Press release

SKF

SKF's transition to International Financial Reporting Standards (IFRS)

Beginning 2005, the accounting policies of the SKF Group are in accordance with International Financial Reporting Standards, IFRS, as endorsed by the European Commission (EC). The date for SKF's transition to IFRS is January 1, 2003.

SKF has until the end of 2004 prepared its consolidated financial statements in accordance with Swedish GAAP, which in recent years has been adapted to IAS/IFRS to a high degree. This, together with certain exceptions allowed by the IFRS transition rules which are described below, have limited the impact of the transition to IFRS.

SKF's transition to IFRS at January 1 2003 is accounted for in accordance with IFRS 1, "First time adoption of International Financial Reporting Standards". IFRS 1 generally requires a company to determine its accounting policies and retrospectively apply these to determine its opening balance sheet under IFRS. However, the following allowed exceptions to this retrospective treatment have been chosen:

- SKF has elected to apply IFRS 3, "Business combinations", prospectively from date of transition January 1, 2003.
- SKF has chosen to set translation differences arising from the translation of foreign subsidiaries into Swedish Kronor (SEK) according to IAS 21, "Effects of changes in foreign exchange rates, to zero at the transition date. Translation differences that arose before the date of transition to IFRS are not included as a separate component of equity but rather remain included within the other components of equity.
- SKF has elected to use revaluations to property plant and equipment made under Swedish GAAP as deemed cost at the IFRS transition date, as allowed by IFRS 1.
- SKF has chosen not to restate comparable 2003 and 2004 financial information for the requirements of IAS 39, "Financial Instruments, Recognition and Measurement" as adopted by the EC.
- The transitional provisions under IFRS 1, allow that only options granted after November 7 2002 that have not vested by January 1, 2005, are required to be valued and recorded. SKF has opted not to value and record their other two option programs, options granted February 2001 with vesting February 2003, and options granted 2002 with vesting 2004.

The useful lives and component split of all SKF's property plant and equipment were reviewed as required by IAS 16, "Plant and Property", in conjunction with the transition to IFRS. As a result the useful lives on certain machinery were increased from 14 or 17 years to 20 years, and were decreased on other machinery from 14 or 17 years to 10 years. Additionally, the control system within machinery was now identified as a significant item requiring separate depreciation in line with the component approach to depreciation. The above changes in accounting estimates did not have any impact upon the restated IFRS financial statements presented below, and does not result in a significant change to the annual depreciation charge.

Previously published consolidated financial information prepared under Swedish GAAP for 2003 and 2004 has been restated to be in accordance with IFRS. The tables and explanatory notes below describe the differences in accounting policies between IFRS and Swedish GAAP which have had an impact on the balance sheet, income statement and statement of cash flow when transitioning to IFRS.

Reconcilation of equity	note	Jan 1 2003	YTD 2003	Q1 2004	Q2 2004	Q3 2004	YTD 2004	Jan 1 2005
Equity under Swedish GAAP		**14 918**	**15 164**	**16 262**	**15 650**	**16 188**	**16 581**	**16 581**
IFRS adjustments:								
Capitalized software	a	148	163	147	130	113	47	47
Minority interest	b	570	499	520	490	481	504	504
Negative goodwill	c	66	10	9	9	9	8	8
Amortization of indefinite lived intangibles	d		68	88	104	122	128	128
Share based payments	e		0	0	0	0	0	0
Fair value financial instruments	f							189
Consequential impairments	g		-5	-5	-5	-5	-8	-8
Deferred taxes	h	-42	-47	-42	-37	-33	-15	-39
Total adjustments to IFRS		**742**	**688**	**717**	**691**	**687**	**664**	**829**
Total equity under IFRS		**15 660**	**15 852**	**16 979**	**16 341**	**16 875**	**17 245**	**17 410**

Specification of total adjustments to IFRS affecting total assets	note	Jan 1 2003	YTD 2003	Q1 2004	Q2 2004	Q3 2004	YTD 2004	Jan 1 2005
Total assets under Swedish GAAP		**37 796**	**36 326**	**38 518**	**34 522**	**34 913**	**34 847**	**34 847**
IFRS adjustments:								
Increase to intangible assets	a,d,g	148	226	230	229	230	167	167
Increase to long-term financial assets	f							121
Increase to short-term financial assets	f							122
Total adjustments to IFRS		**148**	**226**	**230**	**229**	**230**	**167**	**410**
Total assets under IFRS		**37 944**	**36 552**	**38 748**	**34 751**	**35 143**	**35 014**	**35 257**

Specification of total adjustments to IFRS affecting total liabilities (including minority interest)	note	Jan 1 2003	YTD 2003	Q1 2004	Q2 2004	Q3 2004	YTD 2004	Jan 1 2005
Total liabilities including minority interest under Swedish GAAP		**22 878**	**21 162**	**22 256**	**18 872**	**18 725**	**18 266**	**18 266**
IFRS adjustments:								
Reclass of minority interest	b	-570	-499	-520	-490	-481	-504	-504
Decrease to provisions	c	-66	-10	-9	-9	-9	-8	-8
Decrease to provisions for deferred tax	h	42	47	42	37	33	15	39
Increase to long-term financial liabilities	f							48
Increase to short-term financial liabilities	f							6
Total adjustments to IFRS		**-594**	**-462**	**-487**	**-462**	**-457**	**-497**	**-419**
Total liabilities under IFRS		**22 284**	**20 700**	**21 769**	**18 410**	**18 268**	**17 769**	**17 847**

Reconcilation of net profit	note	YTD 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	YTD 2004
Net profit under Swedish GAAP		**2 039**	**648**	**738**	**705**	**868**	**2 959**
IFRS adjustments:							
Capitalized software	a	15	-16	-18	-16	-67	-117
Minority interest	b	56	20	-6	20	16	50
Negative goodwill	c	-53	0	0	-1	0	-1
Amortization on indefinite lived intangibles	d	64	16	18	20	16	70
Consequential impairment	g	-5				-3	-3
Share based payments	e	-13	-4	-3	-4	-3	-14
Deferred taxes	h	-5	5	4	5	18	32
Total adjustments to IFRS		**59**	**21**	**-5**	**24**	**-23**	**17**
Net profit under IFRS		**2 098**	**669**	**733**	**729**	**845**	**2 976**

Specification of total adjustments to IFRS affecting net profit	note	YTD 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	YTD 2004
Net profit under Swedish GAAP		**2 039**	**648**	**738**	**705**	**868**	**2 959**
IFRS adjustments:							
Cost of goods sold	a,c,g	-59	-11	-10	-12	-36	-69
Selling & admin	a,d,e,g	67	7	7	11	-21	4
Taxes	h	-5	5	4	5	18	32
Reclassification of minority interest	b	56	20	-6	20	16	50
Total adjustments to IFRS		**59**	**21**	**-5**	**24**	**-23**	**17**
Net profit under IFRS		**2 098**	**669**	**733**	**729**	**845**	**2 976**

Key figures (restated)	YTD 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	YTD 2004
Return on total assets	9.5	9.4	10.0	10.9	12.7	12.7
Return on capital employed	13.9	13.7	14.5	16.1	19.0	19.0
Return on shareholders' equity	13.4	13.8	14.5	15.6	17.9	17.9
Operating margin	8.0	8.4	10.2	10.6	10.3	9.9
Profit margin	6.8	7.6	9.2	9.9	9.6	9.1
Turnover of total assets, times	1.10	1.11	1.14	1.19	1.24	1.24
Equity/assets ratio	43.4	43.8	47.0	48.0	49.3	49.3

Explanatory notes:

a. Intangibles: Internally-developed software

Under IAS 38, "Intangibles", development costs on internally developed software must be recognized as an intangible asset when certain criteria are met and are measured at cost less amortization and impairment losses. The transition rules under IFRS 1 require the recognition of internally generated intangible assets meeting the recognition criteria at the date incurred, as from the original effective date (1999) of IAS 38, regardless of whether those intangible assets were expensed under previous GAAP. The balances of this adjustment to IFRS will be equal to amounts capitalized in SKF's reconciliation to US GAAP, since the capitalization of software development costs has been made for US GAAP purposes since 1999.

Swedish GAAP also required the capitalization of such costs effective beginning 2002, however it was not allowed under Swedish GAAP to recognize internally generated intangible assets that had been previously expensed. SKF applied a very conservative approach to such capitalization 2003, and therefore additional amounts were capitalized for IFRS during 2003. During 2004, an impairment loss was recognized in the Q4 2004 IFRS results for certain capitalized intangible assets.

b. Minority interest

Under IAS 1, "Presentation of Financial Statements", minority interest is considered a separate component of equity in the balance sheet. On the income statement it is included in net profit, with the amounts attributable to the equity shareholders and the minority owners specified below the net profit line. Under Swedish GAAP, minority interest was shown on the balance sheet on a separate line between equity and liabilities, and was deducted in arriving at net profit in the income statement.

c. Negative Goodwill

Under IFRS 3 "Business Combinations", negative goodwill still existing after a reassessment of fair values of the net assets acquired shall be recognized immediately in the income statement. Under Swedish GAAP, such negative goodwill was established as a provision and either utilized against future net losses of the acquired company, or amortized on a straight-line basis over the average remaining useful lives of the acquired property plant and equipment.

d. Amortization of Intangibles with indefinite useful lives

Under IAS 38 Intangibles, intangibles with indefinite useful lives, which for SKF is primarily goodwill, are not amortized but measured at cost plus impairment losses. Under Swedish GAAP such intangibles were amortized on a straight-line basis over the economic life of the asset.

e. Share-based payment - Fair value of options

Under IFRS 2, Share-based payments, the fair value at grant date of equity-settled share based options granted to the employees is to be recognized directly in equity, and amortized as an expense over the vesting period. SKF has one option program for which accounting is required. These options were granted February 2003 with a vesting period ending January 31, 2005. The fair value of these options has been calculated using the Black-Scholes options valuation model.

f. Financial instruments

- *Derivatives and hedging*
  According to IAS 39, derivatives are always recognized at fair value on the balance sheet. Unless the derivative is a hedging instrument in a cash flow hedge or a hedge of a net investment in a foreign operation, changes in fair value are recognized in the income statement. For cash flow hedges and net investment hedges qualifying for hedge accounting, changes in fair value of the hedging instruments are recognized in equity until the underlying hedged item is reflected in the income statement, at which time any deferred hedging gains or losses are recycled to the income statement. Under Swedish GAAP, changes in fair value of derivatives hedging anticipated transactions did not need to be recognized on the balance sheet until the hedged item was recognized. Unrealized gains in derivatives not used for hedge accounting were not required to be recognized, only unrealized losses.

- *Recognition and measurement of financial instruments other than derivatives*
  According to IAS 39, financial instruments are initially recorded at cost, which usually equals fair value at the time of acquisition, and subsequently at fair value or amortized cost based on initial classification. After this initial recording, changes in the fair value or amortized cost will go to the income statement, with the exception of financial instruments designated as available for sale, which will go directly to equity until the instrument is sold. Under Swedish GAAP financial instruments could be reported at cost.

g. Consequential impairment amounts
Due to the changed accounting policy where goodwill and other intangibles with indefinite lives are no longer amortized beginning as from January 1, 2003, the net book value of such intangibles increased during 2003 and 2004. As a direct consequence of the reversed amortization, certain of the intangibles required an additional impairment amount.

h. Deferred taxes on IFRS adjustments
Some of the IFRS adjustments listed above create a difference between the book-basis and the tax-basis of the underlying asset or liability for which deferred taxes have been provided.

i. Reclassification of provisions into current and non-current liabilities
SKF presents the balance sheet with current and non-current classifications. As a result, provisions that are expected to be settled within 12 months are included in current liabilities, and those provisions where settlement is more uncertain as to timing are included in non-current liabilities. Under Swedish GAAP all provisions were categorised separately from current and non-current liabilities.

Impact of IFRS on the statement of cash flow.

The Group's cash flow as reported under Swedish GAAP has been restated to meet the requirements of IAS 7 "Cash flows". According to IAS 7, SKF defines cash and cash equivalents to include only short-term highly liquid investments with an original maturity of three months or less. Under Swedish praxis a broader interpretation was made where readily marketable securities with a maturity exceeding 3 months were included. Under IAS 7 such instruments are not considered cash and cash equivalents, rather the net change in these securities are reported in financing activities. SKF's restated statements of cash flow for 2003 and for all periods in 2004 according to IAS 7 reflect cash and cash equivalents that are different to that disclosed in the cash flow statement under Swedish GAAP as short-term financial assets.

The table below shows the restated cash and cash equivalent amounts.

	Jan 1 2003	YTD 2003	Q1 2004	Q2 2004	Q3 2004	YTD 2004
Previously reported short term financial assets	5 530	6 342	6 713	2 958	3 218	3 565
Less: amounts with maturity > 3 months to be included in cash flows from financing activities under IAS 7	3 497	3 366	3 417	970	432	489
Cash and Cash equivalents under IFRS	2 033	2 976	3 296	1 988	2 786	3 076

IAS 7 requires certain cash flows to be reported as gross cash inflows and outflows. Under Swedish praxis these have previously been reported as net changes. Additionally, there are also different interpretations between IAS 7 and Swedish GAAP as to classification of cash flows as financing or investing. The following specifies these presentation differences:

a. Changes in long-term financial assets have previously been reported under Swedish praxis on a net basis under financing activities. According to IAS 7 changes in long-term financial assets shall be reported as gross cash inflows and outflows and be will now be included in investing activities.

b. Under IAS 7, changes in investments as well as loans with a maturity greater than three months are reported as gross cash inflows and outflows. These have previously been reported under Swedish praxis on a net basis.

c. Changes in post employment benefit provisions has previously been reported under Swedish praxis on a net basis as a financing cash flow. Under IAS 7, only cash outflows from contributions to funded plans are disclosed as financing cash flows. Other cash and non-cash flows are included in operating cash flows.

The adjustments to IFRS in net profit did not have any effect on cash flow.

Significant accounting principles
* indicates accounting policy under IFRS that is different from previous Swedish GAAP

Basis of presentation *
The consolidated financial statements of the SKF Group are prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that have been approved by the European Union. The interim consolidated financial statements for the three months ended March 31, 2005 are the Group's first financial statements prepared in accordance with IFRS. The financial statements are presented in Swedish Kronor (SEK) rounded to the nearest million, and 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. 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". All acquisitions are accounted for in accordance with the purchase method.
Consolidated shareholders' equity includes the Parent Company's equity and the part of the equity in subsidiaries, which has arisen after the acquisition. At the date of acquisition, the assets, liabilities and contingent liabilities of the subsidiary are measured at fair value. Any excess of the cost of acquisition over such fair values is recognized as goodwill. Any deficiency of the cost of acquisition below such fair values is credited to profit and loss in the period of acquisition.
Minority interests are shown as a separate category within equity, with the minority share of net profit being specified after the net profit.
Intercompany accounts, transactions and unrealized profits have been eliminated in the consolidated financial statements.

Segment information
The Group's primary segment is based on customer segments, which agrees to the Group's operational division structure. The secondary segment information is based on geographical location of the customer to whom the sale is made as well as the geographical location of subsidiaries' assets and capital expenditures. Sales between business units are made on market conditions, with arms-length principle. Segment results represent the contribution of the segments to the profit of the Group, and include some allocated corporate expenses. Unallocated items consist mainly of remaining corporate expenses, including some research and development activities, net costs relating to prior organization or disposed operations, profit from certain associated companies and certain costs which cross over segment lines for which management believes no reasonable basis for allocation exists.
Segment assets include all operating assets used by a segment and consist principally of plant, property and equipment, external trade receivables, inventories, other receivables, prepayments and accrued income.
Segment liabilities include all operating liabilities used by a segment and consist principally of external trade payables, other provisions, accrued expenses and deferred income.
Unallocated assets and liabilities include all tax items and items of a financial, interest-bearing nature, including post-employment benefit assets and provisions. Additionally, unallocated items include items related to central corporate activities, including research and development, as well as items related to previously mentioned unallocated result items included in results of operations.
Inter-segment receivables and payables arising from the sales between segments, are not considered segment assets and liabilities as such items are sold to and settled directly with SKF Treasury Centre, the Group's internal bank, thereby becoming financial in nature.

Investments in associated companies
Companies, in which the Group has a significant influence, are referred to as associated companies. Significant influence is usually achieved when the Group owns 20 to 50% of the voting rights. Investments in associated companies are reported in accordance with the equity method. The carrying value of the investments is equal to the Group's share of shareholders' equity in these companies, determined in accordance with the accounting principles of the Group. The Group's share in the result of these companies is based on their pre-tax profit/loss and taxes, respectively.

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

The financial statements of foreign subsidiaries that report in the currency of a hyperinflationary economy are restated for the changes in the general purchasing power of such currency, using official indices at the balance sheet date, before they are translated into SEK.

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. Accounts receivable and payable and other receivables and payables denominated in foreign currency have been translated at the exchange rates prevailing at the balance sheet date. Such exchange gains and losses are included in other operating income and other operating expense. Other foreign currency items have been included in financial income and financial expense.

Share-based payments *
The fair value at grant date of equity-settled shared based options granted to employees is recognized directly in equity and amortized as an expense over the vesting period. The fair value of SKF's option program granted February, 2003 was determined using the Black-Scholes options valuation model.

Financial instruments *
Financial instruments are recorded initially at cost which usually equals fair value at the time of acquisition. Subsequent measurement depends on the designation of the instrument, as follows:
Investments in equity securities (other than interests in associates) are designated as available for sale. Changes in fair value of equity investments with a reliable fair value are recognized directly in equity, except for impairment losses and foreign exchange gains and losses, which are recognized in the income statement. When the investments are derecognized the cumulative gain or loss recognized in equity is recycled to and recognized in the income statement. If the fair value of an unquoted equity security cannot be reliably measured the investment is measured at cost.
Deposits for which substantially all initial investment is expected to be recovered, comprising principally of funds held with landlords and other service providers, loans granted and funds held with banks are designated as loans and receivables and measured at amortized cost using the effective interest method.
Financial assets other than those designated as available for sale or loans and receivables are designated as financial assets at fair value through profit and loss.
Loans and other financial liabilities are measured at amortized cost using the effective interest method.
Derivatives, comprising foreign exchange contracts, options, interest rate swaps and futures and embedded derivatives are always recognized at fair value in the income statement unless they are designated and effective hedging instruments. Derivatives also include AB SKF's service agreement with the financial institution buying SKF B shares in the market upon exercise of the options under the Stock Option Programme.

Hedging *
Hedge accounting is applied to derivative financial instruments, which are effective in offsetting the variability in the cash flows from forecasted external sales in USD and CAD. These two currencies represent the main transactional currency exposure of the SKF Group. Forward and option contracts are used as hedging instruments. Changes in fair value of these derivative financial instruments designated as hedging instruments and meeting the criteria for hedging future cash flows are recognized directly in equity, for their effective portion. In the same period during which the forecasted external sales affects the income statement the cumulative gain or loss recognized in equity is recycled to the income statement and recognized on the sales line.
When a hedging instrument or hedge relationship is terminated but the hedged transaction still is expected to occur, the cumulative gain or loss at that point remains in equity and is removed from equity and recognized in the income statement under financial items when the committed or forecast transaction is recognized in the income statement. However, if the hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement under financial items.
Trading derivatives are comprised of two categories. The first includes derivatives for which hedge accounting is not applied although they provide effective economic hedges. Any changes in the fair value of these economic hedges are immediately recognized in the income statement under financial items. The second category relates to derivative,s which are acquired principally for short-term profit taking. Any changes in their fair value is recognized in the income statement under financial items.

Cash and Cash equivalents *
Cash and cash equivalents comprise cash on hand, bank deposits, debt securities, and other liquid investments that have a maturity of three months or less at the time of acquisition.

Classification
The assets and liabilities classified as current are expected to be recovered or settled within twelve months from the balance sheet date. All other assets and liabilities are recovered or settled later. No other liabilities than loans and financial leases are expected to be settled later than five years from the balance sheet date.

Inventories
Inventories are stated at the lower of cost (first-in, first-out basis) or market value (net realizable value). Raw materials and purchased finished goods are valued at purchase cost. Work in process and manufactured finished goods are valued at production cost. Production cost includes direct production cost such as material and labor, as well as manufacturing overhead as appropriate.
Net realizable value is defined as selling price less costs to complete less selling costs. Net realizable value includes write-downs for both technical and commercial

obsolescence made on an individual subsidiary basis. Such obsolescence is assessed by reference to the rate of turnover for each inventory item.

Property plant and equipment (PPE)
Machinery and supply systems, land, buildings, tools, office equipment and vehicles which are held for use in the production or supply of goods or services or for administrative purposes are stated in the balance sheet at cost or deemed cost, less accumulated depreciation and impairment losses.
SKF applies a component approach to depreciation. This means that where items of PPE are comprised of different components having a cost significant in relation to the total cost of the items, such components are depreciated separately. Depreciation is provided on a straight-line basis and is calculated based on historical cost. The rates of depreciation are based on the estimated useful lives of the assets, which are subject to annual review, and are generally
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 cost less accumulated amortization and impairment losses. Amortization is made on a straight-line basis over their estimated useful lives, which are subject to annual review, including:
Patents and similar rights ranging from 6 to 11 years.
Capitalized software normally 4 years.
Capitalized customer relations ranging from 5 to 15 years.
Capitalized development expenditures ranging from 3 to 5 years.
Other intangible assets normally from 3 to 5 years.
Those intangible assets where there is no foreseeable limit to the period over which the asset is expected to generate net cash flows, are considered to have indefinite useful lives, and no amortization is made.
Amortization is included in cost of goods sold, selling or administrative expenses depending on where the assets have been used.

Goodwill *
Goodwill is the excess of the cost of an acquisition over the fair values of net identifiable assets of the acquired company, including contingent liabilities. Goodwill is not amortized but is reviewed at least annually for impairment. Any impairment loss is recognized in profit and loss and is not subsequently reversed.

Impairment of assets
Consideration is given at each balance sheet date to determine whether there is any indication of impairment of the carrying amounts of the Group's assets. The determination is performed at the cash generating unit level. If any indication exists,

an asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the estimated net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on the average borrowing rate of the country where the assets are located, adjusted for risks specific to the assets.

Capitalization of software
The Group capitalizes software, including development costs on internally developed software, if it is probable that the future economic benefits that are attributable to it will flow to the company and the cost can be reliably measured. In addition, the cost must represent the initial investment or significantly increase standards of performance.

Research and development
Research expenditures are charged against earnings as incurred and accounted for as cost of goods sold in the consolidated income statement. Expenditures during the development phase are capitalized as intangible assets if it is probable, with a high degree of certainty, that they will result in future economic benefits for the Group. This means that stringent criteria must be met before a development project results in the recording of an intangible asset. Such criteria include the ability to complete the project, proof of technical feasibility and market existence, as well as intention and ability to use or sell the intangible asset. It must also be possible to reliably measure the expenditures during the development phase.

Leases
A lease agreement that transfers substantially all the benefits and risks of ownership to the Group is accounted for as a finance lease. Finance leases are recorded as tangible assets, initially at an amount equal to the present value of the minimum lease payments during the lease term. Finance leases are depreciated in a manner consistent with the Group's normal depreciation policy for owned tangible assets. Lease payments are apportioned between the finance charge and the reduction of 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. Such rental expenses are recognized in the income statement, on a straight-line basis, over the lease term.

Revenue recognition
Revenues are recognized when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of goods and services is generally recognized when (1) an arrangement with a customer exists, (2) delivery has occurred or services have been rendered, (3) the price is determinable, and (4) collection of the amount due is reasonably assured.
Contracts and customer purchase orders are generally used to determine the existence of such an arrangement. Shipping documents and customer acceptance are

used, when applicable, to verify delivery. Whether the price is fixed or determinable are 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. Accruals for customer rebates are recorded at the time of revenue recognition. Rebates are recognized as a reduction of sales.
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.

Other operating income and other operating expenses
Other operating income and other operating expenses include items such as exchange gains and losses arising on operating assets and liabilities, gains and losses on sales of non-production related capital assets, gains and losses on sales or closures of companies and operations and rental revenues. The concept of non-comparative items is not used by the Group. Comparative information is found in comments to the consolidated income statements.

Income taxes
General
Taxes include current taxes on profits, deferred taxes and other taxes such as taxes on capital, actual or potential withholding on current and expected transfers of income from Group companies and tax adjustments relating to prior years. Income taxes are recognized in the income statement, except to the extent that they relate to items directly taken to equity, in which case they are recognized in equity.
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 consolidated financial statements for estimated taxes on earnings of subsidiaries expected to be remitted in the following year, but not for tax liabilities, which may arise on distribution of the remaining unrestricted earnings of foreign subsidiaries.
Deferred taxes
The Group utilizes a liability approach for measuring deferred taxes, which requires deferred tax assets and liabilities to be recorded based on enacted tax rates for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss and tax credit carry forwards. Such losses and tax credit carry forwards can be used to offset future income. Deferred tax assets are recorded to the extent that it is probable that sufficient future taxable income will be available to allow the recognition of such benefits.

Other taxes

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

Provisions

Provisions are made when the Group has liabilities of uncertain timing or amount. 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.
Restructuring provisions are recognized when a detailed formal plan has been established and when there is a public announcement of the plan whereby creating a valid expectation that the plan will be carried out.

Post-employment benefits

The post-employment liabilities and assets arise from defined benefit obligations. These obligations and the related current service cost are determined using the projected unit credit method. Valuations are carried out annually for the most significant plans and on a regular basis for other plans. External actuarial experts are used for these valuations. The actuarial assumptions used to calculate the benefit obligations vary according to the economic conditions of the country in which the plan is located.
The Group's plans are either unfunded or externally 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 liabilities carried in the balance sheet represent the present value of the defined benefit obligation, adjusted for unrecognized actuarial gains and losses and past service costs.
Under externally funded defined benefit plans, the assets of the plans are held separately from those of the Group, in independently administered funds. The related balance sheet liability or asset represents the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation, taking into account any unrecognized actuarial gains or losses and past service cost. However, an asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group for example in the form of reductions in future contributions, or refunds from the plan. When such excess is not available it is not recognized, but is disclosed in the notes.
Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognized in the income statement, over the remaining service lives of the employees, only to the extent that their net cumulative amount exceeds 10% of the greater of the present value of the obligation or of the fair value of the plan assets at the end of the previous year.
For all defined benefits plans the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets (only funded plans) and past service cost as well as any amortized actuarial gains and losses. The past service cost for changes in pension benefits is recognized when such benefits vest, or amortized over the periods until vesting occurs.

The defined benefit accounting described above is applied only in the consolidated accounts. Subsidiaries, including the Parent Company, continue to use the local statutory pension calculations to determine pension costs and provisions in the stand-alone statutory reporting.
Some post-employment benefits are also provided by defined contribution schemes, where the Group has no obligation to pay benefits after payment of an agreed-upon contribution to the third party responsible for the plan. Such contributions are recognized as expense when incurred.
A portion of the ITP pensions arrangements in Sweden are 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.

Definitions of key figures
The majority of the subsidiaries within the Group report the results of their operations and financial position twelve times a year. The key figures presented in the Annual Report have been calculated using average values based on these reports. Consequently, the calculation of these key figures using the year-end values presented, may give slightly different results.
1. Portion of risk-bearing capital
Shareholders' equity and provisions for deferred taxes, as a percentage of total assets at year-end.
2. Equity/assets ratio
Shareholders' equity as a percentage of total assets at year-end.
3. Gearing
Short- plus long-term loans plus provisions for post-employment benefits divided by the sum of short-plus long-term loans, provisions for post-employment benefits, and equity, all at year-end.
4. Return on total assets
Operating profit/loss plus interest income, as a percentage of twelve months average of total assets.
5. Return on capital employed
Operating profit/loss plus interest income, as a percentage of twelve months average of total assets less the average of non-interest bearing liabilities.
6. Return on shareholders' equity
Profit/loss after taxes as a percentage of twelve months average of shareholders' equity.
7. Operating margin
Operating profit/loss, as a percentage of net sales.
8. Profit margin
Operating profit/loss plus interest income, as a percentage of net sales.
9. Turnover of total assets
Net sales in relation to twelve months average of total assets.
10. Earnings/loss per share in Swedish kronor

Profit/loss after taxes divided by the number of shares.
11. Yield
Dividend as a percentage of share price at year-end.
12. P/E ratio
Share price at year-end divided by earnings per share.
13. Average number of employees
Total number of working hours of all employees, divided by the normal total working time during the year.

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