

Esteemed shareholders

Almost to the day one hundred years ago, Sven Wingquist found the solution to the problem that had occupied him for a long time, the self-aligning ball bearing. With this technical solution and financing from the Carlander and Mark families and others, Wingquist set off on journeys around the world to sell the new ball bearing that was being manufactured in Göteborg, right behind me.

Today, we are proud to be able to look back at one hundred years of development, a century of innovation and inventions, a century of building up competence, a hundred years of helping our customers find better solutions, a century of supporting Swedish and international industry.

Now, as we are looking forward to the next hundred years, we have a very strong foundation on which to build, a foundation thousands and thousands of SKF employees have helped to build. We will continue to strengthen SKF's leading position and trademark. I can say this, safe in the knowledge that I have the competence, enthusiasm, will and spirit of more than 40,000 SKF employees behind me.

Let me give you some concrete examples. SKF began on the basis of an invention that became world famous and was a breakthrough in the history of bearing technology. We begin our second century with yet another technical breakthrough. On our very birthday, 16 February this year, we were able to present an entirely new family of bearings, energy efficient bearings.

A few years of focused and intensive work to develop a bearing that considerably lowers the energy consumption has paid off, as expected. Some of you may remember that at the annual general meeting in 2005 I pointed out the serious environmental problems associated with carbon dioxide emissions. We have gone from words to action and developed bearings that will help all users of our bearings reduce energy consumption and thereby contribute to reduction of carbon dioxide emissions. Our new bearings can do the same job, with the same service life as today's ISO bearings, but with 30% less energy.

I think this is a very good start to the next century and a good example of our technical knowledge. I will be getting back to the sustainability issue in a few moments.

This is not the only way in which we have grown stronger. Last year, in 2006, we invested no less than five billion kronor in our operations to further strengthen SKF. We invested about 2 billion kronor in new machinery and new factories. We built three new factories in China, two in Korea and one in Indonesia. At the same time we have invested in increased capacity in Brazil and India as well as in several of the European factories, including Sweden.

We invested approximately the same sum in the acquisition of other companies whose technologies complement the existing SKF ones. Our new factories are in Asia, our acquisitions have been in the West. We bought a French bearing company, one seals company in Austria and one in the US, a lubrication systems company in Finland, two service companies in the US and one in Australia, as well as a mechatronics company in Taiwan.

These acquisitions are in all of our five technology platforms, the defined technical growth areas for the SKF Group.

In addition, we invested nearly 900 million kronor in research and development. This amount is exclusive of investments in IT systems and IT activities as well customization of products and has gone only to "pure" research and development projects which will continue to strengthen our leading position. I will shortly give you some examples.

Five billion kronor is a large amount, no question about it. It corresponds to approximately 10 percent of the Group's turnover last year.

At the same time as we devoted a great deal of effort to strengthening our manufacturing and our technologies, intensive marketing efforts were also being made. New products and solutions were introduced to the market to strengthen the competitiveness and profitability of our customers. These solutions apply to most of the Group's customer segments. Let me just mention a few. At the moment, the wind power industry is a very fast growing customer segment. The slide behind me shows a number of new products SKF has developed and launched during the last year. A new range of large hybrid bearings, a new cylindrical roller bearing; a new web-based monitoring system. But we have also extended our range in other customer segments: a new steer-by-wire solution for off-highway vehicles; a new hub unit programme for agricultural machinery; a new special bearing for automotive gearboxes; several integrated maintenance service agreements, just to mention a few.

This clear customer focus on giving the customer added value, has paid off well. The growth of the SKF Group surpassed that of the market and SKF strengthened its position on the world market last year.

I said that we have laid down a good foundation from which to grow. If we look back at 2006, we can state that the Group has never before had such high sales figures or such high profits. So the last year of our first century, became, as it well should, a record year for SKF.

This was also the reason why the board of directors proposed that this annual general meeting increase the dividend and approve a share split combined with an automatic redemption of shares which means that for each share, the SKF shareholders will receive 14 kronor and 50 öre.

Four years ago, as newly appointed President, I had the opportunity to present the new financial targets we had set up for the Group: an operating margin level of 10 percent, a sales increase in local currencies of 6 percent per annum on average, and a return on capital employed of 20 percent. These were the targets we were to achieve in 2006.

Now that we have closed the books for 2006 we are proud to be able to state that we have achieved all three targets. I would therefore like to take this opportunity of thanking each and everyone in the Group for their good work and commitment, which has enabled us to achieve our targets. Together, we take the Group to a new level as regards our ability to achieve financial results.

We have therefore also decided on new financial targets. During the second half of last year, we spent a lot of time within the company ensuring that the new targets were understood and accepted at all levels in the organisation. It's very important that the Group units responsible for results clearly know their roles and responsibilities when it comes to delivering the new targets. And these are:

an operating margin of 12 percent
a sales increase, in local currencies, of between 6 and 8 percent per annum, and
a return on capital employed of 24 percent.

These new and higher targets, esteemed shareholders, reflect the result of the process which we have successfully driven during the last few years, to change SKF from a supplier of mechanical industrial components to a knowledge engineering company able to supply solutions which help our customers become more competitive and profitable at the same time as they contribute to sustainable development.

Yes, these are, without doubt, tough targets that will require new efforts within our entire organization. But they are attainable. I'm convinced that we have the ability in SKF to reach this new and higher level with respect to both profitability and growth.

The efforts we have devoted to highlighting our very extensive knowledge in our five different technology platforms – bearings and bearing units, seals, mechatronics, service and lubrication systems – have made it possible for us to develop new and better solutions for our different customer segments to offer the market and thereby help our customers solve their problems. This approach has been received very positively by the market and the extent of our knowledge has opened up for new business. Our knowledge is also made use of by customers who would previously never have imagined that we could help them to solve their problems in these ways.

Before I return to the sustainability issue, so important to SKF, let me now comment on the results for the first quarter of this year. As you have all been able to see from the figures we presented earlier today, 2007 began very well for SKF. Both sales and results reached record levels. The slide shows the most important key figures. The operating margin reached 13.1 percent and the volume increase amounted to 7.9 percent.

I'm able to report that we have started the first quarter of our new century with results and growth fully in line with the new targets we have set for the Group.

Prospects for the second quarter are also good. We expect continued strong demand for the Group's products and services from most of the world's markets. The European market, so important to SKF, accounts for just over half of the Group sales, and is doing well right now. It is actually only in the USA that growth is not increasing.

I referred a few moments ago to my address to the annual general meeting in 2005 when I spoke of the greenhouse effect, a subject which, I'm pleased to report, is receiving more and more attention worldwide.

I pointed out the dramatic imbalance today between carbon dioxide emissions and the levels the world is able to handle. We all share responsibility for reducing

emissions and for finding new solutions that will increase the proportion of renewable energy.

We have now presented our new family of energy efficient bearings. We feel, at SKF, that this is a very tangible contribution to reducing the world's energy needs and thereby also lowering carbon dioxide emissions. The latest UN reports only strengthen the impression that we need to react strongly and that we need to do it now so that future generations will inherit a world it is possible to live in.

We are often told that it's technically impossible to save more energy because there aren't any solutions. As far as bearings are concerned, it is clearly technically feasible. We have made it possible to choose an alternative that requires less energy. The savings for one single rolling bearing may not be so impressive; the impact of quantity is great.

An example: if we were to replace all deep groove ball bearings in all electrical motors in Europe and the USA with energy efficient bearings, the energy savings would be equivalent to the monthly energy consumption of 3 million Swedish households.

There has recently been an appeal for companies to strive to become emission neutral in terms of carbon dioxide.

Esteemed shareholders, this is not sufficient. We must strive to lower the total emissions. At SKF we have set our target, which we have chosen to call BeyondZero. This means that we will not only reduce our emissions but, through the energy savings and reduced emissions achieved by our products, make sure that our energy savings are larger than the energy consumption in our operations. As one example of what we are doing, I can mention that here in Göteborg, we are now using "green energy, " with the result that the carbon dioxide emissions here are being reduced by 60 percent.

We are taking one step further, our contribution to a better environment will be a net contribution. Being neutral is not enough.

And this is also my appeal to the rest of the industry: We cannot be satisfied with a neutral target only. We must all aim at making a positive contribution.

Thank you!