

# Press release

## SKF nine-months report 2000

### *Further margin improvement*

The operating margin for the SKF Group for the first nine months of 2000 amounted to 9.3 % (6.1), and for the third quarter to 9.4% (7.9). Excluding capital gains, the operating margin was 9.0% (5.3), and 9.4% (6.3) respectively.

Market demand continued to increase in Europe during the third quarter 2000. Demand in North America and in Asia has weakened.

The SKF Group's sales are expected to remain on a high level during the final quarter of the year as well. SKF has now started to prepare, however, for a period of weaker market demand.

- The SKF Group doubled its profit before tax for the first nine months of the year to MSEK 2 241 (1 076). Profit before tax for the third quarter was MSEK 732 (458). Excluding capital gains of MSEK 133 in the third quarter of 1999, this represents an increase of 125%.
- Operating profit for the first nine months of 2000 amounted to MSEK 2 733 (1 669). The figure for the third quarter was MSEK 891 (666).
- Cash flow after investments before financing amounted to MSEK 1 792 (1 802). Cash flow for the third quarter was MSEK 706 (971).
- Net sales amounted to MSEK 29 389 (27 393), an increase of 7.3% compared with the figure for the corresponding period in 1999. Net sales for the third quarter amounted to MSEK 9 495 (8 473), an increase of 12.1%
- The increase in net sales was attributable to: structure -0.6% volume +5.6%, price/mix +1.5% and currency effect +0.8%.
- Net profit amounted to MSEK 1 430 (695) and earnings per share after tax to SEK 12.56 (6.10). Net profit for the third quarter was MSEK 506 (320).

- During the third quarter, SKF posted non-recurring gains of MSEK 367, made up of the MSEK 250 bonus allocated to SKF by the Swedish insurance company, SPP, and the profit from the sale of several small properties.

A provision of MSEK 367, with the purpose of writing down assets in the Steel Division, was posted in the third quarter.

The Group's financial net for the first nine months of 2000 was MSEK -492 (-593). Additions to tangible assets totalled MSEK 925 (877). At the end of September, the Group's inventories amounted to 23.5% (23.7) of annual sales. Group solvency was 35.6% (31.7). Return on capital employed for the 12-month period ended September 30 was 15.8% (1.2). Return on equity was 15.7% (-4.7). The average number of employees was 39 519 (41 362) and the registered number of employees was 40 512 (40 864).

## Divisions

The result by Divisions is based on SKF management reporting.

**The Industrial Division's** external sales for the first nine months amounted to MSEK 6 350 (6 073), an increase of 4.6%. Total sales (sales and deliveries to external and internal customers) were MSEK 10 663. The Division's operating result for the first nine months was MSEK 1 200 with an operating margin of 11.3%.

Sales in Europe continued to strengthen during the third quarter of 2000. In North America, however, demand weakened.

During the third quarter, a new bogie-monitoring system for railway cars, developed by SKF and the Swiss company, Sécheron, was introduced. The aim of the system is to improve train safety while decreasing the cost of maintenance.

The first deliveries of TBUs (tapered bearing units), including axlebox housings for ore-freight cars, were made during the quarter. The contract is with Transwerk in South Africa. Transwerk is the company that manufactures the cars for LKAB in Sweden. The deliveries are part of a new contract for 668 ore-freight cars, including options.

During the quarter, SKF also acquired all the outstanding shares in Revolve Magnetic Bearings Inc. in Canada. The company is a leader in the development, application and production of magnetic bearing systems in the industrial rotating equipment market.

**The Automotive Division's** external sales for the first nine months amounted to MSEK 6 623 (6 373), an increase of 3.9%. Total sales were MSEK 7 370. The Division's operating result for the first nine months was MSEK 311 with an operating margin of 4.2%.

In Europe, sales to the car segment started to slow down during the quarter. Sales to the truck business continued at record high levels.

Sales to the car segment in North America were strong during the first six months of the year, but are now on the decline. Sales to the truck segment continued to fall owing to the low demand for heavy trucks.

**The Electrical Division's** external sales for the first nine months amounted to MSEK 1 179 (1 125), an increase of 4.8%. Total sales were MSEK 4 629. The Division's operating result for the first nine months was MSEK 352 with an operating margin of 7.6%.

Sales continued to develop positively in most markets for the two-wheeler segment. The demand was particularly strong in the Asia-Pacific area.

Sales to manufacturers of electric motors and to electrical components weakened somewhat during the quarter.

**The Service Division's** external sales for the first nine months amounted to MSEK 9 377 (8 327), an increase of 12.6%. Total sales were MSEK 10 068. The Division's operating result for the first nine months was MSEK 745 with an operating margin of 7.4%.

Sales in North America continued to grow during the third quarter. Sales also developed well in Africa, the Middle East and in Central and Eastern Europe. Sales in Western Europe began to flatten out during the quarter. In the Asia-Pacific area demand slowed down.

During the period under review, a wireless sensor system for monitoring vibrations in rotating equipment in the process and manufacturing industries was launched.

New maintenance contracts were also signed. In Brazil, the Votorantim Group, a leading industrial group in paper, cement and metallurgy, signed two contracts that included SKF condition monitoring hardware and software for data collection, monitoring and control. Another leading Brazilian company, Companhia Vale do Rio Doce, decided to outsource its predictive maintenance at one of its terminals, the contract for which was gained by SKF. The value of the three contracts is close on MSEK 50.

**The Seals Division's** external sales for the first nine months amounted to MSEK 3 124 (2 837), an increase of 10.1%. Total sales were MSEK 3 570. The Division's operating result for the first nine months was MSEK 128 with an operating margin of 3.6%.

The Division's large exposure to both the North American market and the automotive segment in this region had a negative impact on the Division's profit for the third quarter.



**The Steel Division's** external sales for the first nine months amounted to MSEK 1 354 (1 179), an increase of 14.8%. Total sales were MSEK 3 350. The Division's operating result for the first nine months was MSEK 151 with an operating margin of 4.5%.

The market demand for steel and forging products continued to be good during the third quarter as well. Ovako Steel's steel production was substantially reduced during the third quarter owing to technical problems with the power supply. The problem was solved and steel production is now at record high levels.

**endorsia.com**

endorsia.com – SKF's market place for industrial components is now operating in 20 countries. Implementation has accelerated, and there is at present a register of 353 distributors. Some 1 200 users are connected.

Göteborg, October 19, 2000  
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 (Group and Divisions)

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

SKF's report on the full year of 2000 will be published on Monday, January 29, 2001.

Further information can be obtained from:

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**CONSOLIDATED FINANCIAL INFORMATION (MSEK)**

	Jan-Sep 2000		Jan-Sep 1999	
	MSEK	%	MSEK	%
Net sales	29 389	100.0	27 393	100.0
Cost of goods sold*	<u>-22 320</u>	<u>-75.9</u>	<u>-21 585</u>	<u>-78.8</u>
<b>Gross profit</b>	<b>7 069</b>	<b>24.1</b>	<b>5 808</b>	<b>21.2</b>
Selling and administrative expenses*	<u>-4 492</u>	<u>-15.3</u>	<u>-4 323</u>	<u>-15.8</u>
Other operating income/expense - net	<u>156</u>	<u>0.5</u>	<u>184</u>	<u>0.6</u>
<b>Operating profit</b>	<b>2 733</b>	<b>9.3</b>	<b>1 669</b>	<b>6.1</b>
Financial income and expense - net	<u>-492</u>	<u>-1.7</u>	<u>-593</u>	<u>-2.2</u>
<b>Profit before taxes</b>	<b>2 241</b>	<b>7.6</b>	<b>1 076</b>	<b>3.9</b>
Taxes	<u>-764</u>	<u>-2.7</u>	<u>-380</u>	<u>-1.4</u>
<b>Profit after taxes</b>	<b>1 477</b>	<b>4.9</b>	<b>696</b>	<b>2.5</b>
Minority interest	<u>-47</u>	<u>-</u>	<u>-1</u>	<u>-</u>
<b>Net profit</b>	<b>1 430</b>	<b>4.9</b>	<b>695</b>	<b>2.5</b>
Earnings per share after tax, SEK	<b>12.56</b>		6.10	
Number of shares	<b>113 837 767</b>		113 837 767	
Additions to tangible assets	<b>925</b>		877	
Number of employees registered	<b>40 512</b>		40 864	
Return on capital employed for the 12-month period ended September 30, %	<b>15.8</b>		1.2	

\* Beginning in 2000, operating expenses for the Group are classified as cost of goods sold and/or selling and administrative expenses based on the type of operation rather than the type of expense. Previous years have been restated in accordance with new principles.

**CONSOLIDATED BALANCE SHEETS (MSEK)**

	<b>Sep 2000</b>	<b>Dec 1999</b>
	<b>-----</b>	<b>-----</b>
Intangible assets	<b>1 713</b>	1 829
Tangible assets	<b>12 962</b>	13 074
Investments and long-term financial assets	<b>1 358</b>	1 114
<b>Total capital assets</b>	<b>16 033</b>	16 017
Inventories	<b>9 086</b>	8 640
Short-term assets	<b>9 372</b>	8 190
Short-term financial assets	<b>3 047</b>	1 976
<b>Total short-term assets</b>	<b>21 505</b>	18 806
<b>TOTAL ASSETS</b>	<b>37 538</b>	34 823
<b>Shareholders' equity</b>	<b>12 890</b>	11 367
Provisions for pensions and other postretirement benefits	<b>6 571</b>	6 478
Provisions for taxes	<b>1 435</b>	1 509
Other provisions	<b>3 209</b>	2 795
<b>Total provisions</b>	<b>11 215</b>	10 782
Long-term loans	<b>4 753</b>	4 753
Other long-term liabilities, including minority interest	<b>617</b>	477
<b>Total long-term liabilities</b>	<b>5 370</b>	5 230
Short-term loans	<b>942</b>	1 223
Other short-term liabilities	<b>7 121</b>	6 221
<b>Total short-term liabilities</b>	<b>8 063</b>	7 444
<b>TOTAL EQUITY, PROVISIONS AND LIABILITIES</b>	<b>37 538</b>	34 823

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

	Jan-Sep 2000	Jan-Sep 1999*			
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Profit before taxes	2 241	1 076			
Depreciation on tangible assets and goodwill amortization	1 208	1 298			
Net gain on sales of tangible assets and businesses	-239	-189			
Taxes	-231	-247			
Changes in working capital	-606	247			
<b>Cash flow from operations</b>	<b>2 373</b>	<b>2 185</b>			
Investments in tangible assets and businesses	-1 059	-881			
Sales of tangible assets and businesses	528	496			
Changes in equity securities	-50	2			
<b>Cash flow after investments before financing</b>	<b>1 792</b>	<b>1 802</b>			
Change in loans	-298	-1 309			
Change in pensions	-33	-370			
Change in long-term financial assets	-20	50			
Cash dividends, AB SKF shareholders	-455	-228			
<b>Cash effect on short-term financial assets</b>	<b>986</b>	<b>-55</b>			
<b>Change in short-term financial assets</b>					
January 1	1 976	2 353			
Cash effect	986	-55			
Exchange rate effect	85	-25			
September 30	3 047	2 273			
<b>Change in net interest-bearing liabilities</b>					
	Opening balance	Exchange rate effect	Change in loans/assets	Acquired and sold companies	Closing balance
Loans, long- and short-term	5 976	86	-298	-69	5 695
Provisions for pensions	6 478	198	-33	-72	6 571
Financial assets, long-term	-918	-102	-20	3	-1 037
short-term	-1 976	-85	-986	-	-3 047
Net interest-bearing liabilities	9 560	97	-1 337	-138	8 182

\* Previously published amounts have been restated since the items included in Net interest-bearing liabilities are disclosed individually in the cash flow analysis.

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

	Full year 1998	1/99	2/99	3/99	4/99	Full year 1999	1/00	2/00	3/00	Year to date 2000
Net sales	37 688	9 308	9 612	8 473	9 300	36 693	9 822	10 072	9 495	29 389
Operating profit/loss	-999	476	527	666	851	2 520	938	904	891	2 733
Profit/loss before taxes	-2 063	273	345	458	693	1 769	770	739	732	2 241
Earnings/loss per share after tax, SEK	-14.40	1.60	1.70	2.80	3.66	9.76	4.37	3.75	4.44	12.56
Solvency, %	29.0	29.2	29.0	31.7	33.8	33.8	34.1	34.2	35.6	35.6
Additions to tangible assets	2 148	262	320	295	353	1 230	249	282	394	925
Net worth per share, SEK	96	95	95	96	100	100	103	104	113	113
Return on capital employed for the latest 12-month period, %	-2.8	-3.6	-4.1	1.2	11.2	11.2	13.1	14.8	15.8	15.8



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

	Full year 1998	1/99	2/99	3/99	4/99	Full year 1999	1/00	2/00	3/00	Year to date 2000
<u>Industrial Division</u>										
External Sales	8 323	2 139	2 094	1 840	1 938	8 011	2 162	2 126	2 062	6 350
Total sales						13 147	3 469	3 705	3 489	10 663
Operating result						961	371	418	411	1 200
Invested capital						6 915	7 022	7 149	7 338	7 338
Registered number of employees						10 346	10 409	10 515	10 589	10 589
<u>Automotive Division</u>										
External Sales	8 583	2 147	2 260	1 966	2 154	8 527	2 310	2 291	2 022	6 623
Total sales						9 676	2 512	2 603	2 255	7 370
Operating result						237	124	127	60	311
Invested capital						5 697	5 750	5 822	6 081	6 081
Registered number of employees						8 378	8 373	8 369	8 378	8 378
<u>Electrical Division</u>										
External Sales	1 625	406	395	324	350	1 475	404	403	372	1 179
Total sales						5 949	1 556	1 642	1 431	4 629
Operating result						219	93	138	121	352
Invested capital						3 544	3 541	3 380	3 545	3 545
Registered number of employees						5 620	5 596	5 209	5 202	5 202
<u>Service Division</u>										
External Sales	11 564	2 743	2 870	2 714	3 053	11 380	2 939	3 232	3 206	9 377
Total sales						12 173	3 133	3 473	3 462	10 068
Operating result						848	206	259	280	745
Invested capital						3 813	4 058	4 434	4 277	4 277
Registered number of employees						4 189	4 316	4 384	4 469	4 469
<u>Seals Division</u>										
External Sales	3 559	926	997	914	913	3 750	1 056	1 050	1 018	3 124
Total sales						4 313	1 238	1 210	1 122	3 570
Operating result						49	39	58	31	128
Invested capital						2 850	2 853	2 884	3 170	3 170
Registered number of employees						4 378	4 372	4 346	4 350	4 350
<u>Steel Division</u>										
External Sales	1 776	430	429	320	393	1 572	487	472	395	1 354
Total sales						4 057	1 205	1 184	961	3 350
Operating result						54	73	57	21	151
Invested capital						2 566	2 562	2 582	2 552	2 552
Registered number of employees						3 414	3 541	3 633	3 623	3 623

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 and Tangible Assets less external Trade Accounts Payable.

Previously published amounts for external sales have been restated to conform to current Group structure.