

# Press release

## **SKF - Half-year report 1999**

### **SKF's improvement continues**

SKF's profit improvement continues. Operating margin for the first half-year of 1999 amounted to 5.3% and in the second quarter to 5.5%. Profit improvement, compared to the first quarter, comes from internal cost reductions, increased efficiency as well as from a more favourable price/mix development.

SKF reported a strong cash flow after investments before financing for the first six months of the year. It amounted to MSEK 845 (-697).

Sales volumes continued to weaken during the second quarter. There are no signs yet of improved market demand from the Group's main markets, except from Asia, where the improvements continue.

- \* The SKF Group's consolidated profit after financial income and expense for the first half-year 1999 totalled MSEK 618 compared with MSEK 817 in the corresponding period of 1998. Profit in the second quarter was MSEK 345 (351).
- \* The Group's operating profit in the first half of 1999 amounted to MSEK 1 003 (1 308). Operating profit in the second quarter of 1999 was MSEK 527 (630).
- \* The Group's net sales declined 1.3% during the first six months of 1999 from MSEK 19 171 to MSEK 18 920. Net sales during the second quarter totalled MSEK 9 612 (9 695).
- \* The decrease in net sales was attributable to volume -5.5%; price/mix +0.5% and currency effect +3.5%.
- \* Net profit for the Group amounted to MSEK 375 (491) and earnings per share after tax amounted to SEK 3.30 (4.30).

The SKF Group's financial net for the first half 1999 was MSEK -385 (-491). Additions to tangible assets totalled MSEK 582 (991). At the end of June, the Group's inventories amounted to 25.3% (28.6) of annual sales. The return on capital employed during the twelve-month period ended June 30 was -4.1% (11.7). The return on shareholders' equity was -15.3 % (11.4). Group solvency was 29% (32.9). The average number of employees was 41 886 (44 985) and the registered number of employees was 42 264 (46 407).

## **Programmes according to plan**

The implementation of the comprehensive cost cutting programme and the restructuring programme is running according to plan. During the second quarter of 1999, a further 2 100 employees left the Group. This means that 3 200 employees have left the Group this year.

During the first half of 1999, SKF sold its textile machinery components business in Germany and Singapore; its tapered bearing manufacturing operations in Glasgow, KY, USA, and, in early July, the forging operation in Arvika, Sweden.

The Group also announced during the second quarter its intention to investigate the feasibility of a joint venture with the US chrome steel ball manufacturer NN Ball & Roller Inc. and the German bearing company FAG Kugelfischer Georg Schäfer AG, for the manufacturing and sale of chrome steel balls in Europe. Such a joint venture would enhance competitiveness in both cost and quality.

## **Bearings**

Operating profit for rolling bearings for the first half of 1999 amounted to MSEK 813 (1 019) and total sales to MSEK 16 018 (16 356). Second quarter operating profit amounted to MSEK 485 (477) on net sales of MSEK 8 035 (8 255).

**The Industrial Division's** external sales were MSEK 4 204 (4 152). Sales during the second quarter were MSEK 2 078 (2 087). Sales continued to weaken during the second quarter. The heavy industry sector as well as the manufacturing industry in Western Europe and the US have not yet recovered.

**The Automotive Division's** external sales were MSEK 4 420 (4 433). Sales for the second quarter totalled MSEK 2 268 (2 290). Demand from the car/light truck manufacturers in Europe and the US is still on a high level. SKF sales in the US showed a good growth. However, in Europe the customer mix is not to SKF's advantage.

The heavy truck industry is still strong in the US. Western Europe is holding up but SKF sales are somewhat weaker due to the exiting of unprofitable businesses.

**The Electrical Division's** external sales were MSEK 800 (853). Sales for the second quarter reached MSEK 394 (416). The negative sales trend from the first quarter of the year continued during the second quarter. Demand is still weak in both the Western European and US markets.

**The Service Division's** external sales were MSEK 5 626 (5 788). The sales for the second quarter reached MSEK 2 878 (2 916).

The destocking in the distribution channels in Western Europe and USA is still having a negative impact on Group sales and profits.

The growth in sales in Asia, that started during the first quarter 1999, also continued to improve during the second quarter. The demand for bearings continues, however, to be weak in Latin America, The Middle East and Africa. Also, in Central and Eastern Europe, the demand continues to be weak, mainly due to the economic and political unrest in the region.

### **Seals**

Operating profit for seals for the first six months of 1999 was MSEK 96 (152) and total sales were MSEK 2 237 (2 083). Profit and sales for the second quarter were MSEK 27 (73) and MSEK 1 229 (1 069) respectively.

The Seals Division is making a major restructuring in the US this year. The results are depressed by high costs and internal disturbances, which have affected the delivery performance, specially to the aftermarket. In Europe, the declining market demand resulted in lower profits.

### **Steel**

Operating profit for the Steel Division for the first half 1999 reached MSEK 25 (179) on sales of MSEK 2 194 (2 638). Profit and sales for the second quarter were MSEK 3 (81) and MSEK 1 069 (1 287) respectively.

Sales are still negatively affected by the low demand for bearing steel and components. Destocking in the marketplace as well as lower production to reduce inventories have contributed to the low sales figures. Ovako Steel has increased its market share as supplier to bearing manufacturers, other than SKF, both in Europe and the US. This development will start to give results towards the end of this year. The forging unit in Arvika, Sweden, was sold in July.

### **Parent Company**

Profit after financial income and expense of the Parent Company in the first half of 1999 amounted to MSEK 484 (220). The Company had no net sales. Investments amounted to MSEK 2 (11). As of June 30, short-term financial assets amounted to MSEK 2 (3), a decline of MSEK 3 since January 1. The average number of employees was 135 (156).

Göteborg, July 15, 1999  
Aktiebolaget SKF  
(publ.)

Sune Carlsson  
President

Enclosures:

Consolidated financial information

Consolidated balance sheets

Consolidated statements of cash flow

Consolidated financial information - yearly and quarterly comparisons

This report has not been audited by the Company's auditors.

The report on SKF's earnings for the first nine months of 1999 will be published on Tuesday, October 19, 1999.

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# CONSOLIDATED FINANCIAL INFORMATION

(MSEK unless otherwise stated)

	Jan-June 1999		Jan-June 1998	
	MSEK	%	MSEK	%
Net sales	18 920	100.0	19 171	100.0
Cost of goods sold	<u>-14 899</u>	<u>-78.7</u>	<u>-14 482</u>	<u>-75.5</u>
<b>Gross profit</b>	<b>4 021</b>	<b>21.3</b>	4 689	24.5
Selling and administrative expenses	<b>-3 091</b>	<b>-16.3</b>	-3 340	-17.4
Other operating income/expense - net	73	0.3	-34	-0.3
Result of associated companies	<u>-</u>	<u>-</u>	<u>-7</u>	<u>-</u>
<b>Operating profit</b>	<b>1 003</b>	<b>5.3</b>	1 308	6.8
Financial income and expense - net	<u>-385</u>	<u>-2.0</u>	<u>-491</u>	<u>-2.6</u>
<b>Profit after financial income and expense</b>	<b>618</b>	<b>3.3</b>	817	4.2
Taxes	<u>-242</u>	<u>-1.3</u>	<u>-367</u>	<u>-1.9</u>
<b>Profit after taxes</b>	<b>376</b>	<b>2.0</b>	450	2.3
Minority interest	<u>-1</u>	<u>-</u>	<u>41</u>	<u>0.3</u>
<b>Net profit for the period</b>	<b>375</b>	<b>2.0</b>	491	2.6
Earnings per share after tax, SEK	<b>3.30</b>		4.30	
Number of shares	<b>113 837 767</b>		113 837 767	
Additions to tangible assets	<b>582</b>		991	
Number of employees registered	<b>42 264</b>		46 407	
Return on capital employed for the 12-month period ended June 30, %	<b>-4.1</b>		11.7	

**CONSOLIDATED BALANCE SHEETS (MSEK)**

	<b>June 1999</b> -----	Dec 1998 -----
Intangible assets	<b>2 144</b>	2 239
Tangible assets	<b>13 807</b>	14 568
Investments and long-term financial assets	<u><b>1 113</b></u>	<u>1 084</u>
<b>Total capital assets</b>	<b>17 064</b>	17 891
Inventories	<b>9 460</b>	10 183
Short-term assets	<b>9 678</b>	8 588
Short-term financial assets	<u><b>2 370</b></u>	<u>2 353</u>
<b>Total short-term assets</b>	<b>21 508</b>	21 124
 <b>TOTAL ASSETS</b>	 <b>38 572</b>	 39 015
 <b>Shareholders' equity</b>	 <b>10 809</b>	 10 932
Provisions for pensions and other postretirement benefits	<b>6 480</b>	7 139
Provisions for taxes	<b>1 522</b>	1 488
Other provisions	<u><b>3 752</b></u>	<u>4 095</u>
<b>Total provisions</b>	<b>11 754</b>	12 722
Long-term loans	<b>4 856</b>	4 842
Other long-term liabilities, including minority interest	<u><b>475</b></u>	<u>455</u>
<b>Total long-term liabilities</b>	<b>5 331</b>	5 297
Short-term loans	<b>3 114</b>	3 337
Other short-term liabilities	<u><b>7 564</b></u>	<u>6 727</u>
<b>Total short-term liabilities</b>	<b>10 678</b>	10 064
 <b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	 <b>38 572</b>	 39 015

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

	<b>Jan-June 1999</b>	<b>Jan-June 1998</b>
	<hr/>	<hr/>
Profit after financial income and expense	<b>618</b>	817
Depreciation on tangible assets and goodwill amortization	<b>881</b>	809
Net gain/loss on sales of tangible assets	<b>-37</b>	15
Taxes	<b>-176</b>	-195
Changes in working capital	<b>-95</b>	-923
<b>Cash flow from operations</b>	<b>1 191</b>	523
Investments in tangible assets and businesses	<b>-584</b>	-1 238
Sales of tangible assets and businesses	<b>238</b>	18
<b>Cash flow after investments before financing</b>	<b>845</b>	-697
Change in loans	<b>-138</b>	-176
Change in other long-term assets, liabilities and provisions - net	<b>-437</b>	34
Cash dividends, AB SKF shareholders	<b>-228</b>	-598
<b>Cash effect on short-term financial assets</b>	<b>42</b>	-1 437
<b>Change in short-term financial assets</b>		
December 31	<b>2 353</b>	3 931
Cash effect	<b>42</b>	-1 437
Exchange rate effect	<b>-25</b>	-2
June 30	<b>2 370</b>	2 492

**Change in net interest-bearing liabilities**

	<b>Opening balance</b>	<b>Net cash effect, ytd</b>	<b>Change in loans/assets</b>	<b>Exchange rate effect</b>	<b>Closing balance</b>
Loans, long- and short-term	8 179		-138	-71	7 970
Provisions for pensions	7 139		-412	-247	6 480
Financial assets, long-term	-884		-11	-20	-915
short-term	-2 353	-42		25	-2 370
Net interest-bearing liabilities	12 081	-42	-561	-313	11 165

# **CONSOLIDATED FINANCIAL INFORMATION - QUARTERLY COMPARISONS**

(MSEK unless otherwise stated)

	Full year <u>1997</u>	<u>1/98</u>	<u>2/98</u>	<u>3/98</u>	<u>4/98</u>	Full year <u>1998</u>	<u>1/99</u>	<u>2/99</u>
<b>GROUP</b>								
Net sales	36 922	9 476	9 695	9 075	9 442	37 688	9 308	9 612
Operating profit/loss	2 949	678	630	-706	-1 601	-999	476	527
Profit/loss after financial income and expense	2 106	466	351	-1 064	-1 816	-2 063	273	345
Earnings/loss per share after tax, SEK	13.70	2.30	2.00	-8.05	-10.65	-14.40	1.60	1.70
Additions to tangible assets	2 664	496	495	574	583	2 148	262	320

## **BUSINESS AREAS**

### Total sales

Bearings*	31 807	8 101	8 255	7 773	8 121	32 250	7 983	8 035
Seals	3 779	1 014	1 069	1 009	1 037	4 129	1 008	1 229
Steel*	4 747	1 351	1 287	1 053	1 079	4 770	1 125	1 069

### Operating profit/loss

Bearings*	2 281	542	477	-590	-1 491	-1 062	328	485
Seals	377	79	73	-31	-56	65	69	27
Steel*	338	98	81	-57	-140	-18	22	3

### Invested capital

Bearings*	21 858	22 739	23 217	23 372	23 079	23 079	22 401	22 319
Seals	2 456	2 566	2 611	2 633	2 775	2 775	2 841	2 932
Steel*	3 083	3 262	3 285	3 243	3 169	3 169	3 191	3 027

## **KEY FIGURES**

Net worth per share, SEK	111	112	110	103	96	96	95	95
Solvency, %	33.5	33.7	32.9	31.2	29.0	29.0	29.2	29.0
Return on capital employed for the 12-month period ended June 30, %	13.0	12.6	11.7	6.5	-2.8	-2.8	-3.6	-4.1

\* Previously published amounts have been restated to conform to the current Group structure.