

Press release

SKF expands action programme to improve profitability

SKF is today announcing an action programme which, together with the one launched last year, will increase the Group's annual operating earnings by SEK 1.5 billion for the year 2000 and beyond. The company will take provisions of more than SEK 1 billion, including some depreciation of assets, during the second half of 1998. This is on top of the SEK 700 million provision already made in 1997. This process will reduce the number of employees by about 4,000 in total.

Intense price competition and an unfavourable sales mix, resulted in weak first-quarter earnings in 1998. This trend, in conjunction with developments in Asia, means that earnings in the second quarter will be below the level of the first quarter.

The action programme now being introduced includes the restructuring or elimination of operations with unsatisfactory profitability. This will lead to factory closures and closures of production channels within factories. The programme also involves reduction of personnel within the different central units of the Group. At the same time, the programme includes greater focus on service.

"Our objective is to reach an operating margin of 10 percent over a business cycle," says Peter Augustsson, President and CEO of SKF. "Our current margin of between 6 and 7 percent is not good enough, so we have initiated a comprehensive programme that will enable us to reach our objective. We are addressing our cost situation, our working capital, our structure and redefining vertical integration."

The Automotive business will be restructured. The division accounts for about 20 percent of the Group's total revenues. Sales of bearings to the automotive industry are characterised by unsatisfactory profit margins, but SKF Automotive consists of a number of different businesses - wheels, engines and other applications - all with varying degrees of profitability. Products and businesses with insufficient profitability will be restructured or phased out.

To grow its bearing operations, SKF will strengthen its focus on the service business. SKF will continue to offer a full product range and also broaden the scope of business by creating new service concepts.

"I can see substantial growth potential for SKF within the service and after-market areas," Peter Augustsson says. "These operations offer higher margins. With both a



stable customer base and a strong brand name, we have the opportunity to become more active further ahead in the value chain. In my opinion, the service business will show substantially greater growth than the market as a whole."

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For further information, please contact:

Lars G Malmer, SKF Group Communication, tel +46-(0)705-371541

Åke Svanberg, SKF Group Communication, tel +46-(0)31-3372005

Aktiebolaget SKF, SE-415 50 Göteborg, Sweden

tel: +46-31-3371000, fax: +46-31-3372832, www.skf.com