

Annual General Meeting

Adress by Sune Carlsson, President and CEO, 2001-04-24



Ladies and Gentlemen,

Key data for the SKF Group 2000

The results for the Group developed in line with the plans we drew up last year. Sales increased by 8.6% to nearly SEK 40 billion. We achieved a strong result improvement, and I am particularly pleased that earnings per share increased by 77% to SEK 17.23.

Sales by geographical area

The demand for SKF's products and services increased in the majority of country and customer segments. Demand grew best in Europe, where SKF has just over half of its sales volume. The year began well for sales in North America, but demand declined noticeably during the second half of the year. In the Asian region, demand was strong in China, but were weaker in the majority of the other markets, particularly during the second half of 2000.

Operating margin

The operating margin improved by a few percentage points and reached 9% last year. This was the result of bigger sales volumes, lower costs and increased deliveries of products with higher customer value.

Results by Division

All the SKF Divisions reported improved operating margins last year. Nevertheless, the margins are still too low, especially in three of the Divisions. Several powerful programmes containing measures to remedy this situation have therefore been introduced. Efforts to sell the Steel Division were discontinued at the beginning of the year. We were unable to reach an acceptable solution and are concentrating this year on raising the profit in our Swedish steel business.

Cash flow

The cash flow for last year amounted to some SEK 2.9 billion. This improvement is due primarily to increased profit. The sale of real estate, the refund of pension premiums and the low level of paid tax also contributed to the healthy cash flow. It was also possible to further reduce SKF's liabilities, and we now have a strong balance sheet. Solvency was 37% at year-end. The Group's credit rating was recently upgraded one step by Moody's.

Inventories as a percentage of annual sales

The reduction of inventories is proceeding according to plan. Despite some disruptions to the material supply, we succeeded in maintaining a better delivery service than our competitors last year. This year we are concentrating on reducing inventories by two percentage points, and, at the same time, making further improvements to our delivery service.

Additions to tangible assets

Capital expenditure in machinery and equipment amounted to some SEK 1.4 billion. This is somewhat lower than depreciation. Investments planned for the current year are at roughly the same level. Machinery and equipment is being replenished in order to reduce costs and achieve greater flexibility in production.

Target level and outcome 2000

To sum up, I can say that last year's results mean that a big step has been taken towards the target level that I presented at the previous Annual General Meeting. I said then that it would take a year or two to reach the new target level. We are continuing to work energetically with the aim of reaching the target level as early as next year, providing that the present slowdown in the industrial business cycle does not develop into a long-term and deep recession.

Key data for the first quarter 2001

I would also like to comment on developments during the first quarter this year.

2001 has begun well. Both sales and profit before taxes have further increased compared with the corresponding period in 2000. The operating margin is somewhat lower this year. Last year, we had a non-recurring profit in the result corresponding to one percentage point on the margin. The cash flow continues to be strong and earnings per share are rising.

Earnings per share

Earnings per share have more than doubled in recent years and have grown steadily quarter by quarter. We are now approaching the level of SEK 20 per share on a yearly basis, which is the next target level.

Volume trend development

Market demand for SKF's products and services in Europe continued to grow during the first quarter of 2001. Demand declined further in North America. Total demand from the Asian region remained unchanged. The overall demand for the Group is expected to remain fairly flat for the second quarter.

Group strategy

SKF's Group strategy has three main components whose purpose is to promote better profit and a steadier growth of profit:

- The elimination of businesses with unsatisfactory profit potential.
- The development of the existing core business in the bearing and seals sectors.
- The investment in new areas that, in the long run, will lead to an increase in the growth of profit and volumes.

We have already made substantial progress regarding the programme for change. We recently announced that we are at the final stage of negotiations to transfer SKF's internal IT business to EDS, which is one of the world's largest companies for IT services. The deal affects some 700 SKF employees in more than 30 countries. All the personnel will be offered jobs at EDS. We estimate that this move will enable us to achieve better service and considerable savings for the Group.

More efficient production

With regard to our core business, we are working intensively to increase flexibility in manufacturing to meet the demand for quick and reliable deliveries. We have initiated a comprehensive programme to reduce the resetting times of our production channels. The aim is to produce short series faster and at a lower cost. We are also introducing various forms of flexible working time to be able to respond better to swings in market demand. Our employees will need to have extensive training in order to get the new way of working to function. Last year, we built a new centre for process development in Göteborg. Some fifty highly-qualified engineers and researchers from a number of different countries are already working on the manufacturing technology of the future.

Production channels with zero defects

Roughly half of all SKF's production channels have now manufactured products for at least a year without a single defect in any of them. This ranks as world-class quality when you consider that we produce millions of units every day.

Environmental improvements

We are making every effort to improve the work environment at SKF and to reduce the load on the external environment. A separate Environmental Report has been issued in conjunction with the Annual Report. SKF became one of the first companies in China to be certified to ISO 14001, the international standard for environmental management.

We also launched a campaign last year throughout the entire Group to reduce work-related accidents to zero.

Complete solutions

SKF's venture into customer-tailored solutions has gained momentum. It means that we develop new technical solutions in close collaboration with customers and other companies. Traditional standard products are replaced by special solutions that have considerably high customer value. For example, SKF offers a number of new, advanced products for forklift trucks - products that are intended to make us the leading supplier in this sector.

Bogie-monitoring system for express trains

SKF has a strong position in the railway business market as a supplier of rolling bearings. We also deliver solutions with sensors that measure the temperature and vibration of the bearings, and recently launched a comprehensive bogie-monitoring system for express trains - a new technology developed in collaboration with the Swiss company Sécheron. The sensors and advanced electronics warn the train driver of the risk of bearing failure or of derailment. The system will diminish the risk of accidents and substantially increase operational reliability.

Acquisitions 2000/2001

An important part of our growth strategy is to acquire specialist companies, primarily within the service sector. The

purpose is to add new technology, skilled personnel and a larger customer base to the Group. We have acquired eight companies so far since last year with combined annual sales of SEK 0.5 billion. The latest acquisition, which was announced yesterday, was the Italian company, Gamfior, which includes the manufacture and service of precision spindles on its programme.

I would just like to say a few words now about some of our acquisitions.

- Diagnostic Instruments Limited

Diagnostic Instruments, which is based in Scotland, manufactures palmtop computers for collecting operational data within various industrial applications. The information is used to analyse how machinery is functioning and to prevent disruptions and breakdowns. The acquisition has given SKF access to a series of products and software with important market potential.

- Roller Bearing Industries Inc.

We have acquired a service company with some 100 employees in the USA. The company specializes in reconditioning wheelset bearings for freight cars. The USA is the world's largest market for railway equipment, and we count on being an important supplier of services as well as increasing sales of new bearings to this huge market.

The SKF service contracts

The number of integrated maintenance service contracts to the process industry is growing. These contracts mean that SKF assumes responsibility for supplying spare parts and for the maintenance of all the rolling bearings that have been installed at a plant, such as a paper mill. Payment to SKF is linked to the savings and increased productivity in the plant. The better the plant functions, the more SKF is paid.

The introduction of new businesses, new technology and new processes increases the demand for competence and training within the Group. Every effort is made therefore to develop the skills and know-how of our employees.

The Vehicle Replacement Market

Sales to the vehicle replacement market account for 9% of SKF's total net sales, and the business has been developing well over the years. We package SKF products together with purchased products to make up complete material kits. All material needed to carry out repairs or service is delivered by SKF. This means that we have been able to greatly increase both our turnover and profit.

Strategic Alliance for the Vehicle Replacement Market

In order to strengthen our position within the vehicle replacement market, we have signed a Letter of Intent on collaboration with three of the world's leading manufacturers in this area, TRW, Valeo and Tenneco. Our ambition is to develop collaboration on warehousing, transportation and electronic business in Europe. This is expected to start functioning this year.

Electronic business and logistics

SKF set up e-business via the Internet last year with a large number of our distributors, mainly in Europe. At present, roughly every third purchase at SKF is made via the Internet portal, endorsia.com[™]. We established a special company last year to build up this business.

In order to increase the use of endorsia.com[™], SKF has entered into an agreement with Rockwell, Timken, INA, and Sandvik. This means that these four companies each acquire 20% of the above SKF company and establish themselves as users of endorsia.com[™]. SKF has also acquired 25% of the shares in a recently established company in the USA which owns the Internet portal, PTplace.com, and the logistics business already being used in North America by Rockwell and SKF. These measures will enable SKF to consolidate its leading position in the industrial aftermarket.

Distribution centre for Asia

The distribution of SKF's products to the Asian markets has been handled via Singapore for many years. We have moved the operation to a newly built, central facility near the harbour in Singapore. This gives us access to well-designed premises that will make SKF service even better and reduce our costs. We are hiring the entire facility including equipment in order to reduce tied-up capital.

Electronics in the cars of the future

SKF and the Italian company, Bertone, presented a concept for the cars of the future at the Geneva Motor Show in February this year. Bertone was responsible for the design of the new concept car, named Filo, and SKF for the introduction of new solutions for steering, braking and shifting gear whereby the mechanical systems used in today's cars were replaced by electromechanical products and sophisticated electronics developed by SKF.

Key components from SKF

What we are doing in this area shows that SKF is looking ahead by working on new technology for the automotive sector. We already have some thirty patents in this field, but there is still a great deal of work to be done on

technical development before you would be able to buy a car like the Filo. We estimate, however, that car manufacturers will begin to use our new technology within a few years.