



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

I look forward to this day every year. Not because it gives me a chance to make a speech in Swedish, as you may understand, but because it gives us a chance to reflect on what is happening and will happen in our company. That to me is very important since despite the very tough business environment a lot is happening

and we are taking a number of steps to strengthen SKF for the future which I would like to share with you today.

Now I am sure that by now you have all gone through all the figures for SKF for 2012 but let me just highlight a few points if I could. Sales were down 2.5% in the year – not so much overall but they weakened as we went through the year. We decreased production nearly 10% to both meet this lower demand and to reduce inventories which we did by over 1.2 BSEK. This big decrease in production impacted our results bringing the operating profit down by 31% and means that, excluding one-off costs, we reduced margin by 2.5 percentage points to 12%. Against the background of nearly 10% lower production I think the team did a very good job in managing costs. The lower inventories helped us have a very strong cash flow and we exited the year with a very good balance sheet. Based on this and the outlook for the Group the Board is able to propose to the AGM to keep the dividend unchanged at 5.50 SEK.

Now let us look a little more at the sales development in the different regions.

We operated in two different worlds last year with the Americas both showing growth – North America up 7% and Latin America up 11%. While in the rest of the world our sales declined. In Asia we saw a decline of 10%, in Europe by 5% and in Middle East and Africa down some 2%. As I already mentioned, a difficult business environment for us in 2012 and this has continued into 2013.

Globally we only see one region of growth and that is Latin America which continues well for us. Asia remains weak and was down some 7% in the first quarter but there are signs that China is stabilizing while India and South East Asia remains weak. Europe was down 10% and this was quite broad based across nearly all countries in West Europe and all industries. Only aerospace developed positively in the quarter. In North America we also saw a decline in demand, which was a disappointment. We were impacted by both a weak industrial market and destocking by our customers and distributors. So a tough start to the year from a demand viewpoint.

This means our organic sales for the Group were down some 8% in the quarter compared to last year. Our manufacturing level was also lower, which means the operating margin decreased to 11.4% excluding one-offs. The impact of lower manufacturing would have been greater if it was not for the actions that have been taken to reduce costs which is giving benefits and will continue to do so. Looking forward to the second quarter we do not expect demand to weaken more compared to the first quarter but we will still see lower sales this year versus last year. Just to

remember – the second quarter last year was a record sales quarter for the Group so it's a tough comparison.

At our AGM two years ago, you will remember that I mentioned the three initiatives we were driving to support our strategy and financial targets. These were to accelerate profitable growth, reduce cost and eliminate waste and invest in growth. Let me take a few examples of steps of what we have achieved since we last met.

When we look at new business gained then the last 12-15 months have been very successful. I show a few examples here where we have taken very important orders in wind energy with Vestas, Siemens and Nordex. In our automotive business we have taken a record number of new orders with major international groups such as Audi and Volvo but also increasingly with local players such as Great Wall in China. These will all go into production in the coming 2-3 years. One other example I would like to highlight is the two very large spherical roller bearings we made here in Gothenburg that will be used in the world's largest Ferris wheel in Las Vegas – a great achievement by our team both in Sweden and USA.

Distributors are a very important way in which we reach the many hundred of thousand customers around the world. In the last ten years we have increased our sales via distributors to some 39% of the total Group turnover. In order to support them to better represent SKF we have developed the SKF Distributor College where we run many technical and commercial courses for them. These are very well received and during the year the 170,000th certificate was awarded to Fredrik at TOOLS Momentum here in Sweden.

In addition to support our distributors to develop their service offer we also support end users and have developed a tool we call the Machine Health Reporting Programme where data from customers are collected by our distributors and analyzed by SKF. This gives our customers a better ability to reduce unplanned downtime and strengthens the partnership between our customers, distributors and SKF.

A programme which supports growth but also focuses on reducing cost was announced at the start of the year.

The programme has three main blocks, Firstly, to rationalize production in Europe and to move to faster growing areas of the world. Secondly, to optimize both our manufacturing but also our administration areas. Thirdly, to increase our activities in purchasing where today we buy some 35 BSEK worldwide and we have opportunities to reduce cost through standardization in what we buy and rationalization of the supplier base.

Together these activities should reduce our yearly cost by 3 BSEK and should be implemented by end 2015. This will impact some 2,500 people in the Group and we are working to do this through early retirement and voluntary reduction programmes.

Turning to investing in growth.

This comes in many ways through new facilities, through acquisitions and through increased R&D bringing new products and solutions to our customers.

Last year SKF Group celebrated 100 years of selling in China – a truly remarkable achievement. We are without doubt one of the companies in Sweden that has been active in China the longest. As part of that celebration we opened our new factory in Jinan which primarily serves the truck industry and announced a new warehouse and campus, both in the Shanghai area. The campus will house a new factory for the automotive market but also the SKF College, SKF Solution Factory and our Global Technical Centre which will have about 400 people within 3-4 years.

We continued to invest in SKF Solution Factory which, as you remember, helps us bring our knowledge to many of our medium and smaller customers around the world. We now have 21 of these worldwide and last year we opened five more. In the next two weeks we will open a further two – in Spain and in Poland. These are very well appreciated by our customers and distributors.

In addition, we have recently started production in a new seals factory in Mysore, India and are building a new lubrication systems factory near Bengaluru. One very positive piece of news I can mention is that our large size bearing factory in Ahmedabad has been awarded the Gold LEED certificate for environmental performance – the first bearing factory in India to be given such an award.

Last year I announced that we were in the process of acquiring GBC – the American Chinese bearing manufacturer. We completed this in August and it is developing well and strengthening our ability to serve various markets through more than the SKF brand.

At the start of this year we completed the acquisition of Blohm + Voss Industries – an important supplier of bearings and seals to the marine industry. The BVI product assortment and service network complements the existing SKF offering and enables us to be an even better partner to the marine industry worldwide. It means also that our sales to the marine industry become some 4% of the Group's turnover and we have real opportunities to grow this leveraging both the combined portfolio and network.

One key area of our growth in recent years is to step up our investment in R&D – and this we have been doing.

Last year we increased the spending by 10% bringing it to 2.5 % of our sales. We are seeing the benefit both through the launch of new products and solutions but also through an increased number of patents. We used to say that we registered one patent every second day but now we can say we register more than one patent every day – a good step forward! One key area of our R&D was to focus on developing more new products and solutions which have a positive effect for our customers in reducing their energy cost and environmental impact. This is also bringing benefits and last year enabled us to launch the SKF BeyondZero portfolio and new climate targets

These products and solutions which are included, and there are now around 40 in the portfolio, are ones where we see that we have a unique or special offering which can reduce environmental impact. They are independently approved internally and audited by our auditors. In 2011, we had sales of some 2.5 BSEK in this area and it increased by 20% last year. Our target is to increase this figure by four times to 10 BSEK by 2016. A tough, but achievable target! This is only one of four new climate targets which we have and which you can read more about in our annual report. These targets cover not only the SKF BeyondZero portfolio but also our own operations, our suppliers and our transport network. Our goals have been recognized by the World Wildlife Fund and enabled SKF to join the WWF Climate Savers programme – the first global engineering group to be accepted. I think this is an important recognition of our work in this area.

So what is included in the SKF BeyondZero portfolio? Let's look at some examples. In the industrial arena we have a number of solutions. Let me highlight just two from this page if I could. In the top example our knowledge in rotating equipment, balancing and alignment has enabled us to optimize the pumping system for a major paper mill reducing their energy cost for the whole mill by 1% – a big saving. The SKF Conro unit for continuous casters not only reduces maintenance costs and improves performance but also reduces energy consumption.

Turning to automotive

In the short film we showed at the beginning of the AGM you heard about our light-weight hub unit that reduces carbon dioxide emissions from a car by 3.6 kg each year.

Another example is the SKF actuator for use on bus doors replacing the pneumatic system which enable a decrease of fuel consumption by 2% in city driving. This is part of a new bus recently launched by Volvo. A large financial saving and a big impact on the environment.

Our SKF BeyondZero portfolio of products and solutions really help differentiate SKF with our customers and help us addressing one of the challenges our customers face – that is to reduce energy consumption and to reduce their environmental impact.

These solutions were a main feature of the SKF stand at the recent Hannover Fair – one of the largest industrial fairs in the world.

The theme of the SKF stand was “Release the Power”. We have developed many new industry-focused solutions for our customers, which can have an important and powerful impact on their business and our business. The fair enabled us to show this and help energize our customers and our staff to release this power.

You see here behind me some examples of what we featured on the stand from solutions for the solar industry, for industrial drives and our asset monitoring expertise. I can tell you, it was a fantastic exhibition and you will have seen as you entered here in our display area just a few examples of what we showed at the fair.

I would like to focus on two specific examples if I could which really show our knowledge and the combination of our technologies.

The first is SKF Extended Life Spherical plain bearings. Here we used our knowledge within internal geometry, tribology, lubrication and sealing to develop a new family of plain bearings which are used in farm, forestry and construction equipment. The new solution reduces grease consumption by over 90% but more importantly uses 40% less energy, reduces cost of ownership by 70% and has well over 16 times the life of existing solutions – even from SKF!

The second is SKF Insight™

Remember last year I said we had a vision to develop a sensor which made the bearing both the heart and the brain of the equipment. Well we have done this and we have now launched it. It is self-powered and wireless and so able to interact with us over the internet. It can send us information or as our team says – send us postcards, over the internet telling us not only what is going on in the bearing but what is happening in the equipment. Now we can put this sensor in places where we could not go before, where wires and batteries do not work. This will enable us to help our customers improve uptime, reduce costs and improve performance. Let us hear a little bit more about SKF Insight™. *(Video...)*

So – a huge step forward and a huge opportunity. By being able to detect problems and damage before they occur enables us to help the operators adjust the machinery, increase lubrication etc or whatever is required to improve performance and reduce downtime.

At present we are working in three target industries – in rail, in wind and in the steel industry. As these develop and as we learn more, we will also roll this out to other customer groups. I must say – this is one of the most exciting developments in many years in SKF.

Our knowledge is developing all the time but it is important that we bring this knowledge to our customers. We have a fantastic sales organization, the best distributor network and a growing network of SKF Solution Factory, but even so we cannot reach everyone. Therefore we have developed a whole family of apps which can help our customers get information on SKF and also have quick and easy tools to use to select the right product. One such example is the SKF Bearing calculation app where our customers can easily find the bearing type and its technical specifications. What took minutes or hours before is now available in seconds for our customers making it easier for them to choose the right product – from SKF of course! Such apps are also available for other products such as seals or for specific industries such as railway.

Since we launched the apps we have had over 130,000 downloads. We have also developed calculator apps for students which we have recently launched which is a normal calculator plus many engineering formulas.

So apps is another area where SKF is leading in the engineering world.

A lot is happening in SKF and I have tried to cover a number of examples of what is going on in our company.

To summarize, last year was a challenging year from a business viewpoint with a tough external environment. We focused on managing this and on delivering a strong cash flow and this we did. We also took many steps to strengthen SKF and to achieve our long-term financial targets. We are on the right way even if we operate in a tough business environment.

One important decision we took last year was to start a project to renew our IT systems. However, it is more than an IT project. We are working on simplifying our way of working in line with Business Excellence. Focusing on working in a way that help us better serve our customers in a more efficient and effective way. The new IT system will enable us to do this. It is a multi-year project with risks of course, but it is absolutely necessary. We cannot continue with the many IT systems we have today.

Finally, let us look at what we will focus on in 2013. It is more of the same – we have started many initiatives and we will continue to drive them while managing the uncertain business environment.

I would like to take this opportunity to sincerely thank the Group management and all our employees for a fantastic cooperation and commitment in 2012 and also thank them in advance for a good continuation of this in 2013. I also want to thank the Board and you, our shareholders, for your excellent support.

I would also like to specially thank one person, Tore Bertilsson, our CFO and Executive Vice President who will retire this year. Last week was his 72nd quarterly report – a great achievement, 40 of these with me. For me personally he has been a tremendous support and has contributed immensely to the SKF development. I am very comfortable in the fact that he will be succeeded by Henrik Lange who has a great knowledge and experience in SKF, so no worries on that front. Tore – we will have time to thank you in a more personal context but at this stage a warm THANK YOU for all you have done for SKF!

Once again – my sincere thanks to all of you!