

# Press release

## SKF First-quarter report 2001

### Another good quarter

The SKF Group reports a profit before taxes of MSEK 791 (770). Excluding non-recurring items the figure is MSEK 791 (670), up 18%.

Market demand for SKF's products and services in Europe continued to grow during the first quarter of 2001. Demand declined further in North America. Total demand from the Asian region remained unchanged. The overall demand for the Group is expected to remain fairly flat for the second quarter.

The production rate was adapted to correspond to market demand. The number of employees was reduced by 631 during the quarter, the cutbacks being made mainly in North America.

- \* Operating profit for the first quarter was MSEK 908 (938), excluding non-recurring items, MSEK 908 (838).
- \* The operating margin for the SKF Group for the first quarter of 2001 amounted to 8.3% (9.5). Excluding non-recurring items, the margin was 8.3% ( 8.5).
- \* Cash flow after investments before financing amounted to MSEK 497 (410).
- \* Net sales amounted to MSEK 10 906 (9 822), an increase of 11.0% compared with the figure for the corresponding period in 2000.
- \* The increase in net sales was attributable to: structure +0.3%, volume +1.1%, price/mix +1.9% and currency effect +7.7%.
- \* Net profit amounted to MSEK 562 (497) and earnings per share after tax amounted to SEK 4.94 (4.37).

The Group's financial net for the first quarter was MSEK -117 (-168). Additions to tangible assets totalled MSEK 339 (249). At the end of March, the Group's inventories amounted to 23.7% (23.7) of annual sales. Group solvency was 38.7% (34.1). Return on capital employed for the 12-month period ended March 31 was 15.8% (13.1). Return on equity was 15.6% (12.8). The registered number of employees was 39 770 (40 672).

As a consequence of the flow of foreign funds and translation gains, it is estimated that changes in the exchange rate have had a positive effect on SKF's profit before taxes to

the amount of MSEK 100 for the first quarter of 2001 compared with the corresponding period in 2000.

Sale of fixed assets, primarily real estate, resulted in a non-recurring profit of MSEK 80 during the quarter. The same amount has been set aside to finance restructuring measures during the year.

SKF's long-term credit rating was upgraded by Moody's Investors Service to Baa1 from Baa2 during the quarter. Moody's rating has taken into account SKF's improved performance regarding profits, cash flow and debt reduction.

During the quarter the Group signed a letter of intent with EDS regarding transfer of SKF's IT Services with some 700 employees to EDS. The purpose of the partnership is to speed up IT development, improve efficiency and reduce costs for SKF.

### **Divisions**

The result by Division is based on SKF management reporting.

As from the first quarter of 2001, the result of "Aerospace and other businesses" is reported separately. It includes the manufacture of bearings, seals and components for the Aerospace industry. The forging operations in Germany and Italy, that were previously part of the Steel Division, are also included. There have also been some other smaller changes made in the divisional structure for 2001. Previously published amounts have been restated to conform to current Group structure.

**The Industrial Division's** external sales amounted to MSEK 2 579 (2 197), an increase of 17.4%. Total sales for the quarter were MSEK 4 128 (3 483). The operating result for the first quarter amounted to MSEK 412 (389), resulting in an operating margin of 10.0% (11.2) on total sales including internal deliveries.

Sales in Europe, the Division's largest market, continued to be strong during the quarter. In North America, sales weakened somewhat, but showed signs of picking up in Asia.

SKF's new generation of a compact tapered roller bearing unit for railways was chosen by Siemens for the main part of their new train concept DESIRO.

SKF's CARB<sup>®</sup> bearing has become the standard solution in the world's continuous slab-casting machines for steel production. The three leading suppliers of continuous casting equipment in the world have incorporated the SKF bearing solutions with CARB<sup>®</sup> and Explorer bearings in their products and a large number of steel mills are upgrading their existing machinery to take advantage of this new SKF technology.

**The Automotive Division's** external sales amounted to MSEK 2 486 (2 320), an increase of 7.2%. Total sales for the quarter were MSEK 2 890 (2 565). The operating result for the first quarter amounted to MSEK 98 (110), resulting in an operating margin of 3.4% (4.3) on total sales including internal deliveries.

Sales to the car and light truck segment was good in Europe but continued to fall in North America. Sales to the truck segment in Europe started to weaken and fell even further in North America.

A new car concept, developed by SKF and Bertone, was unveiled at the Geneva Motor Show. The new car, called FILO (Italian for 'wire') contains new, technically sophisticated products developed by SKF. Steering, brakes, gear change and clutch are all controlled by SKF's by-wire technology. At the heart of each system there is an SKF smart electro-mechanical actuating unit under intelligent control. Signals from the driver's control unit are interpreted by logic systems developed by SKF that ensure appropriate behaviour from the individual by-wire systems.

In Brazil SKF and Timken have established a jointly owned, stand-alone company for the manufacturing of forged and turned steel rings for bearings.

SKF, Tenneco Automotive, TRW and Valeo have initiated studies to create a strategic alliance for the provision of enhanced services for their European automotive aftermarket customers.

**The Electrical Division's** external sales amounted to MSEK 451 (404), an increase of 11.6%. Total sales for the quarter were MSEK 1 601 (1 580). The operating result for the first quarter amounted to MSEK 107 (106), resulting in an operating margin of 6.7% (6.7) on total sales including internal deliveries.

Sales in Europe remained unchanged during the quarter. In Asia sales were strong, in particular to the two-wheeler segment.

**The Service Division's** external sales amounted to MSEK 3 311 (2 930), an increase of 13.0%. Total sales for the quarter were MSEK 3 704 (3 176). The operating result for the first quarter amounted to MSEK 269 (206), resulting in an operating margin of 7.3% (6.5) on total sales including internal deliveries.

Sales in Europe strengthened during the quarter. In North America sales were significantly affected by the economic downturn. Sales in Asia and Latin America were flat.

To enhance and speed up the e-business implementation in the aftermarket in Europe and North America, SKF, Rockwell Automation, INA, Timken and Sandvik announced an agreement to provide web-based services and integrated logistics. The ownership of SKF Endorsia.com International AB - owner of endorsia.com™ - is shared equally by the five companies. In USA a new company, equally owned by SKF, Rockwell Automation, INA and Timken, was established, which acquired both the portal PTplace.com, and the shared logistics operations of Rockwell and SKF in the USA.

**The Seals Division's** external sales totalled MSEK 989 (1 026), a decrease of 3.6%. Total sales for the quarter were MSEK 1 160 (1 198) Operating result for the first quarter amounted to MSEK 9 (35), resulting in an operating margin of 0.8% (2.9) on total sales including internal deliveries.

Some 70% of the Division's sales go to the US market and the main part is automotive related. The sharp decrease in car and truck manufacturing in North America has had a negative impact on the Division's sales and profit development. Excluding the currency effect, sales dropped some 15% compared to the first quarter 2000.

The Division's manufacturing has been reduced to adapt to the lower demand, and so has the workforce. During the first quarter the number of employees was reduced by 280.

**Aerospace and other businesses** reported external sales of MSEK 572 (496), an increase of 15.3%. Total sales for the quarter were MSEK 1 046 (994). The operating result for the first quarter amounted to MSEK 72 (67), resulting in an operating margin of 6.9% (6.7) on total sales including internal deliveries.

Sales to the aerospace industry were strong during the quarter. The main customers, both for bearings, seals and airframe components continued to increase their manufacturing levels.

**The Steel Division's** external sales amounted to MSEK 496 (449), an increase of 10.5%. Total sales for the quarter were MSEK 858 (810). The operating result for the first quarter amounted to MSEK -9 (22), resulting in an operating margin of -1.0% (2.7) on total sales including internal deliveries.

The sales of steel products remained flat over the quarter in Europe, but fell in the USA.

The organizational changes described under the heading 'Divisions' have been made to enable the Steel Division to concentrate on increasing the profit in the Swedish steel business.

Göteborg, April 24, 2001  
Aktiebolaget SKF  
(publ.)

Sune Carlsson  
President and CEO

Enclosures:  
Consolidated financial information  
Consolidated balance sheets  
Consolidated statements of cash flow  
Consolidated financial information - yearly and quarterly comparisons (Group and Divisions)

The accounting principles and methods of calculation are those described in Note 1 in the Annual Report 2000. The quarterly report has not been audited by the Company's auditors.

The SKF Half-year report 2001 will be published on Tuesday, July 17, 2001.

Further information can be obtained from:

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**CONSOLIDATED FINANCIAL INFORMATION**

(MSEK unless otherwise stated)

	<u>Jan-March 2001</u>	<u>Jan-March 2000</u>
Net sales	10 906	9 822
Cost of goods sold	<u>-8 327</u>	<u>-7 533</u>
<b>Gross profit</b>	<b>2 579</b>	<b>2 289</b>
Gross margin, %	<b>23.6</b>	23.3
Selling and administrative expenses	-1 703	-1 463
Other operating income/expense - net	<u>32</u>	<u>112</u>
<b>Operating profit</b>	<b>908</b>	<b>938</b>
Operating margin, %	<b>8.3</b>	9.5
Financial income and expense - net	<u>-117</u>	<u>-168</u>
<b>Profit before taxes</b>	<b>791</b>	<b>770</b>
Taxes	<u>-220</u>	<u>-266</u>
<b>Profit after taxes</b>	<b>571</b>	<b>504</b>
Minority interest	<u>-9</u>	<u>-7</u>
<b>Net profit</b>	<b>562</b>	<b>497</b>
Earnings per share after tax, SEK	<b>4.94</b>	4.37
Number of shares	<b>113 837 767</b>	113 837 767
Additions to tangible assets	<b>339</b>	249
Number of employees registered	<b>39 770</b>	40 672
Return on capital employed for the 12-month period ended March 31, %	<b>15.8</b>	13.1

**CONSOLIDATED BALANCE SHEETS (MSEK)**

	<b><u>March 2001</u></b>	<b><u>Dec 2000</u></b>
Intangible assets	<b>1 665</b>	1 545
Tangible assets	<b>13 603</b>	13 089
Investments and long-term financial assets	<b><u>1 580</u></b>	<u>1 404</u>
<b>Total capital assets</b>	<b>16 848</b>	16 038
Inventories	<b>9 692</b>	9 262
Short-term assets	<b>10 167</b>	9 033
Short-term financial assets	<b><u>3 128</u></b>	<u>3 481</u>
<b>Total short-term assets</b>	<b>22 987</b>	21 776
<b>TOTAL ASSETS</b>	<b>39 835</b>	37 814
<b>Shareholders' equity</b>	<b>14 920</b>	13 594
Provisions for pensions and other postretirement benefits	<b>7 050</b>	6 746
Provisions for taxes	<b>1 723</b>	1 596
Other provisions	<b><u>3 305</u></b>	<u>3 046</u>
<b>Total provisions</b>	<b>12 078</b>	11 388
Long-term loans	<b>3 442</b>	4 263
Other long-term liabilities, including minority interest	<b><u>608</u></b>	<u>561</u>
<b>Total long-term liabilities</b>	<b>4 050</b>	4 824
Short-term loans	<b>721</b>	705
Other short-term liabilities	<b><u>8 066</u></b>	<u>7 303</u>
<b>Total short-term liabilities</b>	<b>8 787</b>	8 008
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>39 835</b>	37 814
<b>Changes in Shareholders' equity:</b>		
Opening balance January 1	<b>13 594</b>	11 367
Cash dividend	-	-455
Net profit	<b>562</b>	1 962
Translation adjustments	<b><u>764</u></b>	<u>720</u>
<b>Closing balance</b>	<b>14 920</b>	13 594

**CONSOLIDATED STATEMENTS OF CASH FLOW (MSEK)**

	<u>Jan-March 2001</u>	<u>Jan-March 2000</u>		
Profit before taxes	791	770		
Depreciation on tangible assets and goodwill amortization	438	409		
Net gain on sales of tangible assets and businesses	-87	-146		
Taxes	-4	-45		
Changes in working capital	-328	-487		
<b>Cash flow from operations</b>	<b>810</b>	<b>501</b>		
Investments in tangible assets and businesses	-441	-250		
Sales of tangible assets and businesses	152	202		
Changes in equity securities	-24	-43		
<b>Cash flow after investments before financing</b>	<b>497</b>	<b>410</b>		
Change in loans	-885	-75		
Change in pensions	4	8		
Change in long-term financial assets	-60	-11		
<b>Cash effect on short-term financial assets</b>	<b>-444</b>	<b>332</b>		
<b>Change in short-term financial assets</b>				
January 1	3 481	1 976		
Cash effect	-444	332		
Exchange rate effect	91	-8		
March 31	3 128	2 300		
<b>Change in net interest-bearing liabilities</b>				
	Opening balance	Exchange rate effect	Change in loans/assets	Closing balance
Loans, long- and short-term	4 968	80	-885	4 163
Provisions for pensions	6 746	300	4	7 050
Financial assets, long-term	-1 076	-91	-60	-1 227
short-term	-3 481	-91	444	-3 128
Net interest-bearing liabilities	7 157	198	-497	6 858

**CONSOLIDATED FINANCIAL INFORMATION - QUARTERLY COMPARISONS (GROUP)**  
(MSEK unless otherwise stated)

	Full year 1999	1/00	2/00	3/00	4/00	Full year 2000	1/01
Net sales	36 693	9 822	10 072	9 495	10 459	39 848	10 906
Cost of goods sold	-28 822	-7 533	-7 684	-7 103	-7 823	-30 143	-8 327
<b>Gross profit</b>	<b>7 871</b>	<b>2 289</b>	<b>2 388</b>	<b>2 392</b>	<b>2 636</b>	<b>9 705</b>	<b>2 579</b>
Gross margin, %	21.5	23.3	23.7	25.2	25.2	24.4	23.6
Selling & admin. expenses	-5 754	-1 463	-1 488	-1 541	-1 728	-6 220	-1 703
Other operating income/ expense - net	403	112	4	40	26	182	32
Result of associated companies	-	-	-	-	7	7	-
<b>Operating profit</b>	<b>2 520</b>	<b>938</b>	<b>904</b>	<b>891</b>	<b>941</b>	<b>3 674</b>	<b>908</b>
Operating margin, %	6.9	9.5	9.0	9.4	9.0	9.2	8.3
Financial income & exp. - net	-751	-168	-165	-159	-180	-672	-117
<b>Profit before taxes</b>	<b>1 769</b>	<b>770</b>	<b>739</b>	<b>732</b>	<b>761</b>	<b>3 002</b>	<b>791</b>
Taxes	-650	-266	-301	-197	-237	-1 001	-220
<b>Profit after taxes</b>	<b>1 119</b>	<b>504</b>	<b>438</b>	<b>535</b>	<b>524</b>	<b>2 001</b>	<b>571</b>
Minority interest	-8	-7	-11	-29	8	-39	-9
<b>Net profit</b>	<b>1 111</b>	<b>497</b>	<b>427</b>	<b>506</b>	<b>532</b>	<b>1 962</b>	<b>562</b>
Earnings/loss per share after tax, SEK	9.76	4.37	3.75	4.44	4.67	17.23	4.94
Return on capital employed for the latest 12-month period, %	11.2	13.1	14.8	15.8	16.2	16.2	15.8
Solvency, %	33.8	34.1	34.2	35.6	37.2	37.2	38.7
Net worth per share, SEK	100	103	104	113	119	119	131
Additions to tangible assets	1 230	249	282	394	463	1 388	339



**CONSOLIDATED FINANCIAL INFORMATION - QUARTERLY COMPARISONS (DIVISIONS)\***  
(MSEK unless otherwise stated)

	Full year 1999	1/00	2/00	3/00	4/00	Full year 2000	1/01
<u>Industrial Division</u>							
External Sales	8 115	2 197	2 158	2 082	2 290	8 727	2 579
Total sales	13 190	3 483	3 716	3 490	3 855	14 544	4 128
Operating result	1 029	389	435	424	417	1 665	412
Operating margin, %	7.8	11.2	11.7	12.1	10.8	11.4	10.0
Invested capital	6 300	6 410	6 462	6 624	6 711	6 711	7 071
Registered number of empl.	10 330	10 389	10 497	10 567	10 555	10 555	10 540
<u>Automotive Division</u>							
External Sales	8 552	2 320	2 302	2 037	2 273	8 932	2 486
Total sales	9 627	2 565	2 685	2 338	2 574	10 162	2 890
Operating result	172	110	109	50	69	338	98
Operating margin, %	1.8	4.3	4.1	2.1	2.7	3.3	3.4
Invested capital	5 340	5 377	5 433	5 726	5 510	5 510	6 029
Registered number of empl.	7 843	7 842	7 818	7 842	7 860	7 860	7 733
<u>Electrical Division</u>							
External Sales	1 475	404	403	372	396	1 575	451
Total sales	6 066	1 580	1 669	1 461	1 558	6 268	1 601
Operating result	249	106	146	139	113	504	107
Operating margin, %	4.0	6.7	8.7	9.5	7.3	8.0	6.7
Invested capital	3 492	3 476	3 304	3 452	3 367	3 367	3 577
Registered number of empl.	6 449	6 412	6 049	6 037	6 002	6 002	5 875
<u>Service Division</u>							
External Sales	11 380	2 930	3 241	3 205	3 468	12 844	3 311
Total sales	12 341	3 176	3 512	3 511	3 835	14 034	3 704
Operating result	848	206	259	280	268	1 013	269
Operating margin, %	6.9	6.5	7.4	8.0	7.0	7.2	7.3
Invested capital	3 307	3 601	4 006	3 901	3 829	3 829	3 922
Registered number of empl.	4 189	4 316	4 384	4 469	4 507	4 507	4 544
<u>Seals Division</u>							
External Sales	3 602	1 026	1 016	980	968	3 990	989
Total sales	4 157	1 198	1 188	1 118	1 114	4 618	1 160
Operating result	61	35	54	30	-5	114	9
Operating margin, %	1.5	2.9	4.6	2.7	-0.4	2.5	0.8
Invested capital	2 507	2 518	2 534	2 826	2 671	2 671	2 752
Registered number of empl.	4 301	4 283	4 257	4 262	4 162	4 162	3 882
<u>Aerospace and other businesses**</u>							
External sales	1 860	496	498	409	540	1 943	572
Total sales	3 702	994	979	800	957	3 730	1 046
Operating result	196	67	82	56	54	259	72
Operating margin, %	5.3	6.7	8.4	7.0	5.7	7.0	6.9
Invested capital	1 937	1 830	1 642	1 763	1 732	1 732	1 834
Registered number of empl.	3 223	3 198	2 932	3 001	3 007	3 007	3 001
<u>Steel Division</u>							
External Sales	1 448	449	434	366	440	1 689	496
Total sales	2 717	810	829	658	796	3 093	858
Operating result	-73	22	1	-12	-25	-14	-9
Operating margin, %	-2.7	2.7	0.1	-1.8	-3.2	-0.4	-1.0
Invested capital	1 837	1 882	1 900	1 829	1 903	1 903	1 947
Registered number of empl.	2 472	2 572	2 626	2 619	2 580	2 580	2 550

\* Previously published amounts have been restated to conform to the current Group structure of 2001 and the new definition of invested capital.

\*\* Aerospace and other businesses mainly include aerospace and forging operations.

The financial information per Division is based on SKF's Management reporting, which in certain areas differs from the Group reporting. The sum of operating results and invested capital for the Divisions therefore differs from the reported Group figures. Total sales are sales and deliveries to external and internal customers. Invested capital is defined as the sum of Inventories, external Trade Accounts Receivable, other Short-term Assets and Tangible Assets less external Trade Accounts Payable and other Short-term Liabilities.