

Esteemed shareholders, Mr Chairman

2009 became the most challenging year for SKF for many, many years. The sharp downturn in the economy affected almost all segments of business and regions in the world.

But 2009 was also a year when SKF invested in research and development – new factories, new products and interesting business. I will talk more about that but first a brief look at last year's results.



As a result of the market situation, sales dropped by nearly 20% and volume by over 24%. As you can see in this slide, basically all big markets were affected by the downturn. Towards the end of 2009 however we saw some signs of recovery, especially within the automotive industry and in Asia and Latin America.

The results dropped to less than half compared with the previous year and the earnings per share was 3 kronor and 61 öre.

To meet the low demand and decrease our inventories, we cut down on production by more than 30% compared with the previous year.

I'm obviously not satisfied with a lower profit but I think that we managed the year in a good way. We were well prepared and reacted quickly to the downturn. This gave a good result and a stable foundation on which to build on in the coming years.

I'm especially pleased with the cash flow which was record high – more than 5.7 billion kronor – this gives us a strong financial position with room for a dividend and possibility to make investments and acquisitions.

What then did we do to handle the large downturn?

One reason why we managed so well was a far-reaching scheme to cut down on costs in the entire company. We travelled less, cut down on administration and saved on everything. We also introduced short-time working for more than 18,000 employees but unfortunately this wasn't enough so we also had to cut down on the number of employees. Around 5,500 people have left SKF since the third quarter of 2008. This is something I deeply regret but it was necessary to be able to manage the situation and to ensure the long-term development of the Group. These measures decreased our costs by well over one billion kronor.

Here in Gothenburg we were lucky enough to find various solutions to avoid redundancies. This has been possible thanks to a very good cooperation with the union. A big thank you for that!

But apart from braking it was also important to speed ahead. Let me show you some examples of what we did.

We launched more than 20 new offerings during the year, you can see some in this slide. We also spent more time on customer visits and on helping our customers decrease their costs. Within the Service Division we try to measure how well we succeed with this and during 2009 we achieved more than 3 billion kronor in documented savings for our customers.

At SKF we are unique with our five technical platforms and we continuously work to develop new products and solutions for our customers. One of our challenges is to reach out to small and medium-sized companies so they really understand all that we are able to do.

One way of making this visible is the SKF Solution Factories. Here we gather all competences under one roof. We can solve complex challenges and create customized solutions but also reuse our knowledge in new applications.

We have now opened ten Solution Factories. They are located in all regions around the world. This year we have already opened two – one in the US and one in Germany. Before the end of this year, the number of SKF Solution Factories will be close to twenty.

Last year I told you about our plans for investing in new factories. This we have now carried out. In the first week of April we inaugurated the two factories in India. The one in Haridwar manufactures ball bearings for motorbikes and the aftermarket. The one in Ahmedabad manufactures large bearings for heavy industry and wind power.

Both factories have been built according to high global environmental standards and this is important as our strategy is to without fail minimize the impact on the environment from our operations. The investments in new factories are made to enable us to serve fast growing industry segments and regions and to improve our total manufacturing structure. For this reason we also continued our investments in China where we extended the factory in Dalian and also increased the production and testing facilities in our factory for automotive bearings in Shanghai. We will be inaugurating our new factory in Tver, Russia, in July. This also has been build according to the highest environmental standards.

Here in Gothenburg we are extending our manufacture of large bearings which are delivered to many different industries, but above all to the wind power industry. Wind power is a growing energy source which leads to lower environmental impact. As I have said many times before, it's important for us in SKF to decrease the environmental impact our operations are causing. We did that last year. We decreased our carbon dioxide emissions by 18%.

In Gothenburg we are working with an extensive scheme to save energy. Now we are also taking the next step and are starting to collaborate with Göteborg Energi. In short, this involves three areas:

- one agreement on climate friendly energy sources to run SKF's production facility

- collaboration for efficient operation and maintenance of Göteborg Energi's facilities
- collaboration covering research and development in Gothenburg for future wind power technology.

Turning now to research and development, this is important for our long-term success and we have, despite the downturn in the market, kept the investments at the same level as in 2008, more than 1.2 billion kronor.

We work with research and development at more than 20 places all around the world. The number of first filings of patent applications last year was 218.

Some of the research takes place at our global technical centres. In 2009 we opened a global testing centre in Bengaluru. At the beginning of May we will inaugurate a technical centre in China specialising in solutions for the car industry. Both of these will over time be developed into complete global technical centres.

For pure research it is also important for us to collaborate with the best universities in the world. During 2009 we established two such collaborations, one with Cambridge University and one with Imperial College London. In the first place, they will support the development within important technical areas but also make us more visible to the students. This is important to ensure access to competence in the future.

Before finishing this chapter, I would like to mention something which I'm especially pleased about. SKF won the Swedish Innovation Award in 2009 for the development of the new family of energy efficient bearings. They have been introduced during the last years as a result of our increased focus on energy efficient solutions and have involved many employees all over the world. The slide shows the award ceremony and the motivation.

Thanks to our increasing offers of energy efficient solutions we have many new enquiries, development projects and new business under way. We will increase our efforts within this area during the coming years.

Let's see what one of our customers says. (film)

As you can see we help our customers to cut their energy consumption and to meet their environmental targets.

Let me also show some other examples of customer projects.

We have started a strategic partnership with Sinovel Wind, one of the largest manufacturers of wind turbines in China. When signing the agreement we were also awarded a contract to deliver seals and bearings to the main shaft in the wind turbines. The bearings will be produced in the new Dalian factory.

Total is an oil and gas company. We have the contract to carry out maintenance on their rotating equipment both onshore and offshore in their North Sea facilities. We will be making different analyses, checking vibrations and other matters to avoid unplanned stops in their facilities.

Transocean is the world's largest drilling company and we are helping them with service of their offshore oil platforms, all over the world.

Before finishing this run-through of 2009, I would like to say something relating to our employees. As I said, it was a tough year but even during difficult times it's important to carry on developing the competence of our employees. During the year we opened one SKF College, in Buenos Aires, Argentina. We now have a total of five SKF Colleges in the world.

We also took the opportunity, when things were slightly quieter in our factories, to step up what we call the SKF Bridge of Manufacturing Excellence. This is a joint concept to develop our production and constantly become better at serving our customers. It builds on our earlier initiatives and the whole concept is based on a strong commitment from all employees. Let's see what this looks like at SKF in Katrineholm. (film)

As Krister said about the SKF Bridge of Manufacturing Excellence: Now we can tell the bosses what should be done, and they listen to us and can change their minds. I think this will strengthen both SKF and our employees.

To sum up 2009, I would say that it was a difficult year but SKF showed a strong ability to withstand the global downturn by delivering a good result and a very strong cash flow. We also took steps to invest in the business to support our development going forward.

2010 seems to become a brighter year. SKF did a very strong first quarter. Sales went better and increased by 5% in local currencies. Production is increasing even more, and together with the cutting down of our costs, this gives us a margin of nearly 12%. Demand has developed especially well within the automotive business, and geographically we have had a very positive development in Asia and Latin America, and even a slight improvement in North America. Nothing much is happening yet in Europe. To me, this is a very good start of the year.

Prospects for the second year look good. We expect a significant increase of demand compared with last year. Yet again it's Asia and Latin America that are developing best but Europe and North America are also expected to grow. We will expect some headwind in the form of increased raw material costs and a negative exchange rate but this we expect to be able to handle.

2010 looks like a year of recovery for the business. We have a very strong financial position which makes it possible for us to invest for a long-term, positive development for the Group and for our shareholders.

Our offerings are strong and we are well positioned within current areas such as the environment and energy efficiency, but we must not forget to keep a focus on our profit and cash flow and continuously adapt the operations to the demand.

Six Sigma and SKF Care, our name for sustainability, are and have, for a long time, been our guiding stars to develop and run the business. But I won't talk about that

this year, I just want to show one last picture.

We are included in the Dow Jones Sustainability Index for the ninth year in succession, and in addition we were selected leader within the industry sector globally. This is something I'm proud of.

We have been included in the FTSE4Good Index since 2001 and we topped the Folksam Corporate Responsibility Index for the fourth successive year for our environmental performance and our work with human rights.

This shows that we are fully on the right way with our focus on SKF Care, and that others also are taking notice of our work in this respect.

Lastly – a big thank you to the SKF management for their excellent work and to each and every SKF employee for their hard work, commitment and understanding during a challenging year.

THANK YOU!