

**Dear shareholders, Chairman, Board,  
SKF Colleagues, Ladies and Gentlemen**

Once again we had a very eventful and challenging year at SKF. We have made significant progress, which I would like to share with you today, but we have also suffered a major setback.



As you are probably aware the European Commission has been investigating possible infringement of EU competition law on the supply of bearings to the automotive manufacturing industry in Europe, since November 2011. SKF and five other bearing manufactures were involved. To cover the expected fine we took a provision of SEK 3 billion at the end of 2013.

The investigation concluded about a week ago and SKF has agreed to pay SEK 2.8 billion, which is covered by the provision made.

What happened only applies to a very limited part of our business, but is no excuse. It has caused damage to us all and we take this very seriously. To prevent this from happening, we have a clear code of conduct, ethical guidelines and training. We believe that no damage has been caused to our business partners – but nevertheless, it should never have happened.

We have taken the necessary measures to address this and have already intensified our compliance and training programmes. I want to sincerely apologize to all shareholders and everyone else and assure you that we are doing everything we can to avoid such things happening again.

Now, let me share some positive highlights. Let's start with the market.

In Europe and North America organic sales were slightly down while in Latin America our business recorded strong growth. Both Asia and the Middle East & Africa recorded modest growth. As we went through the year all major regions showed some improvements, mainly driven by the automotive industry. We also expect this positive trend to continue throughout 2014.

Sales were slightly down and the operating margin was similar to that of last year. The operating margin for 2013, adjusted for one-off costs, was similar to 2012, which was 12%, despite a strong currency headwind. We once again reported good cash flow, excluding acquisitions and divestments, of more than SEK 3 billion. Based on the operational performance and the outlook for the Group, the Board has decided to propose to keep the dividend unchanged at SEK 5.50.

As you know, SKF Care, our sustainability strategy, guides us in all our work. In 2013, we also put in place four important priorities to drive our business:

The first priority – sustainable profitable growth – by using our technologies to improve our ability to serve customers, launch new products and make acquisitions.

The second priority – investment and innovation – not only involves launching new products but also new IT systems and mobility to bring SKF knowledge closer to our customers.

Our third priority is cost reduction through Business Excellence and through the cost reduction programme we launched at the end of 2012.

The fourth, and final priority is capital efficiency – both reducing fixed capital and also reducing net working capital.

Let me share some examples within each area. Let's start with **Growth**.

I'll show you some important business gained during the year.

The wind energy market is once again very active. We signed several agreements with leading wind turbine manufacturers, for example a global contract for the delivery of bearings and lubrication systems, to Nordex and a contract worth SEK 100 million for SKF Nautilus bearing units to Goldwind.

We have received a lot of business from the automotive industry, especially in China. The company Great Wall placed orders for bearing units and seals. In addition, SKF and Great Wall also signed a strategic partnership agreement to develop solutions for energy-efficient vehicles.

We also started deliveries of wheel hub bearing units to the Volvo Car Cooperation for its new factory in Chengdu, China for the Volvo S60L model.

We have also signed several new contracts with the railway industry in China for, among other things, wheel set bearings for high-speed trains.

Finally, I would like to mention the aerospace industry, which has also developed very well. We signed a 10-year contract worth around SEK 900 million with the French company Turbomeca. The contract includes the supply of bearings for the latest Turbomeca helicopter engine, Arrano.

A key factor for developing our service business is of course for customers to feel that we provide them with added value. As mentioned earlier, we have a Documented Solutions Programme that calculates the value for the customer in terms of reduced cost. This is a major competitive advantage. In 2013 we helped customers save SEK 4 billion, thanks to SKF's products and solutions, bringing the total savings to over SEK 27 billion over the past ten years.

We are also working extensively on improving partnerships with our customers to cover the entire asset life cycle from idea and design to installation and maintenance.

Let's have a look at how SKF in Argentina works together with its customer – Mastellone Hermanos.

*(Film – Service has Power)*

As you can see, our team in Latin America is doing a fantastic job within the service area.

Highlights from last year included the acquisition of two very good companies – Blohm and Voss Industries and Kaydon Corporation. They bring technologies that are complementary to SKF's offer and we have also gained another 2,500 skilled colleges with very valuable areas of expertise.

I also mentioned Blohm & Voss last year, but I would like to add that they are developing very well. Their technologies and service network strengthens our ability to serve the marine industry. Marine now accounts for almost 4% of Group sales.

Kaydon has three business areas and several brands. As you can see, the head office is in the USA where they also have 60% of their total sales. But they have a global footprint with over 20% of sales in Europe and more than 10% in Asia.

Kaydon's product portfolio, manufacturing footprint and customer network is complementary to SKF's, with integration activities ongoing and proceeding very well.

Let's take a look at our second priority, **Investments and innovations**.

I have often said that in order to reap the rewards in the future we need to sow today, which is exactly what we have done. We continued to aggressively invest in R&D in 2013, now totalling 2.9% of sales, with the number of patents increasing to 11%. This is equivalent to around 2 patent filings every working day – that's impressive!

Looking ahead, it is a pleasure to share with you our decision to establish two new Global Technical Centres in Europe, apart from the two we already have in Asia. One of these will be in Gothenburg. The groundwork for the start of construction is already underway with the centre employing 50 engineers once completed.

As usual, we launched a large number of new products over the year. I usually talk about bearings, but today I would like to focus on a few other products.

SKF Condition Based Lubrication for wind turbines enables an automatic, additional dose of lubrication to distressed turbine bearings and at the same time offers full monitoring of the lubrication pump. As you can imagine, this saves both time and lubricants, and, most importantly, it enables safe and uninterrupted operation.

SKF's series of telescopic pillars are used in a variety of medical equipment such as incubators for infants. They are extremely precise with a smooth and silent lift action.

Finally, I would like to mention our energy-efficient solution for high-speed permanent magnet motors. They are used in aeration blowers for wastewater facilities. They cut back on maintenance and energy use and by monitoring increase both the performance and reliability.

As you know, environmental care is high on our agenda. We added 8 solutions to the SKF BeyondZero portfolio and sales increased by 12% to SEK 3.3 billion.

I won't go through all the examples on this slide but as you can tell the results are fantastic. SKF's products and solutions help improve fuel consumption in vehicles, reduce energy use in factories and thereby reduce carbon dioxide and other emissions. This is good for our customers and the environment!

We are also continuing to create new solutions that support the development of renewable energy. This film is an example of this.

*(Film – Ocean has Power)*

SKF is very involved with all our technology platforms when it comes to this new and interesting energy source.

Before we move on to our next priority, I would like to mention another very important ongoing investment.

The first small step has been taken to implement our new IT infrastructure – UNITE and we have already seen good results. A very impressive job has been done by the UNITE team in preparing for the first main release this spring. I will tell you more about that next year.

We have also continued to invest in mobility.

If you remember from last year's AGM I mentioned that we were developing apps to make our information and knowledge more easily accessible to our customers. Over the year we launched several more apps and now have 36 available for either Apple or Google devices. These apps make it easier to access information and they save time for our customers and employees with 250,000 SKF app downloads registered so far.

This brings us to our third priority – **cost reduction**. It's important that we balance our ambition of creating more value to customers while working at being more efficient ourselves.

Great progress has been made particularly in the area of purchasing. Our new purchasing organization has been launched and the new team has a clear task – provide better service at a lower cost to the Group.

Last year I told you that we had introduced a programme to reduce our annual costs by SEK 3 billion by the end of 2015. So far, total savings from the programme amounts to around SEK 800 million. Within purchasing, our target is to reduce our cost by some SEK 1.5 billion by the end of 2015 and we are on track to achieve this.

We have now reached the forth priority – **capital efficiency**. Over the years we have made great progress in reducing fixed capital, which you can see on the left hand side of the slide. However, we can do much more to reduce both fixed and working capital. The objective is to cut net working capital to 27% of sales. We are committed to this and will implement a number of activities to reach this objective within three to four years.

It has been an eventful year for SKF and I will try to summarize the most important highlights:

- We have developed our business and gained new important contracts.
- We have extended our offering both through acquisitions made and by launching new products, many focusing on energy efficiency.
- We utilize our technology to improve our ability to serve customers, working with the asset life cycle, from idea and design to installation and maintenance.
- We have focused on investments and innovation for the future.
- We have focused on improving efficiency and reducing costs.

What will happen going forward?

As mentioned earlier we reported a somewhat improved market as we progressed through the year. As long as nothing unexpected happens we expect this to continue, with stable, gradual growth increases in all regions around the world.

We are continuing to strengthen the Group through initiatives in research and development, new products, investments in IT systems and mobility. One key focus will be to deliver a strong cash flow and to restore our balance sheet metrics following the acquisitions we have made.

I would like to take this opportunity to sincerely thank the Group Management and all employees for their fantastic cooperation and commitment. I also want to thank the Board and you, our shareholders, for your fantastic support.

Thank you!