

## Annual General Meeting

---

### SKF's Annual General Meeting 19 April 2005 - Address by Tom Johnstone, Managing Director and Chief Executive Officer



*Esteemed Shareholders, Dear Colleagues*

It's not without a certain pride that I have the pleasure today of giving you a picture of how SKF developed last year. Thanks to the dedicated, active and intense work of our nearly 40 000 employees SKF was able during 2004 to further increase its profitability and its sales and to strengthen its position on the world market.

The year 2004 was simply a good year for SKF. The Group's profit margin was 10.0 per cent, which is fully in line with the target of a sustainable margin at 10 % level that we had set for the year 2006. For three of the year's four quarters year, we were above 10 per cent.

Sales grew, measured in local currencies, by 11.8 per cent during last year. Due to changes in the value of the Swedish krona compared above all with the American dollar, this change does not show in full when we state our sales in Swedish kronor. The increase then stands at 8.3 per cent.

However, it is not the strengthening or weakening of the krona that is decisive for our competitiveness on world markets, but our ability to develop products and solutions that will enable our customers to strengthen their competitiveness and profitability. And this can only be measured through the sales in each individual market.

And here we have been successful. We can also look at it from another angle, by comparing our volume development over the last 3 years with that of the world's industrial production. Our products are mainly industrial components, which can be found in other manufacturers' end products. The growth of the bearing business therefore coincides well with the growth of industrial production.

This picture shows that SKF, for no less than 8 quarters now, has had a volume growth, exceeding that of industrial production. We have strengthened our position in the market and taken market shares.

I mentioned our target to have an operating margin at the 10 per cent level. The other part of the target is to increase our sales. The target set was 10 billion Swedish kronor, or an increase of 6 percent per year. As a basis in 2002 we had sales of over 42 billion kronor and this target is to be reached in 2006, thus an increase of the Group's sales by 24 per cent in four years.

As we follow up growth within the Group, we focus on the increase in sales expressed in percentage - our performance in the market. We now see that after two of the four years, our sales have increased by 17 percent. So we are well in line with our target.

Last year we also made a very interesting acquisition, Willy Vogel in Germany. This company is a world leader in lubrication systems with a yearly turnover of approximately 1 billion kronor and around 900 employees.

Vogel has the same type of customer as SKF and their products have great synergies with the rest of the SKF product range. The integration is going very well and we can already see measurable positive results in new business as a result of good cooperation.

The key figures for the operations in 2004 can be seen in this picture. Here we see profit per share and the Board's proposal to increase the dividend for the year to 12 kronor, an increase of 20 percent.

SKF's good development of its result, good future prospects and strong financial position were further reasons for the Board to propose a programme which combines a share split with redemption of shares. The programme will give four new shares and 25 kronor for each existing share.

Altogether, SKF will distribute 4 212 million kronor to its shareholders this year. At the same time the Group will maintain its financial strength and the flexibility needed to continue to grow the operations in a profitable manner and to achieve the targets set.

xxxxxx

What then was the development of SKF in the market place?

Looking at the large industrial markets, we can briefly state that SKF had a good development within Europe during 2004. Most of the customer segments showed a positive development and SKF strengthened its market position.

The development was also positive in North America and especially for sales within the Industrial Division which showed a very good growth.

And we also continue to expand in the rest of the world. I have earlier mentioned China and Central and Eastern Europe as regions where we would like to strengthen our activities further. A few weeks ago we announced our decision to build a completely new – and fully owned – factory for large bearings in China. It will be located in Dalian in the north east of China, not far from another of SKF's factories in the country. Production is expected to commence towards the end of 2006. This will be SKF's 6th factory in the country.

In addition to this new factory, we will also be increasing the capacity at two of our other factories in China, both of them in Shanghai.

Another market in Asia growing strongly is India. SKF has three factories there, two for bearings and one for seals. In addition we have our Development Centre for two-wheelers there. The Indian company is quoted on the stock exchange in Mumbai. SKF owns over 53 per cent of the shares and right now the process is underway whereby SKF intends to buy out the minority owners.

In Central and Eastern Europe we continue gradually to move our positions forward. Last year SKF inaugurated an Industrial Service Centre in Moscow whose function is to recondition large bearings and machine spindles.

Let me finish by referring to SKF's Brazilian operations. During the last few years we have had a strong increase in sales comparable to that of China.

xxxxxx

Before continuing to describe how we intensify our work to strengthen our competitiveness in the market, I would like to mention something about the latest development of our steel activities.

Let me make this very clear, Ovako is a very skilful producer of steel of the best quality and with excellent employees.

However, it's not essential for SKF to own its most important steel supplier. I'm of the very definite opinion that in the long run Ovako will do better as part of a company, that has steel production as its main business. This will give Ovako a completely different potential for development.

At the same time it will mean that SKF can concentrate on working closer with our customers and producing new solutions and services that will make them more competitive and thereby strengthen SKF.

It's against this background that we decided together with Rautaruukki and Wärtsilä to create a new company of which Ovako will be a part. SKF will own 26.5 per cent of the shares in the new steel company. In February we signed a Memorandum of Understanding, and discussions and final negotiations are going according to plan.

This is a good solution for both SKF and Ovako.

xxxxxx

I would now like to describe how we work to continually offer our customers better and more advanced solutions. This is in order to make them more efficient and profitable and thereby strengthen SKF's position as their partner.

To be able to develop and strengthen our knowledge, we have identified five different platforms, which reflect our technical knowledge and our technical competence. These platforms are bearings and bearing units, seals, mechatronics, services and lubrication systems.

We have several competent competitors within the bearing world, or within the world of seals and lubrication systems. None of them, I repeat none of them, can however offer the collective technical competence that the SKF platforms represent. It gives us a unique position in the market. By combining the competences from our platforms, we can offer right from the start customised, complete and optimal solutions or systems to customers within the different segments. Customers some times need competence from all platforms, sometimes from just one, two or three of them.

It's also within these platforms that you will in future see how the SKF Group grows and develops. We are evolving from being a component supplier to becoming a system supplier. In this way we move upwards in the value chain and at the same time get paid for the added value that we supply. This way we also create a larger market.

Let me give you some examples:

After a few tough years, the aerospace industry is on its way back. Here also SKF is well positioned with a strong standing in the market. Just over a week ago we signed an agreement with Rolls-Royce and will become their primary supplier of large bearings in engines for the new Boeing 787. We also have considerable deliveries of bearings and other components for the new giant Airbus A380. Once again, the competences come from a number of our platforms. The A380 is a completely new aircraft so it might be interesting to see what it looks like inside.

I'm not quite convinced that this is the economy class, as somebody said.

The wind power industry is growing fast and SKF has created a strong position for itself in this market. From this picture you can see that the technical competence available within all our five platforms is applied. We can offer customers total solutions, which no one else can.

xxxxx

I chose to conclude this presentation with a wind power station as it brings to mind sustainability issues. This is a subject SKF takes very seriously. We have worked with this for many years and our sustainability report has also been rewarded. We have now decided to take a few more important steps.

In 2002, we set a target to decrease carbon dioxide emissions by 10 per cent by 2007, based on the level of emissions and production volume in 2002. We have now decided to sharpen this target so that the decrease should be 5 per cent per year – irrespective of the volume.

Why are we doing this? Let me point to changes to the climate in the world and in Europe since 1860. This is the material, which Professor Christian Azar at Chalmers Technical University in Gothenburg has produced. We can see how the world's temperature has increased, and that the last 100the temperature in Europe has increased by one degree. What drives the global warming is the emission of carbon dioxide.

How much carbon dioxide is emitted in the industrial world? Well, it's a great deal and we can clearly see here that it's the industrialised world, which accounts for the high emissions.

The big question is, how much can we take?

Well, it's considerably below the levels we are generating today.

Let me say straight away, that I'm aware there are differing opinions about global warming, how it's measured, when measurements were first made and so on. We cannot take sides one way or the other. We can only state that there is a very high level of carbon dioxide emissions, that it is negative for the world we live in and that we as a company must act to contribute to lowering the negative effects of carbon dioxide emissions.

In addition to the concrete target of decreasing emissions by 5 per cent per year, we have also set a goal named "Beyond Zero". It means that SKF will create a positive net balance whereby we measure the energy we use in our production and our operations against the energy that our products help our customers to save. We will also focus on solutions that are environmentally friendly within our research and development.

Here is one example. A Swedish paper mill decided to change its old bearings to SKF Explorer bearings. This led to a decrease in energy consumption at the mill of 5 per cent. For the customer, this meant not only an economical profit as a result of lowering energy costs, but it also contributed to decreased energy consumption and thereby less carbon dioxide emissions.

Our target therefore is, through our products and our work save more energy than we use in our operations. It's

an ambitious target, but I'm convinced that we will succeed. The environmental aspect is an increasingly more important argument also when we sell our products.

xxxxx

And now to the first quarter result. This morning we announced the result for the first quarter of this year. It's a good result. Despite considerably higher raw material costs and a currency, that is working against us, we achieved an operating margin of 10 per cent compared with 8.4 per cent for the same period last year.

The operating result increased by over 31 per cent to 1 188 million kronor and the result before tax increased by nearly 38 per cent to 1 124 million kronor. Profit increased from 5:87 to 6:84 per share.

We also enjoy a continued strong sales development. Counted in local currencies, sales increased by 14.2 per cent. Volume increased by 8.3 percent and we continue to show a plus in the price and mix factor. This quarter the increase was 3.6 percent compared to last year.

Regarding the outlook for the second quarter, I expect that the demand for our products and services will remain on a high level in Europe and North America. In Asia and Latin America I expect a continued significantly higher demand. The manufacturing level will be maintained to ensure a good service level.

In conclusion I think we can say that the year started well for SKF. We have increased the volumes, and coped with the higher raw material costs through productivity, new suppliers and pricing. We continue to develop and sell new products and solutions that our customers want. And last but not least, we have very competent, hard-working and dedicated employees.

Ladies and Gentlemen, I'm now ready to answer any questions you may have.

THANK YOU!