

Annual General Meeting

SKF's Annual General Meeting April 18, 2002.



Ladies and Gentlemen, Participants in the Annual General Meeting,

Key ratios for the SKF Group 2001

I am pleased to be able to say that the financial year 2001 was a good year for the SKF Group. We improved profit before taxes by 3.9% to MSEK 3 120. Earnings per share increased by 10.5 % to SEK 19.04. The cash flow reached a record-high level and the balance sheet was strengthened further. We succeeded with the help of strong measures in compensating for falling market demand.

Operating margin

The operating margin was maintained at a good level throughout the whole of last year. We had already started the year before to adapt the workforce and costs to meet the expected fall in demand. We also further improved the price level of our products and services by focusing intensively on businesses with a higher customer value and better margins.

Inventories

The total amount of inventories was reduced to 21% of annual sales at the end of last year. This development was entirely in line with the objectives I mentioned at the Annual General Meeting three years ago. We plan to reach 20% at the end of the current year, and, at the same time, further improve on our delivery service to our customers.

Investments

The rate of investment in the factories is some SEK 1.4 billion per year. The primary purpose of the investments is to increase productivity. There will be some investments this year to support the expansion such as a new factory in China for deep groove ball bearings, and a new production channel for wheel hub units in Italy.

Cash flow

The cash flow exceeded four billion Swedish kronor last year. Good profit development, a substantial reduction of the working capital, and the sale of real estate contributed to the excellent result.

Equity/assets ratio

The focus on cash flow over the last three years has resulted in the freeing of just over nine billion Swedish kronor from the business operation. The financial assets are now larger than the liabilities and the equity/assets ratio is good. We are in a strong financial position with regard to the development of the existing business. We also plan to grow another 2-3% annually via acquisitions within our growth areas.

Awards

Last year was also a good year in another very important aspect. I am thinking of our customers' view of SKF as a supplier. We received a large number of awards from satisfied customers for high quality and a first-class delivery service. We are working throughout the entire Group on raising the level of our delivery reliability. At present, 98% of all the orders are delivered at the right time. Our ambition is to attain 100% delivery reliability.

Strategy

The SKF Group's core business comprises the development, manufacture and sales of roller bearings, seals and related products and solutions. We are working on reshaping and the further development of this business to achieve better and more stable profit development. I propose now to present a number of measures to renew and improve the Group. The word we use in-house for our development programme is STEP. It stands for Service, Trading, Electronics, and Partnership. The common ground for this programme is a strong focus on the customer's requirements and wishes, and the generation of profit and volume for the Group.

Flexibility and productivity

A comprehensive programme of work is being carried out in our factories to achieve increased flexibility and higher productivity. We are concentrating at the moment on two basic areas: fast resetting and high availability of the production channels. Great progress was made at our factory in Steyr in Austria. Owing to the dedicated effort made by the entire personnel in one channel, the set-up times could be reduced to roughly one-tenth of the previous value. Productivity in our Cajamar factory in Brazil increased by 30% last year thanks to a new system for preventive maintenance developed by SKF's Service Division. There is great potential for improvement within these two areas.

The Manufacturing Development Centre (MDC)

We are also promoting the development of entirely new production processes. A new development centre for the Group was established for this purpose in Göteborg in 2001. This year 55 researchers from 13 countries will be working at this facility on projects that span the whole field from raw materials to the finished and packed product. The work is being conducted in close collaboration with Chalmers University of Technology and other leading universities. Our technicians have access to a well-equipped laboratory for practical trials, and a supercomputer for the simulation and optimization of processes and flows.

Gamfior

To strengthen SKF's position within the area of linear products and high-precision technology - an interesting growth area -, we recently acquired two companies. Last year, SKF acquired the Italian company, Gamfior, the leading producer in Europe of motorized spindles for machine tools. This acquisition has significantly improved SKF's market position in this area. It also increases the number of opportunities for us to build up a profitable service and maintenance business for these products.

Magnetic

Quite recently, we bought the Swiss company, Magnetic Electromotoren AG, which manufactures and sells actuators. Its products effect linear motion. They are used for industrial and building automation applications, and for better ergonomics within healthcare and offices. Together with our production of actuators in France and Sweden, we now have a broad programme of actuators for a market with interesting growth possibilities.

Linear products

Sales of linear products and high-precision technology are expected to increase to approximately SEK 2.5 billion per year. We estimate that there is potential here for doubling the volume within a number of years. A condition, however, is that it also leads to an increase in earnings per share for the Group.

Aero

SKF has a strong position as the suppliers of bearings for jet engines to General Electric and Pratt & Whitney in the USA. To strengthen our global market position, we have signed a Letter of Intent with our Japanese competitor, NSK, to buy their production of bearings for jet engines in England. The purpose is to strengthen SKF's position as a supplier to Rolls Royce, the dominating manufacturer of jet engines in Europe. Even if the production of new civilian aircraft diminishes in the near future, we expect this acquisition to provide good business.

Wind power

The rapid expansion of wind-power plants offers SKF interesting business opportunities. SKF doubled its deliveries to the wind-power industry last year, and we expect there will be further expansion. We have built up our competence in this demanding field and gained large market shares. This has been done by offering advanced technical solutions based on spherical roller bearings and CARB® bearings, which are manufactured here in Gømler. We are also working on enlarging our business to include monitoring and maintenance services.

SKF in China

The Chinese market is growing in importance for SKF. Sales have increased rapidly and profitability has developed well. We have four joint-venture companies in China, where SKF is the majority owner. The organization has 1500 employees with only a few westerners. We have invested roughly one billion Swedish kronor in China and our intention is to continue to invest. We will be building a new factory for deep groove ball bearings in Shanghai. It is particularly important to also build up the sales organization and the distributor network in China. Many analysts believe that China's entry into the World Trade Organization (WTO) will stimulate and make it easier for foreign countries to do business in the country.

Two-wheelers

In many Asian countries, two-wheelers are more common than cars. We have established close collaboration with the leading Japanese producers, who manufacture their products locally in India and Indonesia. The result has been a rapid increase in our deliveries. The main reasons for our success are the comprehensive technical collaboration with customers, and the cost-effective production of deep groove ball bearings in our local factories.

Central and Eastern Europe

SKF has built up a strong market position in Central and Eastern Europe by establishing a comprehensive network of industrial distributors. Sales are growing well, and profitability is good in this region. It is interesting to note that the distributors in these countries utilize electronic commerce via the Internet to a greater extent than is the case in many countries in Western Europe. Let us listen to one of our distributors who uses the electronic market place, endorsia.com, developed by SKF.

Film

Acquisition of factories

We have also obtained manufacturing capacity in the region through the acquisition of factories for the manufacture of bearings in Poland, Ukraine, and, recently, in Bulgaria. The Bulgarian acquisition is for the production of deep groove ball bearings. The purpose of these acquisitions is to increase sales in the region. We will also be manufacturing components and products for the world market in these low-cost countries.

Reliability Systems

In many of the traditional process industries, new investments have been replaced by investment in maintenance and plant supervision in order to achieve higher productivity and better results. SKF continues its drive to sell maintenance services to the process industry, and we signed a substantial number of new contracts last year.

In an effort to increase our capacity and competence, we acquired another two companies: Nåiden in Sweden and Erin in the USA. More acquisitions will be needed to build up this business during the coming year.

Wheel hub bearing units

SKF has a very strong market position in the automotive business area, particularly when it comes to special wheel hub bearing units. Last year, for the very first time, SKF delivered more than 40 million wheel hub bearing units, enough to supply more than ten million vehicles, or one-fourth of the global production of vehicles.

Electronics in the products

Products are becoming increasingly sophisticated. Roughly one third of SKF's wheel hub units are delivered with ABS sensors incorporated. The increase in complexity opens up the door to more possibilities to compete with the aid of technology, and thereby improve profitability in an extremely competitive business sector.

Drive-by-Wire

Last year, SKF and Bertone presented a concept car with an electronic steering, gear shift and brake system. The concept car, which has aroused a great deal of interest within the car industry, is on show outside the venue for the Annual General Meeting. This is one of our biggest and most long-term development projects. To increase our chances of success, we plan to collaborate with specialist companies and selected customers. We have already entered into partnership with the Italian brake manufacturers, Brembo, and with General Motors in the USA.

Environment

I would also like to say a few words about SKF's environmental programme. We are working actively and methodically to improve our internal working environment with regard to safety and environmental risks. We are also working to achieve sustainable global development by reducing hazardous emissions and developing energy-saving processes and products. We publish a separate Environmental Report each year, which describes what is being done within the different areas. This Report has been distributed together with the Annual Report.

First quarter 2002

The report for the first quarter of 2002 was published today. Let me just give you a brief summary of how the year has begun for SKF.

Key ratios

As expected, sales were weak in the first quarter. For comparable units, the volume decreased by just over 7 %, compared with the figure for the first quarter last year. The result continues to be stable, and has been influenced marginally by the substantial drop in sales. The operating margin has even increased somewhat to eight and a half percent. The negative cash flow is due primarily to acquisitions of companies for nearly MSEK 400 in the first quarter and an increase in the working capital.

Market outlook

As for the immediate future, this is what we wrote in today's press release: The overall market demand for the Group is expected to be weak also in the second quarter this year. However, in Asia the growth is expected to continue and in North America more signs of a recovery are seen.

Operating margin

We continue to work intensively to improve the operating margin. The target of 10% for the Group, which I

mentioned two years ago, remains the same. In the current business climate, however, it may require somewhat more time than originally anticipated.

To sum up, I can say that the Group is strong in a weak market. We are carrying out our programme to renew and improve the business. We are working primarily on seizing the opportunities in the market. The previous year showed that the work gets results to the satisfaction of our customers, our employees, and our owners.
Thank you.