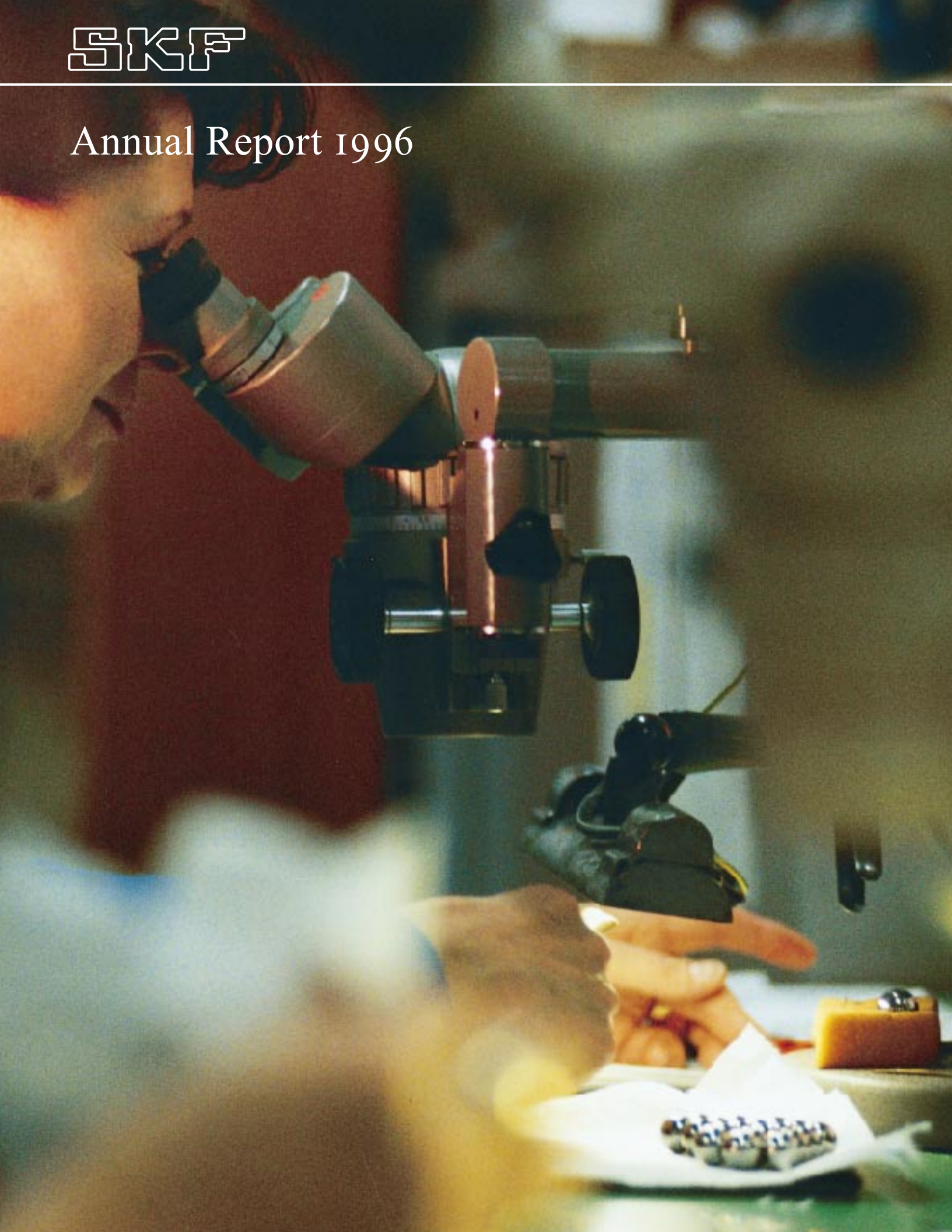


SKF

Annual Report 1996





*We reduce friction to help you move the world forward*

#### **Cover picture**

Of all the components mass produced within industry, the precision demands placed on balls for ball bearings are probably the most rigorous. For example, the surface roughness of the ball must have a tolerance of  $0.010\ \mu\text{m}$ , which is 5 000 times less than the thickness of a human hair. The SKF plant in Pinerolo, Italy, produces an average of 50 tons, or 16 million, of high-precision balls, each day.

At different stages of the production process, the balls are measured with the help of ultrasensitive computer-controlled instruments. An additional control, of randomly selected balls, is also made in the laboratory.



	1996	1995	1994
Net sales, SEK m	33 589	36 700	33 273
Income after financial income and expense, SEK m	2 412	3 389	1 877
Additions to property, plant and equipment, SEK m	2 710	2 296	1 356
Earnings per share, SEK	14.95	18.20	11.30
Return on capital employed, %	14.7	19.0	13.0
Dividend per share, SEK	5.25*	5.25	4.25
Solvency, %	34.3	31.2	28.5
Registered number of employees	43 123	43 754	41 732

\* Dividend according to the Board's proposed distribution of surplus

## Contents

2	The SKF Group
4	The Chairman's Review
5	Letter from the President
6	Board of Directors' Report
12	– Bearings
20	– Seals
22	– Special steels
24	Competence development – key to success
26	Financial objectives and dividend policy
27	Financial risk management
28	Consolidated income statements
30	Consolidated balance sheets
32	Consolidated statements of cash flow
34	Notes to the consolidated financial statements
45	U.S. GAAP
50	Parent Company income statements
50	Parent Company statements of cash flow
51	Parent Company balance sheets
52	Notes to the financial statements for the Parent Company
57	Proposed distribution of surplus
57	Auditor's report
58	Shares and shareholders
60	Board of Directors
62	Management
64	Seven-year review of the SKF Group
65	Words in SKF's world
66	Financial glossary



7



21



23



25

### Pictorial theme

Competence development is a cornerstone in the SKF Group's vision. SKF's goal is to be the best company in terms of the development and training of its employees.

Casebook studies from eight different SKF companies illustrate, in words and pictures, the contributions being made to raise competence levels within the Group.

# Words in SKF's world

**After-market** Those customers, such as distributors, who buy bearings for resale as spare parts.

**Axial load** Load acting in the direction along the shaft/axis.

**Ball bearing** Bearing with balls as rolling elements. May contain one or more rows of balls.

**Bearing** Machine element for reducing the friction between moving machine parts. Most bearings nowadays are rolling bearings, consisting of inner ring, outer ring, a number of rolling elements (balls or rollers) and a cage. Most bearings are made from steel.

**Bearing housing** Product in which a rolling bearing is mounted for protection and support. Made of cast metal or plastic and used in many different applications, such as fans, paper-making machines, etc.

**Bearing unit** Product in which the bearing has been integrated with other components in a single unit. The bearing is greased for its entire lifetime.

**Cage** Bearing component which keeps the balls or rollers separated from each other when the bearing is rotating. Normally made of steel, but sometimes of brass or plastic.

**CARB™** New bearing type which can accommodate misalignment and axial displacement of the shaft, and also is compact. It has not been possible to combine these properties in one bearing before.

**Channel concept** Manufacturing system within SKF which increases flexibility and reduces lead times. Required the introduction of a completely new work organization.

**Composite material** Artificial material with several components.

**Cylindrical roller bearing (CRB)** Roller bearing with cylindrical rollers.

**Deep groove ball bearing (DGBB)** Ball bearing where the balls run in grooves in the inner and outer ring. The bearing is a radial bearing but can also take a certain axial load. Used in such applications as electrical motors.

**FlexLink** Modular chain conveyor system with plastic links for the transportation of lightweight goods, such as food, pharmaceutical products, or bearing components in SKF's factories.

**Hub Unit /THBU** Easy-to-mount, compact bearing unit for passenger car and truck wheels.

**Lead time** Time from the ordering of raw material to delivery of the finished bearing.

**Mercosur** (Mercado Común del Sur) Trade union between Argentina, Brazil, Paraguay and Uruguay.

**NAFTA** (North American Free Trade Association) Trade union between Canada, the U.S. and Mexico.

**Needle roller bearing (NRB)** Bearing with long, thin cylindrical rollers. Used in applications where space is limited, e.g. in gearboxes.

**OEM customers** Original Equipment Manufacturers – those customers who buy bearings to use them in their own products, e.g. manufacturers of cars, household appliances, machines, etc.

**Oil film** A very thin film of oil (one thousandth of a millimeter) which prevents the rolling elements in a bearing from coming into direct contact with the outer or inner ring.

**Oil seals** Common name for seals used for oil greasing.

**Parametric construction** A model which can be scaled up or down by using given parameters.

**Precision bearing** Bearing for machine tools with very high rotating speed. Used in such applications as spindle units.

**Radial bearing** Ball or roller bearing for radial loads.

**Radial load** Load acting in a direction perpendicular to the shaft/axis, i.e. along the radius.

**Roller bearing** Bearing with rollers as rolling elements. May contain one or more rows of rollers.

**Rolling bearing steel** Special steel of very high purity for rolling bearing production.

**Rolling bearings** Common name for ball and roller bearings.

**Rolling elements** Common name for the balls and rollers in a bearing.

**Rolling/milling** Method of processing steel to produce the desired products (bar, wire, sheet and tube).

**Rolling mill** Production unit for the rolling of steel (see above).

**Seal** Steel or rubber component which is mounted between the outer and the inner ring in a bearing, or around the shaft outside the bearing, to prevent dirt and moisture from entering the bearing and the lubricant from leaking out. Bearings which do not have seals are often mounted in sealed bearing housings, for example. Seals are also used in many other applications (e.g. Valve stem seal, Shock absorber seal).

**Sensor** Electric transmitter which registers revolutions, speed, temperature, etc. Integrated in wheel bearing units and certain deep groove ball bearings.

**Shock absorber seal** Sealing ring, specially designed for short, shock-loaded axial movements.

**SKF Engineering & Research Centre B.V. (ERC)** SKF's research center in the Netherlands.

**Slewing bearing** Large rolling bearing for cranes and tunnel-boring machines. May be several meters in diameter.

**Spherical bearing** Ball bearing (SABB) or roller bearing (SRB) where the inside surface of the outer ring is part of a sphere, which means that the bearing can adapt itself to misalignment of the shaft. SKF was founded on Sven Wingquist's revolutionary invention of the double row spherical ball bearing.

**Spindle unit** Complete bearing unit with precision bearings for machine tools.

**Taper roller bearing (TRB)** Roller bearing with tapered rollers.

**Thrust bearing** Ball or roller bearing for axial loads.

**TQM** Total Quality Management – quality concept within SKF comprising production, products, employees, service and attitudes.

**Valve stem seal** Seal for control and metering of oil lubrication for inlet and outlet valves of combustion engines.

# Financial glossary

**Accounting Principles** Principles for how specific transactions should be accounted for.

**Break-even** The sales volume where income and costs are equal, i.e. a zero result is achieved.

**Cash management** Ensure that there is sufficient cash to carry on the operations and to invest any idle cash which is not distributed to the owners.

**Cash Flow** A company's income surplus/deficit from the ongoing operations.

**Convergence requirements** Requirements issued by the European Union on the member countries which states which criteria that shall be fulfilled in order to become a member of the European Monetary Union (EMU).

**Convertible Bonds** An option to convert a loan for a predetermined number of common shares.

**Credit risk** Risk that the borrower does not fulfil his obligations towards the lender.

**Derivatives** A security which is derived from other underlying assets. The underlying assets can be for example stocks or raw material.

**Forward exchange contracts** A derivative instrument where the company agrees to buy or sell a certain currency at a predetermined rate and date. The agreement is obligatory for the company.

**Hedge** A financial contract made in order to secure the value of an asset or liability or a future cash flow.

**Interest-rate risk** Risk for a loss in a fix interest rate security due to changes in the interest rate.

**Operating Income** Result generated from a company's operations, i.e. income minus cost of goods sold minus sales and administrative expenses.

**Price and mix** Volume shifts between various customer segments with different price levels.

**Rating** Official judgement of a company's financial strength made by a financial institute on the behalf of potential lenders.

**Return** Yield, in the form of dividends or interest payments, on invested capital.

**Risk limits** The largest accepted risk of loss according to the predetermined risk policy.

**Sale/lease back** A transaction where an asset is sold to a third party and then leased back by the original owner.

**Solvency** The part of the company's total financing that is not financed with loans or other liabilities, i.e. shareholders equity's part of total assets.

**Volatility** A statistical function that measures the speed of change of the price of a commodity.





## Financial information and reporting

AB SKF will publish the following financial reports in 1997:

Report on 1996 operations	February 6
Report on first quarter 1997	April 15
Report on first six months 1997	July 15
Report on first nine months 1997	October 20

The Annual Report for 1996 will be published on March 21.

The above reports are available in Swedish and English. In addition to these reports, an annual report, Form 20-F, is produced for the Securities and Exchange Commission in the U.S.

## Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 3.30 p.m. on Tuesday, April 15, 1997.

In order to participate in the meeting, shareholders *must* be recorded in the shareholders' register maintained by the Securities Register Center (VPC AB) by Friday, April 4, *must* notify the Company before noon on Friday, April 11, of their intention to attend (AB SKF, Group Legal, SE-415 50 Göteborg, Sweden, tel +46-31-337 24 36), giving details of name, address, telephone and shareholding.

## Payment of dividends

April 18, 1997 is proposed as the record date for shareholders entitled to receive dividends for 1996. If this date is accepted by the Annual General Meeting it is expected that the Securities Register Center will send out notices of payment on April 25, 1997.

## SKF Environmental Report 1996

The environmental report, which is distributed together with the Annual Report, is a comprehensive description of the SKF Group's environmental activities during the year.



# The SKF Group

## This is SKF

## SKF's strength factors

### Bearings



SKF is the world's leading rolling-bearing company, with 54 production facilities in 20 countries. The function of a rolling bearing is to reduce or completely eliminate the friction between a fixed and a moving surface, and to carry a load. The sales organization covers more than 130 countries and annually supplies around one million customers with bearings from a range of 20 000 varieties through wholly owned sales companies, or via 10 000 distributors and dealers. Bearings is SKF's largest product area and accounted for 87 percent of total sales in 1996.

SKF's determined focus on research and development has given the company a position as the bearing-technology leader, with a large number of pioneering innovations that have established standards for the entire industry. These range from Sven Wingquist's self-aligning ball bearing, through the Hub Unit to CARB™. A worldwide sales and distribution network assures that SKF remains close to its customers, wherever they are located, while a highly qualified corps of application engineers is always available to resolve technical problems.

### Seals



Chicago Rawhide is the leading manufacturer of oil seals in the U.S. and is the largest company in the SKF Seals Division. The function of a seal is to separate a machine element from the outside world, either to prevent foreign particles coming in, or to avoid lubricants leaking out. The division also includes RFT S.p.A. in Italy, Europe's leading bearing-seals company, and CR Elastomere GmbH in Germany. Combined, these three companies operate 11 plants in the U.S. and Europe. The seals division also has three joint-venture companies, in Japan, China and Mexico.

Chicago Rawhide is a leading supplier of seals to the U.S. car and truck manufacturing sector. This position was additionally strengthened by the new products contributed to the U.S. company through the acquisition of Germany's Goetze Elastomere (now CR Elastomere) in 1994. The U.S. range is now being introduced in Western Europe through the SKF sales organization. The recent establishment of operations in China, combined with the existing joint-venture company in Japan, strengthens the SKF Seals Division's foothold in Asia.

### Special steels

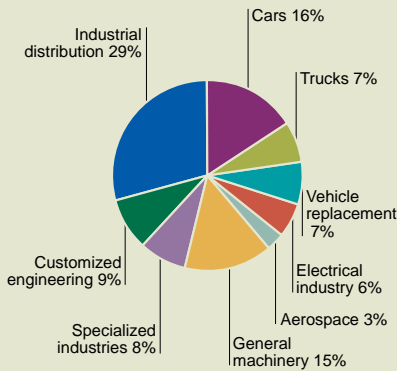


Ovako Steel is Europe's leading rolling bearing-steel company and sells slightly more than half its production to SKF's bearing manufacturing plants. The balance is sold to other bearing manufacturers and for certain highly demanding applications primarily within Western Europe's machinery and automotive sectors. The steel is manufactured in Hofors (Sweden), but Ovako Steel also has manufacturing facilities in France, the U.K. and the U.S.

The steel from which rolling bearings are produced is vital to the quality of the bearing. Analysis precision and freedom from inclusions are factors that are critical to the bearing's operational lifetime. The long association with SKF and the integration achieved between the two companies, has provided Ovako Steel with a unique competence and competitiveness. The extensive restructuring and disposal of unprofitable operations in recent years, the shift in focus to bearing steel and the divestment of parts of the sales organization have further strengthened the company.



SKF's customers

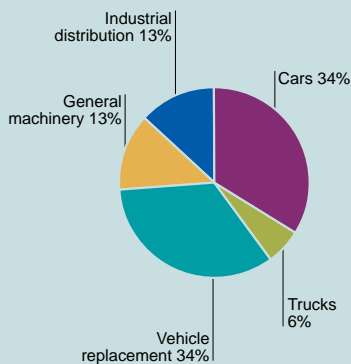


Performance in 1996

The decrease in demand deriving from the economic downturn in Western Europe was almost completely offset by increased sales to other markets. For example, in central and eastern Europe sales rose by approximately 40 percent. Accordingly, the Group's efforts to reduce its exposure to Western Europe, which currently accounts for 55 percent of sales, by focusing on Asia, central and eastern Europe and the U.S., are beginning to have an effect. The appreciation of the Swedish and Italian currencies had a negative effect on the Group during 1996, however.

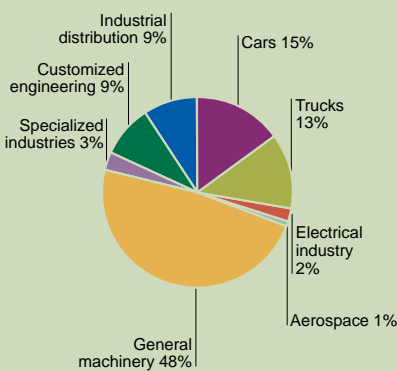
What lies ahead?

Expansion outside Western Europe will continue. Additional operations will be established in China and in central and eastern Europe. Accordingly, the Group's dependence on Western European markets will gradually decrease. During 1997, new products will be launched to strengthen SKF's technological leadership. The technology upgrades of the Group's production units will continue, leading to lower fixed overhead and greater flexibility.



Chicago Rawhide continued to increase its sales in North America, particularly as a result of the favorable growth in the automotive segment. In Western Europe, the new products launched during the past two years accounted for 20 percent of CR Elastomere's sales during 1996. Sales to car producers in eastern Europe also developed positively.

Marketing of Chicago Rawhide's U.S. products in Western Europe through SKF's sales organization will be intensified, with the aim of improving the Group's positions in this region. In Asia, the seals division will consolidate its positions by broadening the local production base and achieving an improved presence. The new products introduced in the U.S. and Western Europe have excellent potential and should now contribute positively to sales.



The weakening Western European market, which accounts for two thirds of Ovako Steel's sales, and inventory reductions among customers resulted in lower production volumes and deliveries. In total, 370 000 tons of steel were produced in 1996, compared with 430 000 tons in 1995. The cost trend was negatively affected and the steel division reported a loss during the second and third quarters. A minor profit was shown during the final quarter.

The program of major structural changes within Ovako Steel has been concluded. Marketing will now be intensified to increase volumes among external customers, who sometimes compete with SKF. The new hot rolling mill in Hofors, an investment decided at the beginning of 1996, will be built during 1997. The integration of steel and bearing production will continue, with the aim of achieving increased flexibility and reduced costs.

# The Chairman's Review

The weakening trend of the Western European economy that became apparent during the latter part of 1995 continued to characterize the trend of business in this region in 1996. Generally speaking, only the automotive industry – thanks to surprisingly strong demand – succeeded in achieving any form of recovery.

The trend in Western Europe, the market in which the SKF Group has slightly more than half of its sales, underscores the correctness of the Group's strategic decision to focus on a faster rate of expansion in the growth markets in Asia and central and eastern Europe. SKF has to reduce its dependence on the Western European market and it is therefore important to ensure a strong position in the new growth markets at an early stage; this applies to both production and sales channels. This strategy requires not only financial "muscle" but competent employees as well.

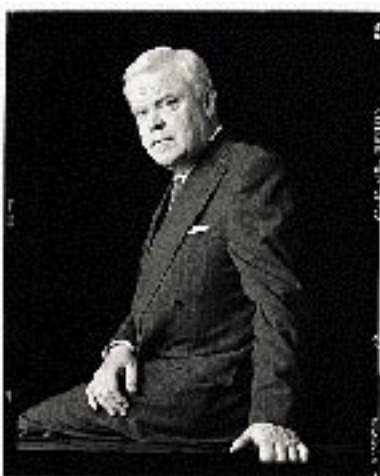
A strategy that assigns priority to expansion also requires substantial investments that will constitute a burden on Group earnings over the short term. But these investments are necessary to secure SKF's position as the world's leading manufacturer of rolling bearings. A streamlining of the Group structure that makes it possible to mobilize resources in strategically important areas is also essential in order to ensure the Group's capacity to create value for its shareholders.

During the past year, as this annual report shows, SKF was successful in advancing its positions in both the important Asian market and the now rapidly expanding market in central and eastern Europe. While the rate of increase was not as great in the U.S., the Group also strengthened its position in that market through successful cultivation of both the automotive industry and the industrial after-market.

The Group's interest in expanding in the so-called growth markets coincides with the need to have a global manufacturing, sales and distribution organization. The customers that SKF is committed to serve are on a course that is making them increasingly global. It is thus important for SKF to be able to deal with its customers wherever they elect to become established or sell their products.

It is gratifying to be able to report that SKF occupies a strong position as a global supplier of rolling bearings. We are generally ahead of our customers when it comes to having global operations. We are also ahead of our competitors in this respect. We must therefore ensure that we maintain this position of leadership through continuously improved customer service and cost-effectiveness.

We are today witnessing a trend throughout the world whereby countries are joining



Anders Scharp

together to form regional groupings. In Europe, the European Union (EU) is a reality for many countries and a number of others are applying for membership. In recent years, two strong regions – NAFTA and Mercosur – have emerged on the American continents. The purpose is always the same: to increase and strengthen trading by abolishing customs tariffs and other barriers.

This trend is imposing demands on SKF and all other companies that are active in these regions. Group operations must be adapted so that our resources are utilized in an optimal manner; this means that both the production and marketing structures must be overhauled in order to obtain maximum benefits from the opportunities being offered.

Over the long term, the elimination of trade barriers will mean increased opportunities for SKF, although it may create problems and cost money over the short term.

I noted earlier that the economy in Western Europe was weak in 1996. The efforts of

European countries to meet convergence requirements in time for the introduction of a common currency has a dampening effect on growth. If Western Europe is to achieve the growth that is necessary in order to create jobs and hold its own in the world market, its industries must speed up the restructuring process, improve their cost situation and become more flexible. Low inflation and low interest rates in 1996 are driving forces for greater growth over the long term.

In the U.S., there was a continuation of the positive trend that has been under way for a number of years – nothing dramatic, but steady economic growth. There are many indications that this trend is likely to continue for some time to come.

The growth in Asia continued – except in Japan – with impressive figures again in 1996. Continuing growth at a largely undiminished rate is expected in 1997.

Income of the SKF Group was lower than in the preceding year. This was due in part to the unfavorable trends of foreign exchange movements and in part to costs. As regards the Group's financial position, it may be noted that, despite a continuing high rate of investments, the Group was able to further strengthen its solvency, from 31.2 percent in 1995 to 34.3 percent in 1996.

Based on the improved market position that the Group has attained through its investments in new growth markets, as well as the cost-rationalization programs now under way within the organization, the Board of Directors foresees continuing favorable growth for SKF and is accordingly proposing that a dividend of SEK 5.25 per share be paid on 1996 operations.

In conclusion, I wish to express the Board's sincere thanks to the Group's management and employees for a very fine performance during the year.

Göteborg, February 6, 1997

A handwritten signature in black ink, appearing to read 'A. Scharp'. The signature is fluid and cursive, written over a white background.

# Letter from the President

The trend during the first two months this year confirms the business scenario I described in the year-end report for 1996 published at the beginning of February. As a whole, Western Europe, which is a highly important market for SKF, is still showing no sign of an upturn. At the same time, we can note that the trend of weakening demand, which started as early as 1995 and continued throughout 1996, is now leveling out. I do not consider it likely, therefore, that demand will weaken any further. Accordingly, we are starting the new financial year at a low level in Western Europe, while other markets continue to show a positive trend for the Group.

At the end of February, we signed another important agreement in China. In connection with a new share issue, SKF acquired 20 percent of the shares in China's leading producer of rolling bearings, Wafangdian Bearing Company (WBC). The intention is that SKF and WBC establish joint-venture companies for the production of different types of bearings in China. More immediately, a new company will be formed for the manufacturing and sale of spherical roller bearings. SKF will have the majority ownership and management responsibility in this company.

At the beginning of the year, another joint-venture company was formed in China, this time between the SKF subsidiary, Chicago Rawhide, and the Chinese company, ANZAG, for the production and sales of seals.

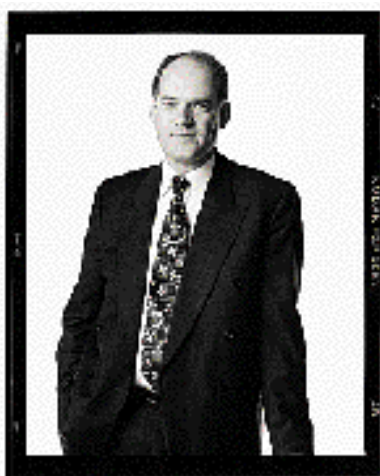
Our focus on Asia is progressing very rapidly and we are continuously strengthening our position in this important market.

When we examine the results for 1996, we can report that the Group achieved a good result despite a considerable loss of volume in its important Western European market, foreign exchange movements that affected the SKF Group negatively, and an unfavorable trend of costs. This shows that our strategic program to reduce the Group's exposure to conditions in Western Europe, cut fixed costs and make the organization more flexible are beginning to bear fruit. Our work with total quality now permeates the organization and most of our employees are active in quality-improvement groups.

We achieved good results in the new

growth markets. Sales in central and eastern Europe increased by approximately 40 percent and exceeded growth in the market as a whole. SKF's sales in Asia and North America also increased satisfactorily.

Western Europe, in contrast, was a disappointment. Demand weakened more than we had expected at the end of 1995. As a result, deliveries to these markets were lower and our rate of production as we entered 1996 was excessively high. This in turn caused an increase of some percentage



Peter Augustsson

points in the Group's inventories. Moreover, production resources that were employed for the European market could have been utilized to satisfy the growing demand in Asia.

In the Annual Report for 1995, I described the long-term strategies that we have established within SKF. They include growing strongly in Asia and the U.S. – we have now added central and eastern Europe to the list of growth regions – and sharpening our focus on customers through a segment-controlled organization.

SKF's strong focus on Asia requires substantial resources, mainly personnel. The investments we have made and are in the process of implementing do not involve primarily large amounts of money for plants, machinery, equipment, etc., since we have elected to invest in joint-venture companies that already have production facilities. What are involved to a greater degree are investments in quality-improvement programs, expertise, information and training.

Our success in China, Korea and other countries will not be determined by the amount of money we are investing but by our ability to equip new employees with the education, training and expertise required to perform high-quality work. This applies not only to the new markets but also – to the highest degree – to all our basic operations. The development of expertise will become an increasingly decisive factor.

I am convinced that the investments we are now making will contribute strongly to increasing SKF's competitiveness. They will thus also help us reach one of our important objectives, which is to offer our shareholders more consistent and higher profitability – growth in value.

I noted earlier that Group earnings in 1996 were good. This does not mean that I am content. SKF has the potential for improved profitability.

What I do consider satisfying are the positive results we are seeing from the dedicated environmental program that is being carried out within the Group. This is the third year in which we are issuing a separate environmental report. It provides a detailed picture of our work in the environmental field. I hope that not only our shareholders will read it.

In addition to our specific environmental activities, we should remember that each time we replace an old bearing, or a bearing made with less precision, with a new SKF bearing, we are reducing the amount of energy needed to operate a machine. It makes no difference whether the energy consumed in all the machines throughout the world is derived from oil, gas, coal or nuclear power. What is important is that less energy, and consequently a smaller amount of a natural resource, is consumed. SKF's products are actively helping to achieve further savings of energy, thereby reducing the impact on the environment.

Göteborg, March 17, 1997

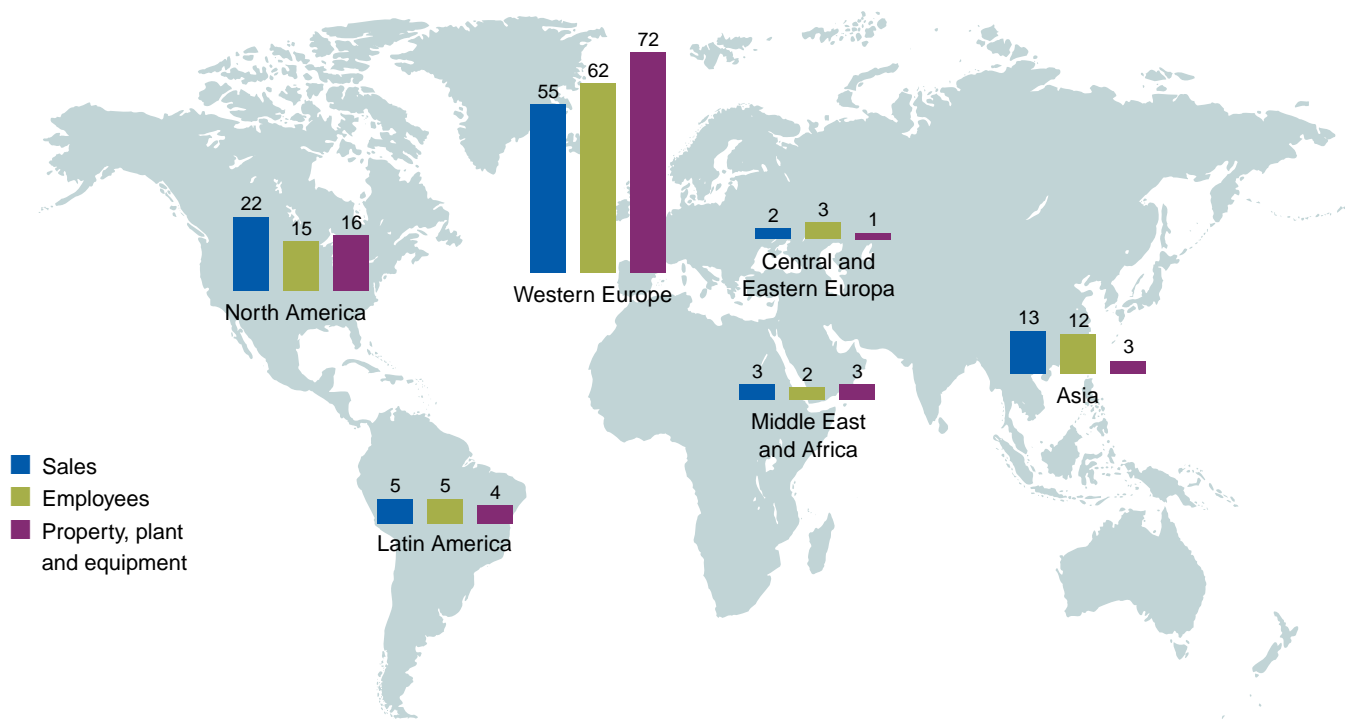
A handwritten signature in dark ink, which appears to be "Peter Augustsson". The signature is written in a cursive style and is positioned above a horizontal line.



# Board of Directors' Report

**A** strong trend of sales in markets outside Western Europe almost compensated for the loss of volume experienced by the SKF Group as a result of a weak Western European economy. The Group's focus on expansion outside Western Europe – designed to reduce its dependence on this market, which accounts for 55 percent of SKF's sales – is beginning to yield results.

## Geographical distribution of sales, employees and property, plant and equipment (percent)



The trends in foreign exchange markets during the year were unfavorable for SKF. The currencies in which the Group is a net exporter – the Swedish krona and the Italian lira – strengthened during the year, while the German mark and the U.S. dollar, in which it is a net importer, weakened. As a result of the total effect of foreign exchange movements, the Group's reported sales declined by 7.5 percent, or SEK 2 660 m, and income after financial income and expense decreased by 15 percent, or approximately SEK 425 m.

Operations during 1996 were characterized by two completely different trends. The weakening in demand in Western Europe, which had begun during the latter part of 1995, continued. After a certain

leveling-out during the third quarter of 1996, demand weakened again during the remainder of the year.

### Volume increases in all markets outside Western Europe

Group sales to all other markets developed favorably, with an average increase of more than 6 percent in volume. The large growth figures were recorded in Asia and central and eastern Europe, while the figures for the U.S. were below the average.

The Group recorded its highest growth figures in deliveries to customers in the

automotive and industrial after-markets. The volume of deliveries to car and truck manufacturers declined slightly, compared with the preceding year. The decrease was attributable mainly to the Western European market.

During the spring, as a result of the weak trend of business in Western Europe, SKF decided to reduce production in several of the Group's plants. Shorter work weeks were introduced in a number of units, and the number of shifts was reduced. Accordingly, the build-up of inventories that had occurred during the first half of the year ceased during the summer. The inventories then stabilized at a slightly higher level.



#### Tailor-made training to meet high quality requirements

The Winter Olympic Games will be held in Nagano in 1998. Also situated in Nagano, in a beautiful mountain setting, is the SKF Japan Product Service Center (PSC). The facility functions mainly as a development and production center for machine tool spindle units, but is also a service center for rolling bearings, hydrostatic bearings and gas bearings.

The gas bearing, a spindle in which the shaft revolves in compressed air, is suitable for high precision machinery producing contact lenses and CD-ROM disks. To satisfy its customers' quality and service demands, PSC conducts training sessions for its staff twice a month. Technicians learn how to analyze problems, identify their cause, find solutions and provide follow-up services. The training focuses as much on service quality as it does on product quality. The cooperation with highly

demanding Japanese customers further enhances SKF's application and product development in the machine tool segment.

The illustration shows, from left: Machine Tools Engineering Manager Yoshinori Kishi and quality inspector Reiko Kitahara checking high-precision bearings.

### Major variations between countries in Western Europe

While the trend of the economy in Western Europe as a whole was weak in 1996, the picture varied from country to country. But the growth in Gross Domestic Product and industrial production was lower than in 1995 in all major countries. The trends in Germany, Italy and Spain were negative. In Italy, where the growth in industrial production in 1995 had amounted to slightly more than 5 percent, there was a decrease of slightly more than 2 percent. In Germany,

where industrial production had risen a little more than 1 percent in 1995, the decrease was approximately 1 percent. Industrial production in the U.K. rose by slightly more than 1 percent, and in Sweden by just over 2 percent. The comparable figure for Sweden in 1995 was slightly higher than 10 percent.

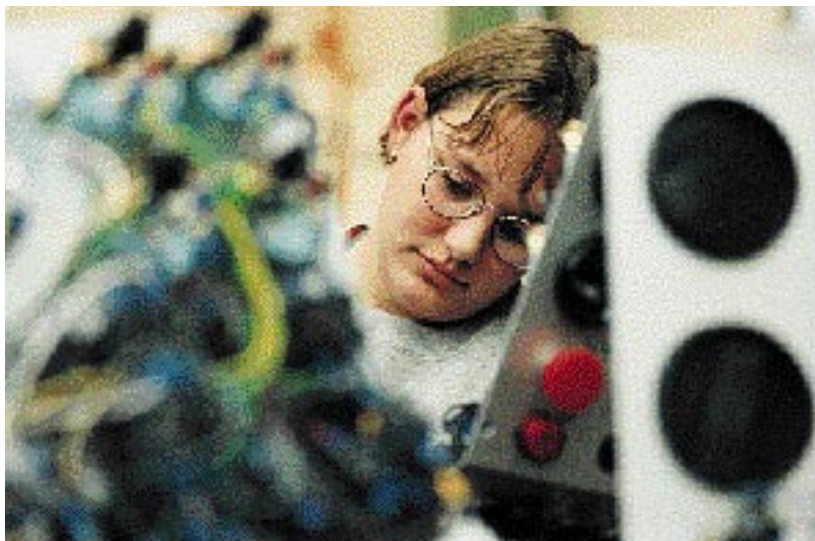
As a result, the market for all three main customer groups – the automotive industry, the machinery industry and the after-market – was weaker. The customer segment that developed favorably in Western Europe was the automotive after-market.

The weakening in demand also resulted in a tougher competitive climate. At times, SKF declined to accept business, due to the excessively low prices, and this probably had a negative impact on the Group's share of the Western European market.

### Positive development in central and eastern Europe

Following a number of years of weakness, the central and eastern European economies showed accelerating growth in 1996. Indus-





Production line at Svedala Compaction Equipment AB, Svedala, Sweden

trial production in Poland, the Czech Republic and Slovakia increased by approximately 8 percent, and by about half as much in Hungary. SKF has expanded its sales organization in recent years so that it covers all the eastern European countries, and this is now beginning to yield results. Sales are increasing substantially and SKF is steadily increasing its share of the market in this region.

The leveling-off in demand for rolling bearings in the U.S. during the latter part of 1995 turned to growth during the first half of 1996. This growth was maintained during the remainder of the year, driven primarily by the machinery industry and the after-market.

Demand for seals – mainly from the automotive after-market, but also from original equipment manufacturers – resulted in higher sales for Chicago Rawhide. But, due to the translation of dollars to Swedish kronor and the divestment of certain units within the division, the increase was not reflected in Swedish kronor.

While Group sales in the U.S. continued to increase, the rate of growth was lower than in 1995. Last year was the fifth in a row during which SKF increased the volume of its sales to customers in the American market.

### Rapid growth in all areas in Asia

SKF's sales in Asia continued to rise at a rapid rate. The volume of business in all customer segments was higher. The most favorable trend was reported in the after-market, where SKF's strong brand name and sales organization are strong assets.

At the same time that SKF is consolidating its position in the Asian market it is expanding its production capacity in the region. The Group has had production facilities in India since the 1960s, in Singapore since the 1970s, a limited amount of production in Japan and Taiwan since the 1980s and – since the early 1990s – also in Malaysia.

During the year, the assembly of rolling bearings for use in the Chinese automotive industry was begun in a new plant in Shanghai; this facility is owned by a joint-venture company in which SKF has a majority interest and management responsibility.

At the beginning of 1996 SKF completed negotiations with the Chinese Ministry of Railways covering the formation of another joint-venture company – in Nankou, outside Beijing – to manufacture railway bearings. SKF also has a majority interest and management responsibility in this company. This deal assured SKF of approximately a

25-percent share of the Chinese market for railway bearings.

After the year-end the Group's seals division concluded an agreement with a Chinese partner to form a joint-venture company to manufacture seals in China. There has also been a joint-venture company in Japan for some time. Thus, as a result of the new agreement, the seals division is obtaining a stronger foothold in the Asian market.

In February 1997, SKF acquired a 20-percent holding in Wafangdian Bearing Company in China. Wafangdian, China's leading manufacturer of rolling bearings, has approximately 10 percent of the Chinese market. This corresponds to annual sales of approximately one billion Swedish kronor.

The acquisition of the holding in Wafangdian is a strategic move; plans call for SKF and the Chinese firm to form joint-venture companies to manufacture various types of bearings. The most immediate project involves a company to produce and sell spherical roller bearings.

A new plant that will manufacture wheel bearing units for cars is currently being finalized in Korea. This plant, located outside Pusan, is also a joint-venture company in which SKF holds a majority interest and is responsible for management. Full-scale production is expected to start during the spring of 1997, giving SKF a good base for supplying the fast-growing automotive industry in Korea.



Production coordinator at the Chicago Rawhide plant in Elgin, U.S.A.



## Always up-to-date information with new computer systems

The major realignment of distribution in Western Europe, which has now been completed, imposes major demands for a rapid and efficient flow of information. Accordingly, the data processing system has been restructured, making it possible to make up-to-date information on products, delivery times and orders available at all times to customers, plants, distribution centers and sales units throughout Europe. Systems in sales companies, distribution centers and plants are linked through a new message-based communications system whose technology and range of functions make it possible to handle large volumes of messages with a high degree of flexibility – and accommodate future demands for changes.

In the U.S. market, SKF and Rockwell Automation introduced a new concept in the distribution sector. Since the two companies serve the market through largely the same distributors throughout the country, SKF and Rockwell Automation formed a transport alliance whereby their products are distributed jointly to customers from a central warehouse in Crossville, Tennessee. SKF is thereby able to reduce its distribution costs while customers are being offered a package that provides better service at lower cost. Other suppliers may be included in the logistics system, which would further enhance the total package being offered to distributors.

The slackening of the economy in Western Europe also had negative consequences for the Group's Steel Division. Approximately three fourths of Ovako Steel's sales are to customers in Western Europe, making the Steel Division even more dependent on this market than the other sectors of the SKF Group. In addition to the weakening of the economy in Europe, inventory reductions at the customer level had a negative impact on Ovako Steel's business. Total production of steel during the year amounted to 370 000 tons, compared with 430 000 tons in 1995.

## Gains through the coordination of the Group's accounting and finance functions

Activity within the Group during the year was characterized by intensive work on a number of important projects, including programs designed to increase the efficiency of administrative procedures and work processes.

Notable examples comprised a number of projects that have been under way within the Group's financial sector for some years with the objective of reducing SKF's costs. This aim is being accomplished by eliminating activities that do not add value, by standardizing essential remaining operations and by combining processes in service centers.

Projects that can be singled out for special attention include the introduction of a new Group-wide financial system and the establishment of administrative service centers in Western Europe and the U.S. that, among other functions, will be responsible for all invoicing and accounting. To date, this project – which is still under way – has

enabled an approximately 30-percent reduction to be made in the resources needed to carry out these duties.

A number of new information systems were developed and implemented during the course of the year. SKF also introduced a new CAD (Computer Assisted Design) system to support an improved process and product-development process. The system is based on a 3-dimensional parametric construction philosophy which is particularly suited for the construction of SKF's products and processes.

Product development work plays a key role in the SKF Group. The needs of the customers must first be identified to make sure they can be successfully met. In order to be optimally competitive, the lead time – from when the decision is taken to start a new product project until the product is ready for delivery – must be short.

Accordingly, SKF has developed a process for handling and directing product development work within the Group, with the ultimate goal of halving the lead time. A sub-project focused specifically on reducing the lead time for the production of prototypes and, during 1996, the average time was cut from 112 to 37 working days.



A chemical laboratory technician at the ball bearing plant in Pinerolo, Italy



#### A popular choice

SKF's trainee program is a popular choice, with as many as 40 applicants competing for each of the available positions.

The people accepted as trainees come straight from the universities or colleges of technology where they have just completed their degrees. They are assigned to jobs in accounts, technical development, communication, human resources or other areas. They start their employment within the Group with an 18 months' training programme.

Trainees receive a specialized form of competence development in both a centralized and an individual program. The objective is to secure SKF's future supply of specialists and managers.

The program is offered on a rotating basis, taking on 50 trainees at a time in Sweden. The total

number of trainees involved in the Group as a whole is around 250.

The illustration shows four trainees from last year's intake. From left, Patrik Lindroth, Madeleine Olausson, Yasemin Heper and Martin Ranäng.

Patrik is a machine technician employed at SKF Göteborg in the Heat Treating department. Madeleine is an economics graduate, whose duties include conducting market surveys for the CARB™ bearing, SKF's most recent development. Yasemin is a machine technician employed at Group Technical Development, where she works on preventive maintenance and flexible production. Martin, employed at Group Purchasing, has been studying new methods of supplying Europa pallets to SKF's plants in Europe.

The speed with which a prototype can be produced could be decisive in a competitive situation, since the company able to deliver first is also the first to have its product accepted by the customer.

A common process in this area also means that all product development work is systemized which offers the Group a better utilization of its resources.

### Refined organization leads to increased customer focus

The new organization that was introduced in the Group in 1995 to create a more customer and business-oriented structure was refined during the year. The further breakdown of operations by customer segment

occurred primarily in the SKF Industrial Division. This Division now has the following segments with global responsibility for customers: *Materials Handling, Industrial Gearboxes, Textile, Farm & Forestry, Industrial Electrical, Railways, Machine Tools, Fluid Machinery, Printing Machinery, Pulp & Paper, Metalworking, Mining and Construction and Industrial Distribution.*

As a result, 13 different segments are being cultivated by employees who specialize in meeting the particular requirements in their respective customer segments with respect to products, product development, technical support, sales channels, service, etc.

In an increasingly severe competitive climate, it is becoming more and more important to be able to offer customers a solution

to a problem rather than a product. It is only then that the total expertise available within the Company demonstrates its worth. This approach can be exemplified by the way in which SKF works with Volvo's engine plant in Skövde, Sweden. Every day, 1 500 engines are produced in this plant. It is important that the machine park be reliable and functions faultlessly. Many of the machines are equipped with SKF's rolling bearings. With the aid of a computerized monitoring program developed by SKF, Volvo can obtain precise information on the condition of the bearings at all times. The machines are fitted with sensors that communicate directly with the plant's computer. If something happens, a warning signal is given and the operations manager immediately connects the computer, via a modem, to SKF in Göteborg. The information is received there and answers specifying necessary measures or intervention can be provided immediately.

This system enables SKF to help solve bearing problems anywhere in the world without having to maintain an application engineer "on the spot."

### TQM permeates the organization

The quality-improvement program continued with undiminished intensity during the year. The TQM (Total Quality Management) process is gaining ever-stronger acceptance within the organization and most of the Group's employees are participating in quality-improvement activities.

The work climate within the Group is now being analyzed on a continuing basis. These studies, which are to be conducted in all units every 18 months, give all employees opportunities to express their views on how the Company can be improved.

With only a few exceptions, the Group's approximately 170 operating units have now received ISO 9000 certification and programs to qualify for the even more demanding QS 9000 certification were begun during the year.

SKF now has contracts covering flexible work-time arrangements with the union organizations in a number of countries. This



is necessary to enable the Company to adapt to changes in economic conditions without having to immediately begin dismissing well-trained and expert employees.

## High investment rate in production area

Capital expenditures in property, plant and equipment increased from SEK 2 296 m in 1995 to SEK 2 710 m in 1996, reflecting the high rate of the Group's expansion. The greater part of the investments still involves the technical upgrading and modernization of existing plants, but a growing percentage is being allocated to investments in new facilities in Asia, the U.S. and eastern Europe.

Investments in research and development increased from SEK 598 m in 1995 to SEK 751 m in 1996, representing about 2 percent of annual sales.

## Group earnings

Income of the SKF Group after financial income and expense in 1996 amounted to SEK 2 412 m, compared with SEK 3 389 m in 1995. Operating income was negatively affected by exchange rate changes in an amount of nearly SEK 600 m compared with 1995. However, the negative effect on income after financial income and expense was limited to SEK 425 m through hedging. Sales during the year totaled SEK 33 589 m, compared with SEK 36 700 m in 1995. Conversions from foreign currencies into Swedish kronor resulted in reported sales being reduced by SEK 2 660 m.

Group operating income after depreciation of SEK 1 392 m (1 360), was SEK 2 874 m (4 000). The financial net amounted to SEK -462 m (-611).

The sale of a Japanese subsidiary, which included the property in which SKF's Tokyo office is located, generated a non-recurring gain of SEK 378 m.

Earnings during the fourth quarter were charged with approximately SEK 165 m in restructuring and severance costs, plus about SEK 190 m for the non-recurring write-down and revaluation of assets.

Of the Group's income after financial income and expense, totaling SEK 2 412 m (3 389), bearings accounted for SEK 2 203 m (2 859), seals for SEK 154 m (229) and special steels for SEK 56 m (297).

Earnings per share amounted to SEK 14.95, compared with SEK 18.20 in 1995. The return on capital employed was 14.7 (19.0) percent, and on shareholders' equity 15.9 (19.4) percent. The Group's solvency improved during 1996, from 31.2 percent to 34.3 percent at year-end.

At year-end, interest-bearing loan liabilities amounted to SEK 6 539 m (6 299), and pension liabilities totaled SEK 5 902 m (6 009). At the same time, financial assets

totaled SEK 3 077 m (4 035), of which SEK 2 091 m (2 897) consisted of current financial assets.

During the second half of the year, real estate, which had previously been leased under the terms of a sale/lease back agreement, was repurchased for approximately SEK 650 m. In addition, SKF invested approximately SEK 150 m in joint-venture projects in Asia. These, and the high rate of investment in fixed assets, led to a negative cash flow in an amount of approximately SEK 963 m during 1996.

The Board of Directors' and President's proposed dividend, SEK 593 247 669, corresponds to SEK 5.25 (5.25) per share.



### The concept of constant improvement – as a lifestyle

A company's personnel know best how to improve their work. Major results can be achieved simply by allowing people to develop their creativity. This is the philosophy behind the Japanese concept of Kaizen, just as it is behind the SKF 100 concept.

At SKF's U.S. company, MRC Bearings, a world leader in the production of bearings for aircraft engines and helicopters, the concept of constant improvement has become a lifestyle. It all started as a result of two of MRC's main customers, General Electric and Pratt & Whitney, taking part as "facilitators" in a number of Kaizen activities. Subsequently, these operations have been expanded and today groups can spend 3-5 days working

together in various improvement projects that are based on the skills and know-how of the employee participants.

The activities have also linked MRC more closely with its customers and suppliers. In some cases, the results have been extremely impressive, with lead times reduced by 99 percent, processing time by 98 percent and transport time within the production area by 94 percent. Today, MRC employees themselves participate as "facilitators" at other SKF plants and at suppliers.

In the illustration, Greg Folts (left), one of MRC's "facilitators." Here, with machinist Dan Wroblewski, he makes precise measurements of an aircraft bearing outer ring following a Kaizen activity in the heat treat area.



# Bearings



**C**alculated in volume, sales of rolling bearings in 1996 were largely unchanged from the preceding year. The differences between various geographic markets were substantial, however. Good growth in markets outside Western Europe balanced and offset the weakening that occurred in that region. This weakening – notably in the after-market and automotive segments – began to be apparent during the latter part of 1995 and characterized demand all through 1996. Demand in the machinery segment also declined with the result that SKF's deliveries to customers in Western Europe were lower than in 1995.

## Expansion outside Western

Full-year production of cars in Western Europe was slightly higher, compared with 1995. Sales increased considerably more, however, but the large inventories that the car manufacturers carried into 1996 had a dampening effect on new production. SKF

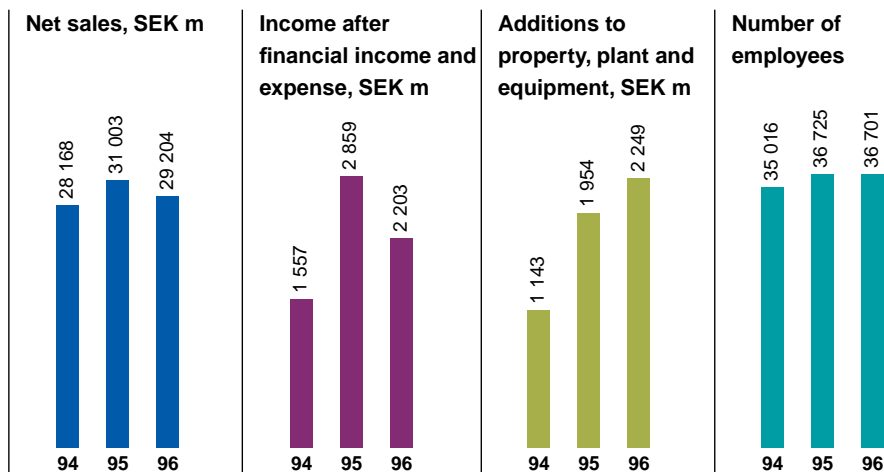
was affected adversely by the fact that some of the Group's large customers did not do as well as the market as a whole.

Truck production, which began to weaken towards the end of 1995, declined considerably during the year. In this sector,

too, sales exceeded production rates due to the excessively high inventories built up by the truck manufacturers at year-end 1995. SKF's business in this segment followed the market trend.

### Successful U.S. car manufacturers chose SKF

Automotive production in North America increased, primarily due to the strong growth in demand for so-called light trucks (a designation used in the U.S. to cover everything from jeeps and vans to light-weight trucks). This segment of the market, which is becoming increasingly important, accounted for approximately 40 percent of sales during 1996. SKF's sales continued to exceed growth in the market as a result of the use of the Group's products in such successful models as the Chrysler Voyager. As was the case in Western Europe, production of heavy trucks declined during the



year. The decrease was more striking in the U.S., however, amounting to approximately 20 percent compared with production in 1995. Because it was able to acquire new business in the North American market, SKF's sales in the truck segment declined less than the market as a whole.

At the beginning of 1996, to meet the long-term increasing demand for Group products from American car and truck manufacturers, SKF decided to invest in a new plant in the southern part of the U.S. to produce wheel bearing units for cars and trucks, and to construct a technical center in Detroit to link product development more closely with its American customers. The two buildings are now complete and the installation of machines and equipment is currently in progress.

# Europe

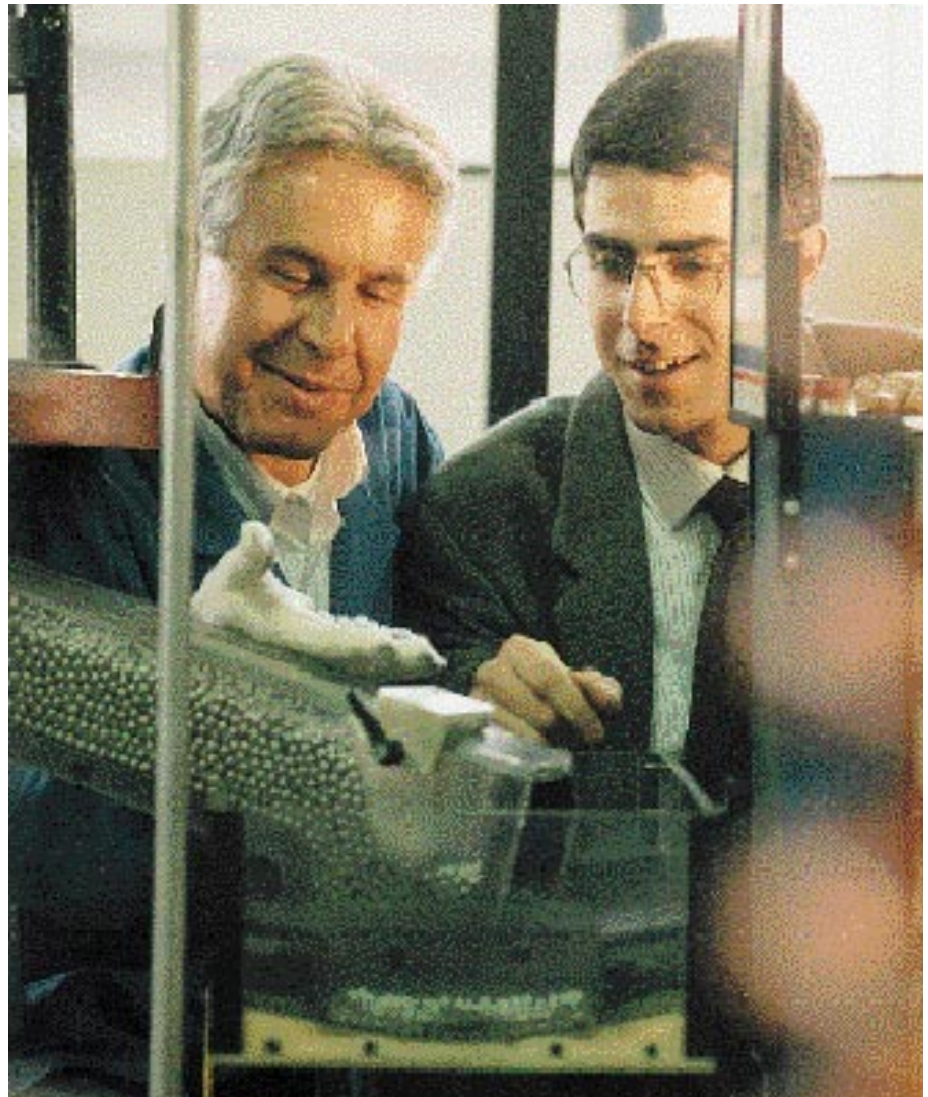
## Many new cars are rolling on SKF's "hubs"

Notable attractive new contracts received during the year included the first-ever order from a Japanese car manufacturer in Japan – Suzuki – which decided to use SKF's HBU 1 (Hub Bearing Unit). Deliveries were begun in October.

In Germany, SKF concluded an agreement covering the supply of HBU 2 units for use in all Audi models and in the Volkswagen Passat model. These deliveries will start at the beginning of 1998.

In Sweden, SKF began deliveries of HBU 2 units for use in Volvo's 850 model and concluded an agreement to supply HBU 1 and HBU 2 units to NedCar in the Netherlands, beginning in mid-1997.

In China, the Group obtained a contract to supply wheel bearing units to Donfeng Citroën Automobile Company. These bearings will be manufactured in SKF's new



### Quality teams make sure bearings run more quietly

Ball bearings must do more than simply function. They must function quietly. This is an especially important demand made primarily by customers in the electric machines industry. Working in Quality Improvement Teams (QIT), personnel at the SKF plant in Pinerolo, Italy, are continuously engaged in meeting this requirement. The plant makes most of the balls used in SKF's bearings worldwide. Ball-bearing balls are high-precision components and with the increased demands placed on their precision, traditional measurement instruments are today insufficiently accurate. Accordingly, an important task for the QI teams has been to improve these instruments.

The teams are formed when a specific problem needs to be resolved and one person can be a member of several different QI teams. For example, the layout of the entire plant is currently being reorganized to reduce transport times and improve pro-

duction. The skills and experience of the machine operators are being used to solve some of the problems – at source. At the same time, working in teams also constitutes a form of personnel training, which increases the team members' awareness with regard to customer needs. As an additional incentive, performance is benchmarked for comparison with a selected competitor. The companies are then compared in several key areas, including quality and price.

The illustration shows Livio Ceresole (left) and Enrico Franconi performing a ball inspection at the optical checkpoint.





#### Joint test rig raises competence levels at SKF and its customers

For anyone involved in, for example, road-construction operations, the efficient compaction of earth or asphalt is a highly important consideration. How many times should the surface be compacted – seven times, or is four enough?

One of SKF's key customers is Svedala Compaction Equipment AB, which manufactures vibrating rollers. The company is competing to become the world leader in its niche and the performance of the bearings used is of the utmost importance.

Cooperation between SKF Sverige and Svedala has reached the point where the two companies have jointly developed and constructed a test rig in a highly realistic environment.

"This allows us to test various types of bearing for applications within a vibrating environment", says SKF applications engineer Nils Manne.

Svedala uses the bearings in a very tough environment with large and varying loads. The vibration means that the equipment's components are constantly pushed to their limits.

"We need SKF's expertise, but the cooperation we enjoy means that we also develop our own competence," says Ulrika Sölvenäs, machine engineer and equipment designer at Svedala.

The illustration shows Nils Manne and Ulrika Sölvenäs at a compacting machine.

plant in Shanghai. The total Chinese car production is much lower than originally planned, however.

In Brazil, the confirmation of supply contracts with both Fiat and Volkswagen contributed to increasing SKF's share of the market represented by these two customers.

#### Decline in Western Europe was offset by increases in other markets

Industrial sales operations comprise deliveries of bearings used in the general machinery industry, in heavy industry and – essentially – all industries that are not manufacturers of cars, trucks, two-wheel vehicles or small electric motors that are produced in large volumes. Here too, sales declined in Western Europe but increased in the rest of the world.



Demand from industrial customers in Western Europe held up throughout 1995 but turned rapidly downward following the end of the year. There were some signs of recovery in mid-1996, but they faded and the decline continued for the rest of the year. Fourth-quarter operations were also affected negatively by the long strike of transport workers in France that blocked off France, Spain and Portugal from the rest of Europe.

Activity differed substantially from one customer group to another. In general, demand was weaker from "light-industry" companies that use small-dimension bearings – manufacturers of small industrial gears, for example – than from the heavier-industry sector.

The machine-tool segment developed strongly throughout 1996. The level of production of bearings for these customers was also high all year.

### Strong demand for giant bearings

Slowing bearings constituted one type of product where business developed favorably in 1996, primarily due to the demand

for large bearings used in tunnel-boring machines. The customers were mostly in Europe, but in Japan and the U.S. as well. The largest bearing has a diameter of 6.5 meters and was delivered to Wirth (Germany), for use in connection with construction of a tunnel in the Philippines.

Through a global contract with ABB Motor, SKF was assured of substantial deliveries of bearings to this customer during the next few years. The contract was SKF's first international transaction with ABB Motor.

### Continued success for CARB™

The new CARB™ bearing is continuing to attract substantial interest on the part of different customer groups. This bearing has now been installed in some 60 paper machines throughout the world, which has to be considered a remarkable accomplishment, especially since there are no long-term users who can be used as references. During the year Voith Sulzer (Germany), one of the world's large manufacturers of paper machines, decided to introduce the

CARB™ bearing as standard equipment in its machines.

SKF's plant in Schweinfurt, Germany, is manufacturing the largest 4-row cylindrical roller bearing ever designed. It will be installed in one of SSAB's machines in Oxelösund in Sweden.

Railways constitute another customer segment in which SKF has introduced a new solution successfully. Bearings that are exposed to electric current can be damaged. SKF has accordingly designed a special bearing whose outer rings are coated with a ceramic material – no thicker than 0.05 mm. The coating insulates the bearing so that no electric current can pass through it and damage the sensitive precision surfaces of the bearing.

SKF has also developed a coating which contributes to further reduction of friction in the bearing and which can resist the very high surface pressure in a rolling bearing. The new coating has been successfully tested in critical applications to reduce wear.

### Demand continues to rise in the U.S.

Demand for the Group's products in the North American market continued to rise and volumes increased again in 1996. The Group's strategy to increase its market shares in the machinery industry in the U.S. includes focusing on key customers, a segment in which close cooperation – partnerships – with customers is an important element. The objective is to secure long-term agreements with customers – and a number of such contracts were concluded during the year.

The agreement with Rockwell Automation whereby SKF will now supply deep groove ball bearings for use in Dodge's gearboxes is one example. The contract with Morgan Engineering, the world's leading manufacturer of high-speed wire machines – to which SKF is the largest supplier of a number of special bearing solutions – is another.

SKF has a strong position in the North American industrial after-market and is the leading supplier to all the large distributors.



Younger employees learn how to assemble and disassemble bearings at the SKF Product Service Center in Nagano, Japan

## New washable bearing housing

During the year SKF made major progress with a new bearing for the food industry. The hygienic demands imposed on equipment used in the production of food are exceptionally high. As a result, the bearing must be very clean and must also be able to tolerate the cleaning agents that are used with great frequency. The high-pressure water hoses that are commonly employed constitute a problem for steel bearings. SKF has therefore developed a bearing housing made of a composite material and reinforced with strong steel wires imbedded in the material. A special seal, which prevents the entry of foreign particles and water, is installed in the housing and the deep groove ball bearing within the housing is lubricated throughout its lifetime. The lifetime of the entire bearing housing thereby becomes longer than earlier solutions could offer.

## SKF's monitoring systems prevent loss of production

Products for preventive maintenance represent another rapidly growing segment. Industry's need to be able to utilize machines in an optimal manner, without

loss of production due to unscheduled shut-downs, offers an attractive market for SKF's monitoring and maintenance products.

The product line ranges from small portable equipment used for the collection of data to on-line systems that collect data around the clock and can stop a process automatically, if needed. During 1996 SKF Condition Monitoring completed the installation of one of the world's most comprehensive monitoring systems at the Star Petroleum Refinery in Thailand. The system monitors and protects all "rotary" equipment in the refinery, including generators, fans, turbines, gearboxes and pumps.

The paper industry, where the reliability of production processes is highly important, is another segment in which demand for SKF's maintenance products is growing. A number of new monitoring systems were installed during the year.

The Group has had a new division – the SKF Electrical Division – since 1996. The division is responsible for the production and sale of bearings to large manufacturers of two-wheel vehicles, electric components used in the automotive industry, makers of electric motors used in household appliances, and power tools. The purpose of the division is to strengthen the focus on customers in these markets.

## "Two-wheelers" a giant market in Asia

The trend of business in the Electrical Division was similar to that in the rest of the Group – weak in Western Europe, where there was a decline in volume, but growing in Asia. The latter market is especially important since it is here that the expansion of the two-wheel-vehicle industry is taking place. Annual production is slightly in excess of 20 million units.

Spain was the only country in Western Europe that showed good growth in the market for electric motors. Sales in this segment in the U.S. were weak. During the year the Group established the foundation for more intensive cultivation of customers and increased interest in SKF as a supplier could be noted at the end of the year.

The Electrical Division is also responsible for all of the Group's production of deep groove ball bearings. Stronger demand from Asia and central and eastern Europe, as well as Latin America, compensated for the weak trend in other markets.

SKF's deep groove ball bearings with sensors continued to attract attention. This product is being tested by various customers, including an Italian tractor manufacturer. In this application the bearing is installed in the tractor's gearbox. The sensors register the speed of the various gears, the engine's revolutions and the speed of the tractor. Accordingly, it is possible to activate the front-wheel drive automatically when a given running condition is reached.

## Half a billion bearings in roller skates

So-called inlineskates – roller skates with four or five wheels in a row – constitutes a somewhat unusual segment that grew explosively during 1996. Each wheel is equipped with two small deep groove ball bearings and the performance of the skates is related directly to how well the bearings perform. SKF formed a work group in order to quickly take advantage of the sales potential in a typical consumer field.



There are 16 deep-groove ball bearings beneath the feet of this young man





Annual consumption of bearings for this application amounts to approximately 500 million units.

### **Strong growth in Asia – increased market shares for SKF**

The markets served by the SKF Asia Pacific Division continued to grow. The Group recorded its strongest growth in the industrial and automotive after-market segments. Geographically, the strongest growth occurred in China and Indonesia.

Excluding Japan, the average growth in Gross Domestic Product in SKF's Asia Pacific markets was 7 percent. The growth in the market for bearings was somewhat higher. The weakened Japanese yen and the equally weak recovery of the Japanese economy increased the competitive pres-

#### **Denise handles complaints and assists the engineers**

A high-quality product is not enough to satisfy Asian customers; the product must also look good. While customer complaints may be numerous, they often relate to details, such as a damaged packaging.

At SKF China in Hong Kong, on time administration of complaints used to be a problem for the technical staff, but now this entire area is handled by Denise Chan, formerly a secretary in the sales department. She is an excellent example of what SKF means by empowerment. After initially feeling almost overwhelmed by the responsibility, Denise was ready after twelve months to single-handedly take on the administration of the entire complaints-handling process. She then went on to computerize the process using database software.

Experience gained in dealing with Asian customers provides the basis for changes to SKF's Group-wide quality specifications, in a continuous improvement process to ensure customer satisfaction.

The illustration shows Denise Chan with Leung Lim Joe, a technician with Peak Tramways Co, one of SKF China's customers.



sure from Japanese bearing manufacturers, who attempted to find customers for their products in the other Asian markets.

SKF continued to expand its distribution network in the region and increased its market shares in Indonesia, China and Australia. The Group also further strengthened its position in Japan, primarily through an intensive cultivation of selected customer segments. The Group expanded its business with both original equipment manufacturers and distributors.

SKF occupies a strong position in India with its two production units – in Pune and Bangalore. The volume of business continued to grow during the year and SKF's main problem lay in keeping up with the rapid developments in the country.

With the reduction in import tariffs during the year, the volume of imported bearings also increased, creating sharper competition in the market.

A new division, SKF Emerging Business Division, was created in connection with the reorganization of the Group at the beginning of 1996. The division has global responsibility for new, fast-growing business pertaining to products such as CARB™ as well as markets in central and eastern Europe, Africa, the Middle East and Latin America.

The common feature of these regions was that they showed good growth and contributed to strengthening the Group's position, resulting in growing market shares.

### Action programs in central and eastern Europe yield results

SKF noted major successes in central and eastern Europe, where its volumes of business increased approximately 40 percent, compared with 1995 – substantially exceeding economic growth in the region as a whole. The trend of business varied from country to country. The greatest growth occurred in Russia, the Czech Republic, Slovakia and Poland. Deliveries to the CIS (Commonwealth of Independent States) markets doubled – although from a low level. During the year SKF received a sub-

stantial contract from a large steel mill in the Ukraine covering delivery of large multi-row taper roller bearings.

Underlying this positive trend there is an intensive program to expand SKF's presence in the various countries through Group sales companies and representatives in order to cultivate these markets more effectively. SKF now has sales companies in all the countries in the Eastern European bloc, as well as in most of the new countries that were established when the Soviet Union was dissolved. The most recent additions to SKF's marketing organization are two new sales offices in Russia – in St. Petersburg and Magnitogorsk – one in Almaty in Kazakhstan and one in Odessa in the Ukraine.

The acquisition of a bearing factory in Poznan, Poland, in the summer of 1995 strengthened the Group's position in the important Polish market. During 1996 there was a comprehensive program to upgrade the plant technically and it is now supplying components to other SKF factories. In addition, a substantial program to improve both the work environment and the exterior environment was conducted during the year.

### SKF recaptures market shares in South Africa

SKF also successfully advanced its positions in Africa and the Middle East. Sales companies in the southern part of Africa were organized in a single region, with South Africa – where there is a regional headquarters company – as the hub. The Group is thereby achieving logistical advantages as well as cost-savings in the administrative sector. In South Africa, which is the totally dominant market in the region, SKF is succeeding in recovering market shares it had lost earlier.

Developments in Latin America in 1996 were characterized primarily by the strong recovery of the economies in Argentina and Mexico. This was reflected in the sharp increase in the Group's deliveries to these two markets. Chile also showed good growth during the year.

### Brazil squeezed by import tariffs

Although SKF's deliveries to the Brazilian market increased slightly, compared with



Production line for spherical roller bearings at the SKF plant in Nilai, Malaysia

1995, the situation in Brazil has to be considered as stationary. Sharply reduced import tariffs on components used in the automotive industry exposed local manufacturers to severe pressure on price. Rolling bearings are among the components that car makers can now import virtually duty-free. With its substantial local production for the Brazilian automotive industry, SKF was forced to make price adjustments that had a negative impact on the Brazilian company's earnings in 1996.

Effective in early 1997, there will be certain upward adjustments of tariffs in Brazil due to the negative consequences experienced by a very large number of Brazilian suppliers to the country's automotive industry as a result of the earlier reductions.

### Expansion of FlexLink's sales organization

The past year was one of continuing growth for FlexLink Systems. The sales organization was strengthened, new sales and representative offices were opened in Brazil, Korea, India and Malaysia, and new planning methods were introduced. To meet increased market demands for complete installations, the distributor network was reinforced with System Builders, among other resources. A new conveyor system for heavier transports that opens up new areas for sales – notably in the automotive industry – was introduced during the year.

Continuing success was recorded in the field of ISD (Intrinsically Static Dissipative) technology, which uses polymers that allow controlled dissipation of static charges, and which was developed for environments that are sensitive to static electricity or soiling. A number of new contracts were received in the computer and electronics industry, as well as in the pharmaceutical industry.

### Textile industry remains weak

Demand for textile machinery components, which has been weak for some years, continued to decline in 1996. In SKF's case,



Measurement of randomly selected products at the ball production plant in Pinerolo, Italy

the decrease in sales amounted to approximately 15 percent, compared with 1995.

Parallel with its implementation of a comprehensive restructuring program to reduce costs, SKF produced and launched a number of new products designed to strengthen the Group's position as the market leader, despite the weak market.

A special unit, Linear Motion, which has three production companies and nine sales companies, was formed during the year. These companies are all active in the field of linear products – ball and roller screws, electromechanical actuators and linear guidance.

### Increased sales to aircraft engine sector

Demand for bearings used in aircraft engines continued to increase during 1996, resulting in higher sales for both SKF's American manufacturer, MRC, and Avio, the Italian manufacturer. The Group today

is a leading supplier of bearings for aircraft engines. In Europe, the SARMA company in France and AMPEP in the U.K. also give SKF a strong position as a supplier of aircraft components.

### The bearing market

During 1996 there were no dramatic changes in the world's bearing market, which was described in detail in the 1995 Annual Report. The picture was largely unchanged, compared with 1995. SKF continued to be the world leader, with the two Japanese companies – NSK and NTN – ranked second and third, respectively. In Europe, too, SKF continued to enjoy a clear lead over the two German companies, INA and FAG. In the American market, SKF shared second place with Torrington - after Timken. SKF's was the leading brand name in Latin America, Africa and the Middle East, as well as in Asia, excluding Japan.



**S**ales volumes for Chicago Rawhide continued to develop favorably in 1996. The greater part of the increase was attributable to good growth in the automotive segment and to the introduction of new products in the market. For example, new products that were first sold during the past two years accounted for a full 20 percent of sales by the German unit, CR Elastomere in 1996.

## *Clearer customer focus*

### **Clearer customer focus with new structure**

The seals division was restructured during the year and its operations were divided into three geographic areas: America, Europe and Asia. In the U.S., Chicago Rawhide's two operations, CR Industries and CR Services, were merged into a single unit in order to achieve a more rational structure. Four new business areas – Automotive, Heavy Duty, Industrial and Aerospace – were created in order to increase the focus on customers and markets.

In the U.S., which accounts for 70 percent of the division total, sales to both original-equipment manufacturers and the after-market developed favorably. During the year, CR America introduced a bonded piston that has the potential to become a future best-seller. It is used primarily in automatic transmissions, where it replaces

a number of components that were included in earlier designs. The first orders were received from Ford during the year.

Chicago Rawhide's strong position with Pep Boys, one of the fastest-growing retail chains in the American automotive after-market, contributed to the solid growth of sales in this segment.

A test machine at the CR elastomeric seals plant in Elgin, U.S.



The introduction of the Channel concept in the American portion of the seals division resulted in shorter lead times in production and lower levels of inventories.

In Europe, the division formed a common sales unit with special segments for the automotive industry and other industries, and with a focus on both manufacturers and the after-market. At the same time, there was a comprehensive restructuring of CR Elastomere designed to reduce its cost levels and improve productivity.

A number of new Rotostat® crankshaft seals for new car engines were introduced in Europe. Sales of oil seals to both the automotive and household appliance segments in France increased substantially. Sales to eastern European automotive plants – in particular to those based on Fiat's technology – also developed favorably. The sales organization serving the after-market in Europe is in a build-up phase; as a result, virtually all sales are to original-equipment manufacturers.



### Joint-venture company gives Chicago Rawhide a foothold in China

After the year-end, to strengthen its position in the fast-growing Asian market, Chicago Rawhide formed a joint-venture company with a Chinese seal manufacturer, Anhui Zhongding Ningguo Automotive Components Company Ltd. (ANZAG) in Anhui Province. The Chinese company produces radial shaft seals for the country's automotive industry. With the newly formed company, Anhui Zhongding CR Seals Company Ltd., in which Chicago Rawhide has a majority interest and management responsibility, the seals division assured itself of a foothold in the Chinese market.



### The market for seals

The world market for seals is fragmented, with a large number of players who are important mainly within their regions. The only exception is the constellation of Freudenberg in Germany, NOK in Japan and FNOK in the U.S. These companies work together, in part through jointly owned companies, making them a global operation and leaders in the industry. Chicago Rawhide is the leader in the North American market. FNOK, Dana and Federal Mogul are major competitors.

Freudenberg is definitely the leading company in the industry in Europe. Other important competitors are TI and BTR, two British companies, and Hutchinson in France – all of which are larger than CR Elastomere in Germany. But RFT, the Italian company that is part of SKF Seals Division, is the European leader in the market for rolling bearing seals.

NOK, the Japanese company, is the leading supplier in Asia.

#### Customer philosophy crucial for joint training

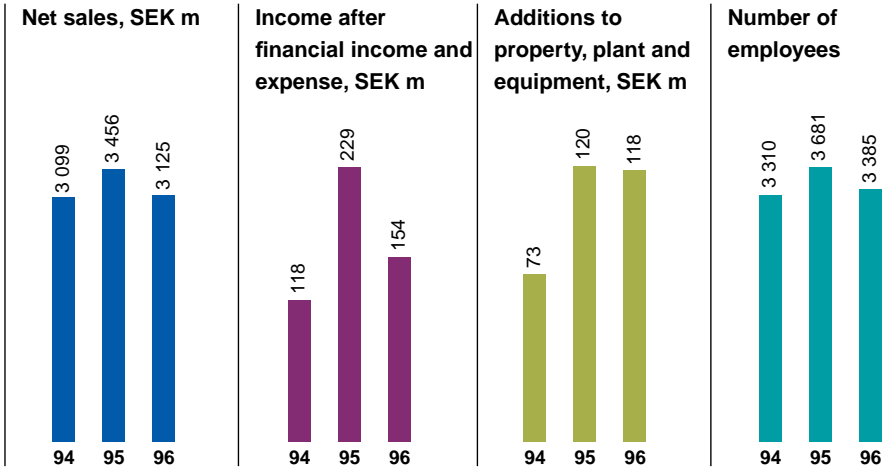
When John Deere, the American agricultural machinery manufacturer, was looking for suitable suppliers with whom to cooperate on competence development projects, Chicago Rawhide (CR) was a natural choice.

The crucial factors was the high quality and reliability of CR's products. Equally important, however, was the ability to satisfy the customer, an area in which CR has made impressive progress. The company produces elastomeric seals for customers in the automotive, truck and industrial markets. But instead of merely selling its products, CR attends to the customer's specific needs, first finding a technical solution, then designing and manu-

facturing a suitable product. If the customer requires some other type of seal, CR produces it, tests it and guarantees its quality and performance.

This customer philosophy is further refined in the joint training programs which John Deere has developed and in which CR employees regularly participate. Computer training has proved to be the most popular feature. The participants learn computer skills to the benefit of both companies.

In the illustration, Josie Castro (left) CR's training coordinator, discusses a new computer program in one of CR's testing laboratories with Linda K Lundquist, the program administrator at John Deere.



# Special steels



**T**he reductions in inventories stocked by customers that began at the end of 1995 also affected Ovako Steel's operations in 1996. The underlying consumption of special steels throughout the world was largely unchanged during the year. The inventory reductions resulted in smaller volumes of production and shipments, which in turn had a negative impact on the trend of productivity and costs. The effect on Ovako Steel was particularly apparent beginning in the second quarter of 1996, when the SKF Group's bearing plants also reduced their stocks of raw materials.

## *New distribution concept*

### **New distribution concept will provide long-term advantages**

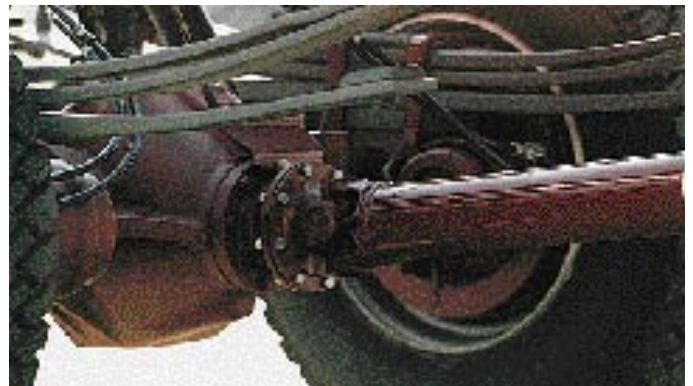
The inventory reductions were accelerated by the new distribution concept that Ovako Steel introduced during the year. Earlier, the steel products had been shipped from the various production sites directly to SKF's bearing plants throughout Europe. Each plant thus had to maintain a certain inventory of tubes, bars or rings. In 1996, Ovako Steel opened a central warehouse in Dijon, France, that now serves as a common warehouse for the bearing plants. As a result, the latter no longer have to maintain their own inventories since they can obtain the products they need for their own production within 48 hours. The Group is thus able to manage its inventories in a more cost-effective manner – although the changeover meant that Ovako Steel's

shipments during the past year were hit especially hard.

The total decrease in Ovako Steel's volume exceeded 10 percent, compared with 1995 volume. But the market showed signs of improvement towards the end of the year, which may indicate that the period of inventory reductions is now over.

The restructuring of Ovako Steel that began four years ago was completed during 1996 with the sale of the Dutch sales company to a distributor in the Netherlands and the divestment of the ring-manufacturing plant in Wayne, Michigan, in the U.S. The latter did not fit in with Ovako Steel's strategy which is now focused on rolling

An axle shaft produced of steel from Ovako Steel in RVI's new truck model





bearing steel and similar steels for demanding applications.

As a result of the adaptation to the smaller volumes, among other reasons, the number of employees in Ovako Steel was reduced by 311 during 1996.

## New business with SKF's competitors

During the year, in line with its strategic focus on rolling bearing steel, Ovako Steel intensified its marketing programs to increase the volume of business from bearing manufacturers other than SKF. These efforts resulted in new business in both Western Europe and the U.S. There was also a certain amount of increased activity in eastern Europe. Ovako Steel was thus able to maintain its share of a shrinking market during the year and lay the foundation for continuing expansion.

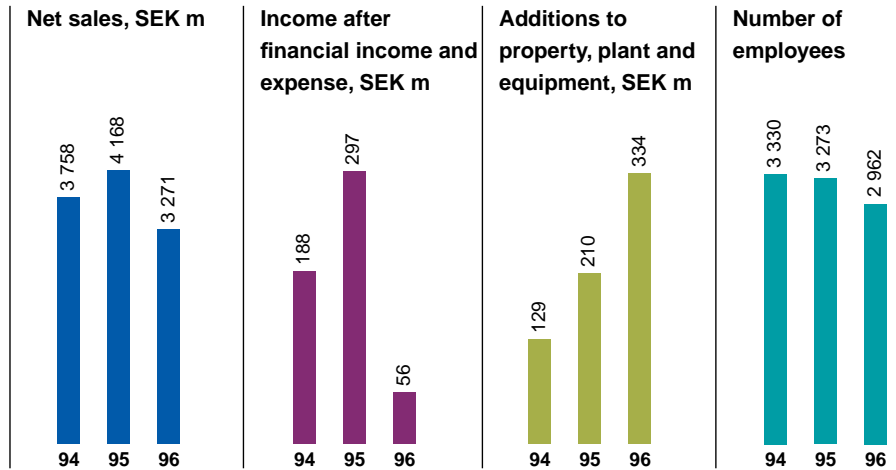
During the year it was decided to build a new rolling mill for hot-rolled seamless tube in Hofors, Sweden. This project, representing an investment of approximately SEK 500 m, is scheduled to be completed in mid-1998. The new mill will contribute to much more cost-effective production of rolling bearings within the Group and will also help to secure SKF's future bearing-tube requirements.

## The market for special steels

Ovako Steel is Europe's leading supplier of bearing steel bars, tubes and rolled rings. Its closest competitors in the bar product area are Ascometal (France), Thyssen (Germany) and British Steel Engineering Steels (U.K.). The principal competitors in the tube product area are companies linked to Mannesmann (Germany) and Vallourec (France).

The leading producers outside Europe, where Ovako Steel supplies only a few customers, are Timken in the U.S. and Sanyo and Daido in Japan. But these companies have a scant presence in the European market.

Ovako Steel has approximately 40 percent of the market in Europe.



### Competence development important for sales staff

It takes considerable patience to gain a foothold in the French market. Salespersons need to be not only technically competent but also socially adept. Ovako Steel has secured an important customer in Renault Véhicules Industriels (RVI), to which it supplies steels for RVI's truck production.

Behind this success is the continuous competence development achieved by Ovako Steel's sales personnel, including René Giraud (pictured).

Like SKF, RVI has pursued a policy of quality improvement for some time, which smoothed the

way for Ovako Steel's bid to become a supplier again. As a result of the cooperation between the companies, RVI has now substituted a nickel/chrome case hardening steel for a steel with a manganese/chrome base. While it was Bernard Chaillou, Director, Powertrain Purchasing Department, RVI, Jean-Louis Rapin, Buyer, RVI and their colleagues who introduced the new technique, the idea of rings from cut tubes came from Ovako Steel and its salesman René Giraud.

The illustration shows René Giraud, left, with Jean-Louis Rapin and Hafid Raouane, both buyers at RVI.



# Competence development – key to success

SKF has identified three goals which must be achieved if the Group is to realize its vision: to be perceived as the world leader in bearings and seals:

- Customer value for money
- Personnel development
- Shareholder value

To achieve these goals, it is important that all employees are aware of the Group's vision, that they understand it and want to participate in its realization. This means that more than 40 000 employees must be motivated to become involved in and understand the role they have to play in the overall process.

The overall process, which has been designated SKF 100, embraces not only the Group's vision but also the values that should guide our actions and our work, the strategic driving forces that should form the basis for everyday operating decisions and the strategies that should be followed to ensure that SKF achieves its objectives.

## Strong foothold for total quality

SKF 100 should be realized in an environment governed by TQM (Total Quality

Management). The TQM process is now in its fourth year in the Group, where it has established a strong foothold. TQM focus is placed on three dimensions: customers, employees and processes. Positive results can be discerned within all three areas, while demands for additional improvements within the organization are simultaneously being increased. All of the most important business processes have been identified and work to improve the quality of our results, or to reduce processing costs, has gradually been intensified. The emphasis placed on developing competence levels among the Group's employees is described in this article, while the focus placed on customers in the new organization is shown to have created improved conditions for providing them with the products, advice and technical services they need.

The name SKF 100 derives from the fact that SKF celebrates the 100th anniversary of its founding in the year 2007. The goals are specific and clearly established for each division.

One of the cornerstones of the SKF 100 program is the investment being made in the Group's employees. Without in any way reducing our technological development, we intend to significantly increase our focus on the employees and their development.

Our efforts in this area will commence with instruction in the Group-wide values we have established to govern the way in which we act towards colleagues, customers, owners, the environment and society in general, etc. Our values reflect the demands and expectations placed on managers and the type of leadership that should characterize the Group as a whole, namely a high level of professional competence, openness and an ability to delegate and assume responsibility, to name just a few examples.

## Extensive training efforts throughout the Group

During the year, extensive training efforts were implemented to communicate and establish the SKF 100 program at all levels of the organization. Jointly with their managers, the bulk of SKF's employees have worked in seminars with issues related to how SKF 100 affects them individually and in working groups. This has involved translating a corporate strategy into practical actions for individuals within their offices or posts in the manufacturing plants; to maintain open communications between managers and their personnel and to delegate the decisions to those who are closest to the problems and thus have the best chance of solving them.

The goal is that all employees should have received training in SKF 100 by the end of the first quarter of 1997. To support the training process, Group-wide tools have been developed, such as career development interviews and work-climate analyses. The work-climate analyses, which will be implemented in all SKF units every 18 months, give all employees the opportunity to express viewpoints on the functioning of the organization, and to make suggestions for improvements. These suggestions will provide the basis for a number of improvement activities for implementation by working groups.

When Sven Wingquist invented the spherical ball bearing upon which SKF was founded, his starting-point was the problems that he was experiencing as a customer with the bearings available at that time. It is this type of entrepreneurial spirit



### Utilizing female competence

Victoria Wikström has a doctorate in tribology, the study of lubrication, sealing and friction. She is the latest female technician hired by ERC in the

Netherlands, in a conscious attempt to reduce male dominance in this area. Here, Victoria is shown in the ERC acoustics room.

and capacity for always focusing on the customer, that must be further strengthened.

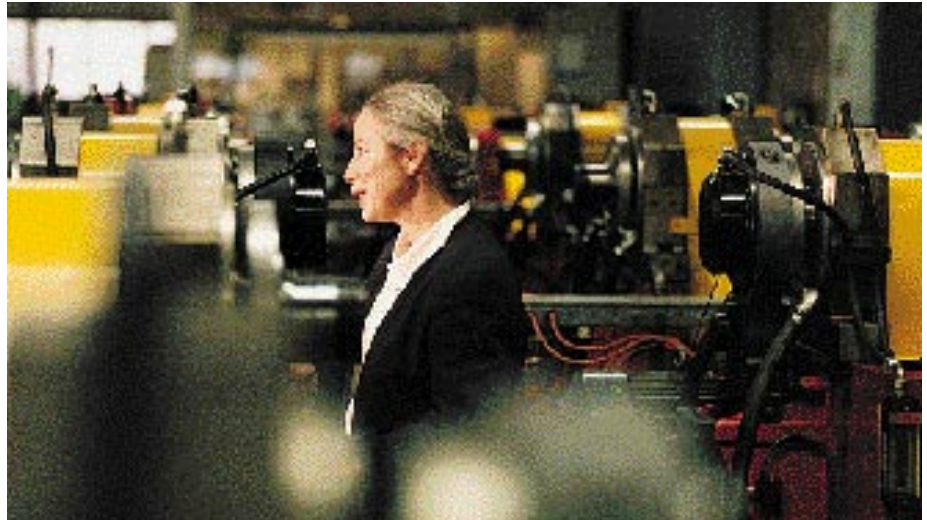
In the face of constantly increasing competition, SKF must distinguish itself as the company that most successfully anticipates and meets customer needs, while at the same time reducing costs. This requires a rapid response to customer demands. Accordingly, SKF has changed its organization from a hierarchically functioning to a more process-oriented model. The requirements from various customer categories define the Group's present, segment-based global organization. Several levels in the management hierarchy have been eliminated, leading to more rapid decision-making and improved communication. Experience has shown that delegation of decisions results in less expensive solutions.

At the Group's plant in Gainesville, GA, U.S., production targets were reached more rapidly when management delegated decision-making to employees who were willing to assume responsibility. Employees at the plant have also been given financial authority in certain areas. Problems that need to be solved are listed on a bulletin board, then deleted as soon as a solution is found. By applying this procedure, each production channel has solved some 150 problems within one year.

The changes currently being implemented impose many new demands on both managers and other employees. The flat organization means that more people are involved in decisions. Work teams have greater overall responsibility than before. Personnel with special expertise are added to the work teams. Job functions become broader in scope and more demanding, but also more varied and stimulating. When problems occur in a production channel, the team must find the solutions itself rather than summon outside help.

## Customized competence development

Perhaps the most important consequence of SKF 100 is that all employees must be given the skills required to handle the increasingly advanced work assignments. Competence development is crucial to the



### Equality prize awarded to SKF research centre

SKF strives to achieve diversity. Having employees of both sexes, with a range of different ages, experiences and cultural backgrounds means that the solutions applied by the company are always more creative than if everyone were to think along the same lines.

The Group is also attempting to promote equality between the sexes by giving both women and men the opportunity to work on a flextime basis, as well as working from home to some extent.

Since SKF is still a male-dominated company, the 1996 Equality Prize awarded to the ERC

Research Centre in the Netherlands by the Dutch business publication, VB Magazine, was particularly appreciated. The award owes much to the determined efforts of ERC's personnel manager, who in a period of just three years has increased the number of women technicians with college-level qualifications in the company from one to fourteen.

The illustration shows Susan Shearer in one of the ERC test laboratories. As manager of this department, Susan is responsible for setting up teams of specialists to handle different test projects.

Group's ability to develop along the right lines in the long term. In order to systematize competence development, SKF has introduced competence matrices which permit competence requirements to be compared with employees' actual competence. Training programs are then planned in relation to actual needs. This system also provides a valuable tool for the Group's personnel planning, which has become an increasingly important area as responsibility and authority have been spread among a greater number of employees.

Raising employees' competence levels also allows important decisions to be taken closer to the customer, enhancing the flexibility which is essential in order to keep pace with market fluctuations. In many units, SKF has also introduced flexible work schedules, enabling working hours to be adapted to economic conditions and fur-

ther enhancing the Group's ability to tailor production to market demand. This also enables decisions regarding production volumes to be taken locally in the various production units, based on customer requirements. As well as enabling the Group to rapidly accelerate or decrease the pace of production to match market trends, adapting work schedules to economic conditions also provides greater stability for employees. During a recessionary period, well-trained personnel can be retained, reducing the need to recruit new employees when the economy recovers. For SKF, this means that the expensive and time-consuming initiation phase is eliminated, as well as increasing job security for employees. It also facilitates the provision of systematic competence development to employees.

# Financial objectives and dividend policy

SKF's overall financial objective is to give its shareholders a sustainable and market-comparable return on their investment in SKF. Over time, the total return – dividend plus growth in value – should exceed the risk-free interest rate by a number of percentage points, corresponding to the market's requirements.

The Group's primary long-term objective, calculated as an average over an economic cycle, is to achieve a return of 15 percent on capital employed.

## Financial position

A strong financial position and good credit rating are essential prerequisites for solid long-term growth and profitability in a business that is sensitive to changes in economic conditions. These factors also contribute to stabilizing the share price development.

SKF's objective is to have a solvency of 35 percent calculated as an average over an economic cycle.

## Dividend policy

SKF's dividend policy is based on the principle that the dividend should be adapted to the trend of earnings and cash flow, taking into account the Group's development potential and financial position.

The Board of Directors' view is that the dividend should amount to approximately one third of SKF's average net income, calculated over an economic cycle.

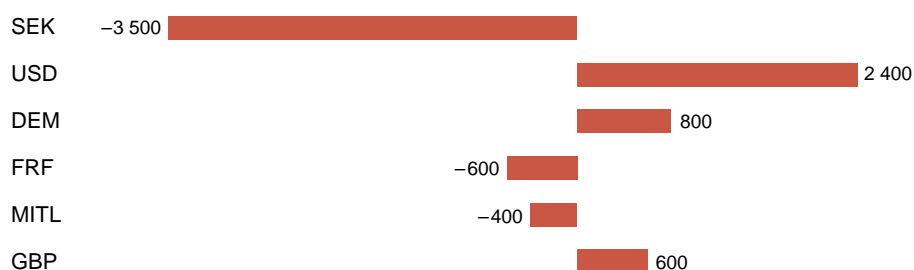
## Financing

SKF's policy is that Group operations should be financed through long-term borrowing. The goal is that the loans required to finance anticipated needs should have maturities exceeding three years. As of December 1996, the average maturity of SKF's loans was 4.5 years.

According to the Group's financial policy, SKF should have – in addition to this loan financing – payment capacity in the form of surplus liquidity and/or long-term credit facilities, amounting to at least USD 250 m. During 1996 the Group's credit facilities for payment capacity were increased and extended. As of December 31, 1996, the Parent Company had long-term credit commitments totaling USD 600 m from eleven banks. The increase in readily available funds during the year is to be used largely to refinance existing loans that can be repaid during 1997.

The Group has been assigned a "BBB" rating for long-term credits by Standard & Poor's and a "Baa2" rating by Moody's Investors Service.

## Main flows per currency – net, SEK m





# Financial risk management

SKF's operations are exposed to currency risks, interest-rate risks and credit risks. As a result of the broad geographic distribution of its business, with operations in many countries, the Group has a complex and changeable risk situation, but one that is relatively diversified.

The Group's financial policy clearly defines currency, interest-rate and credit risks and establishes responsibility and authority for the management of financial risks. This policy states that the primary objective is to avoid or minimize risk and to contribute to a better return on Group assets through an active management of risks.

The management of these risks, and responsibility for all treasury operations, including financing and cash management, is largely centralized in SKF Treasury Centre AB, the Group's internal bank.

## Currency risks

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The currency risks to which the Group is continually exposed consist of changes in exchange rates in future flows of payments, transaction exposure, as well as the revaluation of income, assets and liabilities in foreign currencies when these currencies are translated to Swedish kronor, translation exposure.

### *Transaction exposure*

The Group's principal commercial flows of foreign currencies pertain to exports from Europe to North America and Asia, and to flows of currencies within Europe.

SKF has flows in some 20 currencies. The total flow of goods exceeds SEK 26 000 m. After offsetting flows in the same currency, the net flow amounts to approximately SEK 7 000 m. The flows that currently have the greatest impact on SKF's income – due to their size, which may vary – are inflows in USD and DEM and outflows in SEK, FRF and ITL. The fluctua-

tions in foreign exchange rates in these currencies, amounting to approximately 10 percent that have become normal over the course of a year, can affect Group income by a number of hundred million kronor in total.

SKF's policy is to hedge currency flows through forward contracts covering periods of four months on average. This is the length of time deemed to be required, under present conditions, to adjust to new conditions. Within the framework of established risk limits, it is possible for SKF Treasury Center AB to make significant deviations from this average period. Risks are managed based on a risk-evaluation system that takes into account the volatility of currencies as well as their mutual relationship. As of year-end, the lengths of the actual forward contracts largely conformed with the basic policy.

### *Translation exposure*

Group income is also affected by the effect of translating the income of foreign subsidiaries to Swedish kronor. When there is a change of approximately 10 percent in the value of the krona, this effect can amount to a couple of hundred million kronor.

The Group is also affected by the translation to Swedish kronor of net assets held outside Sweden. At year-end 1996, SKF's net foreign assets amounted to SEK 8 700 m, of which approximately 28 percent was hedged. The hedging is performed through the use of derivatives as well as through borrowing in the same currency as the net foreign assets. This type of hedging will be employed to a lesser degree in the future, and mainly in a few non-European currencies.

### *Economic exposure*

SKF's principal competitors have the greater part of their production capacity in Germany, the U.S. and Japan. Currency changes affecting those countries' cost situ-

ation primarily in relation to Sweden, Italy and France, where SKF, in addition to Germany and the U.S., has substantial manufacturing operations, affects SKF's competitiveness in relation to these competitors. In other words, the changes in foreign exchange rates that have occurred during the past year – with a stronger SEK and ITL – have been unfavorable for the Group up to now. Over the long term, SKF is seeking to establish a better balance in production and sales between the European, American and Asian zones.

## Interest-rate risks

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The risk associated with interest rates is that changes in interest rates will have a negative impact on Group income. SKF's basic policy for establishing fixed-interest-rate periods is that the average duration should be six months. This applies to borrowing as well as investment of funds and includes the use of derivatives.

The composition of the Group's interest-rate portfolio is diversified and normal changes in interest rates are not considered to have any significant impact on SKF's earnings within the short term.

## Credit risks

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Credit risks pertain to the creditworthiness of counterparties and are reduced through a detailed evaluation of their ability to fulfill their obligations. Credit risks that arise as a result of trading in financial instruments and in connection with the investment of liquid funds are carefully defined in the financial policy. Transactions are carried out only within established limits, and with counterparties who have good credit ratings.

# Consolidated income statements

<i>Millions of Swedish kronor</i>	<b>1996</b>	1995	1994
Net sales	<b>33 589</b>	36 700	33 273
Other operating revenues	<b>368</b>	106	151
Cost of goods sold	<i>note 2</i> <b>- 23 482</b>	- 25 079	- 23 466
Selling and administrative expenses	<b>- 6 209</b>	- 6 367	- 5 951
Depreciation	<i>note 3</i> <b>- 1 392</b>	- 1 360	- 1 416
<b>Operating income</b>	<b>2 874</b>	4 000	2 591
Financial income and expense – net	<i>note 4</i> <b>- 462</b>	- 611	- 714
<b>Income after financial income and expense</b>	<b>2 412</b>	3 389	1 877
Taxes	<i>note 5</i> <b>- 701</b>	- 1 301	- 570
<b>Income after taxes</b>	<b>1 711</b>	2 088	1 307
Minority interest	<b>- 19</b>	- 30	- 28
<b>Net income for the year</b>	<b>1 692</b>	2 058	1 279

## Comparison according to quarterly reports – 1996

<i>Millions of Swedish kronor</i>	1/96	2/96	3/96	4/96	<b>Full year 1996</b>
<b>Group</b>					
Net Sales	8 881	8 647	7 832	8 229	<b>33 589</b>
Income after financial income and expense	811	664	374	563	<b>2 412</b>
Earnings per share after tax	4.60	3.30	2.50	4.55	<b>14.95</b>

## Comments on the consolidated income statements

### Sales

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Group sales in the year amounted to SEK 33 589 m compared with SEK 36 700 m and 33 273 m in 1995 and 1994, respectively. Changes in exchange rates had an adverse effect corresponding to some SEK 2 700 m. Of the down-turn in sales, -7.5 percent was attributable to exchange rate effects, -1.0 percent to structural changes (operations acquired or discontinued), +2.5 percent to price and mix effects (volume shifts between various customer segments with different price levels) and -2.5 percent to volumes.

Other operating revenues, net, amounted to SEK 368 m compared with SEK 106 m and 151 m for 1995 and 1994, respectively. The figure for 1996 included, among other items, a gain of SEK 378 m related to the sale of a Japanese subsidiary which mainly contained the property in which SKF's Tokyo office is located.

### Income after financial income and expense

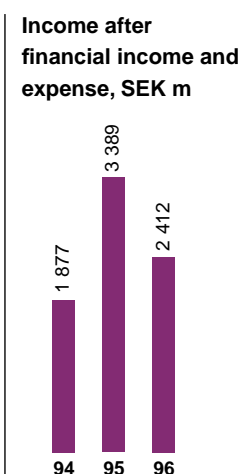
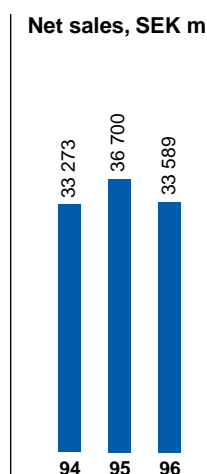
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The SKF Group's income after financial income and expense amounted to SEK 2 412 m in 1996 compared with SEK 3 389 m and 1 877 m in 1995 and 1994, respectively. Changes in exchange rates affected operating income negatively by approximately SEK 600 m, compared with 1995. However, the financial net was affected positively by some SEK 175 m through currency hedging. Therefore, the negative effect on the income after financial income and expense was limited to some SEK 425 m.

### Income after taxes

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The SKF Group's effective tax rate for 1996 was 29 percent compared with 38 and 30 percent for 1995 and 1994, respectively. The lower tax rate in 1996 was due to certain non-recurring items together with a transfer of gains within the Group from countries with a high tax rate, mainly Italy, to countries with a lower tax rate.





# Consolidated balance sheets

<i>Millions of Swedish kronor</i>		1996	1995	1994
<b>ASSETS</b>				
<b>Current assets</b>				
Current financial assets	<i>note 6</i>	2 091	2 897	2 356
Trade accounts receivable	<i>note 7</i>	6 000	6 111	6 157
Inventories	<i>note 8</i>	9 476	8 972	8 606
Short-term tax assets	<i>note 5</i>	534	476	606
Other current assets	<i>note 9</i>	818	689	754
		<b>18 919</b>	19 145	18 479
<b>Capital assets</b>				
Long-term financial assets	<i>note 10</i>	986	1 138	1 238
Investments	<i>note 27</i>	77	74	110
Property, plant and equipment	<i>note 11</i>	12 565	11 286	11 116
Long-term tax assets	<i>note 5</i>	693	773	1 029
Other capital assets	<i>note 12</i>	544	579	740
		<b>14 865</b>	13 850	14 233
<b>Total assets</b>		<b>33 784</b>	32 995	32 712
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Short-term liabilities</b>				
Short-term loans	<i>note 13</i>	1 693	1 715	2 047
Trade accounts payable	<i>note 14</i>	2 686	2 764	2 635
Short-term tax liabilities	<i>note 5</i>	413	457	552
Other short-term liabilities	<i>note 15</i>	4 158	4 238	4 211
		<b>8 950</b>	9 174	9 445
<b>Long-term liabilities</b>				
Long-term loans	<i>note 16</i>	3 321	3 195	3 567
Pensions and other postretirement benefits	<i>note 17</i>	5 902	6 009	6 178
Long-term tax liabilities	<i>note 5</i>	1 288	1 228	1 105
Other long-term liabilities	<i>note 18</i>	1 200	1 712	1 703
Convertible bonds	<i>note 20</i>	1 525	1 389	1 387
		<b>13 236</b>	13 533	13 940
<b>Minority interest</b>		<b>288</b>	166	144
<b>Shareholders' equity</b> <i>note 21</i>				
<b>Restricted equity</b>				
Share capital		1 412	1 412	1 412
Restricted reserves		4 284	4 136	4 854
<b>Unrestricted equity</b>				
Unrestricted reserves		3 922	2 516	1 638
Net income for the year		1 692	2 058	1 279
		<b>11 310</b>	10 122	9 183
<b>Total liabilities and shareholders' equity</b>		<b>33 784</b>	32 995	32 712
<b>Assets pledged</b> <i>note 22</i>				
		517	806	915
<b>Contingent liabilities</b> <i>note 23</i>				
		206	199	296

## Comments on the consolidated balance sheets

### Assets and liabilities

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Total assets amounted to SEK 33 784 m for 1996 compared with SEK 32 995 and 32 712 m for 1995 and 1994, respectively.

Inventories as a percentage of annual sales totaled 28 (compared with 24 and 26 for 1995 and 1994, respectively). The increase of the inventory level in 1996 referred mainly to finished products as a result of a high rate of production at the beginning of the year together with a need, in certain segments, to improve service reliability to Group customers.

The liability to minority owners increased during 1996 by SEK 122 m to SEK 288 m. The increase was related to the establishment of joint-venture companies in Asia during the year.

### Financing

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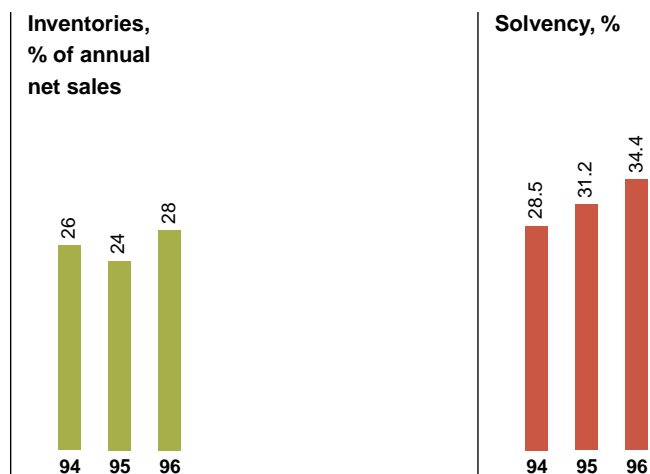
At year-end, the total interest bearing loans amounted to SEK 6 539 m (6 299 and 7 001 for 1995 and 1994, respectively) while pension liabilities totaled SEK 5 902 m (6 009 and 6 178 for 1995 and 1994, respectively). At the same time, financial assets totaled SEK 3 077 m (4 035 and 3 594 for 1995 and 1994, respectively), of which SEK 2 091 m (2 897 and 2 356 for 1995 and 1994, respectively) consisted of current financial assets.

During the second half of the year, real estate, which had previously been leased under the terms of a sale/lease back agreement, was repurchased for approximately SEK 650 m. The repurchase of the real estate resulted in a decrease of the Group's other long-term liabilities by a corresponding amount.

### Key figures

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Earnings per share amounted to SEK 14.95 compared with 18.20 and 11.30 for 1995 and 1994, respectively. The return on capital employed was 14.7 percent (19.0 and 13.0 for 1995 and 1994) and on shareholder's equity 15.9 percent (19.4 and 13.4 for 1995 and 1994). Group solvency improved during 1996 from 31.2 percent to 34.3 percent at year-end.



# Consolidated statements of cash flow

<i>Millions of Swedish kronor</i>	<b>1996</b>	1995	1994
<b>Operating income</b>	<b>2 874</b>	4 000	2 591
Depreciation and goodwill amortization	<b>1 461</b>	1 434	1 521
Net gain(-)/loss on sales of property, plant and equipment, companies and businesses	<b>- 362</b>	- 98	- 2
Changes in working capital:			
Inventories	<b>- 513</b>	- 525	566
Trade accounts receivable	<b>101</b>	- 87	- 551
Trade accounts payable	<b>- 87</b>	229	459
Other current assets and liabilities – net	<b>- 192</b>	- 125	- 704
<b>Cash flow from operations</b>	<b>3 282</b>	4 828	3 880
Additions to property, plant and equipment	<b>- 2 710</b>	- 2 296	- 1 356
Purchases of companies	<b>- 151</b>	- 65	—
Sales of property, plant and equipment, companies and businesses	<b>682</b>	554	200
<b>Cash flow after investments</b>	<b>1 103</b>	3 021	2 724
Financial income and expense – net	<b>- 462</b>	- 611	- 714
Taxes	<b>- 663</b>	- 893	- 393
Change in other long-term assets and liabilities	<b>- 413</b>	67	172
Cash dividends, AB SKF shareholders	<b>- 593</b>	- 480	—
Translation adjustments	<b>65</b>	95	146
<b>Cash flow before financing</b>	<b>- 963</b>	1 199	1 935
Change in loans	<b>157</b>	- 658	- 2 271
<b>Change in current financial assets</b>	<b>- 806</b>	541	- 336

The cash flow analysis has been adjusted for acquired and sold companies and businesses.



## Comments on the consolidated statements of cash flow

### Cash flow from operations

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Gross cash flow amounted to SEK 4 335 m for 1996 (5 434 and 4 112 for 1995 and 1994) which is 12.9 percent (14.8 and 12.4 percent for 1995 and 1994) of the annual sales.

### Cash flow after investments

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Capital expenditures in property, plant and equipment increased from SEK 2 296 m in 1995 to SEK 2 710 m in 1996. This increase reflects the current technological upgrading of the Group's plants and its expansion activities in the U.S. and Asia. Among these activities, the plant in the southern part of the U.S. for the production of wheel bearing units for cars and trucks, and the technical center in Detroit for product development could be mentioned.

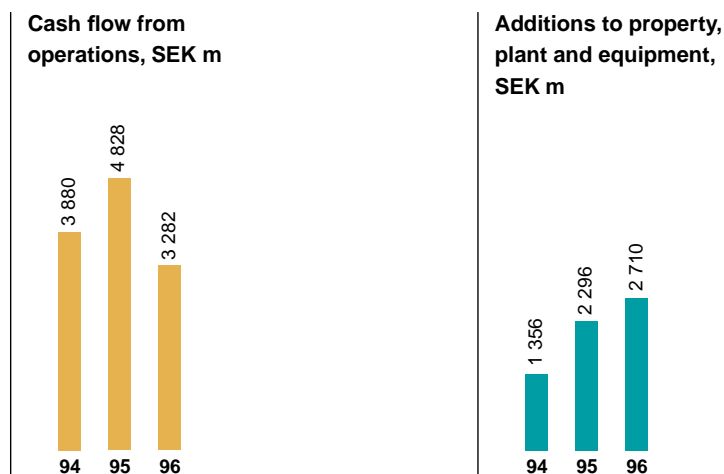
Further, the Group invested SEK 151 m in joint-venture companies in Asia. The 1996 investments were Beijing Nankou SKF Railway Bearings Company Limited, People's Republic of China and SKF Hanwha Automotive Components Corporation, Republic of Korea.

### Cash flow before financing

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During the second half of the year, real estate, which had previously been leased under the terms of a sale/lease back agreement, was repurchased for approximately SEK 650 m. This, and the high rate of investment, led to a negative cash flow, before financing, of SEK 963 m in 1996, which was financed by additional loans of SEK 157 m and reduced current financial assets of SEK 806 m.

The net liabilities of the Group amounted to SEK 4 448 m compared with SEK 3 402 m and SEK 4 645 m for 1995 and 1994, respectively.



# Notes to the consolidated financial statements

Amounts in millions of Swedish kronor (SEK m) unless otherwise stated.

## 1 Accounting principles

### General

The consolidated financial statements include the Parent Company AB SKF and all companies in which AB SKF, directly or indirectly, owns shares representing more than 50 percent of the voting rights. AB SKF and its subsidiaries are referred to as "the SKF Group" or "the Group".

Investments in companies, representing 20 to 50 percent of the voting rights, and where the SKF Group has a significant influence, are referred to as "Associated Companies".

All companies within the Group apply the accounting rules as stated in the "SKF Accounting and Financial Reporting Manuals". These rules are primarily based on generally accepted accounting principles in Sweden (Swedish GAAP). In general, the rules applied by the SKF Group are also in accordance with generally accepted accounting principles in the United States (U.S. GAAP). Significant differences between Swedish GAAP and U.S. GAAP are described in note 26.

### Consolidation – subsidiaries

The consolidated financial statements are prepared using the purchase method. The consolidated shareholders' equity includes the Parent Company's equity and that part of the equity in subsidiaries which has arisen after the acquisition. The difference between the cost of acquiring the shares in a subsidiary and the shareholders' equity of that subsidiary at the time of acquisition, adjusted in accordance with the Group's accounting principles, is accounted for:

- as goodwill in the consolidated balance sheets, if the cost of acquiring the subsidiary is higher than the shareholders' equity, or
- as a decrease in the value of acquired capital assets, if the cost of acquiring the subsidiary is lower than the shareholders' equity.

### Exchange rates

The following exchange rates into SEK have been used in translating the financial statements of foreign subsidiaries operating in the countries shown below:

		Average rate			Year-end rate		
		1996	1995	1994	1996	1995	1994
Belgium	100 BEF	21.66	24.31	23.17	21.45	22.65	23.42
Canada	1 CAD	4.91	5.21	5.63	5.02	4.88	5.30
France	1 FRF	1.31	1.43	1.39	1.31	1.36	1.39
Germany	1 DEM	4.45	5.00	4.77	4.42	4.65	4.81
India	100 INR	18.99	21.91	24.17	19.13	18.93	23.37
Italy	100 ITL	0.43	0.43	0.48	0.45	0.42	0.46
Japan	100 JPY	6.14	7.64	7.60	5.92	6.47	7.47
The Netherlands	1 NLG	3.92	4.46	4.25	3.94	4.15	4.29
Spain	100 ESP	5.29	5.73	5.77	5.25	5.49	5.64
Switzerland	1 CHF	5.44	6.06	5.67	5.09	5.79	5.68
United Kingdom	1 GBP	10.43	11.27	11.80	11.61	10.30	11.63
USA	1 USD	6.69	7.14	7.71	6.87	6.66	7.44

Intercompany accounts, transactions and unrealized profits have been eliminated in the consolidated financial statements.

### Accounting for investments in Associated Companies

Investments in Associated Companies are accounted for in accordance with the equity method. The value of the investments is equal to the Group's share of shareholders' equity in these companies, determined in accordance with the accounting rules of the Group. The Group's share of these companies' results is based on their income/loss after taxes. At present no such investments are accounted for.

### Translation of foreign financial statements

The current rate method is used for translating the financial statements of the major part of the foreign subsidiaries into Swedish kronor. Under this method, all assets and liabilities are translated into Swedish kronor at year-end exchange rates, whereas income and expense items are translated at average exchange rates. The translation adjustments that arise are transferred directly to shareholders' equity.

For the translation of financial statements of subsidiaries operating in highly inflationary economies, the Group applies the monetary/non-monetary method (MNM-method) according to the Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" (SFAS 52). Monetary balance sheet items are translated at year-end exchange rates and non-monetary balance sheet items, as well as related income and expense items, are translated at rates in effect at the time of acquisition (historical rates). Other income and expense items are translated at average exchange rates. Translation differences that arise are included in the related lines in the income statement.

### Foreign currency transactions

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Receivables and payables denominated in foreign currencies are translated at year-end exchange rates. The resulting gains and losses are classified as either operational or financial items in the income statement.

### Forward exchange contracts

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Forward exchange contracts hedge part of the budgeted flow of goods and services between countries. Realized gains and losses are included in financial exchange differences.

Currency gains and losses on forward exchange contracts and loans, serving as hedges of net investments in foreign subsidiaries, are excluded from the income statement. These gains and losses, less current and deferred income taxes, are transferred directly to shareholders' equity, thereby offsetting gains and losses arising from the translation of the financial statements of the foreign subsidiaries. For these forward exchange contracts, the interest difference between currencies is allocated over the life of the contract in the income statement.

Forward exchange contracts which are not considered hedges have been valued at market value. Gains and losses are included in financial income and expense.

### Debt and marketable equity securities

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The Group applies SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". There are no marketable equity securities held. Debt securities are held only for trading purposes with the intention to be sold in the near future, and are recorded at market value with changes in value recognized in the income statement.

### Inventories

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Inventories are stated at the lower of cost (first-in, first-out basis) or market (net realizable value). Net realizable value is defined as the lower of current replacement cost or market value less selling cost. Cost includes material, labor and manufacturing overheads.

### Capital and intangible assets

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Depreciation is provided on a straight-line basis and is calculated based on the cost of the asset. In some countries, legal revaluations are made in addition to cost, and depreciation is then based on the revalued amounts.

The rates of depreciation are based on the estimated economic lives of the assets, generally 33 years for buildings, 10–17 years for machines and 4–5 years for tools, office equipment and vehicles.

Goodwill is amortized over 10 years on a straight-line basis, except for goodwill related to significant strategic acquisitions, which is amortized over a maximum of 20 years. Amortization of goodwill is included in administrative expenses.

Patents and similar rights are stated at cost and are amortized on a straight-line basis over their legal lives.

### Leases

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The Group applies SFAS 13 "Leases", which is in accordance with the Swedish accounting recommendation RR 6 "Accounting for leases".

Leases which transfer virtually all benefits and risks incident to the ownership of the property to the Group (capital leases), are capitalized and accounted for as assets and incurrence of obligations. Rentals for other leases (operating leases) are charged against income over the lease term.

### Other operating revenues

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The Group classifies as other operating revenue items such as gains and losses on sales of non-production related capital assets, gains and losses on sales or closures of companies and businesses, rental income, and results from reinsurance operations.

### Research and development

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Research and development expenditures are charged against income as incurred and accounted for as cost of goods sold in the consolidated income statement.

### Income taxes

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All companies within the SKF Group compute current income taxes in accordance with the tax rules and regulations of the countries where the income is taxable.

Deferred taxes are accounted for according to SFAS 109 "Accounting for Income Taxes". SFAS 109 requires that deferred taxes be calculated on differences between the book and tax bases of assets and liabilities in accordance with the liability method which, among other things, means that changes in tax rates affect the year's results. Additionally, it allows the recognition of loss carry-forwards if they, more likely than not, can be utilized. The difference between the gross effect and the amounts expected to be utilized is provided for in a valuation allowance.

Provisions have been made in the consolidated financial statements for estimated taxes on earnings of subsidiaries expected to be remitted in the following year, but not for tax liabilities which may arise on distribution of the remaining unrestricted earnings of foreign subsidiaries.

### Postretirement benefits

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The Group applies SFAS 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" which requires that the cost of health insurance and other similar benefits provided to employees after their retirement be expensed during an employee's active service life. Previously the cost of these benefits was expensed on a cash basis.



## Changes in accounting principles

As from 1995, the interest portion of the costs for pensions and other postretirement benefits are accounted for as financial expense and no longer as operating expense. The liabilities are included in interest bearing liabilities.

Beginning in 1995, the Group applies SFAS 98, "Accounting for Leases" for sale/leasebacks of real estate. This is in accordance with the new Swedish accounting recommendation RR6, "Accounting for Leases" which is required as of January 1, 1997. As a result, the real estate in Sweden which was sold in 1987, 1989 and 1990 and leased back by the Group until September 1996 is accounted for as a sale-financial transaction. The historical book value of the real estate is recorded as an asset and the proceeds received after amortization are recorded as a liability. The difference between the asset and the liability is the gain of the sale, which, after considering taxes was 415 and was charged to the opening shareholders' equity at January 1, 1989. During 1996 the real estate was repurchased and the Group's other long-term liabilities were reduced by the remaining portion of the sales price as at the repurchase date.

As from 1996, the research and development expenditures are accounted for as cost of goods sold and no longer as selling, administrative and technical expenses in the consolidated income statement.

As from 1996, pensions are defined as an employee's right to certain benefits after retirement. Such rights are earned during the employee's employment and paid out during the remaining lifetime. Further, pensions are defined as interest-bearing liabilities. See Note 17 for computation of the interest portion of pensions.

Beginning in 1996, the unrecognized and unfunded vested and unvested retirement benefits are accounted for as a liability in the consolidated balance sheet and no longer as a contingent liability. The change in accounting principle, after considering taxes, amounts to 238 and was charged to the opening shareholders' equity at January 1, 1990.

Previous years have been restated according to the new principles.

## Definitions of key figures

The majority of the subsidiaries within the SKF Group report their results of operations and financial position ten times a year. The key figures presented in the Annual Report have been calculated using average values based on these interim reports. Therefore, the calculation of these key figures using the year-end values presented, may give slightly different results.

### 1. Portion of risk-bearing capital

Shareholders' equity plus minority interest and deferred taxes, as a percentage of total assets at year-end.

### 2. Solvency

Shareholders' equity plus minority interest, as a percentage of total assets at year-end.

### 3. Return on total assets

Operating income/loss plus financial income, as a percentage of average total assets.

### 4. Return on capital employed

Operating income/loss plus financial income, as a percentage of average total assets less the average of non-interest bearing liabilities.

### 5. Return on shareholders' equity

Income/loss after taxes, as a percentage of average shareholders' equity.

### 6. Profit margin

Operating income/loss plus financial income, as a percentage of net sales.

### 7. Turnover of total assets

Net sales in relation to average total assets.

### 8. Earnings per share in Swedish kronor

Income/loss after taxes and minority interest divided by average number of shares.

### 9. Yield

Dividend as a percentage of share price at year-end.

### 10. P/E ratio

Share price at year-end divided by earnings per share.

### 11. Average number of employees

Total number of working hours of all employees, divided by the normal total working time during the year.

## 2 Research and development

Research and development expenditures charged against income were 751 in 1996, 598 in 1995 and 542 in 1994. Additionally, the Group enters into external research and development contracts where on behalf of a third party, the Group develops or produces prototypes of various products. Expenses under these contracts were 4, 9 and 20 in 1996, 1995 and 1994 respectively, and have been fully reimbursed.

## 3 Depreciation

	1996	1995	1994
Land improvements	7	9	9
Buildings	170	140	153
Machinery and equipment	1 179	1 183	1 221
Leases	20	12	27
Leaseholds	1	1	1
Revaluations	15	15	5
	<b>1 392</b>	<b>1 360</b>	<b>1 416</b>

Depreciation related to assets used in manufacturing and research and development amounted to 1 179 in 1996, 1 181 in 1995 and 1 223 in 1994. The remainder relates to assets used in selling and administrative areas.

## 4 Financial income and expense

	1996	1995	1994
Dividend income	5	4	6
Interest income	491	532	521
Interest portion of the cost for pensions and other postretirement benefits (see note 17)	- 383	- 392	- 417
Other interest expense	- 758	- 800	- 877
Financial exchange gains and losses	183	45	53
	- 462	- 611	- 714

## 5 Taxes

	1996	1995	1994
Taxes on the income after financial income and expense			
Current taxes	- 410	- 850	- 486
Deferred taxes	- 291	- 451	- 84
	- 701	- 1 301	- 570

Deferred taxes for 1996 include a charge of 39 related to the net change in the valuation allowance. Of this change, 2 represents an adjustment of the beginning of the year balance of the part of the valuation allowance still existing at year-end. The adjustment was due to a change in circumstances which affected the judgement on the realizability of the related deferred tax asset in future years.

Net current and deferred tax assets and liabilities at December 31, were:

	1996	1995	1994
Current income taxes receivable	28	—	—
Short-term deferred tax assets	506	476	606
Long-term deferred tax assets	693	773	1 029
	1 227	1 249	1 635
Current income taxes payable	—	265	271
Short-term deferred tax liabilities	413	192	281
Long-term deferred tax liabilities	1 288	1 228	1 105
	1 701	1 685	1 657

Gross deferred tax assets and liabilities at December 31 were related to the following items:

	1996	1995	1994
Pensions and other postretirement benefits	340	370	403
Tax loss carry-forwards	1 234	1 261	1 995
Other	1 126	1 171	1 069
Gross deferred tax assets	2 700	2 802	3 467
Valuation allowance	- 688	- 649	- 762
Gross deferred tax assets after valuation reserve	2 012	2 153	2 705
Pensions and other postretirement benefits	34	39	45
Inventory	434	412	430
Property, plant and equipment	1 595	1 474	1 544
Other	451	399	437
Gross deferred tax liabilities	2 514	2 324	2 456
Net deferred tax liabilities/assets	- 502	- 171	249

### Corporate income tax

The corporate nominal income tax rate in Sweden was 28 percent in 1996, 1995 and 1994.

The effective tax rate on income after financial income and expense, but before minority interest, was 29 percent in 1996, 38 percent in 1995 and 30 percent in 1994. A reconciliation of the statutory tax to the effective tax in Sweden is outlined below:

	1996	1995	1994
Tax calculated on statutory tax rate in Sweden	- 675	- 933	- 509
Difference between statutory tax rate in Sweden and foreign subsidiaries' weighted statutory tax rate	- 120	- 166	- 153
Permanent differences	113	13	20
Tax loss carry-forwards, net of changes in valuation allowance	27	18	151
Tax adjustments pertaining to previous years	—	- 86	- 26
Other taxes	- 20	- 76	- 32
Other, including translation adjustments	- 26	- 71	- 21
Effective tax	- 701	- 1 301	- 570

*Tax loss carry-forwards*

The Parent Company and certain subsidiaries, principally in Sweden and Germany had, at December 31, 1996, tax loss carry-forwards amounting to 3 802 (3 876 in 1995 and 6 319 in 1994).

Such tax loss carry-forwards expire as follows:

1996	27
1997	44
1998	138
1999	200
2000	284
2001 and thereafter	3 109

As of December 31, 1996, the total tax loss carry-forwards have resulted in deferred tax assets of 769, net of valuation allowances. Such assets can be used to reduce future taxable income, but since their benefit has already been recorded, their future use will not reduce the total tax charge for the Group.

**6 Current financial assets**

	1996	1995	1994
Cash and bank accounts	894	1 005	846
Debt securities	457	261	557
Government securities	236	1 271	504
Other short-term financial receivables	504	360	449
	<b>2 091</b>	<b>2 897</b>	<b>2 356</b>

Cash and bank accounts include short-term time deposits of 194 for 1996, 153 for 1995, 250 for 1994.

Unrealized holding loss on trading securities included in financial net in 1996 amounts to 10.

**7 Trade accounts receivable**

	1996	1995	1994
Acceptances receivable	603	648	634
Accounts receivable	5 672	5 753	5 832
	<b>6 275</b>	<b>6 401</b>	<b>6 466</b>
Allowance for doubtful accounts	- 275	- 290	- 309
	<b>6 000</b>	<b>6 111</b>	<b>6 157</b>

The provision for doubtful accounts charged against income amounted to 76 in 1996, 37 in 1995 and 66 in 1994.

**8 Inventories**

Inventories at December 31, net of allowance for obsolescence, consist of the following:

	1996	1995	1994
Finished goods	5 959	5 469	5 133
Work in process	2 372	2 325	2 206
Raw materials	679	716	735
Supplies	466	462	532
	<b>9 476</b>	<b>8 972</b>	<b>8 606</b>

**9 Other current assets**

	1996	1995	1994
Advances to suppliers	27	36	40
Prepaid expenses	193	149	146
Accrued income	89	58	110
Other current receivables	509	446	458
	<b>818</b>	<b>689</b>	<b>754</b>

**10 Long-term financial assets**

	1996	1995	1994
Long-term financial receivables	969	1 124	1 209
Debt securities	17	14	29
	<b>986</b>	<b>1 138</b>	<b>1 238</b>

The majority of the long-term financial receivables is recorded at market value.



## 11 Property, plant and equipment

	1996		1995		1994	
	Acquisition cost	Accumulated depr.	Acquisition cost	Accumulated depr.	Acquisition cost	Accumulated depr.
Land and land improvements	623	193	662	194	680	197
Buildings	4 866	2 365	4 770	2 463	4 952	2 483
Machinery and equipment	21 136	11 969	19 573	11 497	19 580	11 874
Capital leases	226	134	216	134	277	181
Leaseholds	29	5	27	5	30	6
Revaluations	526	274	507	255	543	262
	<b>27 406</b>	<b>14 940</b>	<b>25 755</b>	<b>14 548</b>	<b>26 062</b>	<b>15 003</b>
Net	<b>12 466</b>		<b>11 207</b>		<b>11 059</b>	
Advances to suppliers	<b>99</b>		<b>79</b>		<b>57</b>	
	<b>12 565</b>		<b>11 286</b>		<b>11 116</b>	

Capital leases consist of the following:

	1996	1995	1994
Land	5	6	6
Buildings	80	71	77
Machinery and equipment	141	139	194
	<b>226</b>	<b>216</b>	<b>277</b>

Revaluations, net, are related primarily to buildings.

## 12 Other capital assets

	1996		1995		1994	
	Acquisition cost	Accumulated amort.	Acquisition cost	Accumulated amort.	Acquisition cost	Accumulated amort.
Goodwill	698	269	706	226	881	272
Patents and similar rights	16	12	16	12	16	11
	<b>714</b>	<b>281</b>	<b>722</b>	<b>238</b>	<b>897</b>	<b>283</b>
Net	<b>433</b>		<b>484</b>		<b>614</b>	
Deferred charges	<b>111</b>		<b>95</b>		<b>126</b>	
	<b>544</b>		<b>579</b>		<b>740</b>	

Direct write-offs of goodwill in 1996, 1995 and 1994 were 44, 29 and 49, respectively.

## 13 Short-term loans

	1996	1995	1994
Bank loans	988	1 128	1 434
Other short-term loans	181	135	227
	<b>1 169</b>	<b>1 263</b>	<b>1 661</b>
Current portion of long-term loans	524	452	386
	<b>1 693</b>	<b>1 715</b>	<b>2 047</b>

The maximum month-end amount of short-term loans outstanding, excluding the current portion of long-term loans, was 2 432 in 1996,

2 204 in 1995, and 2 750 in 1994. The average month-end amount outstanding during the year was 1 807 in 1996, 1 973 in 1995, and 2 310 in 1994. The weighted average interest rate was 11 percent, 9.9 percent and 7.2 percent in 1996, 1995 and 1994, respectively, and was 7.8 percent at December 31, 1996. Average amounts outstanding and weighted average interest rates have been computed based on the amounts outstanding at the end of each month and related interest expense.

At December 31, 1996, the Group had unutilized long-term lines of credit of 4 124 expiring from 2000 to 2003. Commitment fees ranging from 0.175 percent to 0.375 percent are required on these lines of credit.

## 14 Trade accounts payable

	1996	1995	1994
Acceptances payable	256	283	267
Accounts payable	2 430	2 481	2 368
	<b>2 686</b>	2 764	2 635

## 15 Other short-term liabilities

	1996	1995	1994
Accrued expenses and deferred income	3 378	3 513	3 459
Other short-term liabilities	780	725	752
	<b>4 158</b>	4 238	4 211

Accrued expenses and deferred income include accrued vacation pay of 650, 624 and 604 at December 31, 1996, 1995 and 1994, respectively, and accrued social charges (including payroll taxes) of 530, 545 and 486.

## 16 Long-term loans

Long-term loans at the end of the year, excluding the current portion are:

	1996	1995	1994
Debentures (maturing from 1998 to 2005) bearing interest from 7.6 to 14.0 percent *	1 393	1 445	1 596
Bank loans (maturing from 1999 to 2008) bearing interest from 2.1 to 11.0 percent *	1 091	935	1 463
Other loans (maturing from 1998 to 2010) bearing interest from 2.1 to 26.0 percent *	837	815	508
	<b>3 321</b>	3 195	3 567

\* December 31, 1996

The current portion of long-term loans is included in short-term loans (see note 13).

Maturities of long-term loans outstanding at December 31, 1996 are as follows:

1998	706
1999	1047
2000	544
2001	63
2002	333
2003 and thereafter	628

The terms of certain loan agreements contain various restrictions, relating principally to the further pledging of assets, additional borrowing and payment of intercompany dividends.

Of the long-term loans, amounts totalling 274, 322 and 571 were collateralized at December 31, 1996, 1995 and 1994, respectively.

At December 31, 1996, the market value of long-term loans was approximately the same as book value after consideration of related interest rate swaps. The market value has been calculated by discounting the future cash flows of the loans using the interest rates currently available.

## 17 Pensions and other postretirement benefits

	1996	1995	1994
Pensions	4 917	5 064	5 157
Other postretirement benefits	985	945	1 021
	<b>5 902</b>	6 009	6 178

### Pensions

Charges against income in 1996, 1995 and 1994 for pensions were 631, 640 and 654, which include an interest cost calculated at 309, 314 and 336, respectively. In 1996 the interest arises mainly on obligations for pensions in Sweden, Germany, the U.S. and Spain. Prior years' figures have been adjusted accordingly. Interest rates used vary by country, and were 6.0, 6.2 and 7.7 percent in 1996, 1995 and 1994, respectively, for indexed Swedish pensions and 3.5 percent in 1996, 1995 and 1994 for fixed Swedish pensions. An interest rate of 6.5 percent was used in 1996 and 1995 and 6.4 percent in 1994 for the German companies, which represented approximately 65 percent of the Group's total pension obligation in 1996, 1995 and 1994.

### Other postretirement benefits

SKF sponsors several defined postretirement benefit plans covering most salaried and hourly employees in the United States. The plans, which are unfunded, provide certain health care and life insurance benefits to eligible retired employees.

Net periodic postretirement benefit cost includes the following components:

	1996	1995	1994
Service cost	11	11	12
Interest cost	74	78	81
Amortization	- 8	—	—
Net periodic postretirement benefit cost	<b>77</b>	89	93

The following table shows the accrued postretirement benefit liability recognized in the balance sheet of the Group at December 31:

	1996	1995	1994
Accumulated postretirement benefit obligation			
Retirees	790	796	760
Other fully eligible plan participants	147	147	138
Other plan participants	119	139	123
Total accumulated postretirement benefit obligation	1 056	1 082	1 021
Unrecognized loss	- 71	- 137	0
	985	945	1 021

The assumed annual rate of increase in the per capita cost of covered health care benefits was 9 percent in 1996, 10 percent in 1995 and 11 percent in 1994. The rate was assumed to decline by 0.5 to 1 percent per year to an ultimate rate of 6 percent. The assumed discount rate used in the calculations was 7.5 percent. An increase in the assumed health care cost trend rates by 1 percent would increase the accumulated postretirement benefit obligation as of December 31 by 93 in 1996, by 94 in 1995 and by 81 in 1994 and the aggregate of the service and interest cost components of the net periodic postretirement benefit by 9 in 1996, in 1995 and in 1994.

## 18 Other long-term liabilities

	1996	1995	1994
Long-term portion of capital leases (see note 19)	54	53	68
Other	1 146	1 659	1 635
	1 200	1 712	1 703

Included in "Other" for 1995 and 1994 is the liability arising from the sales and financing transaction of real estate in Sweden. (See note 1, Changes in accounting principles).

## 19 Leases

Future minimum rental commitments at December 31, 1996, for capital leases and non-cancellable (within one year) operating leases were as follows:

	Capital leases	Operating leases
1997	26	199
1998	19	161
1999	19	122
2000	8	89
2001	7	80
2002 and thereafter	7	298
Less: Amount representing interest and executory costs	- 12	
Present value of minimum lease payments under capital leases	74	
Less: Current portion	- 20	
Long-term portion	54	

Net rental expense related to operating leases was 223 in 1996, 213 in 1995 and 225 in 1994. Contingent rentals and sublease income were not significant in any of the years presented.

## 20 Convertible bonds

In May 1992, AB SKF issued zero coupon convertible bonds amounting to XEU 145 million after a discount of 8.75 percent. Upon full conversion on the due date, the nominal amount of XEU 286 million will result in the issuance of 7 122 928 B shares. Conversion can be requested up to July 26, 2002. The holder is entitled to request redemption on July 26, 1997. On or after that date the bonds are redeemable at any time at the option of AB SKF, as a whole or in part.

## 21 Shareholders' equity

### Share capital

The share capital at December 31, 1996, consisted of the following shares (par value SEK 12.50 per share):

	Number of shares authorized and outstanding	Aggregate par value
A shares	49 256 332	616
B shares	63 743 224	796
	112 999 556	1 412

The designations A and B indicate the voting power of the shares. An A share has one vote, a B share one-thousandth of one vote.

### Restricted reserves

In accordance with statutory requirements in Sweden and certain other countries in which the SKF Group operates, the Parent



Company and its subsidiaries maintain restricted reserves which are not available for distribution as dividends.

The Swedish Companies Act requires that 10 percent of net income be transferred to the legal reserve (part of restricted reserves) until the legal reserve amounts to 20 percent of the share capital. Premiums paid on new share issues must also be transferred to the legal reserve.

In countries where legal revaluations of assets are made, an amount corresponding to the net revaluation must be transferred to legal reserves.

Tax laws in Sweden and certain other countries permit allocations to reserves that are deductible for tax purposes. To a certain extent, companies can thus allocate income so that it remains in the business without being taxed immediately. In the balance sheet the cumulative value of these allocations, less the related deferred tax liabilities, is shown under restricted reserves. Differences between statutory reporting and reporting for Group purposes are also treated as restricted reserves.

### Unrestricted equity

Unrestricted earnings include earnings distributable by the Parent Company and those net earnings that may be remitted from subsidiaries to the Parent Company within one year. The amount has been reduced by accumulated losses in other subsidiaries. In determining the remittable amounts, consideration has been given to legal and exchange restrictions, but not to the financial position of the remitting subsidiaries.

### Changes in shareholders' equity

	Share capital	Re-stricted reserves	Unre-stricted equity	Total
<b>Closing balance 1993-12-31</b>	1 412	5 275	1 602	8 289
Net income for the year			1 279	1 279
Transfer between restricted and unrestricted reserves		– 69	69	
Translation adjustments and revaluations		– 352	– 33	– 385
<b>Closing balance 1994-12-31</b>	1 412	4 854	2 917	9 183
Cash dividend			– 480	– 480
Net income for the year			2 058	2 058
Transfer between restricted and unrestricted reserves		– 225	225	
Translation adjustments and revaluations		– 493	– 146	– 639
<b>Closing balance 1995-12-31</b>	1 412	4 136	4 574	10 122
Cash dividend			– 593	– 593
Net income for the year			1 692	1 692
Transfer between restricted and unrestricted reserves		46	– 46	
Translation adjustments and revaluations		102	– 13	89
<b>Closing balance 1996-12-31</b>	1 412	4 284	5 614	11 310

As described in note 1, translation adjustments arising from the application of the current rate method are transferred directly to shareholders' equity. Changes in cumulative translation adjustments which are included in equity are as follows:

	1996	1995	1994
Balance at beginning of year	– 427	214	598
Aggregate translation adjustments	68	– 775	– 490
Gains from hedges (net of taxes) of investments in foreign subsidiaries	6	134	106
Balance at end of year	– 353	– 427	214

## 22 Assets pledged

The following assets have been pledged to secure loans and other obligations:

	1996	1995	1994
Mortgages on real estate	329	470	611
Chattel mortgages	182	276	215
Other mortgages	6	60	65
Total mortgages	517	806	891
Government securities	—	—	24
	517	806	915

Mortgages are stated at the nominal value of the mortgage deeds and other pledged assets are stated at net book value. The pledged assets secured obligations of 361 at December 31, 1996, 777 in 1995 and 895 in 1994.

## 23 Contingent liabilities

	1996	1995	1994
Discounted bills	49	35	64
Other guarantees and contingent liabilities	157	164	232
	206	199	296

## 24 Geographic information

External sales for the Group per geographic area were as follows:

	1996	1995	1994
Sweden	1 869	2 240	1 837
Europe (excluding Sweden)	17 274	19 328	16 632
United States and Canada	7 550	7 955	8 145
Other countries	6 896	7 177	6 659
	33 589	36 700	33 273

The Group's identifiable assets (total assets excluding cash, bank accounts, short-term investments, intercompany receivables and shareholdings, but before consolidation eliminations), amounted at

December 31, 1996, to 32 600 and to 30 763 in 1995 and 31 016 in 1994. The geographic location of these assets was as follows:

	1996	1995	1994
Sweden	4 659	4 386	4 287
Europe (excluding Sweden)	16 107	15 683	14 987
United States and Canada	6 265	5 890	6 511
Other countries	5 569	4 804	5 231
	<b>32 600</b>	<b>30 763</b>	<b>31 016</b>

Dividends of 1 070 in 1996, 489 in 1995 and 375 in 1994 were received by the Parent Company from foreign subsidiaries.

Average number of employees



## 25 Average number of employees, wages and salaries

	1996	1995	1994
<b>Operations in Sweden</b>			
Number of work sites	16	17	19
Total average number of employees	6 348	6 418	6 282
Wages and salaries:			
Boards and Managing Directors	20	25	23
Other employees	1 666	1 547	1 420
Total in Sweden	1 686	1 572	1 443
<b>Operations abroad</b>			
Number of countries	70	66	61
Total average number of employees	36 103	36 223	33 790
Wages and salaries:			
Boards and Managing Directors	93	110	121
Other employees	7 917	8 335	7 804
Total abroad	8 010	8 445	7 925
Total average number of employees	42 451	42 641	40 072
Total wages and salaries	9 696	10 017	9 368

Of the average number of employees in Sweden during 1996, 1 075 were women and 5 273 were men. The corresponding figures for 1995 and 1994 were 1 059 women and 5 359 men and 1 065 women and 5 217 men, respectively.

Of the average number of employees abroad during 1996, 6 183 were women and 29 920 were men. The corresponding figures for 1995 and 1994 were 6 183 women and 30 040 men and 5 466 women and 28 324 men, respectively.

In accordance with the resolution of the Annual General Meeting, the Board received a fee of SEK 1 900 000. SEK 700 000 was distributed to the Chairman of the Board and SEK 200 000 to each elected board member who is not employed in active service in AB SKF (the Company).

Giovanni Mario Rossignolo, the Chairman and Chief Executive of SKF's Italian subsidiary received a compensation of ITL 327 000 000 during 1996, in addition to his annual fee as a board member in AB SKF. ITL 72 000 000 of this amount was a bonus.

Mauritz Sahlin, who left his position as President and Group Chief Executive at the Annual General Meeting 1995, received, in addition to his annual fee as a board member of AB SKF, a consultancy fee of

SEK 367 500, free housing and a fee for board membership in subsidiaries of SEK 100 000 and USD 30 000. Mauritz Sahlin also received pension according to SKF's so-called "60-year agreement".

Peter Augustsson, President and Group Chief Executive of AB SKF, received SEK 4 455 665 as salary and other remunerations. This included a bonus of SEK 1 043 945. He received USD 30 000 as an additional fee as board member in a subsidiary, free housing, and a so-called "60-year agreement", (entitling to 70 percent of pensionable income up to 65 years of age at retirement after 60 years of age). After the age of 65 and in excess of the normal ITP-plan, an extra lifelong old age pension corresponding to 32.5 percent of pensionable income exceeding 20 basic amounts (basic amount 1996: 36 200 SEK) will be paid. In the event of termination of employment at the request of the company, Peter Augustsson will receive a severance payment amounting to two years' salary.

Certain members of Group management will receive an additional pension over and above the ordinary plan and in one case, a contract exists for early old age pension.

In 1996, SKF introduced an option program for the Group's top employees. The program, which is based on the Group's results, is

aimed at some twenty people and means that they can be allotted call options on SKF shares already issued.

**Average number of employees, wages and salaries by country:**

	Average number of employees	Wages and salaries in SEK thousands
Argentina	589	50 553
Australia	273	59 383
Austria	756	242 421
Belgium	320	82 736
Bosnia-Herzegovina	3	112
Brazil	567	114 679
Bulgaria	10	535
Canada	148	43 692
Chile	51	13 828
China	866	10 575
Colombia	15	1 712
Croatia	5	463
Czech Republic	47	4 030
Denmark	39	15 552
Finland	46	13 420
France	3 892	947 801
Germany	7 006	2 565 112
Greece	36	5 660
Hong Kong	44	13 319
Hungary	41	3 898
Indonesia	7	1 629
India	2 596	83 348
Italy	5 834	1 224 186
Ivory Coast	2	847
Japan	111	42 372
Kazakhstan	2	75
Kenya	29	1 791
Korea	68	5 626
Latvia	4	141
Macedonia	3	256
Malaysia	604	49 288
Mexico	768	46 536
The Netherlands	700	227 187
New Zealand	78	13 227
Nigeria	5	201
Norway	46	13 461
Pakistan	4	484
Panama	69	13 223
Peru	36	5 043
Poland	1 238	48 841
The Philippines	23	2 072
Portugal	34	6 295
Rumania	3	22
Russia	13	648
Singapore	285	53 647
Slovak Republic	5	213
Slovenia	6	1 287

South Africa	819	79 502
Spain	525	116 367
Sweden	6 348	1 685 943

**Average number of employees, wages and salaries by country, cont'd**

	Average number of employees	Wages and salaries in SEK thousands
Switzerland	44	24 620
Taiwan R.O.C.	64	10 978
Thailand	85	10 547
Turkey	54	7 531
United Kingdom	852	182 209
Uruguay	11	1 778
USA	6 133	1 535 259
Venezuela	41	2 197
Vietnam	15	1 228
Yugoslavia	6	311
Zambia	83	2 203
Zimbabwe	38	2 038
Other countries	6	1 698
TOTAL	42 451	9 695 836

**Average number of employees in Sweden, specified by work site:**

Arvika	237
Danderyd	14
Eskilstuna	6
Göteborg	2 759
Helsingborg	30
Hofors	1 564
Hällefors	623
Jönköping	16
Karlskoga	38
Katrineholm	500
Landskrona	70
Lidköping	468
Ludvika	3
Malmö	3
Stockholm	7
Sundsvall	10
TOTAL	6 348



## 26 Reconciliation to United States generally accepted accounting principles

An annual report, Form 20-F, is submitted to the Securities and Exchange Commission (SEC), in the U.S. Accounting policies of the SKF Group that differ significantly from U.S. GAAP are as follows:

### 1. Deferred income taxes

Adjustments for deferred income taxes in the reconciliation to U.S. GAAP are attributable to the differences described below.

### 2. Revaluation of assets

In certain countries, assets have been revalued at an amount in excess of cost. U.S. GAAP does not permit the revaluation of assets in the financial statements.

### 3. Capitalization of interest expense

In accordance with Swedish GAAP, the SKF Group has not capitalized interest expense incurred in connection with the financing of expenditures for construction of property, plant and equipment. Such interest expense is required to be capitalized in accordance with U.S. GAAP.

### 4. Gain on sale of real estate

In 1991 real estate in Halmstad, Sweden, was sold and partially leased back. During 1994 this commitment was discontinued. In accordance with U.S. GAAP, the remaining gain has therefore been realized.

The real estate in Sweden, which was sold and leased back (until September 1996) in 1987, 1989, and 1990 is accounted for as a sale and financial transaction beginning in 1995 in the Swedish accounts (see note 1 – Changes in accounting principles). Accordingly, there are no differences between Swedish and U.S. GAAP for these transactions.

### 5. Pensions

Periodic pension cost and liability is calculated by the Group according to local laws and accounting principles. Under U.S. GAAP, the periodic pension cost and liability should be calculated according to SFAS 87, "Employers' Accounting for Pensions".

The Group sponsors benefit plans, defined according to U.S. GAAP SFAS 87, in several countries, principally Sweden, Germany, France, the United States and Spain. The Swedish plan supplements statutory pensions where benefits are established by national organizations. The subsidiaries in France sponsor a retirement indemnity plan in accordance with French National Employer/Employee agreements. Plans in Germany, Spain and the United States are designed to supplement these countries' social security pensions.

The U.S. and French plans are funded. Benefits are based on a combination of age, salary and service and are available to all employees meeting age, service and other requirements.

The following tables summarize approximate disclosures under SFAS 87.

Net periodic pension cost for the plans described above, included in the Group's approximate U.S. GAAP income statement includes the following components:

	1996	1995	1994
Service cost	115	102	104
Interest cost	519	543	527
Actual return on assets	- 408	- 558	48
Other, net	252	402	- 162
Net periodic pension cost	478	489	517

Assumptions used in the calculations:

	1996	1995	1994
Discount rates	6.5–8.5%	6–8.5%	4–9.5%
Rates of increase in compensation level	2.5–5%	2.5–5%	2.5–6%
Rate of return on investments	8.5–10%	8.5–10%	8.5–10%

The following table sets forth these plans' funded status and amounts recognized in the Group's approximate U.S. GAAP balance sheets:

	1996	1995	1994
Actuarial present value of:			
Vested benefit obligation	6 741	7 022	6 431
Accumulated benefit obligation	7 113	7 275	6 662
Projected benefit obligation	7 566	7 713	7 074
Plan assets at fair value	- 2 898	- 2 657	- 2 396
Projected benefit obligation in excess of plan assets	4 668	5 056	4 678
Unrecognized net profit/loss	- 102	- 37	26
Unrecognized net obligation at initial application	- 332	- 436	- 457
Unrecognized prior service cost	- 99	- 101	- 124
Adjustment required to recognize minimum liability	333	374	278
Pension liability	4 468	4 856	4 401

Plan assets are invested primarily in securities and bonds.

### 6. Forward exchange contracts

According to U.S. GAAP, a forward exchange contract is accounted for as a hedge only when there is a firm commitment. According to Swedish GAAP, contracts hedging forecasted transactions are also accounted for as hedges. In these cases, a valuation of the contract is not made.

Contracts hedging forecasted transactions, not covered by firm commitments, are accounted for as the difference between the agreed forward rate and the market forward rate on the closing day, according to U.S. GAAP.

## 7. Statements of cash flow

The following is a statement of cash flow according to SFAS 95 with approximate values:

	1996	1995	1994
Net income	1 692	2 058	1 279
Depreciation and goodwill amortization	1 461	1 434	1 521
Minority interest in net income	19	30	28
Net gain(–)/loss on sales of property, plant and equipment, companies and businesses	– 362	– 98	– 2
Changes in working capital:			
Inventories	– 513	– 525	566
Trade accounts receivable	101	– 87	– 551
Trade accounts payable	– 87	229	459
Other current assets and liabilities – net	– 192	– 125	– 704
Changes in tax assets and liabilities – net	38	408	177
<b>Cash flow from operations</b>	<b>2 157</b>	<b>3 324</b>	<b>2 773</b>
<b>Cash flow used in investments</b>	<b>– 2 179</b>	<b>– 1 807</b>	<b>– 1 156</b>
<b>Cash flow used in financing activities</b>	<b>– 849</b>	<b>– 1 071</b>	<b>– 2 099</b>
Translation adjustments	65	95	146
<b>Change in current financial assets</b>	<b>– 806</b>	<b>541</b>	<b>– 336</b>

The Group considers current financial assets to be cash and cash equivalents (see note 6). The Statements of cash flow are adjusted for acquired and sold companies.

## 8. Financial instruments and credit risks

The Group has a well defined policy for the management of financial risks, including currency, interest rate and credit risks. This policy is discussed in the annual report in the section, “Financial objectives and risk management”. The policy sets forth the derivative financial instruments authorized for use in the management of financial risks. Derivatives are used primarily to hedge the Group’s exposure to fluctuations in foreign currency exchange rates and interest rates. To a very limited extent, the Group also uses derivative financial instruments for trading purposes, which is defined by the Group’s policy. At December 31, 1996, however, no such instruments were outstanding.

During 1996, forward foreign exchange contracts, cross currency swaps and currency options were the financial instruments used to hedge foreign currency rate exposure, including the hedging of net investments in foreign subsidiaries, firm commitments, anticipated transactions and internal bank activities. Cross currency swaps and interest rate swaps and options were used to manage the interest rate exposure on foreign currency borrowings, by swapping fixed interest rates to floating interest rates.

The accounting policies applied in respect of the different types of derivative financial instruments are described in note 1.

The table below summarizes the gross contractual amounts of the Group’s derivative financial instruments by type and purpose as of December 31:

	1996	1995
<i>Type of instruments:</i>		
Forward exchange contracts	15 975	17 774
Cross currency swaps	1 950	2 602
Currency options	5 923	1 257
Interest rate swaps and options	4 848	2 365
	<b>28 696</b>	<b>23 998</b>
<i>Purpose:</i>		
Hedging of:		
Firm commitments	4 133	3 817
Anticipated transactions	8 251	6 221
Net equity investments	4 310	4 720
Other internal bank activities	7 154	6 575
Interest rate management	4 848	2 665
	<b>28 696</b>	<b>23 998</b>

At December 31, 1996 a net unrealized loss of 21 (gain of 31 in 1995) was deferred with respect to hedges of anticipated transactions. The accounting for this amount represents a difference between U.S. GAAP and Swedish GAAP, see note 26.6. All hedges of firm commitments and anticipated transactions are expected to occur in 1997.

At December 31, 1996, the total carrying amounts and fair values of all derivative financial instruments were 36 and 77 (–12 and 92 for 1995) respectively. The fair value of the derivatives was estimated as the amount that the Group would receive or pay to terminate the contracts at year-end, taking into account the current unrealized gains or losses on open contracts. Market quotes were obtained for all derivatives.

## Credit risks

The Group’s concentration of operational credit risk is limited primarily because of its many geographically and industrially diverse customers.

The Group is exposed to credit losses in the event of non-performance by the counterparties to its financial instruments but does not expect any counterparties to fail to meet their obligations. The Group deals only with well established international financial institutions. The Group does not obtain collateral or other security to support financial instruments subject to credit risk.

## 9. Sale of fixed assets

During 1993, the Group recorded the sale of power plants in Italy in accordance with Swedish GAAP. However, since the legal title was only transferred in 1994 the transaction is recognized in 1994 in accordance with U.S. GAAP.

## 10. Changes in accounting principles – pensions

The cumulative effect of changes in accounting principles shown in 1995 and 1996 is, in accordance with Swedish GAAP, transferred directly to shareholders’ equity (see note 1, Changes in accounting principles).

## 11. Summary

The application of U.S. GAAP would have the following approximate effect on consolidated net income, shareholders' equity and earnings per share.

	1996	1995	1994
Net income as previously reported		2 026	1 248
Effect of changes in accounting principles:			
– related to gains on sales of real estate (1995)			– 2
– pensions recorded as a liability (1996)		32	33
Net income as reported in the consolidated income statements	<b>1 692</b>	2 058	1 279
Items decreasing/increasing net income:			
Deferred income taxes	– 39	– 80	77
Depreciation on revaluation of assets including effect in connection with sale	14	15	21
Capitalization of interest expense	57	– 1	3
Gains on sales of real estate	—	—	15
Pensions	– 11	– 6	– 18
Forward exchange contracts	– 53	7	2
Sale of fixed assets	—	—	150
Net decrease/increase in net income:	– 32	– 65	250
Approximate net income in accordance with U.S. GAAP	<b>1 660</b>	1 993	1 529
	1996	1995	1994
Shareholders' equity as previously published		10273	9 872
Effect of changes in accounting principles:			
– related to gains on sales of real estate (1995)		—	– 500
– pensions recorded as a liability (1996)		– 151	– 189
Shareholders' equity as reported in the consolidated balance sheets	<b>11 310</b>	10 122	9 183
Items increasing/decreasing shareholders' equity:			
Deferred income taxes	146	185	258
Revaluation of assets	– 253	– 250	– 275
Capitalization of interest expense	116	59	61
Pensions	– 100	– 89	– 83
Forward exchange contracts	– 21	31	24
Net decrease in shareholders' equity	– 112	– 64	– 15
Approximate shareholders' equity in accordance with U.S. GAAP	<b>11 198</b>	10 058	9 168
	1996	1995	1994
Earnings per share, in Swedish kronor:			
Net earnings per share in accordance with U.S. GAAP	<b>14.69</b>	17.64	13.53
Weighted average number of shares outstanding	<b>112 999 556</b>	112 999 556	112 999 556



The following is a summary comparing the reported consolidated balance sheets with the balance sheets after approximate adjustments to U.S. GAAP.

	As reported in the consolidated balance sheets			Approximate amounts after adjustments to U.S. GAAP		
	1996	1995	1994	1996	1995	1994
Current financial assets	2 091	2 897	2 356	2 091	2 897	2 356
Inventories	9 476	8 972	8 606	9 476	8 972	8 606
Other current assets	6 818	6 800	6 911	6 818	6 800	6 911
Deferred tax assets	1 227	1 249	1 635	1 293	1 336	1 777
Investments	80	74	110	80	74	107
Property, plant and equipment	12 565	11 286	11 116	12 429	11 095	10 901
Other capital assets	1 527	1 717	1 978	1 791	2 027	2 235
<b>Total assets</b>	<b>33 784</b>	<b>32 995</b>	<b>32 712</b>	<b>33 978</b>	<b>33 201</b>	<b>32 893</b>
Short-term loans	1 693	1 715	2 047	1 693	1 715	2 046
Other current liabilities	6 844	7 002	6 846	6 865	6 971	7 095
Long-term loans	4 846	4 584	4 954	4 846	4 584	4 954
Pensions and other postretirement benefits	5 902	6 009	6 178	6 299	6 428	6 591
Other long-term liabilities	1 200	1 712	1 703	1 168	1 639	1 632
Deferred and current tax liabilities	1 701	1 685	1 657	1 621	1 586	1 861
Minority interest	288	166	144	288	166	144
Shareholders' equity	11 310	10 122	9 183	11 198	10 058	9 168
<b>Total liabilities and shareholders' equity</b>	<b>33 784</b>	<b>32 995</b>	<b>32 712</b>	<b>33 978</b>	<b>33 201</b>	<b>32 893</b>

## 27 Investments

### Investments held by Parent Company

	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Bostadsrättsföreningen Flundran, Stockholm, Sweden		1	SEK	—	1 635
Bostadsrättsföreningen Kristinelundsgatan nr 5, Göteborg, Sweden		1	SEK	—	2 884
Prästgårdsmarkens villaägare, ek.fören., Göteborg, Sweden		60	SEK	60	30
Chalmers Innovation AB, Göteborg, Sweden	4.9	735	SEK	73	255
Fastighets AB Johannebergshus, Göteborg, Sweden	9.7	170	SEK	17	2 555
Göteborg-Säve Flygplats AB, Göteborg, Sweden		1 125	SEK	112	114
Stiftelsen Bohus Promotion, Uddevalla, Sweden		—	SEK	250	0
Svenska Dagbladet Holding AB, Stockholm, Sweden		18 000	SEK	180	180
TIAB Transportköparnas Intresse AB, Göteborg, Sweden		1 000	SEK	100	0
AEC Japan Co Ltd., Japan	50.0	400	JPY	20 000	820
ADELA Investment Company, Luxemburg		2 080	USD	208	0
S2M, France	11.9	153 093	FRF	2 570	8 681
The Swedish-American Chamber of Commerce, USA		50	USD	50	318
UNIS-UTL, Bosnia-Herzegovina	23.0	—	YUD	5 214	0
UNIS-Factory Sokolac, Bosnia-Herzegovina	10.0	—	YUD	64	0
Svenska skolan, Belgium		20	BEF	400	0
Other shares and securities					5
					<b>17 477</b>

## Investments held by subsidiaries

	Holdings	Currency	Nominal value in thousands	Book value in SEK thousands
Hofors Energi, Hofors, Sweden	2 000	SEK	2 000	2 000
Jernkontoret, Stockholm, Sweden	8	SEK	187	187
Gävle Sjöfarts AB, Gävle, Sweden	270	SEK	27	54
AB Järnbruksförnödenheter, Stockholm, Sweden	300	SEK	30	69
Företagshälsovården i Hofors, Sweden	500	SEK	50	50
Tågåkeriet i Bergslagen AB, Sweden	2	SEK	60	60
IUC Sandviken AB, Sandviken, Sweden	500	SEK	50	50
Suomen Voimansiirto Oy, Finland	150	FIM	150	205
Elma Oy, Finland	1	FIM	1	74
Industrilink A/S, Denmark	1	DKK	20	40
SIMES, Belgium	150	BEF	3 000	644
Gemeinnützige Wohnungsbaugesellschaft, Germany	1	DEM	250	1 105
Gesellschaft z. Beseitigung v. Sondermüll in Bayern, Germany	1	DEM	80	354
Gemeinschaftskraftwerk GmbH, Germany	1	DEM	3 300	14 588
WPB Water pump bearing GmbH (JV), Germany	1	DEM	6 400	23 951
Industrieraufbauges Schaeffler KG, Germany	1	DEM	20	88
SKF Services, Croatia	1	DEM	20	73
SKF Slovenija d.o.o., Slovenia	1	DEM	20	93
Trygg-Hansa, Sweden	452	SEK	85	57
IPO, France	1	FRF	100	137
Etat Ivoirien, France	1	FRF	100	202
Indesit, Italy	12 775	ITL	23 000	0
Consorzio univ. Pinerolo, Italy	2	ITL	10 000	45
RSS, Austria	100	ATS	412	259
IBU Baugenossenschaft UST, Switzerland	10	CHF	210	1 158
Shanghai SMM Textile Machinery Components Co. Ltd., People's Republic of China		CNY	23 500	0
Housing Development Finance Corp. Ltd., India	2 500	INR	250	48
United Trust of India, India	1 550 000	INR	15 500	4 194
ICIC – Conv. Deb., India	333	INR	150	29
Housing Development Finance Corp. Bank Ltd., India	37 700	INR	377	72
Broby Sand, Sweden	106	SEK	106	0
Voimansiirto Oy, Finland	60	FIM	60	82
FAIRSKQ Taiwan Co. Ltd., Taiwan	2 080	TWD	20 800	6 890
Skefko Bearings Newcastle, Australia	12 000	AUD	12	66
Northern Bearing Distributors, Australia	2 000	AUD	2	1 266
Others				899
<b>Total</b>				<b>59 089</b>
Investments held by subsidiaries				59 089
Investments held by Parent Company				17 477
<b>Total investments SKF Group</b>				<b>76 566</b>

# Parent Company income statements

<i>Millions of Swedish kronor</i>	<b>1996</b>	1995	1994
<b>Operations</b>			
Other operating revenues	- 13	63	23
Selling and administrative expenses	- 88	- 86	- 120
Depreciation	<i>note 1</i> - 5	- 5	- 5
<b>Operating loss</b>	<b>- 106</b>	- 28	- 102
<b>Financial income and expense</b>			
Dividend income from subsidiaries	1 070	493	445
Dividend income from other companies	0	1	0
Interest income	366	362	345
Interest expense	- 387	- 426	- 464
Financial exchange gains and losses	27	7	- 1
<b>Income after financial income and expense</b>	<b>970</b>	409	223
Provisions	<i>note 2</i> 528	866	338
<b>Net income for the year</b>	<b>1 498</b>	1 275	561

# Parent Company statements of cash flow

<i>Millions of Swedish kronor</i>	<b>1996</b>	1995	1994
<b>Operating loss</b>	<b>- 106</b>	- 28	- 102
Depreciation	5	5	5
Group contribution and allowance for shareholders' contribution – net	519	873	326
Changes in working capital:			
Trade accounts payable	0	0	1
Other current assets and liabilities – net	319	- 1 142	825
<b>Cash flow from operations</b>	<b>737</b>	- 292	1 055
Additions to property, plant and equipment	- 8	- 2	- 3
Changes in investments	- 823	- 248	- 393
<b>Cash flow after investments</b>	<b>- 94</b>	- 542	659
Financial income and expense – net	1 076	437	325
Cash dividends	- 593	- 480	—
Change in other financial assets and liabilities – net	- 564	346	- 339
<b>Cash flow before financing</b>	<b>- 175</b>	- 239	645
Change in loans	165	257	- 747
<b>Change in current financial assets</b>	<b>- 10</b>	18	- 102

# Parent Company balance sheets

<i>Millions of Swedish kronor</i>		<b>1996</b>	1995	1994
<b>ASSETS</b>				
<b>Current assets</b>				
Current financial assets	<i>note 3</i>	<b>14</b>	24	6
Accounts receivable				
from consolidated subsidiaries		<b>1 322</b>	1 598	573
Other current assets	<i>note 4</i>	<b>22</b>	68	47
		<b>1 358</b>	1 690	626
<b>Capital assets</b>				
Long-term receivables				
from consolidated subsidiaries		<b>3 611</b>	3 456	3 826
Other long-term receivables		<b>3</b>	3	3
Investments in consolidated subsidiaries	<i>note 5</i>	<b>8 146</b>	7 319	7 065
Other investments	<i>note 5</i>	<b>17</b>	21	27
Property, plant and equipment	<i>note 6</i>	<b>83</b>	80	83
		<b>11 860</b>	10 879	11 004
<b>Total assets</b>		<b>13 218</b>	12 569	11 630
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Short-term liabilities</b>				
Short-term loans	<i>note 7</i>	<b>10</b>	11	12
Short-term liabilities				
to consolidated subsidiaries		<b>1 604</b>	1 601	1 744
Other trade accounts payable		<b>9</b>	9	9
Accrued expenses and deferred income		<b>132</b>	134	87
Other short-term liabilities		<b>6</b>	0	10
		<b>1 761</b>	1 765	1 862
<b>Long-term liabilities</b>				
Long-term loans	<i>note 8</i>	<b>1 995</b>	1 965	1 709
Long-term liabilities to				
consolidated subsidiaries		<b>137</b>	559	603
Pensions	<i>note 9</i>	<b>374</b>	362	342
Other long-term liabilities		<b>6</b>	5	5
Convertible bonds	<i>note 10</i>	<b>1 525</b>	1 389	1 387
		<b>4 037</b>	4 280	4 046
<b>Untaxed reserves</b>	<i>note 2</i>	<b>64</b>	73	66
<b>Shareholders' equity</b>				
<i>note 11</i>				
<b>Restricted equity</b>				
Share capital (112 999 556 shares, nominal value SEK 12.50 per share)		<b>1 412</b>	1 412	1 412
Legal reserve		<b>455</b>	455	455
<b>Unrestricted equity</b>				
Retained earnings		<b>3 991</b>	3 309	3 228
Net income for the year		<b>1 498</b>	1 275	561
		<b>7 356</b>	6 451	5 656
<b>Total liabilities and shareholders' equity</b>		<b>13 218</b>	12 569	11 630
Assets pledged	<i>note 12</i>	<b>0</b>	0	1
Contingent liabilities	<i>note 13</i>	<b>293</b>	619	1 281



# Notes to the financial statements for the Parent Company

Amounts in millions of Swedish kronor (SEK m) unless otherwise stated.

For description of accounting principles, see note 1 to the Consolidated Financial Statements. The Parent Company income statements have been recalculated in order to comply with changes in accounting principles for the Group.

## 1 Depreciation

	1996	1995	1994
Buildings	3	2	3
Machinery and equipment	2	3	2
	<b>5</b>	<b>5</b>	<b>5</b>

## 2 Provisions and untaxed reserves

### Provisions

	1996	1995	1994
Change in development reserve	0	0	2
Change in accelerated depreciation reserve	3	3	2
Change in other reserves	6	- 10	8
	<b>9</b>	<b>- 7</b>	<b>12</b>

Group contribution received	545	920	338
Group contribution paid	- 6	—	- 8
Allowance for shareholders' contribution	- 20	- 47	- 4
	<b>528</b>	<b>866</b>	<b>338</b>

### Untaxed reserves

	1996	1995	1994
Development reserve	—	—	0
Accelerated depreciation reserve	54	57	60
Other reserves	10	16	6
	<b>64</b>	<b>73</b>	<b>66</b>

The accelerated depreciation reserve relates to the following items:

	1996	1995	1994
Land improvement	4	4	4
Buildings	18	21	23
Machinery and equipment	32	32	33
	<b>54</b>	<b>57</b>	<b>60</b>

## 3 Current financial assets

	1996	1995	1994
Cash and bank accounts	14	24	6
Other short-term financial receivables	—	—	—
	<b>14</b>	<b>24</b>	<b>6</b>

## 4 Other current assets

	1996	1995	1994
Prepaid expenses	2	1	1
Other current receivables	20	67	46
	<b>22</b>	<b>68</b>	<b>47</b>

## 5 Investments

Investments in subsidiaries are specified below. For a specification of the Parent Company's holdings of other investments see note 27 to the Consolidated Financial Statements.

### Investments in subsidiaries held by the Parent Company on December 31, 1996

	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
<b>Manufacturing companies</b>					
SKF Sverige AB, Göteborg, Sweden	100	2 650 000	SEK	265 000	363 300
Ovako Steel AB, Hofors, Sweden	100	135 000	SEK	135 000	0
SKF USA Inc., Pa., USA	99.8	1 444 447	USD	72 222	770 617
SKF Österreich AG, Austria	100	200	ATS	200 000	175 958
SKF GmbH, Germany	0.1	—	DEM	218	1 813
SKF Poznań S.A., Poland	98.0	1 439 081	PLN	28 782	77 783
SKF Actuators AB, Göteborg, Sweden	100	1 000	SEK	1 000	0
FlexLink Systems AB, Göteborg, Sweden	100	190 000	SEK	19 000	28 211
SKF de Mexico S.A. de C.V., Mexico	100	40 000	MXN	40	0
SKF do Brasil Limitada, Brazil	99.9	166 750 598	BRC	166 751	183 943
SKF Argentina S.A., Argentina	99.9	499 641	ARP	500	10 587
SKF Bearings India Ltd., India	42.4	1 067 248	INR	106 725	0
SKF Mekan AB, Katrineholm, Sweden	100	27 500	SEK	27 500	33 348
Lidköping Machine Tools AB, Lidköping, Sweden	100	200 000	SEK	20 000	11 832
Share subscription in SKF Automotive Bearings Company Limited, People's Republic of China					30 260
Beijing Nankou SKF Railway Bearings Company Limited, People's Republic of China	51.0	—	CNY	126 713	114 219
SKF HANWHA Automotive Components Corporation, Republic of Korea	67.0	871 000	KRW	4 355 000	37 044
Non-cash issue in SKF do Brasil Limitada, Brazil					10 463
<b>Sales companies</b>					
SKF Danmark A/S, Denmark	100	5	DKK	5 000	0
SKF Norge A/S, Norway	100	50 000	NOK	5 000	0
Oy SKF Ab, Finland	100	48 400	FIM	12 100	12 378
SKF Portugal Rolamentos, Limitada, Portugal	95.0	—	PTE	12 350	0
SKF Ložiska, a.s., Czech Republic	100	43	CZK	43 000	9 898
Akciová společnost pro prodej valivých ložisek, Czech Republic	100	1 000	CZK	200	0
SKF Svéd Golyóscsapágy Részvenytársaság, Hungary	100	3 000	HUF	600	14
SKF Hellas S.A., Greece	100	2 000	GRD	45 320	0
SKF Canada Limited, Canada	62.5	50 000	CAD	—	0
SKF Colombia S.A., Colombia	13.4	279 148	COP	69 787	0
SKF del Peru S.A., Peru	100	3 383 181	PES	3 383	0
SKF Chilena S.A.I.C., Chile	100	88 192	CLP	467 923	0
SKF Venezolana S.A., Venezuela	100	4 758	VEB	4 758	1 376
SKF Türk Sanayi ve Ticaret Limited, Sirketi, Turkey	0.0	50	TRL	250	1
SKF South East Asia (Pte) Ltd., Singapore	100	1 000 000	SGD	1 000	0
SKF Australia Pty Ltd., Australia	100	96 500	AUD	193	0
SKF New Zealand Limited, New Zealand	100	375 000	NZD	750	0
SKF South Africa (Proprietary) Ltd., South Africa	100	1 422 380	ZAR	2 845	0
SKF Zimbabwe (Private) Limited, Zimbabwe	0.0	1	ZWD	0	0
SKF (Zambia) Ltd., Zambia	0.0	1	ZMK	0	0
SKF Kenya Limited, Kenya	0.0	1	KES	0	0
SKF Eurotrade AB, Göteborg, Sweden	100	83 500	SEK	8 350	10 169
SKF Multitec AB, Helsingborg, Sweden	100	29 500	SEK	2 950	4 545

## Investments in subsidiaries held by the Parent Company on December 31, 1996

	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
<b>Other companies</b>					
SKF Bearings Ltd., United Kingdom	100	10 000	GBP	10	0
Trelanoak Ltd., United Kingdom	20.0	6 965 000	GBP	6 965	119 817
SKF Holding Maatschappij Holland B.V., The Netherlands	100	60 000	NLG	60 000	5 035 746
SKF Engineering & Research Services B.V., The Netherlands	13.4	121	NLG	12	7 684
SKF Verwaltungs AG, Switzerland	100	500	CHF	250	501 898
SKF Holding Mexicana, S.A. de C.V., Mexico	98.0	22 934 233	MXN	2 293	120 029
Barseco (Pty) Ltd, South Africa	100	100	ZAR	0	0
SKF Australia (Manufacturing) Pty. Ltd., Australia	100	1 000 000	AUD	2 000	0
Compania SKF Nicaragua S.A., Nicaragua	100	140	NIC	140	0
Latinoamericana de Administracion S.A., Panama	100	50	USD	5	0
SKF Lager AB, Göteborg, Sweden	100	150 000	SEK	3 000	0
SKF Vehicle Parts AB, Göteborg, Sweden	100	115 000	SEK	11 500	13 872
Nordiska Kullager Aktiebolaget, Göteborg, Sweden	100	500	SEK	50	51
AB SKF-Agenturer, Göteborg, Sweden	100	100	SEK	100	0
SKF Distribution AB, Göteborg, Sweden	100	80 000	SEK	6 400	9 760
AB Compania Sudamericana SKF, Göteborg, Sweden	100	300	SEK	300	0
AB S.A. des Roulements à Billes Suédois SKF, Göteborg, Sweden	100	100	SEK	100	0
The Chinese SKF Co. AB, Göteborg, Sweden	100	1 000	SEK	100	0
SKF Treasury Centre AB, Göteborg, Sweden	100	20 000	SEK	20 000	319 908
SKF Reinsurance Co. Ltd., Göteborg, Sweden	100	30 000	SEK	30 000	80 200
The Indonesian SKF Corporation AB, Göteborg, Sweden	100	1 000	SEK	100	0
SKF Fondförvaltning AB, Göteborg, Sweden	100	2 500	SEK	250	248
AB Svenska Kullagerfabriken, Göteborg, Sweden	100	500	SEK	50	51
SKF Dataservice AB, Göteborg, Sweden	100	500	SEK	50	0
SKF Nova AB, Göteborg, Sweden	100	500	SEK	50	0
AB Transmatic, Göteborg, Sweden	100	500	SEK	50	51
AB SKF Etthundraätjugotre, Göteborg, Sweden	100	500	SEK	50	51
AB SKF Etthundraätjugofyra, Göteborg, Sweden	100	500	SEK	50	51
SKF Bearing Industries AB, Göteborg, Sweden	100	500	SEK	50	51
Bagaregården 16:7 KB, Göteborg, Sweden	99.9	—	SEK	250 103*	15 617
KB Nya Kulan, Göteborg, Sweden	99.9	—	SEK	290 615*	31 075
Byggnadsaktiebolaget Åsen, Göteborg, Sweden	100	500	SEK	50	60
SKF Fastighetsförvaltning AB, Göteborg, Sweden	100	2 000	SEK	200	245
SKF Support AB, Göteborg, Sweden	100	2 000	SEK	200	245
Ovako Comptech AB, Göteborg, Sweden	100	500	SEK	50	48
Ovako Ring AB, Göteborg, Sweden	100	1 000	SEK	100	99
Ovako Metallurgy AB, Göteborg, Sweden	100	500	SEK	50	60
Ovako Tube AB, Göteborg, Sweden	100	5 000	SEK	500	600
Ovako Metech AB, Göteborg, Sweden	100	500	SEK	50	27
NASAB Nordisk Analysservice AB, Göteborg, Sweden	100	2 000	SEK	200	200
<b>Total</b>					<b>8 145 503</b>

\* As face value the original investment capital for each of the limited partnership companies is disclosed.

## 6 Property, plant and equipment

	1996		1995		1994	
	Acquisition cost	Accumulated depr.	Acquisition cost	Accumulated depr.	Acquisition cost	Accumulated depr.
Land	6	—	6	—	6	—
Land improvements	2	1	2	1	2	1
Buildings	114	75	110	72	109	70
Machinery and equipment	76	39	72	37	71	34
	<b>198</b>	<b>115</b>	<b>190</b>	<b>110</b>	<b>188</b>	<b>105</b>
Net	<b>83</b>		<b>80</b>		<b>83</b>	

Land, land improvements and buildings have been assessed for tax purposes on December 31, 1996, as follows:

	Assessed tax value	Cost less accumulated depreciation
Land and land improvements	42	7
Buildings	153	39
	<b>195</b>	<b>46</b>

## 7 Short-term loans

	1996	1995	1994
Current portion of long-term loans	10	11	12
	<b>10</b>	<b>11</b>	<b>12</b>

## 8 Long-term loans

Long-term loans at the end of the year, excluding the current portion were:

	1996	1995	1994
Bonds	1 379	1 346	1 441
Bank loans	378	6	—
Other borrowings	238	253	268
	<b>1 995</b>	<b>1 965</b>	<b>1 709</b>

The above loans were denominated in the following currencies:

	1996	1995	1994
Swedish kronor	437	448	155
United States dollars	1 453	1 407	1 441
Spanish pesetas	105	110	113
	<b>1 995</b>	<b>1 965</b>	<b>1 709</b>

Maturities of long-term loans as at December 31, 1996, are as follows:

1998	10
1999	765
2000	387
2001	8
2002	311
2003 and thereafter	514
	<b>1 995</b>

The terms of certain loan agreements contain various restrictions, relating principally to further pledging of assets.

## 9 Pensions

Charges against income in 1996, 1995 and 1994 for pensions and similar plans were 52, 56 and 54, which include an interest cost of 22, 22 and 26, respectively. 294, 277 and 269 of the total pension liability in 1996, 1995 and 1994, respectively, are referable to pensions in the FPG-PRI (Pension Registration Institute) system.

## 10 Convertible loans

See note 20 to the Consolidated Financial Statements.



## 11 Shareholders' equity

The distribution of the share capital between share types is shown in note 21 to the Consolidated Financial Statements.

### Changes in shareholders' equity

	Share capital	Legal reserve	Un-restricted equity	Total
<b>Opening balance 1994-01-01</b>	1 412	455	3 228	5 095
Net income for the year			561	561
<b>Closing balance 1994-12-31</b>	1 412	455	3 789	5 656
Cash dividends			– 480	– 480
Net income for the year			1 275	1 275
<b>Closing balance 1995-12-31</b>	1 412	455	4 584	6 451
Cash dividends			– 593	– 593
Net income for the year			1 498	1 498
<b>Closing balance 1996-12-31</b>	1 412	455	5 489	7 356

## 12 Assets pledged

	1996	1995	1994
Mortgages in leasehold, land	0	0	1
	0	0	1

## 13 Contingent liabilities

	1996	1995	1994
Guarantees in respect of consolidated subsidiaries' obligations	261	575	1 232
Other guarantees and contingent liabilities	32	44	49
	293	619	1 281

## 14 Average number of employees, wages, salaries and remunerations

	Number of employees			Wages and salaries in
	Women	Men	Total	SEK thousands
Sweden (Göteborg)	57	104	161	92 187*
Total employees, wages and salaries	57	104	161	92 187

\* The amount includes wages, salaries and remunerations to the Board of Directors, President and Vice Presidents of the Parent Company, amounting to SEK 7 157 000, of which SEK 843 000 are bonus payments. For specific information regarding salaries and remuneration to the Chairman of the Board, the President and others see note 25 to the Consolidated Financial Statements.

For a definition of average number of employees see note 1 to the Consolidated Financial Statements.

# Proposed distribution of surplus

Retained earnings	SEK 3 990 581 878
Reported income for the year	SEK 1 498 491 173
Total surplus	SEK 5 489 073 051

The Board of Directors and the President recommend	
that as a dividend be paid	SEK 593 247 669
that the balance be carried forward	SEK 4 895 825 382
	SEK 5 489 073 051

The results of operations and the financial position of the Parent Company and the Group in 1996 are given in the income statements and in the balance sheets together with related notes.

Göteborg, February 6, 1997

Anders Scharp	Göran Johansson
Mauritz Sahlin	Gösta Bystedt
Per-Olof Eriksson	Giovanni Mario Rossignolo
Sune Carlsson	Peter Augustsson
Michael Treschow	Stig Blomberg
Lennart Alverå	Clemens Karlsson

## Auditor's report

We have examined the annual report, the consolidated financial statements, the accounting records and the administration of the Board of Directors and the President for the year 1996. Our examination was made in accordance with generally accepted auditing standards.

### Parent Company

The annual report has been prepared in accordance with the Swedish Companies Act.

We recommend

*that* the Annual General Meeting of the shareholders resolve to adopt the income statement and the balance sheet,

*that* the surplus be distributed in accordance with the proposal in the Board of Directors' Report, and

*that* the Board of Directors and the President be discharged from liability for their administration of the company for the year 1996.

### Group

The consolidated financial statements have been prepared in accordance with the Swedish Companies Act.

We recommend that the Annual General Meeting of the shareholders resolve to adopt the consolidated income statements and the consolidated balance sheets.

Göteborg, February 24, 1997

Arthur Andersen AB

Mats Fredricson  
*Authorized Public Accountant*

# Shares and shareholders

## Distribution of shares as per 31 December, 1996

	Stockholm (1916)	London (1928)	Paris (1929)	Geneva (1935)	Basel (1985)	Zürich (1985)	New York (1985)
A shares, unrestricted	49 256 332	•					
B shares, unrestricted	63 743 224	•	•	•	•	•	•
<b>Total</b>	<b>112 999 556</b>						

Year of introduction on respective stock exchange is indicated within brackets.

The designations A and B indicate the voting power of the share. An A share has one vote and a B share has one-thousandth of one vote.

The SKF share is traded in the USA through the NASDAQ system via American Depositary Receipts (ADR).

## Changes in share capital 1982–1996

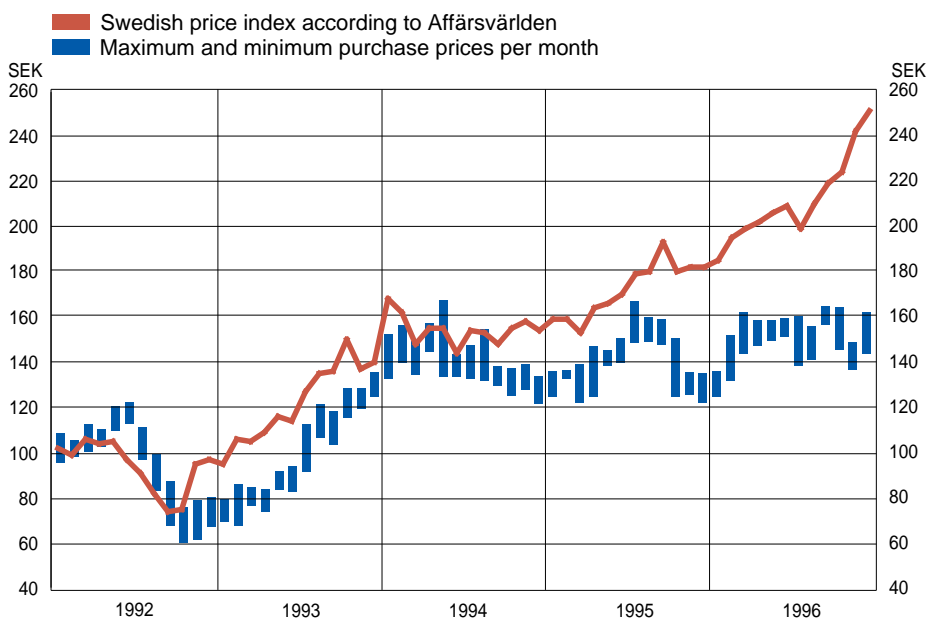
	Amount paid, SEK m	Share capital, SEK m	Number of shares in millions
1982 Bonus issue 1:4		1 350	27.0
1989 Split 4:1		1 350	108.0
1990 Conversion of debentures	62	1 412	113.0

## Trading in SKF shares

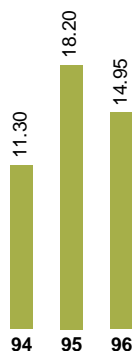
Year	Number of shares		
	Stockholm	London	Stockholm, SEK m
1991	27 212 000	38 896 000	2 659
1992	44 497 000	81 900 000	4 064
1993	69 120 000	92 532 000	6 940
1994	94 423 000	99 666 000	13 129
1995	89 040 000	72 060 000	12 414
1996	76 636 130	70 224 523	11 281

Source: Stockholm Stock Exchange, London Stock Exchange

## Price development of the SKF B share



## Earnings per share



## Shareholders' equity per share



## P/E ratio, B



## Convertible bonds

In May 1992, AB SKF issued zero coupon convertible bonds amounting to XEU 145 million after an 8.75 percent discount. At full conversion, 7 122 928 B shares will be issued. (See Note 20 – Convertible bonds). Total shares will thereafter be 120 122 484 whereof 49 256 332 A shares and 70 866 152 B shares.

## Share savings fund for employees

SKF Allemansfond, a savings fund in which SKF employees in Sweden can save, was started in April 1984. Most of the means of the fund have been invested in SKF shares. On December 31, 1996, the SKF Allemansfond had 752 members and assets amounting to SEK 53 millions.

## Distribution of shareholding

	Number of shareholders	Percent	Number of shares	Percent
1– 1 000	32 903	92.8	6 902 330	6.1
1 001– 10 000	2 221	6.2	6 333 050	5.6
10 001–100 000	241	0.7	8 021 417	7.1
100 001–	107	0.3	91 742 759	81.2
	35 472	100.0	112 999 556	100.0

Source: VPC AB's public share register as of 1996-12-30

## Ten largest shareholders in Sweden

	Number of shares	Number of votes	In percent of voting rights	In percent of share capital
1) Investor AB	14 955 052	14 955 052	30.3	13.2
2) Skanska Invest AB	9 870 000	9 870 000	20.0	8.7
3) SPP (pension funds)	5 578 536	2 311 406	4.7	4.9
4) The National Insurance Fund, Fourth Fund Managing Board	1 976 800	1 976 800	4.0	1.8
5) Nordbanken savings funds	5 536 500	1 966 474	4.0	4.9
6) Stiftelsen för Kunskaps- och Kompetensutveckling	760 000	760 000	1.5	0.7
7) The National Insurance Fund, Fourth Fund Managing Board	704 320	704 320	1.4	0.6
8) Skandia Insurance Group	1 732 968	604 903	1.2	1.5
9) AMF Pensionsförsäkrings AB (Labour market pension funds)	550 000	550 000	1.1	0.5
10) Wallenberg foundations	645 724	539 207	1.1	0.6
			69.3	37.4

Source: VPC AB's public share register as of 1996-12-30

In total 39.7 percent of the shares representing 16.5 percent of voting rights were owned by foreigners.

## Per-share data (Definitions see Note 1)

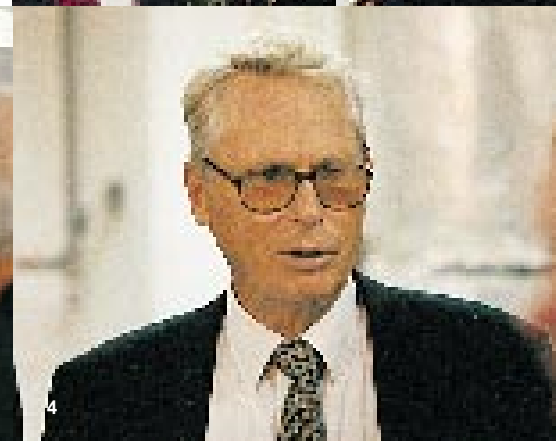
Swedish kronor/share	1990	1991	1992	1993	1994	1995	1996
Earnings per share <sup>1)</sup>	7.75	10.20	14.15	4.05	11.30	18.20	14.95
Dividend per A and B share	4.25	4.25	—	—	4.25	5.25	5.25 <sup>2)</sup>
Total dividend in millions of Swedish kronor	480	480	—	—	480	593	593
Purchase price of B shares at year-end on the Stockholm Stock Exchange	66	94	74	132	122.50	127	160
Shareholders' equity per share <sup>1)</sup>	100	84	73	73	82	90	100
Yield in percent (B) <sup>1)</sup>	6.4	4.5	—	—	3.5	4.1	3.3
P/E ratio, B <sup>1)</sup>	8.5	neg	neg	neg	10.8	7.0	10.7
After full conversion of Convertible bonds:							
Earnings per share <sup>1)</sup>	7.75	10.20	11.35	2.35	11.30	17.80	14.70
Shareholders' equity per share <sup>1)</sup>	100	84	78	81	88	96	107
P/E ratio, B <sup>1)</sup>	8.5	neg	neg	neg	10.9	7.1	10.9

<sup>1)</sup> Per-share data has been recalculated due to changed accounting principles of the Group (see Note 1).

<sup>2)</sup> Dividend according to the Board's proposed distribution of surplus.



# Board of Directors





11



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## Board of Directors

### 1 ANDERS SCHARP, *Stockholm*

Born 1934. Chairman.  
Board member since 1992.  
Chairman AB Electrolux, Saab AB, Scania AB, Incentive AB, Atlas Copco AB and The Swedish Employers' Confederation.

Vice Chairman Investor AB.

Board member Email Limited (Australia) and The Federation of Swedish Industries.

Shareholding in SKF: 10 000

### 2 GÖRAN JOHANSSON, *Göteborg*

Born 1945. Employee representative.  
Board member since 1975.

Chairman Executive Committee of the City Council of Göteborg.

Chairman Liseberg AB.

Board member Götaverken Miljö AB and Statens Vattenfallsverk.

Shareholding in SKF: 100

### 3 MAURITZ SAHLIN, *Göteborg*

Born 1935. Board member since 1976.  
Board member Scania AB, Investor AB, Sandvik AB, Elga AB, Statoil (Norway), Novare Kapital AB, The Swedish Employers' Confederation and The Federation of Swedish Industries.  
Shareholding in SKF: 46 492

### 4 GÖSTA BYSTEDT, *Lidingö*

Born 1929. Board member since 1982.  
Chairman Kalmar Industries AB.

Vice Chairman AB Electrolux and Axel Johnson AB.

Board member Atlas Copco AB and The Federation of Swedish Industries.

Shareholding in SKF: 1 000

### 5 PER-OLOF ERIKSSON, *Sandviken*

Born 1938. Board member since 1987.  
Chairman Svenska Kraftnät (Swedish National Grid).

Board member Sandvik AB, Handelsbanken, SSAB Swedish Steel Corporation, AB Volvo, Skanska AB, AB Custos, Preem Petroleum, Assa Abloy AB, N.V. Koninklijke Sphinx Gustavsberg and The Federation of Swedish Industries.

### 6 GIOVANNI MARIO ROSSIGNOLO, *Turin, Italy*

Born 1930. Board member since 1987.  
Chairman Electrolux Zanussi, Atlas Copco Italia, Perstorp Italia, Sanitari Pozzi and Consortium (Italy).

Vice Chairman and member of the Ericsson S.p.A. Executive Committee.  
Board member Electrolux España S.A. (Spain) and member of the Advisory Board of Schroder Bank.

### 7 SUNE CARLSSON, *Kilchberg, Switzerland*

Born 1941. Board member since 1991.  
Executive Vice President of the ABB Group.

### 8 MICHAEL TRESCHOW, *Drottningholm*

Born 1943. Board member since 1992.  
President and Chief Executive Officer Atlas Copco AB.

Chairman Swedish Trade Council.  
Board member Saab Automobile AB and Parker Hannifin Corp. (USA)  
Shareholding in SKF: 800

### 9 STIG BLOMBERG, *Bollebygd*

Born 1935. Employee representative.  
Board member since 1993.

Chairman SIF (The Swedish Union of Clerical and Technical Employees in Industry), AB SKF, Göteborg  
Shareholding in SKF: 500

### 10 PETER AUGUSTSSON, *Göteborg*

Born 1955. President and Group Chief Executive. Board member since 1995.  
Board member Chalmers Industriteknik (CIT).

Shareholding in SKF: 3 000

## Deputy Board Members

### 11 LENNART ALVERÅ, *Göteborg*

Born 1952. Employee representative.  
Deputy board member since 1987.

Chairman Metalworkers' Union, AB SKF, Göteborg.

Shareholding in SKF: 20

### 12 CLEMENS KARLSSON, *Lidköping*

Born 1934. Employee representative.  
Deputy board member since 1987.

Board member SIF (The Swedish Union of Clerical and Technical Employees in Industry), Lidköping Machine Tools AB.

Shareholding in SKF: 32

### 13 MATS FREDRICSON

Authorized Public Accountant  
Arthur Andersen AB.

### 14 LENNART JOHANSSON

Honorary Chairman of the Board of Directors of AB SKF.

# Management

## Management of AB SKF

PETER AUGUSTSSON  
Managing Director

KRISTER PEIL  
Deputy Managing Director

GUNNAR GREMLIN  
Deputy Managing Director

## Group management

PETER AUGUSTSSON  
*Göteborg, born 1955*

**Group Chief Executive**  
Employed since 1994  
Shareholding in SKF: 3 000  
Board member Chalmers  
Industrietechnik (CIT)

HENNING WITTMAYER  
*Hilversum, the Netherlands,  
born 1942*

**Group Technical Development**  
Employed since 1971  
Board member Ytkemiska  
institutet

STEN E MALMSTRÖM  
*Askim, born 1943*

**Group Coordination and  
(acting) Seals Division** (The  
manufacturing and sale of seals)  
Employed since 1973  
Shareholding in SKF: 1 000  
Chairman West Sweden  
China Forum

LARS G MALMER  
*Göteborg, born 1943*

**Group Communication**  
Employed since 1974  
Shareholding in SKF: 200  
Board member Western  
Sweden Chamber of  
Commerce, the International  
Council of Swedish Industries  
and Chalmers Teknikpark

KAJ THORÉN  
*Göteborg, born 1944*

**Group Business Development**  
Employed since 1975  
Shareholding in SKF: 4 051  
Board member Cutting  
Tools Technology,  
Frankfurt, Germany

OLLE RANÄNG  
*Göteborg, born 1946*  
**Group Total Quality  
Development**  
Employed since 1975  
Shareholding in SKF: 200

MAGNUS JOHANSSON  
*Göteborg, born 1955*  
**Group Human Resources**  
Employed since 1981  
Board member PAUSE  
Intressenter Sweden AB

TORE BERTILSSON  
*Göteborg, born 1951*  
**Group Finance**  
Employed since 1989  
Shareholding in SKF: 2 000  
Board member S-E-Banken  
Allemansfonder AB and  
Ägrenska

CARINA BERGFELT  
*Göteborg, born 1960*  
**Group Legal**  
Employed since 1990  
Board member Forskar-  
patent i Västsverige AB

## Division heads

ROLF JACOBSON  
*Lerum, born 1939*  
**Components Division** (Certain  
manufacturing of rings and  
rollers as well as ball and cage  
production)  
Employed since 1959  
Shareholding in SKF: 400

GUNNAR GREMLIN  
*Hong Kong, born 1945*  
**Asia Pacific Division** (Total  
responsibility for most  
of the Group's bearing  
operations in Asia)  
Employed since 1969  
Shareholding in SKF: 300

MICHAEL HAUPT  
*Schweinfurt, Germany,  
born 1944*  
**Specialty Products Division**  
(Five different business areas,  
characterized by high-tech  
performance and strong market  
position. Includes products for

the aircraft industry, textile  
machinery and materials-  
handling systems)  
**Emerging Business Division**  
(New and fast-growing  
business related to both  
products and markets)  
Employed since 1970  
Shareholding in SKF: 33  
Board member FPB Holding  
AG and Stora Feldmühle AG,  
Düsseldorf, Germany

CHRISTER GYBERG  
*Göteborg, born 1947*  
**Industrial Division** (The  
manufacturing and sale  
of bearings to other  
industrial customers)  
Employed since 1972

MARTIN IVERT  
*Stockholm, born 1948*  
**Steel Division** (The  
production of special steels  
and supplier of most of the  
Group's bearing steel)  
Employed since 1974  
Shareholding in SKF: 150

TOM JOHNSTONE  
*Göteborg, born 1955*  
**Automotive Division**  
(The manufacturing  
and sale of bearings and  
bearing-related products  
for the automotive industry)  
Employed since 1977

GIUSEPPE DONATO  
*Turin, Italy, born 1944*  
**Electrical Division**  
(The manufacturing  
and sale of bearings  
to major producers of  
electric motors and two-  
wheeled vehicles)  
Employed since 1979

HANS-GÖRAN PERSSON  
*Lerum, born 1946*  
**Sourcing & Information  
Systems Division**  
(Provides service within  
these areas to all bearing  
plants and sales units)  
Employed since 1996



Peter Augustsson



Gunnar Gremlin



Krister Peil

KRISTER PEIL  
*Berwyn, PA, USA, born 1942*  
Deputy Managing Director  
Employed since 1970  
Shareholding in SKF: 1 679

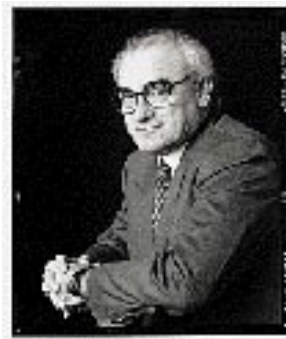




Hans-Göran Persson



Kaj Thorén



Lars G Malmer



Tore Bertilsson



Sten E Malmström



Olle Ranäng



Carina Bergfelt



Magnus Johansson



Tom Johnstone



Martin Ivert



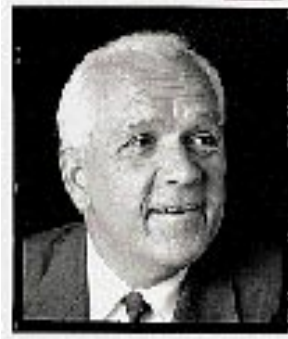
Giuseppe Donato



Henning Wittmeyer



Michael Haupt



Rolf Jacobson



Christer Gyberg



# Seven-year review of the SKF Group

<i>Amounts in millions of Swedish kronor unless otherwise stated</i>	1990	1991	1992	1993	1994	1995	1996
<b>Income statements *</b>							
Net sales	27 766	26 302	26 649	29 200	33 273	36 700	<b>33 589</b>
Sweden	1 137	969	1 463	1 415	1 837	2 202	<b>1 869</b>
Other operating revenues	165	238	213	427	151	106	<b>368</b>
Operating expenses	- 25 588	- 26 416	- 27 759	- 28 922	- 30 833	- 32 806	<b>- 31 083</b>
Operating income/loss	2 343	124	- 897	705	2 591	4 000	<b>2 874</b>
Financial income and expense - net	- 615	- 299	- 988	- 1 158	- 714	- 611	<b>- 462</b>
Income/loss after financial income and expense	1 728	- 175	- 1 885	- 453	1 877	3 389	<b>2 412</b>
Taxes	- 696	- 86	333	- 7	- 570	- 1 301	<b>- 701</b>
Equity in loss of ass. companies	- 133	- 907	—	—	—	—	<b>—</b>
Income/loss after taxes	899	- 1 168	- 1 552	- 460	1 307	2 088	<b>1 711</b>
Extraordinary expense - net of taxes	—	—	- 52	—	—	—	<b>—</b>
Minority interest	- 26	17	7	—	- 28	- 30	<b>- 19</b>
Net income/loss for the year	873	- 1 151	- 1 597	- 460	1 279	2 058	<b>1 692</b>
<b>Balance sheets *</b>							
Current financial assets	3 812	3 823	3 075	2 692	2 356	2 897	<b>2 091</b>
Trade accounts receivable	4 976	4 973	5 332	5 655	6 157	6 111	<b>6 000</b>
Inventories	9 954	9 426	9 435	9 220	8 606	8 972	<b>9 476</b>
Other current assets	931	1 126	1 050	1 187	1 360	1 165	<b>1 352</b>
Property, plant and equipment	9 105	11 372	11 269	11 865	11 116	11 286	<b>12 565</b>
Other capital assets	2 622	2 050	2 720	3 732	3 117	2 564	<b>2 300</b>
Total assets	31 400	32 770	32 881	34 351	32 712	32 995	<b>33 784</b>
Short-term loans	3 469	4 978	3 258	2 228	2 047	1 715	<b>1 693</b>
Other short-term liabilities	6 107	6 571	7 119	7 680	7 398	7 459	<b>7 257</b>
Long-term loans (including convertible loans)	3 769	4 443	6 517	7 044	4 954	4 584	<b>4 846</b>
Other long-term liabilities	6 475	7 064	7 659	8 983	8 986	8 949	<b>8 390</b>
Minority interest	240	172	113	127	144	166	<b>288</b>
Shareholders' equity	11 340	9 542	8 215	8 289	9 183	10 122	<b>11 310</b>
Total liabilities and shareholders' equity	31 400	32 770	32 881	34 351	32 712	32 995	<b>33 784</b>
<b>Key figures (in percentages unless otherwise stated) *</b>							
Return on total assets	10.0	2.6	- 1.1	3.6	9.1	13.2	<b>9.9</b>
Return on capital employed	14.0	3.6	- 1.5	5.0	13.0	19.0	<b>14.7</b>
Return on shareholders' equity	7.2	- 9.9	- 16.1	- 5.1	13.4	19.4	<b>15.9</b>
Profit margin	10.6	3.1	- 1.3	4.2	9.4	12.4	<b>10.0</b>
Turnover of total assets, times	0.94	0.84	0.84	0.86	0.97	1.07	<b>0.99</b>
Share of risk-bearing capital	41.2	33.4	28.6	23.9	28.1	31.9	<b>35.8</b>
Solvency	36.9	29.6	25.3	24.5	28.5	31.2	<b>34.3</b>
<b>Investments and employees</b>							
Additions to property, plant and equipment	1 589	1 778	1 121	933	1 356	2 296	<b>2 710</b>
of which in Sweden	98	129	140	238	293	427	<b>655</b>
Research and development expenses	534	538	473	552	542	598	<b>751</b>
Average number of employees	49 305	45 285	46 672	39 439	40 072	42 641	<b>42 451</b>
of which in Sweden	4 996	4 500	6 871	5 975	6 282	6 418	<b>6 348</b>
Number of employees registered at December 31	53 995	52 469	45 151	41 394	41 732	43 754	<b>43 123</b>
Salaries, wages and social charges	11 142	11 279	11 845	12 277	12 869	13 744	<b>13 066</b>
of which in Sweden	1 519	1 488	2 377	1 979	2 117	2 361	<b>2 464</b>
<b>Product areas *</b>							
Net sales							
Bearings**	26 476	24 347	22 690	24 767	28 168	31 003	<b>29 204</b>
Seals**	—	—	—	2 752	3 099	3 456	<b>3 125</b>
Tools	1 332	1 978	1 731	—	—	—	<b>—</b>
Special steels	—	—	3 076	2 891	3 758	4 168	<b>3 271</b>
Other and eliminations**	- 42	- 23	- 848	- 1 210	- 1 752	- 1 927	<b>- 2 011</b>
	27 766	26 302	26 649	29 200	33 273	36 700	<b>33 589</b>
Income/loss after financial income and expense							
Bearings**	1 725	- 89	- 1 309	- 140	1 557	2 859	<b>2 203</b>
Seals**	—	—	—	33	118	229	<b>154</b>
Tools	40	- 103	- 117	—	—	—	<b>—</b>
Special steels	—	—	- 569	- 351	188	297	<b>56</b>
Other and eliminations**	- 36	17	110	5	14	4	<b>- 1</b>
	1 729	- 175	- 1 885	- 453	1 877	3 389	<b>2 412</b>

\* Previously published amounts have been recalculated to reflect changes in accounting principles.

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