001 Energy management Standard by 2016.
Transport and distribution »see pages 64–65	Reduce CO_2 emissions per tonne-kilometre for all transport managed by SKF Logistics Services by 30% below 2011's level, by the end of 2016.
Products and solutions »see pages 70–71	Increase the revenue from the SKF BeyondZero portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016. The portfolio consists of solutions that help customers to reduce environmental impact in one of two fundamental ways – Designed for Environment or Applied for Environment.

Priorities

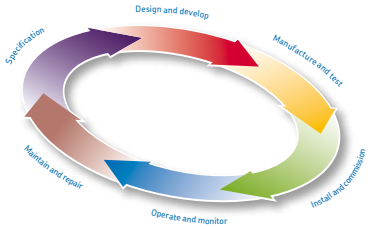
To support the strategy SKF has defined four priorities to be addressed in the short-term. These are:

1. Sustainable profitable growth
2. Investments and innovation
3. Capital efficiency
4. Cost reduction

1. Sustainable profitable growth



Technology platforms
Building on the five technology platforms. SKF uses the capabilities of all or some of the five platforms to develop tailor-made offers for each customer's industry. »see pages 197 and 35.



Asset life cycle and service
Implementing the asset life cycle concept. Solutions for the end-user can be implemented in the OEM's business and vice versa. SKF's business units responsibility for their respective industries cover the assets full life cycle. »see page 32

SKF BeyondZero portfolio
Extending the SKF BeyondZero portfolio. To deliver value by offering products with superior energy use. »see pages 70–71

New products and solutions
Developing breakthrough technology. Steady improvement in existing products often comes from customer requests, while breakthrough innovation mostly comes from SKF's research built on a wide-ranging knowledge of customer industries. »see page 73 SKF Insight

PEER
THE GENERAL
HYATT

Second brands
Using its second brands to reach new markets. With second brands such as PEER, General and Hyatt, SKF addresses markets it is otherwise not present in. »see pages 63 and 67

PEER BVI Macrotech
Lincoln QPM ABBA
GLO Baker ALS S2M
Cirval GBC Economo
Vogel SNFA Kaydon

Acquisitions
Strengthening the company with complementary acquisitions. SKF has acquired 24 companies since 2003 whereof two in 2013. Total net cash outflows from acquisitions 2003–2013 was SEK 22,391 million. In 2013 total net cash outflows for acquisitions were SEK 8,723 million. »see page 26

Acquisitions in 2013

Blohm + Voss Industries (BVI)

SKF acquired the German-based ship components provider BVI in the beginning of 2013. SKF paid around EUR 100 million on a cash and debt free basis. At the time of the acquisition, the company had around 400 employees and annual sales of around EUR 100 million and an operating margin in line with the SKF Group.

BVI's operations and capabilities have a strong fit with the SKF marine strategy, complementing and widening SKF's existing marine product and service range. This will further establish SKF as a leading supplier for the shipbuilding industry and strengthen SKF's presence in the most relevant marine markets through its strong customer network of shipyards and shipowners. BVI complements the existing SKF portfolio with sterntube seals, hydrodynamic bearings, stabilizer systems and oily water separators. BVI has a worldwide network of sales agents and service stations.

To identify and realise the expected synergies, an integration programme was started already at the close of the acquisition. Driven by revenue synergies, rather than cost, immediate attention was paid to involving BVI's sales and service network, to seek cross selling opportunities. Significant opportunities for growth were successfully secured in 2013, and with a growing opportunity funnel for 2014 and 2015. Thanks to the presence of SKF in other industries, synergies have also been identified and realised for sectors where BVI did not previously operate, e.g. wind and mining. One example is the refurbishment of main shafts for wind turbines, which has already started at BVI's premises in Hamburg.

Moving forward, the continued focus will be on identifying and capturing sales opportunities as there are good growth opportunities in niche markets for the more advanced ship types, including offshore and workboats.

Kaydon Corporation

SKF acquired all outstanding shares of the US listed Kaydon Corporation and delisted it from the New York Stock Exchange on 16 October 2013. SKF paid USD 1.2 billion, including USD 60 million of net debt. In 2012, the company had annual sales of USD 475 million with around 2,100 employees. Kaydon is very complementary to SKF's current business from both a product and geographic perspective. Kaydon has three distinct business areas: friction control products (primarily bearings), velocity control products and specialty products, including environmental services. The company has a global footprint with 62% of its sales generated in North America, 24% in Europe, 12% in Asia Pacific and 2% in the rest of the world. With this product portfolio and geographic footprint, SKF will be able to serve its customers better in many key industries globally by offering a more complete product portfolio, improved solutions and services through combining Kaydon's and SKF's complementary technologies and a comprehensive distribution network. SKF will also benefit from Kaydon's North American manufacturing footprint.

SKF expects to achieve annual cost synergies of USD 30 million and sales synergies of USD 50 million. This will be achieved by leveraging synergies in costs and purchasing, in distribution and sales channels and by utilizing the combined manufacturing footprint.

Kaydon, founded in 1941, invented the thin section bearing. Kaydon infinite expertise in bearing design and manufacturing has established Kaydon as the leading thin section and slewing ring bearing manufacturer in the world.

The Marintec exhibition in Shanghai was the first exhibition with a consolidated SKF / BVI attendance, where SKF presented a wider offering and more complete presence in the marine industry. The exhibition was combined with a press event, where SKF Blohm + Voss Industries also launched the SC3 ring – the new generation lip sealing ring for SIMPLEX-COMPACT stern tube seals for reinforced environmental regulations and challenging conditions like high variations in pressure.

Kaydon Thinfinite thin section bearing solutions save weight, create space, reduce friction, increase design flexibility and provide excellent running accuracy.

Kaydon Slewinfinite slewing ring bearing solutions are ideal for the most demanding specifications in a variety of applications, including heavy equipment, industrial machinery, medical systems and renewable energy.

2. Investments and innovation

New factories and new capacity
In China, a second factory at SKF's premises in Jiading for passenger car wheel bearings was completed. In addition specific investments were made at various factories to introduce new capacity to support various automotive customers including Mazda, Nissan trucks, VW, Volvo and Audi.

The installation of additional capacity at the medium sized bearing factory in Dalian, China was started and is expected to be completed in Q2 2014. Capacity was also added to the factory for large size bearings by two new channels approved for spherical roller bearings, both due to start production Q1 2015.

Investments in building and capacity expansion are also ongoing at SKF's lubrication systems facility in Chodov, Czech Republic.

New SKF Solution Factories
SKF opened six new SKF Solution Factories during the year, in Poland, Spain, Canada, India, China and the United Arab Emirates. At the end of the year there were a total of 27 locations worldwide. »see page 33

New Global Technical Centres
SKF continued to expand and grow its two technical centres in Asia – one in Bengaluru, India and one in Shanghai, China. At the end of 2013, more than 300 engineers and technicians were employed at the two centres. SKF also opened a new lubrication systems laboratory in its Global Technical Centre in India to further support SKF development centres and business units with lubrication system, product design and validation.

At the beginning of 2014, SKF announced plans to build two new Global Technical Centres – one in Gothenburg, Sweden and one in Nieuwegein, the Netherlands. Together these will form a Global Technical Centre Europe.

New Campus
The new SKF Campus in Jiading, Shanghai was completed at the end of the year. The campus includes a new factory for wheel bearings for passenger cars, relocation and expansion of the Global Technical Centre China (GTCC), an SKF Solution Factory and an SKF College. The new factory will mainly manufacture hub bearing units for the automotive market primarily in China. The campus will also support SKF Group best practices within global technology and processes while enabling SKF to further strengthen local supply and engineering services to customers in China. The new campus is expected to employ around 900 people by the end of 2015, of which around 400 will be part of GTCC. Activities at GTCC include product development, engineering services, global metallurgy and chemistry laboratories, manufacturing process development, testing and product investigation. The SKF Campus is close to several of SKF's major customers, as well as technical universities and engineering institutes.

New IT infrastructure
SKF initiated a new IT infrastructure in 2012, which will involve the establishment of new and improved processes. 2013 was a year of preparation for the implementation. The implementation programme is named UNITE and is a global programme enabling business efficiency and growth. The implementation will take place in a stepwise approach over a number of years, with the initial roll-out in 2014. Existing Enterprise Resource Planning (ERP) systems will gradually be phased out.

The programme spans a number of key process areas – sales and customer relationship management, purchasing and supplier relationship management, finance, demand chain and manufacturing. The objective is to create and deploy aligned best practice processes and IT solutions across the SKF Group and leverage new system technology. With this global implementation, SKF will be able to bring its knowledge, services, products and solutions to its customers in a more coherent and effective way. A dedicated project organization drives the programme with close, continuous interaction with the business and key stakeholders.

The expenses, including licenses, were around SEK 600 million in 2013, whereof around SEK 475 million were capitalized.

Mobility and SKF Apps
At the end of 2013, SKF had 36 apps in Apple iOS and Google Android platforms, each dedicated to helping customers with calculations, training, data collection, product selection, information and learning about SKF. Carrying out complex bearing calculations by using the SKF Bearing calculator or finding the right product and market information through the SKF Shelf app, are examples of how these tools can support the engineering community and thereby increase efficiency.

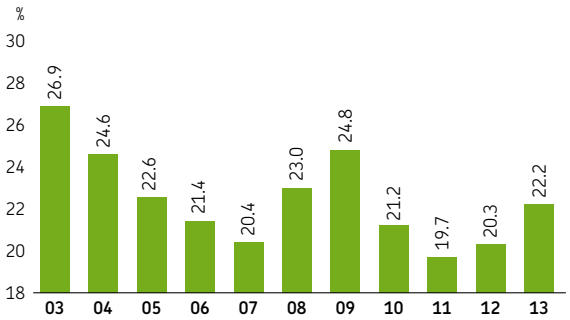
The new SKF Campus, located in the Jiading district in Shanghai, includes a new automotive factory for wheel bearings for passenger cars, as well as the Global Technical Centre China (GTCC), SKF Solution Factory and SKF College.

3. Capital efficiency

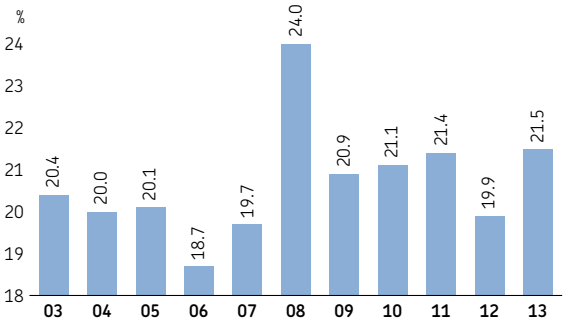
SKF has reduced property, plant and equipment in per cent of sales to the present desired level for the Group.

The inventory target has been replaced by a broader target on net working capital in per cent of sales. This is to also include receivables and payables. The former inventory target of 18% to sales is still an important part of the new overall net working capital target. The new target, as of 1 January 2014, is 27% net working capital in per cent of sales.

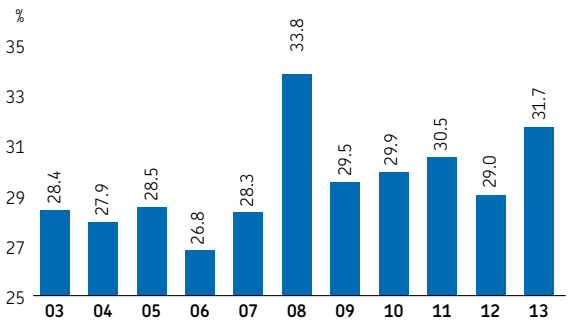
Property, plant and equipment / Sales



Inventories / Sales



Net working capital / Sales



Divestments

SKF divested its metallic rods business for around EUR 40 million on a cash and debt free basis. This includes the sale of the operations at the SKF sites in St. Vallier sur Rhône, France and Monroe, Washington in the USA. In 2012, sales from these two sites were around EUR 46 million. This sale was in line with the strategy to divest non-core business and affected around 230 employees in France and around 25 in the USA.

4. Cost reduction

Business Excellence is SKF's tool to become efficient

Business Excellence is about bringing value to customers in the most effective and efficient ways and at the same time helping SKF to reduce costs by eliminating waste.

It is clear that working with Business Excellence not only enables SKF to serve its customers more effectively and efficiently but also to improve the working environment for its employees. With Business Excellence, SKF is creating a culture of continuous improvement by involvement from all its employees. Business Excellence started with the SKF Quality system in the early 1970s and then evolved via processes such as Total Quality Management and Manufacturing Excellence. SKF achieved very good results from this and decided to expand these methods and tools to all processes at SKF under the name of SKF Business Excellence. Business Excellence is now well on its way to becoming the normal way of working at SKF. Good examples can be seen throughout the entire Group.

Various customers asked SKF to train them in Business Excellence in 2013. One example is the French company Redex, specialized in high precision mechanical systems, where the implementation of Business Excellence methods have started and activities are planned for 2014.

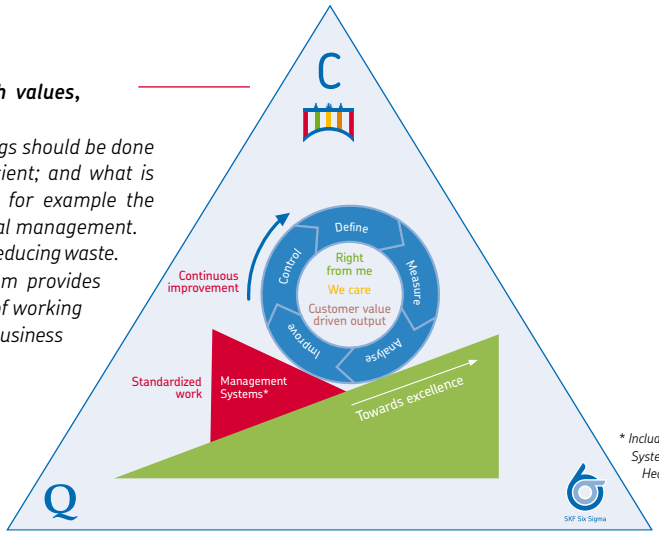
Business Excellence is built up of Culture, Six Sigma and Quality

Business Excellence is built up of three equally strong variables, namely Business Excellence Culture, Six Sigma and Quality. Each of these variables has its own specific uniqueness, strengths and ways of working – but they all provide means for working with continuous improvements. The Business Excellence Triangle illustrates that the three provide one joint approach with a wide range of tools.

Business Excellence Culture includes working with values, drivers, mind sets, behaviour and principles

The Business Excellence culture describes how things should be done in order to become more effective and more efficient; and what is expected from leaders. The culture tools include for example the SKF Bridge of Excellence, Pulse meetings and Visual management. The core is involving the whole team and focusing on reducing waste.

The SKF Business Excellence Development team provides training to help an organization start with this way of working and then provides ongoing support via trained Business Excellence Champions.



** Including Quality Management System and Environmental, Health & Safety System*

Quality includes business processes to sustain quality

SKF's Quality Management System (QMS) provides critical business processes and tools to assure that SKF is the quality leader in its field. QMS is continually being developed and a solid training programme is available for the organization. One important part of the quality system is the project management concept GPM2, which is chosen as the method for all of SKF's projects. GPM2 is based on the internationally recognized system called PRINCE2®. GPM2 is in accordance with ISO 21500, which provides guidance for project management.

SKF runs thousands of projects every year, both internally and externally, involving customers, suppliers and business partners. Almost every employee will at some point be involved in a project, either as a project manager, team member, sponsor or stakeholder. It is therefore important to have a common tool that everyone can seamlessly work with and use in the same way.

Six Sigma is a set of process methods and tools to improve quality

Traditional Six Sigma is run in the form of projects to ensure that variations are reduced. Reduced variation in turn improves quality and new, successful, outcomes of Six Sigma projects are therefore incorporated into SKF's quality system.

Other Six Sigma tools are Lean Six Sigma, which is used to optimize and streamline processes. Design for Six Sigma provides a path for designing products and processes, making them less sensitive to variations and therefore robust and reliable.

Since 2008 more than 6,200 Six Sigma projects have been run by SKF. Together these projects have saved around SEK 2,500 million.

Sealing Solutions in Guadalajara

SKF Sealing Solutions in Guadalajara, Mexico, has achieved important results from introducing Business Excellence throughout their entire factory operation. The team started by defining a vision describing where the organization was heading, then set up a visual strategic plan showing the changes needed to support the vision and a daily management process to monitor the day-to-day process to get there. In only one year they have achieved significant improvements to safety, quality, cost-efficiency and productivity. This systematic way of implementing Business Excellence is now being deployed at all SKF Sealing Solutions' factories.

The **SKF Bridge of Excellence** illustrates SKF's processes as the link between our suppliers and customers. These processes are built upon five principles that are supported by SKF's values and drivers. The five principles are "standardized work", "right from me", "we care", "customer value drive output" and "continuous improvements". The bridge is a guide when making decisions and understanding decisions others have made. It is also a tool to look for improvements or developing new methods.

Pulse meetings are held within a team on a regular basis and are used to discuss deviations and thereby solve problems. When a deviation can't be solved within the team it is escalated to the next level, which also has regular pulse meetings.

Visual management is part of the principle standardized work and means that it should be easy to get an overview of the workplace to avoid wasting time searching for things.

Programme for cost reduction

In the fourth quarter of 2012, SKF launched a programme which aims at reducing the company's annual costs by SEK 3 billion by the end of 2015. The total cost for this programme is expected to be around SEK 1.5 billion for the years 2012 to 2015. The programme will affect about 2,500 people primarily through early retirement and other voluntary and agreed reductions.

Cornerstones of the programme:

- Manufacturing consolidation and global footprint:
  - Consolidation of production between sites.
  - Transfer of production from Western Europe to Eastern Europe, Asia and Latin America in order to serve these faster growing markets with more local production.
  - Optimization and productivity improvements in the manufacturing and demand chain processes.
- Consolidation of and efficiency improvements in administration and support functions, Human Resources, Finance and Communication.
- Reduction in purchasing costs mainly through standardization and rationalization of the supplier base. By leveraging sourcing spend, working with supplier consolidation, localization of the supplier base, product and process standardization and applying leading purchasing practices, savings of SEK 1,500 million are expected.

Total costs expensed for the programme amounted to around SEK 700 million at 31 December 2013, whereof SEK 200 million were expensed in 2012. Total savings from the programme, at 31 December, 2013 were around SEK 800 million.

Business model

SKF's vision is to equip the world with SKF knowledge. To take all the knowledge gained over more than 100 years to develop and deliver products, solutions and services which enable customers to be more successful and profitable in their business.

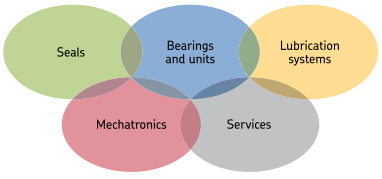
SKF knowledge can be defined as the combination of the following three dimensions:

The geographic dimension

SKF is a global company with a local presence. Wherever customers are located, local expertise, supported by global industrial specialists and technical experts, combine their skills to make a specific offer for customers, which meets their local needs. The global experts draw upon knowledge and success from similar industries worldwide.

The customer dimension

SKF's customers can be found in most industries. Each customer and industry has different technical and commercial challenges. Working in so many different industries enables SKF to both develop specific products, solutions and services for each industry and also to take knowledge from one industry and apply it to another.



The technology dimension

SKF's five technology platforms are Bearings and Units, Seals, Mechatronics, Services and Lubrication Systems. SKF's specialist teams in each platform work closely together with the industries and sales organization to develop and deliver new products and advanced integrated solutions to meet customers' needs.

Using all three dimensions to build customer value is what SKF calls "The Power of Knowledge Engineering".

How SKF does business

Servicing customers' needs

SKF serves customers in around 40 different industries, see pages 35–65. SKF takes into account the trends and needs of each industry in the research and development of its products, solutions and services. Around two-thirds of these are the result of gradual, evolutionary improvements to existing offerings, the others are the result of breakthrough technology projects – SKF Insight, for example, see page 73. SKF typically makes the evolutionary changes in response to customer demand, while its breakthrough innovations are driven by technological change and its own research. Many customers involve SKF in their own development processes many years before production begins, so that they can benefit from SKF's application and industry knowledge. Many of SKF's products are specifically designed for a particular customer or industry.

Buying SKF's products

Customers' requirements and purchasing patterns determine whether SKF delivers its products to customers directly or through its network of distributors. Many customers choose to buy both from distributors and from SKF directly, depending on what products they need and the logistical needs of their supply chains. Many large OEMs buy directly from SKF while most end-users are served through industrial distribution.

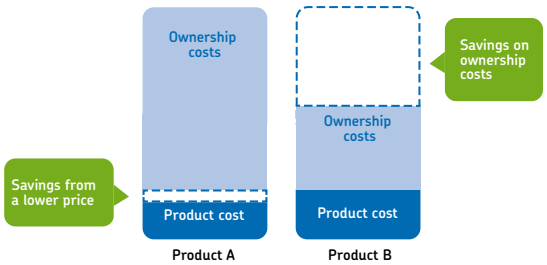
Strategic account management

SKF works through "strategic account management" with dedicated account managers who work with customers at both a global and local level. This way of working ensures that SKF gains a deep knowledge of its customers' processes, technology and requirements; it also helps identify where customers can replicate their use of SKF's solutions in other parts of their organizations. SKF uses the knowledge it gains from this way of working for R&D in new offers, and to establish best practice across the industries it serves.

Platform and customer industry approach

SKF's platform and customer industry approach focuses on offering products, solutions and services that are based on the company's five technology platforms. It makes use of the capabilities of all or some of these platforms to develop tailor-made offers for each customer industry, based on a strong understanding of customers' current and future needs and challenges. In this way, SKF can offer customized products and solutions that deliver benefits such as higher performance and greater energy-efficiency, resulting in a lower total cost for the customer, while enabling SKF to maintain its differentiation in the market.

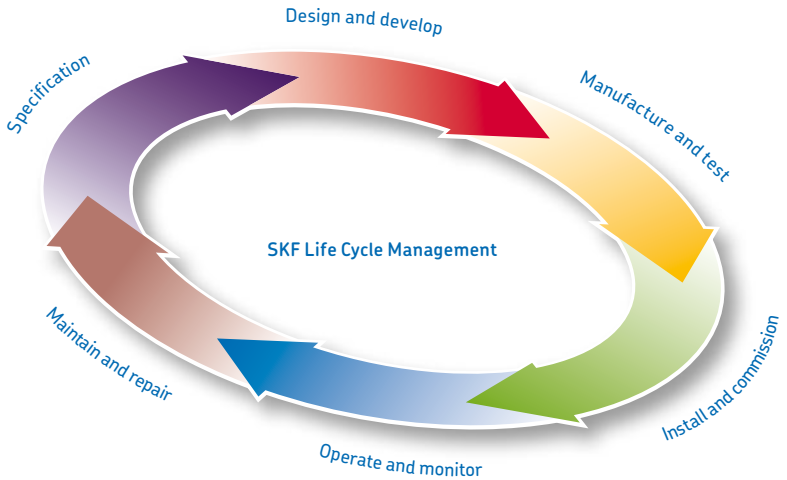
Example of how to lower total cost of ownership



Life cycle management approach

The cost of acquiring a machine is often only between 10–15% of the total cost of using that machine throughout its operating life from specification to decommissioning. The remaining 85–90% is related to operations and maintenance. Therefore a full life cycle perspective is important to help customers increase machine up-time, reduce maintenance and energy use and lower the total cost of ownership of their equipment.

SKF works with its customers at every stage in the asset life cycle, providing solutions from design right through to maintenance, and back to design upgrade.



Delivering value at each phase of the asset life cycle
During each phase of the asset life cycle, SKF technologies and services help customers to optimize machine design and performance, reduce energy use and lower the total cost of ownership.

Knowledge centres – SKF Solution Factory

To make it easier for medium and smaller OEM customers and end-users to access knowledge, SKF has set up a global infrastructure of knowledge centres, each called an SKF Solution Factory. The centres are equipped with engineering expertise covering SKF's five technology platforms. It offers local products and services such as machined seals, machine tool spindle repair and remanufacturing based on the customer's needs in the area where the SKF Solution Factory is located. It also incorporates a number of Remote Diagnostic Centres, which collect and analyse information about the condition of customers' assets, to keep machine downtime to a minimum.

Another competence area is asset efficiency optimization, where SKF offers optimization of machine performance to enable a plant to increase production while maintaining or even reducing costs at the same time.

SKF has a global network of remanufacturing centres, and in 2013 opened a new gearbox remanufacturing centre at its SKF Solution Factory in Tianjin, China. This will help customers improve the reliability of their driveline machinery. Remanufacturing a bearing can lead to savings of up to 50% of the cost of replacing it with a new product.

SKF Solution Factories create an inspiring environment for SKF's employees involved in the sales process, such as application and sales engineers, industry and platform specialists, and service engineers.

SKF opened six new SKF Solution Factories during the year, in Poland, Spain, Canada, India, China and the United Arab Emirates. At he end of the year SKF had 27 facilities worldwide and aims to have a total of around 50 facilities by 2016.

SKF Solution Factory facilities

Define, deliver and measure value

Define

SKF has the knowledge to define where in the customer's manufacturing process it can deliver the most value to optimize asset efficiency. One example of a knowledge tool developed and used by SKF is the SKF Client Need Analysis, which SKF uses with its customers to analyze where the most value can be realized, see example on page 50.

Deliver

The value SKF delivers is determined by the customer and can come from various ways.

▷ **Firstly, it can mean providing unique technical solutions.**

One example is the energy efficient high speed permanent magnet motor solution for aeration blowers used in wastewater facilities. This solution can reduce the energy use by up to 40%. For example, when used in a 350 kW blower it may result in annual savings of 500,000 kWh, which equals a 375 tonne reduction in CO_2 emissions. This solution is included in the SKF BeyondZero portfolio, see page 68.

▷ **Secondly, it can come from SKF's special understanding of customer requirements to offer specific solutions to support these needs.**

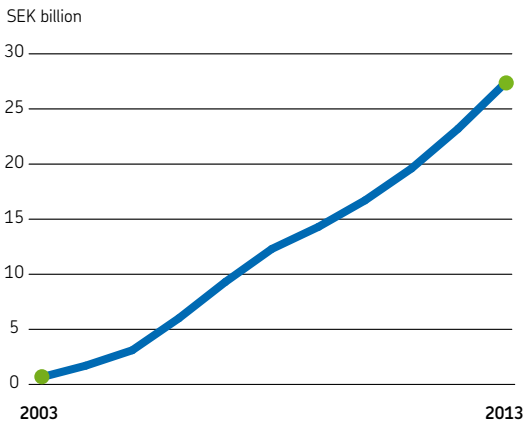
This is illustrated by the sealing solution for the food and beverage industry, featuring a special food grade of the SKF developed polyurethane ECOPUR. A customer had problems with frequent and costly stops in production as well as serious quality issues in the final products. This was related to its rotating dosing system for chocolate. SKF's investigation showed that the seals were worn down by abrasion in the rotating machinery, causing the breakdowns. SKF came up with a special lip seal made of ECOPUR material offering a twenty times longer lifetime than the original seals.

▷ **Thirdly, it can come from reducing customers' total cost of ownership.**

Measure

For many customers SKF uses its Documented Solutions Programme tool to measure and confirm the value that it delivers to a given customer. As part of this programme, SKF has collected 41,060 approved cases that show proven, quantifiable value in over 25 industries. From 2003 to 2013, SKF provided SEK 27 billion in approved savings for customers. In 2013, the figure was around SEK 4 billion.

Accumulated approved savings for customers



ArcelorMittal saved around SEK 16.5 million

SKF and ArcelorMittal, a multinational steel manufacturing company, have a global frame agreement for supplying bearings. SKF's support in creating savings for the customer's operations related to this agreement, has been an important step in developing the TCO culture (total cost of ownership) for ArcelorMittal. Through this process the customer realized around SEK 16.5 million in savings during 2013.

One example of this was the unforeseen downtime in production, caused by machine breakdowns and delays in the delivery of new spare parts. By using the SKF Documented Solutions Program, SKF could show that by remanufacturing the bearings discarded in the past, significant saving could be achieved. In addition, by keeping replacement bearings in stock, ArcelorMittal could reduce the downtime significantly. ArcelorMittal reached a return on investment of over 1,500% since maintenance cost and cost for new bearing were reduced and the reliability of the equipment was increased significantly.

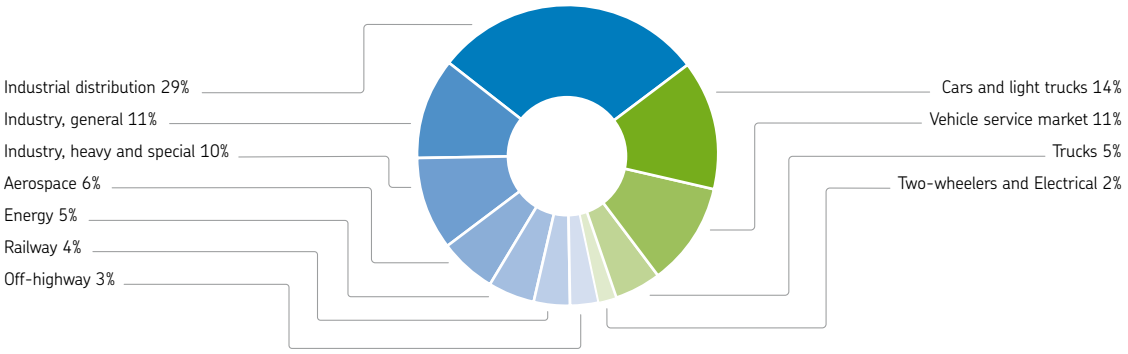
SKF's business

SKF's organization is customer-focused and serves around 40 different industries. This chapter describes SKF's business with 26 of its main industry groups. Each industry is described along with its trends and requirements. Then follows SKF's offer to its customers in each respective industry and how SKF does business, for example using its life cycle approach. New business, partnerships and offers in 2013 are also described.

Contents

Overview customer industries 2013

Net sales by customer industry



Industrial distribution
Sales through industrial distributors.

Industry, general
Automation, machine tool, industrial drives (fluid machinery, industrial electrical motors and generators, material handling and industrial transmission and driveline services), medical and health care.

Industry, heavy and special
Heavy industrial machinery: metals, mining and cement, pulp and paper. Special machinery: marine, food and beverage.

Aerospace
Aircraft and helicopter builders (system integrators), aero-engine, gearbox, and other aircraft systems manufacturers.

Energy
Renewable energy (wind, solar and ocean) and traditional energy (oil and gas and traditional electric power generation).

Railway
Passenger (high-speed vehicles, metro cars and light rails), locomotives (diesel and electric) and freight cars.

Off-highway
Construction, agriculture and forestry and fork lift trucks.

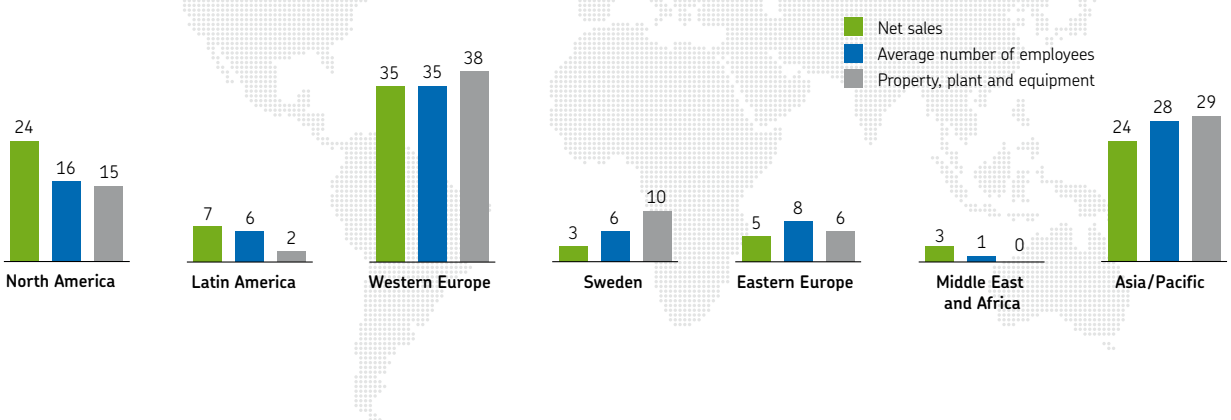
Cars and light trucks
Cars and light truck manufacturers (OEMs) and their sub-suppliers.

Vehicle service market (VSM)
Spare-part kits products for cars, trucks and two-wheelers.

Trucks
Truck, trailer and bus manufacturers (OEMs) and their sub-suppliers.

Two-wheelers and Electrical
Motorcycles, scooters and skates. Home appliances, portable power tools and electric motors.

Geographic distribution 2013 of net sales, average number of employees and property, plant and equipment (per cent).



SKF's business areas

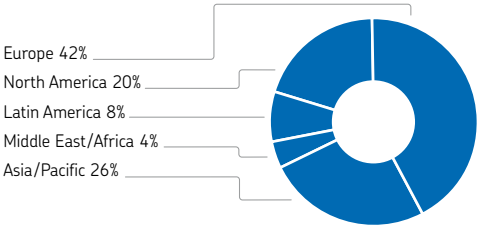
Each of SKF's business areas works across the entire asset life cycle for the different industries and develop and deliver products, solutions and services to OEMs and end-users.

Two of the business areas cover the whole industrial market together:

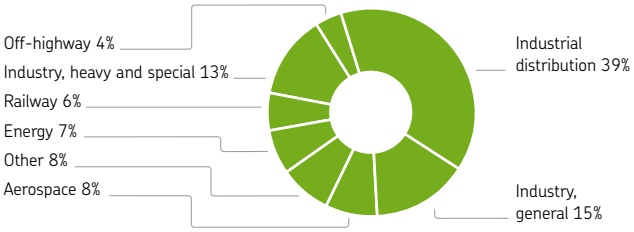
▷ SKF Industrial Market, Strategic Industries »see pages 38-39

▷ SKF Industrial Market, Regional Sales and Service »see pages 40-41

Net sales by geographic area



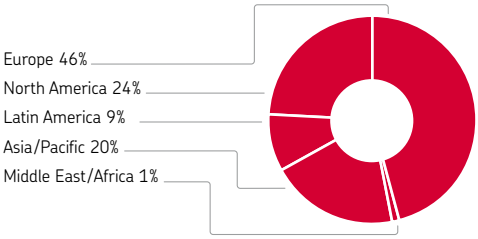
Net sales by customer industry



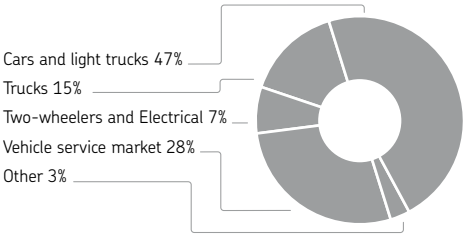
The third business area mainly covers the automotive market:

▷ SKF Automotive »see pages 56-57

Net sales by geographic area



Net sales by customer industry



In addition:

SKF has a range of products, solutions, services and expertise that are complementary to the three business areas. These operations are:

- Kaydon Corporation
- PEER Bearing Company
- General Bearing Corporation
- SKF Logistics Services

From 1 January 2014 these operations will form a fourth business area:

▷ Specialty Business »see pages 63-65

SKF Industrial Market,

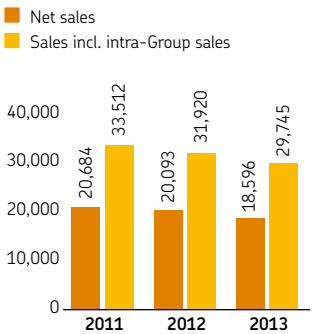
Strategic Industries

SKF Industrial Market, Strategic Industries, consists of seven business units that develop, offer and sell a full range of products, solutions and services to both OEMs and end-users for their different customer industries. The business units are: Aerospace, Renewable energy, Traditional energy, Railway and Off-highway, Industrial drives, Precision, Lubrication.

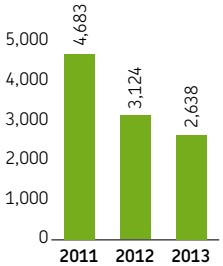
The business area also delivers to all SKF customer industries the know-how and manufacturing of a wide range of bearings and bearing accessories – such as spherical and cylindrical roller bearings, angular contact ball bearings, medium deep groove ball bearings, super-precision bearings, bearing housings and units – as well as lubrication systems, linear motion products, magnetic bearings, by-wire systems and couplings.

Net sales in 2013 amounted to SEK 18,596 million (20,093), a decline of 7.5%. Sales including intra-Group sales totalled SEK 29,745 million (31,920). The operating profit was SEK 2,638 million (3,124), with an operating margin of 8.9% (9.8). The operating profit was affected by one-time costs of around SEK 405 million (300). The decline in net sales was attributable to organic growth of -4.1%, structure -1.3% and currency effects of -2.1%.

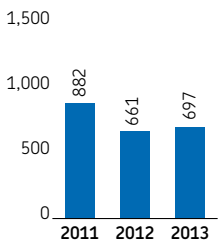
Sales, SEKm*



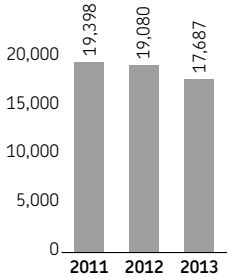
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2013.

Interview with Rakesh Makhija

President, SKF Industrial Market, Strategic Industries

How well have you been able to capture new value from the present organization covering the whole life cycle perspective?
We have made significant progress in all industries and are very encouraged by the positive response from customers. The life cycle strategy is being deployed across each of our business units, where our engagement starts at the very early stage of creating design specifications, providing validation and simulation services and finally beyond supply and testing to operation, maintenance and reliability services. This way of taking the entire life cycle into account leads to lower costs and greater efficiency for our customers.

How does the SKF BeyondZero portfolio add value and sales to your business?
By choosing products from the SKF BeyondZero portfolio, customers can be sure to receive solutions with proven energy savings, verified by a third party. This year we have added 6 industrial solutions to the SKF BeyondZero portfolio which adds up to a total of 28 industrial solutions. One recent addition is the energy efficient high-speed permanent magnet motor solution for aeration blowers at waste-water facilities, which can reduce energy consumption by up to 40%.

What is your biggest opportunity on the road ahead?
We believe we can demonstrate our value leadership clearly through our asset life cycle approach. Feedback from customers confirms that this addresses their strategic challenges of growth and competitiveness. Our entire organization is geared for this and we need to move quickly and establish strong partnerships with our customers. Another opportunity is to continue to develop energy-efficient products and services.

> “We want to deliver the highest customer value at the lowest possible cost.”

What is your biggest challenge?
Our focus is to manage the uncertain macro economic environment through a cost down and lean approach and effectively drive waste out from our operations while at the same time investing in our business and our resources to better support our customers. Business Excellence is firmly rooted into our operations and Six Sigma and Lean are critical tools to achieve the objectives of continuous improvement and cost leadership.

What are your priorities over the next few years?
Our priorities are built around our ambition to be the Value Leader as well as the Cost Leader. We want to deliver the highest customer value at the lowest possible cost.

What were your major successes during the year?
We had some significant customer successes. We signed many new long-term contracts with customers in the aerospace industry, for example a 10-year agreement with Turbomeca, part of the Safran Group, for their new helicopter engine. With customers in the railway industry we secured significant new business for wheel set bearings in China for very high speed trains.

We were successful in driving innovation in the wind energy industry, which is important as turbines are getting bigger and are placed in more remote areas, including offshore. The wind aftermarket is another area where we had success. We work with the major wind farms to develop our portfolio of asset management solutions to increase up-time, efficiency and reliability of the turbines.

We were also very happy for the many awards during the year which show our customers’ appreciation – for example a best supplier award from the Nanjing Gear Box Company in China and best quality award from the Russian Railway for our factory in Tver.

SKF Industrial Market,

Regional Sales and Service

SKF Industrial Market, Regional Sales and Service is divided into seven geographical areas: North America; Latin America; North Europe; West Europe; Central and Eastern Europe, Middle East and Africa; China; and Asia Pacific.

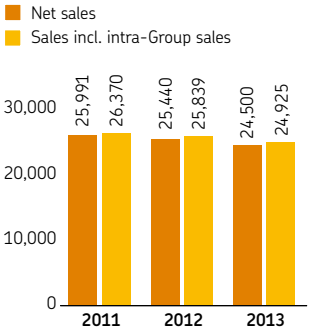
Regional Sales and Service offers and delivers a full range of products, solutions and services to both OEMs and end-users within different industries. Its "focused industries" are: Metals, Pulp and Paper, Mining and Cement, Food and Beverage and Marine. In addition, the area serves all other industrial customers that are not covered by Strategic Industries.

The business area is responsible for managing and working with SKF's industrial distributors. It serves the industrial aftermarket through a distribution network present in around 7,000 locations worldwide. Regional Sales and Service sets up and develops SKF Solution Factory facilities, which give customers access to engineering expertise covering SKF's five technology platforms. Each SKF Solution Factory delivers a wide range of services, from mechanical maintenance to asset management consulting.

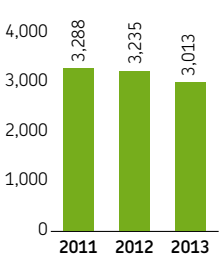
Regional Sales and Service runs five Condition Monitoring Centres, which design and produce world-leading hardware and software. It also manufactures a broad range of customized machined seals.

Net sales in 2013 amounted to SEK 24,500 million (25,440), a decline of 3.7%. Sales including intra-Group sales totalled SEK 24,925 million (25,839). The operating profit was SEK 3,013 million (3,235), with an operating margin of 12.1% (12.5). The operating profit was affected by one-time costs of around SEK 30 million. The decline in net sales was attributable to organic growth of -2.1%, structure 2.6% and currency effects of -4.2%.

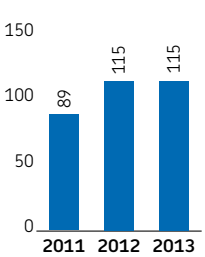
Sales, SEKm*



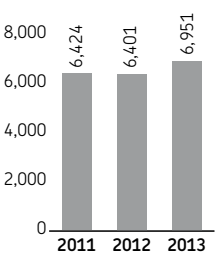
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2013.

Interview with Vartan Vartanian

President, SKF Industrial Market, Regional Sales and Service

Looking at your five technology platforms, where do you see the biggest growth opportunities?

The service business is the biggest differentiator we have. Because we started focusing on this more than 20 years ago – much earlier than other companies – we have had more time to develop our service technology, processes and capability. We have emerged as one of the important players in the service industry, which as a whole is still relatively undeveloped. This has put us in a stronger position to generate profitable business and grow. It also helps us safeguard our bearings and seals business.

SKF Solution Factory is an important part of the SKF service offering. How does it contribute to the business?

SKF Solution Factory is where our customers can find solutions to their problems in one place. We have set up 27 of them in just five years, so, as you might expect, each is at a different development phase. The first few have grown in leaps and bounds, and are winning significant business. But what's really exciting is that they are also earning customers' confidence. Many customers now see them as part of their own infrastructure, and as a result are building long-term relationships with us. The more we integrate with their operations, the faster we grow, so our aim is to keep doing this and open SKF Solution Factories in even more locations, and extend the range of services according to local market needs.

> "We have emerged as one of the important players in the service industry."

What role does innovation play at Regional Sales and Service?

Innovation is critical to how we do business. It isn't just something that we do alone in our labs; working closely with our customers, partners and specialists helps ensure that our innovations solve real-world problems and keep us ahead of the curve.

Our SKF Insight technology, which we launched at the Hannover Fair 2013, is one of the best recent examples of innovation. It's a real game changer, both for the bearing industry and for mechanical engineering as a whole, see page 73.

What were your major successes during the year?

Acquiring Blohm + Voss Industries (BVI) and integrating it into our business has contributed significantly to our segment strategy's success. Marine industry customers are starting to think of us as a real player at every stage in their asset life cycle. In all of our major segments we set out to make the most of customers' rapidly growing interest in working with us as a "total life cycle" company. Take the food and beverage industry, for example: a major food manufacturer was so impressed with our solution for limiting the contamination risk posed by over-lubricated chains that it has arranged for the OEM's moulding lines to come pre-equipped with our solution from now on. This is full life cycle value.

I feel that we have succeeded in becoming more customer-focused as an organization. Our global and regional strategic account teams have performed very well, building strong customer relationships, and selling the value of what we do. Our high customer visit rates have really helped us to harness the opportunities we have uncovered during this difficult period. We are also looking at how to bring our customer service to the next level, to achieve high levels of customer satisfaction: unbeatable customer service from SKF.

Another highlight is how well we are integrating our distributors' supply chain processes and activities with our own. We are improving supply chain visibility, cutting waste and duplication, and improving product availability for our customers, all of which makes the supply chain more efficient.

What is your biggest challenge on the road ahead?

All the main economies of the world are wrangling with their own unique problems at the moment; none of them is in a strong position to drive growth. This means we need to be both flexible and active, going wherever the growth is and capturing every opportunity that arises. Having a full global footprint means we can do this.

Another challenge is to grow way ahead of the market, particularly where we have spent a lot of time developing our offerings – in service and seals, for instance. We are already doing this in Latin America and many other markets, and I have no doubt that we can do it systematically.

Industrial Distribution

29%
of net sales

SKF's distributors represent the largest distributor network in the bearing industry. The network has expanded over the years with the addition of specialized distributors in different product categories for example lubrication systems and mechatronics and in different industries for example agriculture and marine.

SKF does not own its distributor network but works closely with independent distributors who add value through their proximity to customers in all industries; their markets and industry knowledge and their complementary product offers and ability to fully support customers in various ways, especially regarding service levels. A network of 7,000 distributor locations reaches over one million customers worldwide. Customers are mainly end-users, but also OEMs usually small to mid-size.

Authorized distributors can receive "Certified Maintenance Partner" status if they provide added value to customers by offering machine inspections, entry-level maintenance and reliability services.

SKF is also developing a network of Certified Motor Rebuilders with specialized training and knowledge in motor repairs with an emphasis on conformance with exact SKF specifications and standards, root cause failure analysis, bearing installation, lubrication and condition monitoring.

SKF supports distributors with inventory management in order to optimize their stock level. SKF has initiated a way of streamlining the information flow between distributors and SKF to reduce transactional costs and reduce inventories. SKF's distributors support its customers by taking care of spare part rationalization and making logistics more efficient.

SKF connects over 3,000 distributors worldwide to Web Customer Link (WCL), four times as many as it did at the end of 2012. This integrated IT system supports distributors in finding the information they require to sell SKF products to their customers, and to place orders. The system issues invoices and commercial documents to the distributor following each order. WCL is available through both the web and as a mobile app for Apple iOS and Google Android smart phones.

Part of SKF's distributor initiative is the Distributor Interconnectivity Programme (DIP). This programme aims at lowering the distributors' administration costs, optimizing capital employed and providing a better service level. This is mainly

Improved reliability and less downtime

Tiense Suiker, a major sugar mill in Belgium had frequent problems with its support rollers. Wear had caused a deficiency in the rollers' hardened surface and they needed to be replaced.

The customer was looking for a partner to take care of the engineering, production and installation of the rollers. SKF and its authorized distributor proposed engineering services including hardening the rollers, with the aim of increasing the intervals between planned downtime. They mounted the bearings on tapered shafts used oil injection to provide easy dismounting and reworked the disassembled bearings. This gave the customer improved reliability and less unplanned downtime while saving EUR 1.3 million. SKF is now the preferred service partner for the customer's improvement projects.

accomplished by improving inventory management and introducing collaborative forecasting. A new vendor managed inventory solution was created during the year with the two largest Swedish distributors -TOOLS Momentum and Sverull. The solution helped to improve the companies' service levels, cut administration costs and made capital employed more efficient. A majority of replenishment orders on the Swedish market are now fully automated.

SKF Distributor College is an e-learning platform, whose users can attend various training schemes online. It offered 45 courses in 20 languages in 2013. In 2013, an anti-counterfeit course was launched with the aim of creating awareness around the subject of industrial counterfeit products in general and SKF counterfeit products in particular. Other new courses covered business and work ethics.

At the beginning of 2014, the 200,000th SKF Distributor College certificate was awarded to an employee of an authorized SKF distributor. The first certificate was awarded in 2002. The SKF Guild programme, introduced in the USA last year, is an initiative for raising awareness of and participation in SKF Distributor College. It recognizes those distributor employees with a higher level of knowledge about SKF's products and who are commited to investing in training.

To ensure the right level of support for distributors, SKF has a methodology called "More with SKF", which provides guidance for structured activity planning. This is a proactive process specifically designed for the need of each respective distributor and its local customers. "More with SKF" was developed to strengthen all stages in the supply and value chain, from SKF and its distributors all the way to the customer. It contains a set of tools for distributors in several categories like branding, sales and marketing, supply chain, product range management, people development, e-business, quality and value generation.

SKF also helps its distributors to identify and measure the value they deliver to their customers. This is done with the help of the SKF Distributor Value Programme, based on the same methodology as the SKF Documented Solutions Programme (DSP), see page 34. The most frequently recorded customer benefits are reduction in downtime due to availability of proper spare parts, inventory level optimization and savings on administration costs.

SKF is working together with Abecom, one of the largest distributors in Brazil, to harmonize its working processes using the methods of SKF Business Excellence.

Industry, general

Including: Automation, Machine tool, Industrial drives, Medical and Healthcare

11%
of net sales



Automation

The global industrial automation market has almost doubled over the past decade, which is almost twice as fast as overall industrial production. This trend is expected to continue. The industry is driven by a need for greater flexibility to manufacture different products on the same production line, with improved reliability, higher precision and further energy savings.

The market is gradually shifting from using pneumatic or hydraulic drives, to electromechanical drives, as they require much less energy due to major reductions in energy loss. The shift represents a potential growth for electromechanical robotic joining tools of 20 to 30% annually, depending on the application.

SKF supports the automation industry at the very early design phase of industrial robots, commonly used in material joining and forming processes in assembly lines. The process of joining various types of materials using different joining technologies is heavily used in the automotive and aerospace industries.

To meet the growing demand for electromechanical robotic tools, SKF supplies customers with the complete electromechanical actuator solution, used in different parts of automation. SKF's compact electromechanical cylinder, a complete electromechanical actuator, integrates products, solutions and services from SKF's technology platforms. Compared with pneumatic or hydraulic processes, the solution requires only a fraction of the energy needed for the materials joining process. In some cases, energy savings of over 90% have been achieved by manufacturers using SKF's solution. In 2013, SKF received a major order from Comau, a leading global factory automation supplier, to supply SKF's electromechanical cylinders for their new generation of Accumulating Pallet Conveyor (APC). The new APC is used to move pieces of different dimensions from one machine to another and its flexibility allows it to be used in many industries. The SKF solution will give Comau a reliable, cost- and energy-efficient electromechanical solution to meet the demand of the markets.

SKF also supplies planetary roller screws and, its evolution, the inverted roller screw. It has several important features such as acceleration and speed far beyond the limits of ball screws, a high level of shock resistance, and superior motor downsizing, helping customers to improve production flexibility and precision, machine reliability and achieve further energy savings.

Machine tool

Global industrial production is normally a key driver for market development in the machine tool industry and the market has almost doubled over the last 20 years. Machine tool production and consumption declined in 2013, mainly due to the slowdown of the Asian machine tool market. The outlook for 2014 seems more positive as Asia is expected to recover together with a stronger growth for the machine tool market in the Americas.

Machine tools can be found in most production processes. The trend is that manufacturers are demanding more customized technology solutions to reach greater speed and precision, as well as easy-to-operate machines. End-users want to achieve higher productivity and reduce the total cost of ownership. Solutions that provide reduced energy use, improved working conditions and reduce the impact on the environment are highly attractive in the market and are key drivers.

To meet these demands, SKF works with manufactures and end-users to optimize machine tools to run faster, for longer and in a cleaner way during their entire operating life. SKF does this by offering engineering consultancy, simulation and design validation, advanced condition monitoring technologies, predictive and proactive maintenance programmes and hands-on maintenance training and a range of products tailored around spindle operation and machine tool motion. These products include super-precision bearings, lubrication systems and coolant pumps, customized sealing solutions, linear drive and guiding systems.

SKF opened two new Spindle Service Centres during the year, one in Poland and one in India. There are now 21 SKF Spindle Service Centre locations that provide specialized engineering analyses for spindle upgrading, reconditioning, and replacements for all spindle brands and designs. Spindle Services are part of the SKF Solution Factory services, see page 33. SKF introduced the new Microdosage lubrication system in 2013. The system makes it possible to precisely measure and monitor extremely small quantities of lubricant and in contrast to conventional oil and air lubrication, the system does not use any compressed air to transport the lubricant. This makes it especially energy and cost-efficient compared to conventional systems.

To meet the growing market in Asia, SKF opened a Machine Tool Competence Centre in Shanghai in 2013. The centre consolidates SKF's machine tool knowledge giving engineering support covering all five SKF technology platforms, applications and products for machine tool customers.

Industrial drives

Including: Fluid machinery, Industrial electrical motors and generators, Material handling, Industrial transmission and driveline services

Fluid machinery (industrial fans, pumps and compressors)

The fluid machinery market is driven by many different industries including oil and gas, hydrocarbon processing and water industries, as well as various facilities such as airports, hospitals and shopping malls. The industry focuses on the important need for constant equipment efficiency improvement. The development of the industry is also influenced by environmental standards and legislation, the need to lower energy use and maintenance costs. The market has shown strong organic growth for a number of years and this is expected to continue.

SKF supports manufacturers and end-users with engineering services in the design process, industry-specific solutions for monitoring systems and magnetic bearings. In 2013, SKF launched a new magnetic system solution for aeration blowers in wastewater facilities, as part of the SKF Beyond Zero portfolio, see page 68. As the world's water consumption is forecast to increase about 50% by 2020, more efficient water treatment will be required. One important area for improvement is the energy use in the aeration process, which can demand as much as 80% of the plant's total energy use. SKF's high speed permanent magnet motor addresses this need and can reduce energy use by up to 40%. During the year, SKF received two large orders for prototypes from major Chinese and North American customers.

SKF also offers bearing solutions for harsh operating conditions. For example, compressor applications that need to handle corrosive process gases require highly resistant solutions such as SKF's bearings for sour gas compressors. This solution provides high reliability and can improve the bearings' service life from months to years with its corrosion-resistant technology.

Other examples of the use of advanced bearings are for subsea pumps and cryogenic pumps. Reliability and availability are critical requirements for refineries and liquefied natural gas plants. SKF's cryogenic pump bearings (for very low temperatures, down to minus 250 Celsius) meet these needs by enabling exceptional performance in tough conditions, as well as protection against corrosion, wear and fatigue in extreme temperatures. With SKF's solutions, companies can more than triple the bearing's service life and significantly extend mean time between repairs. These solutions also drastically improve the total cost of ownership and energy efficiency.

Industrial electrical motors and generators

Electric motor-driven systems account for more than 40% of the world's electricity use, and therefore improvements in their design have a major impact on global energy demand. For this reason, minimum energy performance standards have been introduced in, for example, North America and the EU.

To help customers meet these requirements, SKF provides different solutions, one being the SKF Energy Efficient E2 deep groove ball bearing range, which is part of the SKF BeyondZero

SKF development partner for the two largest hexapods ever built

The French technology company Symetrie, developed two hexapods in 2013 to simulate wave profiles for a customer in the oil and gas industry. To achieve this, the hexapods were required to carry very heavy loads and at the same time handle powerful dynamic motion, without compromising reliability and safety. SKF was selected as the development partner for the actuators and delivered a customized electromechanical solution. This solution enables the actuators to move at speeds of up to 1.5 metres per second, while carrying a weight of 4 tonnes. The actuators have a two-metre long stroke and safety brake, directly mounted onto the screw resulting in easy motion control, high accuracy and safety.

portfolio, see page 70. These bearings features an optimized balance between internal geometry, grease and cage. As a result, friction is significantly reduced. Tests comparing SKF E2 deep groove ball bearings with SKF Explorer bearings show that the energy-efficient bearings reduce friction by more than 30%.

Electric motors, generators and associated equipment can be damaged when an electric current passes through the bearing. SKF offers different insulation solutions to avoid this damage, like the INSOCOAT and hybrid bearings. The rings in INSOCOAT bearings are coated with an insulating ceramic layer while in SKF hybrid bearings insulation is provided by the ceramic rolling elements themselves.

To satisfy the demand for more efficient drive motors, industrial motor manufacturers are increasing their production of brushless permanent magnet motors. To help in meeting this demand, SKF's motor encoder units range was expanded during the year to include the SKF Rotor Positioning Sensor-Bearing Unit for permanent magnet motors. The solution provides the functionality of both the bearing and the encoder, since it is equipped with sensors insensitive to the strong magnetic fluxes, which are typical for this type of motor. In addition it is robust, compact and easy to install. SKF sponsored and participated in the leading conference for energy efficiency in motor driven systems in Rio de Janeiro, Brazil in 2013. SKF presented its knowledge within motor efficiency measurement and controlled magnetic bearing technology for motor applications requiring advanced position control at very high speeds.

Material handling
(conveyors, cranes, elevators and escalators)

The material handling industry is influenced by the growth in globalization, which is changing the patterns of travelling, consumption, and goods supply. This in turn increases shipment of bulk and cargo volumes between continents. The industry is also driven by growing urbanization and the need to expand infrastructure to be able to handle a larger population.

These trends are driving development in the material handling industry towards improved reliability and greater efficiency in equipment as diverse as conveyors, port cranes, elevators and escalators. The SKF Life Cycle Management philosophy and approach means that SKF is involved many times in the full machinery performance from the design and development at the OEM all the way through to maintenance and repair at the end-user. For example, with space at a premium in the real estate industry, elevators are now designed with the machine room in the elevator shaft and are shifting to gearless direct drive designs. This trend challenges maintenance access and SKF has developed sealed bearing solutions with a service life of up to 20 years, which is equivalent to an elevator motor replacement. Other trends in material handling are automation of equipment and reduced manual maintenance, where employees no longer have to be exposed to dangerous environments. As energy demand is increasing, so is the need for reducing material handling equipment's energy use and noise generation. SKF is a supplier of solutions for rotating equipment in demanding environments, and its material handling solutions include a range of spherical roller bearings, housings and seal arrangements for conveyor pulleys designed to increase mean time between failure of the bearings. SKF also supplies a number of deep groove ball bearing variants for idler rollers that extend equipment operations and lowers operational costs by reducing energy use. SKF provides a number of service solutions such as condition monitoring, alignment services and central lubrication systems to support proactive maintenance and cut manual maintenance requirements. Proactive maintenance solutions bring value to the crane industry where equipment is difficult to access during routine maintenance and in industries where maintenance windows are short.

Agreement for SKF Certified Rebuilder programme

SKF and SPP Pumps, a UK-based pump manufacturer and part of the Indian company KBL, signed a three-year agreement in 2013, covering the SKF Certified Rebuilder programme for pumps. As part of the programme, SKF will supply condition monitoring equipment, fitting and alignment tools, as well as training in advanced analysis and repair techniques for the critical aspects of pump servicing. To start with, the agreement covers SPP Pump's five service centres across the UK.

Industrial transmission and driveline services

The designers of industrial gear units for heavy industries can face different challenges such as, variable speed and torque, high torque at constant speed, heavy external and/or shock loads, and highly contaminated or poor lubrication conditions. SKF's goal is to meet these demands by optimizing operational reliability and performance, while enhancing cost-effectiveness.

SKF works with manufactures and integrators of gearboxes in the development phase for more efficient and reliable machinery and equipment. An example of new technology for the industry is the upgraded SKF Explorer self-aligning roller bearings which comprise important features such as greater load carrying capacity, enhanced wear and contamination resistance, and lower friction compared to competing solutions.

During the year SKF tripled the seals sales to a leading German gearbox manufacturer and is now the main supplier to several of their manufacturing locations.

When the electric motor, coupling and gearbox are installed in a driveline, there is still considerable potential to be attained in efficiency gain. SKF helps customers select the most suitable maintenance strategy for their installed driveline, provides driveline health status assessments during production, and offers the most suitable spare parts when the assets need repairing. As drivelines degrade over time, especially when pushed beyond their design parameter, or specifications of the existing drive system do not satisfy customer's production requirements, SKF offers engineering and design support, including root cause analysis capabilities, and in certain cases driveline re-engineering.

SKF's solutions are designed for each phase of a driveline's life cycle to help customers achieve operational reliability, minimal service requirements, optimized maintenance procedures and reduced energy use. Customers include companies such as rolling mills, cement mills, mining companies, paper mills, chemical processing plants and food producers.

Medical and Healthcare

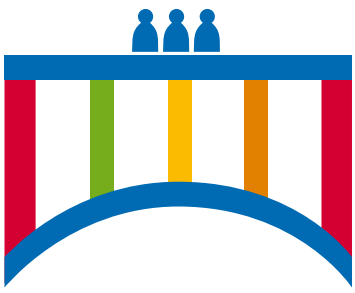
The medical industry is evolving around an increasingly ageing population, obesity, more healthcare being carried out at home, a growing population in emerging countries and the need for more flexible and automated equipment. The industry is highly regulated with strict safety standards and medical norms. Taken all together, this puts demands on the market to cut healthcare costs and improve technology, productivity and service performance.

The medical and healthcare industry has enjoyed steady growth over the past decade and the global market is expected to continue growing.

SKF is a development partner to many medical equipment manufacturers and supports customers in optimizing medical equipment design. SKF's products are used to provide linear and rotational motion for applications ranging from imaging, surgery, laboratory automation, life support, dental, ophthalmic and hospital equipment. These solutions include electromechanical actuation for lifting,rolling bearings and profile rails for turning and guiding functions, engineered machined seals for separating media, and associated control components. SKF also provides testing support during design, pre-production and production to comply with industry norms and standards.

A new series of SKF telescopic pillars were launched in 2013, to make it easier for medical equipment manufacturers to meet the industry's demand for ophthalmic equipment and incubators that deliver very accurate, ergonomic motion and increased functionality. The pillars provide a universal power supply for global use, soft start/stop motion that allows silent lifting, increased stroke length for greater accessibility as well as a wide degree of design flexibility for the manufacturer.

The recent acquisition of Kaydon in 2013 will complement SKF's offer for the medical and healthcare industry, particularly within thin section bearings and slewing ring bearings.



Business Excellence helps MTI increase sales

SKF teamed up with its customer MTI, a US-based manufacturer of medical equipment, to understand their needs better. SKF applied its Business Excellence methods in the customer's full value chain. For example, a new forecasting planning system resulted in improved planning reliability, a reduction of broken agreements from 10% to close to 0%, and lead-times stabilized at eight weeks instead of 20 weeks. SKF also helped MTI to reduce its throughput time in the assembly line by 40% by replacing batch production with a single piece flow. For MTI this means increased sales, a reduced, stable lead-time from SKF to MTI, which helps MTI plan their production in a better way, and a significant reduction in inventories.

Industry, heavy and special

Including: Metals, Mining and Cement, Pulp and Paper, Marine and Food and Beverage

10%
of net sales



SKF's sales to manufacturers and end-users in the heavy and special machinery industries account for 10% of SKF's sales. These industries represent a significant share of the business with SKF's authorized industrial distributors. SKF supplies reliability and maintenance services to a growing number of end-users in these industries.

Heavy industries

With a growing population, increasing urbanization and expanding middle classes in many developing economies, the underlying reasons for growth are present for heavy industries and SKF see a steady shift in importance from traditional markets such as Europe and North America to China, India and Latin America.

The heavy industries are all highly capital-intensive, so it is very important that assets are both productive and reliable. For many years, SKF has been a major supplier of bearings and units to these industries and more recently has developed its seals and lubrication system business with them. In addition, SKF continues to expand its service business to help its heavy industries customers achieve their productivity, reliability and energy efficiency goals.

SKF has a broad reach through its extensive sales and distribution networks plus its relationships with leading manufacturers and end-users worldwide. The SKF Life Cycle Management philosophy and approach means that SKF is involved in machinery performance from cradle to grave.

Metals

SKF is a technical development partner for the world's leading OEMs and a service partner for end-users in the metals industry. The company supplies a wide range of solutions including bearings, seals, services and lubrication systems.

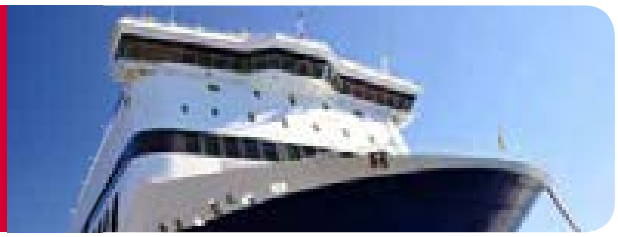
SKF signed a major global framework agreement in 2013 with a steel and mining company to provide bearings and units, seals, mechatronics, and services to the company's sites worldwide over a two-year period. These solutions are expected to result in documented savings of at least 10% on average, based on the turnover achieved with SKF and its distributors, as well as a reduction in the environmental impact of the customer's operations using solutions from the SKF BeyondZero portfolio. The contract is worth SEK 600 million.

SKF also won a five-year service contract with a Latin American aluminium producer. It will deliver proactive reliability maintenance services in the first year of this contract and integrated maintenance solutions, thereafter. The installations are expected to increase the availability of the equipment and reduce the total costs of running the mill. The contract is worth SEK 100 million.

In 2013, SKF launched a new range of reinforced all-rubber HSS seals that protect large size bearings in heavy industrial applications, see page 68. These new seals for mill stand chocks are reliable, easy-to-install and will not change dimensions when the seal is exposed to moisture.

SKF part of strategic supplier initiative at Tata Steel

Tata Steel, the largest private sector steel producer in India, chose SKF as the only bearing supplier among the 27 key global suppliers involved in its supplier relationship management initiative. Tata Steel's initiative sets out to strengthen its relationship with strategic suppliers by sharing knowledge, best practices and processes. As part of the initiative, SKF is continually training Tata Steel's employees in bearing and lubrication best practices to support productivity. SKF has supplied Tata Steel with solutions based on all five of its technology platforms for many years, mainly focusing on bearings and services.



SKF added two existing product ranges for the metals industry to the SKF BeyondZero portfolio. The first one is bearings for extreme temperatures. This is a powerful range of products in the metals industry: maintenance costs can be cut and reliability increased by replacing conventional grease-lubricated bearings with SKF's extreme temperature bearings. For example, a cooling bed for sheet metal, equipped with 5,000 bearings can save 7.5 tonnes of grease and 23 tonnes of CO_2 per year. This is equivalent to an 82% reduction in the climate impact, compared to using grease-lubricated deep groove ball bearings. The other range of products added to the portfolio is sealed self-aligning bearings for continuous casting machines. The bearings protect against solid contaminants and moisture, increase bearing life and reduce grease consumption. Typical grease savings on a two-strand slab caster are 20–47 tonnes per year.

Mining and Cement

SKF provides the mining, mineral processing and cement industries with a wide range of products and services that contribute to improved productivity, reliability and worker safety. The company has close relationships with manufacturers and end-users worldwide and is now increasing its presence with engineering, procurement and construction consultants to get more SKF solutions specified and installed in new mine developments.

End-users in this industry remain focused on cost-cutting and control, which creates opportunities for SKF's many solutions that increase reliability, productivity and profitability.

Renewed contract with Smurfit Kappa in Venezuela

SKF and Smurfit Kappa, a world-leader in paper-based packaging, signed a renewed contract in 2013. SKF will provide inspection of mechanical and electrical equipment and thermographic analysis to Smurfit Kappa's mill in San Felipe, Venezuela. SKF has been providing maintenance services for the rotating parts at the Valencia mill since 2005. By the end of the initial contract period, SKF had reduced machine downtime in rotating equipment and cut bearing consumption, saving thousands of dollars annually.

SKF signed several new contracts with Latin American companies during the year. One example is a four-year lubrication service contract worth SEK 55 million with one of the world's biggest copper producers in Peru. SKF will plan, schedule, execute and manage the lubrication of the customer's mine and concentrator plant equipment. SKF also signed a technology contract with a major copper producer in Chile. The project will focus on monitoring the condition of the customer's mining equipment at its concentrator and roasting plants. SKF will provide products, engineering services, installation and supervision of the equipment.

SKF signed a contract with a leading cement equipment manufacturer, which should further develop its relationship with the customer's operations globally. SKF will supply bearings and units, seals and lubrication solutions and focus on the efficiency of the company's operations and maintenance functions by applying the SKF Life Cycle Management approach.

Pulp and Paper

SKF has a long history of involvement with, and product development for, the pulp and paper industry. Traditionally, a leading supplier of bearings and associated products to both OEMs and pulp and paper mills, SKF has developed to become the leading lubrication systems supplier to the industry. In addition, SKF continues to expand its service offerings which now account for a sizeable proportion of the business.

SKF service offerings, including Integrated Maintenance Solutions and SKF Clients Needs Analysis - Asset Management , help pulp and paper customers around the world to maximize their productivity and reliability and reduce costs.

SKF signed several new service contracts in 2013, among them, a five-year multimillion dollar contract with a North American paper company to supply condition monitoring services and maintenance services and a five-year contract with Suzano Pulp and Paper in Brazil. SKF will provide Suzano with maintenance services at its new pulp mill, to achieve greater availability of its equipment and lower total costs.

The SKF Flowline pumping unit was added to the SKF BeyondZero portfolio during the year. This circulating oil lubrication system can help mills reduce oil and energy consumption, as the tank only requires a third to a half of the oil volume used in conventional systems.

Special machinery

Including: Marine and Food and Beverage

Marine

The marine industry accounts for much of the world's transportation. About 80% of world trade (volume) is carried out by a fleet of around 50,000 commercial ships. The transportation sector is highly dependent on the business climate. Investments in

larger ships, with higher carrying capacity, reduce the cost and emissions per unit of transportation. Vessels supporting offshore platforms continue to show strong growth, driven by global energy demand.

The lifetime of a ship is typically 25-30 years. A vessel out of operation for just one day can cost a ship operator hundreds of thousands of dollars. As a result, high reliability and availability are important in order for vessels to be profitable. Rising fuel costs and tough environmental and safety regulations influence the industry to develop more predictable, reliable and fuel-efficient vessels. There are different ways to meet these challenges, such as:

- Condition monitoring and condition-based maintenance help maximize availability and reduce operational costs.
- Re-designing propulsion systems, such as thrusters and pods to increase the efficiency of these systems.

SKF's main focus is on offshore supply vessels, workboats, tankers, and passenger and cruise ships. SKF focuses its expertise and knowledge on the industry's needs to reduce operating and maintenance costs, improve health, safety and environmental issues and increase the availability of the vessel to help maximize fleet availability and critical equipment reliability in service.

SKF provides products and services for every stage in the life cycle of the machinery from design, manufacture and installation to operation and maintenance. SKF's offers include integrated product and service solutions for propulsion systems, including key components in large two-stroke engines, thrusters, electric pods and gearboxes, as well as couplings and shaft line transmission products. SKF also offers a wide range of specialized condition-based maintenance services for different types of vessels. Other services provided are alignment services, 3D measurements, on-site machining and machinery mounting solutions.

At the beginning of 2013, SKF acquired the German-based ship components provider Blohm + Voss Industries (BVI). BVI's operations and capabilities fit well with SKF's marine strategy, complementing and widening SKF's existing marine product and service range, see page 26.

Food and Beverage

Food and beverage is one of the world's largest manufacturing industries in an economy. Average consumer spending on food and non-alcoholic beverages is 25% of income, which makes this manufacturing industry less cyclical than others. The industry is typically faced with challenges such as extreme temperatures and moist, frequent, hygienic wash-downs affecting equipment reliability, as well as hazardous work environments. It focuses on improving efficiency, reliability, hygiene, operator and food safety, as well as reducing waste of water, energy, and lubricants.

Since food-processing companies need to keep manufacturing equipment as productive and cost-efficient as possible, there is an increasing focus on continuous improvement in the industry. SKF often advises on starting a continuous improvement initiative with a current state assessment, using the SKF Clients Needs Analysis - Asset Management, the basis for designing the improvement programme. A maintenance strategy review, including a criticality analysis, is frequently carried out to identify a suitable route map for the customer. However, access to relevant technology is needed to implement the necessary changes. By applying a multi-platform approach, focusing on sealing solutions, bearings and units, lubrication systems, services and mechatronics, SKF has assisted a number of customers to achieve extended machine life and increase operational efficiency (OE) levels. One such example is the biscuit producer Griffins Food Ltd. in New Zealand, see below.

SKF also supports OEM designers with proven technologies from food and beverage processing plants, in line with hygienic design, food safety, waste and total cost reduction requirements. One example is the SKF ChainLube automatic oil projection system that SKF and Masytec, SKF's distributor in Denmark installed in a chocolate moulding machine. This prompted a request from the end-user to Aasted, the manufacturer, to equip a new machine with this proven technology.

Improved operational efficiency

Griffins Food Ltd. needed to reduce its unplanned engineering downtime and waste, while improving operational efficiency. SKF deployed the SKF Clients Needs Analysis - Asset Management, to initiate the assessment. On analysis, SKF and Griffins agreed on a potential operational efficiency improvement of 5%, to be achieved through a phased holistic solution package. This included a maintenance strategy review, root cause failure analysis training and a range of further technical and on-task training, reliability engineering, job plans and documentation. The solution also incorporates products and services from SKF's technology platforms in delivering the improvements. As the project neared completion in 2013, the site had already achieved an operational efficiency improvement of 8% and an engineering downtime reduction of 4%.

Aerospace

6%
of net sales

The aerospace market has almost doubled every decade over the past 40 years. This trend is expected to continue as the industry is driven by growing global travel, especially related to Asia. The need to renew ageing fleets due to tougher environmental legislation and fuel price pressure, has led to an evolution of lighter, more durable aircraft using composite materials, as well as a new generation of quieter and more fuel-efficient engines.

In the coming years Russia, India and China are likely to drive growth as their domestic markets are expected to expand and create a greater demand for smaller single-aisle aircraft and helicopters.

In the aerospace industry an engine or helicopter model can have a lifetime of up to 50 years and relations between manufacturers and their suppliers are therefore often long-term. Flight performance and safety are critical issues in the aerospace market. Products need to operate reliably in highly demanding conditions and call for very specific engineering knowledge.

SKF supports the main players in the industry with developing their new flight programmes. SKF provides main aircraft, helicopter, engine and system manufacturers with highly-engineered customized solutions, including main-shaft and transmission bearings, seals, and precision elastomeric devices. SKF also provides airlines and maintenance repair and overhaul customers with maintenance and repair services, carried out under international certification standards and quality approval, supporting the customer throughout the product life cycle. To support growth of electrical flight control, SKF Fly-by-Wire proposes a new range of integrated side-sticks, providing the direct link between the pilot and flight computers. About two-thirds of SKF's aerospace business refers to aircraft applications and the remaining to helicopter applications.

SKF signed a 10-year agreement in 2013, with Turbomeca, see below. SKF also gained new business to supply bearings to industry leaders like Bell Helicopter, Eurocopter and Safran and renewed long-term agreements with partners such as GE Aviation, AgustaWestland and Pratt & Whitney, a unit of United Technologies Corp. SKF Fly-by-Wire delivered the first prototypes of the cockpit control equipment on the Embraer Legacy 450 and 500 and Bombardier CSeries programmes.

Lubrication is a complex mechanism in aerospace applications and plays an important role in reducing friction, wear and the risk of damage. To explore the behaviour of lubricants under extreme conditions, especially for the aerospace industry, SKF and INSA Lyon started a research programme in 2013, called "Lubricated Interfaces for the Future".

At the beginning of 2013, SKF divested its metallic rods business in line with the strategy to divest non-core business, see page 28.

10-year agreement for engine bearings

SKF signed a 10-year agreement in 2013, with Turbomeca a division of the French-based Safran Group, to provide bearings for their latest helicopter engine, the Arrano. The agreement is worth SEK 900 million and builds upon SKF's successful support of other Turbomeca engine programmes.

Energy

Including: Renewable energy and Traditional energy

5%
of net sales

With the world's population continually increasing, access to energy is one of the greatest challenges to be solved. The energy industry is often subject to government regulations and incentives which aim to address cost, security of supply as well as environmental issues, most significantly climate change.

Renewable energy

Including: Wind energy, Ocean energy and Solar energy

Globalization has been fast, especially in the wind and solar energy markets.

The wind energy market has grown six-fold over the past decade. Wind energy onshore is the most developed renewable energy source, even though offshore wind is now gaining in importance. The increasing global concern about fossil fuel use and carbon emissions, coupled with the need to secure energy supplies are positive long-term driving forces.

The wind industry has been weak for a few years and contracted in 2013 mainly caused by a major decline in the USA. Going forward, SKF expects a good recovery in windfarm installations in several of the major markets around the world. Rapid development in new markets such as Brazil, will have a positive impact on the global recovery for wind energy.

SKF is a development partner to leading manufacturers of wind energy solutions, as well as a supplier of solutions to the emerging wind aftermarket. SKF primarily provides solutions and services for wind turbines, related to the main shaft, generator and gearbox applications.

The wind sector wants larger turbines, reduction in turbine weight and friction, a longer service life and turbines that can withstand harsher operating environments. SKF's involvement and support in these areas provides improved wind turbine performance. This helps the industry in tackling the challenges of reaching grid parity with traditional sources of energy.

In 2013, SKF gained several new agreements with leading wind turbine manufacturers like the Chinese company Goldwind and gearbox manufacturer David Brown Wind. The Goldwind agreement, worth SEK 100 million, includes SKF Nautilus bearing units to be delivered in 2013 and 2014. SKF develops solutions for the demanding offshore wind industry and is a supplier and development partner for David Brown Wind, covering gearbox development for a multi-megawatt offshore wind turbine model.

Several new agreements for condition monitoring were also signed during the year. One example is a contract with Vestas to continue to increase the number of SKF WindCon condition monitoring systems supplied to Vestas Services worldwide. Several pilot projects are in progress in the wind energy sector, for the newly launched self-powered sensor bearing SKF Insight, see page 73. The solution can, wirelessly, communicate information about the condition of the bearing via the SKF network of Remote Diagnostic Centres. This will help SKF's customers to further extend maintenance intervals and reduce the operating cost for main shaft and gearbox applications.

Ocean energy is still a small but interesting energy source and SKF is at the forefront of development in this market and has supply agreements with several manufacturers of wave and tidal turbine devices, see page 198–199. SKF is also a supplier for solar tracking systems.

Extended collaboration with Envision Energy

SKF extended its collaboration with the Chinese wind turbine manufacturer Envision Energy in 2013, to include delivery of SKF's Nautilus bearings for Envision's 3.0MW turbines, as well as spherical roller bearings and CARB toroidal roller bearings for Envision's 4.0MW turbines. SKF has been a development partner to Envision Energy, since the company was founded in 2006 and supplies all the bearings for their standard 1.5MW, 1.6MW and 2.3MW turbines. Envision Energy, with its research and development base in Denmark, is one of the most rapidly expanding companies and among the top five leading wind turbine manufacturers in China.

Traditional energy

Including: Oil and gas and Traditional electric power generation

Oil and gas

The oil and gas industry has experienced dynamic change over the last ten years. New drilling technologies, such as horizontal drilling, have opened up new resource bases onshore; while offshore drilling vessels are now able to safely explore ultra-deep water formations.

The demand for increased asset reliability, improved operational performance and heightened environmental stewardship, has resulted in a favourable investment climate. Global capital investments in this sector increased by about 16% in 2013 with a 45% overall increase since 2008.

There are three basic sub-industries in the oil and gas industry: exploration and production (upstream); transportation and storage (midstream); and refining and marketing (downstream). SKF has been a strategic partner to manufacturers and end-users for more than 80 years in all these industries.

Refineries are reconfigured to handle new types of feedstocks, ranging from heavier oil to liquid-rich gas, and this results in large scale investments in plant-wide condition monitoring systems, lubrication systems and asset management services. In recent years, the need for new liquefied natural gas (LNG) export and import terminals with specialized transport ships has increased demand for SKF's solutions for pumps, compressors and expanders, including hybrid rolling element and magnetic bearing systems. The global expansion of LNG also raises dependency on pipeline infrastructure reliability and new investments in offshore production platforms, bringing opportunities for SKF's broad portfolio of condition-based maintenance products and services.

SKF magnetic bearing systems, a new generation of ball and roller screws, special fluid handling seals and unique bearing arrangements for submersible pumps, are frequently used for production assets placed on the sea floor. The shale oil and gas development in the USA and Canada also increases SKF's sales to OEMs, of special large size bearings, slewing ring bearings, new seal configurations, low torque ball screw systems and a recently patented wireless condition monitoring device for use in hazardous areas. The acquisition of Kaydon in 2013, strengthens SKF's offer for drilling systems and crane applications on and offshore, along with a strong portfolio of mechanical seals for compressors applied throughout oil and gas industries, see page 26.

Traditional electric power generation

Increasing demand for energy worldwide continues to be a driver for new power plant construction and the renewing of ageing plants and equipment. The majority of the world's power plants today are coal-fired, followed by combined cycle gas plants and nuclear power plants. However, there is a distinct trend to move from coal to natural gas where abundant local supplies offer a more economical fuel source, notably in the USA. This fuel shifting can result in lower CO_2 emissions, around 50% less than coal. Other OECD countries are investigating access to the expanding global LNG supply chain and/or the development of local shale gas resources to take advantage of the same trend. Non-OECD countries, such as India and China, continue to invest heavily in new coal-fired plants.

For both the gas and coal-based power industries, SKF is a strategic partner to manufacturers and end-users, offering a single source for integrated solutions designed to increase operational efficiency and asset reliability. SKF's expertise is instrumental when specifying and designing power plant applications together with OEMs, such as pumps, compressors, steam and gas turbines, conveyors and crushers. Once installed, SKF offers a range of condition monitoring tools and software, training, maintenance and repair services to help power plant owners and operators extend plant service life and reduce the total cost of operations. A few examples in 2013, are multi-year supply contracts with several state-owned utilities in China and a contract with a power plant near Shanghai.

Engineering solution enhances pipeline reliability over vast area

SKF signed a three-year contract with a major North American refining and transportation company, responsible for over 21,000 km of pipeline, to help manage its reliability.

Railway

4%
of net sales

Growth in the railway industry is driven by industrial production, growing global urbanization, increased global concern for emissions, rising fuel prices and continued liberalization of the railway market, coupled with the need to replace old rolling stock.

The market is made up of two main sectors: goods transportation covering the freight wagon and freight locomotive market and the mass transit sector, covering city transportation (Metro, light rail), commuter, intercity and high-speed railways. The freight wagon sector (excluding locomotives) makes up around one quarter of the total market volume and locomotives and mass transit represents some 75%. The level of expansion of each sector varies with geography, where North America is the world's largest market for freight wagons, and is now also increasing its investments in mass transit rail, while China and India are the fastest growing markets in both sectors. Within mass transit, high-speed rail fleet is expected to grow globally by more than 40%, up to 2020. SKF has enjoyed steady growth above the industry's average in the railway industry over the past six years. Continued growth is also expected in the coming years. In 2013, SKF sales grew strongly in Asia, in particular in the Chinese passenger segment and in India. North America also saw significant growth, whilst Europe was stable compared to the previous year.

SKF is a global supplier to the railway industry, and focuses on servicing both the freight and mass transit markets. SKF supplies OEMs and end-users with a wide range of solutions across the SKF platforms, covering wheelset bearings, axleboxes and drive system bearings. SKF is also a leading supplier of lubrication systems, sealing solutions, condition-monitoring and aftermarket services.

There is a significant need to extend the maintenance intervals in the industry, along with greater efforts to avoid unnecessary downtime without compromising safety. To support the industry, SKF offers condition-monitoring systems that can provide an early warning of change in the operating conditions of bearings and other mechanical parts. SKF Insight is a new self-powered sensor bearing being piloted by SKF's railway customers in 2013, see page 73. This new technology allows for wireless communication of information about the condition of the bearing via the SKF network of Remote Diagnostic Centres.This will help SKF's customers to even further extend maintenance intervals and reduce the operational cost of the rolling stock. SKF also offers remanufacturing services, on-site engineering services, product training and upgrades. These services provide an opportunity for customers to minimize downtime, optimize their assets and reduce their overall environmental impact.

SKF increased its manufacturing capacity of tapered roller bearing units for freight wagons in 2013, by a new production line at the factory in Nankou, China. The bearing units meet the requirements of the American Association of Railroads and will strengthen SKF's role in the global freight wagon market. The factory in Tver, Russia, inaugurated in 2010, increased its manufacturing, as acceptance in the Russian market for the new tapered roller bearing unit technology continued to grow.

SKF received orders from Chinese railway companies

SKF received orders for a value of more than SEK 50 million from the Chinese companies Tangshan Loco and Changchun Railway Co for wheel set bearings for very high speed trains, operating at speeds above 350 km/h. The trains are designed for a speed of 380 km/h and the bearings are tested at 420 km/h at the SKF Railway Test Centre. SKF was able to design a solution that could cope with the challenges of long maintenance intervals. The key was to find a solution with very low internal friction to limit the operating temperature of the bearing. This is important since the life of the lubricating grease in the bearing can be extended if the operating temperature is kept under control. The SKF solution has been approved by the Chinese railway authorities and deliveries started during the year.

Off-highway

3%
of net sales

Increasing urbanization continues to drive the demand for earthmoving, tunnelling, road building and other construction equipment. The need for greater food supply and increased mechanization in developing economies, drives demand for agricultural machinery.

However demand in the shorter-term declined. 2013 was lower versus 2012 due to weaker sales in Europe and the USA driven by a sharp decline for mining industry equipment. Sales of agricultural machinery was continued strong, with farms becoming more consolidated and industrialized.

Common challenges in the construction and agriculture industries involve developing machines that enables increased productivity, reduced operating costs and reduced emissions to soil, air and water. All off-highway segments including construction, agriculture, forestry and fork lift trucks, are affected by tougher safety and environmental legislation, as well as fuel price pressure. The consequence is greater demand for electric, hybrid, or traditional drivetrains and products, which weigh less, are more efficient, and have integrated wireless technology linking the equipment, managers, operators, dealers and OEMs together.

SKF supplies manufacturers and end-users with a wide range of solutions across the SKF platforms covering bearings, seals, lubrication systems as well as actuators. For optimizing efficiency in drivetrains, SKF's application engineering experience and internally developed simulation tools, enable quick, accurate assessment of real-life fuel efficiency and CO_2 emission reduction. SKF's solutions also use the appropriate bearings and seals that support friction reduction and downsizing.

To meet the demand for electric and hybrid drivetrains, SKF develops solutions for electric motors and generators. One example is SKF's hybrid and INSOCOAT product portfolio, protecting equipment from electric erosion.

SKF has extended its portfolio dedicated to the agricultural sector's applications with solutions including a new composite version of the SKF Agri Hub family that provides improved resistance to corrosion and fertilizer ingress. SKF also launched a sealing solution using proprietary material with high wear and chemical resistance, limiting contamination risk for critical tunnel boring machines' working conditions. A new range of SKF Extended Life spherical plain bearings for the farming, forestry and construction industries was also introduced, as part of the SKF BeyondZero portfolio, see page 68. The surface treatments, grease and heavy-duty triple lip seals, combined with the internal geometry of the bearing, makes these bearings robust and energy-efficient.

SKF provides CNH Coex with Y-TECH bearing units

CNH Coex, the French subsidiary of CNH Global N.V., manufacturer of agricultural machinery, was dissatisfied with the performance of their existing bearing solution for their Grape Harvester. They wanted a solution that could withstand the harsh environment of daily washdowns without corrosion occurring and a solution that would reduce the weight, for instance to limit soil compaction. SKF solved the issue by providing maintenance free and corrosive resistance Y-TECH bearing units which weigh around 50% less than standard cast iron.

SKF Automotive

SKF Automotive consists of five business units that offer and deliver a full range of products, solutions and services to both OEMs and aftermarket customers. The business units are: Powertrain and Electrical and Two-wheelers, Car Chassis, Trucks, Sealing Solutions and Vehicle Service Market (VSM).

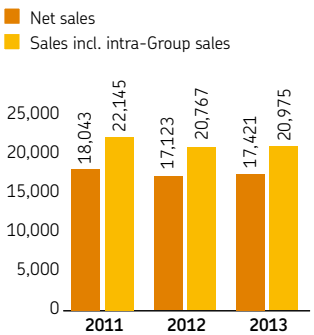
SKF Automotive serves manufacturers of cars, light trucks, heavy trucks, trailers, buses, two-wheelers and the vehicle aftermarket, supporting them with innovative and sustainable solutions. In addition, SKF Automotive provides energy-saving solutions for home appliances, portable power tools and electric motors.

SKF Automotive develops and manufactures bearings, seals and related products and services. Typcial products include hub bearing units, tapered roller bearings, small deep groove ball bearings, steering column bearing, suspension bearing units, magnetic bearings, scotseals, shaft seals, bonded piston seals, valve stem seals, actuators and monitoring devices. Solutions customized for electric motors, driveline, e-powertrain, engine, steering, suspension and wheel-end applications. For the vehicle aftermarket, the business area provides spare parts to cars, trucks and two-wheelers, serving installers through a network of distributors and dealers. The product offer consists of components and kits – packed together in one box for an easy and complete repair.

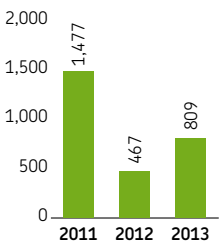
SKF Automotive's global manufacturing footprint was expanded with a new factory in Shanghai, China. This factory is joined with the SKF Campus that includes a SKF Global Technical Centre, China and a SKF College. It will manufacture hub bearing units and MacPherson suspension bearing units mainly for the cars and light trucks industries. In 2013, SKF Automotive had 50 manufacturing units, whereof 13 in Asia. At the end of 2013 the factories in Jinan, China and Mysore, India were certified with LEED Gold.

Net sales in 2013 amounted to SEK 17,421 million (17,123), an increase of 1.7%. Sales including intra-Group sales totalled SEK 20,975 million (20,767). The operating profit was SEK 809 million (467), with an operating margin of 3.9% (2.3). The operating profit was affected by one-time costs of around SEK 95 million. The increase in net sales was attributable to organic growth of 5.3% and currency effects of -3.6%.

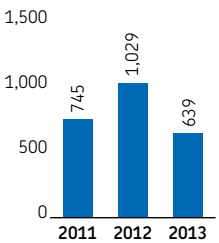
Sales, SEKm*



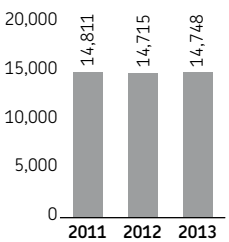
Operating profit, SEKm*



Additions to property, plant and equipment, SEKm*



Registered number of employees*



* Previously published figures have been reclassified to conform to Group structure 2013.

Interview with Tryggve Sthen

President, SKF Automotive

What key actions have you taken to turn profitability in the right direction?

We work more efficiently and lean, bringing down costs at our factories and offices. Business Excellence guides us with supporting tools so we can look into how we work and find ways of becoming smarter, saving time and reducing costs. We now have many great local achievements that can be replicated globally at other locations.

We need to be close to our customers, both in terms of engineering and manufacturing capacity and focus on taking local market needs into consideration, which is now starting to pay off with long-term strategic partnership agreements, especially in China. This means we will be included more at an early stage with our customers in their development projects, leading to more business opportunities.

How does the SKF BeyondZero portfolio add value and sales to your business?

In the automotive industry, energy-efficient solutions are top priority with our customers. Concepts and focus like SKF BeyondZero gives us more visibility with the positive impact our solutions can have on the environment. We can track sales of these products and translate that into how much greenhouse gas (CO_2 emission) the SKF BeyondZero solutions can help to reduce. Most of these solutions for automotive enable reduced fuel consumption, which is positive for the vehicle owners' economy. Our capacity to engineer solutions by calculations and simulations with advanced software by our skilled engineers, reduce the time and cost to the final optimized design. This year we have added two products to the SKF BeyondZero portfolio, totalling 14 for automotive.

> "We continued to report a strong order intake this year."

What were your major successes during the year?

We continued to report a strong order intake this year, which will show in sales volume increase in about 2-3 years. The area we see our strongest growth is still in Asia, especially China. The signing of strategic partnership agreements with important customers this year in China is a major step forward for gaining more business opportunities. One example is Great Wall Motors. With this structured approach we get in much earlier in their development projects, in more applications, as their preferred partner and supplier. This makes it possible for us to serve our customers even better and will definitley give us more business.

If we look at trucks we have seen good development in South America, especially in Brazil. We have received a very positive response in our two-wheeler business in Europe, with sales of fork seals and integrated monotube seals. In Asia the two-wheeler aftermarket is adding successful kit launches in several markets e.g. Vietnam and Thailand.

I am glad to see that our vehicle aftermarket regained volumes during the year. The work achieved in creating more flexible packaging operations is now paying off, enabling us to quickly supply our distributors on demand.

I am very happy with all the recognition and the prestigious awards we received from our customers this year. This is clear proof that we live up to the high expectations they have of us as a supplier, year after year and are successes that we are very proud to have achieved. Recognition received over the last year included quality supplier awards from Fiat, GM, Tesla, Bajaj, Nissan, Geely and Volvo Cars.

What are your priorities over the next few years?

We will expand our product portfolio with new energy-efficient solutions. We will increase our focus on monitoring devices in response to safety and fuel consumption needs, especially in the truck industry.

Our manufacturing footprint globally is important and we will ensure we have the capacity to produce more in line with customer orders. For example, we built a new factory in Shanghai, China this year. Construction is completed and production starts early 2014. In the future the investments and streamlining carried out will allow us to benefit from this strong manufacturing infrastructure for more flexibility and increased demand.

SKF Global Technical Centres will be further utilized and we will strengthen our automotive engineering capacity.

We will continue strengthening our market position in the vehicle aftermarket by constantly expanding our product portfolio and adding distributors in fast growing markets. We have adjusted our packaging operations to increase flexibility in order to adapt to rapid changes in demand with an inventory level for optimized use. Eliminating waste remains a top priority, and as I mentioned previously, Business Excellence is guiding us on our journey for working more efficiently and lean.

Cars and light trucks

14%
of net sales

Global car production has increased by almost 50% compared to ten years ago, with one billion cars now on the roads worldwide. China, India and South East Asia are home to around half of the world's population and with booming economies and low vehicle penetration rates, they are expected to be the key sources of growth for the industry. China is the largest car manufacturing country, accounting for around 25% of world production. Asia as a region accounts for more than half of the total production, followed by the Americas and Europe accounting for around 20% each. This is a significant change in balance compared to 20 years ago, when car production was split more or less equally between Europe and the Americas.

In 2013, the worldwide production of passenger cars increased by 3.6% and around 84.5 million vehicles were manufactured globally.

Increasing global energy demand, ambitious governmental CO_2 reduction targets and growing customer demand, drives the development of solutions that reduce or eliminate fuel consumption and carbon emissions. Therefore the industry is significantly investing in developing cars that run on alternative fuels like clean diesel, bio diesel, ethanol, hydrogen, compressed natural gas or hybrid technology, combining conventional combustion engines and electric motors. In addition, as the traditional internal combustion engine technology is likely to continue to propel the majority of cars in the near future, major investments are still being made to make this technology more efficient. Car manufacturers are focusing on engine downsizing and boosting as well as developing projects for direct injection systems and turbo-charging applications, hybrid drivelines and alternative solutions, such as stop-start systems.

SKF is a strategic partner to major car manufacturers worldwide. Lead times for developing new generations of vehicles is fairly long and SKF is involved in the development process years before production starts. Automotive products are designed specifically for a certain customer and a particular application. One such example is the contract that SKF won in 2013 to supply wheel hub bearing units to the Volvo Car Corporation for their next generation of premium vehicles. SKF has developed the unit, which is optimized for lower weight and high performance seals with reduced friction, according to Volvo's technical specification aimed at reducing the vehicle weight significantly, without having a negative impact on performance or comfort. Another example is the agreement signed with Tesla Motors in 2013. SKF supplies their all-electric luxury sports car, the Tesla

SKF and Fiat signed agreements worth SEK 1 billion

Fiat and SKF have signed two agreements for the delivery of wheel hub bearing units for the front and rear wheels for four different models to be sold under the Fiat and Jeep brands. Fiat recognizes SKF's expertise in developing solutions with the optimized performance and quality needed for each vehicle model. SKF's local presence and support in both engineering and manufacturing with a strong global presence, are other key factors for choosing SKF. The two agreements will both run for seven years each, and their combined value is around SEK 1 billion.

Model S, with SKF's energy-efficient, deep-groove ball bearings and low weight hybrid (ceramic) bearings for the electric motor and gearbox. These solutions have been specifically developed to meet Tesla Motors' strict application requirements.

SKF has developed a wide range of products for reducing fuel consumption and emissions. This is achieved mainly by reducing the friction, weight and size of the solutions, but also by integrating sensors. One example is the recently launched SKF Low Friction Hub Bearing Unit. SKF received several new orders for this new product in 2013. This wheel bearing unit reduces friction by more than 20%, enabling a reduction of CO_2 emissions. Another example is SKF's high-pressure valve stem seals. This sealing solution allows increased pressure for maintaining power output when car manufacturers downsize engines to reduce CO_2 emissions. SKF gained more business with this product line in Europe, India and China during 2013.

Over a period of more than two years, SKF has taken part in a project called "SÅNÄTT" which aims at reducing the weight of a car by 20 to 40%. This project was supported by both industry and academia with the common goal of strengthening the competitiveness of the Swedish automotive industry. The result was presented in 2013, and SKF contributed by developing a concept carbon-fibre-reinforced polymer knuckle with an integrated bearing outer raceway, and several other parts. This solution weighs 50% less than the comparable components of the benchmark car.

Another focus area is to simplify product assembly by integrating components into modules and units. One example is the SKF Rotostat engine crankshaft seal with a sensor, which unitizes six different components into one unit.

Hyundai Motors awarded SKF business worth around SEK 370 million in 2013, for its MacPherson suspension bearing unit. It will be equipping both Hyundai and Kia vehicles like the Ceed, Forte, Soul, i30, Sonata, K5, i40, Grandeur, K7, Santa Fe and Sorento.

New products and solutions are developed and thoroughly evaluated through the dedicated Racing unit to deliver engineering support to the motorsport market segment. This knowledge can then be further adapted for high volume manufacturing and offered as new solutions to automotive clients. SKF's cooperation with the Scuderia Ferrari Formula One team spans some 66 years – the longest partnership in the history of Formula One. The partnership comprises the supply of advanced bearing and sealing solutions as well as engineering services. A special focus in the last few years has been on supporting them develop energy recovery systems.

Besides major Formula One championship teams, SKF also supplies most of the other motorsport series in the various fields of chassis, suspension, engine, gearbox and transmission. The 2013 season marked SKF's 16th year in NASCAR as both a technical partner and sponsor. This has further strengthened the name recognition and exposure of the SKF brand particularly in North America. The partnership with Penske Racing has also enabled SKF to test products under the harshest conditions within both the NASCAR and IndyCar series.

SKF is a strategic partner and supplier to Chinese Great Wall Motors

SKF was awarded further business in 2013, by Chinese car manufacturer, Great Wall Motors, for high-pressure valve stem seals for engine valve train and bearing retainers for transmissions. The sealing solution allows greater pressure, which is needed for maintaining power output, when engines are downsized for reducing CO_2 emissions. SKF and Great Wall Motors have also signed a strategic partnership agreement to increase cooperation developing sustainable solutions for energy-efficient vehicles. With solid global engineering knowledge and experience, SKF can help Great Wall Motors to grow faster and improve on both the domestic and foreign markets.

Vehicle Service Market

11%
of net sales

The vehicle aftermarket follows the development in the overall automotive industry, where Asia covers more than half of all cars manufactured worldwide. China is leading the way as the world's largest car manufacturing country and the Chinese aftermarket is forecasted to grow in the forseeable future. The overall aftermarket is driven by the continually ageing global car population with long retention times and an increasing amount of electronic devices that require repairing or replacing, which calls for extensive product knowledge.

SKF provides spare parts for cars, trucks and two-wheelers, serving installers through a network of distributors and dealers. The product offer consists of components and kits – service components bundled together to carry out a complete repair.

SKF serves the industry with a product portfolio covering more than 20,000 kits, comprehensive local sales forces and distributor networks, technical support, hands-on training and an efficient logistics and delivery set-up. SKF also supports its global distributor network with applications such as smart stock management programmes, fitting instructions and other specific product information.

To meet the market's growth, SKF is focusing on expanding its distributor network and product range, especially in Latin America and Asia. SKF has a particularly strong position in India with around 350 distributor locations, and a growing network in China. SKF has seen strong growth for many years, though growth was slower in 2011 and 2012. In 2013 the trend shifted and SKF again experienced strong growth throughout the year.

The number of SKF distributors grew by 5% and the product range increased by 8%, whereof 35% of the increase applied to Asian vehicles. SKF extended its driveline offer during the year, to now include a range of 200 steering boot kits for popular cars and light trucks. The new range covers a large part of the European car fleet.

SKF introduced training trucks in North America in 2010, to create a one-on-one educational experience for automotive and heavy-duty technicians. Up to now SKF has successfully interacted with over 100,000 professional technicians across the US and Canada. The training trucks have helped SKF build strong brand equity with the end-user and successfully created "pull-through" demand from the installers to the distributors.

In Eastern Europe, ELIT (a RHIAG group member) introduced TecCMI, a collaborative managed inventory system, to improve service levels to their customers and optimize their inventory. SKF was connected to this system by ELIT to directly follow the movement of SKF's items. SKF can now ship kits in time, thus minimizing the risk of distributors running out of important SKF kits. SKF benefited from this new and effective way of working with sales increasing by almost 50%.

Wheel-end and engine parts to Norauto

The Spanish distributor and repair shop company Norauto, part of the French Norauto corporation with its 540 branches worldwide, wanted to develop its mechanical business using an experienced wheel-end and engine parts supplier. SKF was chosen to support Norauto's business due to its reliable, quick deliveries and extensive development plan for marketing activities, technical support and training. SKF's solutions complement Norauto's existing range and deliveries began during the year.

Trucks

5%
of net sales

In 2013 the worldwide medium and heavy truck market (over 6 tonnes) increased by 2% and in total 2.7 million vehicles were manufactured globally.

SKF saw strong growth in sales to truck manufacturers in the BRIC countries, particularly in Brazil and China, flat demand in the USA and positive development in Western Europe driven by upcoming environmental legislation, Euro 6.

A majority of goods are, at some point, transported by truck. The industry's long-term development is closely related to an increasing need for transport as economies and e-trade grow.

Over the past few years, governments worldwide have been launching new regulations to reduce exhaust emissions from trucks and buses. The Euro 6 will be launched in Western Europe from the beginning of 2014. Total cost of ownership continues to drive the need for virtually maintenance-free and more energy-efficient solutions. These tougher demands on the industry open up opportunities for SKF.

SKF serves the global truck, bus and trailer market with modules, bearings, seals and mechatronic systems for the truck and bus drivetrain, steering systems and trailer axles.

SKF is a partner to global manufacturers and tier suppliers and is expanding its market share especially in the BRIC countries, partly due to the trend where more global truck manufacturers install manufacturing in these countries and more reliable technology is requested. To support its customers, as well as truck owners worldwide, SKF has established new Group Technical Centres in China and India, extensive manufacturing, a widespread network of distributors and strong local sales force with application engineering worldwide.

SKF's virtually maintenance-free and energy-efficient solutions helps to reduce the total cost of ownership and improve vehicle fuel efficiency.

One example is the SKF Energy Efficient tapered roller bearings, which reduce bearing friction by more than 30% and improve the efficiency of gearboxes and final drives.

Another example is a new tyre pressure monitoring system (TPMS) for truck and trailer tyres, see case below.

SKF started deliveries of its new SKF Bus Door Actuator to Volvo city buses, which reduces total fuel consumption by up to 2%.

SKF has expanded its global share of sealing products for the truck market. New solutions for axle bearings and engine applications have been fitted with new SKF seals to solve problems and support the drive on reducing emissions. For example, agreements with Chinese and European truck and trailer manufacturers have been signed for axial cassette seals for wheel ends. Deliveries started to a major European truck manufacturer with high pressure valve stem seals for their diesel engines.

New tyre pressure monitoring system

Around 90% of all tyre damage comes from wrong pressure in the tyres, which leads to higher fuel consumption, high tyre wear and safety risk. The new system monitors the accurate air pressure of each vehicle's tyres, which reduces fuel consumption and CO_2 emissions. Important drivers for the system are safety and cost reduction. The downtime can be reduced by around 40% by optimal tyre pressure. The system is in the final development stages to be launched in 2014.

Two-wheelers and Electrical

2%
of net sales

Two-wheelers

Asia accounts for two-thirds of the global two-wheeler market. The market increased by 4% in 2013, and around 60 million two-wheelers (excluding bikes) were manufactured. Like in other automotive segments, the development is highly dependent on fuel prices that drive the development of fuel-efficient solutions.

SKF is a partner for major manufactures and provides them with robust and energy-efficient solutions for engines and transmissions, chassis and suspensions, wheel assembly and racing applications. One example is the SKF Sealed Energy Efficient deep groove ball bearing included in the SKF BeyondZero portfolio. This bearing manages friction, grease retention and dust exclusion, which is important in two-wheeler wheel-ends. Another example is the SKF StopGo solution for two-wheelers that integrates the knowledge of bearing and mechatronics and enables fuel savings of between 6–10%.

SKF has a strong market position in the motorcycle industry and will supply valve stem seals for Honda motorcycles and scooters manufactured at Honda's new plant in Bengaluru, India. The successful launch of the SKF One Way Clutch has led to major customers awarding SKF with supply agreements for this solution, which weighs less, is more reliable and requires less assembly.

SKF started to deliver its integrated monotube seal to WP Performance System, a manufacturer of high-performance suspension systems for motorcycles and all-terrain vehicle use. This seal for the shock absorber incorporates five components into one easy-to-install unit and provides reliable sealing over a wide temperature range. The integrated monotube business with Öhlins Racing expanded in 2013 as SKF also started to supply the first integrated monotube seal for Öhlins' mountain bike shock absorber. SKF also started to supply fork seals and integrated monotube shock solutions to Tenneco Marzocchi in Italy for their mountain bike applications.

The recently launched mud scraper kit, a ready-to-use solution, was added to SKF's high-end motorcycle aftermarket offer in 2013, which also includes a fork seal kit, wheel seal kit and a seal head unit. The solution is used without the need for dismantling the wheel and it prevents contamination from mud and the abrasion it causes, ensuring the rider's safety. The scooter industry continued to grow in volume and provides future growth opportunities for SKF. SKF remains committed to working with major motorcycle companies through strong technical partnerships in the field of motorsport, more precisely with the Ducati Racing Team in the Superbikes and Moto GP series and with Betamotor, a leader among Trial and Enduro world teams.

Electrical

Customers in this market include manufacturers of home appliances, electric motors for use in consumer goods, portable power tools and skates. The development in this industry is driven by energy efficiency legislation and growing customer demand for energy and cost-efficient solutions. The production of home appliances is mainly found in China, South Korea, Poland, Turkey, Russia, Italy, Germany, Mexico and Brazil, where China and South Korea are growing in importance. This is a significant change in balance compared to five years ago, when most of the manufacturing of appliances was in Europe, China and North America.

The home appliance and electric motor markets have been consolidating over the past five years and this continued in 2013.The market was also affected by a slowdown in Europe and customers continued to announce plans to restructure their business and reduce capacity.

SKF is present in all the major manufacturing regions and provides the industry with energy-efficient solutions such as the SKF Drum Support Unit, which reduces energy use with energy-efficient bearings and low friction seals and enables exact alignment of the shaft. Another benefit is the mechanical integration of the washing tank and housing, which reduces the number of parts in the washing machine.

SKF supplies Honda with energy efficient bearings

SKF supplies Honda motorbikes and scooters with SKF Energy Efficient bearings and SKF Rocker Arm Bearings. These solutions help improve the efficiency of the engine making it run smother and reducing fuel consumption. Honda's main markets are India and Indonesia, but many of their models are sold in various countries around the world.

Specialty Business

As of 1 January 2014, the following units are included in Specialty Business:

- Kaydon Corporation
- PEER Bearing Company
- General Bearing Corporation
- SKF Logistics Services

Kaydon Corporation

Kaydon was acquired in October 2013. Kaydon operates under its own brands endorsed by the SKF Brand, see page 67.

Kaydon Corporation is a leading designer and manufacturer of bearings and velocity control products such as industrial shock absorbers, gas springs and vibration isolation products. Its specialty products include filters and filtrations systems, custom rings and seals as well as environmental services. These products are used by customers in a variety of industries like aerospace, defense, medical, semicon, wind energy, material handling and machine tool. Kaydon is a leader in its product categories, such as split bearings and thin section bearings, with highly engineered, performance-critical products.

In 2012, the company had sales of USD 475 million with over 2,100 employees. Kaydon has a global footprint with 62% of its sales generated in North America, 24% in Europe, 12% in Asia Pacific and 2% in the rest of the world.

Kaydon's product offer is highly complementary with SKF's product portfolio and enhances SKF's offering to its customers worldwide. Kaydon serves a number of segments that are less represented in SKF's current customer base and provide an opportunity to expand its product offering to those customers.

PEER Bearing Company

PEER was acquired in 2008 and operates under the PEER brand.

PEER primarily manufactures deep groove ball bearings, tapered roller bearings, agricultural bearings and mounted unit bearings. PEER helps the SKF Group to strengthen its presence in industries such as agriculture, material handling, heating, ventilation, air conditioning and mechanical power transmission. The company's strength lies in application-specific know-how for certain industries. The main market for PEER is North America but the business is growing in Asia, Europe and Latin America.

PEER invested to increase its engineering resources and capability globally, adding both front line application engineers and product development and manufacturing engineers.

General Bearing Corporation (GBC)

GBC was acquired in August 2012 and operates under the General and Hyatt brands. The company mainly serves OEM and end-user customers in the truck, trailer, automotive and industrial transportation markets. The company manufactures ball bearings, tapered roller bearings and precision rollers. In 2013, sales to external customers were fairly flat year-over-year measured in local currency.

GBC invested in material requirement planning system in three of its Chinese manufacturing plants and in major environmental, health, and safety projects in its New York facilities.

SKF Logistics Services

SKF Logistics Services supplies services to the Group related to integrating information, transportation, material handling, inventory management, warehousing, packaging and security. As SKF has the critical mass to distribute goods worldwide, it also helps other companies to optimize their integrated logistics solutions, giving them a competitive edge in terms of costs, services and flexibility. SKF is able to offer global air, sea, road and railroad transportation, international distribution centres and local warehouses, packaging and inventory management. SKF has been providing third party logistics services for more than ten years.

Logistics is one of SKF's competitive advantages and is the management of the flow of components and goods in the most effective and efficient ways, from suppliers to SKF and from SKF to its customers. SKF reaches over 50,000 customer sites, with short lead-times through its global transportation network and local and regional warehouses. SKF can deliver the next day in many regions.

SKF is continually striving for lower energy use, reduced waste and lower emissions, both at warehouses and within transportation. This is done, for example, by introducing solar panels at warehouses and using biogas trucks for transportation wherever possible. SKF's climate strategy, launched in 2012, included the target to reduce CO_2 emissions per tonne/

kilometre by 30% below 2011's level by 2016, from all transportations by SKF Logistics Services.

To ensure product availability, SKF has regional distribution centres located in Belgium, the USA, Uruguay, Singapore and Shanghai. The regional warehouse in Shanghai and the local warehouses in Brazil and Mexico moved to new facilities in 2013, resulting in improved productivity, service level and environmental, health and safety standards.

Certification

All members of the WCO (World Customs Organization) endorse the SAFE Framework of Standard (FoS) Global Trade, which builds on the best practices of customs authorities and industry partnerships to strengthen supply chain security. These certifications enable SKF shippers and importers to access the FAST lanes via mutual recognition of the existing Customs Security Programs.

SKF is an active partner and participates in this programme in various countries. The programmes are managed by SKF Logistics Services together with the local SKF country umbrella unit.

So far the units which are certified are, Belgium, France, Sweden, Germany, Canada, Singapore, Italy and Switzerland. The UK and USA are in the process of becoming certified. China, Mexico, Spain, India and Brazil are scheduled to start the certification process in 2014. SKF Canada became CSA (Customs Self Assessment) certified in January 2013, which enables faster import procedures from the USA.

Environmental impact from transport and distribution

SKF Logistic Services handles a large part of SKF's transports, mainly distribution to customers, but also some of the inbound transports between SKF's suppliers and factories. The emissions generated from logistics related to SKF are included in the targets defined in the climate strategy, see page 83.

The target is to reduce CO_2 emissions per tonne-kilometre by 30% by 2016 compared to 2011. This indicator improved by 19% in 2013 compared to 2012, from 24.5 gram CO_2 per tonne-kilometre to 19.6 per tonne-kilometre. CO_2 emission per tonne-kilometre is an accepted measure of the carbon efficiency of logistics.

SKF Logistics Services measures the emissions of the air, ocean and express shipments on a global level. For road transportation, the Group mainly reports emissions from its network within Europe. The scope changes rapidly over time and this is one of the reasons to why SKF is using transport works efficiency (CO_2 per tonne-kilometre) as the main performance indicator in the target explained above. For a lot of road transportation outside the scope, there are difficulties in obtaining reliable data from logistics providers.

The monitoring includes emissions of carbon dioxide (CO_2), carbon monoxide (CO), nitrogen dioxide (NO_2), sulphur dioxide (SO_2), particles (PM) and hydrocarbons (HC). The total CO_2 emissions from SKF logistics services development are presented below.

Actions and results

	2013	2012	2011
Tonne-kilometre (millions)	**1,974**	2,086	2,131
CO_2 emissions (tonnes)	**38,606**	51,192	51,803
CO_2 (gram per tonne-kilometre)	**19.6**	24.5	24.3

The total CO_2 emissions was reduced by 24% and transportation works was 5% lower than 2012.

Business Excellence gives shorter lead-times and significant savings

In six months, two SKF teams from SKF Logistic Services and the Railway and Off-highway business unit in Beijing, China, managed to reduce lead-times from 15 days to three days. The solution was a new standardized pick-up process for the customer, including a guidebook, a new way for urgent case handling and a refined process for internal invoice pick-up. Besides customers being much more satisfied with deliveries, the new way of working saved around SEK 225,000 in the first six months.

The SKF Group and SKF Logistics Services are focusing on a number of key areas to reach the targets set and to reduce total emissions from transportation, such as:

- Reducing the total amount of transport (eliminate waste)
- Shifting towards more efficient transport modes
- Improving efficiency in the transport chosen

To minimize the total amount of transport, SKF Logistics Services is working with incentive schemes and strategic plans to increase fill rate, which was 80% for 2013, improved planning and routing of trucks, increased consolidation of air/sea transport, providing logistics services to external companies, etc.

Focusing on more efficient transport modes is another contributing factor to achieve SKF's emission targets for logistics and distribution. The most obvious is to replace air shipments to less polluting transport modes.

SKF Logistics Services re-routed its transport from Airasca in Italy to Istanbul, Turkey in 2013. The new route includes roll-on-roll-off service using sea freight from southern Italy to Istanbul. This action resulted in a significant improvement of transport efficiency – reducing length of transportation, introducing a more efficient transport mode by sea and improving the fill rate of the transport – for this closed lane the total emission was reduced by 15% and the emission per tonne-kilometre was reduced by about 40%.

SKF Logistics Services works with customers, peers and other organizations such as the Clean Shipping Inititative to contribute to improving the environmental performance of the transport sector. see skf.com

Business travel

Another aspect of logistics is the transportation of people when it comes to business travel. Business travel is a necessary activity for a multinational organization like SKF, and one that inevitably results in CO_2 emissions. The global nature of the Group's business means that air travel accounts for by far the largest CO_2 emissions in business travel.

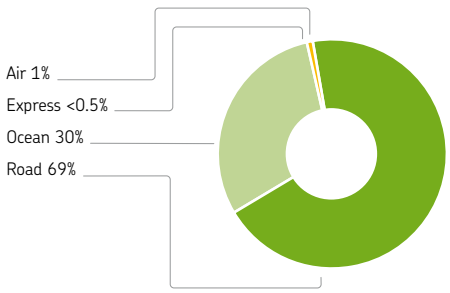
In 2008, SKF started to monitor CO_2 emissions from its European and US air travel. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult. SKF is a global company and meeting in person is often an important contributing factor in establishing effective global collaboration. However, the need for travel is always questioned and when alternative (electronic) ways of meeting are appropriate they are used.

The total reported CO_2 emissions from air travel in 2013 amounted to 16,336 (18,302) tonnes. In 2013, the scope of collecting CO_2 emissions from air travels was expanded with three additional countries; Finland, Norway and Poland. Excluding these countries the CO_2 emission was 15,988 tonnes.

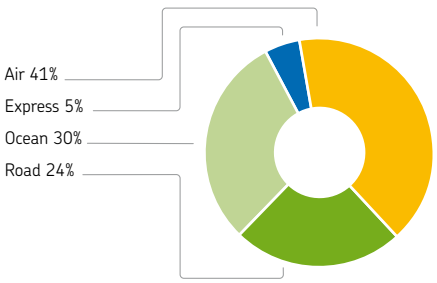
SKF has invested in alternatives for business travel over the years. Virtual online meeting rooms and telephone conferences are utilized extensively and video conferencing faculties are available at most SKF locations.

Local policies exist to reduce the use of air travel when viable alternatives for surface travel exist, such as trains.

Percentage of shipped weight per transport mode 2013



Percentage of carbon emission per transport mode 2013



Awards

SKF's products, solutions and services are highly esteemed.
The following is a list of some of the awards received by the Group in 2013:

Automotive component of the year
Avtokomponentgoda.ru, Russia

Best Brand of Bearings, Mecânico magazine, Brazil

Best Operation Company – Silver 2012
Chinese government, China

Best Supplier of the Year, Masteel, China

Best quality for components for rolling stock and infrastructure, RZD Russian Railways, Russia

Bühler Supplier Excellence Award, Bühler AG, Switzerland

Certificate – Stars, Siemens (large drives), Germany

Certificate of recognition of the best suppliers, Meritor, Brazil

Excellent Industrial Service Enterprise
CAPE (China Association of Plant Engineering), China

Excellent Quality 2013, Tesla Motors, USA

Excellent Supplier Award
CSR Zhuzhou Electric Co. LTD, China

Factory Maintenance Supplier of the Year
Trade Media International, Poland

Fiat Qualitas Award – Best quality supplier, Fiat, Italy

Fiat Qualitas Award, Fiat, Argentina

Geely Global Excellent Supplier Award, Geely, China

Golden Mousetrap Awards, Design News, USA

Goldwind Technical Cooperation Award, Goldwind, China

Good Practice Award, The European Agency for Safety and Health at Work (EU-OSHA), Finland

Innovation Award, Novo Meio (publisher), Brazil

Most Popular Spare Parts Manufacturer
6th China Off-Highway Vehicle Summit 2013, China

NCIC Supplier Quality Award 2012
Nissan China Investment Company – NCIC, China

NEI Top Five 2013, NEI magazine, Brazil

Progressive Employer of the year
Employer's Club in the Czech Republic, Czech Republic

Preferred Supplier of the Bosch Group, Bosch, Germany

PACCAR's 2012 Quality Award, PACCAR Inc., Germany

Preferred Supplier, Bosch Group, Germany

Premium Suppliers Coca-Cola FEMSA (silver ranking)
Coca-Cola FEMSA, Brazil

Product of the Year Award 2013, Plant Engineering magazine

Quality Gold Award, Yamaha, India

Quality Gold Award 2013, Bajaj Auto Limited, India

Reliable supplier, Severstal, Russia

SGM GP-8 Excellence Award, General Motors, China

SGM Quarterly Star Award, General Motors, China

Sindirepa SP Award – Best of the Year 2013 (gold category)
Sindirepa SP, Brazil

Standardized safety and production level II organization
State Administration of Work Safety, China

Strategic supplier for RWE Group Procurement's Utility Purchasing Upstream' procurement area
RWE AGRWE Service GmbH, Germany

Supplier of the Year 2013, AD Poland, Poland

Supplier of the Year 2013
NGC (Nanjing High Speed Gear Manufacturing Co. Ltd), China

Supplier of the year 2013 – Logistics
GROUPAUTO International, France/International

Supplier Quality Excellence Award 2013
General Motors, Republic of Korea

Supplier Quality Excellence Award 2013
General Motors, Germany

Supplier Quality Excellence Award 2013
General Motors, Brazil

Technical supplier of the year 2013
GROUPAUTO International, Netherlands

Volvo Quality Excellence Award 2013
Volvo Car Cooperation, Sweden

2012 Supplier of the Year, General Motors, Republic of Korea

2013 National Suppliers Management Award: Standard mechanical components, Prensas Schuler, Brazil

2013 PTEN Innovation Award in the Oil & Lube Cate
Cygnus Business Media, USA

Brand

The SKF brand is one of the most trusted and well-known global industrial brands. SKF has been a leading technology provider for more than 100 years and its fundamental strength is its ability to continuously develop technology, products and services that enhance competitive advantages for its customers, while giving the right return on investment for its shareholders.

SKF's offer has evolved over many years from primarily being based on different types of bearings, to include products and services from all five technology platforms including advanced unitized modules. A key driver of SKF's technology development is developing products and services which improve efficiency and reduce energy losses, thereby helping to reduce the environmental impact both in its operations and for its customers. SKF works with its customers at every stage of the assets life cycle.

SKF brand and endorsed brands

SKF is one of the most trusted and well-known global industrial brands which is particularly important in the bearing industry. Research made by a leading supplier of maintenance, repair and overhaul products in Europe revealed a significantly greater importance given to the brand when their customers bought bearings, than for any other industrial product category.
In addition to the SKF brand, SKF also operates with a number of endorsed brands. These are strong brands which have been acquired by SKF and which will be used in the forseeable future. These brands include for example Lincoln, Kaydon and Cooper. Endorsed brands are all examples of brands representing the same brand promise as the SKF brand.

They are all linked to SKF with an endorsement mark clarifying that each brand is a brand belonging to the SKF Group.

Non-endorsed brands

In order to better serve areas of the market place with different requirements SKF has additional brands. Those brands are operated by independent subsidiaries within the SKF Group, acting on the market under their existing brands. SKF has three non-endorsed brands, for example PEER and General and Hyatt, see page 63. These brands are also referred to as second brands.

Brand protection

During the year SKF supported law enforcement in 380 legal actions against suspected counterfeit bearing dealers and manufacturers around the world. The number of actions is comparable with 2012, however the amounts seized are lower, which is a good sign. Companies that are knowingly selling counterfeit do not want to take a risk of keeping stock and therefor there is an increasing trend of small air shipment. Some companies go even further and instead of stocking the counterfeit just act as brookers arranging deliveries directly from the Asian supplier to the unknowing customer.

Even if awareness has risen, especially in the European market, and the amount of counterfeiting continues to fall, most purchasers among end-users still do not have enough understanding of the risk of unknowingly being supplied with counterfeit. To increase the awareness on counterfeiting, SKF arranges customer events to make customers aware of the importance to safeguard authenticity. In 2013 SKF also launched an anti-counterfeit e-training course, designed both for SKF's personnel and authorized distributors.

There was a number of severe court decisions during the year. For instance in China, a court sentenced a retail owner to six years' imprisonment and a large fine and in Sweden a court sentenced a retail owner to four months imprisonment. The Swedish sentence has been appealed.

SKF also sees an increase in seizures by customs authorities. In the USA alone more than 40 shipments of counterfeit SKF products were seized during the last six months of 2013. The increase of customs seizures is a result of SKF's information efforts and also a growing focus by authorities to take action concerning goods that could be harmful to the public. Even if most of the counterfeit SKF products originate in China, it is SKF's experience that Chinese law enforcement authorities are both professional and efficient. Furthermore, while illegal branding is done in China, the orders and the majority of the income gained on this illegal activity is managed by retailers located in other countries than China.

Brand promise

In 2013, a customer survey showed what differentiates SKF and makes it unique. This can be summarized in SKF's brand essence and is:

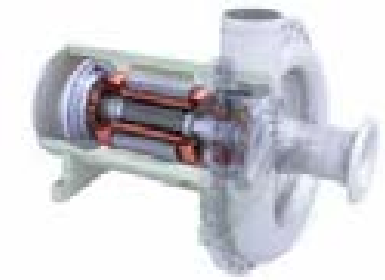
Knowledge | Leadership | Genuineness

New products and solutions and the SKF BeyondZero portfolio

Every year SKF launches new products and solutions to help customers increase machine up-time, reduce maintenance and energy use, improve safety and lower the total cost of ownership of their equipment. A selection of new launches during the year is presented below.

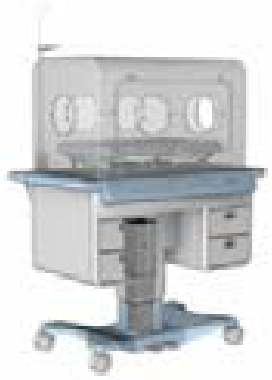
In addition, to meet the rising demand for energy-efficient and reduced environmental impact solutions, SKF has created the SKF BeyondZero portfolio of products and solutions with verified superior environmental performance from a life cycle perspective. The SKF BeyondZero portfolio is assured by a third party.

New products and solutions for the industrial market



An **energy-efficient high-speed permanent magnet motor** solution for aeration blowers in wastewater facilities that can reduce energy use by up to 40%. This solution also uses less mechanical parts than traditional drive systems, which means reduced maintenance, while powerful built-in monitoring and diagnostic capabilities maintain high performance and reliability. *This offer is part of the SKF BeyondZero portfolio.*

A **new range of SKF Extended life spherical plain bearings** for the farm, forestry and construction industries. They combine the steel/steel spherical plain bearing with virtually maintenance-free operation. Overall, this solution offers reduced total cost of lubrication systems and grease and longer service life. *This offer is part of the SKF BeyondZero portfolio.*



SKF Telescopic pillar for ophthalmic equipment and infant care provides a universal "plug and play" lifting solution. It combines a robust load-carrying capacity, smooth and silent lifting, short retracted length and a wide degree of design flexibility in a compact, two-section unit. *This offer is part of the SKF BeyondZero portfolio.*

SKF Axial excluder seal HRC1 is made of SKF-developed polyurethane material. The sealing extends service life in wind turbine main shaft bearings by protecting them from contaminants.

Reinforced all-rubber HSS seals features a new concept of reinforcing all-rubber seals to protect large size bearings under the tough operating conditions in heavy industrial applications.

Sealed SKF single row angular contact ball bearings are ready-to-use units that are filled at the factory with the proper amount of grease. They are fitted with two non-contact seals that reduce frictional heat and extend the service life. These bearings are used, for example, in pumps, gearboxes and electric motors.

SKF Condition Based Lubrication for wind turbines combines SKF WindLub lubrication systems and SKF WindCon online condition monitoring systems. It enables an automatic, additional dose of lubrication to distressed turbine bearings and at the same time offers full monitoring of the lubrication pump.

V-ring seals are all-rubber seals for rotating shafts and offer a cost-effective upgrade of the sealing system as a barrier against contaminants. Thanks to their reduced contact force and high-performance compounds, the seals maintain high energy efficiency while contributing to enhanced sealing system performance and long service life.

New products and solutions for the automotive market

High pressure valve stem seals with lower friction increases the resistance to pressure while minimizing the friction. The seal design minimizes wear and extends the life of the valve train.
This offer is part of the SKF BeyondZero portfolio.

Anti-corrosion coating for hub bearing units offers strong resistance against corrosion, making the disassembly process easier, prolonging service life and improving vehicle appearance.

The **robust angular steering column bearing** provides a smoother steering feeling through a low and constant friction torque, better vibration absorption and reduced noise level.

NUBS (non uniform ball spacing) cage for deep groove ball bearings prevents the hooting noise during cold starts. The cage is designed especially for use in bearings for alternators, starter-alternators and electric traction motor bearings for hybrid and electric vehicles.

SKF BeyondZero portfolio

The SKF BeyondZero portfolio consists of solutions that help customers to reduce environmental impact in one of two fundamental ways – Designed for Environment or Applied for Environment (see explanation below). The environmental improvements provided by the various solutions in the portfolio are validated through a life cycle assessment-based methodology developed by SKF. In order to assure the accuracy and credibility of the portfolio and approach, the process, as well as reported results, is reviewed by external auditors. The growth of the SKF BeyondZero portfolio forms an important part of the Group's overall business and environmental strategy.

Designed for Environment

The SKF product or service in itself has specific features that realise a reduced environmental impact for the customer, such as SKF's Food Line Y-bearing units.

SKF Food Line Y-bearing units

Environmental benefits

- No grease disposal into waste water
- Reduced waste associated with re-lubrication
- Longer service life

The cycle of wash-downs and lubricant washout in food and beverage manufacturing creates a never-ending cycle of waste. It is common to re-lubricate bearings after each wash-down – daily, weekly or at other intervals based on production specifics. During this process, excess grease is discharged past the bearing seals. At the next wash-down cycle, the grease is washed away into the plant's waste water. Because they can withstand frequent wash-downs without re-lubrication, greased-for-life SKF Food Line Y-bearings units eliminate the need for re-lubricated grease disposal. For 100 bearing positions up to 78 kg of lubrication can be reduced in one year.

In addition, the units have an extended life due to food grade grease providing internal and external corrosion resistance and high aging resistance.

SKF's product is given the inherent feature of reducing waste – it is designed for the environment.

Applied for Environment

The application of SKF's products or services help enable a larger system which, in turn, can provide a reduced environmental impact, such as SKF's solutions provided to the wind power industry, or the example below from SKF Automotive.

SKF High pressure valve stem seal with lower friction

Environmental benefits

- Enables engine downsizing
- Reduced fuel consumption and CO_2 emissions
- Minimized friction and power loss

Under pressure, the lip of a conventional valve stem seal opens, which means that lubricating oil escapes and the valve guide shows excessive wear as a result. The high-pressure valve stem seal does not open and so wear is kept to a minimum.

SKF's High pressure valve stem seal design allows the use of high pressure boosting, which means that downsized engines can use turbochargers to increase engine performance without sacrificing valve train life. The SKF High pressure Valve stem seal with lower friction ensures even less wear, thus maintaining valve train life even longer.

Downsized engines allow reduced environmental impact through improved fuel economy and lower CO_2 emissions.

SKF's product enables this improved environmental performance – it is applied for the environment.

The purpose of the portfolio

Numerous life cycle studies confirm that the greatest potential for SKF to reduce environmental impact lies in the customer use phase of the Group's solutions. SKF's customers in all industries are increasingly driven to improve energy efficiency as well as to reduce the environmental impact from their products, services and processes.

By addressing both the business and environmental dimensions, the SKF BeyondZero portfolio creates significant new value for customers, investors and the environment. Read more on the criteria for inclusion, governance, classification and verification of the SKF BeyondZero portfolio online, see skf.com

SKF BeyondZero portfolio – 2013 results

A total of 42 (34) specific SKF solutions were included in the portfolio at year-end 2013, in addition to SKF's complete business in the renewable energy and electric vehicle industries.

The total revenue of the portfolio in 2013 was SEK 3,324 (2,972) million with a large part of this volume coming from SKF's renewable energy business.

The calculated avoided greenhouse gas (GHG) emissions enabled by specific SKF solutions sold in 2013 was 83,000 (52,000) metric tonnes per year. In addition, the GHG avoided enabled by SKF's business in the renewable energy and electric vehicle industries in 2013, was around 1,220,000 (1,620,000) metric tonnes per year. More information is available in Statements on environmental performance, see page 175.

SKF BeyondZero portfolio – 2016 ambition

The business growth of the SKF BeyondZero portfolio is strategically important to SKF and forms the central element of SKF's climate strategy. The Group aims to increase revenue from the SKF BeyondZero portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016. This target forms part of the SKF's "Climate Savers" commitment with the WWF. Progress against this target, along with the avoided greenhouse gas emissions that are enabled by SKF's business in this area, will be publicly reported through the annual report and other media.

The growth of the portfolio is based on:

- Sales development of included solutions
- Inclusion of additional solutions
- Exclusion of solutions that no longer meet the criteria

Shown below are examples of products and solutions included in the SKF BeyondZero portfolio

SKF LubriLean

- Replaces high pressure coolant system for metal cutting processes
- Reduced energy consumption
- Reduced oil and water consumption

SKF LubriLean replaces high pressure coolant system for metal cutting processes. This can save over 50% of the energy and 90% of the oil and water used in the traditional cooling process.

SKF Energy Efficient (E2) tapered roller bearings for trucks

- Optimized for friction reduction in a trucks' final drive
- Reduced fuel consumption

The SKF E2 tapered roller bearing for truck final drives is optimized for reducing friction in this specific application, up to 30%. This helps improve the overall fuel economy of the truck.

SKF Low Friction Hub Bearing Unit

- Reduced friction
- Improves overall vehicle efficiency

SKF Low Friction Hub Bearing Unit provides 20% lower friction compared to standard hub bearing units, which can make an important contribution to the vehicle's overall fuel economy.

SKF Remanufacturing Services

- Minimize the use of energy and resources
- Minimize the waste generated
- Maximize service life

SKF Remanufacturing Services allows for reduced waste, saved resources, energy and associated emissions. Some units can be refurbished and put back into operation up to six times.

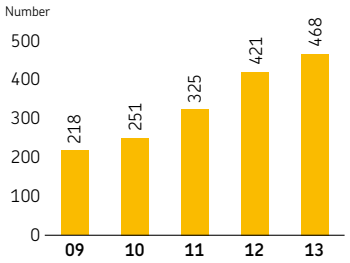
Technology research and development

SKF's continued commitment to technology development is important for maintaining and strengthening the company's technological leadership. In 2013, SKF recorded 650 (663) invention disclosures and successfully registred for 468 (421) first filing of patent applications.

R&D expenditure in 2013 was SEK 1,840 million (1,607), corresponding to 2.9% (2.5) of annual sales, excluding developing IT solutions. Capitalized development expenditure was SEK 18 million. SKF's R&D spending, in local currencies, rose by 16% in 2013 compared with 2012. The Group is increasing its activities in the R&D arena by focusing more on new products and services that 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 links with universities and technical colleges.

SKF has a strong global network of R&D centres and laboratories, as well as established collaboration agreements with major universities and research institutes.

SKF Group's first filings of patent applications



Global Technical Centres

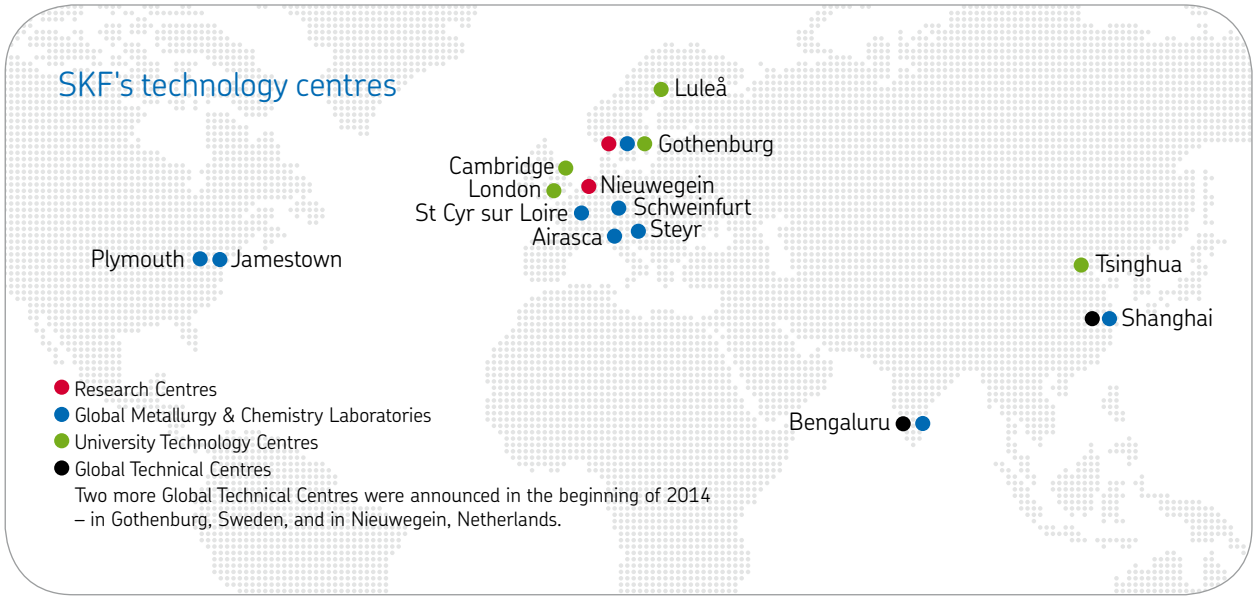
Within a plan of strengthening the technical global footprint, SKF continued to expand and grow its two technical centres in Asia – one in Bengaluru and one in Shanghai. The aim of the centres is to assume a global and regional development role, bringing innovation and technical knowledge closer to SKF's customers in Asia to better meet local customers' needs. At the end of 2013, more than 300 engineers and technicians were employed in the two centres. The centres have been built according to the LEED standard Gold level.

In 2013, SKF opened a new lubrication systems laboratory in its Global Technical Centre in India to further support SKF development centres and business units with lubrication system product design and validation.

In the beginning of 2014, SKF announced plans to build two new Global Technical Centres – one in Gothenburg, Sweden and one in Nieuwegein, the Netherlands. Together these will form a Global Technical Centre Europe.

Relationship with the academic community

SKF collaborates with the academic community and with renowned universities to establish University Technology Centres (UTCs). These complement SKF's in-house research creating fundamental support and new ideas in strategic areas of interest for SKF, within long term partnerships. In 2013 five UTCs were active in steel, polymer materials, tribology, condition monitoring and sustainability.



SKF actively involves strategic customers and suppliers in the UTCs, joining forces in areas of common technological interest. This ability to bridge Academia and Industry in common R&D networks allowed SKF to significantly increase the access to governmental and European Union funds in 2013, bringing not only economic benefits, but also accessing new knowledge.

Innovation – from technology to market

SKF's technology strategic approach focuses both on bringing new ideas to the market and to develop its core technologies.

Establishing a corporate process and continuously evaluating new ideas rising from different parts of the organization is a key factor to have a steady stream of innovative products and services. Over the last years, SKF has successfully implemented a central corporate program to bring innovative ideas to market. Within this program, the most important projects, involving several business units and technologies, receive the utmost focus and attention by the senior management.

One of the first projects to be launched on the market was SKF Insight, presented at the Hannover Fair in 2013, see below.

The deployment of Business Excellence in the Innovation Process is driving a strong culture aimed at maximizing the value SKF delivers to customers, by increasing the speed and efficiency of SKF's processes.

Encouraging an innovative culture is vital to SKF and every year a number of internal projects are selected and rewarded for their exceptional contribution to business, innovation and sustainability. One such project is the development of the SKF Rotor Positioning Bearing, which won one of the technology Excellence Awards in 2008. It is a bearing for starter-alternators that supports a stop-start function in cars and light trucks.

The innovation brings advantages in terms of reduced fuel consumption and emissions and has been equipping Valeo's starter-alternators since 2008.

Materials and heat treatment

SKF leads in material knowledge and application, and is at the forefront of understanding the interaction and exploitation of steel and heat treatment combinations to meet the ever-increasing demand for load-carrying capability and energy efficiency. Through its unique heat treatment processes, SKF achieves exceptional steel properties by controlling its microstructures and residual stresses. The continuous strive for optimizing the interaction between material and heat treatment is now focused on making heat treatment equipment smaller and more energy efficient, while still attaining the material properties required for different applications.

New computer-based techniques are used to understand deformation behaviour and the response of hardened steels under extreme load conditions.

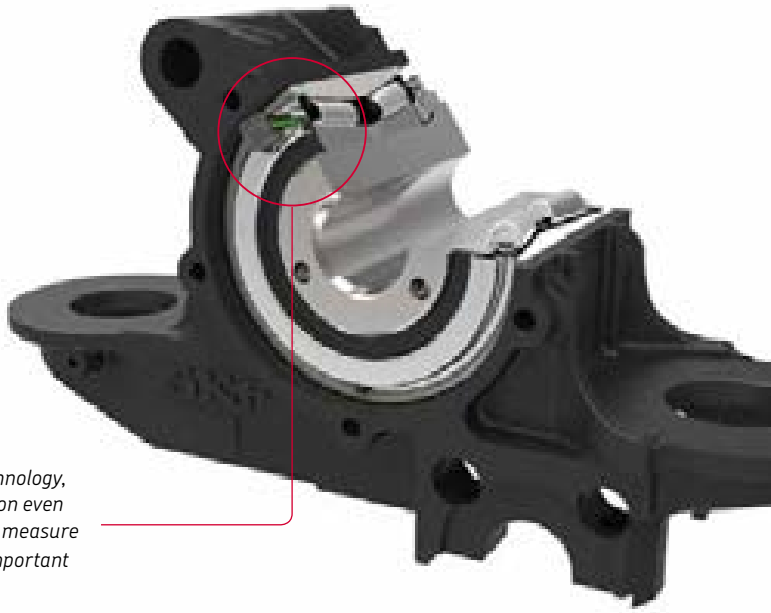
Technological development in non-metallic materials, such as polymers and ceramics, is also important. SKF focuses strongly on their friction and weight reduction properties, enabling them to support market trends and maintain the sustainable strengths of SKF's products.

Integrated sensing solutions

SKF has developed wireless, self-powered technologies for "smart" bearings by combining its core bearing design skills with its expertise in condition monitoring. Data can be transmitted to local devices and onwards via the internet using sensors embedded in the bearing. The bearing can also capture the operating conditions to which it is exposed, for example, loads, temperature and lubrication.

A smart bearing can therefore detect deviations from expected design conditions and initiate corrective action, before any damage is done. This can be done locally and automatically, for example changing lubrication conditions, or remotely, informing the operator about conditions requiring a certain intervention to ensure the machine's reliable operation.

This information can then be routed back into the machine manufacturer's design phase to improve both the system and bearing design. This technology has been launched and known as SKF Insight, because it provides a unique "insight" into the operating conditions in a machine. With this technology integrated into bearings, it is simpler and more convenient for customers to start condition monitoring, providing improved operational knowledge, better maintenance planning, optimized manpower and spare part management.



SKF Insight, with its embedded intelligent wireless sensor technology, makes it possible to monitor and report on a bearing's condition even before there is a incipient damage. It also makes it possible to measure the loads that the bearing arrangement was designed for – important input for the enhanced design of future products.

Pilot projects were initiated in the railway, wind power and metals industries in 2013. These projects, with their associated technologies, will continue into 2014 and be introduced into other industries.

Life cycle management research leading to sustainable solutions

SKF has a great focus on new products and services that have a positive impact on the environment, and support the SKF BeyondZero strategy.

The target is to improve environmental performance of the customer's applications, considering the environmental consequences of a product or manufacturing process, no matter where in the product's life cycle these consequences occur. In this area SKF collaborate with renowned universities and industrial expertise centres. Methods for environmental assessment have been developed to suit industrial needs better and improve knowledge of products' environmental performances and manufacturing processes. These methodologies have been a key enabler of the launch and expansion of SKF BeyondZero product portfolio, see pages 68-71.

Simulation engineering

SKF has very comprehensive and powerful sets of modelling and simulation packages, ranging from easy-to-use tools based on the SKF General Catalogue formula, to the most sophisticated calculation and simulation systems. The company's strategy is to develop a wide range of software packages that satisfy a large number of customer requirements; from simple design checks to complex investigations involving the most advanced simulations for bearing and machine design.

One example is the SKF Interactive Engineering Catalogue, an easy-to-use online tool for bearing selection and calculation, for open use at skf.com

Some of these capabilities are also offered on apps for tablets and smartphones, supporting the increased use of these devices by SKF's customers also to perform engineering tasks. SKF is also embedding ICT technologies in mobile devices for its employees, making possible for example to retain, capture and make knowledge easily accessible for the SKF manufacturing community

Manufacturing R&D

SKF is constantly developing its manufacturing processes for highly efficient and effective operations, resulting in enhanced quality and better customer service. All initiatives for continually improving manufacturing are brought together by Business Excellence for Manufacturing, which ensures consistent implementation throughout the Group.

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

- Improved product performance by an advanced selection of steel and heat treatment combination. In recent years considerable investment and implementations have been carried out in heat treatment equipment at many of SKF's factories.
- Improved material utilization in all manufacturing processes resulting in less waste, manufacturing variations and allowances. Near Net Shape technologies aim at forming a component to almost its final shape, reducing the time for finishing operation.
- Intelligent manufacturing systems and integrating sensors and measuring equipment into machines, for more consistent and reliable manufacturing processes.
- Advanced intelligent technologies for vision systems and measuring, providing tighter control of manufacturing processes. Combining these with the use of non-destructive and Artificial Intelligence technologies makes it possible to detect material defects and improve process control, as well as defining and predicting a product's properties.
- New processes for improving sustainability, while reducing the use of process media and energy consumption.

Life Cycle Management Conference – LCM 2013

SKF participated in the 6th international life cycle manage conference – LCM 2013 – where industry, institutes, academy and government come together to share experiences and join forces with the aim of reducing the environmental impact over the life of a product or service. One of the focal points for SKF was to share the Group's methodology for calculating emissions avoided during the customer use phase – an area where standard methodologies do net yet exist. The methodology SKF uses was developed to support the SKF BeyondZero portfolio, which includes products and solutions with significant environmental benefits. SKF's work was well received among the participants and further collaboration was established aimed at sharing and developing this thinking and moving towards a unified standard to quantify avoided emissions, read more at LCM2013.org

Manufacturing

SKF has around 165 manufacturing units in 29 countries worldwide, with over 20,000 employees. Manufacturing is a key element of SKF's business model and therefore management of, and investment in, this area is crucial for SKF's future growth and competitiveness.

Today SKF's manufacturing operations are:
- focused on core manufacturing processes
- achieving globally consistent quality
- focused on being flexible to customer demands
- continually driving improvements in cost and efficiency
- supported by a highly competitive and flexible global supply chain
- taking environmental care into consideration, for example LEED building requirements

To meet market demand, and to better balance the Group's manufacturing footprint, SKF has invested in manufacturing capacity by opening new manufacturing sites, expanding existing ones, adding capacity, as well as by acquisitions.

Some of the major investments completed or ongoing in 2013 are described below:
- a second factory at SKF's premises in Jiading, Shanghai for passenger car wheel bearings was completed.
- specific investments were made at various plants to introduce new production capacity to support various automotive customers including Mazda, Nissan trucks, VW, Volvo and Audi.
- the medium sized bearing production facility in Dalian, China, is being extended and will be completed during Q2 2014. Capacity was also added to the factory for large size bearings by two new channels approved for spherical roller bearings, both due to start production Q1 2015.
- Investments in building and capacity expansion are ongoing at SKF's lubrication systems facility in Chodov, Czech Republic.

In addition to these organic investments, certain acquisitions also contributed to strengthening SKF's manufacturing footprint, for example in North America through the acquisition of Kaydon Corporation.

Being close to customers is vital to grow and succeed with them. For SKF this means not only being close in business and technical relationships, but also having physical production close to them. The result of this approach can be seen in the change of geographical distribution of SKF tangible assets. In 2003, Asia Pacific accounted for 7% of SKF's tangible assets, in 2013 they accounted for 29%.

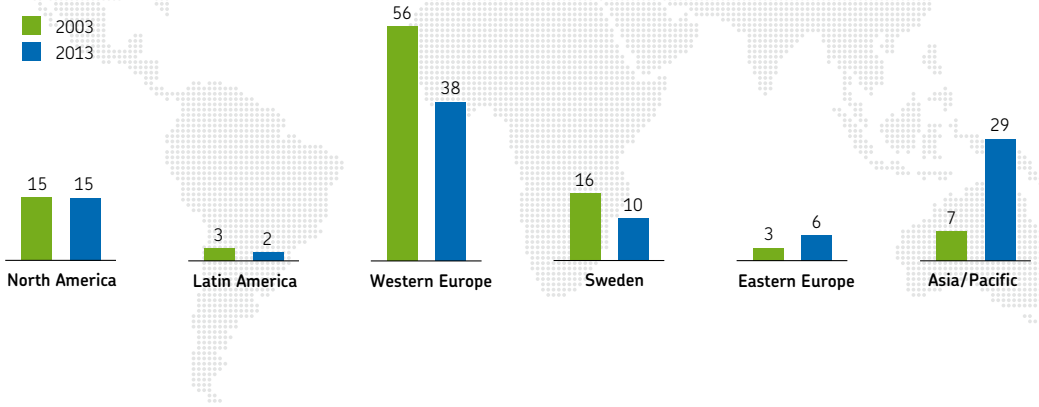
Further building on this approach, SKF has been running a programme to adjust the manufacturing footprint. This programme started in the fourth quarter of 2012 and involves activities to consolidate production between production sites and transfer production from Western Europe to Eastern Europe, Asia and Latin America. The programme also involves optimization and productivity improvements in the manufacturing processes.This work aims to deliver improved efficiency, reduced costs and strengthen profitable growth, see page 30.

Developing manufacturing processes

To enhance quality and provide better customer service SKF is constantly developing its manufacturing processes to optimize investments in equipment and working capital per unit produced. Many initiatives for continually improving manufacturing are

Geographical distribution of property, plant and equipment 2013 (per cent)

SKF's approach is to be close to the customers. This has led to a change of the geographical distribution in the last ten years.



brought together by Business Excellence for Manufacturing, which ensures consistent implementation throughout the Group, see page 76.

One current initiative is the Manufacturing and Supply Optimization (MSO) Programme launched in 2012. The programme addresses costs, inventories and market response-time issues. Its objective is to become more competitive and respond faster to market demand, ensuring a long-term development of the manufacturing sites involved. Following Business Excellence principles and methods, the MSO methodology drives improvements by focusing on three specific areas which are value-added costs, manufacturing stocks and customer service levels. SKF's goal is to reduce inventories with improved service and flexibility, while reaching savings by 2015. The programme will ultimately involve a total of 18 SKF factories. Out of these, the first 6 units under implementation are already showing important annualized savings, 10 to 20% less stocks, and service levels of less than 0.7% broken promises.

Another initiative that has an impact on manufacturing, is the Integrated Cost Reduction (ICR) programme, in place since 2007. It addresses all aspects of a product's cost. ICR brings together all resources responsible for different aspects of a product, such as manufacturing, product design, component and material purchasing and application engineering. Focus lies on sourcing, reviews of technical solutions as well as product specifications. This programme covers all product lines.

For Manufacturing Research and Development, see page 72.

Work environment

In order to standardize proactive safety work, SKF has a management system certified according to OHSAS 18001 and global and local programmes to reduce the accident rate via the Zero Accidents initiative and Business Excellence. Read more about occupational health and safety in the Employee Care section on page 88.

Environmental footprint

In line with SKF's BeyondZero strategy, SKF works proactively in minimizing the environmental footprint from its operations. Manufacturing is one of the key areas in this work and SKF received a global certification according to ISO 14001 in 1998 and is currently implementing a Group-wide management system according to ISO 50001.

SKF has adopted the global recognized LEED standard for new constructions as mandatory, thus ensuring a world-class performance at the Group's facilities regardless of the geographical location. In addition, the Group has developed an SKF-specific standard to be used in conjunction with LEED, but taking all significant internal processes into consideration.

Read more about the material environmental issues, targets and performances related to SKF's manufacturing operations on pages 82–87.

Implementing the MSO programme in Gothenburg

A production and demand chain assessment at the medium bearing factory in Gothenburg revealed nine key inventory reduction drivers which were implemented over an intensive 32-week period. One such focus area involved the resetting process which was reduced by 20%. The result was that the factory reduced inventories substantially and became more flexible to customer needs.

Purchasing – a key enabler to create value and cost leadership

Goods and services purchased annually for SKF amount to around SEK 36 billion, which is a little bit less than half of SKF's net sales. This means that the impact from purchasing and supply chain management on SKF's performance is crucial.

SKF sources both materials and services from suppliers around the world. The purchased material consists of steel raw materials in terms of bars, wire, tubes and strips, steel-based components in terms of rings, balls, rollers and sheet metal parts, and other direct material such as mechanical components, electrical components, polymers, plastic components, subcontracting and traded products. Besides direct materials, SKF sources shop supplies, capital equipment, energy services like facility management and various types of management services.

SKF's factories need to be close to their customers to provide optimal service and they need local and regional suppliers that can fulfil SKF's requirements on quality, cost, delivery, innovation and management. To support SKF's global manufacturing footprint and close supplier collaboration, SKF has sourcing offices located in different parts of the world. By developing a local supplier base, SKF can increase its supply chain flexibility and agility. Today more than 85% of supplies to SKF's factories in each region come from local or regional suppliers. To enable better sourcing leverage and effective synergy across all business units and technology platforms, SKF continued to expand its centralized purchasing operation in 2013.

SKF is focused on consolidating the supplier base, implementing product and process standardization across all technology platforms and driving continuous supplier improvement programs, while applying leading purchasing practices, SKF is well on track to meet the SEK 1,500 million savings target from purchasing by the end of 2015.

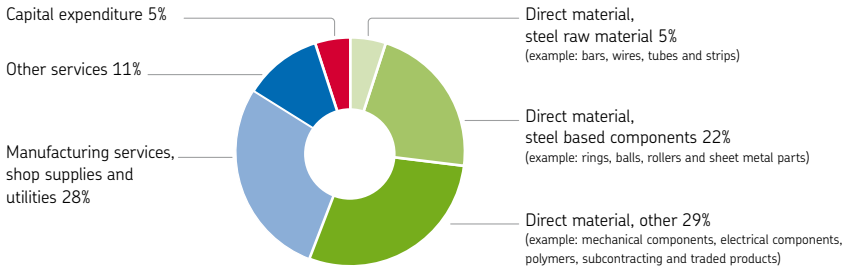
Continually developing demand-driven supply chains with suppliers and constantly evolving with them is vital for reducing total costs, reducing capital employed and cutting lead-times in the supply chain. By working with dual sourcing schemes, mapping supply chains and understanding where the bottlenecks are, SKF reduces supply chain risks and increases supply chain flexibility. The key enablers are to work with SKF's approved supplier bases and the close collaboration between the operations, R&D and purchasing.

> "SKF not only brought in good business but also brought in world class management and ideas. We welcome such companies."
>
> *Mrs Xianfen Lan, Deputy County Governor, on China television in September 2013*

A specific plan for competence development, for purchasing, was developed and implemented in 2013. The main components in the training programs include strategic sourcing, fact-based negotiations, total cost and value analysis and project management.

SKF started implementing SAP sourcing solutions in 2013, where the focus has been on contract management and purchasing business process standardization (RFx).

Purchasing – around SEK 36 billion 2013



A key focus area is the SKF Responsible Sourcing Programme, and in 2013 the Group continued efforts in carrying out more focused Code of Conduct auditing and making the overall working method more robust. The overall objective of SKF's responsible sourcing approach is to achieve consistently, high levels of behaviour by all suppliers and subcontractors in terms of social, environmental and ethical issues. Thus providing the organization with authorized sources for materials, goods and services.

The Code of Conduct for suppliers and sub-contractors is part of SKF's general conditions of purchase, as well as supplier requirements being defined in the SKF Quality Standard for Suppliers. By adhering to this standard, all suppliers confirm they will adopt the SKF Code of Conduct, Environment, Health and Safety and Zero Defects concepts. In addition, specific requirements are defined for different categories of supplier, as presented below:

Category	Requirements	Control
All suppliers	Agree with SKF Quality standards for suppliers – including Code of Conduct, EHS standards and Zero Defects concept.	Part of SKF's risk assessment procedure. Quality and Code of Conduct on-site audits are conducted using a risk-based approach.
Major suppliers	Same as above, and: • Management systems according to ISO14001 and OHSAS 18001. • Code of Conduct issued by supplier in line with SKF's.	On-site audits and continuous monitoring of progress towards targets. This category is automatically qualified for an on-site audit.
Major suppliers that are energy intensive	Same as above, and: • Management systems according to ISO 50001 energy management (Part of SKF Climate Strategy).	Part of normal negotiation and follow up.
New suppliers	Agree with SKF Quality standards for suppliers – including Code of Conduct as above. SKF's working method highlights eight critical deviations, such as child labour or significant environmental deviations which are pre-requisites to starting business with a new supplier.	Before agreements are signed, SKF's purchasers need to receive confirmation that the requirements are met. When this can be confirmed, the new supplier is added to the approved supplier list and included in RAT (risk assessment tool).

The Group's responsible sourcing programme is headed by SKF's Responsible sourcing committee – whose task it is to ensure a strong governance structure plus the overall coordination and development of SKF's approach. This decision body is headed by Senior Vice President, Group Purchasing and includes other relevant functions and supply chain managers. The purpose of this committee is to ensure that the responsible sourcing strategy and approach is effectively developed and deployed, and that appropriate measures are taken when suppliers' code of conduct deviations occur.

The issue of conflict minerals – as defined in Section 1502 of the US Dodd-Frank act is being addressed as part of the overall responsible sourcing activity. Although SKF is not directly affected by this act, the Group supports the ethical motives behind it and has a significant number of customers who are directly affected by it. Therefore, the company has worked with relevant specialist consultants in order to put a process in place, which will enable SKF to support customers with related information and ultimately avoid the use of minerals sourced from mines associated with human rights abuses. A mapping of SKF's products is ongoing, and the company has begun contacting suppliers whose products may contain conflict minerals.

Interview with Bo-Inge Stensson

Senior Vice President, Group Purchasing

How did prices evolve during 2013?
In 2013 we saw slightly lower commodity prices compared with 2012, due to well-supplied markets and lacklustre demand. Weak demand for steel during the year led to slightly lower prices for steel scrap in 2013 compared with 2012. Iron ore showed a firmer price trend in the second half of 2013 compared to 2012 mainly due to increased imports by China during the second half of 2013. Base metals where traded at relatively low levels and roughly at the same levels as a year ago.

How do you motivate suppliers to steadily achieve better results with greater respect to sustainability?
Through close co-operation we help them to improve their capacity utilization, reduce their operating costs and energy usage. We put a lot of effort into developing competitive suppliers who are also profitable, so they can invest in growth, new products and manufacturing capacity. Our aim is to consolidate business to fewer suppliers and go into longer-term business relationships.

> "We need to rationalize our supplier base and continue to meet our cost reduction targets."

How does your Zero defect scheme with suppliers work?
This is a joint effort between the suppliers and SKF to prevent technical defects. Of our major suppliers, 56% showed zero defects in 2013, an increase of 30% over the previous year. Our objective for 2014 is to increase zero defect suppliers by at least 10%.

What are your biggest challenges going forward?
We see challenges in finding new innovative suppliers, handling commodity price volatility, currency risks and the supply chain being affected by natural disasters. In addition we need to rationalize our supplier base and continue to meet our cost reduction targets. The global economy today is characterized by different growth speeds in different parts of the world.

How will you handle these challenges?
By developing a local and regional supplier base, well-aligned with SKF's manufacturing footprint. By working with leading purchasing practices such as strategic sourcing, supplier market analysis (speed sourcing), product specification/design reviews and optimized sourcing, standardization, supplier consolidation and localization of the supplier base.

How have you prepared?
We have set up a centralized purchasing operation enabling us to understand more and follow developments in the global commodity and supply markets. All business units within purchasing are now fully integrated meaning we can take better care of different business needs. Through our international purchasing offices we stay in close contact with our suppliers around the world and by further implementing our responsible sourcing program to reduce supply chain risk. All this will enable a lower total cost, and a more flexible, agile, supply chain globally.

Risk assessment, audits and follow-ups
SKF employs specialist, highly qualified, Code of Conduct auditors in the different regions of operations. The audit procedure includes a detailed checklist for every supplier audit including 45 specific questions focusing on the environment, safety and social aspects.

Suppliers are selected for an on-site audit either because they fall into one of the categories listed above (major supplier or new supplier) or because they have been identified with a higher risk of deviations using SKF's supplier risk assessment tool (RAT).

The RAT has been internally developed by SKF and allows the identification of higher risk suppliers from SKF's complete supplier base. The process ranks the risk of environmental or human rights issues based on variables such as, geographical location, volume, organization, size and manufacturing/supply processes etc.

3,150 supplier risk assessments have been carried out since 2009. Based on these assessments, along with the other aspects described above, 245 specific supplier code of conduct audits were completed in 2012-2013. One such audit takes a minimum of one working day with the supplier. More than 30 of these have been carried out by independent, third party audit firms to further verify that SKF's model works in practice, putting extra focus on critical issues. Most of these are unannounced.

The extent and approach of Code of Conduct auditing has led to more detailed knowledge and understanding and with this basis the Group is able to define effective and pragmatic ways of driving improvements.

Findings and progress on targets
89 suppliers with a total of 321 critical deviations were found in 2013, 139 were verified and closed. The findings are mainly concentrated to high-risk regions in Asia and Latin America. SKF prefers to work closely with suppliers in order to create effective action plans, remediation programmes and long-term sustainable management systems for these issues. However, if suppliers cannot redress code of conduct issues within a reasonable time period, the Responsible Sourcing Committee has the authority to terminate the supplier's contract. In 2013, two remediation plans for critical deviations were met and two warning letters were issued to suppliers with the outcome that SKF stopped buying from one of these suppliers.

"Our employees, especially the ones who have migrated from other areas in China, are very enthusiastic about SKF Care in action, which encourages us to keep improving our operations, take more care of our environment, community and employees, along with the business."

Mr Huagao Xu, General Manager of ring supplier Zhejiang Chengchuang Bearing Co Ltd.

By the end of 2013, 91% of the major global suppliers had issued their own code of conduct in line with the SKF Code of Conduct and 83% were ISO14001 certified. Since 2012 a number of suppliers were demoted from the list of major suppliers and some new ones were brought into this list.

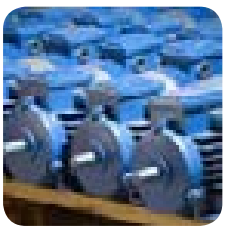
The SKF Responsible Sourcing Programme was top ranked for the 7th consecutive year by the Dow Jones Sustainability Index regarding "Supply Chain Management / Standard for Suppliers".

Climate target – Raw material and components
All major energy-intensive suppliers, including steel suppliers, forging and casting companies, must be certified according to the ISO 50001 Energy Management Standard by 2016. This target was launched in May 2012 and forms part of SKF's climate strategy and WWF Climate Savers commitment. SKF focuses on major suppliers that are energy-intensive in order to ensure effective commitment and focus on these critical suppliers. This will not only drive energy efficiency improvements and CO_2 reductions related to the material purchased by SKF, but will also reduce costs.

By the end of 2013, 38 suppliers had been targeted for implementing energy management systems according to ISO 50001. Two suppliers have already implemented the standards and ten have started work on certification.


Cages


Grinding machines


Electrical motors


Compounds


Tubes

Report on the business

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. SKF BeyondZero combines this with the strategy to improve customers' environmental performance through products, and solutions that improve energy efficiency and reduce environmental impact. These are defined, measured and verified for inclusion in the SKF BeyondZero portfolio.

A company like SKF can have an important impact on the environment, via everything from the raw materials selected, how these are utilized and processed, the energy used by SKF's products when running in customers' installations, to the way in which products are disposed of when they come to the end of their useful life.

To SKF this means that every stage in the value chain presents the possibility to reduce environmental impact. Doing so not only addresses SKF's responsibility towards society and future generations, it also enhances the ability for the business to do more with less and thereby creates sustained competitive advantage.

The SKF BeyondZero strategy reflects this. It requires action to reduce the impact resulting from SKF's operations and those of suppliers (reducing the negatives) while at the same time providing customers with SKF BeyondZero portfolio solutions that deliver reductions in the impact of their products (increasing the positives). More details about SKF's portfolio can be found on pages 70–71 and at skf.com.

This Environmental Care section of the report will provide a summary of the strategies and activities aimed at reducing the environmental impact of SKF's operations and those of the Group's suppliers. It will also refer to the Business Care section, in the relevant business functions such as logistics, purchasing and customer solutions, where a more detailed explanation is provided.

Environmental Care starts "in our own backyard". In 1989, the Group increased its focus on operations by issuing the Environmental, Health and Safety Policy (EHS policy). The Group became the first international bearing manufacturer to receive global certification according to the ISO 14001 Environmental Management System in 1998.

Since then, SKF has been building on these foundations by continually taking steps which address environmental impacts at different stages of the product life cycle, and the entire value chain of the business. SKF's climate strategy is an example of how this is applied. Built on SKF BeyondZero, the approach tackles all the significant greenhouse gas impacts in the full life cycle and the full value chain of SKF's products and solutions.

The steps which SKF takes to address environmental risks and opportunities are based on a solid understanding of environmental life cycle management. This is something the Group has invested in and built up over the last ten years through numerous life cycle assessments and focused applied R&D in this area.

SKF EHS Policy, legal and regulatory compliance

In order to reflect relevant recent developments both internally and externally, SKF's EHS Policy was updated in 2012. The policy is available on SKF.com and describes the company's commitment to both short- and long-term contributions in protecting the environment, as well as providing a safe working environment for employees.

The policy requires SKF's units to take these vital issues into consideration during all business activities and decision-making. It defines a minimum requirement that all locally applicable laws and regulations must be upheld in relation to environmental, health and safety matters. The policy also commits the organization to continual improvement – meaning the legal requirements are the base from which actual performance must be improved.

Environmental permits

Operations requiring permits exist in all countries where SKF has manufacturing. On 31 December 2013, SKF held permits in Sweden covering 8.7% of the Group's overall production volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to production of bearings, bearing housings and couplings.

Landfills

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

Spill incidents

SKF received no significant directives from the environmental authorities in 2013. Two minor spills have been reported during the year. These have been acted upon and in line with local regulation been communicated with environmental authorities.

Environmental Management Systems, ISO 14001 and ISO 50001

The purpose of having global certification is that all SKF's manufacturing sites, technical and engineering centres, as well as logistics centres, are required to maintain and uphold high performance standards regardless of geographical locations or social and economic conditions in the country.

The SKF group-wide certificate consisted of 114 sites in 32 countries at the end of 2013. New sites that were added to the Group's ISO 14001 certificate in 2013 were:

- **Asia and Pacific;** Oakleigh, Australia; Perth, Australia; Changshu, China and Jinan, China,
- **Europe;** Chodov, Czech Republic; Walldorf, Germany; Torino, Italy,
- **North America;** Cleveland, OH; Columbia City, WA ; Johnsson CityTN; St Louis, MO.

Recently acquired companies are given a timeframe for implementing the management system, working towards inclusion in the Group's certification scope. The schedule for recently acquired companies' inclusion plan can be found at skf.com. Environmental due diligence investigations are carried out to determine whether a clean-up is required before any acquisition or divestment. Potential liabilities identified by a preliminary (Phase I) investigation may be subject to a further (Phase II) investigation.

SKF continues to implement ISO 50001 energy management system across the Group according to plan. The basic principle is that all manufacturing sites with an energy use of 9 GWh/year or more shall be ISO 50001 certified. These represent about 90% of the Group's total energy use. This management system is an initiative to further drive improvements in energy performance and thus reduce environmental impacts and costs and is scheduled to be complete in 2014. The schedule for SKF sites to be included is available at skf.com.

Climate change

SKF has been acting with a clear focus on climate change mitigation for many years and previous Annual Reports have detailed the significant progress the Group has made in reducing greenhouse gas emissions.

The motivation for SKF's continued commitment to addressing climate change can be summarized in three points.

- Climate change presents a critical long-term challenge to humanity and the natural environment. Failure to address it will have catastrophic long-term consequences for both.
- Energy prices are likely to increase. SKF's ability to run its business activities in a highly energy and carbon-efficient way will increasingly bring competitive advantage.
- SKF is uniquely positioned to significantly contribute to climate change mitigation through the products and solution it provides and in doing so create considerable value for customers and investors.

SKF's climate strategy is based on the SKF BeyondZero approach described on page 70. The strategy drives energy and related greenhouse gas reduction activities along the company's full value chain, including purchased goods and services (referred to as scope 3), SKF in house production and other activities (referred to as scope 1 and 2) as well as customers' use of SKF's products and solutions (sometimes referred to as scope 4). The targets are summarized in the table below:

	Suppliers Raw Material and components (Scope 3)	SKF operations Manufacturing and other relevant aspects (Scope 1 and 2)	Transport and distribution Goods transportation (Scope 3)	Customer solutions Development of the SKF BeyondZero portfolio (Scope 4)
Target	100% of SKF's energy-intensive major suppliers certified according to ISO 50001 Energy management Standard by 2016.	i) Reduce the total annual energy use of the SKF Group by 5% below 2006's level by 2016. ii) Reduce the energy use per production output by 5% year-on-year.	Reduce CO_2 emissions per tonne-kilometre for all transport managed by SKF Logistics Services by 30% below 2011's level, by the end of 2016.	Increase the revenue from the SKF BeyondZero portfolio from SEK 2.5 billion in 2011 to SEK 10 billion by 2016.
Status	2 certified, 10 currently implementing, 26 considering or not started.	i) 1,700 GWh. Absolute energy use 13% below 2006 level. ii) No change in energy use per production output vs. 2012.	19% reduction since 2011.	Revenues 2013: SEKm 3,324.
Read more	Purchasing section, »see pages 78-80	Environmental Care section, below, »see page 84	Logistics section, »see pages 64-65	Products section, »see pages 70-71

WWF Partnership

SKF's climate strategy is recognized by the WWF as being best in class in its industry and the Group continues to partner with the world leading environmental pressure group in their Climate Savers programme.

The WWF Climate Savers is a global leadership platform transforming business and industry by finding companies who are prepared to take the lead on climate and energy solutions. The member companies set, in agreement with WWF, sector-leading targets for greenhouse gas reduction in their own operations and work with other companies and partners to implement innovative solutions for a clean, low carbon economy. Achievements are annually monitored and verified by SKF's auditors, ensuring the highest credibility. Read more at wwf.panda.org

SKF's own operations (Scope 1 and 2)

SKF's direct management of the facilities belonging to the Group gives the company the power and responsibility to minimize the carbon emissions associated with its own operations. SKF manages this in two ways:

- by reducing the energy intensity of the operations through proper energy management, and,
- by reducing the carbon intensity of the energy used through sourcing of low carbon energy or on-site generation of renewable energy where possible.

SKF has defined two parallel targets for total absolute energy use and energy use relative to production output. This twin target approach has been defined because an absolute target is more challenging to achieve during periods of growth, whereas an indexed target becomes tougher during periods when global economic activity, and hence demand, is lower. This assures that high pressure and focus on improving energy performance is maintained irrespective of the external economic climate and location of the site.

In order to deliver on these targets, SKF continues to strengthen and increase focus on energy management in all aspects within its operations around the world. Examples of the steps being taken include;

- Global adoption of the ISO 50001 energy management system.
- World class environmental standards for new facilities, by mandatory use of LEED and SKF's Sustainable Factory Rating (SFR) (see pages 86-87).
- Working with machine suppliers to identify, test and implement energy demand reduction technologies.

For long-term year-on-year data, please refer to Environmental statements, see page 173.

Renewable energy

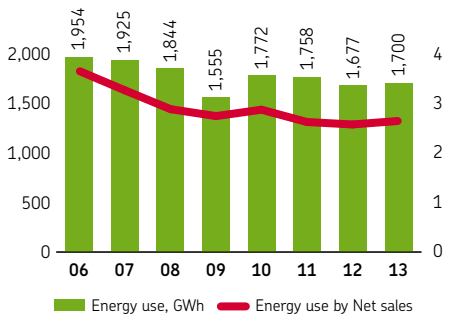
As reflected in the Group's targets, the most significant and important contribution to reducing greenhouse gas emissions resulting from SKF's operations is delivered by improving energy efficiency. However, in addition to reducing energy use, SKF also makes efforts to increase the amount of low-carbon, renewable energy which is used in SKF's operations. This is achieved by negotiating lower carbon energy into energy contracts or by installing energy generation technology at SKF's sites – where such solutions are viable. Examples of these installations are geothermal, solar (thermal and photovoltaic) etc. These installations generate about 2.250 GWh to SKF's facilities annually.

Company cars

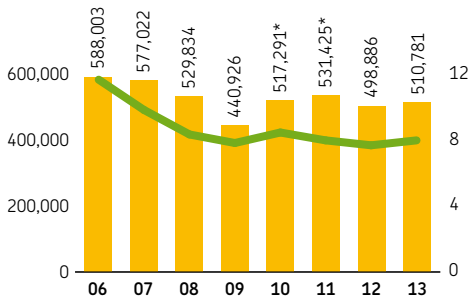
SKF monitors emissions from vehicles owned or leased by the company in the twelve major countries of operation, representing more than 80% of Group employees. In 2013, the CO_2 emissions from company cars totalled 9,899 tonnes.

Find out what the Group has achieved so far in energy and CO_2 reductions at skf.com/group/our-company

Energy use at SKF's operations



Carbon emissions from SKF's operations (scope 1 and 2, excluding company cars)



* Excluding purchased carbon offsets of 40,000 tonnes in 2010 and 80,000 tonnes in 2011.

Other important environmental aspects

Besides energy use and CO_2 emissions, SKF measures, reports and manages other environmental aspects which are material to the Group. A brief overview of these aspects is provided in the following paragraphs.

For specific year-on-year data and explanations to possible restatements, please refer to the Environmental statements on pages 173–176 and for a more detailed explanation of SKF's approach to each issue, please refer to "SKF Care – Policies and Practices" found at skf.com.

Material consumption

SKF uses various materials such as metal, rubber, solvents, hydraulic oil and grease. Steel is the main material used by SKF, much of the steel purchased by the Group is produced by remelting steel scrap, as this provides favourable material properties and is widely available.

The use of metal as raw material in 2013 was 379,000 tonnes, a slight increase from the previous year(368,000).

The Group is continually working to improve resource efficiency. The company invests in research into advanced manufacturing technology that minimizes the amount of material to be removed to produce finished products. At the same time, SKF's designers, process engineers and purchasing staff are constantly working towards minimizing material waste throughout the value chain.

Chemical use

Solvents, referred to as volatile organic compounds (VOCs), form vapours that can be damaging to health and the environment. SKF introduced a VOC reduction target of 25% over a five-year period, compared to 2002's level and in relation to production volumes. This target was successfully achieved in 2007 with a drop of 29% compared to 2002's level, while the production volume rose by more than 30%. A new, tougher target was therefore set where SKF aimed to achieve a 50% reduction in absolute terms by 2012, compared to 2007's level. Despite a significant improvement - over 40% in 2013 compared to 2007, this target was not reached, and so it has been extended until 2016. In 2013, the amount used was 929 tonnes (966).

Ozone-depleting substances

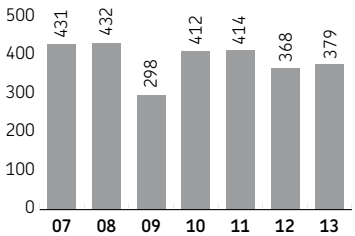
SKF has been monitoring its consumption of ozone-depleting substances (ODS) for many years by referring to the Montreal Protocol. Consumption has steadily fallen over the years, supported by a number of local phase-out projects. Overall, the most harmful ODS have either been substituted with less harmful ones or usage has been totally eliminated due to process changes in manufacturing.

Environmental Compliance of SKF's products

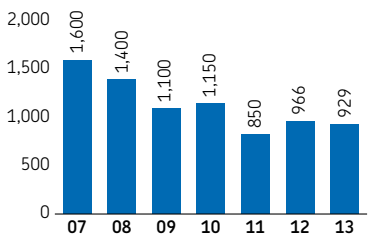
The SKF Group has a centralized service for the environmental compliance surveillance of SKF's products, with respect to chemical legislation, such as for example (but not limited to) REACH and RoHS.

The provisions of the REACH regulations came into force in June 2007. SKF is predominately a downstream user (as opposed to a producer) of chemicals as defined in the regulation and is complying by communicating both up and down the supply chain. This is to ensure that chemicals used in SKF's products and manufacturing are registered and safe to use. A designated steering group was formed to communicate REACH demands inside and outside the company. In addition to the environmental compliance surveillance mentioned above, this includes supplier contacts to verify compliance regarding use of chemical

Metal as raw material ('000 tonnes)



Use of Volatile Organic Compound, VOC (tonnes)



substances. For more information about health and safety related to SKF's products, please refer to "SKF Care – Policies and Practices" available in the Topics related to annual report at skf.com.

Water use and discharge

As the majority of SKF's factories are located in industrial zones, water, to a large extent, is supplied by municipalities. Therefore, SKF monitors total water consumption at operating units and not according to water withdrawal by source. Water consumption by the Group in 2013 was 5.45 million cubic metres, compared with 5.66 million cubic metres in 2012.

SKF sites located in areas of water scarcity have established specific targets for reducing water consumption.

One important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant to local rules and legislation. This includes waste water handling. Many units have also introduced closed-loop water systems or installed waste water treatment facilities. Water risk management is an integral aspect in LEED and SKF's Sustainable Factory Rating (SFR). »read more below

Waste management/recycling

All SKF units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. All scrap metal from SKF's operations is recycled, totalling 99,187 tonnes in 2013.

A common waste product from SKF's manufacturing process is grinding swarf. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2012.

This target was achieved in 2013 (80% recycling). Variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target to achieve, therefore SKF will maintain the 80% target up to 2016.

Some SKF units have taken the initiative to donate money from waste recycling to support local charities.

Packaging materials

SKF has very strict specifications and requirements concerning packaging materials and the packaging process. As defined in its Packaging Standard instruction S9, all packaging materials must comply with environmental and waste disposal legislation such as EU Directive 94/62/EC, as well as with local laws and requirements. Specifications and requirements about the type of packaging materials and related products are also defined in the standard.

SKF's Group Standard Pallet (GSP) box – pallet base, lid and collar – is the most common shipping container used by SKF, both internally and externally. These pallets have a lifetime of 7–10 years, and are used and reused in all inbound and outbound shipments. In case pallet bases, collars or lids are damaged they will be repaired and put back into circulation.

SKF Logistics Services provides component suppliers with GSPs and the same transport packaging is used when products are finally shipped to customers. Reusing the same transport packaging eliminates waste. For each pallet there is a returnable deposit which is refunded when the pallet boxes are returned to SKF Logistic Services.

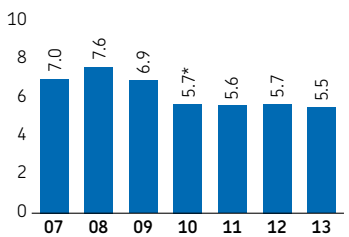
Construction – "Green building" standards

SKF requires that, irrespective of the location, all new facilities must be designed and constructed according to world-class standards in terms of environmental performance.

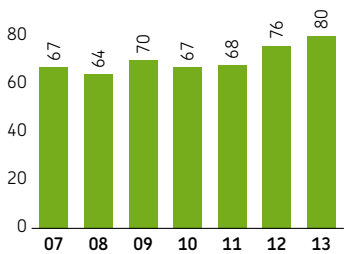
Therefore, SKF defined in 2010, that all major constructions undertaken by, or on behalf of, the Group must be designed and constructed in accordance with the US Green Building Council's (USGBC) "Leadership in Energy and Environmental Design" (LEED) standard.

Water use (million cubic metres)

*Restatement 2011



Grinding swarf recycling rate (%)



LEED covers the design and construction of the building itself; the lighting, heating and ventilating systems, working environment etc. Using LEED has led to significant improvements in building design and performance for SKF, however as it is a generic standard, designed to be applied to all building types and uses, it does not address the environmental and human impact of the specific manufacturing processes to be run in the building.

These impacts are often potentially very significant and therefore, SKF has internally developed Sustainable Factory Rating (SFR) as a specific "add-on" to the LEED requirements.

Since 2012, all major constructions to be undertaken by or for the Group are required to apply SFR in conjunction with LEED. In 2013, the first two factories were finalized and certified according to the standard.

As with the LEED system, the SFR lists a number of criteria which should be addressed by the project team during the design and construction of the facility and the specification of the manufacturing equipment, to assure the principles of SKF Care are fully applied, and full alignment with the SKF EHS policy is achieved, when new facilities within SKF are designed, built and taken into operation. Read more about LEED and SFR at skf.com

Since 2012, all major constructions to be undertaken by or for the Group are required to apply SFR in conjunction with LEED. In 2013, the first two factories were finalized and certified according to the standard.

LEED-certified SKF facilities – City, Country, operations and level of certification

SKF North East Asian distribution centre, Shanghai.

SKF Sealing Solutions, Mysore, Indien

Report on the business

Employee Care

Employee Care is about promoting a safe working environment, health, education and well-being of SKF's employees. SKF's leadership position has been established over many years through the commitment, knowledge and passion of the Group's employees around the world. SKF is powered by people and the company's ability to attract, retain and develop its employees is therefore absolutely critical for maintaining this leadership. SKF cares for our people, and our people care for SKF. This is the essence of employee care.

Assuring a safe working environment where an employee's rights are respected is fundamental to the Group and clearly stipulated in the SKF Code of Conduct. Over the years various tools and processes such as the SKF Code of Conduct compliance audits, the SKF Code of Conduct whistle-blower process and works council, have been implemented across the Group to ensure that this commitment is honoured.

The SKF Code of Conduct also requires employees be given opportunities to train for job enrichment and greater responsibility, for personal satisfaction and optimal leverage of individual strengths.

The global framework agreement between SKF and SKF World Union Council (representing the various labour unions working with the company) turned ten years in 2013. One of the first agreements of its kind, the framework helps to promote a healthy and productive relationship between SKF and the unions – which in turn contributes to the effective realization of employee care throughout the Group.

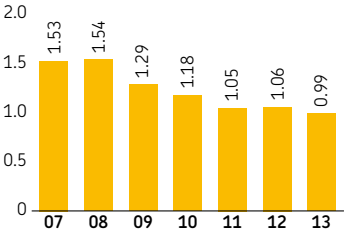
Zero Accidents and OHSAS 18001

SKF launched the Zero Accidents target in 2000 with the commitment to strive for eliminating all workplace accidents at SKF. The belief that accidents are preventable and that an accident-free work environment is achievable, has resulted in substantial progress over the years. 122 out of 233 SKF units worldwide achieved no recorded accidents for a minimum of four consecutive quarters at the end of 2013. 2013's accident rate was 0.99 (1.06), significantly lower in comparison to 13.78 in 1994 when SKF started monitoring it.

Proactive work to reduce accidents and improve the overall safety and wellbeing of SKF employees are carried out by the local SKF sites. One example is presented from Mexico in the highlight below. SKF is now putting increased focus on acting on near miss cases and unsafe working conditions to prevent accidents from occurring.

Regular hazard and risk assessments of working environments are a mandatory part of OHSAS 18001 certification. As is also required by SKF's management system, all new employees are subject to health and safety training. At the end of 2013, the certificate covered 114 sites in 32 countries. The schedule for SKF sites to be included is available at skf.com.

Accident rate



Accident rate definition;
The accident rate for the Group is calculated using the formula:
Accident rate =
R × 200,000/h, where
R = number of recordable accidents and
h = total hours worked at the site/company

Proactive accident prevention at SKF Puebla, Mexico

One of the most important aspects when it comes to safety at work is to gain everyone's commitment to identify, report and resolve risks – unsafe conditions sometimes referred to as accidents waiting to happen. In order to engage the full workforce in this, SKF in Mexico has developed a comic book to cascade risk identification and other aspects that depend on continuous improvement. This has led to successful proactive work that in the long run will help to reduce accidents, moving towards the goal of zero accidents.

Human rights and labour standards

Upholding and protecting human rights principles and labour standards are of the utmost importance to SKF. Formulating business ethics into official documents enables systematic compliance assessment and risk identification. Consequently, SKF published the SKF Code of Conduct in 2002, covering its responsibilities towards its stakeholders, and the policy is applicable to all operations worldwide.

External principles and internal audit

The SKF Code of Conduct is based on a number of internationally proclaimed principles and charters, including the ILO conventions and the UN Global Compact. In addition, the SKF Code of Conduct is the basis of the above mentioned global framework agreement and has been used as reference to establish other documents such as the SKF Code of Conduct for Suppliers and Sub-contractors, and the SKF Code of Conduct for Distributors, demanding similar high levels of commitment from business partners. For more information about the SKF Code of Conduct and adherence to international principles and charters, please refer to the document "SKF Care – Policies and Practices" found at skf.com.

A code of conduct audit system was established in 2004 with the aim of ensuring that SKF units globally have sound monitoring systems in place for complying with this policy. Audits are performed annually on a sample of units throughout the Group.

A non-financial risk assessment tool was introduced in 2008 with the purpose of helping prioritize the selection of units to be audited. In 2013, audits were conducted at 24 units, of which 11 were in Europe, 5 in Asia, and 8 in the Americas. The audits showed 6 non-compliances with the code of conduct, which were also legal non-compliances related to work hours. Corrective action was taken in all cases.

In addition to identify and follow up on the non-compliances, Group Policy Audit also makes recommendations to issues found not to be non-compliances, but still important to address.

A strictly confidential whistle-blowing process is also available for all employees to report behaviour or action breaching the code of conduct, by sending an email to the company's whistle-blower contact person. This is addressed for the attention of the Senior Vice President, People and Business Excellence. Immediate action is taken accordingly by SKF on all complaints received.

Retaliation towards any employee who speaks up by asking a question, makes a complaint or cooperates in an investigation is strictly forbidden, provided that the employee is raising a legitimate concern and/or reporting a problem in good faith.

World Union Council

Issues relating to significant changes at SKF, such as acquiring or divesting operations, are always discussed and resolved in an open and constructive atmosphere with union leaders locally and at the SKF World Union Council.

There is active and positive cooperation between company management and the union leadership to ensure a high standard of adherence. As part of the due diligence process for major acquisitions, SKF evaluates various people issues such as human rights and labour rights. The precise approach must be adapted to the specific conditions of each acquisition.

At the end of 2013, 84% of SK the Group's employees were covered by trade union agreements.

Oy SKF Ab Finland receives the Good Practice Award from the European Agency for Safety and Health at Work

SKF in Muurame, Finland was awarded the European Good Practice Award in 2013 for its work in creating healthy work places. The project "Good work – longer career" is a collaboration between the Finnish Metal Workers Union and other unions. At SKF, the focus has been on physical protection related to fork lift truck traffic, noise levels and lifting devices to mention only a few. This, coupled with awareness training under the message "Working together for risk prevention" has increased the overall performance. Follow-ups indicate that:

- General well-being, motivation and attitude has increased
- No accident has been recorded since the start of the project in February 2011
- Absenteeism has fallen

In addition, statutory payment for accident insurance was reduced by 17%

Jari Kupari (far left) and Kaarina Luoma (far right) of Oy SKF Ab Finland received the award from Christa Sedlatschek, Director of The European Agency for Safety and Health at Work (EU-OSHA) and László Andor EU Commissioner for Employment, Social Affairs and Inclusion during a ceremony in Dublin, Ireland.

Working environment

Every 18 months SKF carries out an employee survey called the Working Climate Analysis (WCA) globally, with the aim of constantly improving the working environment. The WCA collects employees' feedback on the working climate, both locally and globally, in relation to the company's values and drivers. Follow-up dialogues are held by managers with their teams, with the purpose of identifying and implementing improvement plans.

In the most recent WCA (2012, with results published in January 2013), the response rate for the WCA was 85.0% (85.3%), while the absolute number of employees finalizing the survey increased by 8%. The result is presented in 14 different categories with multiple subcategories. The most recent result showed a slight overall increase from the previous analysis (2011). The scope is 100% of the Group's employees.

Social data

In addition to the survey tool above, SKF also collects employee data annually in terms of retention rate, diversity (units with women in local management), independent trade unions, freedom of association and health and safety committees. The data is compiled from all manufacturing sites, technical and research centres, as well as logistics centres, covering 100% of the Group's employees and is aggregated at legal entity and country level, and in this report at regional and Group level.

The percentage of employees in full-time employment was 98% in 2013, while the retention rate of employees was 92%. At the end of 2013, 22% of the Board of Directors and 15% of SKF Group management's positions were held by women. Locally, 76% of SKF units have at least one woman in local management. The total number of female managers in local management throughout SKF was 18% (the proportion of female employees in the Group was 22%).

SKF has 66 country managers globally, representing 59 nationalities. SKF aspires to recruit, develop and promote the best local talent for managing its local business units. The diversity approach is to enforce "diversity for good business" – to mix teams based on contextual business needs. Cultural diversity is endorsed through international assignments, global leadership programmes and global project teams.

Job openings at SKF are posted on the intranet. The SKF Code of Conduct stipulates how all employees are entitled to a fair chance to compete for job opportunities. SKF's salary scheme is based on a fair and equal calculation according to SKF compensation principles which are based on SKF's code of conduct. SKF's central human resource organization Group People and Business Excellence follow up with local country organization where SKF has significant operations, to ensure that salaries set follow the principles, meaning that equal salaries for equal work at equal locations are set, along with preventing other structural errors.

For more data on social performance and year-on-year data, see Social statements on pages 177–179.

The percentage of employees in full-time employment was 98% in 2013, while the retention rate of employees was 92%. At the end of 2013, 22% of the Board of Directors and 15% of SKF's Group Management positions were held by women. Locally, 76% of SKF units have at least one woman in local management. The total number of female managers in local management throughout SKF was 18%.

Learning and development

All SKF employees are entitled to an Individual Development Plan (IDP), which is reviewed annually through discussions with their managers. Each individual's skills profile is assessed according to the job profile in the review discussion. Training plans for the employee's skills improvement and further development are subsequently listed in the IDP and are supported by a common system. In the latest follow-up in 2012, 65% of the Group's employees have had a performance review within the last 12 months, 54% consider that they have an individual development plan in agreement with their immediate manager.

Corresponding to the Group's strategic goals, an assortment of development programmes focusing on professional skills (e.g. sales and marketing, engineering, products and platforms, demand chain, manufacturing), leadership skills, personal skills (e.g. negotiation skills, communication skills, time management), and other strategic areas such as Six Sigma, quality, legal and finance, are made available to employees.

Utilizing different tools and methods – web conferencing, e-learning, classroom setting, group work, projects, and coaching – SKF's learning and development programmes aim at enhancing the quality in learning for employees. Managers' involvement and support through coaching is important for employees to achieve sustained personal and professional development.

To meet the goal of making learning affordable to all SKF organizations, which is particularly challenging in some of the rapidly expanding markets, the aim is to have more programmes based on concepts owned or leased by SKF, which can easily be replicated with local internal or external resources as trainers.

The establishment of SKF College campuses in the USA, Argentina, China and India, in addition to the campus in Sweden, is enabling SKF's global curriculum to be locally adapted, and provided in local languages by local trainers. This reduces the need for travelling long distances, being away from work and family, as well as the high cost of hiring foreign trainers.

To secure that SKF's people and organization have access to important and strategic courses, there are twelve work groups – called SKF Academies – covering nineteen learning areas.

Two of the focus areas during 2013 at these academies have been Application Technology and Leadership Maturity.

Application engineering is one of SKF's core strengths and a focus area in providing SKF Knowledge to customers all over the world. During 2013, over 30 trainers at each technology centre in the Netherlands, USA, India and China have been certified as Application Technology trainers. Application engineering is about applying SKF's technology in the Group's customers' applications and using SKF's competencies to enable superior solutions.

> 65% of the Group's employees have had a performance review within the last 12 months, 54% consider that they have an individual development plan in agreement with their immediate manager.

The leadership academy has designed a leadership maturity model to be able to provide a steady stream of leaders to follow the demands of competent managers at all levels - today and tomorrow. In all faster growing markets, the talent supply on entry level is very high, and with the leadership maturity model – and the programmes in it - SKF aims to support these individuals to develop into management positions on all levels and lead the company according to SKF values and drivers.

HR Transformation

SKF continued to make progress with its HR Transformation programme during 2013, with the goal of aligning all HR activities at SKF to achieve a common agenda, referred to in the Group as one people agenda, across the SKF Group.

As part of this, the work to harmonize more HR processes continued during the year. A new HR organization structure was released - bringing the HR organization together as one unit at SKF. The usage of shared service centres in larger countries, as well as across borders, is being further developed.

When finalized, the HR Transformation programme will result in an HR function that can support SKF even better on the journey towards becoming the knowledge engineering company.

> The roll-out of a new globally common Performance Management Process is continuing. In 2013, 68 countries and about 19,000 (9,000) employees were included in the system.

Performance management

The roll-out of a new globally common Performance Management Process is continuing. In 2013, 68 countries and about 19,000 (9,000) employees were included in the system. Around 5,000 white collar employees are yet to be included and negotiations are currently on-going with local Work Councils and Unions to also bring in the blue collar employees into it, aiming to have all employees in the process. Employees and managers have invested time to ensure they have relevant goals set for the year and to follow up achievements and discuss priorities during the year. The achievements towards the goals set are the basis for the salary review. By setting goals together with one's immediate manager that are specific, measurable, attainable, realistic and timely, employees have the possibility of having an impact on their own work and future compensation, yet staying in line with the Group's overall targets and strategies. This makes the performance management process an important tool to drive a high-performing culture at SKF.

Competency management

The objective of SKF's competency management process is to enable that the organization with the rights skills at the right place to support our customers' business.
The process has three main purposes;

- to support individual development – short and long-term. All individuals are entitled to have a Development Plan (IDP) based on a competency gap analysis and individual aspirations,
- to support business planning with the actual competency data on the existing workforce, and,
- to support short and mid-term planning of human capital needs

SKF's global competency management process is developing to become a strategic and tactical tool for workforce planning and individual development. With the introduction of global job roles and a common tool for assessment of all competencies, we will have accurate data on the existing workforce capabilities. In 2013, the global tools for online competency assessment have been rolled out to the entire white-collar staff at SKF (about 25,000 employees).

Health and well-being

SKF takes care to ensure the well-being and life-balance amongst the Group's employees.

81% of SKF's employees are covered by some type of documented health and well-being policy or programme. All units in Africa and a number in Latin America and East Asia have established programmes to prevent HIV/AIDS. Previous sustainability reports and the company website have reported various HIV/AIDS initiatives or programmes. More information about this is also available on page 96 in the Community Care section.

A variety of other employee care programmes are offered in various countries including free access to third party counselling, childcare services, access to fitness facilities, household services, and regular health-checks by professional medical staff. In many countries, paid volunteer work is also included as part of the Employee Care programme where employees are either given one paid-day to work on community care projects or it is incorporated into company activities. See the Community Care section for further information about some of SKF's engagements.

> 81% of SKF's employees are covered by some type of documented health and well-being policy or programme.

Report on the business

Community Care

SKF aims to create long-term value in the communities where it operates, and for society at large. This value comes in large part as a result of the overall economic development which SKF helps to drive and the employment, revenue and tax receipts which result. SKF Care, the SKF Code of Conduct and related policies assure that the Group runs its business ethically and that potentially negative social impact is understood and avoided. But beyond these basic contributions and commitments, the Group aims to actively engage in the communities where it operates – to create additional positive social impact.

The SKF Social Policy

The SKF Social Policy was issued in 2006 with the aim of promoting employees' involvement in commendable local social projects. Since 2008, every country management team has been asked to prepare and submit an annual community care plan. As a basis for the community care plan, local management must assess and define the support that best caters for the local society's needs and contributes to the community's development.

44 SKF county organizations submitted community care plans in 2013. Out of a total quantifiable contribution of SEK 36.5 million, SEK 31.5 million was made up of financial sponsorship to various local charities, as well as for sports, cultural or educational events. Just over SEK 3.5 million was donations to help underprivileged people or victims of natural disasters. The remaining share was of in-kind giving and volunteered working hours.

With this policy, SKF's employees around the world are fully empowered to engage with their local communities through various socially beneficial activities and approaches. Over 2012-2013, well over 200 activities have been driven by SKF units around the world. The number and diverse range of community care programmes truly shows how great the demand is from local communities, as well as the high motivation that SKF employees have to contribute to a positive change.

44 SKF county organizations submitted community care reports in 2013. Out of a total quantifiable contribution of SEK 36.5 million, SEK 31.5 million was made up of financial sponsorship to various local charities, as well as for sports, cultural or educational events.

Education and vocational training

SKF appreciates the importance of knowledge and aspires to be the knowledge engineering company and subsequently a competitive leader in the industry. Equally significant is knowledge or education in eradicating poverty – education is the first step to empowerment. As a result, SKF has been actively involved over the years in providing local communities with access to education and training through scholarships, partnerships, vocational training, mentorship or sponsoring events.

In Austria, the Basky Project (short for Basar SKF City) celebrated 10 years in 2013. The initiative tries to integrate young adults with a minimum 30% disability (physical, psychological and/or mental) into society, through vocational training.

SKF in Peru has contributed during the year to the extension of the school in the Andean community of Anchonga, Huancavelica. In collaboration with the NGO Tierra de Niños, SKF first went to the remote rural community in 2010 to help with constructing the first classroom. In 2013, the project proceeded to build an additional classroom to help provide education for about 200 children in the area. The project was founded partly by employees at the office in Lima selling SKF World Calendars and partly by the local SKF organization. In addition to the construction of the classroom itself, SKF also supported the women of the textile workshop in Villa Libertad, Lima, who sewed 500 blankets, which were handed over to the villagers of Anchonga upon the inauguration.

Another initiative that started in 2006 and which has evolved over the years is the Comunidade at SKF in Cajamar, Brazil. SKF Comunidade (SKF Community) was established to provide an opportunity to underprivileged children from the Cajamar region for mental, social and physical development. SKF Comunidade takes place every three months at the SKF Sports Club at the factory. Children from poor communities are invited to the club (and transportation is arranged for them) where they can have fun and learn through creative activities.

Mano Amiga is one project in Guadalajara in Mexico seeking to promote computer skills in the local community. SKF Mexico helped construct a computer classroom with the organization Mano Amiga para la Niñes (Friendly hand for kids) 2012. The project continued in 2013 and SKF has collaborated with HP to provide computers and other hardware to the classroom.

In Germany, SKF partners with the city of Schweinfurt in the project "Wissenwerkstatt" – a workshop for technical experiments. Together with other companies in the area, SKF sets up a technical workshop for girls and boys between the ages of eight to eighteen.

The Siirt Project in Turkey focuses on providing the right prerequisites and enrolling girls in school. SKF is supporting this by teaming up with SKF distributors in the area and providing scholarships especially targeted at girls at primary school level. The project is a collaboration between UNICEF and the Turkish ministry of education and the objective of the project is to achieve equal schooling for boys and girls.

For more about SKF community care programmes in other countries, including India, China, Pakistan, Peru, the Philippines, and Turkey, please see previous years' reports, or visit skf.com.

Siirt project, Turkey – seeks to provide equal opportunities for schooling between girls and boys.

Wissenwerkstatt, Germany – technical workshop for boys and girls.

Youth and sports

SKF Sports Academy, India, cricket team

SKF Sports Academy, India, all girl football team

Supporting youth and sports has been a top priority for SKF over the years.

SKF once again partnered with the Gothia Cup in 2013 – an annual event in Gothenburg for over 30,000 young people. SKF has been sponsoring the event since 2006 and it is the largest football tournament in the world for boys and girls between the ages of 11 and 19.

SKF Meet the World is an initiative that makes it possible for young people all over the world to qualify for taking part in the Gothia Cup. This is done by running tournaments with up to 32 teams in local countries, where the winners get to travel to Gothenburg Sweden and participate in Gothia Cup and meet other young people from all over the world. SKF started Meet the World in 2007 and in 2013 qualifying tournaments were held in about 20 countries. In the end, teams from Albania, Brazil, Bulgaria, Canada, China, Czech Republic, Estonia, France, Germany, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Portugal, Romania, Slovenia, Russia and Zambia came to Gothenburg to take part in Gothia Cup, see gothiacup.com

The SKF Sports Academy in Pune (India) started with the help of Pimpri Chinchwad Municipal Corporation (PCMC) 2005. The academy is providing proper sporting infrastructure for developing talented youngsters from less privileged backgrounds. The participants are offered a broad learning experience where in addition to developing their sporting skills, their overall growth and development is also monitored. In 2013, SKF India added an initiative of "Holistic development of children" under which SKF employees have volunteered as mentors to each child and helped individuals to improving their life through aspects such as education, health and life skills. During 2013, the SKF sports academy programme was also started at three other locations in India – Haridwar, Ahmedabad and Bangalore.

A number of SKF organizations support different sports programmes, especially for those who are physically challenged. SKF Polska SA has chosen to partner with the Four King wheelchair rugby team, to help them with technical issues, marketing their team and their sport and creating awareness about the physically challenged in general.

Helping to tackle challenges faced by local communities

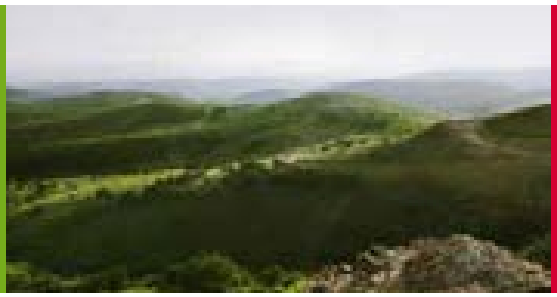
The local SKF units always have the empowerment to decide what a local community needs most. The different needs in all parts of the world are reflected by the nature of the community care programmes.

HIV and AIDS remains a major challenge in large parts of the world and in sub-Saharan Africa in particular. In Kenya, it is one of the greatest public health concerns with around 1.6 million Kenyans living with HIV and AIDS. HIV/AIDS is more than a health issue as it also impedes a country's long-term economic and social development.

In addition to various programmes offered to local employees – as a member of the Swedish Workplace HIV/AIDS Programme (SWHAP) – SKF Kenya also formed an association called Neighbours Against Aids (NAA) with other companies in the region. The primary objective of the initiative is to stop the spread of the disease and offer support to those infected and affected. Throughout the years since its inception in 2002, NAA has focused on building HIV/AIDS awareness among employees and their families. The activity gradually broadened to support local communities, not only related to infectious diseases.

In 2013, NAA gathered on World Environment Day to volunteer in a clean-up activity inside the Nairobi Remand Prison. The remand prison has a population of about 2000 people of which 1800 are remanded awaiting the outcome of their various

Legae Community Childcare Centre, South Africa



SKF Forest, Fuxin county, China

cases. Some have been waiting for eight years on remand. The activity is coordinated by the Nairobi Remand Prison Official and the Prison Fraternity.

In South Africa, SKF is an active member in Swedish Workplace HIV/AIDS (SWHAP) – a partnership between employer and unions established to fight HIV/AIDS in the workplace and in the local community since 2004. Even though the main topic is HIV/AIDS, the association addresses the issue of holistic wellness, encapsulating more than just physical health and wellbeing. Another example from South Africa is the support of Legae Community Childcare Centre – a preschool and care centre for up to 50 children in need, as well as an after-school centre for 20 children up to the age of 13.

In several other countries, such as Canada, the UK and Italy, SKF has set up paid voluntary schemes for local employees to volunteer in local community care activities. SKF also organizes food, clothes and book donations and many SKF employees take part in fundraising to support local charitable and health organizations. In the USA for example, many SKF units volunteered for various events such as the, American Cancer Society – Relay for Life (Flowery Branch, Franklin, Hobart, Johnson City), Red Cross Blood Drive (Columbia City, Falconer, San Diego), the SKF United Way Campaign (Flowery Branch, Hanover, Falconer, Fort Mill, Elgin, Johnson City, Hebron, Lansdale, Salt Lake City) and many more. Collectively, SKF's factories and offices in the USA raised the equivalent of 2 million SEK together in 2013, partly from employees own contribution, and partly from corporate contributions.

SKF USA continues to sponsor and support Habitat for Humanity, a non-governmental and non-profit organization. Habitat has been devoted to building affordable houses for low income families since its inception. In addition to sponsorship, SKF has organized volunteer days, during which SKF employees can help out with the construction of the housing and also to celebrate the handover of the house to the family.

SKF Argentina has also been focusing on building houses by volunteering for the non-governmental organization Un Techo Para Me Pais (A roof for my country), or just TECHO. The non-governmental, non profit organization's mission is to promote community investment in slums and foster social awareness and action by creating interaction between the volunteers and the underprivileged families.

SKF China has been running a five-year forestation project in Fuxin country in Northeast China since 2010. Now, four years into the project, the Chinese State Forest Administration (SFA) concludes that it has been very successful. So far, the project has planted 676 hectares in which 488.3 ha in Fuxin county during 2010, 2011 and 2012, and 187.7 ha during 2013 in Xiuyan County. In total 1,444,000 seedlings with a survival rate of 94% have been planted. The project's scope for 2014 is 259 ha in Xiuyan County, and the plan is to plant 816,000 Pinus koriensis and Larch gmelinii seedlings. The project has so far made significant contributions to improving biodiversity, prevent land desertification and protect clean sources of water, as well as providing job opportunities to local residents. In the long-term, the forestation campaign can hopefully contribute to preventing devastating sandstorms due to desertification which has plagued north China periodically, and to facilitate the absorption of atmospheric CO_2.

SKF Hanover, USA, was part of a local community initiative to work together and achieve quality through lean improvement activities. SKF has a lot of experience in this area through its implementation of Business Excellence at its own organization. As part of the initiative, SKF teamed up to help a local health care organization, Wellspan Health, improve their care for diabetes patients. The team met once a week, over a twelve-month period, to identify and implement improvements and monitor results. Among other things, time studies were carried out covering the different steps of various patients' visits, which showed a number of items that contributed to wasted time. Measures were taken to solve the issues, including a systemized way of giving feedback to the patient. For example, all information such as changes in the medical orders, recommended diets and exercise was gathered in one system. The patient could then follow the doctor's orders more easily, which gave improved medical results and freed-up time for the nursing staff to spend more quality time with the patients.

Sponsorship

Shell Eco Marathon

The Shell Eco Marathon Americas was held in downtown Houston, Texas in June 2013. The event is a unique competition that brings together more than 100 teams and thousands of students from across the Americas to battle for ultra-energy efficiency. The principle of the Shell Eco-marathon is simple: design and build the world's most fuel-efficient vehicle. Teams register in the autumn of the year prior to the competition, and spend months designing and refining their vehicles and technology to compete where distance, not speed, is the challenge.

SKF has been a major sponsor of the Shell Eco-marathon Americas since the challenge began seven years ago. The goals of the Shell Eco-marathon fit perfectly with SKF's commitment to improving energy and resource efficiency and minimize friction loss. During the design phase, SKF offers participants free access to their engineering experience and products as they design their vehicles by providing an engineering hotline to help students resolve energy-efficiency challenges.

The Göteborg Award for Sustainable Development

SKF is one of the sponsors of the Göteborg Award for Sustainable Development.

The SEK 1 million award is presented annually to individuals or organizations for their significant contribution to sustainable development.

The 2013 award was presented to Pavan Sukhdev for bringing into focus the values represented by the global ecosystem and biodiversity and to Janine Benyus for her work in biomimicry. Biomimicry is a science that explores how people can learn and draw inspiration from nature's solutions in order to create sustainable innovations.

Previous prizewinners include Mike Biddle and Björn Söderberg for their individual entrepreneurship and efforts managing waste, Kofi Annan and Sue Edwards for their work to end hunger, Al Gore and Gro Harlem Brundtland, see gothenburgaward.com

SKF continues its support of pioneering Solar Impulse project

SKF contributes to Solar Impulse, the first aircraft designed to fly day and night without fuel or pollution, demonstrating the immense potential of renewable energy. The Solar Impulse project's objective is to have an airplane take off and fly autonomously, around the world, propelled uniquely by solar energy. SKF joined the project as a specialized partner, contributing to developing this unique airplane with products and engineering knowledge in the areas of bearing technology, analytical modelling and virtual testing.

The aircraft's construction calls for advanced technologies and research in composite structures, light materials, and energy storage. In the first phase of the project, SKF is providing customized hybrid deep groove ball bearings for the aircraft's main propeller drive. During the summer of 2013, the first plane made a successful journey across the US, from the west coast to the east coast. The project's ultimate goal is to fly around the world, scheduled for 2015 and with the second generation aircraft currently under construction, see solarimpulse.com

The Gothenburg International Science Festival

SKF has been a proud sponsor of this event since 1996. The aim of the event is to stimulate positive attitudes towards science and its role in society by bringing science to the general public. It is also to provide a meeting place for the research community. The festival is truly an excellent meeting place for the general interests or enthusiasts in natural science and technology held at various venues, from museums and libraries to shopping centres and city parks, see vetenskapsfestivalen.se/english

Shell Eco-Marathon, Americas

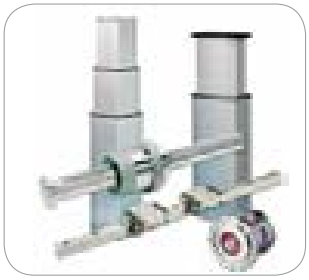
Göteborg Award for Sustainable Development

Gothenburg International Science Festival

SKF's markets

In this chapter we describe SKF's main addressable markets from a product, solutions and services perspective covering bearings, products for linear and actuation and motion control, polymer seals, lubrication systems, products for mechanical power transmission and products and services for asset efficiency.

Bearings market
The global bearings market is generally seen as the worldwide sales of rolling bearings, comprising ball and roller bearing assemblies of various designs, including mounted bearing units.



Linear and actuation and motion control market
This market includes a wide variety of products in which mechanical components, systems and electric drives are combined to provide different types of controlled motion.

Polymer seals market
The polymer seals market can be segmented by type of motion into rotating, reciprocating or static seals, or by customer groups into automotive, industrial or aerospace seals.

Lubrication systems market
The global lubrication market consists of automatic lubrication systems equipment, design and installation and lubrication tools and equipment.

Mechanical power transmission market
The global industrial mechanical power transmission market includes basic power transmission open-drive products such as V- and synchronous belt drives, chain drives and shaft couplings.

Asset Efficiency Optimization market
The Asset Efficiency Optimization market addresses clients' need to improve the productivity, efficiency, and performance of their assets.

International standards

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

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

Bearings market

The global bearings 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 size in 2013 in volume was relatively unchanged year-over-year and remains at between SEK 320 and 330 billion.

SEK 320–330 billion

The automotive original equipment bearing markets, including two and four-wheelers, accounted for more than 30%. The industrial original equipment bearing markets accounted for almost 40% of world demand and included manufacturers of light and heavy industrial machines and equipment, as well as aerospace, off-highway and railway vehicles. Sales through distributors (industrial distribution and the independent vehicle aftermarket) maintained around 30% of world bearing demand, of which around 30% is related to the vehicle service market and around 70% to the industrial market.

Asia's share of the world bearing market was relatively unchanged and accounted for almost 50% compared with less than 30% ten years ago. China's share of the total world bearing market was slightly down to about 25%. Japan's share of the world bearing market accounts for less than 15%. Other Asian markets with sizeable bearing production account for about 10%, including India, Thailand, Indonesia, Malaysia and the Republic of Korea.

The Chinese bearing market, which remains the largest 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 accounts for less than 5% 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 25% of the total world market with Germany alone accounting for almost 10%. The Americas now represent slightly more than 20% of global demand, of which the USA, Canada and Mexico together account for about 80%. In South America, Brazil is the major market and makes up more than 60% of regional demand.

SKF is the world leader on the bearings market with other major international companies including the Schaeffler Group, Timken, NSK, NTN, and JTEKT.

SKF estimates that the top 6 world bearing manufacturers represent about 60% of the global rolling bearing market while the group of Chinese bearing companies, including small and larger ones, represents less than 20% in the world with more than 80% of their sales in Asia, less than 10% in Europe, less than 7% in Americas. The remaining 20% of Chinese bearing companies includes many smaller regional competitors.

Radial deep groove ball bearings are the most common rolling bearing type, accounting for almost 30% of the world bearing demand. Other major ball bearing types include angular contact ball bearings, self-aligning ball bearings, thrust ball bearings and automotive wheel hub ball bearing units. Roller bearings account for less than half of worldwide rolling bearing sales.

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). The largest roller bearing family is the tapered roller bearing, with about 20% of the world bearing market.

Example of products

Wheel hub bearing

Deep groove ball bearing

Self-aligning ball bearing

Angular contact ball bearing

Tapered roller bearing

Spherical roller bearing

Cylindrical roller bearing

Linear and actuation and motion control market

This market includes a wide variety of products in which mechanical components, systems and electric drives are combined to provide different types of controlled motion. SKF estimates that the global markets for linear, actuation and motion control slightly declined in 2013 over the previous year, to less than SEK 50 billion worldwide.

SEK
50 billion

More than half of the market is in Asia, one third in Europe and the remainder in the Americas. 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 in the actuator business and THK in the linear motion area. There is a clear industrial trend towards a higher use of mechatronic solutions driven by increasingly stringent demands on higher efficiency operating (both for energy savings and for lower environmental impact purposes), reliability, flexibility and cost of ownership.

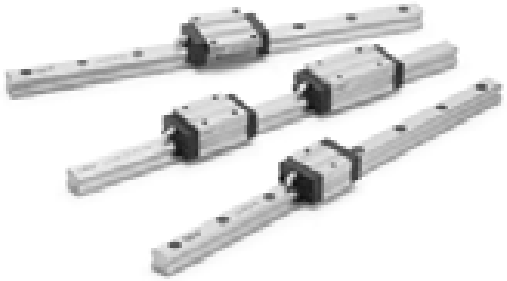
SKF is active in developing and offering a comprehensive range of mechatronic components, modules and sub-systems for many industrial and consumer applications, which provide extensive customer benefits.

SKF's main focus industries in this market include the medical industry, factory automation, semi-conductors, off-highway and the oil and gas industry. SKF is very active in the oil and gas industry and involved in developing products and solutions for sub-sea applications, which are considered tomorrow's new technological frontier of this industry.

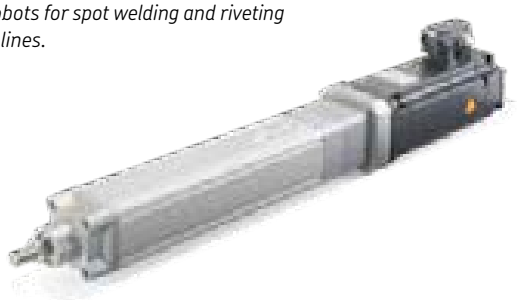
SKF is a leading supplier for light and medium industrial actuation systems, roller screws and magnetic system solutions, including magnetic bearings, controllers, motor drives and high-speed motors. SKF also supplies linear guides, ball screws and positioning tables.

Example of products

Inverted roller screws are used in the automation industry, mainly in robots for spot welding and riveting in car body assembly lines.



Profile rail guide for use in the automation industry. Typical applications are car body assembly lines, packaging machines, woodworking machines as well as positioning of X-ray machines.



CASM electric cylinder for the automation industry. Typical applications are packaging machines, fully automatic assembly lines, modules and sub-systems for many industrial applications.

Polymer seals market

The polymer seals market can be segmented by type of motion into rotating, reciprocating or static seals, or by customer groups into industrial, automotive or aerospace seals. In 2013, the total polymer seals market experienced a fairly flat development, reaching an estimated SEK 75–80 billion.

SEK
75-80
billion

Industrial seals can be segmented into power transmission seals and fluid system seals. Most power transmission seals are made for rotating applications, with radial and axial shaft seals being the main product groups. Fluid systems seals include fluid power seals and fluid handling seals. The majority of the fluid power seals are made for reciprocating motion and are used in both mobile and stationary fluid power applications, for example in off-highway, mining and other heavy industries. The off-highway applications represent the largest part of the market. Asia represents a major share of the industrial seals market with the remainder almost equally split between the Americas and Europe.

Key applications in the automotive seals market include wheel-ends, chassis, engines and transmissions. Transmission seals represent the largest part of the automotive dynamic seals market, with its bonded piston and shaft seal product lines. Asia represents slightly more than 50% of the automotive original equipment (OE) seals market, while the rest is split between the Americas and Europe. In 2013, the Asian and North American markets grew, while the decline in Europe continued, and the demand in Russia weakened, compared to 2012.

In aerospace applications, products are required to withstand extreme conditions and are often critical to the system's operational reliability. In order to meet such requirements, aerospace seals are custom designed with light weight and corrosion resistant materials and solutions. North America and Europe are still the most important markets, but the demand in Asia is growing.

SKF is among the top global players with a strong offer in most applications across each industry. 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 industries. Trelleborg AB and Parker Hannifin are important players on the industrial seals market and Federal Mogul, Dana, ElringKlinger, Kaco-Sabo and Bruss are significant suppliers of automotive seals. The aerospace seals market is fragmented and split between 8–9 companies and the major players are Trelleborg AB, FNOK (Simrit), St Gobain, Greene, Tweed and SKF.

In addition, Aerospace Sealing Solutions manufactures precision elastomeric vibration control products. These elastomeric bearings, isolators, dampers, and mounts are custom-engineered solutions, specifically designed for each application in fixed wing and helicopter applications. The Aerospace elastomeric vibration control market is split between 5-6 companies, with the major players being Lord Corp, Hutchinson, SKF, and ITT/Enidine.

Example of products

Industrial seals

HMSA10 (Power transmission seal)

S1S (Fluid power seal)

Automotive seals

SKF Scotseal (Wheel-end seal)

Bonded piston seal (Transmission and driveline seal)

Aerospace seal

Radial lip shaft seal

Lubrication systems market

The global lubrication market, consisting of automatic lubrication systems, design and installation and manual lubrication tools and equipment, declined 5-10% over the previous year in local currencies, to around SEK 30 billion in 2013 worldwide.

SEK 30 billion

Automatic or centralized lubrication systems provide precise amounts of lubricants – oil or grease – to moving parts, notably bearings, to minimize friction and wear. These systems are increasingly seen as mission-critical products aimed at improving the productivity, 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. Tools and equipment include grease guns, reels, meters, pumps and fluid drain systems. Design and installation services play a significant role.

The market trend is to move from manual solutions to automatic and centralized lubrication systems, this drives market growth above the underlying market growth.

Large industrial processing equipment in the cement, mining and mineral processing, steel and paper industries accounts for almost 50% of global demand, while vehicles – agricultural, mobile mining and construction, trucks and trailers – and industrial machines, such as machine tools and printing machines, each account for around 25% of the market.

By region, European markets account for about 35%, North and Latin America together make up about 35%, and Asia and the rest of the world account for 30%.

SKF has a strong presence in both the grease and the oil-based lubrication systems market globally. For tools and equipment SKF has a strong presence in the North American market. 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 BEKA (Germany), Groeneveld Group (Netherlands), LUBE Corp (Japan), Bijur Delimon (USA), Graco (USA), and Samoa Group (Spain).

Example of products

The new Microdosage lubrication system for demanding applications makes it possible to precisely meter and monitor extremely small quantities of lubricant.

SKF introduced the new Lincoln FlowMaster II pump for single-line parallel lubrication systems, which features increased pump life and simplified installation, operation and service.

Mechanical power transmission market

The global industrial mechanical power transmission market includes basic power transmission open-drive products such as V and synchronous belt drives, chain drives and shaft couplings. SKF estimates the total size of the global power transmission market remained at around SEK 150–170 billion. This market encompasses the industries covered by SKF's other markets.

SEK
150–170
billion

Growth in the power transmission market over the last 10-15 years has been between 3 and 10% per year. In 2007, SKF began offering a new and comprehensive range of industrial power transmission products, which have seen continuous growth of around 25 to 30% year-on-year.

The global power transmission market is quite fragmented with competitors generally being regional and/or industry-specific suppliers who usually provide only partial product offerings. Many competitors offer belts or chains (usually not both), and ordinarily they offer limited or no ironware such as pulleys, sprockets, couplings, etc. Other competitors offer only the ironware without the corresponding belts or chains. Regionally speaking, the more mature markets like Europe and North America have strong competitors covering specific but limited product ranges, while the emerging markets are less well attended.

As power transmission products greatly affect a customer's up-time and total cost of equipment ownership, customers demand better availability, technical support and know-how, enhanced performance, reduced energy consumption, easier installation, smoother operation, reduced noise levels, and ultimately increased reliability and service life. SKF has a unique understanding of rotating equipment and how machine components and industrial processes are interrelated in every major industry worldwide. SKF is therefore particularly well positioned to offer power transmission products and solutions in parallel with its already broad industrial product and service platforms.

Example of products

SKF Grid and Gear Couplings grease was launched during 2013. The grease is formulated to enhance the performance and the lifetime of SKF Grid and Gear Couplings in all applications.

Asset efficiency optimization market

The asset efficiency optimization (AEO) market addresses customers' need to improve the productivity, efficiency and performance of their assets. It 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.

Rapidly expanding market

This area involves a range of products and services, including Asset Reliability Consulting, which helps companies set up the right maintenance programme, Remanufacturing Services, and high-technology Condition Monitoring products and services, which provides early diagnostics about equipment problems. The industrial internet is particularly relevant to this market and is shifting the market dynamics. As more industrial plants are fitting their equipment with sensors and companies are focusing on major data analytics to predict equipment performance, it will drive adoption of AEO products and services. SKF sees future growth in AEO, particularly in wireless condition monitoring and cloud-based monitoring, as companies increasingly start using these technologies. The market continues to shift from reactive to proactive maintenance, as existing and new facilities recognize the value of implementing AEO services and products to maximize productivity and take advantage of the vast amount of information available.

Growth in this market remains particularly strong in developing regions, especially Latin America and Asia, which continue to show double-digit growth, while established markets like North America and Europe were affected more by the weakened macro-economic conditions. More established markets such as North America and Europe show high growth potential, especially as older manufacturing sites seek to get more productivity from existing plant assets. As manufacturers scale back investment in new facilities, it will be more important than ever to maximize productivity of existing assets through new technology and services. The ageing workforce in many countries will drive the growth of outsourced maintenance and reliability activities that are non-core to manufacturers' business. Increasing regulatory requirements driven by health, safety and environmental concerns require 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 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 is one of the global market leaders in this rapidly expanding market and continues to hold the strongest portfolio of products and services within its area. By combining its extensive knowledge of industrial machinery in economic, technical and environmental terms with its local service presence, SKF can deliver effective implementation of monitoring instrumentation and software solutions to customers worldwide. The competitive landscape remains dominated by a few key players with many small local suppliers and niche, technology-driven companies. The largest competitor in the market is the GE Energy unit Bently-Nevada.

Example of products

SKF offers a range of alignment products. For effective machine alignment, the measurement is only 5% of the process. SKF's new high-end alignment devices have a complete built-in alignment process to increase users' knowledge of alignment and walk them through all steps.

The SKF Machine Condition Indicator is a vibration sensor and indicator for monitoring non-critical machines. It is for machinery with constant operating conditions not previously monitored in plants. The device can be compared to the "check engine" light in a car.

Shares and shareholders

SKF's shares as of 31 December 2013

SKF's A and B shares have been quoted on the NASDAQ OMX Stockholm AB since 1914 and the total number of shares traded on this marketplace in 2013 was 582,261,712.

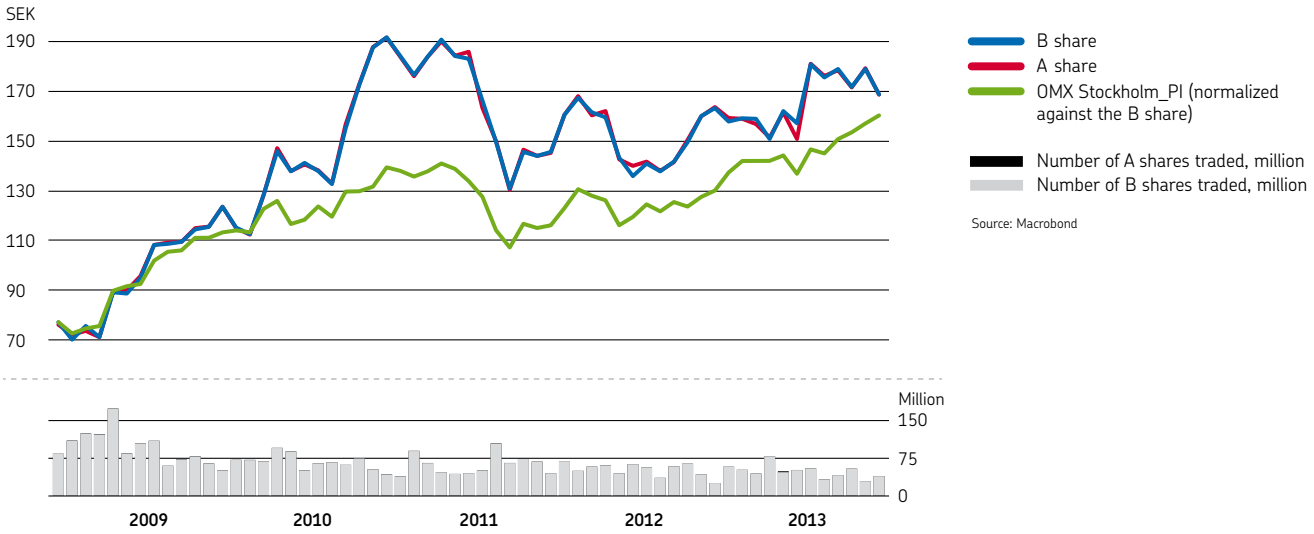
SKF is also traded on other market places, the most important are Chi-X Europe Limited, Bats Europe, Turquoise and Burgundy. The total number of shares traded on these four market places together in 2013 was 345,449,411. SKF's ADRs are traded on the OTC market.

A shares, unrestricted	38,558,266
B shares, unrestricted	416,792,802
Total	455,351,068

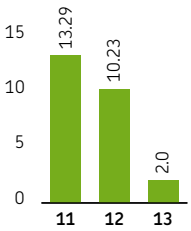
An A share gives the entitlement to one vote and a B share to one-tenth of a vote. It was decided at AB SKF's Annual General Meeting on 18 April 2002 to insert a clause in the Articles of Association which would allow owners of A shares to convert these to B shares. 4,091,016 A-shares were converted to B shares in 2013.

A-shares are constituting 8.47% of total number of shares, to be compared to 9.37% in December 2012 and 43.3% in December 2001.

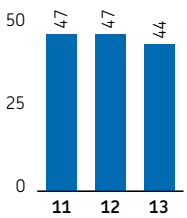
Price trend of SKF's shares



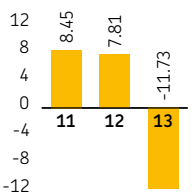
Basic earnings, SEK*



Shareholders' equity per share, SEK

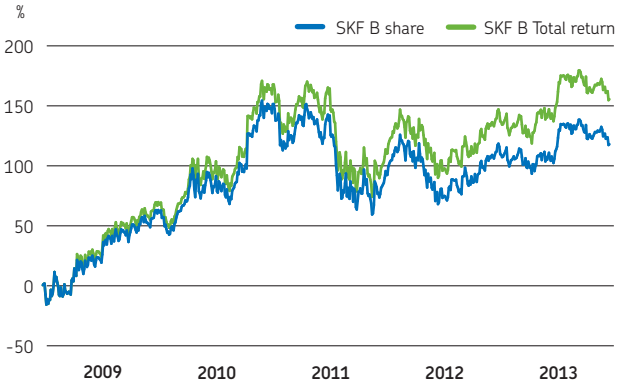


Cash flow after investments, before financial items per share, SEK



*2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

Total return 2009–2013



The total return from investing in SKF shares over the past five years was 156%.

Total return, for a given period, is defined as share price performance including the value of all reinvested dividends. The dividend is calculated reinvested as from the day the share is traded exclusive the right to the dividend. Total return is presented in per cent.

Per-share data

Swedish kronor per share unless otherwise stated	2014	2013	2012[2)]	2011	2010	2009	2008	2007
Earnings per share		2.0	10.23	13.29	11.28	3.61	10.14	10.09
Dividend per A and B share		5.50[1)]	5.50	5.50	5.00	3.50	3.50	5.00
Total dividends, SEKm	2,504[1)]	2,504	2,504	2,277	1,594	1,594	2,277	2,049
Redemption per share		–	–	–	–	–	–	5.00
Total redemption, SEKm		–	–	–	–	–	2,277	4,554
Purchase price of B shares at year-end on NASDAQ OMX Stockholm		168.7	163.2	145.60	191.60	123.60	77.25	104.79
Equity per share		44	47	47	42	38	41	40
Yield in percent (B)		3.3[1)]	3.4	3.8	2.6	2.8	4.5	4.8
Yield in percent (B), incl. share redemption		–	–	–	–	–	–	9.5
P/E ratio, B (share price/earnings per share)		84.2	16.0	11.0	17.0	34.2	7.6	10.4
Cash flow from operations, per share		-11.67	13.6	12.3	12.2	17.6	8.1	10.8
Cash flow, after investments and before financing, per share		-11.73	7.81	8.45	-6.23	12.63	0.14	4.67

[1)] According to the Board's proposal for the year 2013.
[2)] 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

The ten largest shareholders	A shares	B shares	Number of shares	Number of votes	In per cent of share capital	In per cent of voting rights
Foundation Asset Mangement	17,750,000	39,100,000	56,850,000	21,660,000	12.92	29.49
Swedbank Robur Funds	201,806	13,260,952	13,462,758	1,527,901	2.96	1.90
Alecta	2,192,404	7,724,148	9,916,552	2,964,818	2.18	3.70
AMF	0	9,471,813	9,471,813	947,181	2.08	1.18
SEB Investment Management	187,842	5,934,356	6,122,198	781,277	1.34	0.97
AFA Insurance	1,378,300	4,626,888	6,005,188	1,840,988	1.32	2.29
Didner & Gerge Fonder	0	6,000,000	6,000,000	600,000	1.32	0.75
Nordea Investment Funds	0	4,481,064	4,481,064	448,106	0.98	0.56
Skandia	2,411,767	1,976,396	4,388,163	2,609,406	0.96	3.25
First Swedish National Pension Fund	0	4,272,009	4,272,009	427,200	0.94	0.53
	24,122,119	96,847,626	120,969,745	33,806,877	27.00	44.62

Source: Euroclear Sweden AB's public share register as of 31 December 2013.

Foundation Asset Management Sweden AB (FAM), wholly owned by the three largest Wallenberg Foundations, is the only shareholder with a shareholding representing at least 10% of the voting rights in SKF.

As of 31 December 2013, about 45% of the share capital was owned by foreign investors, about 47% by Swedish companies, institutions and mutual funds and about 8% by private Swedish investors. Most of the shares owned by foreign investors are registered through trustees, which means that the actual shareholders are not officially registered.

Distribution of shareholding

Shareholding	Number of shareholders	%	Number of shares	%
1 – 1 000	55,683	82.6	17,332,563	3.6
1 001 – 10 000	10,519	15.6	28,925,091	6.4
10 001 – 100 000	927	1.4	26,617,007	5.8
100 001 –	289	0.4	382,476,407	84.2
	67,418	100	455,351,068	100

Source: Euroclear Sweden AB (Securities Register Centre) as of 31 December 2013.

Changes in share capital 1982–2013

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

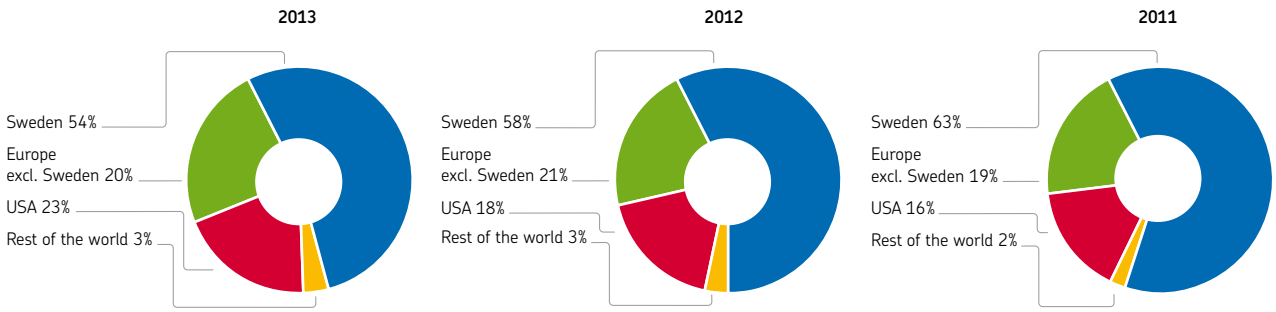
Share savings fund for employees

SKF Allemansfond, a national security savings fund for SKF employees in Sweden was started in 1984. On 31 December 2013, the SKF Allemansfond had 2,195 members. 32% of the fund was invested in SKF's shares. Assets amounted to SEK 129 million.

There are currently around 30 analysts who analyze and follow SKF and give recommendations on the shares. Names and companies can be found at skf.com. Go to "Investors", then "SKF's shares" and then "Analysts".

Geographic ownership

Source: SIS Ownership Data Corp.



Additional information

There are no regulations under Swedish law or under the Articles of Association limiting the transferability of SKF shares. Furthermore, to the best of SKF's knowledge, there exist no agreements between shareholders limiting the right to transfer SKF shares (e.g. by preemption or first refusal clauses). No limitations exist limiting the number of votes which each shareholder may cast at a shareholders' meeting. There are no existing agreements between SKF and any Board member or employee, which allow them to receive compensation in case of resignation, dismissal without cause, or termination of employment as a consequence of a public takeover bid on the shares in AB SKF.

AB SKF Stock Fund in the USA

SKF USA Inc. is offering a majority of its employees a possibility to defer pre-tax earnings into a Defined Contribution Pension Plan. The employees can direct the contributions and the matching contributions by the Company to different mutual funds. Through 31 December 2011, deferrals could be invested in an AB SKF Stock Fund. Effective 1 January 2012, deferrals and transfers into this fund are no longer permitted, although employees could maintain balances existing at 1 January 2012. The employees have no direct voting rights based on the shares held in the fund. The fund held 557,395 SKF B shares at the end of 2013.

Sensitivity analysis

Costs

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

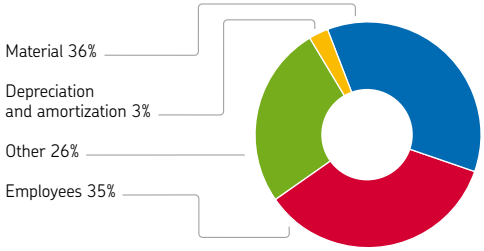
- The annual cost of raw materials and components is around SEK 20 billion (20) of which steel-based products account for the majority. An increase/ decrease of 1% in the cost of raw materials and components reduces/ increases the operating profit by around SEK 200 million (200). Steel scrap is a major ingredient in making bearing steel. A 10% increase/decrease of market scrap prices decrease/increase SKF's operating profit by around SEK 80 million (110), which is already included in the figure for raw materials and components that impacts the operating profit. »see also page 77
- An increase of 1% to wages and salaries (including social security charges) reduces the operating profit by around SEK 180 million (170).
- A decrease/increase of 1% in interest rates has a positive/ negative effect on the profit before tax of around SEK 140 million (50), based on the current position. The Group had net interest bearing liabilities of SEK 24,117 (15,658) million on 31 December 2013.

Currency impact

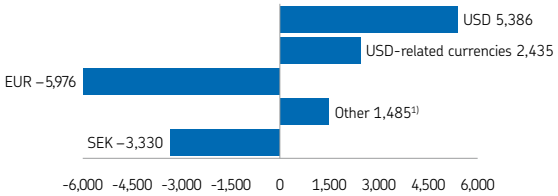
Translation effects: A weakening/strengthening of 5% of the SEK versus all major currencies has a positive/negative effect of the translation of profits in SEK of around SEK 500 million (400). Most of the profit is made outside Sweden, meaning the Group is exposed to translational risks, from all major currencies.

Transaction effects: A strengthening/weakening of 5% of the USD versus the SEK has a positive/negative net currency flow effect on the profit before tax of around SEK 300 million (300), excluding effects from hedging transactions. With regard to commercial flows, the Group is primarily exposed to the USD and USD-related currencies against SEK and EUR.

Cost split 2013, operating expenses SEK 56,793 m



Net currency flows 2013 (SEKm)



[1)] *Other is a sum comprising 10 different currencies.*

Financial position and dividend policy

Financial performance management model

SKF's financial performance management model is a simplified, economic value-added model, called Total Value Added (TVA), promoting a greater operating profit, capital efficiency and profitable growth.TVA is the operating profit, less the pre-tax cost of capital in the country where business is conducted. The pre-tax cost of capital is based on a weighted cost of capital with a risk premium of 5% above the risk-free interest rate for the equity part and on actual borrowing cost. The TVA performance for the Group correlates well with the share price trend over a longer period of time. Variable salary schemes are primarily based on this model.

Capital structure

The capital structure target is a gearing of around 50%, corresponding to an equity/assets ratio of around 35% or a net debt/equity ratio of around 80%. This underpins the Group's financial flexibility and its ability to continue investing in its business, while maintaining a strong credit rating. On 31 December 2013, the gearing was 59.2% (52.8), the equity/assets ratio 29.8% (37.0) and the net debt/equity ratio 117.3% (72.5). The capital structure in 2013 was affected by the financing of the debt related to the acquisition of Kaydon Corporation. All things being equal, the Group expects to return to the targeted capital structure within a couple of years.

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

Financing

SKF's policy is to have long-term financing of its operations. As of 31 December 2013, the average maturity of SKF's loans was five years. SKF has three notes issued on the European bond market, two with outstanding amounts of EUR 500 million each, due 2018 and 2019 and one with an outstanding amount of EUR 750 million, due 2020. Furthermore, SKF has issued one note of EUR 100 million on the Swedish market with a due date in 2015. According to the conditions of the notes, the notes' interest rate may increase by 5% in case of a change of control of the company in combination with a rating downgrade to a non-investment grade as a consequence of this. Change of control meaning any party/concerted parties acquiring more than 50% of SKF's share capital or SKF's shares carrying more than 50% of the voting rights. Since SKF has relatively standardized loan documentation similar conditions also apply to other loan agreement. In addition to the loans mentioned above SKF also has four loans, three of EUR 100 million each, due in 2014, 2016 and 2020, and one of SEK 1,000 million due in 2017.

Credit rating

On 31 December 2013, the Group had a BBB+ rating with a stable outlook for long-term credit from Standard and Poor's and a Baa1 rating with a stable outlook from Moody's Investors Service. SKF intends to keep a strong credit rating, which is reflected in its capital structure targets

Dividend

SKF's dividend and distribution policy is based on the principle that the total dividend should be adapted to the trend for earnings and cash flow, while taking into account the Group's development potential and financial position. The Board of Directors' view is that the ordinary dividend should amount to around one half of SKF's average net profit calculated over a business cycle. If the financial position of the SKF Group exceeds the targets for the capital structure an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or a repurchase of the company's own shares. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Based on the operating performance, cash generation capacity and outlook, the Board has decided to propose to the Annual General Meeting a dividend of SEK 5.50 (5.50) per share. This proposal is subject to a resolution by the Annual General Meeting in March 2014, see page 172, Proposed distribution of surplus.

Repurchase of the company's own shares

The Annual General Meeting in April 2013 authorized the Board, until the next Annual General Meeting, to decide on the repurchase of the company's own shares.

In 2013, no repurchases were made and the company owns no SKF shares.

Financial risks

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

Currency risk

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

Interest rate risk

Liquidity and borrowing are managed at Group level. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.

Credit risk

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

Liquidity risk

In addition to its own liquidity, AB SKF had three committed credit facilities in SEK, one of SEK 3,000 million with due date 2016 and one of SEK 3,000 million with due date 2017 and EUR 500 million with a due date in 2017.

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

Risks and uncertainties in the business

The SKF Group operates in many different industrial, automotive and geographical segments that are at different stages of the economic cycle. A general economic downturn at global level, or in one of the world's leading economies, could reduce the demand for the Group's products, solutions and services for a period of time. In addition, terrorism and other hostilities, as well as disturbances in worldwide financial markets and natural disasters, could have a negative effect on the demand for the Group's products and services. There are also political and regulatory risks associated with the wide geographical presence. Regulatory requirements, taxes, tariffs and other trade barriers, price or exchange controls or other governmental policies could limit the SKF Group's operations.

The SKF Group is subject to both transaction and translation of currency exposure. For commercial flows the SKF Group is primarily exposed to the USD and to US dollar-related currencies. As the major part of the profit is made outside Sweden, the Group is also exposed to translational risks in all the major currencies.

The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profit and lower dividend income for the parent company, as well as a need for writing down values of the shares in the subsidiaries.

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. 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. SKF believes that the European Commission may impose a fine on SKF in 2014. Given the nature of the investigation, the amount of such fine is likely to materially affect the Group's results and cash flow. SKF has fully cooperated with the Commission and has undertaken its own investigation. Based on this and SKF's best estimate of a probable amount of a fine, SKF included a provision of SEK 3 billion in its fourth quarter result 2013.

Internal control and risk management regarding financial reporting

The Group's systems for internal control and risk management in relation to the preparation of the Consolidated Financial Statements are described in the Corporate Governance Report under the heading "Internal control and risk management regarding financial reporting", see page 190.

SKF's business ethics, policies and Code of Conduct

The SKF Code of Conduct constitutes the ethical foundation for all activities at SKF. A sound corporate governance with transparent reporting and the fostering of an ethical business culture, are of the utmost importance for the SKF Group.

SKF's Anti-Corruption Compliance Programme and Antitrust Compliance Programme set out the basis for SKF´s activities in the area of ethics and compliance. These programmes include classroom training and mandatory e-learning courses, due diligence procedures, monitoring and reviews.

The primary policies aiming at preventing corruption and fraud are SKF's Anti-corruption and Anti-fraud policy, SKF's Group instructions related to the use of gifts and other favours, the use of agents and other intermediaries, and on charitable activities.

The Antitrust Compliance Programme is based on SKF's Antitrust Policy and Instructions on antitrust compliance – how to do business with competitors.

Local units are required to carry out antitrust, corruption and fraud risk assessments and to establish activity plans to mitigate the risks identified. Guidelines on how to carry out a proper risk assessments are available on SKF's intranet.

New employees receive training on the SKF Code of Conduct as part of their introductory training.

In addition to local training, SKF had three mandatory compliance e-learning training sessions at Group level, during 2013:

- An anti-corruption course which is mandatory for all SKF employees who have an SKF email account. By the end of December 13,500 (60% of the employees in the scope) had done this course.
- An antitrust course which is mandatory for all managers at SKF and for all employees working within sales and marketing as well as purchasers having contacts with competitors. By the end of December 7,600 (72% of the employees in the scope) had done this course.
- A fraud awareness course which is mandatory for all managers at SKF. By the end of December 6,500 (80% of the employees in the scope) employees had done this course.

Track records of the training are coordinated in SKF's learning management system to ensure that relevant SKF employees have done the mandatory compliance training courses. Attendance is followed up by Group Management.

SKF has procedures for carrying out due diligence on companies before acquisition, and for vetting contractors, suppliers, distributors, agents and other intermediaries. SKF's suppliers, subcontractors, distributors, agents and other intermediaries are required to adhere to the SKF Code of Conduct and related policies.

In addition to training, SKF has a number of tools and procedures to follow up, monitor and review adherence to the Code of Conduct:

- SKF's Code of Conduct helpline is a whistle-blowing channel which anyone at SKF can use to escalate or highlight issues or receive support on matters, when the usual reporting methods cannot be used.
- SKF Group Audit, the Group's internal audit department, annually performs risk based independent management tests to ensure adherence to the SKF Internal Control Standard (SICS). SICS is SKF's framework for financial internal control based on the COSO framework.
- Internal non-financial risk based auditing of compliance with the Code of Conduct has been ongoing since 2004 when the audit was integrated into the ISO 14001/OHSAS 18001 audit process.
- Event driven internal audits by one of the internal auditing bodies may be the result of cases reported via the whistle-blower function or other event.
- External audit as part of the annual reporting cycle.

The Group takes all findings, allegations and complaints related to misconduct seriously. Assessments and investigations are carried out immediately. For more significant cases, external auditors can be assigned to the investigation.

14 investigations relating to fraud and corruption were initiated by Group Audit in 2013. 12 of these investigations were finalized and closed during the year. Seven of these investigations did not give any conclusive evidence that anything improper had taken place. Five of the investigations either led to that the persons under investigation leaving the company or that they received warning letters.

For Code of Conduct non-compliances regarding non-financial aspects, please refer to the section on Human Rights and Labour Standards on page 90.

Going forward

SKF will continue to focus on fostering an open and ethical business culture. SKF's aim is to have a global alignment of disciplinary action for certain serious misconduct. As in any organization, SKF's success in this area is heavily dependent on its employees' commitment and willingness to report when they see non ethical behaviour. SKF will increase its activities related to employee engagement and support in preventing and detecting misbehaviour. Export control is another area where SKF will increase its focus going forward.

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

Introduction

The Board of Directors of AB SKF has decided to submit the following principles of remuneration for SKF's Group Management to the Annual General Meeting 2014. Group Management is defined as the President and the other members of the management team. The principles apply in relation to members of Group Management appointed after the adoption of the principles, and, in other cases, to the extent permitted under existing agreements.

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

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

Fixed salary

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

Variable salary

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

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

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

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

Performance Shares

Since 2008, SKF's Annual General Meeting has resolved each year upon a performance share programme for senior managers and key employees (SKF's Performance Share Programmes 2008 - 2013). The Board of Directors proposes that a decision be taken at the Annual General Meeting on SKF's Performance Share Programme 2014. The terms and conditions of the proposed SKF's Performance Share Programme 2014 are in essence the same as the terms and conditions of SKF's previous performance share programmes, covered by the principles of remuneration for Group Management decided at the Annual General Meetings 2008 - 2013.

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

The number of shares that may be allotted must be related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial year 2014, and the TVA development for the financial year 2016 compared to the financial year 2014. Under the programme, no more than 1,000,000 B shares may be allotted.

Based on the TVA for the financial year 2014, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

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

Following the expiry of the financial year 2016 a comparison is made between TVA for the financial year 2014 and TVA for the financial year 2016. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the participants will thus receive an increased number of shares in final allotment compared to the

number preliminary allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminary allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

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

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

Assuming maximum allocation under SKF's Performance Share Programme 2014 and a share price of SEK 150, the cost, including social security costs, is estimated at around SEK 180 million. On the basis of a share price of SEK 200, the cost, including social security costs, is estimated at around SEK 240 million. In addition, administrative costs are estimated at around SEK 2 million.

Other benefits

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

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

Pension

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

A Group Management member is normally covered by, in addition to the basic pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. By offering this supplementary defined contribution plan, it is ensured that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the basic pension. The normal retirement age for Group Management members is 65 years.

Notice of termination and severance pay

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

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

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

Preparation of matters relating to remuneration for Group Management

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

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

Information about remuneration decided upon but not due for payment

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

- The Annual General Meetings 2008–2013 resolved on SKF's Performance Share Programmes 2008–2013, with in essence the same terms and conditions as of the proposed SKF's Performance Share Programme 2014.

  No allotment of shares has been or will be made under SKF's Performance Share Programme 2009 due to non-fulfillment of the TVA target for the financial year 2009. Allotment of shares under SKF's Performance Share Programme 2010 was made in the beginning of 2013. Allotment of shares under SKF's Performance Share Programme 2011 was made in the beginning of 2014. No allotment of shares will be made under SKF's Performance Share Programme 2012 due to non-fulfillment of the TVA target for the financial year 2012. No allotment of shares will be made under SKF's Performance Share Programme 2013 due to non-fulfillment of the TVA target for the financial year 2013.

- The pension conditions of the President are described on page 153 in the Annual Report.
- Certain members of Group Management have defined benefit pension solutions.
- The normal retirement age for Group Management members is 65 years. Certain members of Group Management still have a retirement age of 62 years based on already existing agreements.
- Certain members of Group Management are, in the event of termination of employment at the request of the company, entitled to receive a severance payment which is not related to the number of years' service, but amounting to a maximum of two years' salary.

Principles of remuneration for Group Management 2013 and remuneration of Group Management 2013, see Consolidated Financial Statements Note 25.

Nomination of Board members and notice of General Meeting

In addition to specially-appointed members and deputies, the company's Board of Directors shall comprise a minimum of five and a maximum of ten members, with a maximum of five deputies. The Annual General Meeting shall, inter alia, determine the number of Board members and deputy Board members, and preside over the elections of Board members and deputy Board members.

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

Administration report for the Parent Company, AB SKF

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

AB SKF is the Entrepreneur within the Group, entitled to the residual profit and taking costs for R&D and management services.

Dividend income from consolidated subsidiaries amounted to SEK 8,227 million (3,103).

Net increase in investments in subsidiaries amounted to SEK 9,900 million (431) of which SEK 9,628 million (3) is related to acquisitions from companies within the SKF Group, SEK 1,170 million (428) to capital contributions to existing units and SEK 898 million (0) to capital repayment.

Risks and uncertainties in the business for the Group are described in the Administration Report for the Group. The financial position of the parent company is dependent on the financial position and development of the subsidiaries. A general decline in the demand for the products and services provided by the Group could mean lower residual profit and lower dividend income for the parent company, as well as a need for write-down of the values in the shares in subsidiaries. Due to the wide spread of markets, geographically as well as operationally in which the subsidiaries operate, the risk that the financial position for the parent company will be negatively affected is assessed as small.

Unrestricted equity in the parent company amounted to SEK 12,513 million.

Financial Statements

»see pages 202–203, SKF's global campaign 2013

Contents

Consolidated income statements

		Years ended 31 December	
SEKm	Note	2013	Restated 2012[1]
Net sales	2	**63,597**	64,575
Cost of goods sold	5, 6	**-47,925**	-48,121
Gross profit		**15,672**	16,454
Selling expenses	6	**-8,417**	-8,608
Administrative expenses	6	**-451**	-479
Other operating income	7	**567**	649
Other operating expenses	7	**-3,680**	-700
Profit/loss from associated companies	12	**2**	-2
Operating profit		**3,693**	7,314
Financial income	8	**123**	121
Financial expenses	8	**-995**	-1,027
Profit before taxes		**2,821**	6,408
Income tax	9	**-1,777**	-1,592
Net profit		**1,044**	4,816
Net profit attributable to:			
Shareholders of AB SKF		**912**	4,662
Non-controlling interests		**132**	154
Basic earnings per share (SEK)	17	**2.00**	10.23
Diluted earnings per share (SEK)	17	**2.00**	10.23

Consolidated statements of comprehensive income

		Years ended 31 December	
SEKm	Note	2013	Restated 2012[1]
Net profit		**1,044**	4,816
Items that will not be reclassified to the income statement			
Remeasurements (actuarial gains and losses)	18	**844**	-1,543
Income tax	9	**-315**	457
		529	-1,086
Items that may be reclassified to the income statement			
Currency translation adjustments		**-290**	-1,227
Available-for-sale assets	14	**16**	20
Cash flow hedges	28	**-39**	144
Income tax		**104**	-141
		-209	-1,204
Other comprehensive income, net of tax		**320**	-2,290
Total comprehensive income		**1,364**	2,526
Total comprehensive income attributable to			
Shareholders of AB SKF		**1,303**	2,446
Non-controlling interests		**61**	80

[1] 2012 restated for amended IAS 19, see Note 1.

Amounts in parentheses refer to comparable figures for 2012.

General

The Group's income statement includes the results of BVI for the period 1 March - 31 December 2013, and the results of Kaydon for the period 16 October - 31 December 2013.

Net sales

Net sales amounted to SEK 63,597 m (64,575). The -1.5% decrease in net sales compared to 2012 was attributable to volume by -0.7%, to price and mix[1)] by 0.0%, to structure by 2.5% and to currency effects by -3.3%. Qualifying hedging activities affected net sales by SEK 16 m (-82).

Operating profit

Operating profit amounted to SEK 3,693 m (7,314) resulting in an operating margin of 5.8% (11.3). The operating profit includes one-time items of SEK 3,875 m (440) whereof SEK 3,000 m relates to a probable fine in relation to the ongoing European Commission (EC) investigation, SEK 260 m relates to the acquisition of Kaydon, SEK 500 m (340) relates to the ongoing restructuring programmes, and the remaining SEK 115 m (100) includes impairments and other one-time costs.

Exchange rates for the full year 2013, including translation effects and flows from transactions, had a negative effect on operating profit of SEK -660 m (200). Cost of goods sold, selling and administrative expenses amounted to SEK 56,793 m (57,208). The costs were divided into 35% (33) employee benefit expense, 36% (38) raw material and components consumed, 26% (26) other expenses and 3% (3) depreciation, amortization and impairments. For details, see Note 6.

Other operating income and other operating expenses include items such as foreign exchange gains and losses arising on operating assets and liabilities, gains and losses on sales of property, plant and equipment and businesses as well as rental revenues and acquisition-related expenses. In 2013, other operating expense includes the provision for a probable EC fine, see Note 19.

Profit before taxes

Profit before taxes amounted to SEK 2,821 m (6,408). Financial income and expenses, net, amounted to SEK -872 m (-906). Net interest costs on post-employment benefits have affected the financial net negatively by SEK -314 m (-352).

Net profit

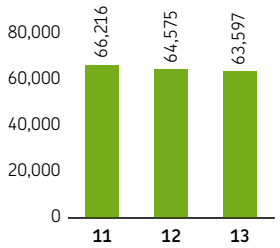
Net profit amounted to SEK 1,044 m (4,816). The actual tax rate was 63.0% (25.1) and was impacted by a probable EC fine. Excluding this, the actual tax rate for 2013 was 30.5%.

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

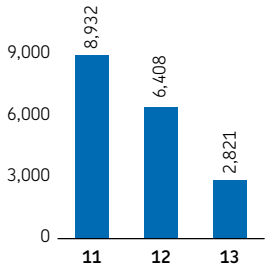
Values by quarter

SEKm	Quarter 1	Quarter 2	Quarter 3	Quarter 4	**Full year 2013**
Net sales	15,152	16,392	15,623	16,430	**63,597**
Operating profit/loss	1,480	1,837	1,923	-1,547	**3,693**
Profit/loss before taxes	1,237	1,627	1,717	-1,760	**2,821**
Basic earnings per share (SEK)	1.74	2.36	2.47	-4.57	**2.00**

Net sales



Profit before taxes*



* 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

Consolidated balance sheets

SEKm	Note	As of 31 December 2013	2012
ASSETS			
Non-current assets			
Goodwill	*10*	**10,717**	5,720
Other intangible assets	*10*	**8,306**	4,080
Property, plant and equipment	*11*	**14,095**	13,086
Long-term financial assets	*14*	**1,083**	1,041
Deferred tax assets	*9*	**2,015**	1,835
Investments in associated companies	*12*	**54**	44
Other long-term assets	*18*	**139**	103
		36,409	25,909
Current assets			
Inventories	*13*	**13,700**	12,856
Trade receivables	*14*	**11,189**	10,084
Income tax receivables		**964**	344
Other short-term assets	*15*	**2,528**	2,507
Other short-term financial assets	*14*	**832**	813
Cash and cash equivalents	*14*	**5,369**	8,244
		34,582	34,848
Total assets		**70,991**	60,757
EQUITY AND LIABILITIES			
Share capital	*16*	**1,138**	1,138
Share premium		**564**	564
Available-for-sale reserve		**210**	194
Hedging reserve		**-5**	24
Translation reserve		**-2,549**	-2,422
Retained earnings		**20,742**	21,842
Equity attributable to shareholders of AB SKF		**20,100**	21,340
Equity attributable to non-controlling interests		**1,052**	1,128
		21,152	22,468
Non-current liabilities			
Long-term financial liabilities	*20*	**19,698**	12,730
Provisions for post-employment benefits	*18*	**9,902**	9,881
Deferred tax provisions	*9*	**2,207**	481
Other long-term provisions	*19*	**1,226**	1,224
Other long-term liabilities		**65**	70
		33,098	24,386
Current liabilities			
Trade payables	*20*	**4,740**	4,189
Income tax payables		**433**	380
Short-term provisions	*19*	**3,785**	452
Other short-term financial liabilities	*20*	**1,646**	2,945
Other short-term liabilities	*22*	**6,137**	5,937
		16,741	13,903
Total equity and liabilities		**70,991**	60,757

Amounts in parentheses refer to comparable figures for 2012.

The consolidated balance sheet at 31 December 2013 includes Blohm + Voss Industries (BVI) and Kaydon Corporation, both acquired during 2013.

Assets and liabilities

Inventories amounted to SEK 13,700 m (12,856) which as a percentage of annual sales was 21.5% (19.9). The target for the Group was 18%.

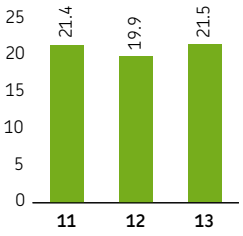
Trade receivables amounted to SEK 11,189 m (10,084) which as a percentage of annual net sales is 17.6% (15.6). The average days of outstanding trade receivables were 64 days (62). The Group's equity/assets ratio was 29.8% (37.0) which is slightly below the average target of 35%. Gearing was 59.2% (52.8). The target is to operate around 50%. The net debt/equity ratio was 117.3% (72.5).

In 2013, short-term provisions include the provision of SEK 3,000 m for a probable EC fine, see Note 19.

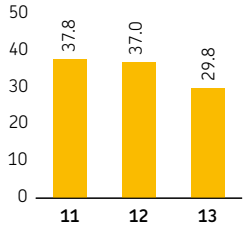
Provisions for post-employment benefits net, remained at the same level as 2012, see Note 18. Financial assets totalled SEK 7,284 m (10,098) at year end of which SEK 6,201 m (9,057) were current financial assets.

During 2013, equity decreased by SEK 1,316 m (13) and SEK 2,504 m (2,504) was distributed as ordinary dividend to the owners of AB SKF. For further details, see Note 16.

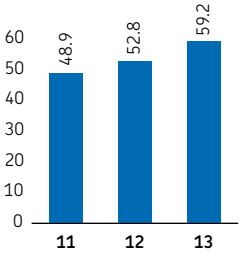
Inventories, % of annual net sales



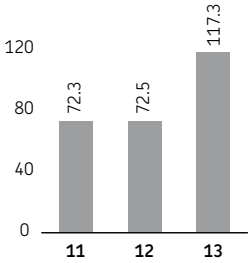
Equity/Assets, %



Gearing, %



Net debt/equity, %



Consolidated statements of cash flow

SEKm	Note	Years ended 31 December 2013	Restated 2012[1]
Operating activities			
Operating profit[1]		**3,693**	7,314
Adjustments for			
Depreciation, amortization and impairment	6	**1,893**	1,831
Net gain on sales of businesses, property, plant and equipment and equity securities		**-38**	-129
Other non-cash items[1]		**3,882**	312
Income taxes paid		**-2,351**	-2,839
Contributions to and payments under post-employment defined benefit plans	18	**-625**	-698
Associated companies		**-8**	-1
Changes in working capital			
Inventories		**-285**	927
Trade receivables		**-837**	255
Trade payables		**409**	-433
Other operating assets and liabilities, net		**-355**	-92
Interest received		**62**	115
Interest paid		**-359**	-288
Other financial items		**234**	-71
Net cash flow from operating activities		**5,315**	6,203
Investing activities			
Additions to intangible assets	10	**-534**	-128
Additions to property, plant and equipment	11	**-1,746**	-1,968
Sales of property, plant and equipment		**83**	81
Acquisitions of businesses, net of cash and cash equivalents	3	**-8,723**	-848
Sales of businesses, net of cash and cash equivalents	4	**264**	215
Investments in equity securities		**-1**	–
Net cash flow used in investing activities		**-10,657**	-2,648
Net cash flow after investments before financing		**-5,342**	3,555
Financing activities			
Proceeds from medium- and long-term loans		**7,414**	4,194
Repayment of medium- and long-term loans		**-2,429**	-1,428
Change in short-term loans		**-2**	-75
Other, including payment of finance lease liabilities		**-9**	-4
Cash dividends to shareholders of AB SKF		**-2,504**	-2,504
Cash dividends to non-controlling interests		**-31**	-47
Investments in financial assets		**-262**	-446
Sales of financial assets		**317**	238
Net cash flow used in financing activities		**2,494**	-72
Increase(+)/decrease(-) in cash and cash equivalents		**-2,848**	3,483
Cash and cash equivalents at 1 January		**8,244**	4,825
Cash effect excluding acquired/sold businesses		**-3,647**	3,393
Cash effect from acquired/sold businesses	3, 4	**799**	90
Translation effect		**-27**	-64
Cash and cash equivalents at 31 December		**5,369**	8,244

[1] 2012 restated for amended IAS 19, see Note 1.

Amounts in parentheses refer to comparable figures for 2012.

General

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

Cash flow after investments before financing

Cash flow after investments before financing, which is the primary cash flow measurement used in the Group, amounted to SEK -5,342 m (3,555). Adjusted for acquisitions of businesses, the cash flow amounted to SEK 3,381 m (4,403).

Net cash flow from operating activities

Gross cash flow, defined as operating profit plus depreciation, amortization and impairment, amounted to SEK 5,586 m (9,145). The gross cash flow was 8.8% (14.2) of annual net sales.

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

Net cash flow used in investing activities

The Group's capital expenditures for property, plant and equipment amounted to SEK 1,746 m (1,968), whereof approximately SEK 122 m (129) was spent on internal and external environmental improvements.

In 2013 the Group's cash outflow for acquisitions of businesses was SEK 8,723 m attributable to the acquisition of Kaydon Corporation and BVI, see Note 3. In 2012 the cash outflow for acquisitions of businesses was SEK 848 m.

Cash flow from financing activities

Interest-bearing loans totalled SEK 20,874 m (15,268) at year end. During the year, the SKF Group arranged new long-term financing of EUR 750 m and EUR 100 m. A loan amounting to EUR 265 m was repaid during the year.

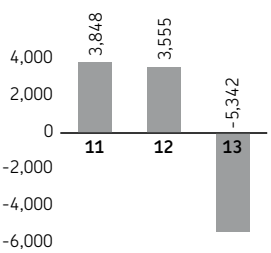
The change in cash and cash equivalents was SEK -2,875 m (3,419). In 2013, changes in exchange rates affected cash and cash equivalents by SEK -27 m (-64).

Change in net interest-bearing liabilities (SEKm)	**2013 Closing balance**	Cash change	Businesses acquired/sold	Other non-cash changes	Translation effect	2013 Opening balance
Loans[1]	**20,874**	4,983	–	-30	653	15,268
Post-employment benefits, net[2]	**9,815**	-625	398	-16	229	9,829
Other financial assets, other[3]	**-1,203**	55	–	-89	26	-1,195
Cash and cash equivalents	**-5,369**	3,647	-799	–	27	-8,244
Net interest-bearing liabilities	**24,117**	8,060	-401	-135	935	15,658

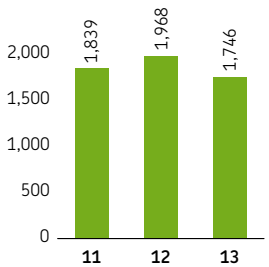
Change in net interest-bearing liabilities (SEKm)	2012 Closing balance	Cash change	Businesses acquired	Other non-cash changes	Translation effect	2012 Opening balance
Loans[1]	15,268	2,691	32	-27	-279	12,851
Post-employment benefits, net[2]	9,829	-698	–	2,342	-414	8,599
Other financial assets, other[3]	-1,195	-208	–	-27	61	-1,021
Cash and cash equivalents	-8,244	-3,393	-90	–	64	-4,825
Net interest-bearing liabilities	15,658	-1,608	-58	2,288	-568	15,604

[1] Excludes derivatives, see Note 20.
[2] Other non-cash changes includes actuarial gains and losses as well as expenses on defined benefit plans.
[3] Other financial assets exclude equity securities, cash and cash equivalent, derivatives and include other long-term assets less defined benefit assets.

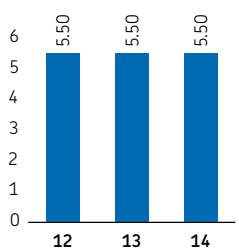
Cash flow after investments, before financing



Additions to property, plant and equipment



Paid dividend per A and B share, SEK



The Board of Directors' proposed distribution of surplus for the year 2013, which is subject to approval at the Annual General Meeting in March 2014, includes an ordinary dividend of SEK 5.50 per share, see Note 16.

Consolidated statements of changes in equity

	Equity attributable to owners of AB SKF								
SEKm	Share capital	Share premium	Available-for-sale reserve	Hedging reserve	Translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Opening balance 1/1/2012	1,138	564	174	-82	-1,170	20,812	21,436	1,019	22,455
Net profit[1]	–	–	–	–	–	4,662	4,662	154	4,816
Components of other comprehensive income									
Currency translation adjustments	–	–	–	–	-1,149	–	-1,149	-78	-1,227
Change in fair value of available-for-sale assets and cash flow hedges	–	–	20	49	–	–	69	–	69
Release of cash flow hedges	–	–	–	95	–	–	95	–	95
Remeasurements (actuarial gains and losses)[1]	–	–	–	–	–	-1,546	-1,546	3	-1,543
Income taxes[1]	–	–	–	-38	-103	458	317	-1	316
Transactions with shareholders									
Cost for Performance Share Programmes, net[2]	–	–	–	–	–	-40	-40	–	-40
Dividends	–	–	–	–	–	-2,504	-2,504	-47	-2,551
Non-controlling interest	–	–	–	–	–	–	–	78	78
Closing balance 31/12/2012	**1,138**	**564**	**194**	**24**	**-2,422**	**21,842**	**21,340**	**1,128**	**22,468**
Net profit	**–**	**–**	**–**	**–**	**–**	**912**	**912**	**132**	**1,044**
Components of other comprehensive income									
Currency translation adjustments	**–**	**–**	**–**	**–**	**-220**	**–**	**-220**	**-70**	**-290**
Change in fair value of available-for-sale assets and cash flow hedges	**–**	**–**	**16**	**-28**	**–**	**–**	**-12**	**–**	**-12**
Release of cash flow hedges	**–**	**–**	**–**	**-11**	**–**	**–**	**-11**	**–**	**-11**
Remeasurements (actuarial gains and losses)	**–**	**–**	**–**	**–**	**–**	**846**	**846**	**-2**	**844**
Income taxes	**–**	**–**	**–**	**10**	**93**	**-315**	**-212**	**1**	**-211**
Transactions with shareholders									
Cost for Performance Share Programmes, net[2]	**–**	**–**	**–**	**–**	**–**	**-39**	**-39**	**–**	**-39**
Dividends	**–**	**–**	**–**	**–**	**–**	**-2,504**	**-2,504**	**-31**	**-2,535**
Non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**-106**	**-106**
Closing balance 31/12/2013	**1,138**	**564**	**210**	**-5**	**-2,549**	**20,742**	**20,100**	**1,052**	**21,152**

[1] 2012 restated for amended IAS 19, see Note 1.
[2] See Note 25 for details.

Available-for-sale reserve

The available-for-sale reserve accumulates changes in the fair value of available-for-sale assets, with the exception of dividends and impairment losses which are recognized directly in the income statement. See Note 1 for accounting principles and Note 14 for details on available-for-sale assets.

Hedging reserve

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

Translation reserve

Exchange differences relating to the translation from the functional currencies of the SKF Group's foreign subsidiaries into SEK are accumulated in the translation reserve. Upon the sale of a foreign operation, the accumulated translation amounts are recycled to the income statement and included in the gain or loss on the disposal. Additionally, gains and losses on hedging instruments meeting the criteria for hedges of net investments in foreign operations, are recognized in the translation reserve net of tax. See Note 28 for details.

Notes to the consolidated financial statements

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2012.

1 Accounting policies

Critical accounting policies

Basis of presentation

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

The Annual Report of the Parent company, AB SKF, has been signed by the Board of Directors on 28 February 2014. The income statement and balance sheet, and the consolidated income statement and consolidated balance sheet are subject to adoption at the Annual General Meeting on 28 March 2014.

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

Basis of consolidation

The consolidated financial statements include the Parent company, AB SKF, and each of those companies in which it directly or indirectly, exercises control. Control exists when the Group has the right to direct the relevant activities of a company, has exposure to its variable returns, and can use such rights to affect those returns. Such control is usually achieved with an ownership representing more than 50% of the voting rights. AB SKF and its subsidiaries are referred to as "the SKF Group" or "the Group".

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

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

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

Business combinations and goodwill

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

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

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

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

Investments in associated companies

Companies in which the Group has a significant influence, are referred to as associated companies. Significant influence is the power to participate in the financial and operating policy decisions of the investee and is usually achieved when the Group owns 20% or more of the voting rights and not exercises control. Investments in associated companies are reported in accordance with the equity method.

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

Classification

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

Segment information

The Group has three reportable operating segments: Strategic Industries, Regional Sales and Service, and Automotive.

Operating segments are identified based on the internal structure of the Group's business activities whose operating results are regularly reviewed by the chief operating decision maker (CODM) in order to allocate resources and assess performance. The Group's internal reporting and consequently information to the CODM is structured into the Strategic Industries, Regional Sales and Service, Automotive and Other operations.

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

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

1 Accounting policies (cont.)

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

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

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

Translation of foreign financial statements

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

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

Translation of items denominated in foreign currency

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

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

Revenue

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

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of goods and services is generally recognized when (1) there is no longer any continuing managerial involvement over the goods, (2) the revenue can be measured reliably, (3) the collection of the amounts due is reasonably assured (4) any costs in respect of the sale are identifiable and can be measured reliably.

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

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

Property, plant and equipment (PPE)

Machinery and supply systems, land, buildings, tools, office equipment and vehicles are stated in the balance sheet at cost, less accumulated depreciation and any impairment losses.

Borrowing costs are included in the cost of property plant and equipment if a substantial period of time is required to get the asset ready for its intended use. The Group considers a period in excess of one year to be a substantial period of time.

A component approach to depreciation is applied. This means that where items of PPE are comprised of different components having a cost significant in relation to the total cost of the items, such components are depreciated separately. Depreciation is provided on a straight-line basis and is calculated based on cost. The rates of depreciation are based on the estimated useful lives of the assets,

Exchange rates

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

			Average rates		Year-end rates	
Country	Unit	Currency	**2013**	2012	**2013**	2012
China	1	CNY	**1.06**	1.07	**1.07**	1.05
EMU countries	1	EUR	**8.65**	8.70	**8.96**	8.61
India	100	INR	**11.13**	12.63	**10.52**	11.88
Japan	100	JPY	**6.72**	8.47	**6.19**	7.56
United Kingdom	1	GBP	**10.21**	10.71	**10.74**	10.49
USA	1	USD	**6.52**	6.74	**6.52**	6.52

which are subject to annual review. These useful lives are based upon estimates of the periods during which the assets will generate revenue and are based to a large extent on historical experience of usage and technological development. The useful lives are:

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

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

Intangible assets other than goodwill

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

- Patents and similar rights up to 11 years;
- Software in use normally 4 years;
- Customer relationships normally 10-15 years;
- Capitalized development expenditures normally 3-7 years;
- Other intangible assets normally from 3-5 years, with the exception of certain acquired intangible assets which have a useful life of up to 18 years;
- Those intangible assets where there is no foreseeable limit to the period over which the asset is expected to generate net cash flows, are considered to have indefinite useful lives, and no amortization is made. However these assets are tested for impairment annually and whenever there is an indication that the carrying value may not be recoverable.

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

Internally developed intangibles

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

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

Leases

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

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

Inventories

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

Adjustments to the cost of inventory may be necessary when the cost exceeds net realizable value. Net realizable value is defined as selling price less costs to complete and costs to sell. The estimates used in determining net realizable value are a source of estimation uncertainty. As future selling prices and selling costs are not known at the time of assessment, management's best estimates are used based on current price and cost levels. Adjustments to net realizable value also include estimates of technical and commercial obsolescence on an individual subsidiary basis. Commercial obsolescence is assessed by the rate of turnover and ageing as risk indicators.

Long-term employee benefits

Employee benefits, which are both earned and paid out during employment, and are expected to be settled more than twelve months after they are earned yet before employment ends, are long-term employee benefits. These include part-time retirements programmes, anniversary bonuses, long-stay and jubilee payments. All such programmes are calculated using the projected unit credit method and appropriate assumptions, as described under post-employment benefits, except that all remeasurements (actuarial gains and losses) are recognized immediately in the income statement.

Financial assets and financial liabilities

General

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

1 Accounting policies (cont.)

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

Classification and Measurement
Subsequent measurement depends on the classification of the instrument, as determined by management. Measurements used are cost, amortized cost and fair value. All valuation techniques applied to determine fair value, either for valuation or disclosure purposes, are accepted in the market and take into account parameters that the market would consider in its pricing of similar instruments. Where discounted cash flow techniques are used, the future cash flows are determined (if not stated explicit in the contract) based on the best assessment by management and discounted using the market interest rate for similar instruments.

Fair value of foreign exchange contracts is determined based on the listed price on the balance sheet date. The fair value of interest rate swaps is determined by applying discounted cash flow techniques. For current receivables and liabilities (such as trade receivables and payables) the carrying amount is considered to correspond to fair value.

• Available-for-sale
Debt securities and strategic investments in equity securities are categorized as available-for-sale. The exception is securities held by SKF Treasury Centre which are categorized as fair value through profit or loss at inception. Changes in the fair value of available-for-sale financial instruments are recognized in other comprehensive income, except for impairment losses which are recognized in the income statement. Reversals of impairment losses are recognized in the income statement for debt securities but in other comprehensive income for equity securities.

When the investments are derecognized, the cumulative gain or loss recognized in the available-for-sale reserve is released and recognized in the income statement. The fair values of quoted equity securities and debt securities held are based on the current bid price for the securities. Equity securities without a quoted price are held at cost because their fair value cannot be measured reliably.

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

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

• Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

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

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

• Other financial liabilities
Financial liabilities, excluding derivatives, are measured at amortized cost using the effective interest method. The carrying amount of liabilities that are hedged items, for which fair value hedge accounting is applied, are adjusted for gains or losses attributable to the hedged risks. For disclosure purposes, fair values of financial liabilities have been calculated using valuation techniques, mainly discounted cash flow analyses based on observable market data.

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

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

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

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

Hedge accounting
General
The Group applies hedges aimed at reducing risks related to the volatility of balance sheet items and future cash flows, which otherwise would affect the income statement. A distinction is made between cash flow hedges, fair value hedges and hedges of net investment in foreign operations based on the nature of the hedged item. Hedge accounting is used to reflect the outcome of the hedges in the financial statements. Derivative instruments which provide effective economic hedges, but which either do not qualify for hedge accounting under IAS 39 or are otherwise not designated for hedge accounting by the Group, are accounted for as trading instruments. Changes in the fair value of these economic hedges are immediately recognized in the income statement as financial income or expense or in the operating result depending on the nature of the hedged item.

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

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

Fair value hedges
Hedge accounting is applied to derivative financial instruments which are effective in hedging the exposure to changes in fair value in foreign borrowing. The currency and/or interest risk exposure is hedged by cross-currency interest rate swaps. Changes in the fair value of these derivative financial instruments designated as hedging instruments and meeting the criteria for fair value hedges are recognized in the income statement under financial items. The carrying amount of the hedged item (the financial liability) is adjusted for the gain or loss attributable to the hedged risk. The gain or loss is recognized in the income statement under financial items. If a hedge relationship is discontinued, the accumulated adjustment to the carrying amount is amortized over the duration of the life of the hedged item.

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

Financial income and financial expenses
Financial income consists of interest income, dividend income and gains on the disposal of financial assets available-for-sale. Financial expenses consists of interest expense the discounting effect of provisions, impairment losses recognized on financial assets, bank charges and other transaction-related costs. Foreign exchange gains and losses are recognized net in either financial income or financial expense.

Share-based compensation
The share-based compensation programmes of the Group are mainly equity-settled through the SKF Group's three year Performance Share programmes, for details see Note 25.

The fair value of the SKF B share at grant date is calculated as the market value of the share excluding the present value of expected dividend payments for the next three years. If there is a payout of shares, the participants are compensated for dividends as if they had owned the shares from the start of the three year period.

The estimated cost for these programmes, which is based on the fair value of the instruments at grant date and the number of instruments expected to vest, is recognized as an operating expense with a corresponding offset in equity. The dividend compensation amount is recognized as employee benefit expense separate from the share-based compensation expense. The cost for the programmes is adjusted annually for changes to the number of shares expected to vest and for the forfeitures of the participants' rights that no longer satisfy the programme conditions. Provisions for social costs to be paid by the employer in connection with share-based compensation programmes are calculated based on the fair value of the SKF B share at each reporting date and expensed over the vesting period.

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

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

Diluted earnings per share is calculated using the weighted average number of shares outstanding during the period adjusted for all potential dilutive ordinary shares. Performance shares are considered dilutive if vesting conditions are fulfilled on the balance sheet date.

1 Accounting policies (cont.)

Income taxes

General

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

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

Current taxes

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

Deferred taxes

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

Impairment of intangible assets and property, plant and equipment

Assets with definite useful lives

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

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

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

Intangible assets with indefinite useful lives

Goodwill and other intangible assets with indefinite useful lives, once allocated to a CGU, are tested annually for impairment and whenever there is an indication that the asset may be impaired. The impairment test is carried out at the lowest level of CGU or groups of CGUs at which these assets are monitored for internal management purposes. In most cases this is the acquisition level but over time as full integration is reached, can become the business unit level.

An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Any impairment loss would first reduce the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

Calculation of recoverable amount

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

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

The DCF model involves the forecasting of future operating cash flows and includes estimates of revenues, production costs and working capital requirements, as well as a number of assumptions, the most significant being the revenue growth rates and the discount rate. These forecasts of future operating cash flows are built up from the following time frames, which reflects the Group's long business cycle:

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

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

risk inherent in the related activity's current business model and industry comparisons.

If the calculated recoverable amount is less then the carrying amount of the CGU an impairment is recognized. The impairment loss would then first reduces the carrying value of goodwill, and then other intangible assets and property, plant and equipment based on their relative carrying values.

Provisions

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

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

Restructuring provisions including termination benefits

Restructuring programmes are defined as activities that materially change the way a unit does business. Restructuring provisions are recognized according to the general rules for provisions explained above, where an obligation is assumed to exist only when a detailed formal plan has been established and a public announcement of the plan has occurred thereby creating a valid expectation that the plan will be carried out. Restructuring provisions often include termination benefits, which can be either voluntary or involuntary. Termination benefits are recognized in accordance with the above, except where there is a service requirement in connection with the benefits, in which case the cost is allocated over the service period.

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

Provisions for claims

Provisions for claims include provisions for litigations, fines, and warranty. Provisions for litigation and fines are estimates of the future cash flows necessary to settle the obligations. Such estimates are based on the nature of the litigation, the legal processes and potential level of damages in the jurisdiction in which the litigation has been brought, the progress of the cases, the opinions and view of internal and external legal counsel and other advisers regarding the outcome of the case and experience with similar cases.

Warranty provisions involve estimates of the outcome of warranty claims resulting from defective products, which include estimates for potential liability for damages caused by such defects to the Group's customers or to the customers of these customers and potential liability for consequential damage. Assumptions are required for determining both the likelihood of favorable outcomes of warranty disputes and the cost incurred when replacing the defective products and compensating customers for damage caused by the Group's products. Warranty provisions are estimated with consideration of historical claims statistics, expected costs to remedy and the average time lag between faults occurring and claims against the company.

Post-employment benefits

The post-employment provisions and assets arise from defined benefit obligations in plans which are either unfunded or funded. For the unfunded plans, benefits paid out under these plans come from the all-purpose assets of the company sponsoring the plan. The related provisions carried in the balance sheet represent the present value of the defined benefit obligation.

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

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

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

The most significant assumptions can vary per plan but in general include discount rate, pension increase rate, salary growth rate, longevity and health care cost rates. These assumptions are established for each plan separately. The discount rate for each plan is determined by reference to yields on high quality corporate bonds (AA-rated corporate bonds or indexes as well as mortgage bonds for the plans in Sweden) having maturities matching the duration of the obligation. The pension increase rate assumption is relevant mainly for retired plan members, and refers to the indexation of pension payments tied primarily to inflation. The salary growth rate is relevant for active plan members and reflect the long-term actual experience, the near term outlook and assumed inflation. Longevity reflects the life expectancy of plan members and is established based on mortality tables used for each plan. Medical care cost trend rate is developed based on historical cost data, the near term outlook, and an assessment of likely long-term trends.

1 Accounting policies (cont.)

Remeasurements (previously called actuarial gains and losses) arise from changes in actuarial assumptions and experience adjustments, being differences between actuarial assumptions and what has actually occurred. They are recognized immediately in other comprehensive income and are never reclassified to the income statement.

For all defined benefit plans the cost charged to the income statement consists of current service cost, net interest cost and when applicable past service cost, curtailments and settlements. The past service cost is recognized immediately.

Net interest cost is classified as financial expense. Other expense items on all defined contribution expenses are allocated to the operations based on the employee's function as manufacturing, selling or administrative.

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

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

A portion of the ITP pension arrangements in Sweden is financed through insurance premiums to Alecta. This arrangement is considered to be a multi-employer plan where defined benefit accounting is required. Alecta is currently unable to provide the information needed to do such accounting. As a result, such insurance premiums paid are currently accounted for as a defined contribution expense. Fees for the year paid covering arrangements with Alecta were immaterial for both 2013 and 2012.

Critical accounting estimates and judgements

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

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

- The estimate of probable fine in relation to the European Commission investigation, see Note 19.
- Judgements on the realizability of deferred tax assets, see Note 9.
- The estimates and key assumptions used in the calculation of value in use for impairment testing of goodwill and other intangibles with indefinite lives, see Note 10.
- Discount rate on post-employment benefits, see Note 18.

New accounting principles

New accounting principles 2013

Starting from 2013, the Group has applied the amended IAS 19 "Employee Benefits". The most significant impact for the Group is the alignment of the expected return on plan assets to the discount rate for funded pension plans. There is no effect on the balance sheet, cash flow or total equity as this is a reclassification between the income statement and remeasurements (previously called actuarial gains and losses) in other comprehensive income. The Group's financial statements for 2012 have been restated as shown in the table below.

2012 (SEKm)	As reported	Restated
Income statement		
Operating profit	7,333	7,314
Financial expense	-943	-1,027
Taxes	-1,633	-1,592
Net profit	4,878	4,816
Comprehensive income		
Remeasurements (actuarial gains and losses)	-1,646	-1,543
Income taxes related to components of other comprehensive income	357	316
Other comprehensive income, net of tax	-2,352	-2,290

Additionally, IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosures of Interests in Other Entities" and IFRS 13 "Fair Value Measurement" have been effective for the SKF Group as from 2013. None of which have had a material impact on the Group's financial statements.

New accounting principles 2014

The following are effective for the Group as from 1 January 2014 and are not expected to have any material effect on the Group's financial statements when applied.

- IAS 32 amendment "Offsetting financial assets and financial liabilities". The amendment to IAS 32 clarifies when an entity has the legally enforceable right to set-off financial assets and financial liabilities (2014).
- IAS 39 amendment "Novation of Derivatives and Continuation of Hedge Accounting". The amendment to IAS 39 will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (2014) .

Other new accounting principles issued but not yet effective

The following have been issued by the IASB and are effective for annual periods after 2014 as noted. The effect upon the Group's financial statements has not yet been determined.

* IFRS 9 "Financial instruments – Classification and Measurement" simplifies accounting for financial assets by requiring a single approach to determine whether a financial asset is measured at cost or fair value (2015).
* IAS 19 amendment "Defined benefit plans: Employee Contributions". The amendment to IAS 19 revises the accounting for contributions from employees or third parties that are linked to service (2015).

* Indicates that this has not yet been endorsed by the EU.

2 Segment information

The SKF Group operates primarily through three business areas: Strategic Industries, Regional Sales and Service, and Automotive. These business areas each focus on specific customer industries representing groups of related industrial and automotive products worldwide. For more information on the Business areas and related products, see the Administration report pages 36-37.

Both Strategic Industries and Regional Sales and Service serve the industrial market by delivering products, services and solutions to both OEMs and end-users within the different industries: Aerospace, Energy, Industrial drives, Precision, Railway, Off-highway, Lubrication systems, Industrial distribution, General industries (Automation, Machine tool, Medical) and Heavy and Special industry (Metals, Pulp and Paper, Mining and Cement, Food and Beverage and Marine).

Automotive serves the automotive market by delivering products, services and solutions to both OEMs and end users within the different industries; Powertrain and Electrical and Two-wheelers, Car Chassis, Trucks, Sealing Solutions and Vehicle Service Market (VSM).

Other operations include businesses managed outside of the three business areas, including Kaydon which was acquired in October 2013, PEER, GBC and SKF Logistics Services, see the Administration report page 63.

Previously published amounts have been reclassified to conform to the current Group structure in 2013.

	Net sales		Sales including intra-Group sales		Contribution to Profit before tax	
SEKm	**2013**	2012	**2013**	2012	**2013**	2012
Strategic Industries	**18,596**	20,093	**29,745**	31,920	**2,638**	3,124
Regional Sales and Service	**24,500**	25,440	**24,925**	25,839	**3,013**	3,235
Automotive	**17,421**	17,123	**20,975**	20,767	**809**	467
Other operations	**3,080**	1,919	**6,036**	4,639	**408**	467
Subtotal operating segments	**63,597**	64,575	**81,681**	83,165	**6,868**	7,293
Eliminations of intra Group sales	**–**	–	**-18,084**	-18,590	**–**	–
Timing differences related to intra-Group sales and other timing differences	**–**	–	**–**	–	**-357**	-247
Eliminations and unallocated items	**–**	–	**–**	–	**-2,818**	268
Financial net	**–**	–	**–**	–	**-872**	-906
	63,597	64,575	**63,597**	64,575	**2,821**	6,408

	Depreciation and amortization		Impairments		Additions to property, plant and equipment and intangible assets	
SEKm	**2013**	2012	**2013**	2012	**2013**	2012
Strategic Industries	**913**	947	**40**	112	**721**	684
Regional Sales and Service	**132**	89	**–**	6	**124**	115
Automotive	**612**	588	**–**	-24	**640**	1,055
Other operations	**160**	70	**-9**	–	**185**	89
Eliminations and unallocated items	**45**	43	**–**	–	**610**	153
	1,862	1,737	**31**	94	**2,280**	2,096

	Assets		Liabilities	
SEKm	**2013**	2012	**2013**	2012
Strategic Industries	**25,028**	25,290	**3,878**	3,747
Regional Sales and Service	**8,553**	7,037	**1,968**	1,731
Automotive	**11,730**	11,433	**3,255**	3,199
Other operations	**12,577**	2,654	**1,467**	758
Subtotal operating segments	**57,888**	46,414	**10,568**	9,435
Financial and tax items	**10,263**	12,278	**33,870**	26,419
Eliminations and other unallocated items	**2,840**	2,065	**5,401**	2,435
	70,991	60,757	**49,839**	38,289

2 Segment information (cont.)

Geographic disclosure	Net sales by customer location		Non-current assets	
SEKm	**2013**	2012	**2013**	2012
Sweden	**1,752**	1,723	**2,078**	1,563
Europe excl. Sweden	**25,265**	25,914	**10,931**	9,465
North America	**15,276**	15,118	**15,228**	7,032
Asia-Pacific	**15,422**	15,780	**4,897**	4,712
Middle East/Africa	**1,742**	1,833	**11**	13
Latin America	**4,140**	4,207	**367**	416
Eliminations	**–**	–	**-288**	-220
	63,597	64,575	**33,224**	22,981

Previously published amounts have been reclassified to include Mexico in North America instead of Latin America.

Net sales are allocated according to the location of the respective customer. Of the Group's total net sales by customer location, 20% (20) were located in the USA, 13% (13) in Germany, and 12% (11) in China.

Non-current assets exclude financial assets, deferred tax assets and post-employment benefit assets. Non-current assets are allocated according to the location of the subsidiaries. Of the Group's total non-current assets as defined above, 44% (28) were located in the USA, 16% (17) in Germany, and 10% (12) in China.

3 Acquisitions

SEKm	**2013**	2012
Total fair value of net assets acquired		
Non-current assets, excluding goodwill	**4,968**	459
Current assets	**2,580**	671
Non-current liabilities	**-2,069**	-167
Current liabilities	**-801**	-148
Non-controlling interests	**-3**	-74
Fair value net assets acquired	**4,675**	741
Goodwill	**4,876**	131
Total acquisition cost	**9,551**	872
Less:		
Cash and cash equivalents acquired	**-826**	-90
Payment of consideration on prior years acquisitions	**-2**	66
Cash outflow	**8,723**	848

In 2013, the Group had total net cash outflows of SEK 8,723 m mainly for the acquisition of Kaydon Corporation and Blohm + Voss Industries.

In 2012, the Group had total cash outflows of SEK 848 m, primarily for the acquisition of GBC.

Acquisition of Kaydon Corporation

On 16 October 2013, the Group acquired 100% of the shares of Kaydon Corporation (Kaydon) through an all-cash tender offer on the New York Stock Exchange. Kaydon has over 2,100 employees and is headquartered in Ann Arbor, Michigan, in the USA.

The company is a leading designer and manufacturer of bearings and velocity control products such as industrial shock absorbers, gas springs and vibration isolation products. Their specialty products include filters and filtrations systems, custom rings and seals as well as environmental services. These products are used by customers in a variety of industries such as aerospace, defense, medical, semiconductor, wind energy, material handling and machine tool. The company has a global footprint with 62% of its sales generated in North America, 24% in Europe, 12% in Asia Pacific and 2% in the rest of the world. Kaydon has 19 manufacturing sites located in North America, Europe and Asia.

The Group expects to achieve significant synergies from the combination of greater cost efficiencies and improved sales opportunities. The acquisition of Kaydon is in-line with the Group's strategy to strengthen its technology platforms:

- Kaydon is a leader in its product categories, such as split bearings and thin section bearings, with highly engineered, performance-critical products.
- Kaydon's industry recognized brands and leading technologies serve high value, global market segments.
- Kaydon's product offering is highly complementary with the Group's product portfolio and will enhance the Group's offering to its customers worldwide.
- Kaydon serves a number of segments that are less represented in the Group's current customer base and provide an opportunity to expand its product offering to those customers.
- Kaydon has maintained a long track record of strong financial performance with robust profit margins and cash flow.

The table below shows the preliminary fair value of the net assets acquired in Kaydon.

SEKm	
Preliminary fair value of net assets acquired	
Trademarks	771
Customer relationships	1,897
Technology	800
Plant, property and equipment	861
Trade receivables	473
Inventory	800
Other assets	769
Deferred tax provisions	-1,300
Post-employment benefits	-193
Other liabilities	-649
	4,229
Goodwill	4,329
Total acquisition cost	8,558
Less:	
Cash and cash equivalents acquired	-656
Cash outflow	**7,902**

Selected trademarks and tradenames within Kaydon have been valued, including, Kaydon Bearings, Cooper, ACE, Hahn, Fabreeka and Purafil brands. Such preliminary valuations assume an indefinite useful life as the Group expects to promote these for the foreseeable future. Preliminary values were allocated to other significant intangibles which included customer relationships to be amortized over an expected life of 15 years, and technology to be amortized over 12 years.

The preliminary assessment of goodwill is attributable to the significant expected synergies, market opportunities and potential efficiencies, as well as Kaydon's ability to deliver strong financial performance on a consistent basis. None of the goodwill is expected to be deductible for tax purposes.

The acquisition was paid using existing cash and credit facilities. Acquisition related costs of SEK 60 m were expensed as other operating expense.

Kaydon's results were included in the Group's income statement as from 16 October 2013. Kaydon contributed net sales of around SEK 700 m and net profit of SEK -40 m to the Group's results for 2013, which include the amortization of the inventory fair value adjustment of SEK 200 m, and exclude acquisition related costs.

Acquisition of Blohm + Voss Industries

On 14 February 2013, the Group acquired 100% of the shares of Blohm + Voss Industries (BVI) from Star Capital Partners. BVI is a leading manufacturer of, and service provider for, premium quality equipment for critical marine applications, including shaft components (seals and bearings), stabilizers, and oily water separators. The company has around 400 employees and is headquartered in Hamburg, Germany with subsidiaries in Shanghai, Hong Kong, Singapore, Busan, Andover and Kobe and sales agents and service stations worldwide.

The table below shows the fair value of the net assets acquired in BVI.

SEKm	
Fair value of net assets acquired	
Trademarks	127
Customer relationships	203
Technology	128
Other assets	717
Post-employment benefits	-221
Other liabilities	-507
Non-controlling interests	-3
	444
Goodwill	549
Total acquisition cost	993
Less:	
Cash and cash equivalents acquired	-170
Cash outflow	**823**

BVI was integrated into the Group's marine segment and reports into the business area Industrial Market, Regional Sales and Service. BVI's results are included in the Group's Income statement as from 1 March 2013. They contributed net sales of around SEK 700 m and net profit of around SEK 50 m to the Group's results for 2013.

Proforma net sales and net profit

Had Kaydon and BVI been acquired at 1 January 2013, the consolidated revenue for the Group would have amounted to SEK 66,111 m and consolidated net profit would have been SEK 1,123 m.

This unaudited proforma information adds Kaydon's and BVI's income statements for the period 1 January to 15 October and 1 January to 28 February respectively, excluding their acquisition related costs, and adjusts for the additional amortizations and inventory fair value costs required by IFRS 3. Additionally, net financial costs were adjusted to reflect the increases in the Group's loans caused by the payment of the purchase price. Income taxes have been included in all proforma adjustments.

Acquisition of General Bearing Corporation in 2012

In August 2012, the Group acquired 100% of the shares of General Bearing Corporation (GBC). GBC, headquartered in West Nyack, New York, USA with 3 factories in China, has about 1,300 employees. GBC, with the General and Hyatt brands serve the automotive and heavy duty markets in the USA. The acquisition of GBC is fully in line with the Group´s strategy to develop product offerings with complementary brands enabling the Group to better serve these markets.

The total acquisition cost for GBC was SEK 872 m. Non-current assets include tradenames of SEK 155 m and customer relationships of SEK 82 m. Tradenames are considered to have an indefinite life as the Group intends to promote these brands in the foreseeable future. Goodwill is attributable to GBC's position as a strong second brand with good growth and margins in the truck and car segments, providing a foundation for future growth in certain selective markets. GBC contributed SEK 339 m of net sales and SEK 17 m of net profit to the Group's results. This represents their results from the date of acquisition to the end of 2012.

4 Divestments of businesses

SEKm	2013	2012
Property, plant and equipment	**99**	2
Inventory	**138**	92
Trade receivables and other assets	**103**	34
Provisions for post-employment benefits	**-16**	–
Trade payables	**-34**	–
Other provisions and liabilities	**-74**	-33
Net assets disposed of	**216**	95
Profit	**75**	105
Total consideration	**291**	200
Less:		
Cash and cash equivalents	**-27**	–
Consideration payable/-receivable	**–**	27
Cash outflow for prior year divestment	**–**	-12
Total cash inflow	**264**	215

During 2013, the Group divested its metallic rods business to US-based Precision Castparts Corp, which included the operations at the Group's sites in St. Vallier sur Rhône, France and Monroe, Washington in the USA.

During 2012, the Group sold their distribution business in Australia and New Zealand to US-based Applied Industrial Technologies.

5 Research and development

Research and development expenditure totalled SEK 1,840 m (1,607), corresponding to 2.9% (2.5) of annual sales, excluding developing IT solutions. The number of first patent applications was 468 (421).

6 Expenses by nature

SEKm	2013	2012
Employee benefit expenses including social charges [1]	**19,810**	19,019
Raw material and components consumed, including traded products	**20,677**	20,523
Change in work in process and finished goods	**-340**	1,114
Depreciation, amortization, and impairments	**1,893**	1,831
Other expenses, primarily purchased services, shop supplies and utilities	**14,753**	14,721
Total operating expenses	**56,793**	57,208

Depreciation, amortization and impairments were accounted for as (SEKm)	2013			
	Depreciation	**Amortization**	**Impairments**	**Total**
Cost of goods sold	**1,480**	**89**	**31**	**1,600**
Selling expenses	**77**	**216**	**–**	**293**
	1,557	**305**	**31**	**1,893**

Depreciation, amortization and impairments were accounted for as (SEKm)	2012			
	Depreciation	Amortization	Impairments	Total
Cost of goods sold	1,429	62	-17	1,474
Selling expenses	70	176	111	357
	1,499	238	94	1,831

[1] 2012 restated for amended IAS 19, see Note 1.

7 Other operating income and expenses

SEKm	2013	2012
Other operating income		
Exchange gain on trade receivables/payables	**356**	449
Profit from sale of property, plant and equipment	**44**	20
Profit from sale of businesses	**75**	105
Other	**92**	75
	567	649
Other operating expenses		
Exchange loss on trade receivables/payables	**-411**	-579
Loss from sale of property, plant and equipment	**-9**	-10
Acquisition-related expenses	**-77**	-23
Other[1)]	**-3,183**	-88
	-3,680	-700

[1)] Other includes in 2013 the provision for a probable fine related to the European Commission investigation, see Note 19.

8 Financial income and financial expenses

SEKm	2013	2012
Interest income	**104**	114
Interest expense	**-439**	-483
Net gains/losses:		
Net interest cost on post-employment benefits[1)]	**-314**	-352
Exchange differences, net	**-57**	-55
Other financial income including dividends	**19**	7
Other financial expenses[2)]	**-185**	-137
Financial net	**-872**	-906
Reflected as:		
Financial income	**123**	121
Financial expenses	**-995**	-1,027
Financial net	**-872**	-906

[1)] 2012 restated for amended IAS 19, see Note 1.
[2)] Include costs related to unwinding the discount on provisions, bank charges and other transaction-related costs.

	2013			2012		
Financial net specified by category of financial instruments (SEKm)	**Interest income**	**Interest expense**	**Net gains/ losses**	Interest income	Interest expense	Net gains/ losses
Financial assets/liabilities at fair value through profit or loss						
Designated upon initial recognition	**44**	**–**	**–**	38	–	–
Derivatives held for trading	**-4**	**53**	**559**	14	-81	177
Derivatives held for hedge accounting	**–**	**26**	**44**	–	121	-34
Financial assets classified as loans and receivables	**64**	**–**	**-297**	61	–	-64
Financial assets classified as available-for-sale	**–**	**–**	**5**	1	–	4
Other financial liabilities, primarily loans	**–**	**-518**	**-412**	–	-523	-131
Other liabilities	**–**	**–**	**-436**	–	–	-489
	104	**-439**	**-537**	114	-483	-537

See Note 1 for a description of the categories of financial instruments. For a specification of the underlying financial assets and financial liabilities to these categories see Note 14 and Note 20. Derivatives classified as held for trading are mainly used for economic hedging, which mitigate the effect of certain items in the categories loans and receivables and other financial liabilities.

Net gains/losses are mainly exchange differences and changes in fair value for all the categories except for other liabilities, which includes primarily net interest costs on post-employment benefits and other financial expenses.

9 Taxes

Tax expense (SEKm)	**2013** Income statement	**2013** Other comprehensive income	**2013** Total taxes	2012 Income statement	2012 Other comprehensive income	2012 Total taxes
Current taxes	**-1,960**	**–**	**-1,960**	-2,296	–	-2,296
Deferred taxes	**183**	**-211**	**-28**	704	316	1,020
	-1,777	**-211**	**-1,988**	-1,592	316	-1,276

Taxes charged to other comprehensive income includes SEK -315 m (457) related to actuarial gains and losses, SEK 10 m (-38) related to cash flow hedges and SEK 94 m (-103) related to net investment hedges.

Gross deferred taxes per type (SEKm)	**2013** Deferred tax assets	**2013** Deferred tax provisions	2012 Deferred tax assets	2012 Deferred tax provisions
Intangibles and other assets	**-256**	**2,580**	-277	1,130
Property, plant and equipment	**-120**	**1,202**	-68	1,074
Inventories	**-496**	**468**	-438	444
Trade receivables	**-34**	**8**	-41	5
Provisions for post-employment benefits	**-2,060**	**41**	-2,371	26
Other accruals and liabilities	**-630**	**27**	-620	27
Tax loss carry-forwards	**-434**	**–**	-331	–
Other	**-168**	**64**	-138	224
Gross deferred taxes	**-4,198**	**4,390**	-4,284	2,930
Net deferred taxes presented in the Consolidated balance sheet	**-2,015**	**2,207**	-1,835	481

Unrecognized deferred tax assets

The SKF Group had total unrecognized deferred tax assets of SEK 306 m (283), whereof SEK 88 m (58) related to tax loss carry-forwards, SEK 191 m (189) related to tax credits and SEK 27 m (36) related to other deductible temporary differences. These were not recognized due to the uncertainty of future profit streams. Unrecognized deferred tax assets of SEK 51 m are related to tax losses which will expire during the period 2014 to 2018. The remaining unrecognized assets will expire after 2019 and/or may be carried forward indefinitely.

The change in the balance of unrecognized deferred tax assets that reduced current tax expense was SEK 16 m (5) relating to the use of tax loss carry-forwards. The change in the balance of unrecognized deferred tax assets that impacted deferred tax expense was SEK 34 m (7) which resulted from a revised judgement on the realizability of certain tax assets in future years.

Reconciliation of the statutory tax in Sweden to the actual tax (SEKm)	**2013**	2012
Tax calculated using statutory tax rate in Sweden	**-621**	-1,709
Difference between statutory tax rate in Sweden and foreign subsidiaries	**-486**	-422
Other taxes	**-61**	-70
Tax credits and similar items	**162**	128
Non-deductible/non-taxable differences	**-813**	463
Change in tax rate, mainly in Sweden	**–**	38
Tax loss carry-forwards	**-42**	-12
Current tax referring to previous years	**49**	-16
Other	**35**	8
Actual tax	**-1,777**	-1,592

The corporate statutory income tax rate in Sweden was 22.0% (26.3). The actual tax rate on profit before taxes was 63.0% (25.1) and was negatively impacted by a probable European Commission fine, see Note 19. Excluding this the actual tax rate for 2013 was 30.5%.

Gross value of tax loss carry-forwards

At 31 December 2013, certain subsidiaries had tax loss carry-forwards amounting to SEK 2,203 m (1,710), which are available for offset against taxable future profits. Such tax loss carry-forwards expire as follows:

2014	139
2015	51
2016	81
2017	75
2018	193
2019 and thereafter	544
Never	1,120

10 Intangible assets

SEKm	2013 Closing balance	Additions	Businesses acquired/sold	Disposals	Impairments	Other[1]	Translation effects	2013 Opening balance
Acquisition cost								
Goodwill	**11,502**	–	4,876	–	–	330	130	6,166
Patents, tradenames and similar rights	**2,565**	8	902	-1	–	21	23	1,612
Software	**1,008**	482	-2	–	–	–	3	525
Customer relationships	**4,700**	–	2,100	-6	–	3	46	2,557
Leaseholds	**166**	16	–	-1	–	35	3	113
Product development	**353**	18	51	-10	–	–	12	282
Other intangible assets	**1,436**	10	873	-1	–	-28	15	567
	21,730	534	8,800	-19	–	361	232	11,822

SEKm	2013 Closing balance	Amortization	Businesses sold	Disposals	Impairments	Other[1]	Translation effects	2013 Opening balance
Accumulated amortization and impairments								
Goodwill	**785**	–	–	–	–	330	9	446
Patents, tradenames and similar rights	**295**	35	–	-1	–	10	9	242
Software	**456**	6	-2	–	–	–	3	449
Customer relationships	**852**	202	–	-6	–	13	12	631
Leaseholds	**18**	8	–	-1	–	–	–	11
Product development	**103**	8	–	-10	–	–	4	101
Other intangible assets	**198**	46	–	-1	40	-29	–	142
	2,707	305	-2	-19	40	324	37	2,022
Net book value	**19,023**							9,800

SEKm	2012 Closing balance	Additions	Businesses acquired	Disposals	Impairments	Other[1]	Translation effects	2012 Opening balance
Acquisition cost								
Goodwill	6,166	–	128	–	–	-24	-307	6,369
Patents, tradenames and similar rights	1,612	–	152	–	–	–	-74	1,534
Software	525	72	1	-5	–	–	-5	462
Customer relationships	2,557	–	79	–	–	–	-84	2,562
Leaseholds	113	33	5	–	–	–	-5	80
Product development	282	16	–	–	–	–	-10	276
Other intangible assets	567	7	2	-12	–	–	-86	656
	11,822	128	367	-17	–	-24	-571	11,939

SEKm	2012 Closing balance	Amortization	Businesses sold	Disposals	Impairments	Other[1]	Translation effects	2012 Opening balance
Accumulated amortization and impairments								
Goodwill	446	–	–	–	109	-24	-16	377
Patents, tradenames and similar rights	242	14	–	–	–	1	-9	236
Software	449	5	–	-4	–	-1	-5	454
Customer relationships	631	170	–	–	–	–	-27	488
Leaseholds	11	3	–	–	–	–	–	8
Product development	101	10	–	–	–	–	-4	95
Other intangible assets	142	36	–	-12	–	–	-6	124
	2,022	238	–	-16	109	-24	-67	1,782
Net book value	9,800							10,157

[1] Includes primarily reclasses from accumulated amortization and impairments to acquisition cost.

10 Intangible assets (cont.)

In 2013, additions to software and product development included SEK 487 m (83) that was internally generated. Included in this amount is 474 m (68) which relates to SKF UNITE, a new IT infrastructure which will aslo involve the establishment of new and improved processes. As this software has not been taken into use, no amortization has been made.

The impairment losses in both 2013 and 2012 were minor and are related to certain CGUs in Strategic Industries, where volumes did not develop as expected.

Certain tradenames and trademarks are considered to have indefinite useful lives as the Group anticipates continuing to promote these brands in the foreseeable future. This include the tradenames and trademarks in Lincoln SEK 964 m (965), Peer SEK 172 m (163), GBC SEK 149 m (149) and Kaydon SEK 771 m.

The CGU for Lincoln and preliminary CGU for Kaydon include goodwill and intangibles that are significant for the Group, amounting to SEK 4,392 m (4,343) for Lincoln and SEK 5,100 m for Kaydon. Of these amounts, SEK 3,428 m (3,378) and SEK 4,329 m relates to goodwill for Lincoln and Kaydon respectively.

For the purpose of the impairment testing, Kaydon is considered to be measured at fair value due to the fact that it was acquired 16 October 2013.

The recoverable amounts for Lincoln have been determined based on value in use using the DCF model as described in Note 1. The most significant assumptions used in determining value in use are the discount rates and the growth rates, being both the terminal growth factor and the revenue growth rates. The average revenue growth rate used for the first two time frames covering a ten-year period was 3% (3). The terminal growth factor used to calculate the terminal value was 2.5% (2.5) and the pre-tax discount rate was 16% (13).

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

11 Property, plant and equipment

SEKm	**2013 Closing balance**	Additions	Businesses acquired/sold	Disposals	Impair-ments	Other[1]	Translation effects	2013 Opening balance
Acquisition cost								
Buildings	**6,476**	151	182	-25	–	49	53	6,066
Land and land improvements	**832**	5	47	-20	–	26	–	774
Machinery and supply systems	**23,955**	847	413	-366	–	608	260	22,193
Machine toolings and factory fittings	**3,324**	140	51	-134	–	18	12	3,237
Construction in process including advances	**1,660**	603	26	-1	–	-941	4	1,969
	36,247	1,746	719	-546	–	-240	329	34,239

SEKm	**2013 Closing balance**	Depreciation	Businesses sold	Disposals	Impair-ments	Other[1]	Translation effects	2013 Opening balance
Accumulated depreciation and impairments								
Buildings	**3,089**	178	-49	-16	–	-73	46	3,003
Land improvements	**185**	4	–	-2	–	-5	5	183
Machinery and supply systems	**16,190**	1,083	-129	-377	-9	-100	208	15,514
Machine toolings and factory fittings	**2,688**	292	-8	-106	–	30	27	2,453
	22,152	1,557	-186	-501	-9	-148	286	21,153
Net book value	**14,095**							13,086

SEKm	2012 Closing balance	Additions	Businesses acquired/sold	Disposals	Impair-ments	Other[1]	Translation effects	2012 Opening balance
Acquisition cost								
Buildings	6,066	215	19	-210	–	121	-199	6,120
Land and land improvements	774	14	–	-11	–	4	-37	804
Machinery and supply systems	22,193	845	96	-389	–	298	-957	22,300
Machine toolings and factory fittings	3,237	308	–	-328	–	72	65	3,120
Construction in process including advances	1,969	586	39	-2	–	-558	-77	1,981
	34,239	1,968	154	-940	–	-63	-1,205	34,325

SEKm	2012 Closing balance	Depreciation	Businesses sold	Disposals	Impair-ments	Other[1]	Translation effects	2012 Opening balance
Accumulated depreciation and impairments								
Buildings	3,003	221	–	-86	3	19	-127	2,973
Land improvements	183	2	–	-1	4	9	-8	177
Machinery and supply systems	15,514	1,000	–	-637	-22	-79	-450	15,702
Machine toolings and factory fittings	2,453	276	-10	-159	–	-13	-38	2,397
	21,153	1,499	-10	-883	-15	-64	-623	21,249
Net book value	13,086							13,076

Leased property, plant and equipment consisted of the following (SEKm)	**2013**	2012
Acquisition value		
Buildings	**81**	78
Land and land improvements	**20**	13
Machinery, machine toolings, factory fittings and supply systems	**50**	2
	151	93
Accumulated depreciation		
Buildings	**16**	17
Machine toolings and factory fittings	**-1**	2
	15	19
Net book value	**136**	74

[1] Includes primarily reclassification between categories.

12 Associated companies

Investments in associated companies include a 25% shareholding of each of Simplex-Turbolo Co. Ltd. in the UK, and Bollfilter Japan Ltd., which were acquired in February 2013 as part of the acquisition of BVI, see Note 3. Other investments include primarily a 42% shareholding of Ningbo Hyatt Roller Co. Ltd in China, and a 20% share in CoLinx, LLC in the USA. Condensed balance sheet and income statement information for these associated companies is shown below.

Aggregated financial statements of associated companies (SEKm)	**2013**	2012
Non-current assets	**101**	79
Current assets	**314**	158
Total assets	**415**	237
Equity	**205**	130
Non-current liabilities	**21**	19
Current liabilities	**189**	88
Total equity and liabilities	**415**	237
Net sales	**1,008**	677
Profit before taxes	**36**	8

13 Inventories

SEKm	**2013**	2012
Finished goods	**8,070**	7,589
Raw materials and supplies	**3,979**	3,793
Work in process	**1,651**	1,474
	13,700	12,856

Inventory values are stated net of a provision for net realizable value of SEK 1,291 m (1,099). The amount charged to expense for net realizable provisions during the year was SEK 198 m (193). Reversals of net realizable provisions during the year were SEK 18 m (23).

14 Financial assets

			Past due, net of allowance			
Trade receivables by due date (SEKm)	Carrying amount	Not yet due	1-30 days	31-60 days	61-90 days	> 91 days
2013	**11,189**	**9,100**	**1,296**	**324**	**150**	**319**
2012	10,084	8,254	1,125	325	127	253

The average days outstanding of trade receivables in 2013 were 64 days (62). Trade receivables as a percentage of annual net sales totalled 17.6% (15.6). Trade receivables included receivables sold with recourse amounting to SEK 92 m (74). The risk of customer default for these receivables has not been transferred in such a way that the financial assets qualify for derecognition.

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

Specification of reserve for doubtful accounts (SEKm)	**2013**	2012
Allowances as of 1 January	**256**	272
Additions	**52**	50
Reversals	**-32**	-34
Changes through the income statement	**20**	16
Allowances used to cover write-offs	**-15**	-21
Acquired companies	**30**	5
Currency translation adjustments	**0**	-16
Allowances as of 31 December	**291**	256

Financial assets per category 2013

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss: At initial recognition	Fair value through profit or loss: Trading	Derivatives for hedge accounting	**Total**	Of which current
Trade receivables	11,189	–	–	–	–	**11,189**	11,189
Cash and cash equivalent	2,363	–	3,006	–	–	**5,369**	5,369
Equity securities	–	449	–	–	–	**449**	–
Marketable securities	–	–	–	407	–	**407**	–
Deposits	387	–	–	–	–	**387**	387
Derivatives	–	–	–	127	188	**315**	315
Loans and receivables	269	–	–	–	–	**269**	61
Debt securities	–	19	69	–	–	**88**	69
Carrying amount	14,208	468	3,075	534	188	**18,473**	17,390
Fair value	14,206	468	3,075	534	188		

Financial assets per category 2012

SEKm	Loans and receivables	Available-for-sale	Fair value through profit or loss: At initial recognition	Fair value through profit or loss: Trading	Derivatives for hedge accounting	Total	Of which current
Trade receivables	10,084	–	–	–	–	10,084	10,084
Cash and cash equivalent	2,222	–	6,022	–	–	8,244	8,244
Equity securities	–	435	–	–	–	435	–
Marketable securities	–	–	–	388	–	388	–
Deposits	472	–	–	–	–	472	472
Derivatives	–	–	–	174	102	276	240
Loans and receivables	193	–	–	–	–	193	29
Debt securities	–	18	72	–	–	90	72
Carrying amount	12,971	453	6,094	562	102	20,182	19,141
Fair value	12,969	453	6,094	562	102		

Financial assets recorded at fair value, which includes the columns Available-for-sale, Fair value through profit or loss, and Derivatives for hedge accounting in the above table, are disclosed below according to the hierarchy that shows the significance of the inputs used in the fair value measurements. Level 1 includes financial assets with a quoted price in an active market. Level 2 includes financial assets with inputs based on observable data other than quoted prices in an active market. Level 3 includes inputs that are not based on observable market data. Amounts for equity securities include SEK 34 m (32) valued at cost and consequently not included in the specification below.

Fair value hierarchy for financial assets at fair value (SEKm)	Level 1	Level 2	Level 3	**2013**	Level 1	Level 2	Level 3	2012
Fair value through profit or loss								
Trading securities	412	–	64	**476**	357	–	103	460
Cash and cash equivalents	3,006	–		**3,006**	6,022	–	–	6,022
Trading derivatives	–	127	–	**127**	–	174	–	174
Available-for-sale								
Equity securities	415	–	–	**415**	403	–	–	403
Debt securities	19	–	–	**19**	18	–	–	18
Derivatives used for hedge accounting	–	188	–	**188**	–	102	–	102
Total	3,852	315	64	**4,231**	6,800	276	103	7,179

Reconciliation of financial assets in Level 3 (SEKm)	Closing balance	Financial net	Withdrawals	Translation effect	Opening balance	Profit/loss related to assets included in closing balance
Fair value through profit or loss						
Trading securities 2013	**64**	**5**	**-44**	**–**	**103**	**5**
Trading securities 2012	103	4	-14	-7	120	4

15 Other short-term assets

SEKm	2013	2012
Value added taxes receivables, net	**961**	958
Prepaid expenses	**367**	434
Accrued income	**151**	140
Advances to suppliers	**134**	135
Other current receivables	**915**	840
	2,528	2,507

16 Share capital

	Number of shares authorized and outstanding			Share capital (SEKm)
	A Shares	B Shares	Total[1]	
Opening balance 1/1/2012	42,949,482	412,401,586	455,351,068	1,138
Conversion of A shares to B shares	-300,200	300,200	–	–
Closing balance 31/12/2012	**42,649,282**	**412,701,786**	**455,351,068**	**1,138**
Conversion of A shares to B shares	-4,091,016	4,091,016	–	–
Closing balance 31/12/2013	**38,558,266**	**416,792,802**	**455,351,068**	**1,138**

[1] Quota value for all shares is SEK 2.50

An A share has one vote and a B share has one-tenth of one vote. At the Annual General Meeting on 18 April 2002, it was decided to insert a share conversion clause in the Articles of Association which allows owners of A shares to convert those to B shares. Since the decision was taken, 188,378,481 A shares have been converted to B shares.

Dividend policy

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

If the financial position of the SKF Group exceeds the target for capital structure, which is described in Note 28, an additional distribution to the ordinary dividend could be made in the form of a higher dividend, a redemption scheme or as a repurchase of the company's own share. On the other hand, in periods of more uncertainty a lower dividend ratio could be appropriate.

Dividend payments

The Board has decided to propose to the Annual General Meeting a dividend of SEK 5.50 (5.50) per share to be paid to the shareholders on 7 April 2014. The proposed dividend for 2014 is payable to all shareholders on the Euroclear Sweden AB's public share register as of 2 April 2014. The total proposed dividend to be paid is SEK 2,504 m (2,504). The dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

On 7 May 2013, a dividend of SEK 5.50 (5.50) per share was paid to shareholders.

17 Earnings per share

	2013	2012
Net profit attributable to owners of AB SKF (SEKm)	**912**	4,662
Weighted average number of ordinary shares outstanding	**455,332,624**	455,345,945
Basic earnings per share (SEK)	**2.00**	10.23
Dilutive shares from Performance Share Programmes	**–**	187,462
Weighted average diluted number of shares	**455,332,624**	455,533,407
Diluted earnings per share (SEK)	**2.00**	10.23

To fulfill AB SKF's obligations under the Performance Share Programmes 2011 and 2010, SKF International AB (SKF Treasury Centre) entered into equity swap agreements with a financial institution. The agreements include the possibility to get delivery of SKF shares from the financial institution to the participants of the programmes. As the financial institution's acquisition of SKF B shares is equivalent to, from an accounting perspective only, a repurchase of treasury shares in accordance with IAS 32, the weighted average number of ordinary shares for 2013 and 2012 in the table above has been reduced.

Allotment of performance shares was made under SKF's Performance Share Programme 2010 due to fulfilment of the TVA (Total Value Added) target. Consequently there is an effect diluted earnings per share from that programme for 2012. Refer to Note 25 for information regarding SKF's performance share programmes and page 110 for information regarding TVA.

18 Provisions for post-employment benefits

Amounts recognized in the consolidated balance sheet (SEKm)	2013 US Pension	US Medical	Germany Pension	UK Pension	Sweden Pension	Other	Total
Present value of unfunded defined benefit obligation	**463**	**805**	**538**	**–**	**259**	**946**	**3,011**
Present value of funded defined benefit obligation	**6,759**	**–**	**6,582**	**2,253**	**1,052**	**1,145**	**17,791**
Less: Fair value of plan assets	**-5,122**	**–**	**-2,382**	**-1,849**	**-549**	**-1,085**	**-10,987**
Total	**2,100**	**805**	**4,738**	**404**	**762**	**1,006**	**9,815**
Reflected as							
Other long-term assets	**–**	**–**	**–**	**-9**	**–**	**-78**	**-87**
Provisions for post-employment benefits	**2,100**	**805**	**4,738**	**413**	**762**	**1,084**	**9,902**
Total	**2,100**	**805**	**4,738**	**404**	**762**	**1,006**	**9,815**

Amounts recognized in the consolidated balance sheet (SEKm)	2012 US Pension	US Medical	Germany Pension	UK Pension	Sweden Pension	Other	Total
Present value of unfunded defined benefit obligation	407	845	279	–	260	866	2,657
Present value of funded defined benefit obligation	6,140	–	5,988	2,086	1,051	1,014	16,279
Less: Fair value of plan assets	-3,857	–	-2,297	-1,611	-511	-831	-9,107
Total	2,690	845	3,970	475	800	1,049	9,829
Reflected as							
Other long-term assets	–	–	–	–	–	-52	-52
Provisions for post-employment benefits	2,690	845	3,970	475	800	1,101	9,881
Total	2,690	845	3,970	475	800	1,049	9,829

The Group sponsors post-employment defined benefit plans in a number of subsidiaries. The most significant plans are the pension plans in the USA, Germany, UK, and Sweden, which supplement the social security pensions in these countries.

USA

The major US pension plans, represent approximately 94% of the total US obligation. Benefits are based on length of service and average final salary or a years of service multiplier. The majority of these plans are closed for new entrants, who instead are covered by defined contribution pension solutions. Governance of the plans lies with a benefit board whose members are chosen by the board of directors of the US subsidiary. The plans are subject to regulatory minimum funding requirements based on an adjusted statutory pension formula which in the case of funding deficits, require contributions to achieve full funding in seven years.

The US subsidiary also sponsors post-retirement health care plans which are closed for new entrants. The plans provide health care and life insurance benefits for eligible retired employees. The company is entitled to receive a subsidy under the US Medicare Program Part D, for plan prescriptions drug costs for certain plan participants. At 31 December 2013, this reimbursement right totalled SEK 20 m (20).

Germany

The major German pension plans represent approximately 88% of the total German obligation. Benefits are based on length of service and final salary, and are indexed when paid. The majority of entitlement conditions are determined in accordance with a governmental pensions act. There are no regulatory funding requirements, however voluntary partial funding has been provided for the plans through a Contractual Trust Arrangement (CTA).

United Kingdom

The major plans in the UK represent approximately 89% of the total UK obligation. Benefits under these plans are based on length of service and a career average revalued earnings (CARE) basis as from April 2012, and are indexed when paid. This plan is closed to new entrants, who instead are entitled to defined contribution pension solutions. Responsibility for the governance of the plan lies jointly with the subsidiary and a board of trustees comprised of representatives of the subsidiary as well as plan participants in accordance with the Plan constitution. The plan is subject to statutory funding objectives based on the local pension calculation which in the case of funding deficits require a recovery plan to achieve full funding in ten years.

Sweden

The major plan in Sweden is the ITP plan and it represents approximately 80% of the total Swedish obligation. Benefits are based on final salary and are indexed when paid. Benefits are established in accordance with a collective agreement established between participating Swedish companies. The plan is closed for employees born after 1979, who instead are entitled to a defined contribution pension solution. The Swedish subsidiaries are required to have credit insurance which covers all pension obligations in case of insolvency. There are no regulatory funding requirements, however voluntary funding has been provided for the plans through a foundation, which is governed jointly by the company and employee representatives. The foundation must comply with government regulations.

Other

The most significant plans include the funded pension plans in Switzerland, Canada and Belgium. Additionally, there are retirement indemnity plans in France and termination indemnity plans in Italy, where lump sum payments are made upon retirement and termination respectively.

18 Provisions for post-employment benefits (cont.)

SEKm	2013 Present value of obligation	2013 Fair value of plan assets	2013 Total	2012 Present value of obligation	2012 Fair value of plan assets	2012 Total
Opening balance 1 January	**18,936**	**-9,107**	**9,829**	17,421	-8,822	8,599
Interest expense/(income)	**686**	**-365**	**321**	753	-399	354
Current service cost	**495**	**–**	**495**	413	–	413
Past service cost and gains and losses on settlements	**21**	**–**	**21**	20	–	20
Other	**-11**	**–**	**-11**	–	–	–
Subtotal expenses	**1,191**	**-365**	**826**	1,186	-399	787
Difference between actual return and interest income	**–**	**-545**	**-545**	–	-420	-420
Actuarial (gains)/loss - demographic assumptions	**310**	**–**	**310**	98	–	98
Actuarial (gains)/loss - financial assumptions	**-730**	**–**	**-730**	1,426	–	1,426
Experience adjustments	**112**	**–**	**112**	410	–	410
Other	**–**	**9**	**9**	–	–	–
Subtotal remeasurments in OCI	**-308**	**-536**	**-844**	1,934	-420	1,514
Employer contribution	**–**	**-232**	**-232**	–	-324	-324
Employee contribution	**28**	**-8**	**20**	43	-18	25
Benefit payments	**-956**	**543**	**-413**	-872	473	-399
Subtotal cash flow	**-928**	**303**	**-625**	-829	131	-698
Acquired businesses	**1,369**	**-971**	**398**	–	–	–
Other	**188**	**-186**	**2**	32	9	41
Translation differences	**354**	**-125**	**229**	-808	394	-414
Closing balance 31 December	**20,802**	**-10,987**	**9,815**	18,936	-9,107	9,829

Components of total post-employment benefit expenses (SEKm)	**2013**	2012
Post-employment defined benefit expense	**826**	787
Post-employment defined contribution expense	**339**	391
Total post-employment benefit expenses	**1,165**	1,178
Whereof		
Amounts charged to operating profit	**851**	826
Amounts charged to financial expense	**314**	352
	1,165	1,178

Cash outflows for 2014 are expected to be some SEK 990 m, which include contributions to funded plans as well as payments made directly by the companies under unfunded plans and partially funded plans. The increase over 2013 is primarily due to increased required contributions for some of the US pension plans.

	2013			2012		
Plan asset composition (SEKm)	**Quoted**	**Unquoted**	**Total**	Quoted	Unquoted	Total
Government bonds	**1,982**	**–**	**1,982**	2,044	–	2,044
Corporate bonds	**3,145**	**–**	**3,145**	2,945	–	2,945
Equity instruments	**4,857**	**–**	**4,857**	3,262	–	3,262
Real estate	**61**	**582**	**643**	103	479	582
Other, primarily cash and other financial receivables	**99**	**261**	**360**	16	258	274
Total	**10,144**	**843**	**10,987**	8,370	737	9,107

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

The investment positions for the major pension plans are managed within the asset-liability matching (ALM) framework. Within this framework, the Group's objective is to match plan assets to the pension obligations by investing in securities with maturities that align with the benefit payments as they fall due and in the appropriate currency. SKF Treasury Centre regularly monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. Final investment decisions are taken by the local subsidiary together with Treasury Centre.

The fair value of real estate in the specification of plan assets above includes SEK 95 m (98) related to buildings in the USA and Switzerland where the Group is the lessee under operating lease arrangements. Lease expense for the Group under these leases was SEK 20 m (7).

	2013					
Significant weighted-average assumptions at end of year	**US Pension**	**US Medical**	**Germany Pension**	**UK Pension**	**Sweden Pension**	**Other**
Discount rate	**4.9**	**4.5**	**3.5**	**4.4**	**3.9**	**3.2**
Pension increase rate[1)]	**n/a**	**n/a**	**1.0**	**3.4**	**2.0**	**n/a**
Salary growth rate	**3.5**	**n/a**	**3.4**	**3.7**	**3.5**	**3.3**
Longevity male/female[2)]	**20.7/22.9**	**20.5/22.8**	**18.8/22.8**	**21.6/23.7**	**19.6/22.8**	**20.8/23.8**
Medical cost trend rate	**n/a**	**8.0**	**n/a**	**n/a**	**n/a**	**n/a**
Weighted average duration of the plan (in years)[3)]	**12.8**	**9.4**	**16.3**	**20.0**	**18.4**	**14.9**

	2012					
Significant weighted-average assumptions at end of year	US Pension	US Medical	Germany Pension	UK Pension	Sweden Pension	Other
Discount rate	4.1	3.7	3.5	4.3	3.5	3.3
Pension increase rate[1)]	n/a	n/a	1.0	2.9	2.0	n/a
Salary growth rate	4.9	n/a	3.0	3.2	3.5	3.7
Longevity male/female[2)]	18.9/20.9	18.9/20.9	18.6/22.7	21.7/23.8	19.6/22.8	20.7/23.4
Medical cost care trend rate	n/a	8.3	n/a	n/a	n/a	n/a
Weighted average duration of the plan (in years)[3)]	12.8	9.5	15.8	20.1	19.4	13.6

[1)] Pension inrease rate refers to indexation primarily tied to inflation.
[2)] Longevity is expressed as the life expectancy of a current 65 year old in number of years.
[3)] Represents the average number of years remaining until the obligation is settled.
n/a = assumptions not applicable or not significant for the plan.

18 Provisions for post-employment benefits (cont.)

Sensitivity analysis of significant assumptions	Change in actuarial assumption	Impact on DBO Defined benefit obligations
Discount rate	+1%	-2,425
	-1%	3,025
Pension increase rate	+0.5%	550
	-0.5%	-550
Salary growth rate	+0.5%	350
	-0.5%	-350
Longevity	+1 year	600
	-1 year	-625
Medical cost care trend rate	+1%	100
	-1%	-100

The above sensitivity analysis is based on the change in one assumption while holding all other assumptions constant, see notes to previous table. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity analysis of the DBO to changes in assumptions the same method has been applied as when calculating the pension liability recognised within the obligation.

The sensitivity analysis has been prepared consistently between the years.

19 Other provisions

SEKm	**2013 Closing balance**	Provisions for the year	Utilized amounts	Reversal unutilized amounts	Other	Translation effect	2013 Opening balance
Claims	**3,540**	3,029	-41	-29	114	7	460
Long-term employee benefits	**500**	65	-92	-5	25	10	497
Restructuring	**484**	466	-297	-25	–	16	324
Environmental	**87**	13	-8	–	4	–	78
Other	**400**	126	-111	-26	90	4	317
	5,011	3,699	-549	-85	233	37	1,676

A provision of SEK 3,000 m was included in the claims provisions in the fourth quarter 2013. SKF and other companies in the bearing industry are part of investigations by the European Commission regarding a possible infringement of EU competition law on supply of bearings to the automotive manufacturing industry in Europe. SKF has fully cooperated with the European Commission and has undertaken its own investigation. SKF believes that the European Commission may impose a fine on SKF in 2014 and given the nature of the investigation, the amount of such fine is likely to be material to the Group's results and cash flow. Based on this, the SEK 3,000 m was recorded representing SKF's best estimate of the probable fine by the European Commission.

Long-term employee benefits primarily include jubilee bonuses and part-time retirement programmes which are provided to employees in certain countries and are expected to be settled before employment ends.

Restructuring expenses relate to SKF's programme to improve efficiency, reduce cost and strengthen profitable growth that was launched in 2012. The expense in 2013 relates to termination benefits primarily in Germany and Italy, which are in the form of early retirements and other voluntary schemes. Environmental provisions cover obligations not settled at year-end. Other provisions primarily include insurance and anti-dumping duties.

The column other refers primarily to BVI and Kaydon.

20 Financial liabilities

SEKm	Maturity	2013 Carrying Amount	2013 Fair Value	2012 Carrying Amount	2012 Fair Value
Long term financial liabilities					
EUR 130 m (outstanding EUR 100 m)	2014	**–**	**–**	861	865
EUR 100 m	2015	**917**	**935**	896	896
EUR 100 m	2016	**896**	**896**	861	862
SEK 1,000 m	2017	**1,000**	**1,001**	1,000	1,001
EUR 500 m	2018	**4,809**	**4,967**	4,733	4,815
EUR 500 m	2019	**4,454**	**4,457**	4,274	4,347
EUR 750 m	2020	**6,640**	**6,698**	–	–
EUR 100 m	2020	**895**	**936**	–	–
Other long-term loans	2015-2020	**63**	**63**	100	101
Derivatives held for hedge accounting	2015-2020	**24**	**24**	5	5
Subtotal long term financial liabilities		**19,698**	**19,977**	12,730	12,892
Short term financial liabilities					
EUR 500 m (outstanding EUR 265 m)	2013	**–**	**–**	2,277	2,354
EUR 130 m (outstanding EUR 100 m)	2014	**896**	**902**	–	–
Medium-term loans	2014	**56**	**56**	23	22
Trade payables	2014	**4,740**	**4,740**	4,189	4,189
Short-term loans	< 3 months	**248**	**248**	243	244
Derivatives held for trading	2014	**133**	**133**	161	161
Derivatives held for hedge accounting	2014	**313**	**313**	241	241
Subtotal short term financial liabilities		**6,386**	**6,392**	7,134	7,211
		26,084	**26,369**	19,864	20,103

Derivatives are classified in the category "Fair value through profit or loss" and fall into Level 2 of the fair value hierarchy for both 2013 and 2012. See Note 1 for a description of the fair value hierarchy. The remaining financial liabilities are classified in the category "Other financial liabilities".

The EUR 100 m loan with maturity 2016 can be repaid at any time. For the rest of bonds and loans, the maturities stated in the table above are based on the earliest date on which they can be required to be repaid.

Two of the EUR 100 m loans and the EUR 750 m loan are the subject of fair value hedging. The fixed EUR interest rate of the EUR 100 m loan due 2015 has been swapped into floating EUR interest rate and for the EUR 100 m loan due 2014 floating EUR interest rate has been swapped into floating SEK interest rate. For the EUR 750 m loan due 2020 fixed EUR interest has been swapped into floating USD interest rate.

Two EUR 100 m loans due 2016 and 2020 and the two EUR 500 m loans have been designated as hedge instruments in net investment hedges of foreign operations. The fair value of these financial liabilities amounted to SEK 11,256 m (9,188) as of the balance sheet date.

More information regarding financial risk management and hedge accounting can be found in Note 28. Methods used for establishing fair value are described in Note 1. Interest rates for the loans are disclosed in Note 11 of the Parent company.

21 Leasing

	2013		2012	
Future minimum lease payments at 31 December (SEKm)	**Finance Leases**	**Operating Leases**	Finance Leases	Operating Leases
Within one year	**8**	**553**	9	465
Later than one year but within five years	**26**	**1,179**	27	977
Later than five years	**19**	**482**	27	381
Total	**53**	**2,214**	63	1,823
Less: Interest	**-5**		-8	
Present value of minimum lease payments under finance leases	**48**		55	
Less: Current portion	**-8**		-7	
Non-current portion	**40**		48	

Net rental expense primarily related to operating leases was SEK 579 m (565). The most significant operating leases involve the use of buildings, other office locations as well as machines primarily in the USA, China, Sweden, Germany, and Belgium. Contingent rentals and sub-lease revenues were not significant in any of the years presented.

22 Other short-term liabilities

SEKm	**2013**	2012
Employee related accruals	**2,587**	1,984
Deferred income	**310**	320
Value added taxes payable, net	**232**	292
Customer advances	**224**	230
Other accrued expenses	**1,568**	1,983
Other current liabilities	**1,216**	1,128
	6,137	5,937

23 Assets pledged and contingent liabilities

Assets that have been pledged to secure loans and other obligations (SEKm)	**2013**	2012
Mortgages on real estate	**–**	10
Chattel mortgages	**36**	44
	36	54

Mortgages are stated at the nominal value of the mortgage deeds.

Contingent liabilities at nominal values (SEKm)	**2013**	2012
Guarantees	**37**	23
Other contingent liabilities	**32**	30
	69	53

24 Related parties

The SKF Group's transactions with related parties (SEKm)	**2013**	2012
Associated companies:		
Sales of goods and services	**48**	33
Purchases of goods and services	**197**	134
Receivables as of 31 December	**6**	2
Liabilities as of 31 December	**31**	13

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

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

The SKF Group has had no indication that FAM has obtained its ownership interest in the Group for other than investment purposes. No significant transactions have been identified between the parties with the exception of dividend paid during the year to FAM. At the end of 2013 FAM is the major shareholder of the Parent company, holding 29.5 % (29.5) of the voting rights and 12.9% (12.9) of the share capital.

Other related party transactions include remuneration to key management as specified in Note 25. For a list of significant subsidiaries, see Note 8 to the financial statements of the Parent company.

25 Remuneration to Key Management

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

Principles of remuneration for Group Management

In April 2013, the Annual General Meeting adopted the Board's proposal for principles of remuneration for Group Management, which are summarized below.

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

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

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

Fixed salary

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

Variable salary

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

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

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

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

25 Remuneration to Key Management (cont.)

Performance Shares
The Annual General Meeting 2013 decided on the introduction of SKF's Performance Share Programme 2013. The terms and conditions of SKF's Performance Share Programme 2013 are in essence the same as the terms and conditions of the SKF Group's previous performance share programmes, covered by the principles of remuneration for Group Management decided at the Annual General Meetings 2008 – 2012 and summarized in the Consolidated Financial Statements Note 25 of the Annual Report 2012.

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

The number of shares that may be allotted must be related to the degree of achievement of the TVA target level, as defined by the Board of Directors, for the financial year 2013, and the TVA development for the financial year 2015 compared to the financial year 2013. Under the programme, no more than 1,000,000 SKF shares of series B, may be allotted.

Based on the TVA for the financial year 2013, the participants of the programme may be preliminarily allotted a number of shares per person, however, not exceeding the following number of shares per person within the various key groups:

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

Following the expiry of the financial year 2015 a comparison is made between TVA for the financial year 2013 and TVA for the financial year 2015. The development in TVA between the two financial years is set out in percentage. Final allotment of shares is established by the preliminary number of allotted shares being multiplied with the percentage development in TVA. If the development is positive the participants will thus receive an increased number of shares in final allotment compared to the number preliminary allotted, whereas if the development is negative the participants will receive a decreased number of shares in final allotment compared to the number preliminary allotted. Final allotment may, however, never exceed 200% of the preliminarily allotted number of shares per person. The participants in the programme may thus in final allotment receive not more than the following number of shares per person within the various key groups:

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

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

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

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

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

A Group Management member is normally covered by, in addition to the basic pension (for Swedish members usually the ITP pension plan), a supplementary defined contribution pension plan. By offering this supplementary defined contribution plan, it is ensured that Group Management members are entitled to earn pension benefits based on the fixed annual salary above the level of the basic pension. The normal retirement age for Group Management members is 65 years.

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

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

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

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

Board of Directors
The Chairman of the Board and the Board members are remunerated in accordance with the decision taken at the Annual General Meeting. At the Annual General Meeting of AB SKF held in 2013 it was decided that the Board be entitled to a firm allotment of SEK 4,087,500 to be distributed with SEK 1,200,000 to the Chairman of the Board and with SEK 412,500 to each of the other Board members elected by the Annual General Meeting and not employed by the company.

It was further decided that the Board be entitled to a variable allotment, calculated as below. The Chairman is entitled to a variable allotment corresponding to the value of the number of SKF shares of series B, the value of which after the Annual General Meeting 2013 shall amount to SEK 400,000. Each other Board member not employed by the company is entitled to a variable allotment corresponding to the value of the number of SKF shares of series B, the value of which after the Annual General Meeting 2013 shall amount to SEK 137,500. When deciding upon the variable allotment, (i) the number of shares shall be determined by dividing the amount of SEK 400,000 and SEK 137,500, respectively, with the average latest payment rate of an SKF share of series B, according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days immediately following the day on which the share is traded without any right to receive dividend for 2013 and (ii) the value of an SKF share of series B, is to be determined at the average latest payment rate according to the quotations on the NASDAQ OMX Stockholm AB during the five trading days after publication of the company's press release for the financial year 2013. After the Annual General Meeting 2013 the number of shares according to (i) above was determined to 2,528.76 shares for the Chairman, and to 869.26 shares for each other Board member. After the press release according to (ii) above the value of an SKF share of series B, was determined at SEK 172.88. The variable allotment for the Chairman amounts to SEK 437,173, and for each other Board member to SEK 150,278, and will be paid out in April 2014.

Finally, it was decided that an allotment of SEK 765,000 for committee work shall be divided with SEK 175,000 to the Chairman of the Audit Committee, with SEK 125,000 to each of the other members of the Audit Committee, with SEK 100,000 to the Chairman of the Remuneration Committee and with SEK 80,000 to each of the other members of the Remuneration Committee.

President and Chief Executive Officer

Tom Johnstone, President and Chief Executive Officer of AB SKF, received from the company in year 2013 as salary and other remunerations a total of SEK 11,856,275 which includes SEK 1,180,552 related to SKF's Performance Share Programme 2010. Additionally, Tom Johnstone was entitled to short-term variable salary of SEK 1,967,389 related to 2012 performance. Tom Johnstone's fixed annual salary 2014 will amount to SEK 10,000,000.

The variable salary in 2013 was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called Total Value Added (TVA), see page 110.

Tom Johnstone was in the beginning of 2013 allotted 6,920 SKF shares of series B under SKF Performance Share Programme 2010. SKF's Performance Share Programmes are further described on pages 151-152 and 155.

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

Tom Johnstone's retirement age is 60 years. Tom Johnstone is entitled to a lifelong defined benefit pension amounting to 40% of SEK 3,884,663 corresponding to SEK 1,553,865 per year. The amount SEK 3,884,663 shall be adjusted in accordance with the Income Base amount (defined in accordance with Chapter 1 § 6 of the Act (1998:674) on income-based retirement pension) but not more than 5% for each year. The defined benefit pension is gradually earned according to the principles generally applied within the company. The pension is thereafter not conditioned upon future employment. In addition thereto, AB SKF shall pay a yearly premium corresponding to 35% of the difference between Tom Johnstone's fixed annual salary and the amount on which Tom Johnstone's defined benefit pension is calculated as described above. This part of Tom Johnstone's pension is a defined contribution pension. The 2013 cost for Tom Johnstone's total pension benefits was recorded in the amount of SEK 5,721,684.

Tom Johnstone's shareholdings (own and/or held by related parties) in the company as well as material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships are listed in the Corporate Governance Report.

Group Management

The SKF's Group Management, consisting of 13 people at the end of the year, received in 2013 (exclusive of the President) salary and other remunerations amounting to a total of SEK 63,001,964, of which SEK 51,069,796 was fixed annual salary and SEK 6,455,602 was short-term variable salary related to 2012 performance and SEK 5,476,566 was related to SKF's Performance Share Programme 2010. For managers that have joined or left Group Management during the year, the fixed salary is accounted in relation to the period that each individual has been a member of Group Management.

The variable salary for Group Management was according to a short-term performance-based programme primarily based on the financial performance of the SKF Group established according to the Group's financial performance management model which is a simplified economic value-added model called Total Value Added (TVA), see page 110.

Group Management (exclusive of the President) was in the beginning of 2013 allotted 32,904 SKF shares of series B under SKF Performance Share Programme 2010. SKF's Performance Share Programmes are further described on pages 151-152 and 155.

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

During 2003, the Board decided to introduce a defined contribution supplementary pension plan for Group Management of the Swedish companies within the SKF Group. Since 2012 the normal retirement age is 65 years. The President is not covered by this pension plan. The plan entitles senior managers covered to receive an additional pension over and above the pension covered by the ITP-plan. The contributions paid for senior managers covered by the defined contribution plan are based on each individual's pensionable salary (i.e. normally the fixed monthly salary excluding holiday pay, converted to yearly salary) exceeding 30 Income Base amounts. Members of Group Management employed before 2005 have defined benefit pension entitlements relating to previous pension plans. Group Management members are never covered by both defined benefit pension and defined contribution pension for the same part of their pension entitlements.

25 Remuneration to Key Management (cont.)

Amounts in SEK	Fixed salary and other benefits[1] / fixed Board remuneration: Amounts paid in 2013[3]	Fixed salary and other benefits[1] / fixed Board remuneration: Amounts expensed in 2013[3]	Short-term variable salary / variable Board remuneration: Amounts paid in 2013 related to 2012[3]	Short-term variable salary / variable Board remuneration: Amounts expensed in 2013[3]	Performance Share Programmes: Amounts paid in 2013 related to prior years[3),6)]	Performance Share Programmes: Amounts expensed in 2013[3]	Remuneration for committee work: Amounts paid and expensed in 2013[3]	Gross pension costs[2]: Amounts expensed in 2013[3]
Board of directors of AB SKF								
Leif Östling	1,200,000	1,200,000	396,860	478,227	–	–	225,000	–
Ulla Litzén	412,500	412,500	136,421	164,391	–	–	125,000	–
Winnie Fok	206,250	–	136,421	17,746	–	–	–	–
Lena Treschow Torell	412,500	412,500	136,421	164,391	–	–	–	–
Peter Grafoner	412,500	412,500	136,421	164,391	–	–	80,000	–
Lars Wedenborn	412,500	412,500	136,421	164,391	–	–	255,000	–
Joe Loughrey	412,500	412,500	136,421	164,391	–	–	–	–
Jouko Karvinen	412,500	412,500	136,421	164,391	–	–	80,000	–
Baba Kalyani	412,500	412,500	136,421	164,391	–	–	–	–
CEO[4]	10,675,723	10,392,554	1,967,389	77,390	1,180,552	-46,800	–	5,721,684
Group Management[4),5)]	51,069,796	51,149,622	6,455,602	2,913,486	5,476,566	-101,244	–	24,938,529
whereof AB SKF	42,514,676	42,477,466	5,202,570	2,764,286	4,639,447	-56,052	–	23,079,836
Total	66,039,269	65,629,676	9,911,219	4,637,586	6,657,118	-148,044	765,000	30,660,213
whereof AB SKF	57,484,149	56,957,520	8,658,187	4,488,385	5,819,999	-102,852	765,000	28,801,520

[1] Other benefits include housing, car and similar items.

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

[3] *Amounts paid* represent the cash outflow and are amounts received by the individual during a specific calendar year. These amounts include remuneration for services rendered during given calendar year such as salary, but can also include remuneration for services rendered in a prior year where payment occurs subsequent to that year, for example the variable salary programmes.
Amounts expensed refer primarily to the costs for the Group for services rendered during a specific calendar year by the individual, but can also include adjustments or reversals related to prior years. Consequently, differences between amounts paid and amounts expensed can arise as timing of the expense can be occurring in a different calendar year than the cash outflow to the individual. The most significant difference relates to the variable salary, variable Board remuneration and Performance Share Programmes, but also include difference related to accrued vacations and accumulated leave. However, no differences exist related to remuneration for committee work.

[4] Total pension obligations related to Group Management (including CEO) and former CEO were SEK 118 m. Includes managers who have joined or left Group Management during the year accounted in relation to the period that each individual has been a member of Group Management and includes only remuneration in their capacity as member of Group Management.

[5] Exclusive of CEO.

[6] Amounts refer to taxable benefit value.

SKF's Performance Share Programme

Allotment of shares under SKF's Performance Share Programme normally requires that the persons covered by each of the programmes are employed in the SKF Group during the entire three year calculation period.

- SKF's Performance Share Programme 2010: Allotment of shares was made in the beginning of 2013. In total 259,231 SKF shares of series B were allotted pursuant to the terms of the programme, based on the degree of achievement of TVA during the three year period 2010 to 2012.
- SKF's Performance Share Programme 2011: Allotment of shares was made in the beginning of 2014. In total 171,094 SKF shares of series B were alloted pursuant to the terms of the programme, based on the degree of achievement of TVA during the three year period 2011 to 2013.
- SKF's Performance Share Programme 2012: No allotment of shares will be made due to non-fulfillment of the TVA target for the financial year 2012.
- SKF's Performance Share Programme 2013: No allotment of shares will be made due to non-fulfillment of the TVA target for the financial year 2013.

For further details of SKF's Performance Share Programmes, see page 151-152.

Costs for SKF's Performance Share Programmes

The expenses are based both on the fair value of the SKF shares of series B at grant date and the number of shares expected to vest on 31 December of each year. The fair value of the SKF shares of series B at grant date was determined, as described in Note 1, as SEK 177.6 for SKF's Performance Share Programme 2011. Expenses were reversed in 2013 with SEK 1 m (13) excluding social charges.

The total provision for all programmes was SEK 33 m (72) and the total provision for social charges for all programmes was SEK 7 m (15).

To fulfil AB SKF's obligations under the Performance Share Programme 2011, SKF International AB entered into an equity swap agreement with a financial institution. The agreement includes the possibility to get delivery of SKF shares from the financial institution to the participants of the programme. The fair value of the swap agreement as per 31 December 2013 was SEK 22 m. The gross payment of the shares of the swap was recorded as a decrease in equity and an offsetting liability.

Cost for Cash-settled share-based compensation

As part of their remuneration, the Board of Directors of AB SKF was granted by the Annual General Meeting 2013 a variable allotment, calculated as described on page 152. The variable allotment amounts in total to SEK 1,489,119 (1,487,903) and will be paid out in April 2014.

Men and women in Board of Directors and Group Management

	2013		2012	
The Group	**Number of persons**	**Whereof men**	Number of persons	Whereof men
Board of Directors of the Parent company incl. CEO	**11**	**82%**	12	75%
Group Management incl. CEO	**13**	**77%**	14	79%
Parent Company				
Board of Directors of the Parent company incl. CEO	**11**	**82%**	12	75%
Group Management incl. CEO	**11**	**73%**	11	73%

26 Fees to the auditors

Fees to the SKF Group statutory auditors were split as follows (SEKm)	**2013**	2012
Audit fees	**33**	37
Audit related fees	**1**	2
Tax fees	**10**	4
Other fees to auditors	**2**	2
	46	45
The Parent Company's share (SEKm)		
Audit fees	**4**	3
Audit related fees	**1**	1
Tax fees	**2**	–
Other fees to auditors	**0**	1
	7	5

Audit fees relate to examination of the annual report, financial accounting and the administration by the Board and the President as well as other tasks related to the duties of a company auditor. Audit related fees are mainly attributable to the review of the SKF Group's sustainability report. Tax fees and other fees to auditors relate to all other consultancy assignments.

At the Annual General Meeting of Shareholders in 2013, PWC was elected auditor for AB SKF until the Annual General Meeting of Shareholders in 2017. The fees for 2013 refer to PWC whereas the fees for 2012 refer to KPMG.

27 Average number of employees

	2013		2012	
	Number of employees	**Whereof men**	Number of employees	Whereof men
Parent company in Sweden	**613**	**65%**	582	62%
Subsidiaries in Sweden	**2,248**	**83%**	2,312	81%
Subsidiaries abroad	**42,359**	**78%**	41,274	79%
	45,220	**78%**	44,168	79%

	2013		2012	
Geographic specification of average number of employees in subsidiaries abroad	**Number of employees**	**Whereof men**	Number of employees	Whereof men
France	**2,796**	**81%**	3,156	82%
Italy	**3,301**	**78%**	3,379	77%
Germany	**6,242**	**87%**	5,897	87%
Other Western Europe excluding Sweden	**3,679**	**84%**	3,651	83%
Central and Eastern Europe	**3,821**	**64%**	3,906	65%
USA	**5,438**	**75%**	5,247	73%
Canada	**220**	**80%**	239	78%
Mexico	**1,410**	**70%**	1,192	68%
Latin America	**2,602**	**89%**	2,401	88%
China	**6,211**	**63%**	5,746	69%
India	**3,054**	**95%**	3,274	96%
Other Asian countries/Pacific	**3,255**	**82%**	2,840	81%
Middle East and Africa	**330**	**72%**	346	79%
	42,359	**78%**	41,274	79%

28 Financial risk management

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

The SKF Group defines its managed capital as the capital employed. As of January 2014, one of the Group's long term financial targets is to achieve a return on capital employed of 20%.

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

Key figures[1]	**2013**	2012
Total equity, SEKm	**21,152**	22,468
Gearing, %	**59.2**	52.8
Equity/assets ratio, %	**29.8**	37.0
Net debt/equity, %	**117.3**	72.5
Return on capital employed, %	**7.5**	16.2

[1] Definition of these key figures is available on page 196.

The purpose of the targeted capital structure is to keep an appropriate balance between equity and debt financing. This will ensure financial flexibility and enable the Group to continue investing in its business while maintaining a strong credit rating. The Group's policy and structure of debt financing are presented below.

The SKF Group's operations are exposed to various types of financial risks; market risks (being currency risk, interest rate risk and other price risks), liquidity risks and credit risks, each being discussed below.

The Group's risk management incorporates a financial policy that establishes guidelines and definitions of currency, interest rate, credit and liquidity risks and establishes responsibility and authority for the management of these risks. The policy states that the objective is to eliminate or minimize risk and to contribute to a better return through the active management of risks. The management of the risks and the responsibility for all treasury operations are largely centralized at SKF Treasury Centre, the Group's internal bank.

The policy sets forth the financial risk mandates and the financial instruments authorized for use in the management of financial risks. Financial derivative instruments are used primarily to manage the Group's exposure to fluctuations in foreign currency exchange rates and interest rates. The Group also uses financial derivative instruments for trading purposes, limited according to Group policy.

Market risk – Currency risk

The Group is exposed to changes in exchange rates in the future flows of payments related to firm commitments and forecasted transactions and to loans and investments in foreign currencies, i.e. transaction exposure. The Group's accounts are also affected by translating the results and net assets of foreign subsidiaries into SEK, i.e. translation exposure.

Transaction exposure

Transaction exposure mainly arises as a result of intra-Group transactions between the Group's manufacturing companies and the Group's sales companies, situated in other countries and selling the products to end-customers normally in local currency on their local market. In some countries, transaction exposure may arise from sales to external customers in a currency different from the local currency. The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia and to flows of currencies within Europe. Currency rates and payment conditions to be applied to the internal trade between SKF companies are set by SKF Treasury Centre. Currency exposure and risk is primarily, and to a large extent, reduced by netting internal transactions. The currency flows between SKF companies managed by SKF Treasury Centre were reduced through netting from SEK 51,485 m (54,318) to SEK 3,330 m (4,019). This amount represented the Group's main transaction exposure excluding hedges.

The Group's policy has been to hedge the currency flows from 1 to 6 months on average. Hedge accounting as defined by IAS 39 has been limited to USD only.

Net currency flows (SEKm)	**2013**	2012
USD	**5,386**	5,220
USD related[1]	**2,435**	2,795
EUR	**-5,976**	-4,959
Other[2]	**1,485**	963
SEK	**-3,330**	-4,019

[1] AUD, CAD, NZD, SGD, THB and ZAR
[2] Other is comprised of 10 different currencies

For the commercial foreign exchange exposure, the SKF Group is primarily exposed to USD and USD related currencies against EUR and SEK, as shown in the table above. Based on the assumption that the net currency flows in USD and USD related currencies will be the same for 2014 as in 2013, a sensitivity analysis shows that a 5% stronger SEK against the USD and related currencies would have a negative effect on profit before taxes of approximately SEK 400 m (300), including the effect of hedging transactions. The effects of fluctuations upon the translation of subsidiaries' financial statements into the Group's presentation currency are not considered. At year end, the outstanding USD hedges covered approximately 75% of estimated net USD flows for 2 months (6).

28 Financial risk management (cont.)

The sensitivity analysis based on the outstanding positions at 31 December shows that profit before taxes for the year would have would have been unchanged (decreased and increased by SEK 21 m) if SEK had strengthened and weakened, respectively, by 5% against all other currencies. The corresponding effect on the hedge reserve in equity from revaluation of cash flow hedges would have been an increase/decrease of SEK 26 m (84).

Translation exposure

Translation exposure is defined as the Group's exposure to currency risk arising when translating the results and net assets of foreign subsidiaries to SEK. To reduce the translation exposure, the Group has hedged some of its net investment in foreign subsidiaries, for details see page 159.

Market risk – Interest rate risk

The Group defines interest rate risk as the risk of negative fluctuations in the Group's cash flow caused by changes in the interest rates. At year-end, total interest bearing financial liabilities amounted to SEK 30,776 m (25,149) and total interest bearing financial assets amounted to SEK 6,659 m (9,491). Liquidity management is concentrated to SKF Treasury Centre. By matching the duration of investments and borrowings, the interest rate exposure of the Group can be reduced.

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

As of the balance sheet date, given the prevailing amount of net interest-bearing liabilities, an unfavorable change of the interest rates by 1% would have reduced pre-tax profit for the year, including the effect of derivatives, by around SEK 140 m (50). For details on interest rates of individual loans, see Note 11 of the Parent company's financial statements.

Market risk – Price risks

Market risks also include other price risks, where the relevant risk variables for the Group are stock exchange prices or indexes.

As of 31 December, the Group held investments in equity securities with quoted stock prices, amounting to SEK 415 m (403), which are categorized as available-for-sale. If the market share prices had been 5% higher/lower at the balance sheet date, the available-for-sale reserve in equity would have been SEK 20 m (20) higher/lower.

Liquidity risk

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

Group policy states that, in addition to current loan financing, the Group should have a payment capacity in the form of available liquidity and/or long-term committed credit facilities. As of the balance sheet date, in addition to its own liquidity, the Group had committed credit facilities of EUR 500 m syndicated by 10 banks that will expire in 2017, and two committed credit facilities of SEK 3,000 m that will expire in 2016 and 2017.

A good rating is important in the management of liquidity risks. The long-term rating of the Group by Standard & Poor's and Moody's Investor Service is BBB+ and Baa1 respectively.

The table below show the Group's contractually agreed and undiscounted interest payments and repayments of the non-derivative financial liabilities and derivatives with payment outflows. All instruments held at 31 December 2013 for which payments were contractually agreed were included. Planning data for future, new liabilities was not included. Amounts in foreign currency were translated at closing rate. The variable interest payments arising from the financial instruments were calculated using the last interest rates fixed before 31 December 2013. Financial liabilities were assigned to the earliest possible time period when they can be required to be repaid.

	2013 Cash flows			
SEKm	**2014**	**2015**	**2016-2018**	**2019 and thereafter**
Loans	-1,722	-1,392	-7,718	-12,546
Trade payables	-4,740	–	–	–
Derivatives				
Outflows	-34,825	-98	-277	–
Inflows	34,971	184	449	–
Total	**-6,316**	**-1,306**	**-7,546**	**-12,546**

	2012 Cash flows			
SEKm	2013	2014	2015-2017	2018 and thereafter
Loans	-2,952	-1,270	-3,460	-9,189
Trade payables	-4,189	–	–	–
Derivatives				
Outflows	-42,946	-98	-19	–
Inflows	43,006	119	63	–
Total	-7,081	-1,249	-3,416	-9,189

Credit risk

Credit risk is defined as the Group's exposure to losses in the event that one party to a financial instrument fails to discharge an obligation. The SKF Group is exposed to credit risk from its operating activities and certain financing activities.

The maximum exposure to credit risk for the Group amounted to SEK 18,024 m (19,747) as of the balance sheet date. The exposure is represented by total financial assets that are carried on the balance sheet with the exception of equity securities. No granting of significant financial guarantees increasing the credit risk and no significant collateral agreements reducing the maximum exposure to credit risk existed as of the balance sheet date.

Credit risk (SEKm)	**2013**	2012
Trade receivables	**11,189**	10,084
Other receivables	**1,151**	1,143
Derivatives	**315**	276
Cash and cash equivalent	**5,369**	8,244
Total	**18,024**	19,747

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 due of its many geographically and industrially diverse customers. Trade receivables are subject to credit limit control and approval procedures in all subsidiaries.

With regard to treasury related activities, the Group's policy states that only well-established financial institutions are approved as counterparties. The SKF Group has signed ISDA agreements (International Swaps and Derivatives Association, Inc.) with nearly all of these financial institutions. ISDA is classified as an enforceable netting arrangement. One feature of the ISDA agreement is that it enables the SKF Group to calculate its credit exposure on a net basis per counterpart, i.e. the difference between what the Group owes and is owed. The agreement between the Group and the counterparty allows for net settlement of derivatives when both elect to settle net. In the event of default of one of the counterparties the other counterpart of the netting agreement has the option to settle on a net basis. Transactions are made within fixed limits and credit exposure per counterparty is continuously monitored. As of the balance sheet date the Group had derivative assets of around SEK 250 m (200) and derivative liabilities of around SEK 450 m (400) subject to enforceable master netting arrangements.

Hedge accounting

Fair value hedges

The SKF Group hedge the fair value risk of financial liabilities at December 2013, by using cross-currency interest rate swaps (receive variable EUR interest, pay SEK variable interest) for an amount of EUR 100 m (100) and interest rate swaps (receive fixed EUR interest, pay EUR variable interest) for an amount of EUR 100 m (100). Additionally, the EUR 750 m (0) loan with fixed interest payments has been swapped into floating USD interest.

The effectiveness of the hedging relationship is prospectively tested using the critical terms match method. An effectiveness test is carried out retrospectively at each balance sheet date using the dollar-offset method. The dollar-offset method compares past changes in the fair value of the hedged item expressed in currency units with past changes in the fair values of the used derivatives expressed in currency units. The changes in the fair value of the two transactions are calculated on the basis of the outstanding cash flows at the beginning and end of the test period adjusted for accrued interest. All hedging relationships were effective within the range of the ratios of the two past changes in value (between 80 and 125%). When the effectiveness was being measured, the change in the credit spread was not taken into account for calculating the change in the fair value of the hedged item. As the list of the fair values of derivatives shows (see table in the Derivatives section below), the Group had designated interest rate derivatives for a net amount of SEK -23 m (-188) as fair value hedges as of 31 December 2013.

The following table shows the changes in the fair value of the hedges recorded in interest expense during the year.

SEKm	**Financial expense 2013**	Financial expense 2012
Financial liabilities (hedged items)	**11**	369
Cross-currency interest-rate swaps (hedging instruments)	**-24**	-360
Difference (inefficiency)	**-13**	9

Cash flow hedges

During 2013, forward exchange contracts were the derivative financial instruments used by the Group to hedge its foreign currency rate exposure. Cash flow hedge accounting was applied to hedges of highly probable forecasted USD sales and the associated foreign currency risks arising from changes in USD rates. In 2013, losses totalling SEK 19 m (gain of 58) resulting from the change in the fair value of currency forwards designated as cash flow hedges were taken to other comprehensive income. During the year gains of SEK 16 m (loss of 82) were transferred via other comprehensive income to net sales. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

Cash flow hedge accounting was also applied to hedges of forecasted electricity consumption. Electricity forward contracts were used by the factories in Sweden to reduce their exposure to changes in electricity prices. In the 2013 financial year, losses totalling SEK 9 m (loss of 9) resulting from the change in fair value of electricity forwards were taken to other comprehensive income. During the year losses of SEK 5 m (loss of 13) was transferred via other comprehensive income to cost of goods sold. There was no material ineffectiveness of these hedges recorded as of the balance sheet date.

The following table shows the contractual maturities of the outstanding cash flow hedge instruments. The gain/loss of these hedge instruments will be recognized in profit or loss in the same period during which the forecasted hedged items affect profit or loss.

	2014					
Nominal value	**Q1**	**Q2**	**Q3**	**Q4**	**2015-2016**	**Total**
Currency forwards, USDm[1)]	79	–	–	–	–	**79**
Electricity forwards, SEKm	9	6	6	8	44	**73**

[1)] For the outstanding USD forward currency contracts the average rate was 6.5505.

Hedges of net investments

As of the balance sheet date net investments in foreign operations for a nominal amount of EUR 1,474 m (1,204) and USD 1,026 m (0) were hedged by the Group against changes in the EUR/SEK and USD/SEK exchange rates. EUR loans for an amount of EUR 1,200 m (995) and derivatives for an amount of EUR 274 m (209) and USD 1,026 m (0) were designated as hedge instruments. The result of the hedges totalled SEK -426 m (392) before tax in 2013 and was recognized as a translation difference in other comprehensive income. No amount has been recycled from other comprehensive income to the income statement in 2013 or in 2012.

28 Financial risk management (cont.)

Derivatives

The table below shows the fair values of the various derivatives carried as of 31 December reflected as assets in Note 14 and liabilities in Note 20. A distinction is made depending on whether these are part of an effective hedging relationship as set out in IAS 39 (fair value hedge, net investment hedge, cash flow hedge) or not. Other derivatives can also be embedded (i.e. a component of a hybrid instrument that contains a non-derivative host contract).

Derivative assets and liabilities, net (SEKm)	Category	**2013**	2012
Interest rate and currency swaps			
Fair value hedges	Hedge accounting	**-23**	-188
Net investment hedges	Hedge accounting	**-127**	62
Economic hedges	Trading	**-55**	-65
Currency forwards/currency options			
Cash flow hedges	Hedge accounting	**2**	5
Net investment hedges	Hedge accounting	**10**	-16
Economic hedges	Trading	**46**	75
Electricity forwards			
Cash flow hedges	Hedge accounting	**-11**	-7
Embedded derivatives	Trading	**3**	3
		-155	-131

Parent Company income statements

SEKm	Note	Years ended 31 December 2013	Restated 2012
Revenue	2	**4,892**	4,655
Cost of revenue	2	**-5,035**	-5,462
General management and administrative expenses	2	**-1,000**	-967
Other operating income		**6**	6
Other operating expenses	2	**-3,008**	-11
Operating loss		**-4,145**	-1,779
Income from participations in Group companies	3	**8,227**	3,163
Financial income	3	**485**	498
Financial expenses	3	**-847**	-993
Profit after financial items		**3,720**	889
Appropriations	4	**909**	2,232
Profit before tax		**4,629**	3,121
Income taxes	5	**113**	-39
Net profit		**4,742**	3,082

Parent Company statements of comprehensive income

SEKm	Note	Years ended 31 December 2013	2012
Net profit		**4,742**	3,082
Items that may be reclassified to the income statement			
Change in fair value of available-for-sale assets	9	**12**	18
Other comprehensive income		**12**	18
Total comprehensive income		**4,754**	3,100

Parent Company balance sheets

SEKm	Note	As of 31 December 2013	2012
ASSETS			
Non-current assets			
Intangible assets	6	**1,206**	843
Property, plant and equipment	7	**66**	53
Investments in subsidiaries	8	**32,964**	23,064
Long-term receivables from subsidiaries		**19,276**	12,144
Investments in associated companies	8	**1**	1
Investments in equity securities	9	**415**	403
Deferred tax assets	5	**158**	35
		54,086	36,543
Current assets			
Short-term receivables from subsidiaries		**2,886**	4,923
Income tax receivables		**79**	36
Other short-term receivables		**47**	14
Prepaid expenses		**21**	22
Cash and cash equivalents		**6**	1
		3,039	4,996
Total assets		**57,125**	41,539
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Restricted equity			
Share capital (455,351,068 shares, quota value SEK 2.50 per share)		**1,138**	1,138
Statutory reserve		**918**	918
		2,056	2,056
Unrestricted equity			
Fair value reserve		**195**	183
Retained earnings		**7,576**	7,042
Net profit		**4,742**	3,082
		12,513	10,307
		14,569	12,363
Untaxed reserves	4	**280**	1,040
Provisions			
Provisions for post-employment benefits	10	**259**	234
Other provisions	2	**3,036**	5
		3,295	239
Non-current liabilities			
Long-term loans	11	**19,274**	12,143
Long-term liabilities to subsidiaries		**134**	134
		19,408	12,277
Current liabilities			
Short-term loans	11	**896**	2,277
Trade payables		**94**	76
Short-term liabilities to subsidiaries		**18,066**	12,815
Other short-term liabilities		**20**	14
Accrued expenses and deferred income		**497**	438
		19,573	15,620
Total shareholders' equity, provisions and liabilities		**57,125**	41,539
Assets pledged		**–**	–
Contingent liabilities		**22**	20

Parent Company statements of cash flow

SEKm	Years ended 31 December 2013	2012
Operating activities		
Operating loss	**-4,145**	-1,779
Adjustments for		
Depreciation and amortization	**116**	114
Other non-cash items	**3,047**	–
Income taxes received/paid	**10**	-75
Payments under post-employment defined benefit plans	**-23**	-22
Exercise of Performance Share Programmes	**-43**	–
Changes in working capital		
Trade payables	**18**	62
Other operating assets and liabilities, net	**1,076**	166
Interest received	**436**	495
Interest paid	**-758**	-929
Other financial items	**-39**	-61
Net cash flow from operating activities	**-305**	-2,029
Investment activities		
Additions to property, plant and equipment	**-18**	-53
Additions to intangible assets	**-474**	-954
Dividends received from subsidiaries	**8,227**	3,103
Capital repayments and sales of shares in subsidiaries	**898**	61
Investments in subsidiaries	**-10,798**	-431
Net cash flow used in investing activities	**-2,165**	1,726
Net cash flow after investments before financing	**-2,470**	-303
Financing activities		
Proceeds from medium- and long-term loans	**7,341**	4,176
Repayment of medium- and long-term loans	**-2,362**	-1,370
Cash dividends to AB SKF's shareholders	**-2,504**	-2,504
Net cash flow used in financing activities	**2,475**	302
Increase(+)/decrease(-) in cash and cash equivalents	**5**	-1
Cash and cash equivalents at 1 January	**1**	2
Cash and cash equivalents at 31 December	**6**	1

Parent Company statements of changes in equity

	Restricted equity		Unrestricted equity		
SEKm	Share capital[1]	Statutory reserve	Fair value reserve	Retained earnings	Total
Opening balance 1/1/2012	1,138	918	165	9,559	11,780
Net profit	–	–	–	3,082	3,082
Components of other comprehensive income					
Change in fair value of available-for-sale assets	–	–	18	–	18
Transactions with shareholders					
Cost under Performance Share Programmes[2]	–	–	–	-13	-13
Dividends	–	–	–	-2,504	-2,504
Closing balance 31/12/2012	**1,138**	**918**	**183**	**10,124**	**12,363**
Net profit	**–**	**–**	**–**	**4,742**	**4,742**
Components of other comprehensive income					
Change in fair value of available-for-sale assets	**–**	**–**	**12**	**–**	**12**
Transactions with shareholders					
Cost under Performance Share Programmes[2]	**–**	**–**	**–**	**-1**	**-1**
Exercise of Performance Share Programmes[2]	**–**	**–**	**–**	**-43**	**-43**
Dividends	**–**	**–**	**–**	**-2,504**	**-2,504**
Closing balance 31/12/2013	**1,138**	**918**	**195**	**12,318**	**14,569**

[1] The distribution of share capital between share types is shown in Note 16 to the Consolidated financial statements.
[2] See Note 25 to Consolidated financial statements for information about Performance Share Programmes.

Restricted equity includes share capital and statutory reserves which are not available for dividend payments.
Unrestricted equity includes retained earnings which can be distributed to shareholders. It also includes the fair value reserve which accumulates the changes in fair value of available-for-sale assets.

Notes to the financial statements of the Parent Company

Amounts in SEKm unless otherwise stated. Amounts in parentheses refer to comparable figures for 2012.

1 Accounting policies

Basis of presentation

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

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

Post-employment benefits

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

Investments in subsidiaries

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

Untaxed reserves

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

Accounting changes

As from 2013, received and paid Group contributions are reflected as appropriations in the income statement. Previously they were reflected as financial income and financial expenses. Comparative figures have been restated.

2 Revenues and operating expenses

AB SKF is since 2012 the entrepreneur within the Group and as such is entitled to the residual profits while taking costs for management and research and development. Consequently the revenues are comprised of residual profits and royalties from subsidiaries. Cost of revenues include research and development expenses totalling SEK 1,574 m (1,498).

Of the total operating expenses, SEK 2,693 m (2,655) was invoiced from subsidiaries.

Other operating expenses and other provisions include SEK 3,000 m related to a probable fine resulting from the European Commission investigation. See Note 19 to the Consolidated financial statements.

3 Financial income and financial expenses

SEKm	**2013**	2012
Income from participations in Group companies		
Dividends from subsidiaries	**8,227**	3,103
Other financial income from investments in subsidiaries	**–**	61
Impairment of investments in subsidiaries	**–**	-1
	8,227	3,163
Financial income		
Interest income from subsidiaries	**471**	495
Intrest income from external parties	**10**	–
Other financial income	**4**	3
	485	498
Financial expenses		
Interest expenses to subsidiaries	**-322**	-433
Interest expenses to external parties	**-472**	-496
Other financial expense	**-53**	-64
	-847	-993

Other financial income from investments in subsidiaries consists of profits in connection with sales of shares.

4 Appropriations

Appropriations (SEKm)	**2013**	2012
Paid/received group contribution	**149**	1,732
Untaxed reserves		
Change in tax allocation reserves	**849**	690
Change in accelerated depreciation reserve	**-89**	-190
	909	2,232
Untaxed reserves in the balanced sheet (SEKm)		
Accelerated depreciation reserve	**280**	191
Tax allocation reserves	**–**	849
	280	1,040

5 Taxes

Taxes on profit before taxes (SEKm)	**2013**	2012
Current taxes	**-10**	-51
Deferred taxes	**123**	12
	113	-39

Net deferred asset per type (SEKm)		
Provisions for post-employment benefits	**30**	32
Capitalization of tax losses	**125**	–
Other	**3**	3
Deferred tax assets	**158**	35

Reconciliation of the statutory tax in Sweden and the current tax (SEKm)		
Tax calculated using the statutory tax rate in Sweden	**-1,018**	-821
Non-taxable dividends and other financial income	**1,810**	816
Other non-deductible and non taxable profit items, net	**-679**	-34
Actual tax	**113**	-39

The corporate statutory income tax rate in Sweden was 26.3% in 2012 and was reduced to 22% as from 2013. The majority of other non-deductible items relates to the estimate of a probable European Commission fine, see Note 19 to the Consolidated financial statements.

6 Intangible assets

SEKm	2013 Closing balance	Additions	2013 Opening balance
Acquisition cost			
Technology and similar items	**886**	–	886
Capitalized software	**542**	474	68
	1,428	474	954

SEKm	2013 Closing balance	Depreciation	2013 Opening balance
Accumulated depreciation			
Technology and similar items	**222**	111	111
	222	111	111
Net book value	**1,206**		843

In 2013 additions to software were SEK 474 m (68) which relates to SKF UNITE, a new IT infrastructure which will also involve the establishment of new and improved processes. As this software has not been taken into use, no amortization has been made. Technology and similar items are amortized over eight years.

7 Property plant and equipment

SEKm	2013 Closing balance	Additions	2013 Opening balance
Acquisition cost			
Buildings	**4**	–	4
Machine toolings and factory fittings	**45**	23	22
Construction in process including advances	**39**	-5	44
	88	18	70

SEKm	2013 Closing balance	Depreciation	2013 Opening balance
Accumulated depreciation			
Buildings	**1**	–	1
Machine toolings and factory fittings	**21**	5	16
	22	5	17
Net book value	**66**		53

8 Investments in subsidiaries and associated companies

Investments in significant subsidiaries are specified below. Investments in associated companies were SEK 0 m (1) and include a 50% holding in AEC Japan Co. Ltd and a 30% holding in Endorsia.com International AB.

Investments in subsidiaries held by the Parent company on December 31 (SEKm)	**2013**	Additions	Impairment	Disposals and capital-repayments	2012	Additions	Impairment	2011
Investments in subsidiaries	**32,964**	10,798	–	-898	23,064	431	-1	22,634

		2013			2012		
Name and location	Registration number	No. of shares	Holding in per cent	Book value	No. of shares	Holding in per cent	Book value
Manufacturing companies							
SKF USA Inc., USA	–	1,000	100	4,155	1,000	100	2,234
SKF Industrie S.p.A., Italy	–	465,000	100	912	–	–	–
SKF do Brasil Limitada, Brazil	–	252,582,248	99.9	540	252,582,248	99.9	540
SKF Technologies (India) Private Limited, India	–	1,826,500,101	91.3	492	1,426,500,101	89.2	395
SKF Española S.A.,Spain	–	3,650,000	100	383	3,650,000	100	383
SKF Couplings Systems AB, Hofors, Sweden	556019-4150	7,500	100	259	7,500	100	259
SKF Ukraine, Ukraine	–	1,266,122,556	99.9	205	1,266,122,556	99.9	205
SKF Bearings Bulgaria EAD, Bulgaria	–	24,664,309	100	183	24,664,309	100	183
SKF Österreich AG, Austria	–	200	100	176	200	100	176
SKF Polska S.A, Poland	–	3,701,466	100	156	3,701,466	100	156
SKF India Ltd., India	–	24,639,048	46.7	94	24,639,048	46.7	94
SKF Argentina S.A., Argentina	–	14,677,299	29.2	75	890,144	2.4	3
SKF de Mexico S.A. de C.V., Mexico	–	373,354,766	62.2	65	373,354,766	62.2	65
PT. SKF Indonesia, Indonesia	–	76,380	85.8	35	76,380	85.8	35
SKF Sealing Solutions Korea Co., Ltd., Republic of Korea	–	153,320	51	15	153,320	51	15
Sales companies							
SKF Belgium NV/SA, Belgium	–	1,778,642	99.9	8,904	1,778,642	99.9	9,801
SKF Korea LTD, Republic of Korea	–	128,667	100	74	128,667	100	74
SKF South Africa Pty.Ltd, South Africa	–	1,422,480	100	43	1,422,480	100	43
SKF Thailand Ltd, Thailand	–	1,847,000	92.4	37	1,847,000	92.4	37
SKF Venezolana S.A., Venezuela	–	19,506,514	97.5	35	19,506,514	97.5	35
SKF Logistics Services Belgium NV/SA, Belgium	–	29,907,952	99.9	28	29,907,952	99.9	28
Oy SKF Ab, Finland	–	48,400	100	12	48,400	100	12
SKF Eurotrade AB, Göteborg, Sweden	556206-7610	83,500	100	12	83,500	100	12
SKF New Zealand Ltd, New Zealand	–	375,000	100	11	375,000	100	11
SKF Ložiska, A.S., Czech Republic	–	430	100	10	430	100	10
SKF Condition Monitoring Center (Luleå) AB, Luleå, Sweden	556236-9263	5,000	100	10	5,000	100	10
SKF Lubrication Comp. Center, Linköping, Sweden	556124-6082	1,000	100	8	1,000	100	8
SKF Danmark A/S, Denmark	–	5	100	7	5	100	7
SKF Multitec AB, Helsingborg, Sweden	556236-4595	29,500	100	5	29,500	100	5
SKF Portugal-Rolamentos Lda, Portugal	–	61,601	95	4	61,601	95	4
SKF Pakistan private Ltd, Pakistan	–	1,781,295	100	2	1,781,295	100	2
Monitoring Control Center MCC AB, Kiruna, Sweden	556644-8295	5,000	100	2	5,000	100	2
PT. Skefindo Primatama, Indonesia	–	5	5	1	5	5	1
SKF Norge A/S, Norway	–	50	100	0	50	100	0
SKF Svéd Golyóscsapágy Zrt., Hungary	–	20	100	0	20	100	0
Carried forward				16,950			14,845

Name and location	Registration number	2013 No. of shares	2013 Holding in per cent	2013 Book value	2012 No. of shares	2012 Holding in per cent	2012 Book value
Carried forward	–			16,950			14,845
SKF Canada Limited, Canada	–	100	76.9	0	100	76.9	0
SKF del Peru S.A., Peru	–	2,943,036	99.9	0	2,564,903	99.9	0
SKF Chilena S.A.I.C., Chile	–	88,191	99.9	0	88,191	99.9	0
SKF Asia Pacific Pte Ltd., Singapore	–	1,000,000	100	0	1,000,000	100	0
SKF Australia Pty. Ltd., Australia	–	96,500	100	0	96,500	100	0
SKF Hellas S.A., Athens, Greece	–	2	100	0	2	100	0
Other companies							
Wynwards (U.K.) Limited, United Kingdom	–	102,600,001	100	6,792	–	–	–
SKF Holding Maatschappij Holland B.V., The Netherlands	–	60,002	100	5,042	60,002	100	5,042
SKF International AB, Göteborg, Sweden	556036-8671	20,000	100	1,320	20,000	100	320
SKF China Company Ltd. Shanghai, China	–	133,400	100	1,135	133,400	100	1,135
SKF Verwaltungs AG, Switzerland	–	500	100	502	500	100	502
SKF Treasury Centre Asia Pacific Pte Ltd., Singapore	–	61,500,000	100	467	61,500,000	100	467
SKF Holding Mexicana, S.A. de C.V., Mexico	–	22,687,633	98	239	22,687,633	98	239
SKF Logistics Uruguay S.A., Uruguay		566,886,506	100	174	566,886,506	100	174
Återförsäkringsaktiebolaget SKF, Göteborg, Sweden	516401-7658	30,000	100	125	30,000	100	125
Trelanoak Limited, United Kingdom	–	6,965,000	100	120	6,965,000	100	120
SKF Förvaltning AB, Göteborg, Sweden	556350-4140	124,500	99.6	40	124,500	99.6	40
Peer Rodamientos de Mexico S.A. de C.V.,Mexico	–	3,202,619	99.9	2	–	–	–
Bagaregården 16:7 KB, Göteborg, Sweden	916622-8529	–	–	56[1]	–	–	55[1]
				32,964			23,064

[1] The Parent company's share of the equity in the limited partnership company is disclosed as the nominal value.

Investments in major SKF subsidiaries held by other subsidiaries

Name and location (Holding in per cent)	2013	Owned by subsidiary in:
SKF Argentina S.A., Buenos Aires, Argentina	70.8[1]	Switzerland
SKF Sealing Solutions Austria GmbH, Judenburg, Austria	100	Austria
SKF Canada Ltd., Scarborough, Canada	23.1[1]	The Netherlands
SKF (China) Sales Co. Ltd., Shanghai , China	100	China
SKF China Ltd., Hong Kong, China	100	China
SKF (Dalian) Bearings and Precision Technologies Co. Ltd,. Dalian, China	100	China
SKF Distribution (Shanghai) Co. Ltd., Hongkong, China	100	China
Beijing Nankou SKF Railway Bearings Co. Ltd., Beijing, China	51	China
SKF (Shanghai) Automotive Technologies Co. Ltd., Shanghai, China	100	China
SKF France S.A., Montigny-le-Bretonneux, France	100	France
Transrol S.A.S, Chambéry, France	100	France
SKF Aerospace France, Saint-Vallier-sur-Rhône, France	100	France
SKF Aeroengine France, Valenciennes, France	100	France
S2M France S.A., Saint-Marcel, France	100	France
SKF GmbH, Schweinfurt, Germany	100	The Netherlands
SKF Lubrication Systems Germany AG, Berlin, Germany	100	Germany
SKF Sealing Solutions GmbH, Leverkusen-Opladen, Germany	100	Germany
Lincoln GmbH, Walldorf, Germany	100	Germany
SKF Blohm + Voss Industries GmbH, Hamburg, Germany	100	Germany
SKF India Ltd., Mumbai, India	6.9[2]	UK, Sweden
RFT S.p.A., Turin, Italy	100	Italy
SKF Japan Ltd., Yokohama, Japan	100	The Netherlands
SKF Malaysia Sdn.Bhd., Kuala Lumpur, Malaysia	100	China
SKF Bearing Industries Malaysia, Nilai, Malaysia	100	The Netherlands
SKF de Mexico S.A. de C.V., Puebla, Mexico	37.8[1]	Mexico
SKF B.V., Nieuwegein, The Netherlands	100	The Netherlands
SKF Sverige AB, Göteborg, Sweden	100	Sweden
SKF Mekan AB, Katrineholm, Sweden	100	Sweden
SKF Taiwan Co. Ltd., Taipei, Taiwan	100	The Netherlands
SKF (U.K.) Ltd., Luton, United Kingdom	100	United Kingdom
Kaydon Corporation, Ann Arbor, USA	100	USA
Lincoln Industrial Co., St. Louis, USA	100	USA
General Bearing Co., West Nyack, USA	100	USA

[1] Parent company together with subsidiaries own 100%
[2] Parent company together with subsidiaries own 53.6%

9 Investments in equity securities

Name and location	Holding in per cent	Number of shares	Currency	**2013 Book value, SEKm**	2012 Book value, SEKm
Wafangdian Bearing Company Limited, China	19.7	79,300,000	CNY	**323**	361
NN, Inc., USA	4.5	700,000	USD	**92**	42
				415	403

10 Provisions for post-employment benefits

All white collar workers of the Company are covered by the ITP-plan according to collective agreements. Additionally the Company sponsors a complementary defined contribution, (DC) scheme for a limited group of managers. This DC scheme replaced the previous supplementary defined benefit plan which from 2003 is closed for new participants.

Amount recognised in the balance sheet (SEKm)	**2013**	2012
Present value of funded pension obligations	**270**	250
Less: Fair value of plan assets	**-217**	-199
Net obligation	**53**	51
Present value of unfunded pension obligations	**206**	183
Net provisions	**259**	234

Change in net provision for the year (SEKm)	**2013**	2012
Opening balance 1 January	**234**	193
Defined benefit expense	**48**	42
Other	**–**	21
Pension payments	**-23**	-22
Closing balance 31 December	**259**	234

Components of expense (SEKm)		
Pension cost	**62**	45
Interest expense	**4**	6
Return on plan assets	**-18**	-9
Defined benefit expense	**48**	42
Defined contribution expense	**81**	90
Total post-employment benefit expense	**129**	132

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

The discount rate for the ITP-plan is 3.84% (3.75%) and for the other defined benefit plan it is 3.9% (3.5%). Expected cash outflows for 2014 are SEK 25 m.

11 Loans

SEKm	Maturity	Interest rate	2013 Carrying amount	2013 Fair value	2012 Carrying amount	2012 Fair value
Bonds						
EUR 500 m (Outstanding EUR 265 m)	2013	4.25	**–**	**–**	2,277	2,354
EUR 100 m	2015	2.95	**896**	**935**	861	896
SEK 1,000 m	2017	1.60	**1,000**	**1,001**	1,000	1,001
EUR 500 m	2018	3.88	**4,465**	**4,967**	4,286	4,815
EUR 500 m	2019	1.88	**4,454**	**4,457**	4,274	4,347
EUR 750 m	2020	2.38	**6,668**	**6,698**	–	–
Long-term loans						
EUR 130 m (Outstanding EUR 100 m)	2014	2.99	**896**	**902**	861	865
EUR 100 m	2016	0.83	**896**	**896**	861	862
EUR 100 m	2020	1.05	**895**	**936**	–	–
			20,170	**20,792**	14,420	15,140

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

SEKm	2013	2012
Salaries, wages and other remuneration	**518**	478
Social charges (whereof post-employment benefit expense)	**270 (129)**	277 (132)

See Note 25 to the Consolidated financial statements for information on remuneration to the Board and president as well as men and women in management and the board. Refer to Note 27 to the Consolidated financial statements for the average number of employees and to Note 26 to the Consolidated financial statements for fees to the auditors.

Proposed distribution of surplus

Fair value reserve	SEK	194,993,149
Retained earnings	SEK	7,575,615,223
Net profit for the year	SEK	4,742,175,663
Total surplus	SEK	12,512,784,035
The Board of Directors and the President recommend to the shareholders, a dividend of SEK 5,50 per share[1]	SEK	2,504,430,874[2]
to be carried forward:		
Fair value reserve	SEK	194,993,149
Retained earnings	SEK	9,813,360,012
	SEK	12,512,784,035

[1] Suggested record day for right to dividend, 2 April, 2014.
[2] Board Members' statement: The members of the Board are of the opinion that the proposed dividend is justifiable considering the demands on Company and Group equity imposed by the type, scope and risks of the business and with regards to the Company's and the Group's financial strength, liquidity and overall position.

The results of operations and the financial position of the Parent Company, AB SKF, and the Group for the year 2013 are given in the income statements and in the balance sheets together with related notes.

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

Gothenburg, 28 February, 2014

Leif Östling, *Chairman*
Ulla Litzén, *Board member*
Tom Johnstone, *President and CEO, Board member*
Lena Treschow Torell, *Board member*
Peter Grafoner, *Board member*
Lars Wedenborn, *Board member*
Joe Loughrey, *Board member*
Jouko Karvinen, *Board member*
Baba Kalyani, *Board member*
Niklas Thoresson, *Board member*
Kennet Carlsson, *Board member*
Virpi Ring, *Deputy board member*
Martin Björkman, *Deputy board member*

Our auditors' report for this Annual Report and the consolidated Annual Report was issued 28 February, 2014.

PricewaterhouseCoopers AB

Peter Clemedtson
Authorized public accountant
Auditor in charge

Bo Karlsson
Authorized public accountant

Environmental statements

Environmental data

Quantitative information and data about SKF's environmental performance are provided in this section. For qualitative data and examples on how SKF works to improve environmental performance, please refer to Environmental Care on pages 81–87.
For site by site data, please refer to the Environmental data spreadsheet available at skf.com.

Scope and data collection: All environmental data reported in the SKF Sustainability Report – Environmental Care, (except scope 3 – Logistics data, see note 3) was compiled either quarterly or annually using a web-based reporting tool. It covers all the Group's manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

Information is reported at a local operating unit level, aggregated to site, country/business area, and Group level. Data verification is performed at each level before it is reviewed by external auditors. The reporting of greenhouse gas emissions is done according to the Greenhouse Gas Reporting (GHG) protocol published by the World Business Council for Sustainable Development and the World Resource Institute.

1 Net sales

SEKm	**2013**	2012	2011	2010	2009	2006
Net sales	**63,597**	64,575	66,216	61,029	56,227	53,101

2 Energy use and associated CO_2 emissions from SKF's own facilities and fleet (Scope 1 and 2)

Targets: 5% reduction in absolute energy use in 2016 vs. 2006 and reduce the energy use per production output by 5% year-on-year (measured as energy use/output)

Energy	**2013**	2012	2011	2010	2009	2006
Total energy use (GWh)	**1,700**	1,677	1,758	1,772	1,550	1,954
Indexed energy efficiency (GWh/output)	100	100	98			

Energy efficiency is calculated by dividing GWh used at SKF's production sites by an internal measure of output. In this table it is shown as an indexed indicator based on the previous year as index 100. Because the measure of output is recalculated, only the last three years are comparable.

CO_2 (tonnes)	**2013**	2012	2011	2010	2009	2006
Direct combustion (scope 1*)						
LPG	**4,864**	4,707	4,370	3,668	2,732	4,236
Fuel oil	**3,013**	3,750	5,868	6,900	5,578	11,891
Natural gas	**57,913**	56,178	56,881	60,134	57,808	68,977
Company cars**	**9,899**	–	–	–	–	–
Total scope 1 excl. company cars	**65,790**	64,635	67,119	70,702	66,118	85,104
Total scope 1 incl. company cars	**75, 689**					

	2013	2012	2011	2010	2009	2006
Supplied energy (scope 2*)						
Electricity	**408,172**	398,255	430,408	404,514	340,432	456,916
Heating energy	**36,819**	35,996	33,899	42,075	34,376	45,983
Total scope 2	**444,991**	434,251	464,307	446,589	374,808	502,639
Total CO_2 (scope 1 and 2) excl. company cars	**510,781**	498,886	531,426	517,291	440,926	588,003
Total CO_2 (scope 1 and 2) incl. company cars	**520,680**	–	–	–	–	–
Total minus purchased VERs*** 2010 and 2011			451,426	477,291		

* SKF reports greenhouse gas emissions in accordance with the Greenhouse Gas (GHG) protocol which defines an organization's GHG emissions as Scope 1 (direct emissions from on-site combustion) Scope 2 (indirect emissions associated with generation of energy used on site – electricity, district heat) and Scope 3 (all other indirect emissions from logistics, suppliers etc. refer to note 3). Scope 2 emissions are calculated based on contractual emissions factors where available. Figures for 2006 to 2013 are adjusted according to the GHG-protocol for acquisitions and divestments.
** Emissions from company cars were reported for the first time 2013.
***Voluntary emission reduction certificates produced according to the Voluntary Carbon standard (VCS). See previous year's annual report for detailed information.

3 Transport data and related CO_2 emissions (Scope 3)

a) Logistics data and related CO_2 emissions

Target: 30% reduction of CO_2 / tonne-kilometre for goods transport by 2016 compared to 2011.

SKF Logistics Services downstream (from SKF to customer) transportation of goods. The scope includes emissions of the Air, Ocean and Express shipments on a global level. For road transportation, the Group is mainly reporting emissions from its network within Europe. All data reflecting 2011 and 2012 in the table below has been restated from the previous year's report to reflect the time period 1 January – 31 December the respective year. Prior to 2013, the data was reported Q4 year X to Q3 year Y due to complexity in obtaining proper data.

	2013	2012*	2011*	2010	2009
Shipped Weight (tonnes)	**454,540**	458,985	500,633		
Total CO_2 emissions (Tonnes) scope 3	**38,606**	51,192	51,803		
Transport works (million tonne-kilometres)	**1,974**	2,086	2,131		
CO_2 emission factor (gram per tonne-kilometre)	**19,6**	24.5	24.3		
Change from 2011 (%)	**-19%**	+1%	–		
Fill rate for trucks** (% of available truck space utilized)	**80%**	79%	81%	77%	72%
Shipped weight per transport mode (%)					
Road	**69%**	66%	67%	67%	67%
Sea	**30%**	32%	31%	31%	31%
Express	**<0.5%**	<0.5%	<0.5%	<0.5%	<0.5%
Air	**1%**	1.7%	1.5%	2%	2%
CO_2 emissions per transport mode					
Road	**24%**	18%	19%	18%	18%
Sea	**30%**	24%	24%	23%	31%
Express	**5%**	4%	4%	2%	4%
Air	**41%**	54%	53%	57%	47%

* All statements from 2011-2012 have been restated to reflect January-December for all years. Before 2013, logistics data used to be reported using data from Q4 year X to Q3 year Y, due to complexity of data acquisition.
** The fill rate indictor covers SKF Logistics Services own shipments by truck in the DTS network (Daily Transportation System Network).

b) Business travel

SKF monitors CO_2 emissions from its European and US air travel. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult.

Tonnes	**2013**	2012	2011	2010	2009
CO_2 emissions from air travel	16,334	18,302	19,870	18,680	12,700

4 Total revenue of BeyondZero portfolio solutions and avoided global greenhouse gas emissions enabled by these solutions

Target: to reach total revenues of BeyondZero portfolio solutions of SEK 10 billion in 2016.

a) Total SKF BeyondZero portfolio revenues, SEKm

SEKm	**2013**	2012	2011
Total SKF BeyondZero portfolio revenues	**3,324**	2,972	2,500*

The annual SKF BeyondZero portfolio revenues consist of the total sales from individually selected products and solutions as well as that from SKF's business with the renewable energy (wind, solar, ocean and hydro power) and electric vehicle industry.
* From 2012 the SKF BeyondZero portfolio is reviewed by external auditors. The result for 2011 is estimated.

b) Avoided greenhouse gas emissions enabled by specific SKF solutions*

Tonnes CO_2e	**2013**	2012
Avoided greenhouse gas emissions, specific SKF solutions*	**83,000**	52,000

* The figure shows the sum of the results from completed calculations so far of the avoided greenhouse gas emissions enabled by specific SKF BeyondZero portfolio solutions sold during the respective year. These calculations focus on the difference in the life cycle impact of the SKF solutions compared to defined baseline solutions. The baseline is defined as the most common solution on the market.
This figure is intended to show the magnitude of the savings and will become more comprehensive as further calculations, updates and refinements are done during the course of 2014.

c) Avoided greenhouse gas emissions enabled by SKF's business in the renewable energy and electric vehicles industries**

Tonnes CO_2e	**2013**	2012
Avoided greenhouse gas emissions**	**1,220,000**	1,620,000

** The figure has been estimated as SKF's part of the avoided greenhouse gas emissions made possible by the whole renewable energy industry. An economic allocation factor of 6% has been used. Going forward, this category will also include SKF's sales to the electric vehicle industry.

There is no standard method for companies to calculate environmental benefits, such as reductions in carbon dioxide emissions, from their products and services. The statements in this report concerning environmental impacts, as well as cost savings and revenue increases, are based on results experienced by SKF's customers and/or based on internal calculations by SKF's personnel and do not constitute a guarantee that any future results will be the same. For more details, including documentation about reduced environmental impacts, visit: www.beyondzero.com.

5 Material use

Tonnes	**2013**	2012	2011	2010	2009	2008	2007
Metal as raw material from external suppliers	**378,614**	368,401	413,945	412,068	297,950	431,781	431,076
Rubber as raw material from external suppliers	**4,226**	4,247	4,354	3,915	2,961	3,757	2,621

6 Chemical use

	2013	2012	2011	2010	2009	2008	2007
Alcohols (tonnes)	**1,636**	1,500	1,542	1,514	1,293	1,569	1,395
Solvents (tonnes)	**929**	966	847	1,144	1,075	1,435	1,596
Hydraulic Oil (tonnes)	**2,386**	2,435	2,515	2,501	1,932	3,039	3,209
Grease (tonnes)	**1,717**	1,615	1,515	1416	1,175	1,639	1,728
PCB (Sites with)	**0**	0	1	1	1	1	2
Other oils (tonnes)	**2,862**	3,246	3,843	3,114	3,160	4,130	8,103
Lubrication Oils (tonnes)	**703**	793	986	880	649	887	–
Cutting Oils (tonnes)	**2,492**	2,271	2,456	2,656	1,971	9,478	–
ODS-Class I Manufacturing (kilogram)	**0**	0	0	0	0	0	0
ODS-Class II Manufacturing (kilogram)	**0**	0	0	15	1	88	121
ODS-Class III Manufacturing (kilogram)	**311**	300	138	119	24	–	–
ODS-Class I Non-Manufacturing (kilogram)	**0**	0	0	30	30	–	–
ODS-Class II Non-Manufacturing (kilogram)	**0**	2	124	107	253	–	–
ODS-Class III Non-Manufacturing (kilogram)	**1,511**	745	294	477	281	–	–

ODS: Ozone-depleting substances

7 Water use

	2013	2012	2011	2010	2009	2008	2007
Water use (1,000 N Cubic Meters)	**5,451**	5,662	5,584	5,652	6,898	7,622	6,956

8 Residual products and recycling

	2013	2012	2011	2010	2009	2008	2007
Turning Chips (tonnes)	**49,328**	49,207	54,536	64,782	51,085	83,444	92,919
Turning Chips Recycled (%)	**100**	100	100	100	100	100	100
Other metal scrap (tonnes)	**6,098**	5,625	6,318	7,487	7,670	18,413	76,599
Other metal scrap recycled (%)	**100**	100	100	100	100	100	100
Grinding swarf (tonnes)	**20,466**	20,297	23,221	20,899	15,740	24,324	25,125
Grinding swarf Recycled (%)	**80**	76	68	67	70	64	67
Used oils (tonnes)	**4,369**	3,861	3,899	4,275	3,880	5,742	5,510
Used oils recycled (%)	**91**	96	95	94	96	97	93
Paper and carton (tonnes)	**4,615**	4,276	4,193	4,084	3,390	4,194	4,223
Paper and carton recycled (%)	**98**	100	100	98	96	97	97
Waste sent to landfi ll (tonnes)	**8,505**	9,371	10,938	10,722	7,740	10,046	16,194

Social statements

Social data

In this section the quantitative data of SKFs Social performance is presented. Qualitative information and examples of SKF's social performance can be found in the Employee Care and Community Care section, see pages 88–98. For more information, please also visit skf.com

Health and safety data was collected quarterly using the web-based reporting tool described previously. SKF adopts the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating accident rates.

9 Accident rate for the Group

	2013	2012	2011	2010	2009	2008
Accident rate for the Group	**0.99**	1.06	1.05	1.18	1.29	1.54

Note 10–15, Scope and data collection: The SKF Group Employee Data presented below (and in the Employee Care section) is collected annually. All figures in notes 10-15 about employee data reflects the current state on 31 December each year and the scope changes along with acquisitions and divestments.

▷ IMPORTANT NOTE. In order to provide a more complete survey and include a greater number of employees in the the social data, from 2012 and 2013, the data is compiled from legal company level, whereas it has previously been compiled at operational site level. Due to this, the year over year data is not comparable between 2011 and onwards. In addition, several of the KPIs from 2012 and onwards are presented indicating "% of employees covered by agreement/policy", whereas previously, until 2011, it has been presented as "% of operational units with agreement/policy".

Figures are not adjusted for acquisitions and divestments. Data verification is performed at each level before it is reviewed by external auditors.

10 Attendance by region, %

	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and central Europe	Western Europe
% of total time attending	**95%**	96%	99%	98%	99%	94%	94%
% of total time away from work due to occupational illness/injury*	**0.37%**	0.21%	0%	0.42%	0.06%	0.11%	0.55%

* Only time off due to verified occupational illness/injury is included. Not all SKF entities zglobally report work related and other illness separately. In these cases, the data is not accounted for.

11 Employee retention rate by region

%	Female	Male	**2013 Total**	2012	2011	2010	2009	2008
Asia and Pacific	88.1	86.9	**87**	88	88	91	94	86
Middle East and Africa	97.0	93.9	**95**	93	90	94	95	88
North America	90.0	90.8	**91**	91	91	95	96	91
Latin America	85.3	87.9	**88**	86	94	93	96	95
Eastern and Central Europe	96.3	94.9	**95**	96	97	96	95	90
Western Europe	94.3	95.4	**95**	97	97	96	96	96
Group	**91.7**	**92.0**	**92**	93	**94**	**95**	**95**	**93**

▷ Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation above). The data is therefore not comparable to previous years.

12 SKF employees covered by independent trade union agreement, by region

%	**2013**	2012	2011	2010	2009	2008
Asia and Pacific	70	70	54	52	65	60
Middle East and Africa	21	23	0	0	0	0
North America	88	91	30	28	30	28
Latin America	77	88	100	100	100	100
Eastern and Central Europe	86	85	63	100	100	100
Western Europe	92	94	88	88	90	88
Group	**84**	**86**	**65**	**66**	**71**	**67**

▷ Comment: Data from 2012 and onwards is aggregated from legal entities in SKF (see explanation on page 177). The data is therefore not comparable to previous years.

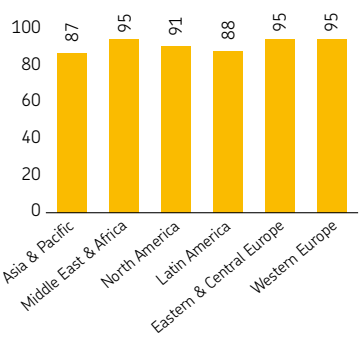
13 SKF employees covered by formalized health and well-being policy/programme*, by region

Percent	**2013**	2012	2011	2010	2009	2008
Asia and Pacific	71	69	14	16	20	25
Middle East and Africa	100	82	100	100	100	100
North America	91	94	48	48	52	45
Latin America	98	98	33	33	33	40
Eastern and Central Europe	20	47	0	0	0	0
Western Europe	90	92	22	20	20	20
Group	**81**	**83**	**26**	**26**	**28**	**27**

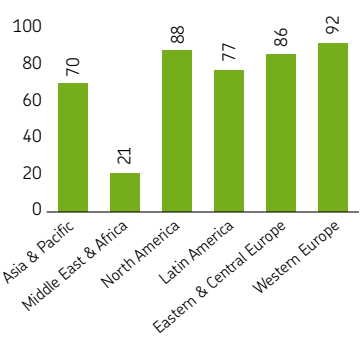
▷ Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation on page 177). The data is therefore not comparable to previous years.

* Examples of formalized health and well-being policies/programmes may include for example, but not limited to HIV/AIDS and other infectious dicease, health and fitness, stress, work-life balance or other issue relevant to the local needs. Until 2011, the data represents units with HIV/AIDS policy or programmes alone.

Employee retention rate by region, %



SKF employees by region covered by independent trade union agreement, %



14 Local management with at least one woman, by region

%	**2013**	2012	2011	2010	2009	2008
Asia and Pacific	86	73	54	56	50	60
Middle East and Africa	67	50	100	100	100	100
North America	77	85	85	70	70	72
Latin America	67	64	67	67	67	60
Eastern and Central Europe	86	60	88	100	100	100
Western Europe	68	69	82	78	86	80
Group	**76**	**70**	**76**	**72**	**76**	**75**

▷ Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation on page 177). The data is therefore not comparable to previous years.

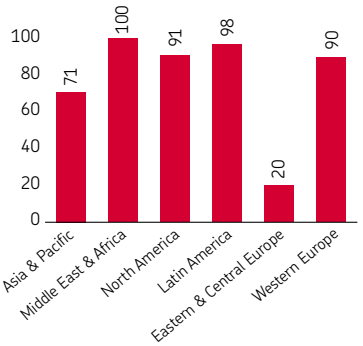
15 Total percentage rate of women in local management, by region

%	**2013**	2012	2011	2010	2009	2008
Asia and Pacific	20	16	9	8	8	9
Middle East and Africa	15	16	33	50	20	20
North America	18	16	18	16	16	15
Latin America	19	18	17	13	11	9
Eastern and Central Europe	30	29	38	46	46	46
Western Europe	16	16	18	17	19	18
Group*	**18**	**17**	**17**	**16**	**18**	**16**

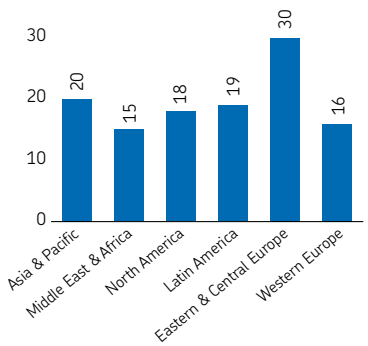
▷ Comment: Data from 2012 and onwards is aggregated from legal units in SKF (see explanation on page 177). The data ais therefore not comparable to previous years.

* The proportion of women in the Group's total number of employees is 22%.

SKF employees by region covered by formalized health and well-being programme, %



Total percentage of women in local management, by region, %



Auditors' Reports

To the Annual General Meeting of the shareholders of AB SKF (publ) Corporate identity number 556007-3495

We have been engaged by the annual general meeting of AB SKF (publ) to conduct audit regarding the financial year 2013. Further we have been engaged by the board of AB SKF (publ) to provide assurance on all environmental and social (sustainability) performance disclosures in the SKF Annual Report 2013 – Financial, environmental and social performance. We have conducted the financial audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We have conducted the assurance on sustainability disclosures in accordance with ISAE3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", published by IFAC. Both engagements are reported to the annual general meeting of AB SKF (publ) through this report.

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2013 with exception of the environmental and social performance in SKF Annual Report 2013 – Financial, environmental and social performance. The environmental and social performance is primarily constituted by information listed under the heading "Report on sustainability performance disclosures". The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 8–172.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of AB SKF (publ) for the year 2013.

Report on sustainability performance disclosures

We have audited or reviewed the sustainability performance disclosures in the SKF Annual Report 2013 – Financial, environmental and social performance. Our engagement includes an audit of all sustainability performance disclosures in the Administration report on pages 8-115 and a review of the Environmental and Social statements on pages 173-179 in the SKF Annual Report 2013, as well as documents on SKF's website in "Topics related to Annual Report 2013" marked with *.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

The Board of Directors and Group Management are responsible for the company's activities regarding environment, health & safety, social responsibility, and sustainable development, and for the preparation and presentation of the sustainability performance disclosures in accordance with applicable criteria.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consoli-

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in

Our responsibility is to express an opinion on the sustainability performance disclosures based on our audit and review procedures. The objective of an audit is to obtain reasonable assurance that the sustainability performance disclosures are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the quantitative and qualitative sustainability performance disclosures.

A review is mainly limited to making inquiries of personnel responsible for sustainability issues, and applying analytical and other review procedures. Hence, the conclusion based on our review procedures does not comprise the same level of assurance as the conclusion of our audit. Since this assurance engagement is combined, our conclusions

Auditor's responsibility cont.

dated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

regarding the audit and the review will be presented in separate sections.

The criteria on which our examination is based are the parts of the Sustainability Reporting Guidelines G3, published by the Global Reporting Initiative (GRI), which are applicable to the sustainability performance disclosures, as well as the accounting and calculation principles that the company has developed and disclosed. We consider these criteria suitable for the preparation of the disclosures.

We consider the evidence collected during our examination to be sufficient and appropriate in order to support our conclusions listed below.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

Our opinion does not include the information listed in the "Report on sustainability performance disclosures".

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Based on our review, nothing has come to our attention that causes us to believe that the sustainability performance disclosures in the Environmental and Social statements in the SKF Annual Report 2013 and the documents on SKF's website in "Topics related to Annual Report 2013" marked with * have not, in all material respects, been prepared in accordance with the above stated criteria.

In our opinion, the sustainability performance disclosures in the Administration report of the SKF Annual Report 2013 which have been subject to our audit procedures have, in all material respects, been prepared in accordance with the above stated criteria.

Other matters

The audit of the annual accounts for the year 2012 was performed by another auditor who submitted an auditor's report dated February 28, 2013, with unmodified opinions in the Report on the annual accounts and consolidated accounts.

The review of the sustainability performance disclosures for the year 2012 was performed by another auditor who submitted a review report dated February 28, 2013, with unmodified opinion on the Review report on environmental and social performance.

Gothenburg, 28 February 2014
PricewaterhouseCoopers AB

Peter Clemedtson
Auditor in Charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant

»see pages 202–203, SKF's global campaign 2013

Corporate Governance Report

Contents

Corporate Governance Report

Introduction

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

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

Information under the Annual Accounts Act Chapter 6, § 6, sections 3–6, are found at the following pages of the Administration Report for the Group in the Annual Report 2013:

- Annual Accounts Act Chapter 6, § 6, section 3; see page 107
- Annual Accounts Act Chapter 6, § 6, section 4; see page 109
- Annual Accounts Act Chapter 6, § 6, section 5; see page 115
- Annual Accounts Act Chapter 6, § 6, section 6; see page 110

Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") was originally introduced on 1 July 2005. The Code has been revised twice since the introduction and the applicable Code is available at the website of the Swedish Corporate Governance Board, www.corporategovernanceboard.se.

It is considered good stock exchange practice for Swedish companies whose shares are traded on a regulated market to apply the Code. SKF applies the Code, and this Corporate Governance Report has been prepared in accordance with the Code and the Swedish Annual Accounts Act. Furthermore, SKF has provided information on the company's website in line with the Code requirements. The Annual General Meeting in 2013 was also held in accordance with the Code rules. The auditor of the company has read and performed a statutory examination of the Corporate Governance Report.

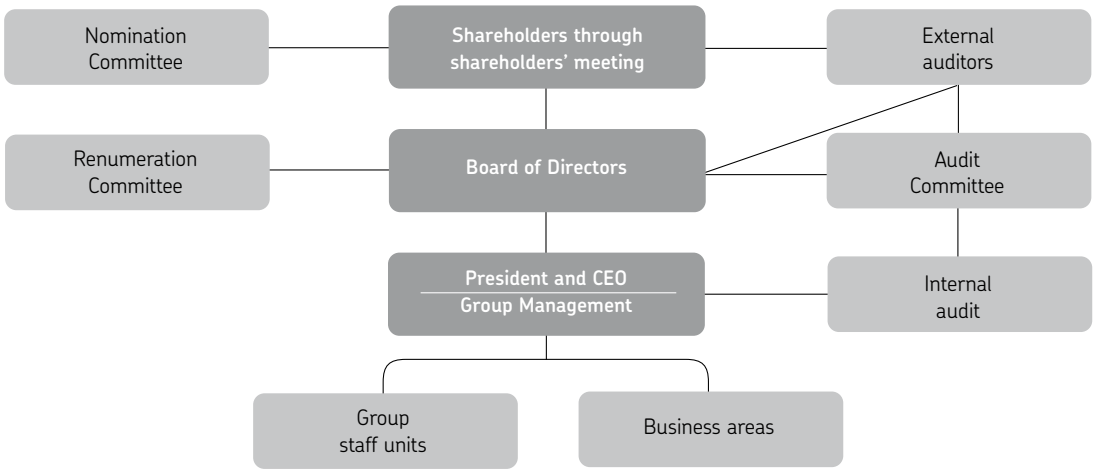
Nomination Committee

At the Annual General Meeting of AB SKF held in the spring 2013, it was resolved that the company shall have a Nomination Committee formed by one representative of each of the four major shareholders with regard to the number of votes held as well as the Chairman of the Board. When constituting the Nomination Committee, the shareholdings per the last banking day in August 2013 would determine which shareholders are the largest with regard to the number of votes held. The names of the four shareholder representatives were to be published as soon as they had been elected, however not later than six months before the Annual General Meeting 2014. The Nomination Committee shall remain in office until a new Nomination Committee has been appointed.

In a press release on 25 September 2013, it was announced that a Nomination Committee consisting of the following representatives of the shareholders, besides the Chairman of the Board, had been appointed in preparation of the Annual General Meeting 2014:

- Claes Dahlbäck, Foundation Asset Management
- Ramsay Brufer, Alecta
- Caroline af Ugglas, Skandia Liv
- Anders Algotsson, AFA Försäkring

Governance structure



The Nomination Committee is to furnish proposals in the following matters to be presented to, and resolved by, the Annual General Meeting in 2014:

- proposal for Chairman of the Annual General Meeting
- proposal for Board of Directors
- proposal for Chairman of the Board of Directors
- proposal for fee to the Board of Directors
- proposal for fee to the Auditor
- proposal for a Nomination Committee ahead of the Annual General Meeting of 2015

The proposals of the Nomination Committee are at the latest to be published in connection with the notice to the Annual General Meeting 2014.

General information about how the company is managed

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

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

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

SKF primarily operates with three business areas: SKF Industrial Market, Strategic Industries; SKF Industrial Market, Regional Sales and Service and SKF Automotive. Each business area works across the entire asset life cycle for the different industries and develops and delivers products, solutions and services to OEMs and end-users.

Further, there are seven Group staff units: Group Finance and Corporate Development, Group Technology Development, Group Legal and Sustainability, Group People and Business Excellence, Group Purchasing, Group Communications and Government Relations, and Group Business Transformation. See pages 192–193 in the Annual Report 2013.

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

The Board of Directors

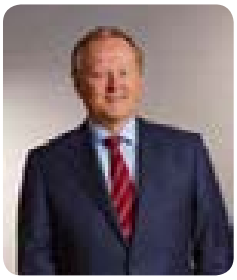
Composition and remuneration of the Board

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

Nine Board members, including the Chairman, were elected at AB SKF's Annual General Meeting held in the spring of 2013. In addition, the employees have appointed two Board members and two deputy Board members. No Board member, except for the President, is included in the management of the company.

Information on the remuneration of the Board members decided upon by the Annual General Meeting 2013 can be found in the Annual Report 2013, Consolidated Financial Statements, Note 25. It should be noted that the Annual General Meeting decided, in accordance with the proposal of the Nomination Committee, that a part of the remuneration to the Board members is to be received as a variable allotment corresponding to the value of a certain number of SKF B shares after the publication of the press release for the financial year 2013. The variable allotments will be paid out in April 2014. This is a deviation from Rule 9.8 in the Code, which states, inter alia: "The vesting period or the period from the commencement of an agreement to the date for acquisition of shares is to be no less than three years". By Instruction 1–2010 the Rule's scope of application has been extended to include also synthetic options and other types of incentive programmes that do not involve the acquisition of shares. The Nomination Committee has informed the company that it is of the opinion that the proposal presented for decision by the Annual General Meeting is appropriate particularly considering that the Nomination Committee has told the Board of Directors that it is an appropriate principle that each Board member elected by the Annual General Meeting during a period of three years should invest an amount equal to the annual board allotment after tax in shares in SKF, and keep these shares as long as the relevant person is a Board member of SKF.

Members of the Board of Directors as of 31 December 2013


Leif Östling


Tom Johnstone


Ulla Litzén


Lena Treschow Torell


Peter Grafoner


Lars Wedenborn


Joe Loughrey

Leif Östling
Chairman, Board member since 2005
Born 1945
Education and job experience: Master of Engineering (Chalmers University of Technology, Gothenburg), Bachelor of Economics (School of Business, Economics and Law, University of Gothenburg), various management positions at Scania since 1972, President and CEO of Scania AB between 1994 and 2012, and member of the Board of Management, Volkswagen AG, responsible for Commercial Vehicles, from 2012.
Other assignments: Vice Chairman of Scania AB, and Board member of EQT Holding AB and MAN SE.
Shareholding (own and/or held by related parties): 20,000 SKF B

Tom Johnstone
Board member since 2003
Born 1955
President and Chief Executive Officer of AB SKF.
For more details, see page 189.

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

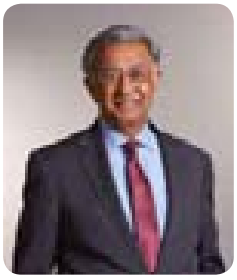
Lena Treschow Torell
Board member since 2007
Born 1946
Education and job experience: Ph.D. (University of Gothenburg). Professor at University of Uppsala and then at Chalmers University of Technology, Gothenburg. Vice President at Chalmers University of Technology, Gothenburg, 1995–1998, and Research Director of the Joint Research Centre, European Commission in Brussels 1998–2001. President of the Royal Swedish Academy of Engineering Sciences (IVA) 2001–2008 and Chairman of the Academy 2009–2011. Chairman of Euro-CASE (The European Council of Academies of Applied Sciences, Technologies and Engineering) 2008–2012.
Other assignments: Vice Chairman of AB ÅF. Board member of SAAB AB and Investor AB. Chairman of Chalmers University of Technology and of MISTRA, the Foundation for Strategic Environmental Research.
Shareholding (own and/or held by related parties): 3,100 SKF B

Peter Grafoner
Board member since 2008
Born 1949
Education and job experience: Doctor's degree in Engineering (University of Dortmund). Brown Boveri & Cie, several managerial and executive positions within AEG, Chairman of the Management Board of Mannesmann VDO AG 1996–2000 and vice Chairman of the Management Board of Linde AG during 2000–2001.
Other assignments: Board member of Symrise AG, Chairman of SAG Group GmbH, President of the Board of Scania Schweiz AG and vice Chairman of Coperion GmbH.
Shareholding (own and/or held by related parties): 1,000 SKF B

Lars Wedenborn
Board member since 2008
Born 1958
Education and job experience: Master of Science in Economics (University of Uppsala). Deputy Managing Director and CFO of Alfred Berg 1991–2000, Executive Vice President and CFO of Investor AB 2000–2007, and presently CEO of FAM (Foundation Asset Management) owned by the Wallenberg Foundations.
Other assignments: Chairman of NASDAQ OMX Nordic Ltd., and board member of NASDAQ OMX Group USA, Höganäs, Alecta, The Grand Hotel, ELK Entertainment AB and FAM (Foundation Asset Management), and member of the council of the Stockholm Chamber of Commerce.
Shareholding (own and/or held by related parties): 10,000 SKF A, 1,500 SKF B

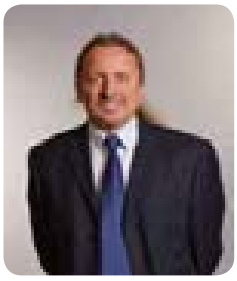
Joe Loughrey
Board member since 2009
Born 1949
Education and job experience: Bachelor of Science degree in Economics and African Studies (University of Notre Dame). Several managerial and executive positions within Cummins over 35 years, the last as vice Chairman of the Cummins Inc. Board 2008–2009, President and Chief Operating Officer of Cummins Inc. 2005–2008 and President of Cummins Engine Business 1999–2005.

Jouko Karvinen

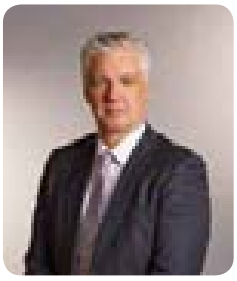


Baba Kalyani

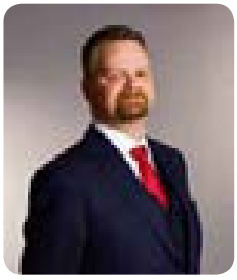
Employee representatives



Kennet Carlsson



Martin Björkman



Niklas Thoresson

Virpi Ring

Other assignments: Chairman of Hillenbrand, Inc. and of Oxfam America, Board member of the Vanguard Group, Hyster-Yale Materials Handling Inc., The V Foundation for Cancer Research and the Lumina Foundation for Education. Co-chair of the Chicago Council on Global Affairs Independent Task Force on Immigration Reform. Member (past Chairman 2009-2012) of the Advisory Council of the College of Arts and Letters and of the Kellogg Institute of International Studies Advisory Board at the University of Notre Dame.
Shareholding (own and/or held by related parties): 10,000 SKF B

Jouko Karvinen
Board member since 2010
Born 1957
Education and job experience: Master of Science (Tampere University of Technology). Employed by ABB Group Limited from 1987 and served in several international positions; head of the Automation Technology Products Division, and member of the ABB Executive Committee from 2000–2002. President and CEO of Philips Medical Systems, USA, 2002–2006, and appointed to the Board of Management of Royal Philips Electronics in the Netherlands in 2006. CEO of Stora Enso Oyj since March 2007.
Other assignments: Board member of 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).
Shareholding (own and/or held by related parties): 0

Baba Kalyani
Board member since 2011
Born 1949
Education and job experience: Master of Science (Massachusetts Institute of Technology, USA) and a Bachelor of Mechanical Engineering (Birla Institute of Technology, India). Managing Director of Bharat Forge Ltd since 1993 and before that several senior positions in Kalyani Group companies since 1972.
Other assignments: Chairman of the Kalyani Group, Bharat Forge Ltd, and several other companies in the Kalyani Group. Member of the World Economic Forum and of the Confederation of Indian Industries, and Founder Chairman of Pratham Pune Education Foundation, NGO engaged in providing primary education to underprivileged children in the local community.
Shareholding (own and/or held by related parties): 0

Kennet Carlsson
Board member since 2008 and deputy board member 2001–2008
Born 1962
Education and job experience: Employed in the SKF Group since 1979.
Other assignments: Chairman Metalworkers' Union, SKF, Gothenburg and SKF World Union Committee.
Shareholding (own and/or held by related parties): 100 SKF A

Niklas Thoresson
Board member since 2012
Born 1974
Education and job experience: Employed in the SKF Group since 1995.
Other assignments: Chairman Unionen, SKF, Gothenburg.
Shareholding (own and/or held by related parties): 0

Martin Björkman
Deputy board member since 2011
Born 1970
Education and job experience: Employed in the SKF Group since 1989.
Other assignments: Board member Metalworkers' Union, SKF, Gothenburg.
Shareholding (own and/or held by related parties): 0

Virpi Ring
Deputy board member since 2012
Born 1967
Education and job experience: Employed in the SKF Group since 1987.
Other assignments: 2nd vice Chairman Unionen, SKF, Gothenburg, and board member Higab.
Shareholding (own and/or held by related parties): 0

Auditors

Peter Clemedtson
Authorized Public Accountant
Auditor in charge
PricewaterhouseCoopers AB

Bo Karlsson
Authorized Public Accountant
PricewaterhouseCoopers AB

Independence requirements

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

Name of the Board members elected by the Annual General Meeting	Independence in relation to the company/senior management	Independence in relation to the major shareholders of the company
Leif Östling	•	•
Ulla Litzén	•	•
Tom Johnstone		•
Winnie Fok (resigned in April 2013)	•	•
Lena Treschow Torell	•	•
Peter Grafoner	•	•
Lars Wedenborn	•	
Joe Loughrey	•	•
Jouko Karvinen	•	•
Baba Kalyani	•	•

Activities of the Board of Directors

The Board held twelve meetings in 2013. The Board members were present at the Board meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	12/12
Ulla Litzén	11/12
Tom Johnstone	12/12
Winnie Fok (resigned in April 2013)	3/12
Lena Treschow Torell	11/12
Peter Grafoner	11/12
Lars Wedenborn	12/12
Joe Loughrey	12/12
Jouko Karvinen	10/12
Baba Kalyani	8/12
Kennet Carlsson	8/12
Niklas Thoresson	10/12
Martin Björkman	12/12
Virpi Ring	8/12

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

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

The Board has also issued written instructions on:

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

Issues dealt with by the Board in 2013 include i.a. market outlook, financial reporting, capital structure, acquisitions and divestments of companies (primarily the acquisition of Kaydon Corporation), antitrust investigations, the strategic direction and business plan of the Group and management issues.

The Board evaluates economic, environmental and social aspects for the Group's performance. In addition to financial matters, the Board regularly reviews issues such as accident rates, greenhouse gas emissions and Code of Conduct adherence.

Remuneration Committee

The Board of AB SKF has in accordance with the principles in the Code established a Remuneration Committee consisting of the Chairman of the Board, Leif Östling, and the Board members Peter Grafoner, Lars Wedenborn and Jouko Karvinen.

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

The Remuneration Committee continuously monitors and evaluates the SKF Group's remuneration package for Group Management. Not later than two weeks prior to the Annual General Meeting the Board submits on the company's website, in accordance with the principles in the Code, a report on the results of the Remuneration Committee's evaluation.

The Remuneration Committee held two meetings in 2013. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	2/2
Peter Grafoner	2/2
Lars Wedenborn	2/2
Jouko Karvinen	2/2

Audit Committee

The Board of AB SKF has in accordance with the principles of the Swedish Companies Act and the Code appointed an Audit Committee. The Audit Committee consists of Lars Wedenborn, as Chairman, the Chairman of the Board, Leif Östling, and the Board member Ulla Litzén.

The tasks of the Audit Committee include i.a. preparations in relation to the nomination of external auditors, review of the scope of the external audit, evaluation of the performance of the external auditors, review and control of the financial reporting, and of the internal control, internal audit and risk management regarding the financial reporting.

The Audit Committee held seven meetings in 2013. The members of the committee were present at the meetings as follows:

Name of the Board member	Presence/total number of meetings
Leif Östling	7/7
Ulla Litzén	7/7
Lars Wedenborn	7/7

Assessment

The Board members assess the quality of the work of the Board through the completion of a questionnaire, which reflects the Group's values and drivers. The result is then discussed at a Board meeting. The Nomination Committee has been provided with the result of the assessment.

President and Chief Executive Officer

Tom Johnstone

Board member of AB SKF's Board since 2003
Born 1955
Education and job experience: Master of Arts degree (the University of Glasgow), Honorary Doctor's degree in Business Administration (the University of South Carolina, USA), and Honorary Doctor's degree in Science (Cranfield University, UK). Several management posts within the SKF Group, the latest as Executive Vice President of AB SKF and President of Automotive Division.
Other assignments: Board member of Investor AB and Husqvarna AB.
Shareholdings (own and/or held by related parties) in the company: 140,231 SKF B
Material shareholdings or other holdings (own and/or held by related parties) in companies with which the company has important business relationships: 1,000 ABB Ltd, 3,500 Volvo B, 600 Electrolux B, 4,800 Husqvarna B and 990 Husqvarna A.

The auditor of the company

The task of the auditor is to audit, on behalf of the shareholders, the Annual Report and the accounting and also to audit the Board's and the President's management of the company. The Annual General Meeting elects the auditor for a period of four years. At AB SKF's Annual General Meeting in the spring 2009, KPMG was re-elected as auditor for the time up to the closing of the Annual General Meeting in 2013. KPMG was present at the Annual General Meeting. Thomas Thiel was the auditor in charge. At AB SKF's Annual General Meeting in the spring 2013, PricewaterhouseCoopers AB (PwC) was elected as auditor for the time up to the closing of the Annual General Meeting in 2017. Peter Clemedtson is now the auditor in charge and Bo Karlsson is co-signing auditor. Peter Clemedtson is also the auditor in charge at a number of other listed companies, such as AB Volvo, Ratos AB and unlisted companies such as Stena AB. Bo Karlsson is the auditor in charge at a number of other listed companies, such as AB Fagerhult och ASSA ABLOY AB. The auditor shall according to a resolution of the Annual General Meeting be remunerated in accordance with approved invoice.SKF has a procedure in place whereby all matters that are intended to be handled by the elected auditors are evaluated in relation to the independence requirements and are approved or, as the case may be, rejected, according to rules adopted by the Audit Committee. PwC applies a similar procedure and issues annually, in addition thereto, a written statement to the Board stating that the audit firm is independent in relation to SKF.PwC has during 2013 been involved in matters besides the auditing for 2013. These matters have primarily concerned tax and audit related services. The total fees for PwC's services besides auditing in 2013 amount to SEK 12 million.

Financial reporting

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

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

The Board of Directors had one meeting with the auditor from KPMG in 2013 and has been provided with the audit and its result. Within the scope of its work, which includes reviewing the extent of the external audit and evaluating the performance of the external auditors, the Audit Committee met with the auditors in connection with five Audit Committee meetings. In addition to that, the auditors gave both the Audit Committee and the Board of Directors information in writing regarding matters including the planning and implementation of the audit and an assessment of the risk position of the company.

Internal control and risk management regarding financial reporting

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

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

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

In the area of control activities, SKF has documented in detail, all the critical finance processes and controls for the parent company and all subsidiary companies. SKF implemented these requirements as a Group standard, the SKF Internal Control Standard (SICS) for all Group companies. The documentation standards require an extensive risk assessment at Group and subsidiary company level in the area of financial reporting. For all material risks that are identified, action is taken to eliminate the risk or reduce it to an acceptable level. The financial process and control documentation is reviewed annually.

SKF has information and communication systems and procedures in place in order to ensure the completeness and correctness of the financial reporting. Accounting and reporting instructions are updated when necessary and reassessed at least once a year. These instructions have been made available to all relevant employees together with training programmes and the frequent communication of any changes in accounting and/or reporting requirements.

Financial process and control documentation, documentation of the COSO components of monitoring, information and communication, financial risk assessment, control environment, as well as test and review protocols, are stored in a special IT system. This enables the online real-time follow-up and monitoring of SKF's financial internal control system.

The implementation of SICS consisted primarily of adapting the process and control descriptions to a common framework, as required by COSO, and putting in place a comprehensive system for management testing of the controls. SKF has implemented a risk-based annual testing programme of critical controls. The test programme is reassessed annually. Testing is primarily done on-site by independent external testers who report to SKF's internal audit function.

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

Gothenburg, 28 February 2014
The Board of Directors

Auditor's report of the Corporate Governance Report

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

It is the board of directors which is responsible for the Corporate Governance Report for the year 2013 on pages 183–190 and that it has been prepared in accordance with the Annual Accounts Act.

We have read the Corporate Governance Report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

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

Gothenburg, 28 February 2014
PricewaterhouseCoopers AB

Peter Clemedtson
Authorized Public Accountant
Auditor in charge

Bo Karlsson
Authorized Public Accountant

Group Management

as of 31 December 2013

Tom Johnstone
President and Chief Executive Officer
Born 1955
Master of Arts degree, the University of Glasgow, Honorary Doctor's degree in Business Administration, the University of South Carolina, USA and Honorary Doctor's degree in Science, the Cranfield University, UK
Employed since 1977
Previous positions within SKF: Executive Vice President AB SKF and President, Automotive Division and several other positions
Board member: Investor AB and Husqvarna AB
Shareholding in SKF: 140,231 SKF B

Rakesh Makhija
President, SKF Industrial Market, Strategic Industries
Born 1951
Bachelor of Technology in Chemical Engineering, Indian Institute of Technology, New Delhi, India
Employed since 2002
Previous positions within SKF: President Asia and Managing Director, SKF India Ltd.
Shareholding in SKF: 1,766 SKF B

Alan Begg
Senior Vice President, Group Technology Development
Born 1954
Masters degree and PhD, University of Cambridge
Employed since 2007
Fellow of Royal Academy of Engineering, UK
Board member: NV Bekaert SA
Shareholding in SKF: 2,182 SKF B

Henrik Lange
Executive Vice President and Chief Financial Officer
Born 1961
Bachelor of Science in Economics, School of Business, Economics and Law, University of Gothenburg
Employed since 2003 and 1988–2000
Previous positions within SKF: President, SKF Industrial Market, Strategic Industries and several other positions
Board member: Association of Swedish Engineering Industries, GU School of Executive Education and Partnertech AB
Shareholding in SKF: 6,618 SKF B

Vartan Vartanian
President, SKF Industrial Market, Regional Sales and Service
Born 1953
Bachelor of Applied Sciences-Mechanical Engineering, University of Toronto
Employed since 1990
Previous positions within SKF: Area Director, Europe and several other positions
Board member: SAMA
Shareholding in SKF: 13,334 SKF B

Carina Bergfelt
General Counsel and Senior Vice President, Group Legal and Sustainability
Born 1960
Master of Law, Lund University
Employed since 1990
Previous positions within SKF: Legal Counsel, Secretary to the Board since 1996
Board member: The Association of Exchange listed Companies
Shareholding in SKF: 3,182 SKF B

Tryggve Sthen
President, SKF Automotive
Born 1952
Master of Science (M.S.E.E.) in Technical Physics and Electrotechnology, Institute of Technology at Linköping University
Employed since 2003
Board member: Green Cargo and Boston Power International
Shareholding in SKF: 3,118 SKF B

Eva Hansdotter
Senior Vice President, Group People and Business Excellence
Born 1962
Bachelor of Science in Information Systems, University of Gothenburg
Employed 1987–2013
Previous positions within SKF: Human Resources Director, Industrial Division and several other positions
Board member: IHM Business School
Advisory Board member: Edward Lynx
Shareholding in SKF: 3,182 SKF B

Manfred Neubert
President, SKF GmbH
Born 1953
Master of Economics, Business Administration
Employed since 2004
Advisory Board member: WEHACO Hannover
Council member: VDA, VDMA, VBM/BAYME (Employers association German Metal Industry)
Shareholding in SKF: 4,387 SKF B

Lars Wilsby
Senior Vice President, Group Business Transformation
Born 1962
Master of Science Industrial Engineering and Management, Chalmers University of Technology, Gothenburg; MBA, INSEAD,Fontainebleau, France
Employed since 2005
Previous positions within SKF: Director, Vehicle Service Market and Director, Business Development Automotive Division
Shareholding in SKF: 2,123 SKF B

Poul Jeppesen
President and Chief Executive Officer, SKF USA Inc.
Born 1953
Engineering, Aalborg Technical College and Business Administration, Silkeborg Business School
Employed since 1982
Previous positions within SKF: President, SKF Actuation System and several other positions
Board member: NAM (National American Manufacturers), MAPI (Manufacturing Alliances), ABMA, American Bearing Manufacturers Association
Shareholding in SKF: 935 SKF B

Bo-Inge Stensson
Senior Vice President, Group Purchasing
Born 1961
Master of Science Industrial and Mechanical Engineering, Institute of Technology at Linköping University
Employed since 2006
Previous positions within SKF: Senior Vice President, Group Demand Chain
Shareholding in SKF: 2,782 SKF B

Ingalill Östman
Senior Vice President, Group Communications and Government Relations
Born 1956
Master of Science in Mechanical Engineering, Luleå University of Technology
Employed since 2008
Board member: SOIC AB and International Council of Swedish Industry (NIR)
Shareholding in SKF: 4,182 SKF B

As of 1 January 2014

Kent Viitanen
Senior Vice President, Group People and Business Excellence
Born 1965
Business and Economics, School of Business, Economics and Law, University of Gothenburg
Employed since 1988
Previous positions within SKF: Director, Renewable Energy and several other positions
Shareholding in SKF: 140 SKF A and 2,622 SKF B

Glossary

Accident rate
The accident rate for the Group is calculated using the formula:
Accident rate = R×200,000/h, where
R= number of recordable accidents
h = total hours worked
This formula is provided by the US Occupational Safety and Health Administration (OSHA).

Ball bearings versus roller bearings
The main difference in the performance of these two bearing types is that ball bearings have lower friction than roller bearings, while roller bearings have a higher load-carrying capacity.

By-wire technology
In by-wire systems, the direct mechanical control is replaced by electronic control.

Carbon dioxide
A common gas with the chemical formula CO_2. This gas is generated in various processes in nature and in combustion of most fuels. CO_2 contributes to the global greenhouse effect.

Carbon intensity
The amount of CO_2 released during the conversion of the total energy used.

Condition monitoring
By regularly measuring vibration levels in bearings and machines, maintenance factors impacting on bearing service life and machine operation can be controlled. Condition monitoring instrumentation and software enable the early detection of bearing and machinery problems, making it possible for technicians to take the necessary steps in order to address a problem before it results in breakdowns.

Elastomer
Synthetic rubber.

Employee retention rate
1– (R)/(registered number of employees as of 31 Dec – newly hired during the year + R)
R = number of employees that left during the year.

Energy intensity
The total energy used in all forms in the manufacturing facilities divided by an accounting measure of manufacturing output.

Friction
A force that counteracts movement between contact surfaces. Friction is by nature complex and is calculated by means of an empirical factor. Friction consumes energy and generates heat in rotating machinery.

Gigawatt hour (GWh)
One million kilowatt hours (kWh). Measure of electrical energy quantity.

GHG protocol
The GHG Protocol Corporate Standard provides standards and guidance for companies and other organizations preparing a GHG (greenhouse gas) emissions inventory. Through the use of standardized approaches and principles, it provides a clear and transparent reporting mechanism.

Hub bearing unit
Easy-to-mount, compact bearing unit for passenger car wheels. It is based on a double-row angular contact ball bearing and has integrated seals. It can be equipped with a sensor suitable for anti-lock braking aystems (ABS), traction control and so on.

Integrated Maintenance Solution (IMS)
An IMS contract is an expanded trouble-free operation programme which consists of services such as training, installation supervision, root cause failure analysis and the condition monitoring of rotating machinery.

ISO
The International Organization for Standardization (ISO) is an international standard-setting body composed of representatives from various national standards organizations. The organization promulgates worldwide proprietary industrial and commercial standards.

Landfill
Designated area for disposal of waste.

Large size bearings
The range includes standard bearings as well as bearings tailored for specific applications. Bearings with an outside diameter of more than 420 mm are considered as large. The bearings are available both in metric and inch dimensions.

Leadership in Energy & Environmental Design (LEED)
An internationally recognized green building certification system, providing third-party verification that a building or community was designed and built using strategies intended to improve performance in metrics such as energy savings, water efficiency, CO_2 emissions reduction, improved indoor environmental quality, and stewardship of resources and sensitivity to their impacts.

SKF Life cycle asset management
SKF Life cycle asset management is about optimizing SKF's customers' machine – assets – including specifications, design, manufacture, operating and monitor, maintenance and reparation, and re-manufacturing.

Life cycle management (Environmental) refers to the environmental impact of SKF's products over its full life cycle; material extraction, transports, manufacturing, use phase and end of life.

Life cycle analysis
Systematic analysis of all environmental impacts of a product during its entire life cycle, i.e. from raw material to end-of-life product recovery or disposal.

Linear products
A common name for components, units and systems for linear movement. They include linear bearings, profile rail guides, linear ball bearing slides and so on.

Lubricant
Grease, oil or other substance to facilitate the motion of surfaces relative to each other, e.g in a bearing.

OHSAS 18001
Occupational Health and Safety Assessment Series management system targets

SKF Business Excellence
SKF Business Excellence was launched in 2010. It is about delivering value to customers in the most effective and efficient way possible, through utilizing the knowledge of employees, partners and the company's technology. Business Excellence builds on many of the initiatives started by the SKF Group over a number of years, the most recent was SKF Manufacturing Excellence. With Business Excellence SKF is expanding the experience from the manufacturing area into other processes and operations within the SKF Group.

Business Excellence is built up of three equally strong areas, namely Business Excellence Culture, Six Sigma and Quality. Each of these areas has their own specific uniqueness, strengths and ways of working – but they all provide means for working with continuous improvements. The Business Excellence Triangle illustrates that the three provide one joint approach with a wide range of tools.

Business Excellence Culture describes how things should be done in order to become more effective and more efficient, for example what is expected from leaders and what empowerment implies. The culture tools are for example the SKF Bridge of Excellence, Pulse Meetings and visualization. Core is involving the whole team and focusing on reducing waste.

Quality including GPM2
SKFs Quality Management System (QMS) provides tools for critical business processes and to assure that SKF is the quality leaders in its field. In short it describes how we shall work in SKF. One important part of the quality system is the project management tool GMP2, which is chosen as the method for all SKFs projects. GPM2 is based on the internationally recognized system called PRINCE2® and the method describes SKF's approach to managing projects. We expect all projects to be run using this method.

SKF Six Sigma is a continuous improvement programme that targets waste and defects in all business processes, at SKF, its suppliers and its customers. SKF Six Sigma projects are run by extensively trained Black Belts and Green Belts, where Black Belts are required to run two projects a year and Green Belts one project a year. White Belts exist to quickly solve basic issues, by systematically adopting a simplified DMAIC model.

SKF Six Sigma consists of two major methodologies: Traditional Six Sigma (DMAIC and Lean) and Design for Six Sigma (IDDOV).

The foundations for SKF Six Sigma improvements are that they are fact-based, sustainable and directly contribute to the business objectives' achievements.

Traditional Six Sigma – DMAIC
(Define Measure Analyze Improve Control)
A methodology which uses analytical tools in the DMAIC phases and focuses on the reduction of variation.

Traditional Six Sigma – Lean
A methodology which combines tools from both Lean and Six Sigma. Lean focuses on speed and waste, Six Sigma on variation and quality – the result is better quality more quickly.

Design for Six Sigma – IDDOV
(Initiate Define Develop Optimize Validate)
A methodology which focuses on developing reliable products, processes and services, while embracing customer satisfaction and robustness. It allows production at a predictable level of costs and risks.

at controlling occupational health and safety risks as well as to improve performance in the area. It is compatible with ISO 14001 (Environmental Management System).

Original equipment manufacturer (OEM)
Customers who buy bearings to use in their own products, such as manufacturers of cars, household appliances, gearboxes and so on.

REACH
The REACH Regulation came into force on 1 June 2007, intended for the Registration, Evaluation, Authorization and Restriction of Chemical substances. Information about the chemical substances used or imported shall be registered in a central database run by the European Chemical Agency (ECHA).

Remediation
Clean-up and restoration of a contaminated site.

Residual product
Other product than the main product from a production process. It may or may not have a net value. Residual products without a positive net value are wastes.

Self-aligning ball bearing
This bearing type, invented in 1907 by SKF's founder Sven Wingquist, solved one of the largest industrial problems of the time – the continual production stoppages caused by bearing failure. As the alignment of the shafts was not accurate enough for the rigid ball bearings that were normally used, the bearings failed due to misalignment. The double-row, self-aligning ball bearings accommodated the misalignment without reducing service life, thereby solving the problem.

SKF Care
Sustainability is one of SKF's five business drivers, alongside Profitability, Quality, Innovation and Speed. SKF's approach to sustaining financial and operational excellence centres on the SKF Care concept, which consists of Business Care, Environmental Care, Employee Care and Community Care.

SKF Internal Control Standard (SICS)
A financial internal control framework, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO), developed by SKF for ensuring that a basic, consistent system of financial internal control is maintained throughout the SKF Group.

SKF Solution Factory
The SKF Solution Factories combine the full range of SKF's expertise within technology platforms with workshop facilities, providing customized service and solutions to customers. This brings many SKF bearing services and integrated value-adding solutions close to the customers – such as remanufacturing and customization, application engineering, spindle repair, lubrication applications, mechanical services including mounting, alignment and balancing, remote monitoring centre and training.

Superfund site
Old landfill or plant site in the United States with soil or groundwater contamination, subject to a remediation programme according to a federal law. Remediation funding is provided by those who contributed to the contamination.

Super-precision bearings
SKF's comprehensive assortment of super-precision bearings is designed for machine tool spindles and other applications that require a high level of running accuracy at high to extremely high speeds. Each bearing type incorporates unique features to make it suitable for specific operating conditions.

Transaction effects
Companies involved in international trade risk that currency exchange rates may change and thereby effect the value of the transactional currency flows.

Translation effects
The risk that a company's equities, assets, liabilities or income will change as a result of the translation of foreign currency into SEK.

Tribology
Tribology is the science and technology of interacting surfaces in relative motion. It includes the study and application of the principles of friction, lubrication and wear.

Working Climate Analysis (WCA)
A survey distributed to all employees with the aim of obtaining their feedback on SKF's performance in relation to the company's values and key focus areas.

Definitions

Key figures
The majority of the subsidiaries within the Group report the results of their operations and financial position twelve times a year. Most of the key figures presented in the Annual Report have been calculated using average values based on these reports. Consequently, the calculation of these key figures using the year-end values presented may give slightly different results.

Portion of risk-bearing capital
Equity and provisions for deferred taxes, as a percentage of total assets at year end.

Equity/assets ratio
Equity as a percentage of total assets at year-end.

Gearing
Loans plus net provisions for post-employment benefits, as a percentage of the sum of loans, net provisions for post-employment benefits and equity, all at year-end.

Net debt/equity
Total short-term financial assets excluding derivatives minus loans and provisions for post-employment benefits, as a percentage of equity, all at year-end.

Return on total assets
Operating profit/loss plus interest income, as a percentage of twelve months rolling average of total assets.

Return on capital employed
Operating profit/loss plus interest income, as a percentage of twelve months rolling average of total assets less the average of non-interest bearing liabilities.

Return on equity
Profit/loss after taxes as a percentage of twelve months rolling average of equity.

Operating margin
Operating profit/loss, as a percentage of net sales.

Turnover of total assets
Net sales in relation to twelve months rolling average of total assets.

Basic earnings/loss per share in SEK
Profit/loss after taxes less non-controlling interests divided by the ordinary number of shares.

Yield
Dividend as a percentage of share price at year end.

P/E ratio
Share price at year end divided by basic earnings per share.

Registered number of employees
Total number of employees included in SKF's payroll at the year-end.

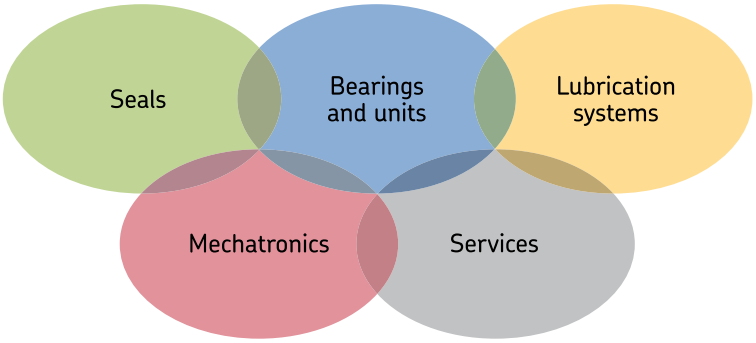
Average number of employees
Total number of working hours of all employees, divided by the normal total working time over the year.

Equity per share
Equity excluding non-controlling interests divided by the ordinary number of shares.

SKF's platforms

The platform and customer industries approach is SKF-specific and based on combining strong technology focus from the platforms and strong customer focus from the industries.

SKF has defined about 40 customer industries in which it operates. Examples of these industries include the cars and light trucks, wind power, railway, machine tool, medical, food and beverage, and the pulp and paper industries. Based on a strong understanding of current and future customer needs and challenges, SKF utilizes the capabilities of all or some of its platforms to develop tailor-made offers for each of its customer industries. In this way, SKF can offer its customers specific products and solutions with improved performance, reduced energy use and reduced total cost, while giving SKF greater added value and better price quality.



Bearings and units

The broad range of bearing types produced globally by SKF offers customers an assortment of high-quality, high-performance, low-friction, standard and customized solutions to critical and standard applications. Units are product combinations integrated into solutions with unique performance, used in specific applications requiring a compact design, combined performance and light weight.

Seals

SKF provides innovative solutions in elastomers or engineered plastics to meet the needs of various industries for static, rotating, reciprocating and bearing seals.

Services

The service platform delivers value by addressing the entire life cycle of a particular asset. The design phase is covered by different aspects of engineering consultancy and R&D services. The operation stage, which is the main part of the asset's life cycle, is covered by a variety of solutions including services and service-related products focusing on maintenance strategy, predictive maintenance, maintenance and logistic services.

The last part of the life cycle is covered by services and service-related products focusing on upgrades, refurbishment, bearing dismounting and mounting, alignment, balancing and post-maintenance testing. A wide range of training is available for customers, on- and off-site, around the globe.

Lubrication systems

SKF offers products, solutions and vast support within areas such as industrial lubricants, lubrication consultancy, lubricator equipment, lubrication assessment, lubricant analysis, lubricant recommendations and automatic lubrication systems.

Mechatronics

The mechatronics platform enhances customer value by combining SKF's strong mechanical experience and electronic technology. The platform covers systems for precision multi-axis positioning, intelligent monitoring and by-wire applications, as well as components such as ball and roller screws, actuators, rail guides and sensor modules. A number of mechanical and electronic products are combined into modules and sub-systems addressing needs where SKF has industry-specific expertise.

The SKF platform and industry approach

The platform and industry approach is SKF-specific and based on combining strong technology focus from the platforms and strong customer focus. Below is an example of how it works for the tidal energy industry.

With its extensive portfolio of bearings, seals, lubrication systems, services and mechatronics, SKF has the capability of meeting the industry's technological challenges and requirements. SKF provides standard products that can be customized to individual requirements, and combine these to create multi-platform solutions or holistic systems to meet specific technical needs.

SKF has many decades of experience working with the wind, marine, hydroelectric and offshore oil and gas industries around the world. SKF is using the technical knowledge and innovative skill from these synergistic industries to address ocean energy challenges.

SKF solutions for the tidal energy sector

1 Pitch and yaw

SKF High Endurance Slewing Bearings
The SKF High Endurance Slewing Bearing offers increased resistance to harsh environmental conditions to improve reliability and performance and extend bearing service life.

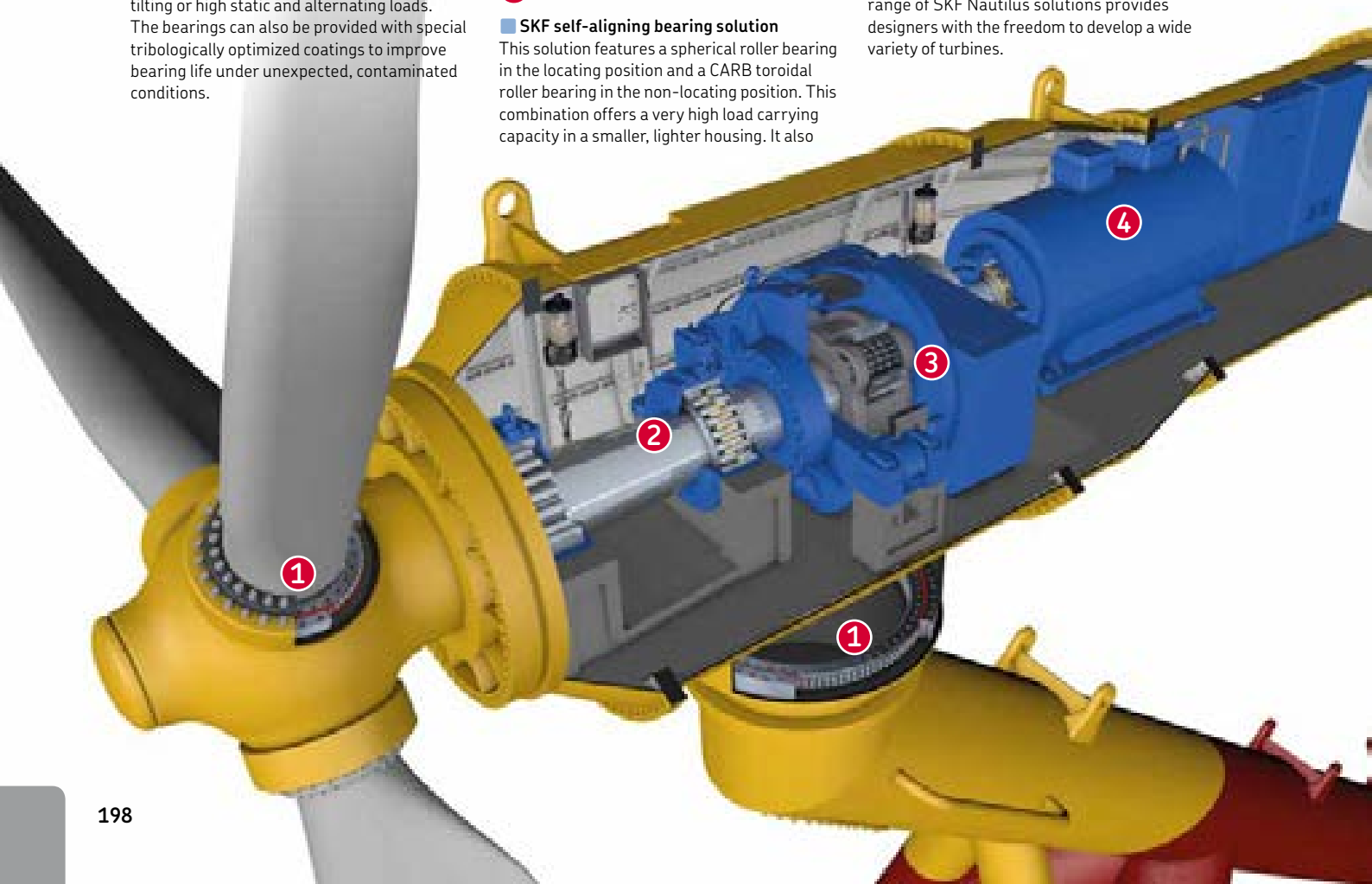
SKF spherical plain bearings
SKF spherical plain bearings are ideal for applications with misalignment, oscillation, tilting or high static and alternating loads. The bearings can also be provided with special tribologically optimized coatings to improve bearing life under unexpected, contaminated conditions.

Actuation devices
SKF provides a range of reliable and proven electromechanical cylinders with load capacity suitable for blade pitch systems on tidal turbines. Designed to satisfy the most demanding application requirements, SKF's actuation systems utilize linear and rotary actuators as well as control units.

2 Main shaft

SKF self-aligning bearing solution
This solution features a spherical roller bearing in the locating position and a CARB toroidal roller bearing in the non-locating position. This combination offers a very high load carrying capacity in a smaller, lighter housing. It also eliminates the problem of induced axial loads, offers improved reliability and at the same time enables a smaller cross-section.

SKF Nautilus
SKF has created the next generation of SKF Nautilus bearing solutions. These new solutions offer updated, versatile and integrated features to meet the industry's demands. The expanded range of SKF Nautilus solutions provides designers with the freedom to develop a wide variety of turbines.



Housings
Customized bearing housings for main shaft applications can be modified to fit the frame and shaft dimensions. The housing can be equipped with different sealing arrangements for enhanced bearing protection, long service life and reliable operation.

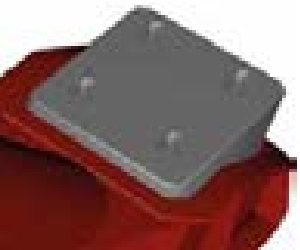
Couplings and supergrip bolts
The SKF OK-coupling is designed for quick and easy mounting and dismounting thanks to the SKF oil-injection method. Its torque transmitting capacity is second to none and by using the new OKX-coupling, with a high friction coating, the torque transmitting capacity is further enhanced and both weights and dimensions of the coupling can be considerably reduced.

As the only truly "fitted" bolt, SKF's Supergrip bolt represents a "quantum leap" in technology for connecting flanged couplings. Installation and removal is predictable and much easier compared to traditional bolting systems. Maintenance costs and downtime are considerably reduced. SKF's Supergrip bolt will not damage the holes and they are fully reusable.

3 Gearbox

SKF high-capacity cylindrical roller bearings
SKF high-capacity cylindrical roller bearings combine the maximum load carrying capacity of a full complement bearing with the robust performance of a caged bearing. The bearings provide lower energy consumption and increased load carrying capacity versus standard caged bearings. They also offer extended maintenance intervals and lower noise and vibration levels.

Black oxidation of rings and rollers
Black oxidation of rings and rollers improves reliability and performance in highly demanding applications, especially under low load conditions and vibration. In addition, it provides anti-corrosion protection and improves the lubricant adhesion on the surfaces.



4 Generator

SKF hybrid bearings
SKF hybrid bearings can prevent electric currents from passing through the bearing. The rings are made of bearing steel and rolling elements of silicon nitride, an electric insulating ceramic. This can both increase turbine availability and reduce the cost of each kWh produced.

SKF Quiet Running deep groove ball bearings
SKF Quiet Running all-steel bearings can significantly reduce noise levels and minimize the structural resonance excitation of the system. Therefore they contribute to high reliability in generators.

Sealing solutions
Sealing solutions from SKF are designed to provide maximum protection against contaminants and seawater ingress while retaining the system lubricant.

With decades of experience in developing and manufacturing shaft seals for marine applications, SKF's engineers can develop customized solutions to operate in demanding conditions. The solutions include lip seals and face (mechanical) seals as well as combinations of both sealing technologies for extreme operating conditions.

Lubrication
SKF's lubrication systems provide tidal devices with the correct quantity of the appropriate lubricant at the right positions at the right time. From very simple to extremely complex, SKF's lubrication systems help to ensure long-term reliability and availability. Through proper lubrication, critical components are protected and machinery life is extended.

SKF Condition Monitoring
SKF provides condition monitoring and reliability management services from SKF Remote Diagnostic Centres around the world. The condition monitoring products and services for the offshore oil and gas, marine and wind energy sectors can be utilized to great effect in the emerging tidal energy industry. For example, SKF WindCon can interconnect with all key turbine systems and continuously monitor single units or entire farms from afar by using SKF WebCon software.

Over time, SKF service teams build a comprehensive database of exceptions and detected faults. Analyzing the historical database allows us to identify and quantify trends of poor reliability in machines/components. SKF is then able to feed this information back to OEMs and work together with them to help improve machine design.

Bolt tensioning tools and alignment services
SKF has developed a comprehensive range of hydraulic bolt tensioners that can be used anywhere to perform tightening operations in a reliable and repeatable manner. SKF also offers a comprehensive range of highly-skilled, onsite alignment services helping to ensure optimum machine efficiency and reliability.

SKF also provides solutions for the wave energy sector

Special buoys, turbines, and other technologies convert the natural movement of ocean waves into clean, renewable electricity. SKF's knowledge can play a key role in system behaviour, with expertise in pumps, hydroelectric power plants, hydraulic cylinders, linear motion technologies and generators. Some examples of products and solutions are:

- Spherical plain bearings, rod ends and bushings
- SKF actuation systems
- Hydraulic sealing solutions
- Condition monitoring
- Lubrication systems

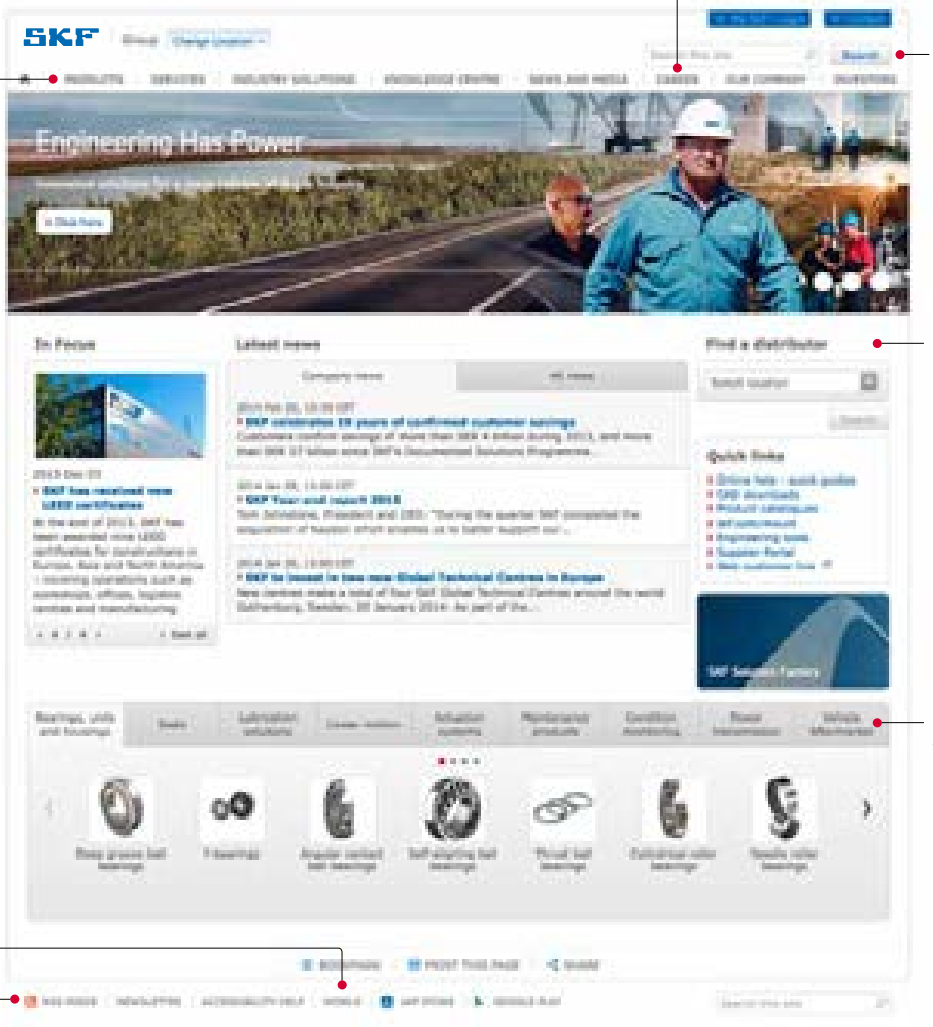
SKF Group website

The SKF website – skf.com – provides comprehensive SKF knowledge in an easily accessible structure, and to better present cost-effective solutions to customers' daily challenges. In addition to a fast platform, the website offers:

Job-hunters and students can find opportunities and pertinent information.

Videos and animations to communicate what SKF solutions can do for users.

Search ability of products and services with a powerful search engine for faster and more accurate results.



Easy access to SKF's contacts and distributors.

One online source for all SKF product catalogues.

Mobile access to news and updates.

Subscribe to RSS feeds for the latest information.

SKF Apps

SKF's mobile apps are available in the Apple App Store and in Google Play. With these apps, SKF is offering a new set of tools to customers, distributors, students and employees. The apps provide useful information and allow you to make calculations and much more.

App Store

Will only work for iOS5 or earlier versions.

Google Play

SKF's financial website

SKF's financial website – skf.com/investors – contains detailed and updated financial information, as well as information about SKF's objectives and strategies, corporate governance, Group-related news, etc. A selection of headlines and functions on the website is shown below.

About SKF
Targets and strategy
Sensitivity analysis
Acquisition and divestment
Production sites

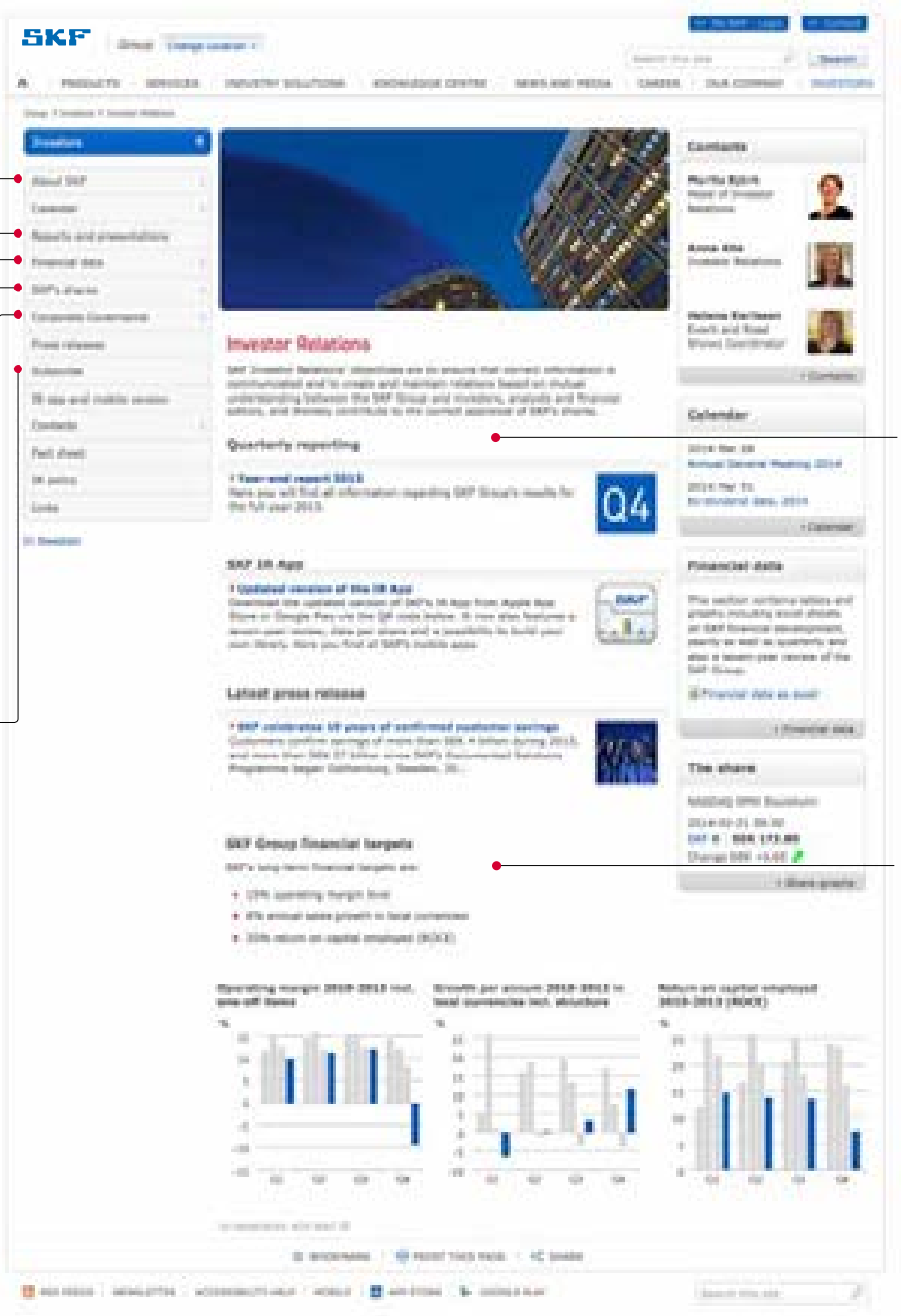
Reports and presentations

Financial data
Tables and graphs
Excel documents

SKF's shares
Total return
Largest shareholders
Dividend

Corporate Governance
Annual General Meeting
Board of directors
Board committees
Group Management

Subscribe
Service for receiving reports by email.



Information regarding the current quarterly reporting.

Financial targets and performance.

SKF's global campaign 2013

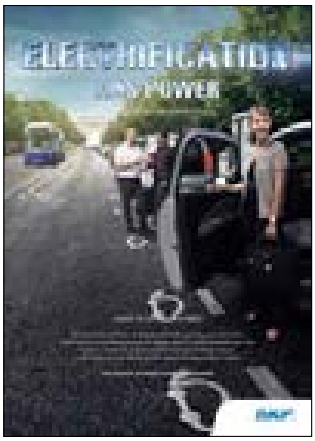
This campaign has been used globally to demonstrate the real Power of Knowledge Engineering, through SKF's engineers, as they show how they help create new solutions for customer problems. Solutions that improve efficiency, productivity and reduce environmental impact.

The ocean has power
Starring Cengiz Shevket and team

The world's oceans offer an incredible amount of untapped, clean and renewable energy. SKF is on-board, helping to harness both wave and tidal power. The harsh underwater climate of Scotland's Orkney Islands provides the perfect location for ocean energy research.

Knowledge engineer Cengiz Shevket and team make the trip to see how SKF can further help the industry overcome today and tomorrow's ocean energy challenges. Come along for the ride.

Available at skf.com



Electrification has power
Starring Carole Girardin and team

Cities around the world today are struggling with traffic congestion, noise and pollution. Electric vehicles and car-sharing programs are stepping stones in creating sustainable future cities.

Paris has a successful car-sharing program in high gear. Knowledge engineer Carole Girardin and team show us how SKF solutions are helping to drive it forward.

Available at skf.com

Technology has power
Starring Arun Shivaram and team

India is an emerging economy with its sights set on today and tomorrow's technology development.

Known as the Silicon Valley of India, Bangalore is the leading information technology exporter and home to countless educational and research institutes. One of those is SKF's Global Technical Center India.

It is here SKF puts its global competence to work to support local customers. Step inside the doors of GTCI.

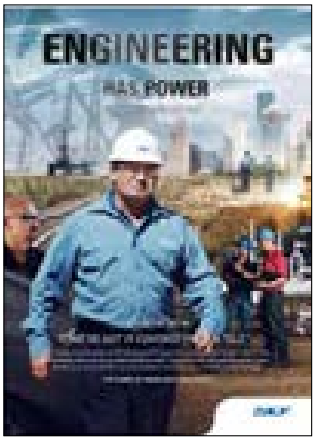
Available at skf.com

Low friction has power
Starring Alex Teng and team

Reducing friction has always been at the heart of SKF, and always will be. As today's automotive industry struggles to meet tough emission regulations, certain products are helping steer carmakers in the right direction.

The SKF Low Friction Hub Bearing Unit reduces friction, fuel consumption and CO_2 emissions. Meet the engineering team responsible for making this wheel end solution roll.

Available at skf.com

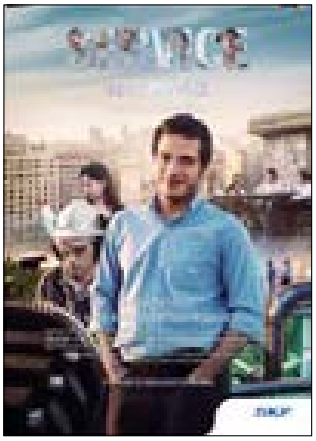


Engineering has power
Starring Jim Henry and team

"We've got it covered from A to Z."
SKF is helping ensure the reliable and efficient transport of oil and gas for its customers around the globe.

In the US alone, SKF remotely monitors more than one million bearings per month – many of those within the oil and gas industry. Travel to Houston, Texas and see how SKF is preventing breakdowns and catching failures before they become catastrophic.

Available at skf.com



Service has power
Starring Axel Gorza and team

"I am a kind of problem solver."
Argentina's food and beverage sector is thriving – the dairy industry in particular. Annual milk production hit 11.7 billion litres in 2012.

All that milk must be processed efficiently and safely. SKF has engineers working on-site inside the nation's biggest dairy to help ensure that happens. An Integrated Maintenance Solutions contract utilizes a predictive maintenance plan and multi-platform solutions to boost plant performance. And it's all done hand-in-hand with the customer.

Discover how SKF serves its process industry customers.

Available at skf.com

Performance has power
Starring Camilla Svensson and team

"You need to be one step ahead all the time."
North of the arctic circle in Swedish Lapland temperatures can drop below -40 degrees Celcius in the winter months. But that does not stop the Iron Ore railway from rolling. Millions of tonnes of iron ore are transported along the 500 km-long single-track railroad annually.

The harsh climate puts big demands on products used in the locomotives and wagons.

See how SKF solutions perform when put to the test along the world's most northerly railroad.

Available at skf.com

Seven-year review – SKF Group

SEKm unless otherwise stated	**2013**	2012[2]	2011	2010	2009	2008	2007
Income statements							
Net sales	**63,597**	64,575	66,216	61,029	56,227	63,361	58,559
Operating expenses	**-56,793**	-57,208	-56,624	-52,438	-52,939	-55,618	-51,036
Other operating income and expenses, net	**-3,113**	-51	36	-139	-74	-34	19
Profit (+)/loss (-) from jointly controlled and associated companies	**2**	-2	-16	0	-11	1	-3
Operating profit	**3,693**	7,314	9,612	8,452	3,203	7,710	7,539
Financial income and expense, net	**-872**	-906	-680	-903	-906	-842	-401
Profit before taxes	**2,821**	6,408	8,932	7,549	2,297	6,868	7,138
Taxes	**-1,777**	-1,592	-2,708	-2,253	-592	-2,127	-2,371
Net profit	**1,044**	4,816	6,224	5,296	1,705	4,741	4,767
Attributable to:							
Shareholders of AB SKF	**912**	4,662	6,051	5,138	1,642	4,616	4,595
Non-controlling interests	**132**	154	173	158	63	125	172
Balance sheets							
Intangible assets	**19,023**	9,800	10,157	10,194	4,014	4,654	3,516
Deferred tax assets	**2,015**	1,835	1,299	1,151	1,665	1,342	886
Property, plant and equipment	**14,095**	13,086	13,076	12,922	13,933	14,556	11,960
Non-current financial and other assets	**1,276**	1,188	1,494	1,411	1,502	1,366	2,643
Inventories	**13,700**	12,856	14,191	12,879	11,771	15,204	11,563
Current financial assets	**17,390**	19,141	16,050	13,005	14,540	15,668	14,169
Other current assets	**3,492**	2,851	3,107	2,839	3,590	3,310	2,365
Total assets	**70,991**	60,757	59,374	54,401	51,015	56,100	47,102
Equity	**21,152**	22,468	22,455	19,894	18,280	19,689	19,009
Provisions for post employment benefits	**9,902**	9,881	8,634	7,093	7,020	6,356	4,600
Deferred tax provisions	**2,207**	481	938	1,309	754	1,210	1,652
Other provisions	**5,011**	1,676	1,836	2,162	2,849	2,339	2,067
Financial liabilities	**26,084**	19,864	18,311	16,651	14,994	18,549	13,015
Other liabilities	**6,635**	6,387	7,200	7,292	7,118	7,957	6,759
Total equity and liabilities	**70,991**	60,757	59,374	54,401	51,015	56,100	47,102
Key figures[1] (in percentages unless otherwise stated)							
Return on total assets	**5.8**	12.3	17.2	16.9	6.5	16.1	17.1
Return on capital employed	**7.5**	16.2	23.6	24.0	9.1	24.0	24.9
Return on equity	**4.6**	21.6	29.7	28.4	9.0	26.3	24.6
Operating margin	**5.8**	11.3	14.5	13.8	5.7	12.2	12.9
Turnover of total assets, times	**0.97**	1.07	1.16	1.19	1.04	1.25	1.25
Portion of risk-bearing capital	**32.9**	37,8	39.4	39.0	37.3	37.3	44.0
Gearing	**59.2**	52.8	48.9	48.6	49.3	50.1	36.9
Equity/assets	**29.8**	37.0	37.8	36.6	35.8	35.1	40.5
Investments and employees							
Additions to property, plant and equipment	**1,746**	1,968	1,839	1,651	1,975	2,531	1,907
Acquisitions of businesses, net of cash and cash equivalents	**8,723**	848	6	6,799	241	1,284	1,209
Research and development expenses	**1,840**	1,607	1,481	1,184	1,217	1,175	900
Patents – number of first filings	**468**	421	325	251	218	179	186
Average number of employees	**45,220**	44,168	42,886	40,206	38,530	43,201	41,645
Number of employees registered at 31 December	**48,401**	46,775	46,039	44,742	41,172	44,799	42,888

[1] See page 196 for definitions.
[2] 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

Three-year review – SKF's business areas[1)]

SEKm unless otherwise stated	**2013**	2012	2011
Strategic Industries			
Net sales	**18,596**	20,093	20,807
Sales incl. intra-Group sales	**29,745**	31,920	33,613
Operating profit	**2,638**	3,124	4,686
Operating margin[2)]	**8.9%**	9.8%	13.9%
Assets and liabilities, net	**21,150**	21,543	22,905
Registered number of employees	**17,687**	19,080	19,388
Regional Sales and Services			
Net sales	**24,500**	25,440	25,868
Sales incl. intra-Group sales	**24,925**	25,839	26,249
Operating profit	**3,013**	3,235	3,271
Operating margin[2)]	**12.1%**	12.5%	12.5%
Assets and liabilities, net	**6,585**	5,306	6,096
Registered number of employees	**6,951**	6,401	6,511
Automotive			
Net sales	**17,421**	17,123	18,043
Sales incl. intra-Group sales	**20,975**	20,767	22,148
Operating profit	**809**	467	1,477
Operating margin[2)]	**3.9%**	2.3%	6.7%
Assets and liabilities, net	**8,475**	8,233	8,686
Registered number of employees	**14,748**	14,715	14,811

[1)] Previously published amounts have been restated to conform to the current Group structure.
The structural changes include business units being moved between the business areas and between other operations/Group activities and business areas.
[2)] Operating margin is calculated on sales including intra-Group sales.

Per-share data[1)]

Swedish kronor/share unless otherwise stated	2014	2013	2012[3)]	2011	2010	2009	2008	2007
Earnings per share		2.00	10.23	13.29	11.28	3.61	10.14	10.09
Dividend per A and B share		5.50[2)]	5.50	5.50	5.00	3.50	3.50	5.00
Total dividends, SEKm	2,504[2)]	2,504	2,504	2,277	1,594	1,594	2,277	2,049
Redemption per share		–	–	–	–	–	–	5.00
Total redemption, SEKm		–	–	–	–	–	2,277	4,554
Purchase price of B shares at year-end on the NASDAQ OMX Stockholm		168.70	163.20	145.60	191.60	123.60	77.25	104.79
Equity per share		44	47	47	42	38	41	40
Yield in percent (B)		3.3[2)]	3.4	3.8	2.6	2.8	4.5	4.8
Yield in percent (B), including share redemption								9.5
P/E ratio, B (share price/earnings per share)		84,2	16,0	11.0	17.0	34.2	7.6	10.4
Cash flow from operations, per share		-11.7	13.6	12.3	12.2	17.6	8.1	10.8
Cash flow after investments, before financing per share		-11.73	7.81	8.45	-6.23	12.63	0.14	4.67

[1)] See page 196 for definitions.
[2)] According to the Board's proposal for the year 2013.
[3)] 2012 restated for amended IAS 19. All years prior to 2012 continue to use the old IAS 19 rules, see Note 1.

General information

Annual General Meeting
The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Gothenburg, Sweden, at 13.00 on Friday, 28 March 2014. The Annual General Meeting is the primary forum at which shareholders have a possibility to communicate directly with Group Management and the Board of Directors.

For the right to participate in the meeting, shareholders must be recorded in the shareholders' register kept by Euroclear Sweden AB by Friday, 21 March 2014, and must notify the company at the latest by Monday, 24 March 2014 via the internet, www.skf.com, or by letter to:

AB SKF
c/o Computershare AB
Box 610
SE-182 16 Danderyd
Sweden
or by telephone +46 31 337 25 50
(between 09.00 and 16.00)

When notifying the company, preferably in writing, this should include details of name, address, telephone number, registered shareholding and advisors, if any. Where representation is being made by proxy, the original of the proxy form shall be sent to the company before the Annual General Meeting.

Shareholders whose shares are registered in the name of a trustee must have the shares registered temporarily in their own name in order to take part in the meeting. Any such re-registration for the purpose of establishing voting rights shall take place so that the shareholder is recorded in the shareholders' register by Friday, 21 March 2014. This means that the shareholder should give notice of his/her wish to be included in the shareholders' register to the trustee well in advance before that date.

Payment of dividend
The Board of Directors proposes a dividend of SEK 5.50 per share for 2013. 2 April 2014 is proposed as the record date for shareholders to be entitled to receive dividends for 2013. Subject to resolution by the Annual General Meeting, it is expected that Euroclear will distribute the dividend on Monday, 7 April 2014.

Financial information and reporting
AB SKF will publish the following financial reports in 2014:

Year-end report 2013	28 January
Annual Report 2013	5 March
First-quarter report 2014	15 April
Half-year report 2014	17 July
Nine-month report 2014	15 October

The reports are available in Swedish and English. The financial reports are published on SKF's website skf.com, choose Investors and click on Reports and presentations.

A subscription service for press releases and interim reports is available on the website under Investors, choose Subscribe. Information is sent via e-mail or SMS.

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SKF employees:
Cover
From left: Donald Howieson, Veronika Nihlén, Zarife Kameraj and Angelico Approsio

Page 2-3
From left: Camilla Svensson and her team, Peter Alverby and Johan Wedberg.

Page 11
From left: Arun Shivaram (also on page 20), Chenxi Gu (also on page 88)
and players at the Gothia Cup tournament 2013.

Page 92
From left: Rucha Karambelkar, Christian Volkers and Navi Gill.

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