

SKF's Annual General Meeting 25 April 2006 -

Address by Tom Johnstone, President and Chief Executive Officer

Esteemed Shareholders

I would like to begin with a summary of last year with some figures, plus 9.9 per cent, plus 20.1 per cent, plus 28.5 per cent, plus 20.4 per cent and plus 33.3 per cent. These percentages show the development of the Group for last year in terms of sales which increased, operating profit which increased, profit before taxes which increased, earnings per share which increased, dividend which increased – that is if you so decide today.

Ladies and Gentlemen, it was a record year for SKF. We have never before had such good earnings. I would therefore like to remind you that this is thanks to the efforts of nearly 40,000 employees the world over who contribute with their active and committed work. SKF has also grown stronger financially and at the same time we have strengthened our positions in the world market.

We are well on our way to fulfilling the targets I announced at the Annual General Meeting in 2003:

- an operating margin at a level of 10 per cent
- increasing our sales, measured in local currencies, by 6 per cent per annum, and
- attaining a return on capital employed of 20 per cent.

These targets are to be achieved by the end of 2006. As you can see from this slide, our operating margin is fully in line with the target. For eight consecutive quarters it's been at 10 per cent or above. As far as growth is concerned, we are also well in line with the growth that we set as our target, that is to grow sales with almost 25 per cent in four years.

Last year, we also added another target, to decrease inventory in per cent of yearly sales to 18 per cent, to be achieved by 2007.

Last year was a very eventful one for SKF and I would therefore like to share with you some of the things that happened during 2005.

As the same time as we continued our daily business at high speed, we also started a number of important investments, above all in Asia. We started to build a new factory for large bearings in northeast China. We started to build a factory in South Korea to replace an old one, which had become too small. The same goes for Shanghai where we are building a new factory for bearings to the automotive industry. In Shanghai we increased the capacity of our factory for bearings for electrical motors and we are building a development centre for our new acquisition, Jaeger. I will revert to both China and Jaeger later on.

In Indonesia we are building a new factory next to the existing one and are doubling our capacity for bearings to the motorcycle industry. In India we increased the capacity of the two bearing factories in Pune and Bangalore.

However, not all areas experienced growth. The North American car industry has had some tough years and this has also had an impact on their suppliers as well. In 2005 we had to make a decision to close down two factories in the US, one bearings factory and one seals factory. The production is being moved to Mexico and to another factory in the US. Some of the machinery will also be moved to Asia.

This was necessary to decrease our manufacturing costs and to remain competitive in the automotive market in America. We have no plans to leave this market and we must make sure that we are also making money there.

In Europe too we were forced to make cut-downs. One of our French factories, which had seen its customers moved to Asia, had to adapt its resources to the lower demand.

All these measures, and some more, cost the Group 390 million kronor last year. To preserve and strengthen its competitiveness, SKF must constantly review its structure and costs. This means that also in future, we have to count on yearly costs of some hundred million kronor to carry out such measures.

As far as acquisitions are concerned, I would like to mention Jaeger Industrial, a leading Asian manufacturer of actuation systems with factories in Taiwan and mainland China. Thanks to Jaeger's product programme, SKF can strengthen its position in the fast growing market for electromechanical actuators and actuation systems. Some important customer areas are medical equipment, rehabilitation, equipment for automation and transportation, ergonomic workplaces, just to mention a few.

At last year's Meeting I informed you about the creation of a new European steel company of which SKF's Ovako Steel AB would be a part. We were then in the middle of the process and just a few weeks later the deal was concluded and SKF became a part owner, with 26.5 per cent of the newly founded Oy Ovako Ab.

The development of this company has been positive and the synergy effects are starting to appear. They even seem to be larger than what we announced when the company was founded. However, the company does not constitute a core business for any of the three owners. We have therefore decided to review our ownership and declared that we are open to a sale of Oy Ovako.

During the past year we also continued our committed work with Six Sigma. We launched this concept at a Group level during 2004 and from the slide you can see how successful we have been. What you can't see on the slide, however, is that SKF during 2005 made net savings of nearly 150 million kronor in 2005 as a result of the programmes implemented.

In last year's speech I chose to specially highlight the Group's commitment with regard to sustainability issues. I pointed out that we had sharpened our goal as far as carbon dioxide emissions were concerned, and that our goal was to decrease emissions by 5 per cent per annum, regardless of volume. I'm pleased to be able to report that in 2005 the emissions decreased by 7 per cent.

But sustainability issues are not only about the environment. They are also about our responsibility in society from a broader perspective. As a company we pay taxes and employers' fees and create work, education and training. We also believe that we can

contribute in other ways, through local initiatives where we are established.

In our case, our subsidiary in Argentina for instance, contributes to a children's hospital in Buenos Aires. Our Indian subsidiary has taken the initiative to create an SKF Sports Academy. This means that children from the neighbourhood where the factory is situated are invited to the factory site's leisure facilities and with the help of professional coaches they get to learn different sports. At the same time, SKF creates a relationship with these youngsters, future customers or employees, and the children's grades at school get better and the classes more disciplined. Our South African subsidiary is involved in a programme to combat HIV/AIDS. There are many more examples of local social programmes.

I'm convinced that this is an important commitment to bettering the conditions for future generations.

We work very actively with our structure and that's important. But the real battle is on the market place. Let's therefore take a closer look at the world market.

SKF's largest market is Europe, with just over half of the Group's sales. During last year, we didn't see any growth worth mentioning in this market. The demand for our products remained unchanged although at a high level. At the beginning of this year we saw signs that indicated that demand might improve. As the quarter developed these signs were transformed into concrete demand. We therefore now have a more optimistic view of the European market.

In North America there was a certain improvement in the volume development already last year. This continued during the first quarter of this year and we expect a continued growth also during the second quarter. North America accounts for about 20 per cent of the Group's turnover.

It's above all our sales to our industrial customers that we have been successful in increasing. During the last few years we have been able to move our positions forward in this market. Dedicated efforts aimed at manufacturers of equipment for the mining industry, the food and beverage industries, the metal industry and construction industry have accounted for this growth. We have been able to identify the customers' needs and desires, and delivered solutions, with which they have been satisfied.

Asia is a very exciting market and SKF is strengthening its positions there considerably. It's important for us to be there for our customers and also to reach new ones. That Asia has moved its positions forward as a market for SKF can clearly be seen from this slide. Last year, Asia accounted for 17 per cent of Group sales as compared with 15 per cent in 2004.

Looking at the development of our different customer segments, the one that is doing specially well at the moment is the wind power industry. This is a business area, which is growing strongly. The number of megawatts produced using wind power increased by 39 per cent last year. The number of turbines increased by 27 per cent during the same period. The difference is attributable the fact that the turbines are becoming more and more powerful, with increased capacity.

I can state that SKF has not only followed this growth but also strengthened its position in this market. We delivered solutions from all of our five platforms to this

industry. This width gives us a unique situation compared to our competitors. None of them can offer the same competence.

This is a good opportunity to remind you of our platforms. 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, service and lubrication systems.

We have strong competitors in the market in all these areas. But none of them, I repeat, none, can offer the collective technical competence represented by SKF's platforms. This gives us a unique position in the market.

By combining the competences from our platforms we can offer complete and optimal solutions or systems to our customers right from the start in the different segments. Sometimes the customers need competences from all the platforms, sometimes from just one, two or three. It's also within these platforms that you will be able to see the SKF Group grow and develop in the future.

Let me give you some examples of how we were able to develop solutions that make our customers more competitive. I just mentioned the wind power industry as an excellent example of that.

Another example. SKF recently won a large order for 1500 axleboxes from Alstom for a new generation of Italian trains. The decision to use SKF was thanks to the fact that we were able to offer axleboxes equipped with our tapered roller bearings, sealed and greased, and with sensors for the monitoring of both bearing temperature as well as the speed and positioning of the train.

We have a clear vision within SKF: "To equip the world with SKF knowledge". The knowledge base in the Group is impressive, in all our platforms. This knowledge comes from nearly 100 years of experience of close cooperation with customers in all imaginable customer segments, from manufacturers to end users. This knowledge gives us a fantastic strength. It's this knowledge and strength that we are now using to develop the right solutions for our customers. SKF has undergone extensive changes and continues to change from being a component supplier to also being a genuine knowledge company where the product can be either a computer program or a consultancy assignment or a condition monitoring system.

I would also like to mention two commitments that gave us lots of positive publicity already last year. They are the East Indiaman Götheborg and the Gothia Cup.

The East Indiaman Götheborg has already given us satisfaction. So far the ship has visited Cadiz, Recife, Cape Town and Port Elizabeth. At all stopovers, we have had big arrangements with customers and distributors as well as schoolchildren. The children are above all from less well off areas in the cities the ship has visited. In Brazil some 2,000 schoolchildren had the chance to get acquainted with the ship and SKF. All the children get an SKF T-shirt. In South Africa the ship was visited by 3000 school children, and this is an area we continue to invest in.

As part of our centenary celebration next year, we are among other things involved in Gothia Cup, the world's largest youth football tournament. This year we will be one of the sponsors and next year the main sponsor. We think that it is important to meet youngsters and work with them to lay the foundation for better developments

in our world. We have therefore chosen to concentrate our efforts in the Gothia Cup on local tournaments in developing countries with the winning team being invited to the competitions in Göteborg.

Before rounding off with the results for the first quarter this year, I would like to comment on the expected acquisition of the leading French bearings company SNFA.

SKF and the owners of SNFA have signed a Memorandum of Understanding. We hope to get the approval of the authorities both in Brussels and Paris for this transaction. SNFA is a strong trademark for rolling bearings for machine tools and aircrafts. The French bearings company has a product range that well complements the SKF one for the two largest customer groups. The acquisition will result in our customers being offered new products with added value.

So over to this year's first quarter. I'm pleased to be able to state that last year was a record year for SKF, and the start of this year was also a record one. Operating margin amounted to 12.1 per cent as compared with 10.2 per cent for the same period last year. Operating result increased by 33 per cent to 1,609 million kronor and profit per share increased by more than 40 per cent to 2.45 kronor.

We also had a good volume growth of 6 per cent compared with the same period last year. And we must remember that the increase during the first quarter of last year was 8.3 per cent compared to the previous period. In this context we must remember that Easter this year was in the second quarter. We can also be pleased about a continued positive development of the price and mix factor. The increase for the first quarter compared with the same period last year was 2.9 per cent.

We have this year, provided we get approval for the SNFA acquisition, so far made two acquisitions and thereby added sales of around 1 billion kronor to the Group. We are looking at a few more candidates and want to be prepared to act whenever there is an opportunity.

In short, the year has started well for SKF.

Looking at the prospects for the next quarter, they also look good. We expect the demand for our products and services, compared with this year's first quarter, to be slightly higher in North America and Europe; that it will remain on a high level in Latin America and to be significantly higher in Asia. That means increased sales for the Group and continued volume growth.

I would like to conclude this presentation by thanking all the employees in the Group for the fine work they do.

Thank you.