

Information to shareholders
concerning the proposed
split and redemption of
shares in AB SKF

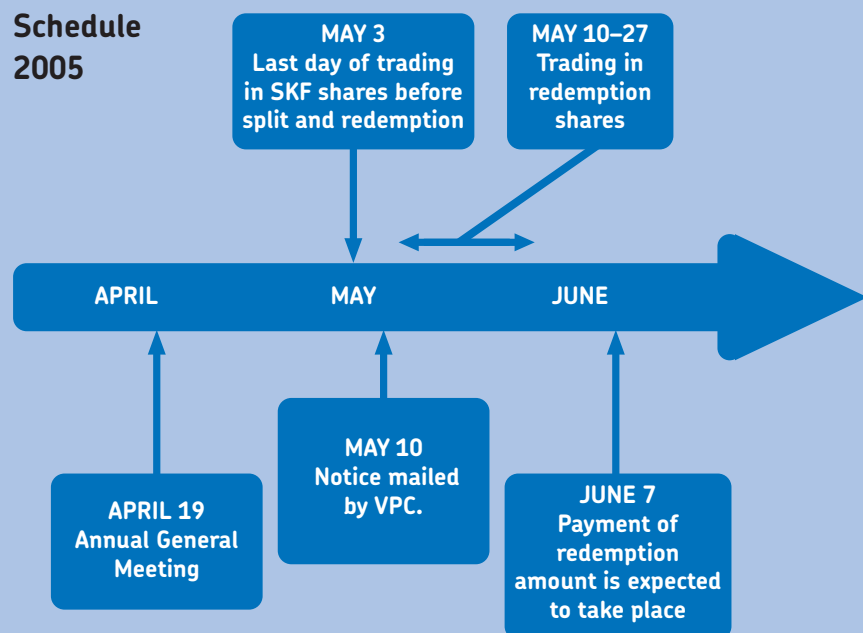
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Brief description of the share split and the share redemption

The Board of Directors' proposal implies that each SKF share, with a nominal value of SEK 12.50, will be divided into five shares with a nominal value of SEK 2.50 – **four** ordinary shares and **one** redemption share that will be automatically redeemed for SEK 25. No application procedure by shareholders is required. The Board's proposal will be presented to the Annual General Meeting on April 19, 2005 for a decision. If the Annual General Meeting approves the Board's proposal, the shareholders will receive the new shares on May 10, 2005. Cash payment for the redeemed shares will be distributed on or about June 7, 2005.

Schedule 2005



- It should be noted that Swedish withholding tax is payable on the remuneration received when shares are redeemed for shareholders tax resident outside of Sweden. However, no Swedish withholding tax is payable when redemption shares are sold in the market.

Background and reasons for the share split and redemption

On January 27, 2005, the Board of Directors of Aktiebolaget SKF ("SKF") announced a proposal of a 5:1 share split combined with a redemption without any application procedure. The background to the Board's proposed distribution of a substantial lump-sum amount to shareholders is SKF's strong performance, future outlook and capacity to generate cash.

The proposal will be presented to the Annual General Meeting on April 19, 2005. The reasons for the proposed measures is **partly** that an increase in the number of shares that would result from a split would imply that the trading lots for SKF shares would acquire lower value, which would facilitate trading in the shares, particularly for small shareholders; and **partly** the intention to easily transfer capital to shareholders through a share redemption.

The proposal by the Board implies a split through which shareholders for each Series A or Series B share held, would receive four ordinary Series A shares or Series B shares, with a nominal value of SEK 2.50, and one redemption share that would be automatically redeemed for SEK 25. This would mean that approximately MSEK 2,846 would be distributed to the shareholders.

The Board believes that a redemption of approximately MSEK 2,846, combined with a dividend of SEK 12 per share, corresponding to MSEK 1,365, would be an appropriate level for a transfer of capital to the shareholders. Even after this transfer to the shareholders, it is believed that SKF's financial position would be stable and permit the further financing and development of SKF's operations.

The choice of redemption method is based on the fact that the proposed redemption would require no action by shareholders regarding rights and application forms and that it would facilitate for foreign shareholders to sell their redemption shares instead of participating in the redemption procedure and thereby be liable to pay Swedish withholding tax.

Further information about the split and redemption procedure is provided in this brochure, which has been compiled to provide background information for the Annual General Meeting on April 19, 2005.

Gothenburg, March 2005

Aktiebolaget SKF

Description of the split and redemption procedure

The Board's proposal of a combined split and redemption procedure implies that shareholders who are shareholders in SKF as of the record date of May 9, 2005, will, for each share held through a division of shares, receive four ordinary shares with a nominal value of SEK 2.50, and one redemption share. The four shares received will be of the same series (A or B) as the original share. The redemption share will be redeemed for SEK 25. Shareholders will receive the cash payment on or about June 7, 2005. Trading in redemption shares will take place on the Stockholm Stock Exchange during the period May 10–27, 2005.

Shareholders in SKF need not take any special action but will receive shares through the split and redemption shares that will later automatically give entitlement to the redemption amount.

Decisions by the Annual General Meeting

1. The split and redemption will be decided at the Annual General Meeting on April 19, 2005 and imply, provided that the Annual General Meeting approves the Board's proposal, a decision to change the Articles of Association so that the nominal value of the shares is changed from SEK 12.50 to SEK 2.50, whereby the number of shares in SKF will increase from 113,837,767 to 569,188,835 shares.
2. It will also be decided to reduce the share capital by SEK 284,594,417.50 through redemption of 113,837,767 redemption shares. Redemption of Series A and Series B shares is to be carried out proportionally in parallel with the change in the nominal value of the shares. For each redeemed share, SEK 25 will be paid, of which SEK 2.50 is the nominal value of the share, while the remaining portion, SEK 22.50 per share, will reduce unrestricted shareholders' equity.
3. The Annual General Meeting will also decide whether to increase the company's share capital with SEK 284,594,417.50, the equivalent of the reduction amount, through a directed issue of 113,837,767 redeemable Series C shares⁽¹⁾ with a nominal value of SEK 2.50 per share. The share capital will thus be restored in that the company will acquire an amount equivalent to the reduction under section 2. As a result, the reduction resulting from the redemption of Series A and Series B shares can be carried out without permission from the courts. Handelsbanken has undertaken to subscribe for all Series C shares. These shares will then be redeemed at nominal value, SEK 2.50 per share, adjusted to include an interest component.
4. The final result of the above decisions is that shareholders' equity in SKF is reduced by a redemption amount of approximately MSEK 2,846, which is distributed to shareholders.

The complete proposal of the Board is presented on page 11 of this brochure.

⁽¹⁾ Shares of Series C is a new class of shares which is introduced solely for the purpose of this issue. The shares are redeemable upon request from the owners of Series C shares, the Board of Directors or the general meeting of shareholders.

As a result of the split and redemption procedure, there is no application procedure for shareholders.

Key events, however, are as follows:

Record date: Shareholders who on May 9, 2005, are registered as shareholders in SKF receive four ordinary shares and one redemption share for each SKF share held. VPC distributes a notice of new shares registered on the holder's securities account.

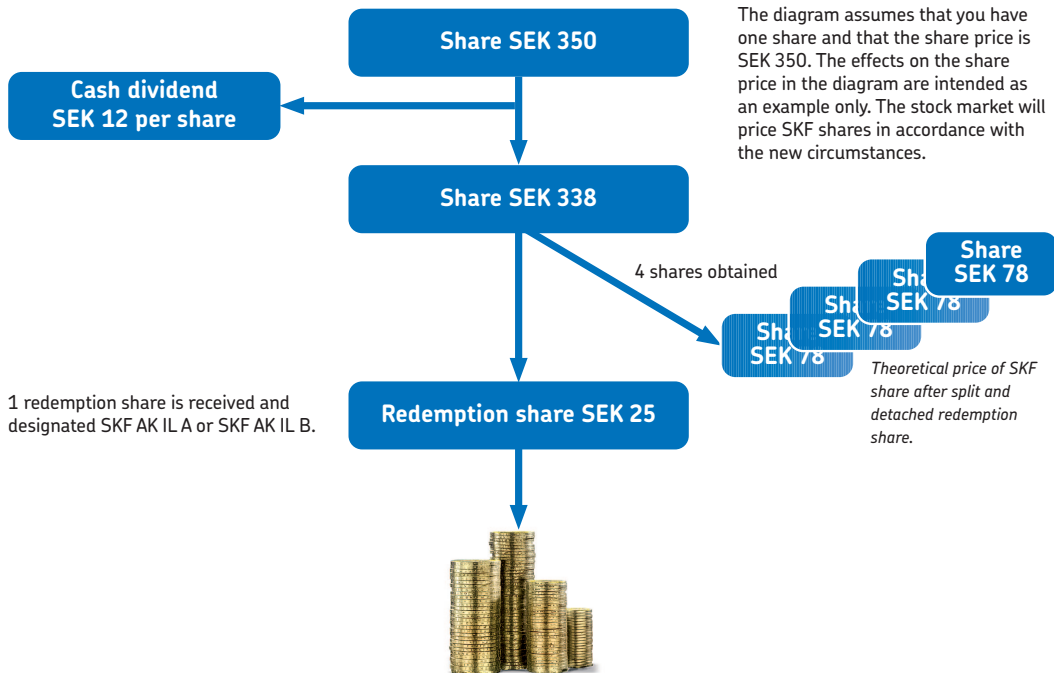
Trading in redemption shares: Trading in redemption shares takes place during May 10–27, 2005.

Reporting of payment: Payment for redeemed shares will be carried out on or about June 7, 2005. VPC will send out a notice as a confirmation on the payment.

Financial effects

The financial effects on SKF of this redemption are primarily that shareholders' equity is reduced from MSEK 16,581 on December 31, 2004, by MSEK 2,846 to MSEK 13,735. The reduction reduces unrestricted equity. The equity/assets ratio declines from approximately 49 per cent on December 31, 2004, to approximately 39 per cent, calculated on the same date.

Diagram illustrating the split and the redemption



Tax issues in Sweden

The following presentation is a summary of certain tax consequences related to the redemption procedure for shareholders in SKF. The summary is based on Swedish legislation currently in force and is intended as general information for shareholders resident in Sweden for tax purposes, unless otherwise stated. The summary does not cover securities that are held as current assets in business operations or by a partnership. Special rules that may apply to certain corporate categories or the rules on tax-exempt capital gains (including non-deductible capital losses) and dividends on shares considered to be held for business purposes are not described. Nor does the summary cover the special rules that may apply to holdings in companies that have been acquired by means of “qualified shares” in closely held companies. For shareholders that are not tax resident in Sweden, the tax consequences may be affected by provisions of the shareholders’ home state and by tax treaties between Sweden and other countries for the avoidance of double taxation. The tax treatment of shareholders depends in part on their particular circumstances. Each shareholder should therefore consult a tax advisor regarding the tax implications that may arise.

Receipt of redemption shares

The receipt of redemption shares through a split does not give rise to any taxation. After detachment of the redemption shares, these shares are not considered to be of the same class and type as the ordinary shares when using the average method. The total acquisition cost of all shares of the same class and type of series A and B respectively, immediately before the split (and the detachment of the redemption shares), will be allocated between these redemption shares and the remaining shares of the same class and type. The allocation of the acquisition cost of an original SKF share of series A or B, respectively, is made between the redemption shares and the remaining shares of each series based on their market values at the time of the detachment of the redemption shares. SKF intends to seek a general advice from the Swedish Tax Agency on how large portion of the acquisition cost of the shares in SKF of series A and B, respectively, immediately before the detachment of the redemption shares that shall be allocated to the shares and the redemption shares respectively.⁽¹⁾

⁽¹⁾ Information on the Tax Agency’s general advice the will be published on its website www.skatteverket.se and SKF’s website www.skf.com

Example

A shareholder has one share of series B in SKF. The average acquisition cost of the share is SEK 200 immediately before the split. Assuming that the Tax Agency in its general advice determines that 92% (please note that this is only an assumption) of the acquisition cost of a share of series B will be allocated to the four remaining shares of series B received through the split and

8% to the redemption share of series B.

The acquisition cost of the redemption share will consequently be SEK 16 (8% of SEK 200). The remaining four shares will have an average acquisition cost of SEK 184 in total or SEK 46 each (92% of SEK 200: 4).

When a redemption share is disposed of for SEK 25, a capital gain of SEK 25-16 = SEK 9 will arise per redemption share.

Redemption and disposal of shares

A redemption of shares under the redemption procedure is considered to be a disposal of the redeemed shares and will consequently be subject to capital gains taxation. A disposal of redemption shares in the market will also be subject to capital gains taxation. A capital gain or capital loss is computed as the difference between the redemption price or the sales proceeds (after deduction of sales costs) and the acquisition cost of the shares redeemed or disposed of. The calculation of the acquisition cost of the redemption shares will be based on the allocation of the acquisition cost as described above. The acquisition cost of redemption shares acquired in the market is the purchase price. The acquisition cost of all shares of the same class and type is computed

Tax Issues in Sweden

collectively in accordance with the average method. Redemption shares are not considered to be of the same class and type as ordinary shares. The standard method, according to which the acquisition cost is determined as 20 percent of the sales proceeds after deduction of sales costs, may only be used if the redemption shares are quoted on a market at the time of the disposal.

For individuals, all income from capital is taxed in the capital income category at a tax rate of 30 percent. A capital loss on shares may be fully offset against capital gains on shares and other quoted securities that are taxed as shares during the same year, with the exception of Swedish interest funds. 70 percent of an excess loss, which cannot be offset in this way, is deductible from other income from capital. Should a net loss arise in the capital income category, it reduces the tax on income from employment and business operations as well as property tax with 30 or 21 percent respectively.

For limited liability companies, capital gains are normally taxed in the business income category at a tax rate of 28 percent. A limited liability company's deductible capital losses on shares and other securities that are taxed as shares may normally be offset only against taxable capital gains on shares and other securities that are taxed as shares.

Special tax issues for shareholders not resident in Sweden for tax purposes

For shareholders that are not tax resident in Sweden, a redemption of shares is deemed to be a dividend, which means that the consideration received will be subject to Swedish withholding tax. Under present tax law, no deduction for the acquisition cost on the re-purchased shares is admitted.⁽²⁾

The Government has proposed changes to these provisions.⁽³⁾ Pursuant to the proposal, a right to claim a refund for withholding tax attributable to the acquisition cost of the shares, or as an alternative for quoted shares, 20 percent of the withholding tax on the remuneration received, may be admitted if a claim for a refund is filed with the Swedish Tax Agency at the latest at the end of the fifth calendar year after the payment. The new provisions are scheduled to enter into force on 1 July 2005 and they are proposed to apply to payments as from 1 January 2005. To claim a refund, the shareholder must file a form "Claim for repayment of Swedish tax on dividends", Form 3740, and provide the Tax Agency with appropriate certificates of deduction of the Swedish withholding tax on dividends as well as evidence of the shares' acquisition cost. The claim is to be filed with the Swedish Tax Agency, the Ludvika Office. Present address: Box 23, S-771 21 Ludvika, Sweden, tel +46 240-87 000. The application form is available at the Tax Agency's web site, www.skatteverket.se/blanketter/3740/

It should be noted that withholding tax is payable when shares are redeemed regardless of whether the redemption shares are acquired through the share split or by a purchase in the market. The withholding tax rate is 30 percent but it is generally reduced by tax treaties with other countries. In Sweden VPC or – in case of nominee registered shares – the nominee normally handles the deduction of withholding tax. However, no withholding tax is imposed if the redemption shares are disposed of in the market.

Shareholders that are not tax resident in Sweden are normally not taxed in Sweden for any capital gain on the sale of shares or other similar securities. An individual who is not resident in Sweden for tax purposes may be subject to tax in Sweden for the sale Swedish shares if this person at any time during the calendar year of the disposal or the previous ten calendar years has been domiciled or permanently resident here. However, this right to tax may be limited through applicable tax treaties.

► **It should be noted that Swedish withholding tax is payable on the remuneration received when shares are redeemed for shareholders tax resident outside of Sweden. However, no Swedish withholding tax is payable when redemption shares are sold in the market.**

⁽²⁾ The Swedish Tax Agency has admitted deduction of the redemption shares' nominal amount in some cases. The issue if a deduction of a higher amount than the nominal amount of the redeemed shares when calculating the withholding tax is at present subject to trial by Swedish courts and the EC-court.

⁽³⁾ See draft proposal February 24, 2005, on certain withholding tax issues.

Questions and answers

Why is SKF conducting this redemption procedure?

SKF's strong performance and capacity to generate earnings has created a very strong financial position. SKF's current financial position after the redemption is sufficiently strong for the company's strategy and financial aims. The transfer is a way of enabling shareholders to use this surplus capital for their own investments.

Why is SKF not distributing a one-time dividend instead?

The distribution of earnings to the shareholders is in line with SKF's dividend policy. Redemption is an extra measure to adapt the capital structure of the company. Redemption can also be advantageous from a tax point of view for certain shareholders – for example, private individuals in Sweden.

Redemption-specific issues

What does this combined share split and redemption procedure imply?

The procedure implies that shareholders receive four ordinary shares with a nominal value of SEK 2.50 and one redemption share that is redeemed for SEK 25. This means that approximately SEK 2.8 billion will be distributed to the shareholders in exchange for redemption shares over and above the regular dividend of SEK 12 per share – that is, a total of approximately SEK 4.2 billion.

Why is the price SEK 25, which is below the market price?

The price of SEK 25 was chosen in view of the amount that SKF plans to transfer to the shareholders.

What are the key dates for the split and redemption procedure?

For each SKF A- or B-share, you are entitled to four ordinary shares with a nominal value of SEK 2.50 and one redemption share, provided you hold SKF shares on the record date, May 9, 2005. The redemption shares will be listed and traded on the Stockholm Stock Exchange during May 10–27, 2005 after which the shares will be automatically redeemed. The cash payment of SEK 25 per redemption share will be paid on or about June 7, 2005.

How many shares will be redeemed?

Approximately 113.8 million SKF shares will be redeemed. After the split and redemption, the number of shares will amount to 67.8 million Series A shares and 387.5 million Series B shares, based on the number of shares on December 31, 2004.

How much money will be disbursed?

Approximately SEK 2.8 billion will be paid to shareholders in SKF through the redemption procedure. Combined with the regular dividend, the total distribution to shareholders amounts to approximately SEK 4.2 billion (SEK 37 per share).

When will the payment occur under the redemption procedure?

The money will be paid to the yield account linked to your securities account on or about June 7, 2005. If you want to receive payment earlier, you may choose to sell your redemption shares through the Stockholm Stock Exchange during the trading period of May 10–27, 2005 at the prevailing market price.

Questions and answers

Why does SKF not repurchase shares in the market instead of conducting a redemption?

The purpose is to distribute capital to the company's shareholders through a share redemption, and since the amount corresponds to approximately 7 per cent of the company's market value, it is more difficult in a short period of time, to transfer capital through a share repurchase in the market.

Will foreign shareholders be included in the redemption?

Yes, all shareholders will be included in the redemption.

Are there any conditions to the implementation of the redemption procedure?

Yes, the implementation is conditional on a decision on the procedure by the Annual General Meeting on April 19, 2005.

What will happen if the Annual General Meeting fails to make a decision on the redemption procedure?

The transactions will not take place and the shareholders will only receive a cash dividend of SEK 12 per share.

What is a redemption share?

A redemption share is a share in SKF that will be automatically redeemed for SEK 25. Payment for redemption shares will be made on or about June 7, 2005.

How will I know the price of the redemption shares when they are traded?

The redemption shares will be listed on the Stockholm Stock Exchange. This means the price will be posted on the website of the Stockholm Stock Exchange, in the daily newspapers, etc.

Alternatives

What are my alternatives as regards the redemption procedure?

Your alternatives are as follows:

1. to wait and automatically receive payment for redemption shares as they are redeemed.
It is expected that payment will be made on or about June 7, 2005.
2. to sell all or some of your redemption shares on the Stockholm Stock Exchange during the trading period, May 10–27, 2005.

Tax considerations

All shareholders should consult a tax advisor for information about the particular tax consequences that the redemption procedure could involve for him or her.

Is share redemption a more tax-effective way of distributing capital to shareholders than a dividend, and how is the tax calculated?

Yes, for a large group of shareholders – for example, individuals in Sweden, redemption is more tax-effective than a dividend. Part of the acquisition cost of the existing shares falls on the redemption share and can thus be deducted from the tax calculation.

Through its "General Advice", the Swedish Tax Agency will specify how large a portion of the acquisition cost of the underlying share before the split may be assigned to the redemption share. Basically, this will be based on the value of the redemption share relative to the market price of the underlying share before the split.

Questions and answers

Will I be liable to pay tax because of the redemption procedure?

Yes. This applies to both divestment of redemption shares and redemption of redemption shares (if you decide not to sell your redemption shares).

Foreign shareholders who allow their shares to be redeemed will be subject to Swedish withholding tax on the redemption amount. Under proposed new rules, it will be possible to request repayment corresponding to the tax on the acquisition cost (see below).

When is the Swedish Tax Agency expected to issue its General Advice?

SKF will apply for General Advice after some time into the trading period for the redemption share. This will be published on the website of the Swedish Tax Agency, www.skatteverket.se, and subsequently on SKF's website. This is generally done well before the deadline for tax returns.

Can I figure out what my tax will be before the Tax Administration has issued these General Advice on how the values are to be distributed?

No – not exactly.

What tax rate will apply to me?

For individuals in Sweden, capital gains are taxed as income from capital. The tax rate is 30%.

For limited liability companies, etc., capital gains are considered income from business activities. The tax rate is 28%.

Do I as a foreigner have to pay tax?

Yes. Foreign shareholders who redeem their shares must pay Swedish withholding tax in addition to the tax imposed by their own country. Normally, this implies that withholding tax in Sweden of not more than 30% is levied on the amount paid to the shareholder upon share redemption. The withholding tax rate, however, is generally reduced through tax treaties which Sweden has entered with other countries to avoid double taxation. In a draft bill submitted to the Council on Legislation for consideration, the Government proposes that shareholders who fall outside the Swedish tax jurisdiction should apply to the Swedish Tax Agency in Sweden for a reduction of the withholding tax and reimbursement of tax paid on the shareholder's acquisition cost or, as an alternative in certain cases, of the tax on 20% of the redemption amount.

NOTE that Swedish withholding tax only needs to be paid if you as a foreign shareholder allow the share to be redeemed, and not if you divest the redemption share on the market.

As a foreign shareholder, do I always have to pay Swedish withholding tax to obtain the value of the redemption share?

No. You need only pay Swedish withholding tax if you *receive* payment for the redemption – that is, you need not pay Swedish withholding tax if you sell your redemption shares on the market.

As a foreigner, how should I pay the Swedish withholding tax?

VPC or your nominee will withhold funds with which to pay the withholding tax.

As a foreign shareholder, how can I obtain a refund of the withholding tax in accordance with the proposed new rules?

Your application must be submitted to the Ludvika, Sweden, office of the Swedish Tax Agency using a special form. See the section "Swedish tax considerations."

Board of Directors' proposal of a share split and a share redemption

The Board of Directors proposes a redemption procedure under which the shareholders, following a so-called split 5:1, receive four new shares with a nominal value of SEK 2.50 per share and a share, which will be redeemed for SEK 25 for each redemption share, to the effect that a total of SEK 2,845,944,175 will be distributed to the shareholders. In view hereof, the Board of Directors proposes that the Annual General Meeting of Shareholders resolves in accordance with the following proposals.

a. Amendment of the Articles of Association

The Board of Directors proposes that the wording of the Articles of Association be amended, to the principal effect that

- the nominal value of the share be changed from SEK 12.50 to SEK 2.50 (§ 5)
- the permitted range of the share capital be reduced from minimum SEK 1,350,000,000 – maximum SEK 5,400,000,000 to minimum SEK 1,100,000,000 – maximum SEK 4,400,000,000 (§ 4)
- the number of shares that may be issued of Series A and Series B, respectively, be changed to maximum 1,760,000,000 (§ 6)
- a new series of shares, Series C, be introduced whereby a maximum of 113,837,767 shares of Series C may be issued. Shares of Series C shall entitle to one-tenth of a vote per share, carry no rights to dividends and are subject to redemption at the request of holders of shares of Series C, the Company's Board of Directors or a General Meeting of Shareholders. At redemption, the redemption price shall be the nominal value of the share adjusted as per the day of redemption with an interest rate corresponding to STIBOR 30 days plus 0.05 percentage units (§ 6).

b. Reduction of the share capital through redemption of shares of Series A and Series B, respectively

The Board of Directors proposes that the Annual General Meeting resolves that the Company's share capital shall be reduced by SEK 284,594,417.50 (the reduction amount) through redemption of 113,837,767 shares, whereby redemption of shares of Series A and Series B, respectively, shall be made in proportion to the number of shares of the respective series issued at the time of the implementation of the change of the nominal value of the share. The purpose of the reduction is repayment to the shareholders. For each redeemed share SEK 25 will be paid, of which SEK 2.50 constitutes the nominal value of the share. Payment will be made of in total SEK 2,845,944,175. Following the reduction, the share capital will amount to SEK 1,138,377,670. The redemption price shall be paid as soon as possible after registration of all resolutions under Sections (a) – (d) with the Swedish Companies Registration Office.

c. New issue of shares of Series C

The Board of Directors also proposes that the Annual General Meeting resolves to increase the Company's share capital by SEK 284,594,417.50 through an issue of 113,837,767 new shares of Series C, each share with a nominal value of SEK 2.50, and on the following terms and conditions.

1. Svenska Handelsbanken AB (the "Bank") shall subscribe for the new shares with deviation from the shareholders' preferential rights.
2. Subscription for the new shares shall be made on a subscription list not later than on 30 May 2005.
3. Payment of SEK 2.50 per share shall be made in cash for the subscribed shares not later than on 30 May 2005.
4. Over-subscription may not take place.

It is noted, that the new shares are subject to the Articles of Association's reservation on reduction in accordance with Chapter 6, Section 8 of the Swedish Companies Act. It is also noted that, according to the Articles of Association, the new shares do not carry any rights to dividends.

As concerns the reason for deviation from the shareholders' preferential rights and the basis for calculation of the subscription price, the following is stated.

The resolution on redemption of shares of Series A and Series B may be carried into effect without the delay of obtaining a court approval, if, at the same time, an amount equal to the reduction amount is contributed to the Company by way of an issue of new shares. The Bank has undertaken to subscribe for and redeem the shares in accordance with Section (d) below. The subscription price has been determined in agreement with the Bank.

d. Reduction of the share capital by redemption of shares of Series C and transfer to the statutory reserve

The Board of Directors proposes that the Annual General Meeting resolves that the Company's share capital shall be reduced by SEK 284,594,417.50 (the reduction amount) by way of redemption of all 113,837,767 shares of Series C and that an amount corresponding to the reduction amount be transferred to the statutory reserve. The purpose of the reduction is repayment to the shareholder. For the purpose of transfer to the statutory reserve of an amount corresponding to the reduction amount, funds from the Company's non-restricted equity will be used. The redemption shall be effected as soon as possible following registration of the issue of new shares of Series C in accordance with Section (c) above.

A redemption price shall be paid for each redeemed share in the amount of SEK 2.50 adjusted as per the day of redemption by an interest rate of STIBOR 30 days plus 0.05 percentage units, calculated from the day of payment of the subscription price for the shares of Series C. STIBOR 30 days will be established on the day for payment of the subscription price.

The redemption price shall be paid as soon as possible following registration of the resolution under this Section (d) with the Swedish Companies Registration Office.

The resolutions by the Annual General Meeting in accordance with Sections (a) – (d) above shall be made jointly, as one resolution. In order for a resolution by the Annual General Meeting to be valid, the resolution must be supported by shareholders holding at least two-thirds of the votes cast as well as the shares represented at the Annual General Meeting.

Finally, the Board of Directors proposes that the Annual General Meeting resolves to authorise the Company's President to make the minor adjustments in the resolutions under Sections (a) – (d) above, which may be required in connection with registration of the resolutions with the Swedish Companies Registration Office.



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Information about the share split and
the share redemption is answered
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