Press release

SKF - Half-year report 1998

* Income after financial income and expense of the SKF Group in the first half of 1998 amounted to SEK 817 m, compared with SEK 1 103 m in the first half of 1997. Income in the second quarter of 1998 amounted to SEK 351 m (602).

* Group operating income in the first half of 1998 amounted to SEK 1 308 m (1 557). Operating income in the second quarter of 1998 was SEK 630 m (862).

* Net sales during the first six months of 1998 amounted to SEK 19 171 m (18 747), an increase of 2 percent compared with net sales in the corresponding period last year. Net sales during the second quarter amounted to SEK 9 695 m (9 883).

* The 2-percent increase in net sales was attributable to the following components: volume, +7 percent; price/mix (volume shifts between different customer segments and markets with different price levels), -3 percent; foreign exchange effects in connection with translations to Swedish kronor, -1 percent; and structural changes (operations that were added or divested), -1 percent. The structural change between the first six months of 1997 and 1998 was mainly attributable to the sale of FlexLink Systems. In the first six months of 1997, this company accounted for approximately SEK 280 m of net sales and SEK 80 m of income after financial income and expense.

* The trend of prices, which has been negative during the past two years, has now stabilized and has been unchanged since the early part of the year.

* The mix for the Group continued to develop negatively, however, with a further weakening of demand in the industrial after-markets in Western Europe, the United States and Asia. In addition, demand from heavy industry was also softer. As a result, segments comprising between 35 and 40 percent of the Group's total sales of rolling bearings weakened during the quarter.

* Operations in Asia had a negative impact on Group income after financial income and expense, amounting to more than SEK 100 m compared with first-half 1997 earnings. In addition, earnings for textile machinery components, an operation that is highly dependent on Asian business, declined by approximately SEK 50 m in the first half of 1998 compared with the corresponding 1997 period.

* During the second quarter SKF introduced a package of corrective measures that is designed to increase operating income by SEK 1.5 billion in two years. More than SEK 1 billion is expected to be reserved for this purpose during the second half of the current year. The package includes divesting unprofitable businesses and strengthening profitable ones, increasing the emphasis on service activities, and reinforcing the savings program initiated in 1997.

* The return on capital employed in the most recent 12-month period amounted to 11.7 percent (13.1).

* Earnings per share, after tax, amounted to SEK 4.30 (5.90)

Bearings

Operating income attributable to rolling bearings in the first half of 1998 amounted to SEK 1 029 m (1 244). Net sales during the same period totaled SEK 16 457 m (16 201). Second-quarter operating income amounted to SEK 481 m (676) on net sales of SEK 8 304 m (8 507).

Demand for the Group's products in the general machinery and specialized industries customer segments continued to develop favorably also during the second quarter in both the United States and Western Europe.

In contrast, demand for rolling bearings from customers in the heavy industry sector weakened. The downward trend became more pronounced during the second quarter of the year, due primarily to the decline in demand from Southeast Asia. Direct deliveries to markets there, as well as to the customers in Western Europe and the United States who in turn supply these markets were markedly lower.

Demand in the industrial after-market in Western Europe began to decline during the first quarter. The downturn continued and became more severe during the second quarter. At the same time, demand in this segment also continued to be weak in the United States, due to structural changes in the distribution area.

In Southeast Asia, which for SKF is characteristically an "after-market", demand continued to be very low, as a result of the extremely weak trend of the economy in the region. High interest rates, inadequate liquidity and nearly prohibitive costs of hedging movements in foreign exchange rates caused distributors in these countries to continue to reduce their inventories, rather than buy new products.

Demand from the automotive industry in Western Europe and the United States continued to develop favorably again in the second quarter. No signs of weakening are visible and production of heavy trucks in the United States is at a record-high level. Capacity is gradually being built up in the new plant in the U.S. that supplies Hub Units for both cars and trucks.

During the second quarter the production of Hub Units that SKF's South Korean partner, Hanwha, had earlier manufactured on license from SKF was transferred to a company jointly owned by SKF and Hanwha. SKF has an 80-percent share in this company.

The South Korean company is being affected severely by the economic crisis in the country. Accordingly, to increase the work load in the plant, SKF is now accelerating the transfer of production, from Italy to South Korea, of certain types of bearings that are currently being made in Italy for Korean customers.

Group net sales to customers in the SKF Electrical Division - i e manufacturers of electric motors and two-wheelers, among other products - continued to develop favorably. In Western Europe demand from the automotive industry was the primary factor responsible for increased sales, but demand from such other customer segments as the manufacturers of two-wheelers and white goods, also rose. In the United States the white goods sector was the primary contributor to increased sales and market shares.

Low capacity utilization in the plants in South Korea and Indonesia in the second quarter, as well as cutbacks in production in a number of plants, due to lower shipments to Asia and to customers in other parts of the world who deliver to customers in Asia, resulted in a negative development of Group manufacturing costs.

Seals
Operating income attributable to seals in the first half of 1998 amounted to SEK 152 m (202). Net sales during the same period totaled SEK 2 083 m (1 928). Income in the second quarter amounted to SEK 73 m (115) on net sales of SEK 1 069 m (1 007).

Demand for seals in the industrial after-market in the U.S. continued to be weak, due mainly to the structural changes that occurred in the distribution area. Demand from the automotive after-market, where adjustments of inventories in the distribution segment are under way, was weak during the second quarter of the year.

The weaker trend in the U.S., which accounts for approximately two thirds of the Seals Division's sales, could not be offset by the more positive trend in Western Europe. In this market the Division sells mainly to Western European car and truck manufacturers and accordingly is able to benefit from the strong growth of the automotive industry there. Deliveries to the after-market are limited.

Special steels
Operating income attributable to special steels in the first half of 1998 amounted to SEK 101 m (117). Net sales during the same period totaled SEK 1 779 m (1 775). Second-quarter income amounted to SEK 50 m (80) on net sales of SEK 863 m (936).

Demand for the Steel Division's products softened during the second quarter. Production in the steel mill, rolling mills and bar mills was high during the second quarter. The trend of prices for special steels was stable during the period. But prices of scrap and other raw materials were higher than in the same period last year, with consequent pressure on Division margins.

The expansion and running in of the new tube mill in Hofors continued on schedule. The first tubes were rolled during the period and the new mill is being inaugurated in August. The running-in of the new mill is causing certain additional expenses. These expenses were charged against Division earnings for the period and will also affect second-half earnings.

Net sales of the Division's products are now divided quite evenly between customers in SKF units and other customers. However, the Division's objective is to increase the percentage of customers that are not members of the SKF Group.

Earnings
Operating income in the SKF Group, after depreciation, in the first half of 1998 amounted to SEK 1 308 m (1 557). The financial net was SEK -491 m (-454) for the six-month period, and SEK -279 m (-260) in the second quarter. Earnings per share after tax was SEK 4.30 (5.90). Additions to tangible capital assets amounted to SEK 991 m (1 415). The Group's inventories, calculated as a percentage of annual sales, amounted to 28.6 percent (29.5) at the end of the period. The return on shareholders' equity was 11.4 percent (13.0) and the solvency was 32.9 percent (32.7). The Group had 46 407 (43 022) registered employees at the end of the period. The 1998 figure includes 3 458 persons in operations that were not part of the SKF Group on the same date in 1997.

Program designed to improve profitability
During the second quarter, against the background of the negative trend of Group earnings and the gradually increasing competitive pressure in the bearing market, the Group initiated a package of measures designed to increase the operating margin from the current level to an average of 10 percent over an economic cycle, with the present capital structure. One of the measures involves divesting unprofitable or inadequately profitable businesses to make room for further concentration on bearing businesses where SKF has competitive advantages and is profitable. In the Automotive Division, for example, "disposable" business amounting to approximately SEK 800 m has been identified. The liquidation of this business, as well as the effects of other efficiency-improvement measures, will improve earnings in the automotive sector by approximately SEK 500 m on an annual basis.

The focus on service activities constitutes another measure in the package. A special division with global responsibility is being formed. A key task of this division will be to strengthen the Group's service concept and the emphasis on products and services with greater added-value for the industrial after-markets and end-customers. The package also includes reducing Group inventories by SEK 1 billion, trimming the line of bearing products by 20 percent and strengthening the cost-savings program initiated last year. The number of employees is to be reduced by a total of 4 000 in two years. In addition to the SEK 750 m that was reserved in 1997, more than SEK 1 billion is expected to be provided for during the second half of 1998 for the write-down of assets and for compensations. Combined, these measures are designed to increase operating income by SEK 1.5 billion in two years.

New organization
Effective August 1, the Group's bearing operations are being organized in four Divisions: Automotive, Electrical, Industrial and Service. Each of the four divisions will have global responsibility for its activities. In addition the Group will have - as before - a special steels division and a seals division.

Parent Company
Income after financial income and expense of the Parent Company in the first half of 1998 amounted to SEK 220 m (113). The Company had no net sales. Investments amounted to SEK 11 m (5). As of June 30, short-term financial assets amounted to SEK 3 m (14), a decline of SEK 31 m since January 1. The average number of employees was 156 (165).

Göteborg, July 15, 1998
Aktiebolaget SKF
(publ.)

Peter Augustsson
Managing Director

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 SKF Group earnings for the first nine months of 1998 will be published on Wednesday, October 21, 1998.

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Enclosure 1

CONSOLIDATED FINANCIAL INFORMATION (SEK m)

	Jan-June 1998		Jan-June 1997	
	SEK m	**%**	SEK m	%
Net sales	**19 171**	**100.0**	18 747	100.0
Cost of goods sold	**-14 482**	**75.5**	-13 839	73.8
Gross income	**4 689**	**24.5**	4 908	26.2
Selling and administrative expenses	**-3 340**	**17.4**	-3 369	18.0
Other operating income/expense - net	**-34**	**0.2**	18	0.1
Result of associated companies	**-7**	-	-	-
Operating income	**1 308**	**6.8**	1 557	8.3
Financial income and expense - net	**-491**	**2.6**	-454	2.4
Income after financial income and expense	**817**	**4.3**	1 103	5.9
Taxes	**-367**	**1.9**	-444	2.4
Income after taxes	**450**	**2.3**	659	3.5
Minority interest	**41**	**0.2**	1	-
Net income	**491**	**2.6**	660	3.5

Earnings per share after tax, SEK*	**4.30**	5.90
Number of shares*	**113 837 767**	113 837 767
Additions to tangible capital assets	**991**	1 415
Number of employees registered**	**46 407**	43 022
Return on capital employed for the 12-month period ended June 30, %	**11.7**	13.1

* Earnings per share as at June 1997 have been recalculated to take into account the conversion of 838 211 shares in July 1997.

** Acquired and sold companies and businesses have led to a net increase of 3 458 employees in 1998 compared with 1997.

Enclosure 2

CONSOLIDATED BALANCE SHEETS (SEK m)

	June 1998	Dec 1997
Intangible capital assets	**1 188**	1 291
Tangible capital assets	**13 878**	13 631
Financial capital assets	**1 203**	1 185
Total capital assets	**16 269**	16 107
Inventories	**10 698**	9 924
Short-term assets	**9 303**	8 478
Short-term financial assets	**2 492**	3 931
Total short-term assets	**22 493**	22 333
TOTAL ASSETS	**38 762**	38 440
Shareholders' equity	**12 472**	12 588
Provisions for pensions and other postretirement benefits	**6 232**	6 171
Provisions for taxes	**1 791**	1 642
Other provisions	**2 948**	2 981
Total provisions	**10 971**	10 794
Long-term loans	**5 937**	6 538
Other long-term liabilities, including minority interest	**351**	359
Total long-term liabilities	**6 288**	6 897
Short-term loans	**2 173**	1 853
Other short-term liabilities	**6 858**	6 308
Total short-term liabilities	**9 031**	8 161
SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES	**38 762**	38 440

Enclosure 3

CONSOLIDATED STATEMENTS OF CASH FLOW* (SEK m)

	Jan-June 1998	Jan-June 1997
Operating income	**1 308**	1 557
Depreciation on tangible capital assets and goodwill amortization	**809**	811
Net loss on sales of businesses and tangible capital assets	**15**	4
Changes in working capital	**-873**	-1 787
Cash flow from operations	**1 259**	585
Investment in companies and additions to tangible capital assets	**-1 238**	-1 648
Sales of businesses and tangible capital assets	**18**	88
Cash flow after investments	**39**	-975
Financial income and expense - net	**-491**	-454
Taxes	**-195**	-338
Change in other long-term assets, liabilities and provisions - net	**53**	304
Cash dividends, AB SKF shareholders	**-598**	-593
Translation adjustments	**43**	-107
Cash flow before financing	**-1 149**	-2 163
Change in loans	**-290**	1 641
Change in short-term financial assets	**-1 439**	-522

* The consolidated statements of cash flow have been adjusted for acquired and sold companies and businesses.

Enclosure 4

CONSOLIDATED FINANCIAL INFORMATION - QUARTERLY COMPARISONS

(SEK m unless otherwise stated)

	Full year 1995	Full year 1996	1/97	2/97	3/97	4/97	Full year 1997	1/98	2/98
GROUP									
Net sales	36 700	33 589	8 864	9 883	8 837	9 338	36 922	9 476	9 695
Operating income	4 000	2 874	695	862	683	709	2 949	678	630
Income after financial income and expense	3 389	2 412	501	602	423	580	2 106	466	351
Earnings per share after tax, SEK	18.10	14.90	2.60	3.30	3.65	4.15	13.70	2.30	2.00
Additions to tangible capital assets	2 296	2 710	570	845	598	651	2 664	496	495
BUSINESS AREAS									
Total sales									
Bearings	31 003	29 204	7 694	8 507	7 707	8 083	31 991	8 153	8 304
Seals	3 456	3 125	921	1 007	908	943	3 779	1 014	1 069
Special steels	4 168	3 271	839	936	717	899	3 391	916	863
Operating income									
Bearings	3 198	2 482	568	676	554	496	2 294	548	481
Seals	307	242	87	115	87	88	377	79	73
Special steels	439	153	37	80	47	78	242	51	50
Invested capital*									
Bearings	19 562	20 827	23 411	23 572	22 312	22 525	22 525	23 428	23 881
Seals	2 199	2 082	2 309	2 376	2 336	2 456	2 456	2 566	2 611
Special steels	2 202	2 108	2 222	2 346	2 307	2 416	2 416	2 573	2 621
KEY FIGURES									
Net worth per share, SEK	89	99	106	104	106	111	111	112	110
Solvency, %	31.2	34.3	33.5	32.7	33.1	33.5	33.5	33.7	32.9
Return on capital employed for the 12-month period ended June 30, %	19.0	14.7	13.3	13.1	13.2	13.0	13.0	12.6	11.7

* Invested capital is defined as the sum of Goodwill, Inventories, Trade Accounts Receivable and Tangible Capital Assets less Trade Accounts Payable and Customer Advances at the end of the period.