

SKF Nine-month report 2004

Strong profit and sales development in the third quarter.

SKF reports for the third quarter of 2004 a 14.1% increase in sales, measured in local currencies, compared to the same period in 2003. The operating margin for the quarter was 10.6% (8.4). The price/mix increased by 2.3%. Cash flow continued to be strong.

- The SKF Group reports a profit before taxes for the third quarter 2004 of MSEK 1 111 (697), an increase of 59%. The profit for the first nine months of 2004 was MSEK 2 982 (2 314).
- Net profit for the third quarter amounted to MSEK 705 (503). Net profit for the first nine months was MSEK 2 091 (1 634).
- Earnings per share for the third quarter were SEK 6.20 (4.42), and for the first nine months, SEK 18.37 (14.35).
- Net sales for the third quarter amounted to MSEK 11 184 (10 059), and for the first nine months to MSEK 33 290 (31 132).

The operating profit for the third quarter 2004 was MSEK 1 190 (841), and for the first nine months, MSEK 3 259 (2 730). The operating margin for the third quarter of 2004 amounted to 10.6% (8.4), and for the first nine months to 9.8% (8.8). Cash flow, after investments before financing, for the third quarter was MSEK 582 (982), and for the first nine months, MSEK 1 621 (1 539). Cash flow, after investments before financing and acquisitions, was in the third quarter MSEK 1 210 (982).

The increase of 11.2% in net sales for the third quarter, in SEK, was attributable to: volume 9.6%, structure 2.2%, price/mix 2.3% and currency effect -2.9%. For the first nine months, the increase of 6.9%, in SEK, was attributable to: volume 7.7%, structure 0.7%, price/mix 1.8% and currency effect -3.3%.

Sales development

Net sales for the SKF Group in the third quarter, calculated in local currencies, were 14.1% above the sales for the third quarter last year. Sales were significantly higher in Europe and higher in North America. Sales were significantly higher in Asia and Latin America.

The manufacturing level for the third quarter 2004 was unchanged compared to the previous quarter, but significantly higher than for the same quarter the previous year.

Outlook for the fourth quarter

The market demand for SKF's products and services is expected to continue to be higher in Europe and North America and significantly higher in Asia and Latin America.

The manufacturing level during the fourth quarter will be unchanged compared to the third quarter, but higher than for the same quarter the previous year.

Raw materials

SKF has been able to compensate for the higher costs of raw materials in the first nine months by acting early in increasing prices, reducing costs and improving sourcing. This will also be the case in the fourth quarter, however, the impact of the higher costs will be somewhat stronger than in previous quarters this year. Based on the current information raw material costs will continue to rise in 2005. SKF has initiated actions to address this and expects to offset these cost increases for 2005.

Financials

The Group's financial net for the third quarter 2004 was MSEK -79 (-144) and for the first nine months MSEK -277 (-416). Additions to tangible assets totalled for the third quarter MSEK 360 (305) and for the first nine months MSEK 961 (859). At the end of September, the Group's inventories were 20.5% (20.5) of annual sales. The return on capital employed for the 12-month period ended September 30 was 16.7% (16.5). Return on equity was 16.0% (15.5). On September 30, SKF's equity/assets ratio was 47.8% (42.3). The gearing was 26.7% (38.4). The registered number of employees at the end of September was 39 804 (38 805).

Exchange rates for the third quarter 2004, including the effects of translation and transaction flows, had a negative effect on SKF's operating profit amounting to approximately MSEK 70, compared to the third quarter 2003. The total negative effect on the first nine-months result amounted to MSEK 290. For the fourth quarter, it is estimated that the currency effect will be MSEK 110. The full year 2004 effect is thus expected to be MSEK 400, based on current assumptions and exchange rates.

SKF acquired Willy Vogel AG (Vogel) on July 8. The purchase price was MSEK 673 and SKF took over a net debt of MSEK 53. A preliminary balance sheet and result were reported in the third quarter. Vogel's net sales during the third quarter were MSEK 218. Vogel's operating margin, before amortization and depreciation of goodwill and related items, was approximately 10%.

Divisions

Comments on net sales per geographical region are based on local currencies and compared to the corresponding period for 2003. The operating margin has been calculated on sales including intra-Group sales.

Industrial Division

The operating profit for the third quarter 2004 amounted to MSEK 402 (339), resulting in an operating margin of 9.4% (9.3) on sales incl. intra-Group sales. The operating profit for the first nine months amounted to MSEK 1 213 (1 056), resulting in an operating margin of 9.8% (9.3).

Net sales for the third quarter amounted to MSEK 2 767 (2 314), an increase of 19.6%. Net sales for the first nine months amounted to MSEK 8 021 (7 339), an increase of 9.3%. Sales incl. intra-Group sales for the third quarter were MSEK 4 255 (3 654), and for the first nine months were MSEK 12 397 (11 348).

Sales were higher in Europe and significantly higher in North America and Asia.

Vogel accounted for MSEK 218 of the Industrial Division's net sales during the third quarter, while increasing the Division's assets and liabilities net by approximately MSEK 770. The number of employees was 910.

The integration process of Vogel is running according to plan and lubrication systems are now being introduced in new markets through the SKF sales organization.

Hansen Transmission has decided to install SKF's cylindrical roller bearings with the ceramic coating NoWear®, developed by SKF, for selected positions in one of their new gearbox applications. Due to the special ceramic low friction coating the NoWear® offers the customer a true engineering solution for applications with high load and speed variations.

SKF and ContiTech Air Spring Systems have together developed a unique system for railway bogies for freight cars with a 25 ton's axle load. The system both reduces noise and is designed for a maintenance interval of one million km, which substantially reduces maintenance needs and costs.

Automotive Division

The operating result for the third quarter 2004 was MSEK 117 (78), resulting in an operating margin of 3.1% (2.2). The operating profit for the first nine months amounted to MSEK 481 (432), resulting in an operating margin of 4,1% (3.9).

Net sales for the third quarter amounted to MSEK 3 404 (3 168), an increase of 7.4%. Net sales for the first nine months amounted to MSEK 10 534 (10 081), an increase of 4.5 %. Sales incl. intra-Group sales for the third quarter were MSEK 3 817 (3 525), and for the first nine months, MSEK 11 759 (11 190).

In the third quarter, sales to the car and light truck industry in Europe were significantly higher, but they were significantly lower in North America. Sales to the heavy truck industry both in Europe and in North America were significantly higher. Sales to the vehicle service market were significantly higher in Europe and Asia and slightly higher in North America.

SKF increased its sales of shock absorber seals to ZF Sachs AG thanks to design features and special elastomeric compounds developed by SKF that offered superior performance.

Electrical Division

The operating profit for the third quarter 2004 amounted to MSEK 107 (97), resulting in an operating margin of 6.5% (6.2). The operating profit for the first nine months amounted to MSEK 249 (260), resulting in an operating margin of 5.0% (5.4).

Net sales for the third quarter amounted to MSEK 466 (444), an increase of 5.0%. Net sales for the first nine months amounted to MSEK 1 458 (1 393), an increase of 4.7%. Sales incl. intra-Group sales for the third quarter were MSEK 1 636 (1 554), and for the first nine months, MSEK 5 023 (4 852).

Sales in Europe were unchanged but significantly higher in Asia.

Sales to the producers of household appliances remained strong during the quarter, in line with the market. Sales to producers of two-wheelers continued to be somewhat weak in Europe, also in line with the market, but grew strongly in Asia, ahead of the market.

In bearing seals SKF was accorded the status of a recognized railway testing facility by "American Association of Railroads wheels, axles bearings and lubrication committee". This certification allows SKF to supply railways seals in the US market.

Service Division

The operating profit for the third quarter 2004 amounted to MSEK 420 (368), resulting in an operating margin of 10.5% (10.0). The operating profit for the first nine months amounted to MSEK 1 185 (985), resulting in an operating margin of 10.3% (9.2).

Net sales for the third quarter amounted to MSEK 3 620 (3 317), an increase of 9.1%. Net sales for the first nine months amounted to MSEK 10 398 (9 577), an increase of 8.6%. Sales incl. intra-Group sales for the third quarter were MSEK 3 998 (3 677), and for the first nine months, MSEK 11 556 (10 730).

Sales in Western Europe were higher and unchanged in North America. Sales were significantly higher in Central and Eastern Europe, Asia and Latin America.

The Reliability Systems business continued to develop well with additional Integrated Maintenance Solution (IMS) contracts being initiated around the world. The market is also responding positively to the SKF Certified Maintenance Partner programme whereby qualified partners can offer certain maintenance and reliability service. A number of new contracts have been signed, including partners in Romania, Poland and Germany.

SKF has been appointed as preferred technology partner for joint development of condition-monitoring systems for trains by Bombardier Transportation of Canada and Alstom Transport of France. A successful four-year industrial development project carried out by SKF Condition Monitoring Center, Luleå, Sweden and the two leading train manufacturers led to the preferred partner status and the creation of a system called MasCon16R. MasCon16R is an advanced on-line mechanical condition-monitoring system for any rotating machine and machine component on trains.

Aero and Steel Division

The operating profit for the third quarter 2004 amounted to MSEK 50 (-5), resulting in an operating margin of 3.3% (-0.4). The operating profit for the first nine months amounted to MSEK 119 (67), resulting in an operating margin of 2.5% (1.5).

Net sales for the third quarter amounted to MSEK 910 (806), an increase of 12.9%. Net sales for the first nine months amounted to MSEK 2 836 (2 714), an increase of 4.5%. Sales incl. intra-Group sales for the third quarter were MSEK 1 509 (1 339), and for the first nine months were MSEK 4 824 (4 581).

Sales to the aerospace industry were slightly higher both in Europe and in North America.

SKF received a significant order for pitch link spherical plain bearings from the North American helicopter market. These bearings, which have been developed by Ampep Plc. in the UK, are used in the helicopter main rotor and offer a considerably extended life that reduces maintenance and aircraft downtime.

Ovako Steel, part of the Aero and Steel Division, reported net sales of MSEK 467 (372) for the third quarter. Sales incl. intra-Group sales for the third quarter were MSEK 786 (623). The operating profit for the third quarter amounted to MSEK 15 (-17).

New orders for steel products were received in the automotive and mining segments.

The demand for steel products was significantly higher in the third quarter, both from SKF and external customers. After falling at the end of the second quarter scrap prices increased sharply during the third quarter. These increases are passed on to the customers through surcharges which were introduced already at the beginning of the year.

Previous Outlook statement

Half-year 2004:

The market demand for SKF's products and services, seasonally lower in the third quarter compared to the second quarter, is expected to be higher in Europe and North America and significantly higher in Asia and Latin America.

The manufacturing level during the third quarter will be unchanged compared to the second quarter, while lower in absolute terms due to normal seasonality.

Presentation from SKF

A presentation will be published on SKF's website at the following address:

<http://www.skf.com/portal/skf/home/investors> (choose Presentations).

Cautionary statement

This report contains forward-looking statements that are based on the current expectations of the management of SKF.

Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of, among other factors, changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors mentioned in SKF's latest 20-F report on file with the SEC (United States Securities and Exchange Commission) under "Forward-Looking Statements" and "Risk Factors".

Göteborg, October 19, 2004

Aktiebolaget SKF
(publ.)

Tom Johnstone
President and CEO

Enclosures:

Consolidated financial information

Consolidated balance sheets

Consolidated statements of changes in shareholders' equity

Consolidated statements of cash flow

Consolidated financial information - yearly and quarterly comparisons (Group and Divisions/Segments)

The consolidated financial statements of the Group and the Parent company of AB SKF are prepared in accordance with accounting principles generally accepted in Sweden. For further details see note 1 in the SKF Annual Report incl. Sustainability Report 2003.

The report has not been audited by the Company's auditors.

The SKF's report on the full year 2004 will be published on Thursday, January 27, 2005.

Further information can be obtained from:

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Enclosure 1

CONSOLIDATED FINANCIAL INFORMATION (MSEK)

	July-Sept 2004	July-Sept 2003	Jan-Sept 2004	Jan-Sept 2003
Net sales	11 184	10 059	33 290	31 132
Cost of goods sold	<u>-8 381</u>	<u>-7 821</u>	<u>-25 175</u>	<u>-23 993</u>
Gross profit	2 803	2 238	8 115	7 139
Selling and administrative expenses	-1 629	-1 376	-4 898	-4 538
Other operating income/expenses - net	15	-25	44	115
Profit/loss from Associated Companies	<u>1</u>	<u>4</u>	<u>-2</u>	<u>14</u>
Operating profit	1 190	841	3 259	2 730
Operating margin, %	10.6	8.4	9.8	8.8
Financial income and expense - net	<u>-79</u>	<u>-144</u>	<u>-277</u>	<u>-416</u>
Profit before taxes	1 111	697	2 982	2 314
Taxes	<u>-386</u>	<u>-183</u>	<u>-857</u>	<u>-636</u>
Profit after taxes	725	514	2 125	1 678
Minority interests' share in profit	<u>-20</u>	<u>-11</u>	<u>-34</u>	<u>-44</u>
Net profit	705	503	2 091	1 634
Earnings per share after tax, SEK	6.20	4.42	18.37	14.35
Diluted earnings per share after tax, SEK	6.20	4.42	18.37	14.35
Additions to tangible assets	360	305	961	859
Number of employees registered	39 804	38 805	39 804	38 805
Return on capital employed for the 12-month period ended September 30, %	16.7	16.5	16.7	16.5

Number of shares***September 30, 2004**

December 31, 2003

Total number of shares	113 837 767	113 837 767
- whereof A-shares	16 958 061	21 372 327
- whereof B-shares	96 879 706	92 465 440

* Since the decision was taken to insert a share conversion right of A shares to B shares at SKF's Annual General Meeting on April 18, 2002, 32 298 271 A shares have been converted to B shares.

Enclosure 2

CONSOLIDATED BALANCE SHEETS (MSEK)

	September 2004	December 2003
Intangible assets	1 464	1 588
Tangible assets	11 350	11 138
Investments, long-term financial and other assets	<u>756</u>	<u>836</u>
Total capital assets	13 570	13 562
Inventories	8 936	8 429
Short-term assets	9 189	7 993
Short-term financial assets	<u>3 218</u>	<u>6 342</u>
Total short-term assets	21 343	22 764
TOTAL ASSETS	34 913	36 326
Shareholders' equity	16 188	15 164
Provisions for post-employment benefits	4 824	7 885
Provisions for deferred taxes	862	1 077
Other provisions	<u>2 153</u>	<u>2 381</u>
Total provisions	7 839	11 343
Long-term loans	1 111	1 246
Other long-term liabilities, including minority interest	<u>608</u>	<u>611</u>
Total long-term liabilities	1 719	1 857
Short-term loans	184	372
Other short-term liabilities	<u>8 983</u>	<u>7 590</u>
Total short-term liabilities	9 167	7 962
TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES	34 913	36 326

**CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY
(MSEK)**

	September 2004	December 2003
Opening balance January 1	15 164	16 365
Implementation of RR29 / IAS19	-	-1 447
Cash dividends, AB SKF shareholders	-1 138	-911
Net profit	2 091	2 039
Translation adjustments	<u>71</u>	<u>-882</u>
Closing balance	16 188	15 164

Enclosure 3

CONSOLIDATED STATEMENTS OF CASH FLOW (MSEK)

	July-Sept 2004	July-Sept 2003	Jan-Sept 2004	Jan-Sept 2003
Profit before taxes	1 111	697	2 982	2 314
Depreciation, amortization and impairment of tangible and intangible assets	400	381	1 197	1 173
Net gain (-) on sales of tangible assets and businesses	-1	-8	-29	-120
Loss/profit from Associated Companies	-1	-4	2	-14
Taxes	-159	-234	-669	-817
Changes in working capital	<u>193</u>	<u>445</u>	<u>-432</u>	<u>-547</u>
Cash flow from operations	1 543	1 277	3 051	1 989
Investments in tangible assets and businesses, net	-976	-303	-1 571	-970
Sales of tangible assets and businesses	<u>15</u>	<u>8</u>	<u>141</u>	<u>520</u>
Cash flow after investments before financing	582	982	1 621	1 539
Change in short- and long-term loans	-230	-520	-457	-479
Change in post-employment benefits, net	-20	39	-3 136	76
Change in long-term financial and other assets	-9	1	6	-18
Cash dividends	<u>-39</u>	<u>-</u>	<u>-1 177</u>	<u>-911</u>
Cash effect on short-term financial assets	284	502	-3 143	207
Change in short-term financial assets				
July 1/January 1	2 958	5 149	6 342	5 530
Cash effect, excl. acquired businesses	225	502	-3 202	207
Cash effect, acquired businesses	59	-	59	-
Exchange rate effect	-24	-61	19	-147
September 30	3 218	5 590	3 218	5 590

Change in net interest-bearing liabilities	Opening balance Jan 1, 2004	Exchange rate effect	Change in items	Acquired and sold businesses	Closing balance Sept 30, 2004
Loans, long- and short-term	1 618	22	-457	112	1 295
Post-employment benefits, net ¹⁾	7 861	17	-3 136	29	4 771
Financial assets; long-term ¹⁾	-448	-2	6	-1	-445
short-term	<u>-6 342</u>	<u>-19</u>	<u>3 202</u>	<u>-59</u>	<u>-3 218</u>
Net interest-bearing liabilities	2 689	18	-385	81	2 403

¹⁾ Post-employment benefits, net adjusted to include also defined benefit assets, previously recorded in Financial assets; long-term.

Enclosure 4

CONSOLIDATED FINANCIAL INFORMATION - QUARTERLY COMPARISONS (GROUP)

(MSEK unless otherwise stated)

	Full year 2002	1/03	2/03	3/03	4/03	Full year 2003	1/04	2/04	3/04	Year- to-date 2004
Net sales	42 430	10 541	10 532	10 059	10 245	41 377	10 689	11 417	11 184	33 290
Cost of goods sold	-31 844	-8 023	-8 149	-7 821	-8 029	-32 022	-8 225	-8 569	-8 381	-25 175
Gross profit	10 586	2 518	2 383	2 238	2 216	9 355	2 464	2 848	2 803	8 115
Gross margin, %	24.9	23.9	22.6	22.2	21.6	22.6	23.1	24.9	25.1	24.4
Selling and administrative expenses	-6 636	-1 619	-1 543	-1 376	-1 637	-6 175	-1 590	-1 679	-1 629	-4 898
Other operating income/ expenses - net	40	40	100	-25	-15	100	36	-7	15	44
Profit/loss from Associated Companies	32	5	5	4	5	19	-3	-	1	-2
Operating profit	4 022	944	945	841	569	3 299	907	1 162	1 190	3 259
Operating margin, %	9.5	9.0	9.0	8.4	5.6	8.0	8.5	10.2	10.6	9.8
Financial income and expense - net	-480	-142	-130	-144	-90	-506	-88	-110	-79	-277
Profit before taxes	3 542	802	815	697	479	2 793	819	1 052	1 111	2 982
Profit margin before taxes, %	8.3	7.6	7.7	6.9	4.7	6.8	7.7	9.2	9.9	9.0
Taxes	-1 055	-225	-228	-183	-62	-698	-151	-320	-386	-857
Profit after taxes	2 487	577	587	514	417	2 095	668	732	725	2 125
Minority interests' share in profit	-21	-15	-18	-11	-12	-56	-20	6	-20	-34
Net profit	2 466	562	569	503	405	2 039	648	738	705	2 091
Earnings per share after tax, SEK	21.67	4.94	4.99	4.42	3.56	17.91	5.69	6.48	6.20	18.37
Return on capital employed for the 12-month period, %	17.1	17.4	17.0	16.5	14.2	14.2	14.0	15.0	16.7	16.7
Equity/assets ratio, %	43.8	41.2	40.9	42.3	43.1	43.1	43.6	46.8	47.8	47.8
Net worth per share, SEK	144	135	130	130	133	133	143	137	142	142
Additions to tangible assets	1 442	304	250	305	520	1 379	281	320	360	961
Registered number of employees	39 739	39 645	38 821	38 805	38 700	38 700	38 615	38 574	39 804	39 804

CONSOLIDATED SEGMENT INFORMATION - FULL YEAR AND QUARTERLY COMPARISONS (MSEK unless otherwise stated)

	Full year <u>2002</u>	<u>1/03</u>	<u>2/03</u>	<u>3/03</u>	<u>4/03</u>	Full year <u>2003</u>	<u>1/04</u>	<u>2/04</u>	<u>3/04</u>	Year- to-date <u>2004</u>
Industrial Division										
Net sales	9 694	2 521	2 504	2 314	2 324	9 663	2 550	2 704	2 767	8 021
Sales incl. intra-Group sales	15 475	3 833	3 861	3 654	3 791	15 139	3 948	4 194	4 255	12 397
Operating profit	1 634	366	351	339	375	1 431	379	432	402	1 213
Operating margin	10.6%	9.5%	9.1%	9.3%	9.9%	9.5%	9.6%	10.3%	9.4%	9.8%
Assets and liabilities, net	6 258	6 465	6 360	5 910	5 659	5 659	6 011	6 024	6 513	6 513
Registered number of employees	10 474	10 483	10 547	10 506	10 437	10 437	10 577	10 558	11 556	11 556
Automotive Division										
Net sales	13 588	3 470	3 443	3 168	3 136	13 217	3 454	3 676	3 404	10 534
Sales incl. intra-Group sales	15 074	3 849	3 816	3 525	3 487	14 677	3 858	4 084	3 817	11 759
Operating profit/loss	501	177	177	78	-1	431	160	204	117	481
Operating margin	3.3%	4.6%	4.6%	2.2%	0.0%	2.9%	4.1%	5.0%	3.1%	4.1%
Assets and liabilities, net	6 495	6 568	6 333	6 034	5 814	5 814	6 125	6 066	5 980	5 980
Registered number of employees	10 133	10 115	9 749	9 745	9 604	9 604	9 595	9 728	9 766	9 766
Electrical Division										
Net sales	1 903	496	453	444	440	1 833	491	501	466	1 458
Sales incl. intra-Group sales	6 676	1 684	1 614	1 554	1 607	6 459	1 661	1 726	1 636	5 023
Operating profit/loss	418	80	83	97	-46	214	64	78	107	249
Operating margin	6.3%	4.8%	5.1%	6.2%	-2.9%	3.3%	3.9%	4.5%	6.5%	5.0%
Assets and liabilities, net	2 785	2 802	2 697	2 619	2 471	2 471	2 518	2 451	2 425	2 425
Registered number of employees	8 078	8 064	7 562	7 541	7 615	7 615	7 536	7 340	7 367	7 367
Service Division										
Net sales	13 476	3 075	3 185	3 317	3 499	13 076	3 233	3 545	3 620	10 398
Sales incl. intra-Group sales	15 015	3 471	3 582	3 677	3 878	14 608	3 611	3 947	3 998	11 556
Operating profit	1 421	293	324	368	431	1 416	336	429	420	1 185
Operating margin	9.5%	8.4%	9.0%	10.0%	11.1%	9.7%	9.3%	10.9%	10.5%	10.3%
Assets and liabilities, net	2 749	2 820	2 857	2 685	2 647	2 647	3 089	3 208	3 022	3 022
Registered number of employees	4 527	4 554	4 594	4 634	4 685	4 685	4 679	4 731	4 822	4 822
Aero and Steel Division										
Net sales	3 741	971	937	806	837	3 551	951	975	910	2 836
Sales incl. intra-Group sales	6 321	1 681	1 561	1 339	1 435	6 016	1 648	1 667	1 509	4 824
Operating profit/loss	213	47	25	-5	-234	-167	30	39	50	119
Operating margin	3.4%	2.8%	1.6%	-0.4%	-16.3%	-2.8%	1.8%	2.3%	3.3%	2.5%
Assets and liabilities, net	3 312	3 159	3 168	3 100	2 832	2 832	2 872	2 822	2 816	2 816
Registered number of employees	5 162	5 110	5 058	5 002	4 978	4 978	4 903	4 905	4 918	4 918

Previously published amounts have been restated to conform to the current Group structure in 2004. The structural changes include business units being moved between the divisions as well as some previously unallocated items being moved to divisional responsibility.