

Press release

SKF Half-year report 2001

Further profit improvement

The SKF Group reports a profit before taxes for the first half of 2001 of MSEK 1 611 (1 509). Excluding the non-recurring items in the first quarter last year of MSEK 100, the figure is MSEK 1 611 (1 409), up 14,3%. Profit for the second quarter was MSEK 820 (739).

Outlook:

Market demand in Europe peaked in the second quarter. The North American market declined further. Total demand in the Asian region improved slightly. Over the next quarters the overall market demand for the Group is expected to decrease further in terms of volume.

Considerably lower production compared with the third quarter in 2000 is planned for the third quarter this year.

The number of employees was reduced during the first six months by 1 154 whereof 523 refer to the second quarter. The number of employees will continue to be reduced.

- Operating profit for the first half of 2001 amounted to MSEK 1 887 (1 842). The corresponding figures for the second quarter were MSEK 979 (904).
- The operating margin for the first half of 2001 amounted to 8.6% (9.3), and for the second quarter to 8.8% (9.0). Excluding non-recurring items, the operating margin was 8.6% (8.8) and 8.8% (9.0) respectively.
- Cash flow after investments before financing amounted to MSEK 1 746 (1 086). Cash flow for the second quarter was MSEK 1 249 (676).
- Net sales amounted to MSEK 22 054 (19 894), an increase of 10.9% compared with the figure for the corresponding period in 2000. Net sales for the second quarter amounted to MSEK 11 148 (10 072).
- The increase in net sales for the first half-year was attributable to: structure +0.4%, volume -0.7%, price/mix +1.9% and currency effect +9.3%. The corresponding figures for the second quarter were; structure +0.4%, volume -2.7%, price/mix +1.9% and currency effect +11.1%.
- Net profit amounted to MSEK 1 082 (924) and earnings per share to SEK 9.50 (8.12). Net profit for the second quarter was MSEK 520 (427).

The Group's financial net for the first half of 2001 was MSEK -276 (-333). Additions to tangible assets totalled MSEK 676 (531). At the end of June, the Group's inventories amounted to 23.7% (23.5) of annual sales. Group solvency was 37.6% (34.2)%. Return on capital employed for the 12-month period ended June 30 was 15.8% (14.8). Return on equity was 15.4% (14.7). The registered number of employees was 39 247 (40 648).

Compared with the corresponding period in 2000, exchange rates for the first six months of 2001, including translation effects and flows from transactions, had a positive effect on SKF's profit before taxes to an estimated amount of MSEK 225 whereof MSEK 125 refer to the second quarter of 2001.

SKF and EDS signed a contract during the quarter regarding the transfer of SKF's internal IT Services with some 700 employees to EDS. The agreement was a major step taken in line with the strategy to outsource activities that SKF does not have to handle itself. This strategy aims to reduce the Group's costs, increase flexibility and reduce capital employed.

SKF has signed an agreement with a syndicate of nine banks to obtain a five-year and USD 300 million revolving credit facility. The purpose is to replace existing credit facilities in order to get longer maturity.

The Industrial Division's external sales for the first half-year amounted to MSEK 5 097 (4 355), an increase of 17.0%. Total sales (sales and deliveries to external and internal customers) were MSEK 8 112 (7 199). The Division's operating result for the first six months was MSEK 842 (824) resulting in an operating margin of 10.4% (11.4) on total sales including internal deliveries.

The volume of sales in Europe was the same in the second quarter this year as in the corresponding period last year, but was substantially lower in North America.

SKF's sales volume to the windmill industry continues to grow strongly. SKF is today the leading supplier in Europe for spherical roller bearings and housings for the main shaft of the mills as well as for bearings for the gearboxes. There is also a very clear trend towards using spherical roller bearings of the unique Explorer design, launched by SKF two years ago.

SKF acquired the Italian company Gamfior S.p.A during the quarter. Gamfior, which has 180 employees and an annual turnover of MSEK 180, is a leading European supplier of spindles and ball screws for the machine tool industry. With this acquisition SKF became one of the world's leading suppliers of machine tool spindles.

The Automotive Division's external sales for the first half-year amounted to MSEK 5 061 (4 622), an increase of 9.5%. Total sales were MSEK 5 820 (5 250). The Division's operating result for the first six months was MSEK 201 (219) resulting in an operating margin of 3.5% (4.2) on total sales including internal deliveries.

The volume of sales to the car and light truck segment in the second quarter, both in Europe and North America, was slightly higher than in the same period a year ago. SKF's volume of sales in Europe is better than those of the overall market thanks to new businesses and the customer mix.

The volume of sales to the truck segment in Europe was lower in the second quarter and was substantially lower in North America.

The volume of sales to the Vehicle Service Market in Europe in the second quarter was on the same level as in the corresponding period last year. SKF performs better than the market in this segment as well.

SKF continues to strengthen its position as the leading supplier of bearings and seals to the world's automotive industry. The new Jaguar X-type is equipped with custom-engineered bearings and seals from the SKF Group.

Following the launch of the SKF and Bertone Drive-by-Wire car in Geneva earlier this year, a number of key automotive customers have expressed significant interest in the new technology that was shown.

The Electrical Division's external sales for the first half-year amounted to MSEK 908 (807), an increase of 12.5%. Total sales were MSEK 3 220 (3 249). The Division's operating result for the first six months was MSEK 220 (252) resulting in an operating margin of 6.8% (7.8) on total sales including internal deliveries.

Compared with the same period last year, the volume of sales in the second quarter was lower in Europe, but substantially higher in Asia. New businesses are helping to counteract the downturn to a certain extent.

SKF signed a joint venture contract with Shanghai Bearing (Group) Co. Ltd, (SBC), part of the Shanghai Electrical Group Corporation, to establish a company to manufacture and sell high-performance deep groove ball bearings. SKF has 60 percent in the new joint venture and SBC 40 percent. The market segment to be served is mainly household appliances, electric motors, automotive electrical components, power tools and two-wheelers. This is a fast-growing market in China and production is planned to start in 12 months' time.

SKF received two customer awards during the quarter; the "Bearings Supplier of the Year Award" from Siemens Automotive AG and the "The Supplier Award" from the BOSCH Group.

The Service Division's external sales for the first half-year amounted to MSEK 6 765 (6 171), an increase of 9.6%. Total sales were MSEK 7 566 (6 688). The Division's operating result for the first six months was MSEK 565 (465) resulting in an operating margin of 7.5% (7.0) on total sales including internal deliveries.

Compared with the same period last year, the volume of sales in Europe was the same in the second quarter, but was substantially lower in North America. The volume of sales in Latin America was considerably lower but slightly higher in Asia.

The service business continues to penetrate new markets for its products and services. New service contracts have been concluded with customers for example within the textile and carpet industries, food production and the petrochemical industry.

SKF Logistics Services has signed an agreement with Johnson Pump for the handling of their deliveries in Europe and also their sea- and airfreight traffic between Europe, the USA and Australia.

During the quarter, SKF acquired Nåiden Teknik AB (NTAB), a leading mechanical condition-monitoring company in Sweden. Nåiden develops and markets condition-monitoring hardware and software for customer-specific applications in hydropower, steam and gas turbines, and for marine and train applications.

The Seals Division's external sales for the first half-year amounted to MSEK 2 075 (2 042), an increase of 1.6%. Total sales were MSEK 2 427 (2 386). The Division's operating result for the first six months was MSEK 42 (89) resulting in an operating margin of 1.7% (3.7) on total sales including internal deliveries.

The Seals Division is highly dependent on the North American automotive business.

The volume of sales in North America was considerably lower in the second quarter compared with the same period last year.

The number of employees was reduced by 98 during the second quarter and by 378 over the first six first months of 2001.

The Steel Division's external sales for the first half-year amounted to MSEK 968 (883), an increase of 9.6%. Total sales were MSEK 1 682 (1 639). The Division's operating result for the first six months was MSEK -3 (23) resulting in an operating margin of -0.2% (1.4) on total sales including internal deliveries.

The volume of sales in the second quarter this year was considerably lower than in the same period last year.

Production levels were reduced and the number of shifts was decreased in Sweden and in France. The number of employees was reduced by 133 during the first six months.

The growing use of high-pressure diesel pumps has increased the demand for the Division's specially developed steel bars.

Aerospace and other businesses reported external sales of MSEK 1 146 (994), an increase of 15.3%. Total sales were MSEK 2 094 (1 973). The operating result for the first six months was MSEK 133 (149), resulting in an operating margin of 6.4% (7.6) on total sales including internal deliveries.

The aerospace business amounts to just above half of the total turnover for the unit Aerospace and other businesses. The remainder consists mainly of the forging and rings businesses in Lüchow in Germany and in Villar Perosa in Italy.

The volume of sales to the aerospace industry in the second quarter was considerably higher than in the same period last year. Strong growth was reported during the first six months for the new service centres for aerospace engines in the USA and in Italy.

SKF presented its total offering to the aerospace industry at the Paris Airshow in June. It included airframe bearings, airframe rods and struts, aeroengine bearings, seals, and elastomeric solutions. It incorporates a number of new technologies such as self-lubricating spherical bearings with ceramic-coated balls, ceramic rollers, hybrid bearings, custom-engineered elastomeric bearings, combinations of metals and elastomers into single, extremely strong components, the further development of mechatronics for Fly-by-Wire solutions and high-performance composite rods.

Parent Company

Profit before taxes for the first half of 2001 amounted to MSEK 551 (184). The company had no net sales. Investments amounted to MSEK 1 (0). As of June 30, short-term financial assets amounted to MSEK 1 (1). The average number of employees was 109 (118).

Previous Outlook statement

First quarter 2001: 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. Overall demand for the Group is expected to remain fairly flat for the second quarter.

Overhead presentation from SKF

For your convenience, an overhead presentation of SKF's second quarter result will be published on SKF's internet site. Please go to: <http://investors.skf.com/?page=presentations>.

Göteborg, July 17, 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 Nine-months report 2001 will be published on Thursday, October 18, 2001.

Further information can be obtained from:

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CONSOLIDATED FINANCIAL INFORMATION

(MSEK unless otherwise stated)

	April-June 2001	April-June 2000	Jan-June 2001	Jan-June 2000
Net sales	11 148	10 072	22 054	19 894
Cost of goods sold	-8 354	-7 684	-16 681	-15 217
Gross profit	2 794	2 388	5 373	4 677
Selling and administrative expenses	-1 835	-1 488	-3 538	-2 951
Other operating income/expense - net	13	4	45	116
Result of associated companies	7	-	7	-
Operating profit	979	904	1 887	1 842
Operating margin, %	8.8	9.0	8.6	9.3
Financial income and expense - net	-159	-165	-276	-333
Profit before taxes	820	739	1 611	1 509
Taxes	-282	-301	-502	-567
Profit after taxes	538	438	1 109	942
Minority interest	-18	-11	-27	-18
Net profit	520	427	1 082	924
Earnings per share after tax, SEK	4.56	3.75	9.50	8.12
Number of shares	113 837 767	113 837 767	113 837 767	113 837 767
Additions to tangible assets	337	282	676	531
Number of employees registered	39 247	40 648	39 247	40 648
Return on capital employed for the 12-month period ended June 30, %	15.8	14.8	15.8	14.8

CONSOLIDATED BALANCE SHEETS (MSEK)

	June 2001	Dec 2000
Intangible assets	1 979	1 545
Tangible assets	13 763	13 089
Investments and long-term financial assets	<u>1 685</u>	<u>1 404</u>
Total capital assets	17 427	16 038
Inventories	9 965	9 262
Short-term assets	10 498	9 033
Short-term financial assets	<u>3 862</u>	<u>3 481</u>
Total short-term assets	24 325	21 776
TOTAL ASSETS	41 752	37 814
Shareholders' equity	15 162	13 594
Provisions for pensions and other postretirement benefits	7 144	6 746
Provisions for taxes	2 073	1 596
Other provisions	<u>3 491</u>	<u>3 046</u>
Total provisions	12 708	11 388
Long-term loans	3 545	4 263
Other long-term liabilities, including minority interest	<u>623</u>	<u>561</u>
Total long-term liabilities	4 168	4 824
Short-term loans	826	705
Other short-term liabilities	<u>8 888</u>	<u>7 303</u>
Total short-term liabilities	9 714	8 008
TOTAL EQUITY, PROVISIONS AND LIABILITIES	41 752	37 814
Changes in Shareholders' equity:		
Opening balance January 1	13 594	11 367
Cash dividend	-598	-455
Net profit	1 082	1 962
Translation adjustments	<u>1 084</u>	<u>720</u>
Closing balance	15 162	13 594

CONSOLIDATED STATEMENTS OF CASH FLOW (MSEK)

	April-June 2001	April-June 2000	Jan-June 2001	Jan-June 2000	
Profit before taxes	820	739	1 611	1 509	
Depreciation on tangible assets and goodwill amortization	449	394	887	803	
Net gain on sales of tangible assets and businesses	4	20	-83	-126	
Result of associated companies	-7	-	-7	-	
Taxes	-54	-121	-58	-166	
Changes in working capital	420	-26	92	-513	
Cash flow from operations	1 632	1 006	2 442	1 507	
Investments in tangible assets and businesses	-365	-407	-806	-657	
Sales of tangible assets and businesses	8	89	160	291	
Changes in equity securities	-26	-12	-50	-55	
Cash flow after investments before financing	1 249	676	1 746	1 086	
Change in loans	35	-418	-850	-493	
Change in pensions	-13	-43	-9	-35	
Change in long-term financial assets	6	-2	-54	-13	
Cash dividends, AB SKF shareholders	-598	-455	-598	-455	
Cash effect on short-term financial assets	679	-242	235	90	
Change in short-term financial assets					
April 1/January 1	3 128	2 300	3 481	1 976	
Cash effect	679	-242	235	90	
Exchange rate effect	55	8	146	0	
June 30	3 862	2 066	3 862	2 066	
Change in net interest-bearing liabilities					
	Opening balance	Exchange rate effect	Change in loans/assets	Acquired and sold companies	Closing balance
Loans, long- and short-term	4 968	253	-850	-	4 371
Provisions for pensions	6 746	405	-9	2	7 144
Financial assets, long-term	-1 076	-137	-54	-1	-1 268
short-term	-3 481	-146	-235	-	-3 862
Net interest-bearing liabilities	7 157	375	-1 148	1	6 385

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	2/01	Half- year 2001
Net sales	36 693	9 822	10 072	9 495	10 459	39 848	10 906	11 148	22 054
Cost of goods sold	-28 822	-7 533	-7 684	-7 103	-7 823	-30 143	-8 327	-8 354	-16 681
Gross profit	7 871	2 289	2 388	2 392	2 636	9 705	2 579	2 794	5 373
Gross margin, %	21.5	23.3	23.7	25.2	25.2	24.4	23.6	25.1	24.4
Selling & admin. expenses	-5 754	-1 463	-1 488	-1 541	-1 728	-6 220	-1 703	-1 835	-3 538
Other operating income/ expense - net	403	112	4	40	26	182	32	13	45
Result of associated companies	-	-	-	-	7	7	-	7	7
Operating profit	2 520	938	904	891	941	3 674	908	979	1 887
Operating margin, %	6.9	9.5	9.0	9.4	9.0	9.2	8.3	8.8	8.6
Financial income & exp. - net	-751	-168	-165	-159	-180	-672	-117	-159	-276
Profit before taxes	1 769	770	739	732	761	3 002	791	820	1 611
Taxes	-650	-266	-301	-197	-237	-1 001	-220	-282	-502
Profit after taxes	1 119	504	438	535	524	2 001	571	538	1 109
Minority interest	-8	-7	-11	-29	8	-39	-9	-18	-27
Net profit	1 111	497	427	506	532	1 962	562	520	1 082
Earnings/loss per share after tax, SEK	9.76	4.37	3.75	4.44	4.67	17.23	4.94	4.56	9.50
Return on capital employed for the latest 12-month period, %	11.2	13.1	14.8	15.8	16.2	16.2	15.8	15.8	15.8
Solvency, %	33.8	34.1	34.2	35.6	37.2	37.2	38.7	37.6	37.6
Net worth per share, SEK	100	103	104	113	119	119	131	133	133
Additions to tangible assets	1 230	249	282	394	463	1 388	339	337	676
Registered number of employees	40 637	40 672	40 648	40 512	40 401	40 401	39 770	39 247	39 247

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	2/01	Half-year 2001
Industrial Division									
External Sales	8 115	2 197	2 158	2 082	2 290	8 727	2 579	2 518	5 097
Total sales	13 190	3 483	3 716	3 490	3 855	14 544	4 128	3 984	8 112
Operating result	1 029	389	435	424	417	1 665	412	430	842
Operating margin, %	7.8	11.2	11.7	12.1	10.8	11.4	10.0	10.8	10.4
Invested capital	6 300	6 410	6 462	6 624	6 711	6 711	7 071	7 139	7 139
Registered number of empl.	10 330	10 389	10 497	10 567	10 555	10 555	10 540	10 389	10 389
Automotive Division									
External Sales	8 552	2 320	2 302	2 037	2 273	8 932	2 486	2 575	5 061
Total sales	9 627	2 565	2 685	2 338	2 574	10 162	2 890	2 930	5 820
Operating result	172	110	109	50	69	338	98	103	201
Operating margin, %	1.8	4.3	4.1	2.1	2.7	3.3	3.4	3.5	3.5
Invested capital	5 340	5 377	5 433	5 726	5 510	5 510	6 029	6 000	6 000
Registered number of empl.	7 843	7 842	7 818	7 842	7 860	7 860	7 733	7 604	7 604
Electrical Division									
External Sales	1 475	404	403	372	396	1 575	451	457	908
Total sales	6 066	1 580	1 669	1 461	1 558	6 268	1 601	1 619	3 220
Operating result	246	106	146	139	113	504	107	113	220
Operating margin, %	4.0	6.7	8.7	9.5	7.3	8.0	6.7	7.0	6.8
Invested capital	3 492	3 476	3 304	3 452	3 367	3 367	3 577	3 593	3 593
Registered number of empl.	6 449	6 412	6 049	6 037	6 002	6 002	5 875	5 779	5 779
Service Division									
External Sales	11 380	2 930	3 241	3 205	3 468	12 844	3 311	3 454	6 765
Total sales	12 341	3 176	3 512	3 511	3 835	14 034	3 704	3 862	7 566
Operating result	848	206	259	280	268	1 013	269	296	565
Operating margin, %	6.9	6.5	7.4	8.0	7.0	7.2	7.3	7.7	7.5
Invested capital	3 307	3 601	4 006	3 901	3 829	3 829	3 922	3 792	3 792
Registered number of empl.	4 189	4 316	4 384	4 469	4 507	4 507	4 544	4 517	4 517
Seals Division									
External Sales	3 602	1 026	1 016	980	968	3 990	989	1 086	2 075
Total sales	4 157	1 198	1 188	1 118	1 114	4 618	1 160	1 267	2 427
Operating result	61	35	54	30	-5	114	9	33	42
Operating margin, %	1.5	2.9	4.6	2.7	-0.4	2.5	0.8	2.6	1.7
Invested capital	2 507	2 518	2 534	2 826	2 671	2 671	2 752	2 723	2 723
Registered number of empl.	4 301	4 283	4 257	4 262	4 162	4 162	3 882	3 784	3 784
Steel Division									
External Sales	1 448	449	434	366	440	1 689	496	472	968
Total sales	2 717	810	829	658	796	3 093	858	824	1 682
Operating result	-73	22	1	-12	-25	-14	-9	6	-3
Operating margin, %	-2.7	2.7	0.1	-1.8	-3.2	-0.4	-1.0	0.7	-0.2
Invested capital	1 837	1 882	1 900	1 829	1 903	1 903	1 947	1 888	1 888
Registered number of empl.	2 472	2 572	2 626	2 619	2 580	2 580	2 550	2 447	2 447
Aerospace and other businesses**									
External sales	1 860	496	498	409	540	1 943	572	574	1 146
Total sales	3 702	994	979	800	957	3 730	1 046	1 048	2 094
Operating result	196	67	82	56	54	259	72	61	133
Operating margin, %	5.3	6.7	8.4	7.0	5.7	7.0	6.9	5.8	6.4
Invested capital	1 937	1 830	1 642	1 763	1 732	1 732	1 834	1 904	1 904
Registered number of empl.	3 223	3 198	2 932	3 001	3 007	3 007	3 001	2 995	2 995

* 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.