Annual Report 1997

SKF

SKF's vision
is to be recognized as the world leader in bearings, seals and related products.
We will achieve this by being the best company in the industry in:

- *providing customer value*
- *developing our employees*
- *creating shareholder value*

Accordingly, we focus our operations on:

- *quality*
- *cost*
- *growth*
- *speed*

This is SKF
SKF was founded in 1907 and since then has always occupied a position in the front line of technical innovation. Since its start, SKF has been responsible for most of the pioneering inventions within rolling bearing technology. Thanks to having adopted an aggressive focus from the start, SKF is today the world's leading producer of rolling bearings and also holds a leading position within special steels and elastomeric seals. With some 80 production sites in 23 countries and sales through the Group's own sales companies and/or via authorized distributors in virtually all of the world's countries, SKF is always close to the customer.

KEY FIGURES	**1997**	1996	1995
Net sales, SEK m	**36 922**	33 589	36 700
Operating income, SEK m	**2 949**	2 874	4 000
Income after financial income and expense, SEK m	**2 106**	2 412	3 389
Additions to tangible capital assets, SEK m	**2 664**	2 710	2 296
Earnings per share after tax, SEK	**13.70**	14.90	18.10
Dividend per share, SEK	**5 25***	5.25	5.25
Return on capital employed, %	**13.0**	14.7	19.0
Solvency, %	**33.5**	34.3	31.2
Number of employees registered	**43 241**	43 123	43 754

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

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Financial information and reporting

AB SKF will publish the following financial reports in 1998:

Report on 1997 operations . . . . January 30
Report on first quarter 1998 . . . . April 24
Report on first six months 1998 . . . . July 15
Report on first nine months 1998 . . . . October 21

The Annual Report for 1997 will be published on March 16.

The reports are available in Swedish and English and can be ordered from
SKF Group Communication
SE-415 50 Göteborg
Sweden
tel +46-31-337 19 88, fax +46-31-337 17 22
SKF's financial reports are also published on Internet
http://www.skf.com

In addition to the above 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 Friday, April 24, 1998.

In order to participate in the meeting, shareholders
must be recorded in the shareholders' register maintained by the Securities Register Center (VPC AB) by Tuesday, April 14,
must notify the Company before noon on Tuesday, April 21, 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 29, 1998 is proposed as the record date for shareholders entitled to receive dividends for 1997. 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 May 7, 1998.

SKF Environmental Report 1997

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.

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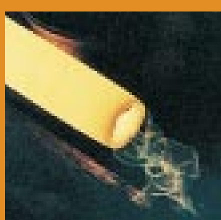


Financial information

Cover picture

At least 50 million people in the world today are active inline roller skaters. And interest is increasing. Each wheel contains two deep groove ball bearings, a total of 16 bearings per pair. Thus, the market potential is substantial. SKF sells bearings to inline manufacturers, such as Bauer in Canada and Salomon in France, as well as to the after-market through authorized distributors, sport shops and via the Internet.

Words in SKF's world

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

Auto-Balancing A unit where free-running balls automatically counteract imbalance and thereby reduce vibration in such applications as hand-held tools, washing machines, centrifuges and electric motors.

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 accomodate misalignment and axial displacement of the shaft, and also is compact. It has not been possible to combine these properties in one bearing before.

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 electric motors.

Elastomer Synthetic rubber.

Hot-scarfing equipment A machine which uses hot-scarfing to remove the top surface of the steel ingot.

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.

Light trucks A designation used in the U.S. to cover everything from jeeps and vans to lightweight trucks.

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 rings.

Oil seals Common name for seals used for oil greasing.

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.

Radial seal A type of oil seal.

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

Rolling bearing steel Very clean special steel 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.

Sport utility vehicles Robust, usually four-wheel-drive vehicles (such as jeeps), which were formerly used in more extreme situations. Today's models are lighter and offer passenger car comfort. Could belong to the light truck category.

Thrust bearing Ball or roller bearing for axial loads.

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

Trouble-Free Operation (TFO) A concept, developed by SKF, which aims at giving the customer as trouble-free an operation as possible. The concept is often tailor-made and includes products and service, maintenance products, training, monitoring and other equipment.

TUBEARING Roller bearing of more elementary design for use in less demanding applications, such as supermarket shopping carts and wheeled walking frames.

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.

Associated company A company in which the SKF Group has an interest representing between 20 and 50 percent of the voting rights, and where the SKF Group has a significant influence.

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

Capital employed The value of a company's total assets, minus non-interest bearing liabilities.

Cash management Control strategies over the company's cash flows, in addition to investment strategies on excess funds.

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

Convergence requirements Requirements issued by the European Union, stating which criteria the member countries shall fulfill in order to become members of the European Monetary Union (EMU).

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

Cost efficiency Within SKF there is an ongoing effort to eliminate non-value added activities and to standardize remaining activities to achieve high profitability and efficiency.

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

Deferred tax Differences between accounted and fiscal valuations of assets and debts creates deferred tax liabilities and deferred tax assets, representing future tax payment.

FIFO (First In First Out) The method used by SKF to calculate which products are still in stock, compared with LIFO (Last In First Out).

Financial derivatives An instrument which is derived from, for example, an underlying currency or interest rate. (See also Forward exchange contracts.)

Financial Year A financial year is the period in which the result of the operations is measured. In SKF the financial year is the same as the calendar year.

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.

Issue A group of stocks or bonds that are offered or sold at the same time.

Joint-venture company A company, formed by two or more companies, in which the risk is shared in relation to for example capital input.

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 behalf of potential lenders.

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

Risk-bearing capital The invested capital in a company, usually stock and equity as opposed to bonds and loans.

Risk limits The maximum acceptable risk of loss according to the pre-determined risk policy.

Sale/lease back A transaction where an asset is sold, and then leased back by the original owner.

SFAS Accounting recommendations issued by the U.S. Financial Accounting Standards Board.

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.

U.S. GAAP Generally Accepted Accounting Principles in the U.S.

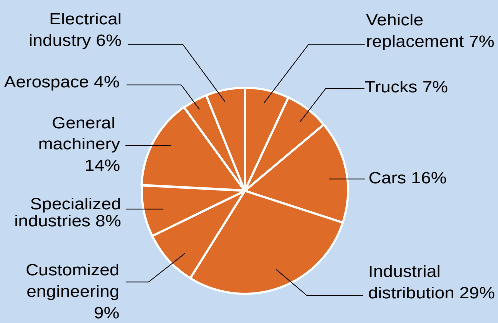
SKF Group

	This is SKF	SKF's strength factors
BEARINGS 	The function of a rolling bearing is to minimize the friction between a fixed and a moving surface, and to carry a load. SKF is the world's leading rolling-bearing company, with nearly 60 production facilities in 21 countries. A global sales organization, consisting of wholly owned sales companies and 10 000 distributors and dealers, annually supplies around one million customers in more than 130 countries with bearings from a range of 20 000 varieties. Bearings is SKF's largest product area and accounted for 87 percent of total sales in 1997.	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 	The function of a seal is to separate a machine element from the outside world, either to prevent dirt and moisture coming in, or to avoid lubricants leaking out. Through its subsidiary Chicago Rawhide, SKF is the leading manufacturer of radial seals in the U.S. Chicago Rawhide is the largest company in the SKF Seals Division with 8 plants in the U.S. The division also includes RFT S.p.A. in Italy, Europe's leading bearing-seals company, CR Elastomere GmbH in Germany, a newly established company in India and three joint-venture companies: in Japan, China and Mexico.	Chicago Rawhide has a very strong position in the U.S. automotive after-market where the trademark CR is well established. As of 1997, sales of SKF bearings to the U.S. automotive after-market are also made via Chicago Rawhide, which further enhances the service level to this important market. In Europe, the division's position is being strengthened by CR Elastomere's product range. The newly established company in Bangalore, India, reinforces the SKF Seals Division's operations in Asia.
SPECIAL STEELS 	The steel from which rolling bearings are produced is vital to the quality of the bearings. Ovako Steel is Europe's leading rolling bearing-steel company and sells slightly more than half its production to SKF's bearing manufacturing plants. An increasing share is sold to other bearing manufacturers. The remainder goes to 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.	Analysis precision and freedom from inclusions are factors that are critical to the bearing's operational lifetime. Ovako Steel produces the cleanest steel in the world. 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 in recent years, the shift in focus to rolling bearing steel and the divestment of parts of the sales organization have further strengthened the company.

SKF's customers

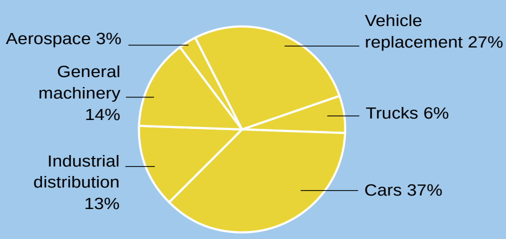
Performance in 1997

What lies ahead?



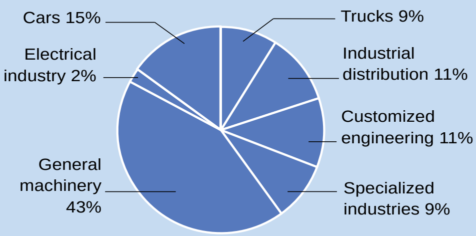
The economic recovery in Western Europe led to a 7-percent improvement in volume for the Group. In Western Europe alone, volumes rose by nearly 10 percent. However, the mix trend was negative, since those segments which led the upturn were customers with large volumes but lower margins. SKF strengthened its industrial presence in Asia with new plants in Korea and Indonesia. In Ukraine, the Group acquired a bearing plant that supplies the Russian automotive industry. In the U.S., production at the newly built plant in Aiken, SC, also focuses on the automotive industry. The number of Group patents increased sharply.

Plans are in progress to further strengthen the Group's production base in Asia. New business is increasing SKF's share of both the large American automotive market and the Japanese automotive market. Measures to increase the efficiency of the Group's administration and sales structures in Western Europe will continue, which will result in annual savings of about SEK 700 m, as of the turn of the century. In Central and Eastern Europe, the Group is continuing to advance its positions at a rapid rate. Raised productivity at the plants in Western Europe is allowing additional capacity to be released to serve growth markets.



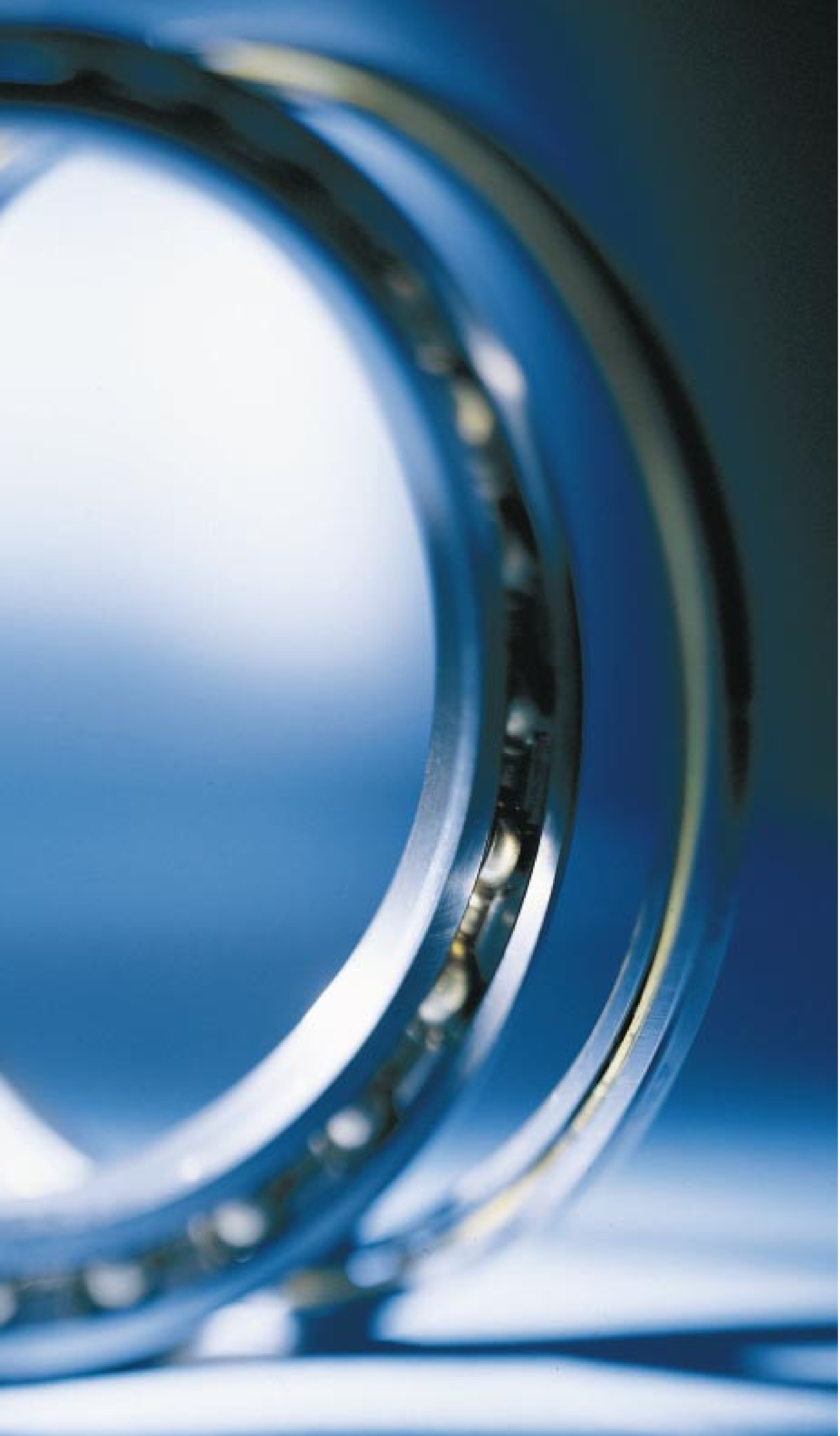
Following the restructuring of its operations, the Seals Division showed distinctly improved profitability in 1997. Sales also increased strongly during the year, mainly as a result of successes within the industrial after-market and among automotive customers. In a newly built plant in North Carolina, production of large-diameter and crawler-track seals was commenced during the year. To consolidate its already strong position in the Asian market, particularly India, a company was formed for the future production of seals for the expanding automotive industry in India.

The Seals Division is continuing to increase its presence in Asia by raising production capacity in the region. In the U.S., the major new contract signed with the country's leading spare-parts chain will strengthen Chicago Rawhide's position in the important automotive after-market. Sales activities in Western Europe are being strengthened in order to gain an increased share of this market. Continued investment in new products is also contributing to increased market share.

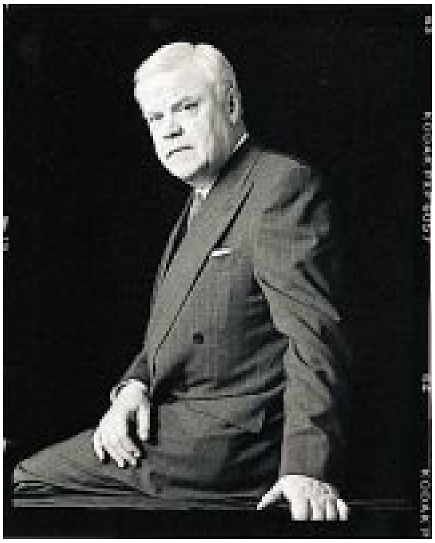


After a weak start, demand rose steadily during the year and Ovako Steel increased production by approximately 20 percent to 440 000 tons, compared with 1996. The increased volumes and efficiency-enhancement programs implemented had a favorable effect on the trend of profitability for the Steel Division. The increases in production were primarily achieved through the internal transfer of personnel and utilization of flexible working hours, and thus with almost unchanged manning. The transformation of Ovako Steel, which was commenced in 1992, is now largely complete and the basic structure is in place.

The focus on increasing the proportion of steel sold outside the SKF Group is being strengthened in order to improve capacity utilization. The new tube plant in Hofors is being completed and production will be started gradually during the second half of 1998. The new production technology being used will provide significant cost savings in the manufacture of rings in bearing production. The structure will continue to be fine-tuned with the aim of achieving even greater efficiency. A project is in progress to reconstruct the administrative process.



The Chairman's Review



After a period of recession during 1995 and 1996, an upturn began in the West European economies during 1997. Then the economy gradually strengthened during the latter part of the year. This means that as we enter a new fiscal year, Western Europe and the U.S., the two markets which together account for nearly 80 percent of SKF Group sales, are showing a positive trend.

*

In the U.S., 1997 was the seventh successive year with positive growth. The only customer segment which showed no noticeable improvement was cars, with sales figures virtually unchanged compared with 1996. In Western Europe, on the other hand, the automotive industry was one of the engines of the recovery.

*

During 1997, the SKF Group continued to implement the strategies that were adopted in 1995. These can be summarized as prioritizing geographical expansion in Asia, Central and Eastern Europe and the U.S., and assigning a high priority among customer segments to the after-markets for both vehicles and industry. The Group strategy, which focuses on rolling bearings and seals, is also aimed at intensifying efforts to develop more new products, particularly products with a higher added value. Development in this area is what sets SKF apart from its competitors, at the same time as the higher added value generates improved profitability for the Group.

*

The investments implemented during the year were in line with Group strategies and strengthened SKF's position in both Asia, Central and Eastern Europe and the U.S. Newly constructed plants in Korea and the U.S. and the acquisition of plants in Indonesia and Ukraine were among the new developments during the year.

*

Most of the countries in Latin America developed favorably. It was not until the latter part of the year that the crisis in Asia began to affect stock markets in the region, giving rise to some concern in the market. With the exception of Brazil, where the removal of import duties had a drastic negative effect on prices, SKF's business in Latin America developed positively.

*

The acquisition of a majority holding in the Lutsk plant in Ukraine at year-end and the Poznan plant in Poland, which was purchased two years ago, have enabled the Group to establish a platform in the region. The Poznan plant already supplies products to the Western European market, while the Lutsk plant, which produces taper roller bearings, has sufficient capacity to also supply markets outside Eastern Europe.

*

The financial crisis which struck Asia during the second half of 1997 had a negative impact on the pace of growth in the region. It is extremely difficult to predict future developments, but the pace of growth in Asia during the next few years is expected to be considerably slower than before. The substantial weakening of currencies in the region will strengthen the international competitiveness of the countries concerned, facilitating exports to the West. SKF, which has its own production plants in India, Malaysia, China, Korea and Indonesia, can benefit from this situation.

*

The Group's objectives include generating value for shareholders. Accordingly, during 1997, Group management developed a model aimed at achieving better control of operations and more accurate measurement of company earnings, with the focus on shareholder value. This model will be used within the Group to establish objectives, measure performance, apportion investments, and so on.

*

Taking into account the Group's strengthened market positions and the rationalization program which is currently under way, the Board of Directors proposes a dividend of SEK 5.25 per share.

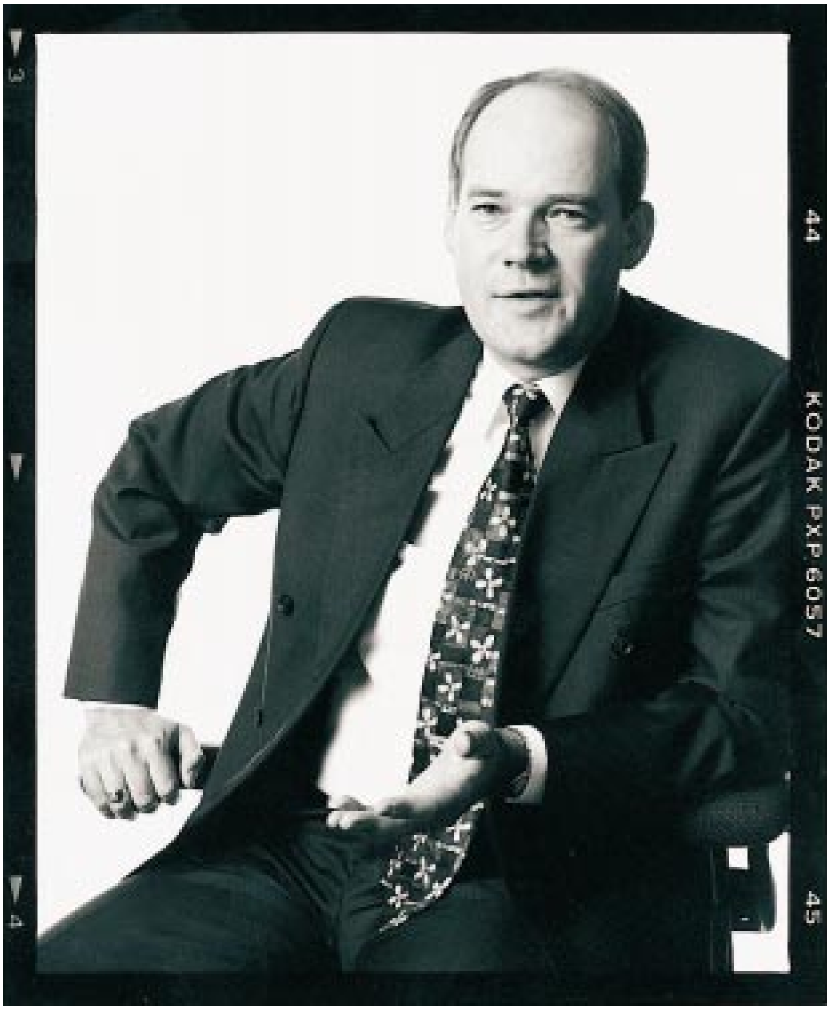
*

Finally, I would like to extend the Board of Directors' warm thanks to Group management and employees for the excellent work performed during the year.

Göteborg, January 30, 1998

ANDERS SCHARP

Letter from the President – Efficiency enhancement and increased competence as competitive weapons



To begin with, I must confirm that Group earnings during fiscal year 1997 were weaker than we had estimated at the beginning of the year. On the other hand, sales developed favorably during the year, and the Group strengthened its position in the world market.

Several different factors affected earnings in 1997. The ongoing work to establish facilities in China – where we are currently engaged in negotiations concerning an additional joint venture company – and the establishment of new industrial plants in Korea, Indonesia, the U.S. and Eastern Europe were activities which, together with the associated costs, were included in our plans for the year. On the other hand, the mix of products sold developed unfavorably for the Group.

The improvement in demand for the Group's products that eventually occurred in Western Europe related primarily to high-volume customers. While these customers, who use SKF's products as components in their own products, purchase large volumes, the margins for SKF are lower. In the other regions also, the growth that occurred was mainly attributable to high-volume customers.

The growth achieved by the Group during 1997 thus came principally from customers who produce relatively low margins for SKF. In addition, price competition remained fierce.

Fifteen sales companies in Western Europe become one

We are also implementing a comprehensive program to enhance efficiency, particularly in Western European operations, which is expected to achieve annual savings in the order of SEK 700 m. A provision of approximately SEK 750 m was made during the third quarter of 1997 for ongoing and approved efficiency-enhancing programs. Marketing and sales are in the process of being adapted to strengthen customer service. We are exploiting the advantages provided by the common market in Western Europe, as well as the opportunities opened up by the new information technologies. Efficiency enhancement measures have focused mainly on the administration of the sales and production areas. As an example, the Group's 15 sales companies in Western Europe will effectively be reduced to a single sales company serving the region. This will eliminate a large number of functions which we no longer require at the national level.

For many years, SKF has invested substantial capital and other resources in restructuring. These measures have been, and will continue to be, necessary in order to strengthen the Group's competitiveness and thereby establish the conditions in which we can create value for the shareholders.

Major investments in information systems, which were also included in our plans for the year, were implemented during 1997 to support the development of operations in Western Europe and the U.S. This focus on IS/IT will continue during 1998.

Quality a key concept within SKF

Now we can turn to the quality area, a key concept in SKF's world. Quality work is a continuous and never-ending process. There is always room for further improvements. Accordingly, we are not content with where we are today but are continuing to work intensively to improve our service to customers. During the preceding year, we succeeded in further improving the delivery service to customers. The new central warehouse in Belgium is fulfilling an extremely important function in this regard.

During 1997, a number of Group units earned quality certification in accordance with QS 9000, a new quality tool that originated in the U.S. automotive industry.

Total Quality Management, TQM, is the concept used most frequently today to describe a company's total quality work, which encompasses not only the products and service that are eventually provided to customers, but also all the activities that are performed within the company to create the end product.

Accordingly, TQM provides the natural basis for the values, driving forces and strategies that will ensure that our vision becomes reality. We have decided to name this total concept SKF 100. I am convinced that we need a common set of values from which to operate – a set of values which has been instilled into all SKF employees, in common with the Group's driving forces, strategies and vision. A description of SKF 100 can be found on page 32.

Entire Group to be environmentally certified in accordance with ISO 14001

Both the internal and the external environment are important aspects of TQM. During 1998, we plan to start working toward environmental certification of the entire Group in accordance with ISO 14001. We shall keep the shareholders and other interested parties informed about our progress in this area via the separate environmental report which – for the fourth successive year – we shall again be publishing simultaneously with the annual report. The environmental report reflects the importance we attach to environmental issues.

Continued growth expected

Fiscal year 1998 has only just begun. The course of world developments is exceedingly difficult to predict. There is considerable uncertainty, since it is not yet possible to gain a comprehensive overview of the consequences for the West of the developments in Asia.

However, my impression at present is that growth can be expected to continue in both Western Europe and the U.S., although the pace of growth is likely to be slower than previously in the U.S. This means that demand from our two most important markets – which together account for almost 80 percent of Group sales – can be expected to grow.

I predict that SKF will continue to enjoy strong growth in Central and Eastern Europe. Of particular interest is Russia, where we have now gained a foothold in the automotive industry through our recent acquisition of the plant in Lutsk, Ukraine.

The prospects for most markets in Latin America appear favorable. We expect improved earnings in Brazil, where we have encountered problems during the past two years.

While Africa and the Middle East are small markets, SKF anticipates favorable growth in both regions.

Turmoil in Asia demands high state of preparedness

And finally to Asia. Based on the current situation, I expect a certain amount of growth to continue in the region, but at a slower pace than we had previously anticipated. Developments will also differ substantially among the various markets.

SKF is naturally monitoring developments very closely and is maintaining a high state of readiness to act, both in Asia and in other parts of the world, in case the Asian companies decide to try to offset a fall-off in demand in their domestic markets by seeking a market for their products in Western Europe and the U.S.

Increased competence a crucial factor in competition

SKF's operations are entirely geared to creating added value for the customers, developing our employees and creating value for the shareholders. It is natural, therefore, that these three target groups are included in the Group's corporate vision. In the annual report, you will find many examples of how we provide service to customers by working to solve problems and attempting to anticipate future needs.

An extensive program is under way within the Group to increase the competence of all employees. New technologies impose constantly increasing demands and new work processes – many of them based on recent advances in information technology – are continually being developed. Our ability to adopt new innovations and adapt them to our needs will be one of many crucial factors in market competition. Accordingly, the importance of endowing all employees with the competence that is required to keep up with the rapid pace of development cannot be too strongly emphasized. The objective is for every single SKF employee to have his or her own development plan, so that we achieve a match between the requirement profile of the position and the competence profile of the employee.

If we have skilled and well educated employees, we shall be able to serve our customers more effectively. This in turn will lead to stronger market positions, lower costs and consequently improved earnings, giving shareholders the growth in value that they expect in return for their investment.

Value to shareholders

SKF's objective is to create value for its shareholders. Accordingly, we have now introduced a new management model which more effectively steers operations in this direction. This management model, of the type known as an economic value added model, will provide the basis for ensuring that the decisions made and measures applied lead to favorable financial development for the Company and its shareholders.

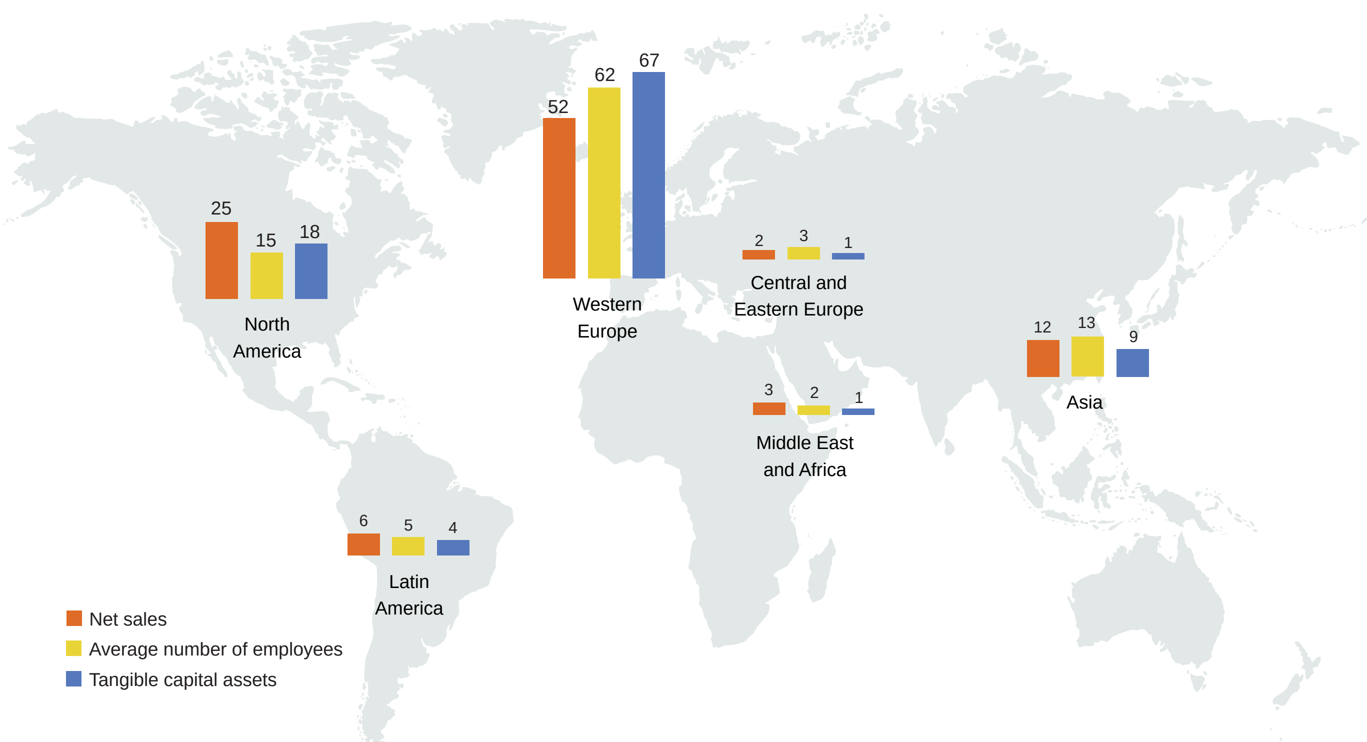
Göteborg, January 30, 1998

PETER AUGUSTSSON

Board of Directors' Report

Sales by the SKF Group developed favorably in the 1997 fiscal year, showing an increase of 10 percent compared with 1996 to SEK 36 922 m. All of the Group's major markets contributed to this trend. The largest growth rates were noted for Africa and the Middle East as well as Central and Eastern Europe, although these markets account for only approximately 5 percent of Group sales. The increase in Western Europe, which is SKF's largest market accounting for approximately 52 percent of Group sales, was only 5 percent.

Geographic distribution of net sales, average number of employees and tangible capital assets (percent)



Of the increase in Group sales, volume accounted for 7 percent, compared with a drop of 2.5 percent in 1996.

On translation into SEK, the sales figures were also affected by developments in currency markets. As a result of the weakening Swedish krona, mainly against the USD, sales rose by approximately 6 percent, or by approximately SEK 2 000 m, during the year.

In addition, the price and product mix trend had a negative impact of approximately 2 percent on Group sales compared with the preceding year. The mix of products sold by the Group developed unfavorably. Customers who purchase large volumes, but which generate lower margins for SKF, accounted for most of the growth. The upswing in Western Europe was spearheaded by the automotive industry, which remained buoyant despite generally weak domestic markets, and sales of new cars actually increased.

When it began to become apparent that the upswing in the Western European economy would be sustainable, the machinery industry and the after-market also started to rise. During the final quarter of the year, favorable demand was reported in most of the Group's customer segments.

Demand from the American market continued to increase, for the seventh consecutive year. A similar trend was noted for all of the Group's various operations. The Seals Division, which conducts most of its business in the U.S., benefited from this favorable trend.

Enhanced position in Central and Eastern Europe

SKF advanced its position in Central and Eastern Europe, despite the fact that general growth was not as strong as in 1996. The growth rate for SKF exceeded the market average and the Group is now the largest rolling bearing importer in this region.

As a result of the takeover of a plant in Lutsk, in the Ukraine, whose main customer is the Russian automotive industry, the Group boosted its industrial presence while laying the foundation for an additional increase in its position in Eastern Europe. The new plant will also serve as a resource that can be utilized to supply markets outside Central and Eastern Europe.

HUGE STEEL CONGLOMERATE BREAKTHROUGH FOR SKF IN THE UKRAINE

In only two years SKF has become the most important supplier to one of the world's largest producers of steel, Ilyich Iron & Steel Works, the Ukraine. This huge steel conglomerate outside Mariupol on the Azov Sea has 40 000 employees and an annual production capacity of about 4 million tons of rolled steel. Around 70 per cent of production is exported to some 50 countries the world over.

SKF received a breakthrough order two years ago after fierce competition from both Eastern European and international bearing manufacturers. Amongst SKF's deliveries have been large four-row taper roller bearings with bore diameters up to 750 mm.

Ilyich has since placed several additional orders with SKF, the latest in January this year. During 1998 SKF will supply 86 large sealed bearings for the rolling mill.

Certainly, SKF bearings are more expensive than bearings from competitors in CIS countries, but the purchasing managers at Ilyich point out that the total cost is ultimately still advantageous. Experience shows that SKF bearings have superior reliability and length of life. Consequently Ilyich has now even begun buying small and medium-sized standard bearings from SKF.

Ilyich Iron & Steel Works, which is a joint stock company, is concentrating on upgrading all equipment to western standards. This is considered an essential requirement for keeping up with the competition of international markets.

In the picture are Nadezhda Bandur, Engineer, Victor Bazhan, Senior Engineer and Roman Rodin, Operator of Ilyich Iron & Steel Works.

Slackening of demand in Asia

In Asia, the growth rate experienced a setback during the second half of the year, when the financial trend in the region resulted in a substantial depreciation of various Asian currencies and placed several countries in economic crises. From SKF's viewpoint, this resulted in an easing of demand, particularly from distributors in countries affected by substantial currency devaluation. The lower economic activity also resulted in general caution and a wait-and-see attitude in the market. Despite this, deliveries in Asia rose by approximately 8 percent during 1997.

In Latin America, which towards the end of the year was also affected by the unrest in Asia, SKF noted a favorable sales trend in most countries. In the countries where SKF conducts proprietary production – Argentina, Brazil and Mexico – Brazil was the only market where a negative earnings trend was noted. However, the volume trend was favorable.

The sharp price cuts that resulted from the de facto removal of import tariffs on automotive components in Brazil during 1996 continued to pose problems for SKF in 1997. To counter the effect of the sharp reduction in prices, a number of projects were initiated in SKF do Brasil. These included a restructuring of the company, a further rationalization of operations, a new payroll system that will result in lower production costs and the introduction of products with more modern technology. Nonetheless, SKF's operations in Brazil reported a loss of slightly more than SEK 150 m, including restructuring costs, for full-year 1997.

In the smaller markets of Africa and the Middle East, SKF strengthened its position, mainly due to significantly increased sales to Turkey.

Group income

The SKF Group's operating income for 1997, which was affected favorably in an amount of approximately SEK 600 m by exchange-rate changes, amounted to SEK 2 949 m, compared with SEK 2 874 m in 1996. Depreciation according to plan amounted to SEK 1 528 m (1 461). The Group's financial net weakened by SEK 381 m to SEK -843 m (-462). The deterioration was mainly attributable to the fact that SKF's financial net was improved in 1996 through the positive effect of currency hedging measures. In combination with exchange-rate fluctuations in 1997, the financial net was thereby adversely affected by approximately SEK 250 m, compared with 1996. Accordingly, the SKF Group's income after financial income and expense amounted to SEK 2 106 m in 1997, compared with SEK 2 412 m in 1996.

The divestment of FlexLink Systems generated a capital gain of approximately SEK 760 m during the third quarter. The sales price was approximately SEK 900 m.

Hansol paper, Korea: At the end of the process, the long paper reels are cut into roll widths, as specified by customers.

Efficiency program in Western Europe to yield annual savings of SEK 700 m

During the same quarter, a provision of approximately SEK 750 m was made for ongoing and approved efficiency-enhancing programs within the Group. Production costs accounted for approximately SEK 510 m of this amount and sales and administration costs for approximately SEK 240 m.

The efficiency-enhancing program, which relates mainly to the administration of the sales and production areas in Western Europe, is expected to generate annual savings of approximately SEK 700 m when it has been implemented in full in the year 2000. The savings will be achieved through such measures as the concentration of Western European sales operations, which currently consist of 15 fully manned sales companies, into a single organization. Service functions, such as invoicing, the handling of accounts receivable and financial reporting, will be centralized into a service unit in the Netherlands. This will enable the sales organization to concentrate on its principal function – selling products and services.

For the past year, SKF's distribution operations have been centralized in a warehouse in Belgium, which supplies the entire Western European after-market. The next step will involve a gradual integration of the Central and Eastern European sales companies into the system.

When combined with the programs under way in other parts of the Group, these activities will help SKF to reduce its sales and administration costs to less than 15 percent of annual sales.

Expressed in relation to annual sales, the SKF Group's inventories decreased during the year and amounted to 27 percent at year-end (28). The improvement was attributable to increased demand for the Group's products, more efficient distribution activities and shorter lead times in production. The Group's objective, less than 25 percent of annual sales, stands firm.

Of the Group's operating income of SEK 2 949 m, rolling bearings accounted for SEK 2 294 m (2 482), seals for SEK 377 m (242) and special steels for SEK 242 m (153).

The main reasons for the weaker earnings trend for rolling bearings were a planned expansion program, with the resulting high rate of investment for the acquisition of companies and the construction of new plants, an unfavorable mix trend, and intense pressure on prices in the market.

The improvement in the earnings of the Seals Division was mainly attributable to a favorable trend of volume and the division's new operating structure. The costs for restructuring and boosting the efficiency of this division were posted in 1996, while the effects became noticeable in 1997.

Earnings for the Steel Division also rose during 1997, compared with 1996, mainly because Ovako Steel AB's trimmed organization was able to raise its production significantly compared with 1996.

Earnings per share amounted to SEK 13.70, compared with SEK 14.90 in 1996. The return on capital employed was 13.0 percent (14.7), and on shareholders' equity 13.0 percent (15.9).

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

The Group's solvency amounted to 33.5

percent at year-end 1997, compared with 34.3 percent in 1996. The Group's objective is to have a solvency of 35 percent calculated as an average over an economic cycle.

Total interest-bearing loans outstanding at December 31, 1997 amounted to SEK 8 391 m (6 539), while pension liabilities amounted to SEK 6 171 m (6 030). As of the same date, the Group had financial assets totaling SEK 4 761 m (3 077), including short-term financial assets in the amount of SEK 3 931 m (2 091).

As a result of the redemption and conversion of SKF's ECU-denominated convertible bond loan, which was issued in 1992, 838 211 new Series B shares were issued during the year. Following these new issues, the total number of issued shares amounts to 113 837 767.

WINNER TAKES ALL – SKF'S BIG ORDER IN KOREA

Hansol Paper is the flagship within South Korea's Hansol Group and clearly the leader in the country's paper industry. Hansol Paper is a young company, set up as recently as the mid 1960s. Growth has been rapid and today there are seven paper mills located in various parts of South Korea. Total annual production stands at more than 1 million tons, mainly for newsprint, with almost half being exported.

Round-the-clock operations are of major importance for a paper manufacturer, and an unplanned stoppage can cost as much as USD 35 000 per hour.

The truly critical components in a paper machine are, in fact, the rolling bearings. A modern paper machine is equipped with nearly 2 000 bearings, with operational reliability being crucial for the paper mill's efficiency.

At the beginning of the 1990s, Hansol Paper made an extremely detailed investigation of its total bearing supply, examining bearing quality, supply capacity, price, technical support, etc. Many international bearing companies took part, and in the final round only SKF and an international competitor remained.

SKF won, and in 1996 a comprehensive agreement was signed between Hansol Paper and SKF Korea, together with SKF's authorized distributor Yooshin.

According to the contract, SKF supplies practically the whole of Hansol Paper with bearings. Added to that is a Trouble-Free Operation agreement, where SKF guarantees service and operational reliability on all supplied bearings.

Hansol Paper was the first Asian paper industry to allow installation of SKF-developed CARB bearings, specially adapted to cope with the heavy stresses within the dryer cylinders of a paper mill.

The picture shows M.K. Yoo, Sales Manager, SKF Korea Ltd. and D.J. Lim, Manager, Maintenance Team at Hansol Paper. Co. Ltd.

Decrease in investment rate

SKF's capital expenditure in tangible capital assets in 1997 amounted to SEK 2 664 m (2 710). This high level reflected the Group's rate of expansion and the modernization and upgrading of existing plants. Approximately SEK 120 m of the capital expenditure was attributable to environmental investments, whose aim is to improve SKF's internal and external environment.

Group investments culminated during 1996 and 1997. The investment rate will now be reduced gradually to a more normal level, corresponding to approximately 5 percent of annual sales.

Investments in research and development amounted SEK 757 m (751), which corresponds to approximately 2.1 percent (2.2) of annual sales.

Ferenc Horváth at Duna Drava Cement and Laszló Rózsa, SKF, discuss a Condition Monitoring test.

Research and development of vital importance to the Group's future success

The development of current products and the development production of new products that better satisfy customer requirements are factors of vital importance to a company's ability to survive and expand. Accordingly, research and development activities play a key role at SKF, as the market leader in its sector. The fact that all the major innovations in the world of bearings in the past fifty years can be attributed to SKF is an endorsement of the expertise and experience possessed by SKF in its core business.

During recent years, SKF has contributed a number of new products to the bearing market, including the CARB* bearing, the Hub Unit 5 and the Auto-Balancing unit. Within the SKF Group, new ideas and projects are developed on a continuous basis.

Number of patents is a measurement of research and development activity

One way of measuring research and development work is to examine the number of applications for patents submitted each year. Since SKF mainly patents its inventions outside Sweden, the Group's progress in this field cannot be measured using national statistics. During 1997, 146 first-time applications were submitted, compared with 130 in the preceding year. The 1996 figure represented a doubling of the 65 patent applications submitted in 1995.

The increased number of applications is partly attributable to determined work within networks in order to support and stimulate patent-related activity in all areas of importance to the technological development of the Group. Idea-generating meetings and creativity exercises are arranged within key areas of technology and for important applications, and active measures are undertaken to stimulate the climate for innovation and creative thinking within the Group.

Each employee will be assigned an individual development plan

Skills, commitment and enthusiasm among Group employees are factors of key importance to the Group's ability to successfully assert itself in the face of competition. It is important that each employee is aware of his/her role and significance in a larger context, and of the scope available for their personal development. Accordingly, it is the Group's goal that each employee will be assigned an individual development plan, to ensure that suitable training programs and the knowledge required for future work assignments are made available.

The key to the creation of a positive and result-oriented working climate lies primarily in the hands of the Group's many managers. For this reason, comprehensive efforts have been devoted to the development of the individual leadership properties and skills of SKF managers. As a result, a large number of development seminars at local, national and international levels were arranged for managers and future managers during the year.

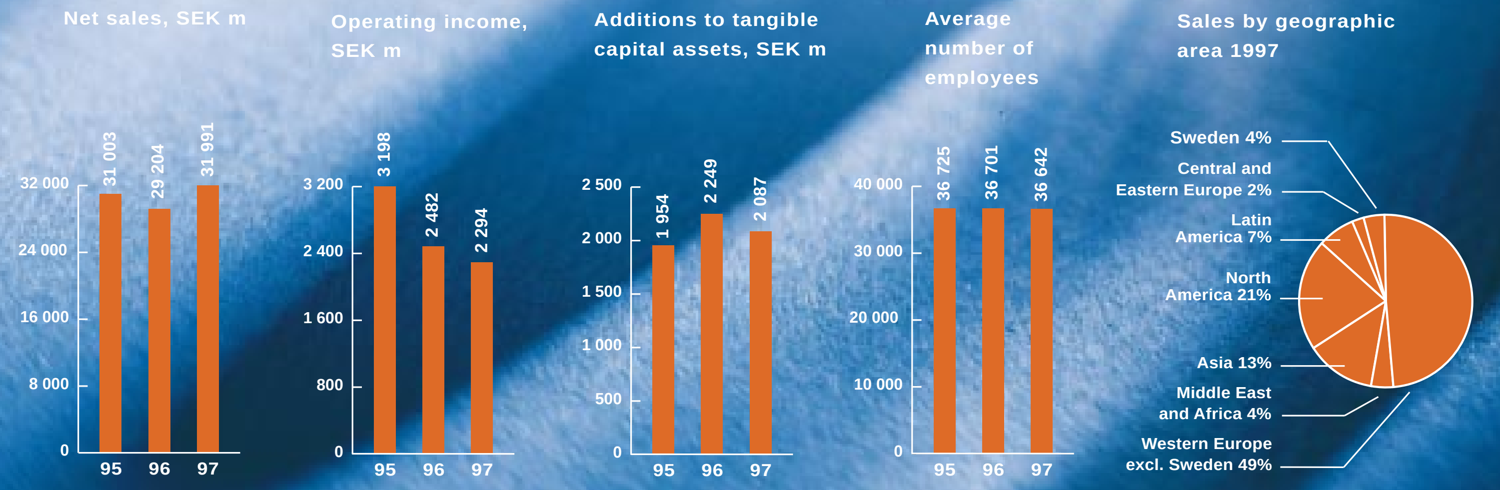
An exciting and attractive work environment is also of importance to efforts to recruit the most appropriate personnel.

During the year, a new training center – SKF College Asia – was opened at the Group's plant in Nilai, Malaysia, to satisfy the Asian region's growing need for training in fields ranging from company management to technical knowledge. About 20 such courses were implemented during the year.

This college complements the existing SKF College, based in the Netherlands, which has been in operation for several years with the aim of ensuring the requisite development of skills and to ensure that knowledge is disseminated within the Group. SKF College focuses primarily on satisfying needs within the fields of product and process technologies.

** CARB is a registered trademark of AB SKF*

Bearings


Net sales, SEK m
32 000
24 000
16 000
8 000
0
31 003
29 204
31 991
95
96
97
Operating income, SEK m
3 200
2 400
1 600
800
0
3 198
2 482
2 294
95
96
97
Additions to tangible capital assets, SEK m
2 500
2 000
1 500
1 000
500
0
1 954
2 249
2 087
95
96
97
Average number of employees
40 000
30 000
20 000
10 000
0
36 725
36 701
36 642
95
96
97
Sales by geographic area 1997
Sweden 4%
Central and Eastern Europe 2%
Latin America 7%
North America 21%
Asia 13%
Middle East and Africa 4%
Western Europe excl. Sweden 49%

During 1997, sales of rolling bearings amounted to SEK 31 991 m, an increase of SEK 2 787 m, or 9.5 percent, compared with the preceding year, when sales totaled SEK 29 204 m. The 9 percent increase in volumes was primarily a reflection of the upturn in the Western European economy. This was accompanied by growth in most bearing markets worldwide, despite the weakening economic trend that began to affect Asia during the autumn.

Strong volume growth in most bearing markets

The SKF Group's rolling-bearing operations are divided into divisions and segments with global responsibility. Operations are based on customers' different needs for products and services. This approach creates a closeness to the customer, guaranteeing that customer demands and requirements drive and control Group development.

MACHINERY CUSTOMERS

SKF's largest area of operations relates to the Group's business with customers in the machinery sector. Sales to customer groups in this category increased 7.5 percent to SEK 21 509 m compared with 1996 and currently account for approximately 58 percent of total Group sales.

Operations in this area are divided into four main groups:

General Machinery, which covers the Material Handling, Industrial Transmissions, Textile, Agriculture & Forestry and Industrial Electrical customer segments;

Specialized Industries, which includes Railways, Machine Tools, Fluid Machinery and Printing Machinery;

Customized Engineering, which includes Pulp & Paper, Metalworking, and Mining & Construction;

Industrial Distribution, which covers distributor operations.

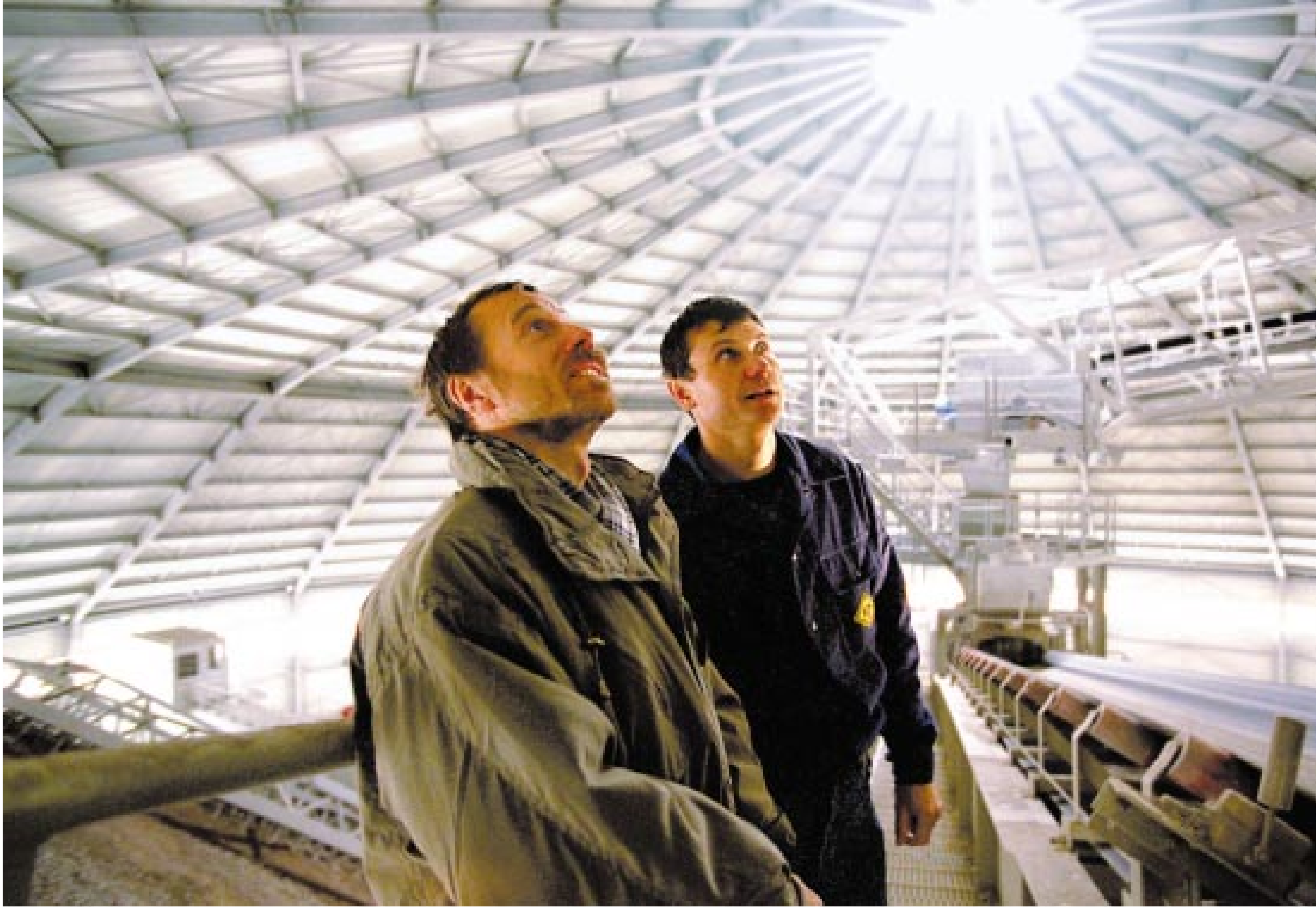
General Machinery and Specialized Industries experienced similar trends during 1997. After a weak start in Western Europe, demand improved continuously during the year in all segments in both groups. Sales within these segments also increased in the U.S.

Like the preceding year, 1997 was characterized by a high degree of activity in the railways segment. In Western Europe, Italy showed the strongest trend. The Group's success in this area was attributable to the successful introduction of bearing units with sensors which measure the speed for the ABS braking system and measure the temperature to monitor conditions inside the bearing.

Demand in the Customized Engineering segment, which includes the heavy industry sector, showed a rather different trend, with the upturn starting earlier, then leveling off during the last quarter of the year. The scenario was roughly similar in Western Europe and the U.S., although the leveling off was less noticeable in the U.S.

Sales to the industrial after-market, which are mainly conducted via distributors, remained at a low level for some time before an upturn began during the summer months, after which sales gradually increased during the latter part of the year.

Nineteen ninety-seven was the first complete year of operation for the central warehouse in Tongeren, Belgium. The results showed that the project has fulfilled its



objectives of improving customer service and reducing the Group's costs.

In parallel with the restructuring of the distribution apparatus in Western Europe, a similar process has been under way in the U.S. and Canada. In both these countries, which are geographically considerably larger than Western Europe, the number of inventory centers has been reduced from 45 to 9, resulting in annual savings of slightly more than SEK 60 m and a reduction of the workforce by 140 persons, with maintained or improved service level.

Demand also strengthened in the U.S. after-market during the latter part of the year, finishing at a high level. SKF further consolidated its leading position as a supplier to this market.

QUALITY AND SERVICE GIVES RECORD GROWTH TO HUNGARY

Duna Drava Cement & Lime Co. Ltd. is Hungary's largest producer of cement. The company has two large plants – Beremend, in southwest Hungary, and Vac, north of Budapest.

Production stands at just over one and a half million tons of cement per year. The majority is sold within the country's rapidly growing infrastructure; the construction industry is flourishing and the motorway network has more than doubled during the 1990s.

A cement works contains thousands of bearings and SKF's interest in the Duna Drava Group has steadily increased. Today, SKF has approximately two-thirds of all rolling bearings installed in the company. And generally speaking, 100 percent of the most critical applications.

One important sales argument is SKF's TFO-concept.

Hungary is a good example of SKF's explicit strategy to give high priority to markets in Central and Eastern Europe. In 1990, SKF had about 6 percent market share in Hungary. That year, when links with the Soviet Union were severed, trade was liberalized and SKF began a series of ventures. Today SKF's market share has grown to 31 percent.

The picture shows Ferenc Horváth, Head of Condition Monitoring Department at Duna Drava Cement & Lime Co. Ltd. and László Rózsa, Area Sales Manager, SKF Svéd Golyóscsapágy Rt.

Increased focus on new customers

SKF's sales organization in Western Europe was restructured during 1997 in order to enhance the range of contacts with existing and potential customers. As a result, every sales unit now includes an operative function dedicated exclusively to seeking new customers and business. This strengthening of the sales organization was made possible by the availability of resources for reassignment following the various efficiency enhancement programs. Such programs are exemplified by the new distribution apparatus for Western Europe and the ongoing restructuring of sales companies, whereby a number of service functions are centralized in a separate company.

TFO ensures trouble-free operation for customers

During the year, SKF continued working with the TFO (Trouble-Free Operation) concept in the after-market. The TFO agreements include services relating to installation, maintenance, equipment for the condition monitoring of bearings and machines, training and other areas. The

partnership with SKF and the local SKF distributor enables the customer to reduce operating and maintenance costs, which in turn results in increased productivity.

During the year, the world's second largest tissue producer, the Fort James Group, signed a TFO agreement with SKF covering 21 European plants in 9 different countries. The agreement gives SKF the right to supply these plants with all the bearings and seals required for their operations.

Optima program automatically replenishes stocks

During 1997, SKF introduced Optima, a new program for the bearing after-market designed to further improve customer service. The program not only facilitates customer operations but also helps to reduce customer costs.

The program operates on the principle that SKF assumes responsibility for ensuring that distributors always have the right products and the right number of each product available on their shelves. This is made possible by a system which, each evening, forwards to SKF's central warehouse a report listing every item sold. Each transaction is registered and checked against previously agreed stock levels at the distributor's warehouse. Stock replenishment is accomplished automatically as needed, with SKF supplying the distributor with the correct products.

Optima has been positively received by distributors, since it allows them to focus on selling and leave the time-consuming and cost-intensive administrative work to SKF.

Repair instead of scrapping improves cost efficiency at customers

During the year, the new SKF Industrial Service Center in York, in the state of Pennsylvania in the U.S., was inaugurated. The purpose of the Center is to provide a repair service for worn rolling bearings. Major end-user customers, such as steelworks, paper mills and mines, experience continu-

L&T MAKE THE THINGS THAT MAKE INDIA PROUD

SKF's business relations with India go back a long way and the company is firmly established in the country, both with manufacturing facilities and an extensively developed sales network. India is today SKF's largest market in Asia, with sales reaching nearly 1 billion SEK.

One of SKF's major Indian customers is L&T Ltd, which is a leading brand in the construction segment in India. L&T, Bangalore is a part of L&T Group which has varied interest in India from construction machinery and cement manufacturing to computer peripherals. L&T, Bangalore manufactures a range of excavators which are sold almost entirely on the domestic market. The company motto is "We make the things that make India proud".

Despite 1997 being a difficult year for the Indian industry, where national production increased by only 5 percent compared to about 12 percent the previous year, L&T has recorded a phenomenal sales increase of 25 percent

SKF mainly sells slewing bearings to L&T for all their excavator models from 1150 mm to 1800 mm in diameter, which are manufactured by SKF's French subsidiary, RKS S.A. These large bearings are located in the centre of the excavator, allowing the superstructure to swing around 360 degrees. SKF's sales to L&T have steadily increased during the 1990s and today SKF has 100 percent market share with L&T's slewing rings.

In February 1998, L&T entered into a joint venture with Komatsu of Japan, one of the world's leading manufacturers of excavators and henceforth will be called L&T Komatsu Ltd. L&T thereby hopes to strengthen its position in the Indian market even further.

The picture shows K.G. Sathyanarayan, SKF Bearings India and U.N. Bhat, General Manager, L&T.

ous wear and tear on the various components in their machines. Part of SKF's strategy is to offer these customers a service which provides the best quality at the best price. In many cases, there is no need to scrap a large and expensive rolling bearing; it can be repaired instead, which is naturally cheaper for the customer than purchasing a new bearing. Repairs of this type will be carried out at the Industrial Service Center. This is a large and important market, in which SKF has forged a strong position.

Stronger position in Asia

In Asia, which for SKF is essentially an after-market, SKF's sales volume increased by approximately 8 percent. Asia represents some 12 percent of total Group sales. The pace of the increase exceeded the growth rate of the bearing sector as a whole in Asia, with the result that the Group strengthened its position.

The financial turmoil that affected Asia during the latter part of 1997 inhibited growth in the region. The largest market, Japan, had already stagnated earlier and recorded zero growth during 1997.

The absence of growth in Japan, combined with the subsequent financial crisis in the region, resulted in the supply of rolling bearings increasing more rapidly than demand, which in turn led to increased pressure on prices. SKF was unable to escape the effects of this trend.

Indian customers demand quality and service

The Indian market is large and important. In order to integrate its domestic economy with the rest of the world, India has reduced tariff protection. This has brought about a change in the competitive situation, with the international players in most segments strengthening their presence in the country, which has exerted a negative effect on the price trend. However, the opening-up of India also means that the market is becoming more demanding in terms of quality and service, and this is to SKF's advantage. Major customers who previously received only one delivery each month are now demanding at least weekly deliveries.

Demand in the huge Chinese market continued to grow during 1997, but at a slower pace than during 1996. SKF continued to increase its business in China, both through its production companies in the country and by continuing to import products that are not manufactured in China.

During the year, the first major TFO agreement was also concluded with one of China's leading steel producers, near Shanghai. The agreement covers inventory management, preventive maintenance and performance monitoring.

SKF's sales in the Latin American market developed favorably, with volumes increasing by about 25 percent. The improvement was primarily attributable to continued strong development in Argentina and Peru. After a weak 1996, Venezuela also began to recover.

Sales in the Middle East and Africa, with the exception of Southern Africa, increased strongly compared with 1996. The main contributors to the increase, which amounted to about 30 percent, were the automotive and industrial electrical segments and the strong increase in sales in Turkey, which, together with South Africa, is the most important market in the region.

There are many different varieties of SKF signs in India. Here, an example from a distributor in Bombay.

CARB and Auto-Balancing new growth products

The two most talked-about growth products within the Group at present are the CARB bearing and the Auto-Balancing unit.

During 1997, approximately SEK 150 m was invested in a new plant in Göteborg for production of CARB bearings. Production commenced in May 1997 and sales are growing steadily.

At the same time as cultivation of paper machine manufacturers – the first target group for CARB bearings – continues, new customer groups are being identified. The CARB bearing is highly suitable, for example, for use in fans, mobile cranes, continuous casting plants, pumps and electric motors, among other applications.

Sales of Auto-Balancing units are developing favorably, and a production line is nearing completion in Göteborg. In addition to the usual technical sales arguments for this product, it also has a distinct environmental profile due to the fact that it substantially reduces vibration – in hand-held tools for example. In the case of a grinder, vibration was reduced by between 40 and 80 percent.

TUBEARING was another new product which the Group successfully began to market during 1997. It is suitable for use when performance requirements are not especially high – for example, in supermarket shopping carts. It is a big market and SKF has a product which is adapted to this and is produced in a cost-effective manner.

Components

In order to strengthen competitiveness in all the Group's bearing operations, the production of components within the Group has been divided into four different operations, each of which bears global responsibility. The four operations relate to: rings and forgings, balls, rollers and cages.

The Group's aim is to have a global supply of components and thereby achieve advantages of scale in production. Each operating area is responsible for product and process development, strategic planning and production.

The forging shop in Arvika, Sweden, which was formerly part of Ovako Steel and mainly produced forged components for the automotive industry, was transferred to the bearing operation during the year. The forging shop will now be able to supply SKF's bearing plants with rings in certain sizes. This will relieve the pressure on the plants in Italy and Germany that have produced these rings up until now, enabling them to improve their efficiency and financial position and concentrate on the high-volume products which they were actually designed to produce.

Increased production rate

Increased demand from the after-market and from customers in the machinery industry sector during 1997 resulted in an increased rate of production during the second half of the year. Volumes rose by approximately 7 percent compared with 1996. Since the increase did not occur until the latter part of the year, the rate of increase was substantially higher than that for the year as a whole. Production was successfully increased without recruiting any new employees, which is a reflection of the increased productivity resulting from the ongoing efficiency enhancement programs in Group plants.

Investments in SKF's plants during the year focused on eliminating bottlenecks and improving quality and the environment.

AUTOMOTIVE CUSTOMERS

Sales in the automotive business area increased 11 percent to SEK 12 004 m during 1997. Operations in this area are divided into three customer segments: cars, which account for 52 percent of sales; trucks, which account for 21 percent; and the after-market, which covers the remaining 27 percent.

The increase in sales was primarily attributable to the car market in Western Europe, where sales of bearings rose 11 percent. During the year, Western Europe accounted for some 70 percent of total Group sales of bearings to the car industry. This should be seen against the background of an overall increase of about 4 percent in car production in Western Europe.

There was considerable variation between the different West European markets. The Italian market, for example, showed extremely strong growth, in the order of 15 percent. However, this was the result of government support introduced to stimulate purchases of new cars. The trend in France was the opposite. Sales of new cars fell significantly, due to the withdrawal of government support.

New business secured in Western Europe included a contract to supply Hub Unit 2, with taper roller bearings, for the Ford Transit; Hub Unit 3 for the Mercedes Benz "Swatch" car; and taper roller bearings for Volvo Trucks destined for use in both Western Europe and Brazil.

Hub Unit 5 lowers weight and reduces vibration

During the year, the new Hub Unit 5 was introduced. The unit was specially developed for small and midsize cars with rear-wheel brake drums. In Hub Unit 5, the brake drum is combined with the bearing. As well as simplifying logistics and handling, this solution also considerably reduces the weight of each unit. The new design also eliminates the vibration that can occur when braking. Hub Unit 5 is still under development and is undergoing testing with various customers.

Deliveries of a new version of Hub Unit 2, with an integral active sensor that can measure speeds down to zero, also began during 1997. The first car to be fitted with the new product is the Alfa Romeo Giulietta.

Sales of new cars in the U.S. were essentially unchanged compared with 1996. The term "cars and light trucks" is commonly used in the U.S. An analysis of the ratio between car sales and sales of light trucks in the U.S. shows that sales of cars declined slightly, while sales of light trucks increased. This means that SKF retained its share of the market, since the Group's position is stronger in the cars segment than in light trucks. Deliveries of Hub Unit 2 for a new American car platform, which will result in increased market share during 1998, began during the second quarter.

First hub unit order from GM in the U.S.

During 1997, SKF also received its first order for hub units from GM in the U.S. The order is for Hub Unit 2, with taper roller bearings, which will be produced at the Group's new plant in Aiken, South Carolina. The hub unit will be used in GM's new light truck.

The decision to build a plant in Aiken was made in February 1996, and deliveries to the U.S. market began during the second quarter of 1997. The plant produces hub units for cars and heavy trucks, and will also begin producing units for light trucks as a result of the GM order. SKF also secured a number of other new orders in the U.S. automotive market, including "sport utility vehicles," a segment which is currently growing rapidly in the U.S.

The Group's new Technical Center near Detroit, Michigan, was opened simultaneously with the inauguration of the Aiken plant. As well as cooperating with SKF's automotive customers in the U.S., the new technical center will also serve as a resource for all of SKF's operations in the U.S. This will bring operations closer to the customer and facilitate testing and prototype development, while also emphasizing the Group's commitment to this market.

SKF's third largest region for sales to the car industry is Asia, where the Group continued to strengthen its market positions during 1997, albeit starting from a low level.

In South Korea, deliveries started of Hub Unit 2 from the newly constructed plant in Changwon near Pusan. The plant is a joint venture with a South Korean partner, Hanwha, with SKF owning 80 percent and assuming management responsibility. In the long term, the new plant could also begin supplying automotive producers outside South Korea.

U.S. INVESTMENT OFFENSIVE DOUBLES SALES

The U.S. is the world's largest market for wheel bearings, representing one third of the global market. SKF considers the U.S. to be a high priority market and one indication of the offensive currently taking place is a new plant in Aiken, SC, which began production during 1997.

SKF has invested over SEK 800 m in this ultramodern bearing plant. The factory was built in record time, progressing from investment decision to start of production in just one year.

The Aiken plant manufactures hub units for both cars and trucks, and has the potential for greatly increasing SKF's delivery capacity and competitiveness in the U.S. The objective is to double sales to the American car industry by the year 2000.

Initial deliveries from the Aiken plant have been to Chrysler, which today is the largest SKF customer within the U.S. car industry. The newly recruited personnel at the Aiken plant were appointed from several thousand applicants who underwent a careful selection process for some 200 available positions.

The picture shows production channel team members standing with the Chrysler Jxi, one of the Chrysler models which uses SKF hub units. From the left Chip Burtz, Pat Porter, Margaret Augustine and Glen Stringfield.

Major new business with the Japanese car industry

In the important Japanese car market, SKF continued to secure new business during 1997 from customers who had never previously dealt with SKF in Japan. Contracts were signed during the spring with both Toyota and Nissan. While the amount of money involved is modest, in commercial terms the agreements represent a breakthrough for SKF.

Agreements were also concluded with Daihatsu, Mazda and Suzuki, mostly for Hub Unit 1, which is supplied from the plant in Airasca, Italy. One of the new agreements also covers deep groove ball bearings for gearboxes, one of the suppliers of which will be SKF's plant in Malaysia.

Truck segment showed stronger recovery than expected

The trend in the truck segment was similar in Western Europe and the U.S. Following the sharp decline during 1996, demand began to improve slightly during the first part of 1997. At that time, both the truck producers and the market analysts anticipated that although the decline had ceased, sales would fail to match the level in the preceding year. However, a strong recovery occurred and sales in Western Europe exceeded 1996 levels.

For SKF, this represents a positive sales trend in Western Europe, where the Group has a strong position as a supplier of components for heavy vehicles. Sales of bearings increased by approximately 15 percent to SEK 1 305 m. About 59 percent of Group sales of bearings to the truck sector occur in Western Europe.

SKF's position in North America remains modest, however, and one of the objectives for the new plant in Aiken is to strengthen the Group's position. Accordingly, the Group is currently in a development phase in this region and sales remained slightly below the 1996 level.

SKF's Kits facilitate repairs

SKF's efforts to increase market penetration in the more profitable after-market segment are developing favorably, but still remain at a developmental stage. In order to gain a more prominent profile, SKF is focusing on Kits in which the rolling bearing is supplied together with the other components that the customer requires in order to perform a given repair. This simplifies the process for car owners or repair shops. SKF's after-market strategy involves launching a new Kit each year. The Kit for 1997 was a Transmission Kit for repairing gearboxes in heavy trucks.

All Group plants that deliver to automotive customers in the U.S. and Europe are quality-certified in accordance with QS 9000. The concept is based on ISO 9000, but is considerably more demanding. It was initiated by GM, Ford and Chrysler as a joint quality system. QS 9000 has thus replaced the various quality certifications previously used by car manufacturers.

ELECTRIC MOTOR CUSTOMERS

Group sales to major customers in the electrical segment developed favorably during the year, with sales increasing by 17 percent to SEK 2 077 m. In Western Europe, the increase was more than 10 percent. Deliveries to the white-goods sector, where bearings are used in the electric motors and other appliances, increased in pace with consumption following a period of stagnation during 1996.

Another factor that contributed to the increase in sales was the upturn in car sales, which in turn led to increased consumption of electrical components in which deep groove ball bearings fulfill an important role.

The hand tools segment remained at an unchanged level, due to the fact that production of these products is in the process of being transferred to countries where wages are lower. Accordingly, parts of SKF's sales were moved to new countries.

In North America, the market grew more than previously but at a slower pace than in Western Europe. Among the reasons for the above-normal growth was the introduction of new washing machines that use less water and consume less energy. In order to be in a better position to meet market demands, SKF adapted its range and gained a number of new customers.

Acquisition in Indonesia supplies Asian "two-wheeler" segment

Producers of two-wheeled-vehicles are another important customer segment that consumes large numbers of deep groove ball bearings and special units. In this segment too, sales in Western Europe increased at a pace that exceeded market growth. The increase resulted partly from deliveries to a number of new customers who have formed links with the Group.

During the year, SKF acquired majority ownership of a plant in Jakarta, Indonesia, that specializes in products for the huge Asian two-wheeled-vehicle market. In addition to a strong local market share, the acquisition also gave SKF a platform for further expansion in the region.

In the Indian market, SKF holds a leading position as a producer and supplier of bearings. A number of new major business agreements were concluded during the year, with two of the country's leading manufacturers among the new customers. The contracts stipulate that SKF will initially make deliveries weekly instead of every second month as before. Daily shipments are also planned in the future.

The new business relationships enabled the Group to strengthen its market share in India. This was achieved against the background of a halving of growth in industrial production to less than 5 percent, compared with the preceding year.

TEXTILE AND AVIATION CUSTOMERS

After a recession lasting more than five years, demand for textile machinery components began to recover during 1997. Uncertainty still reigns in the business, however, since India, which is an important market for producers of ring spinning machines, still remains at a low level.

Demand for aircraft continued to be strong during 1997, which had a favorable impact on the two companies within the Group that supply bearings for aircraft engines, MRC Bearings in the U.S. and SKF Avio in Italy. Sales volumes increased by nearly 15 percent. These companies also increased their share in the CFM56, the aircraft engine series with the highest sales in the world, which is manufactured by a joint-venture company in which General Electric and SNECMA are interested parties.

The upturn also benefited SARMA in France and AMPEP in the U.K., both of which produce aircraft components. SARMA signed several long-term contracts with Boeing and McDonnell Douglas, among other companies, which means that SARMA will be supplying a number of special products for Boeing's aircraft long-term.

THE GLOBAL BEARING MARKET

No major changes occurred among the leading bearing manufacturers during 1997. If anything, SKF consolidated its position as the world's leading bearing company. The other major companies in the sector, in order of size, are NSK and NTN in Japan, FAG in Germany, Timken in the U.S. and Koyo in Japan.

In geographical terms, SKF is the largest producer in Western Europe, with approximately one third of the market, in Latin America, Africa and the Middle East with about the same market share, and in Asia (not including Japan) with about 17 percent. Timken is the largest producer in the U.S., with SKF and Torrington jointly sharing second place with around 12 percent each. NSK is the largest bearing company in Japan, where SKF has a share of between 1 and 2 percent.

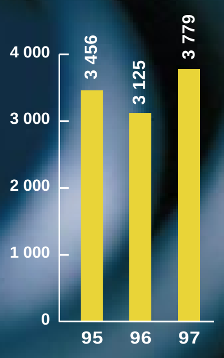
In the newly opened markets in Central and Eastern Europe and China, the largest bearing companies are the local producers. While they mostly supply their own markets, they are increasingly also beginning to export to Western markets.

The estimated value of the worldwide market for bearings is approximately SEK 160 billion, with annual growth keeping pace with the growth of world industrial production. The U.S. and Western Europe jointly account for nearly 60 percent of the market.

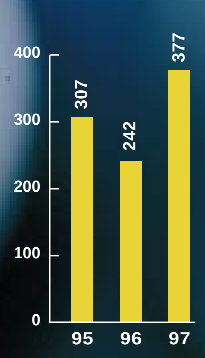
No new companies have been established in the sector in recent years. Any structural changes that occur relate mainly to acquisitions of existing bearing companies or parts of them – a process which is continuing in China and Central and Eastern Europe.

Seals

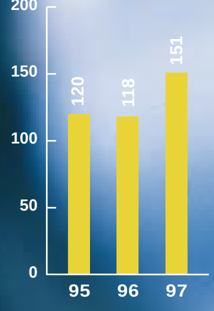
Net sales, SEK m



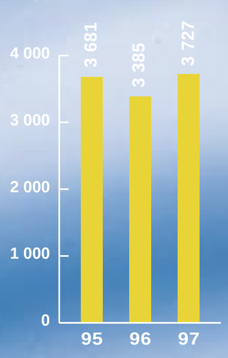
Operating income, SEK m



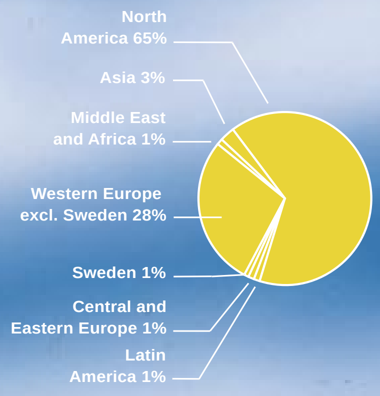
Additions to tangible capital assets, SEK m



Average number of employees



Sales by geographic area 1997



Sales of seals continued to develop favorably in 1997, increasing by 21 percent, including currency changes, compared with the preceding year. The greater part of the Seals Division's sales, approximately 65 percent, is accounted for by the North American market.

Strengthened position in the U.S. and expansion in Asia

Accordingly, most of the increase in sales also derived from the U.S., where growth of more than 10 percent was reported. The improvement was attributable to the industrial after-market and automotive customer segments, despite U.S. car production remaining largely unchanged compared with 1996 in respect of the latter segment.

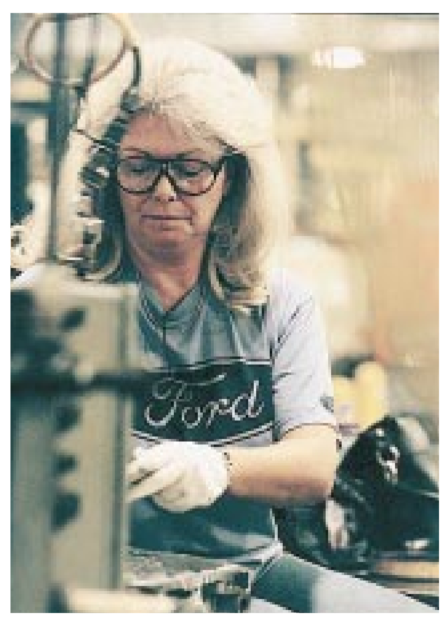
Coordination of bearings and seals sales to the automotive after-market in the U.S.

The Seals Division's operations in America are conducted through Chicago Rawhide, which holds a very strong position in the U.S. automotive after-market. The CR brand is well established throughout the country among the chains of dealers who supply car owners, repair workshops and owners of large vehicle fleets with spare parts.

In order to cultivate this large customer segment in the most efficient manner, responsibility for the sale of rolling bearings to the automotive after-market was transferred during the year from bearing operations to Chicago Rawhide. Accordingly, the U.S. automotive after-market is served by a single Group supplier.

At the end of 1997, Chicago Rawhide signed an agreement with NAPA, the leading U.S. spare parts chain, for the delivery of bearings and seals worth approximately SEK 250 m on an annual basis. This agreement, which was secured in the face of stiff competition from the former suppliers, plus two other automotive agreements, which were secured in the final quarter of 1997, have laid the foundations for a significant increase in volume during 1998.

During the year, production of a bonded piston for automatic gearboxes was started at the plant in Springfield, South Dakota.



Assembly of gearboxes for cars at the Ford plant in Livonia, Michigan, U.S.

The product will be delivered to Ford and Toyota. In Franklin, in North Carolina, Chicago Rawhide opened a completely new plant focusing particularly on products with strong growth potential, such as large-diameter seals, crawler-track seals, and Reed Blocks, which are valve blocks that control the flow of air, gas and oil in two-stroke engines. The plant has 180 employees.

Similar trend for seals and rolling bearings in Western Europe

The trend for seals operations in Western European markets was similar to the trend for bearings. Sales were weak during the first half of the year but accelerated during the second six months, driven strongly by car production in Italy. Sales of shock-absorber seals were particularly successful.

SKF's position as the leading supplier of valve stem seals and gas seals in Western European markets was strengthened during the year.

FROM ZERO TO ONE MILLION IN LESS THAN A YEAR

SKF's American subsidiary, Chicago Rawhide is best known as a leading manufacturer of elastomeric seals. Recently, however, CR has made advances in bonded piston technology, with the development of a new type of bonded piston. The accumulator piston is a critical component in automatic transmissions for cars, its function being to regulate and control oil pressure within the transmission.

This new CR product has been developed for Ford Motor Company in the U.S. and growth has been impressive. Since start of delivery at the beginning of 1997, CR has sold over a million units to Ford.

The new design is much more robust than earlier constructions. It is also cheaper to manufacture, and for the customer, offers excellent potential for cost-saving, not least through an expected decrease in claims. Ford is experiencing excellent operating performance on transmissions assembled during 1997.

Interest in the new CR bonded piston technology is also being shown by other car manufacturers. One of these is Ford's partner Mazda in Japan, to which company deliveries are planned later this year.

Tom Sochacki of CR Industries Detroit, is shown here visiting the assembly line for transmissions, at the Ford Transmission plant in Livonia, Michigan, U.S.

CR pistons are being fitted into a Ford 4R 70W 4-speed automatic transmission found in such Ford models as the Thunderbird, Mustang, Mark VIII and Grand Marquis.

Assembly of gearboxes for cars at the Ford plant in Livonia, Michigan, USA.

Sales in Western Europe increased by 10 percent, compared with 1996. The Central European market was successfully penetrated with new orders secured from Fiat, Isuzu and Daewoo in Poland.

The joint-venture company, Zhongding CR Seals Company Ltd., which was established in China in 1996, commenced sales in April 1997.

New company established in India

To further strengthen its position in Asia, particularly in India, which has a thriving automotive industry, the Seals Division established a company, CR India, in Bangalore in 1997, which is scheduled to commence production of oil seals in 1998.

Chicago Rawhide plants as well as CR Elastomere GmbH in Germany were quality certified in accordance with QS 9000 during 1997.

THE GLOBAL MARKET FOR SEALS

The size of the total market for seals depends on the way in which the market is defined. SKF has elected to define the market as elastomeric products, in which case the market can be described as being worth approximately SEK 80 billion.

The market is highly fragmented, with many regional and niche-related players. Annual growth is virtually on the same scale as that for global industrial production. The rate of growth for certain segments, such as gaskets, is slightly greater than the average.

The world's leading companies in the elastomeric products area are Freudenberg/NOK, a German/Japanese alliance; SKF with Chicago Rawhide, the joint-venture companies Koyo-CR in Japan and CR Mexicana in Mexico, and RFT S.p.A. in Italy; America's Federal Mogul (including T&N and Fel-Pro); and Dana and the TI Group in Western Europe.

Chicago Rawhide is the leader in radial seals in the U.S., but holds a less prominent position in other markets, although the company is capturing market share.

Special steels

Following the bottoming out of the slump in the Western European market in the final quarter of 1996, Ovako Steel's sales increased steadily during 1997 and amounted to SEK 3 391 m at year-end. Volumes remained relatively low during the first three months of the year but at year-end were at the same high level as at the beginning of 1996. Total steel production in full-year 1997 amounted to 440 000 tons, compared with 370 000 tons in 1996.

Sharp increase in production with trimmed organization

To handle the upturn in volume, the company increased the number of shifts in the ring- and tube-rolling plants. The additional shifts were manned by reducing the number of personnel in the other shifts and by hiring temporary new labor. The transfer between shifts was made possible by earlier efforts made to create teams in which the members are trained in several different areas of expertise and therefore have a more extensive range of skills.

The recovery in the Western European economy led to increased demand within most customer segments and markets. The only exception was the U.K., where Ovako Steel's customers in the export industry were hampered by the appreciation of the GBP.

The improvement in demand coupled with rising prices for scrap metal, Ovako Steel's main raw material for steel production, led to an upward adjustment in the price of steel during the latter part of the year.

As a result of significantly improved capacity utilization and only a marginal increase in the workforce, productivity increased and cost trends were favorable.

Successful focus on advanced operator training

During 1996, a program was implemented to send operators on a six-month high-school level technicians' course. This program was successfully continued during 1997.

Ovako Steel also continued to invest in internal programs to achieve further gains in production productivity and to provide customers with even better service. The focus on competence development was maintained by ensuring that all Ovako Steel employees spend 5 percent of their working time on further training.

During the year, cooperation was started with a leading German steel company to raise the efficiency of bar production at the mill in Hällefors, Sweden. The agreement covers both software and hardware.

For the past four years, an extensive internal improvements program has been in progress to achieve a more efficient processing yield from cold-rolled tube by raising the proportion of approved material. This is now generating favorable results.

The most difficult problems in cold-rolling operations relate to surface defects and wall thickness. In 1997, with the help of a laser-based measuring system and a new hot-scarfing equipment, the company was able to achieve savings of SEK 40 m on an annual basis.

Main changes now completed

The program to restructure Ovako Steel, which was started in 1992, has now largely been completed and the basic new structure is in place. The final step was undertaken in 1997, when the forging shop in Arvika was transferred from Ovako Steel to SKF's bearing operations. The construction of the new tube plant in Hofors is progressing and the first tubes are expected to roll off the line at midyear 1998.

In brief, the transformation has involved:

- a strong focus on rolling bearing steel,
- a restructuring of steel production and processing, concentration on only one furnace and a program to raise annual production to 550 000 tons,
- a reduction of the customer base and a

new focus on those customers capable of utilizing Ovako Steel’s strength factors: its production of clean steel and machinability and its expertise in the areas of materials technology and logistics systems,

- the restructuring of its sales organization.

THE GLOBAL MARKET FOR SPECIAL STEELS

Ovako Steel is Europe’s leading supplier of rolling bearing steel, with a market share of approximately 40 percent. As a steel producer, Ovako Steel holds a unique position by being the only company that produces both bars and tubes as well as rolled rings, which means that it also has the greatest focus on rolling bearings. Ovako Steel’s share of the global market for steel is less than 1 percent, but when it comes to through-hardening steel for rolling bearings the company is the largest producer in the world.

In Europe, Ovako Steel competes with a number of single-product companies, which in certain cases are dependent on external steel supplies. One of these is British Steel Engineering Steels, which focuses exclusively on bars. In 1997, Thyssen (Germany) announced that it intended to leave the long products area (bars) to concentrate on flat steel products. Cooperation between the two German companies, Thyssen and Krupp, could lead to changes in the supply map.

Within the tubes product area, the French company Vallourec merged with Germany’s Mannesmann to form a new company for seamless tubes, which means changes for Ovako Steel's competitor, WRG, which is part of the Mannesmann Group and produces hot-rolled tubes.

The higher level of activity in the offshore market, which consumes substantial volumes of tubes, could have consequences for the availability of tubes in the market.

Apart from SKF, the only bearing manufacturer to have its own steel production company is Timken in the U.S. The U.S. company's range includes bars and tubes and the products are sold almost exclusively in the American market.

OVAKO STEEL FINDS SHORTCUTS TO PROVIDE STRONG GROWTH

Ovako Steel, SKF’s wholly-owned subsidiary, produces the world’s cleanest steel. The majority of its production goes to SKF’s bearing plants around the world, to other rolling bearing manufacturers, and to the automotive industry.

For Ovako Steel’s customers, the application of blanks or semi-finished products, has proved to be a shortcut to very cost-effective production. Instead of shipping long tubing to an SKF plant where they would be cut and turned into bearing rings, Ovako Steel takes on more and more of this first link in the production chain.

The customer benefits with a string of advantages. He can concentrate on the end processes, while reducing the amount of tied-up capital in his stock. It avoids the handling of swarf and end pieces and can cut transport costs by two thirds compared with long goods.

At the steelworks in Hofors, Ovako Steel has substantial resources for the manufacture of pre-components of varying processing grades. The components unit within the Tube Division has installed ACE lathes, built by the SKF company Lidköping Machine Tools AB in Lidköping, Sweden.

An ACE lathe is loaded with 2.5 metre stress-free straight tubing for conversion to rings. The machine is fast and operates with close tolerances. The application of semi-manufactured rings from Ovako Steel is increasing dramatically. Last year, the components unit produced 13 million rings - this year’s plan stands at 23 million. And further significant increases are expected to follow. The largest customers are SKF GmbH, Germany and SKF Sverige. Other notable non-SKF customers are Volvo and VW-Audi.

The picture shows Lena Wahlborg and Lars-Ove Samuelsson, General Manager, Components Department.

Financial objectives and dividend policy

Overall objective

SKF's overall financial objective is to create value for its shareholders through providing a sustainable and market-comparable total return in the form of dividends and value appreciation. Over time, the return requirement on the shareholders' investment in SKF, the market-value shareholders' equity, should exceed the risk-free interest rate by about 5–6 percentage points. This is the basis for SKF's decisions on financial objectives in its operations.

Management model

SKF's management model, which is a simplified economic value-added model, is intended to create value for shareholders and, consequently, promotes improved margins, capital reductions and profitable growth. The model is linked to operating income, less taxes paid and costs for own and external capital in accordance with generally accepted principles. The result shows a good correlation with the trend of the share price. Today, Group management's bonus and option programs are based on this model.

Capital costs, return requirement

Currently, a weighted capital cost is used in SKF's management model in which costs after tax for shareholders' equity is about 6 percent higher than interest on government bonds. The weighted capital cost is currently approximately 9 percent. Accordingly, this corresponds to the average return requirement over an economic cycle which the company must exceed to create value for its shareholders. The weighted capital cost and the return requirement are calculated based on the market value of shareholders' equity.

Financial position

A strong financial position and good credit rating are 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 1997, the average maturity of SKF's loans was 5.5 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 approximately USD 350 m. As of December 31, 1997, the Parent Company had long-term loan commitments totaling USD 475 m from ten banks.

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.

Financial risk management

Financial risks

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 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, is largely centralized in SKF Treasury Centre AB, the Group's internal bank.

Currency risks

The currency risks to which the Group is 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. Over the long term, SKF is seeking to establish a balance between production and sales within the European, American and Asian zones.

SKF has flows in some 20 currencies. The total flow of goods exceeds SEK 31 000 m. After offsetting flows in the same currency, the net flow amounts to approximately SEK 8 000 m. The flows that – due to their size – could have a major impact on SKF's income are inflows in USD, DEM and GBP that are converted into SEK, FRF and ITL. Fluctuations of approximately 10 percent in foreign exchange rates in these currencies, can affect Group income by a couple of hundred million kronor.

SKF's policy is to hedge currency flows for 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 also amount to a couple of hundred million kronor, depending on the country in which the income arose and the respective currency movement in relation to the Swedish krona.

The Group is also affected by the translation to Swedish kronor of net assets held outside Sweden. At year-end 1997, SKF's net foreign assets amounted to SEK 9 200 m, of which approximately SEK 1 300 m was hedged. In accordance with a policy decision, only a few currencies are hedged.

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 situation primarily in relation to Sweden, Italy and France, where SKF, in addition to Germany and the U.S., has substantial manufacturing operations, affect SKF's competitiveness in relation to these competitors. 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

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 also 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.

Credit risks

Credit risks pertain to the creditworthiness of counterparties and can be reduced through a detailed evaluation of their ability to fulfill their obligations before credit is granted. 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.

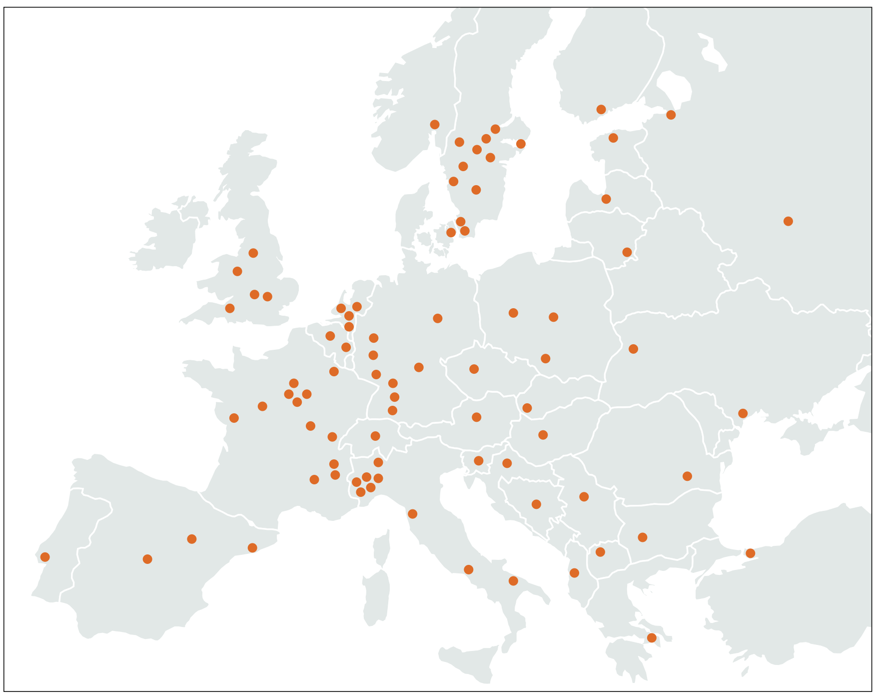
SKF and European Monetary Union

Countries other than Sweden accounted for 95 percent of SKF Group sales during 1997.

European countries accounted for 54 percent of SKF Group sales during 1997.

Today, more than half of SKF's sales are to countries within Europe, with a strong concentration to Germany, France and Italy. The Group has also located production facilities in a number of European countries.

The map below shows the locations of SKF's operations in Europe.



In the current situation, it is likely that European Monetary Union (EMU) will start on January 1, 1999 and encompass up to 11 European countries, including Germany, France, the Netherlands, Belgium, Finland and possibly Italy.

Viewed in the light of SKF's operations in these countries, the introduction of EMU will mean that Group operations will be absorbed into EMU regardless of whether Sweden as a country decides to join EMU or remain outside it. Obviously this also means that as far as SKF is concerned, financial reports expressed in euro would provide the most accurate picture of the Group's financial position and earnings. For as long as no other option is permitted under Swedish law, however, SKF will retain the Swedish krona as its working currency.

SKF has been working on preparations for EMU since November 1996, with the aim of assessing the effect of changed external conditions and ensuring that the requirements and demands directed at the organization can be met. The preparatory work covers strategic, financial and infrastructural aspects, such as information technology, financial accounting and reporting, as well as legal aspects.

As a result of the wide geographic spread of Group operations in many different countries, SKF is exposed to a complex situation regarding currency risks. The introduction of EMU will simplify the Group's risk situation, since the number of currencies handled will be smaller. Today, SKF's operations are concentrated to currencies linked to the DEM and USD. With the introduction of EMU, the currencies that are linked to the DEM will be replaced by a common EU currency, the euro.

SKF is a Group with a centralized infrastructure, particularly regarding information technology. IT is the area that will require the largest single work input to prepare the Group for EMU. During 1997, SKF's Group-wide systems for orders, sales, purchasing and production were scrutinized in order to identify areas where system or process changes are needed. A corresponding review of local systems that will be affected by EMU was conducted simultaneously.

The companies in the SKF Group will switch over from their present local currencies to the euro during the transitional period from 1999 to 2001. Various countries could switch to the euro at different times during this period. Introduction of a Group-wide finance and accounting system will begin during 1998. The system, called SARA (SKF Accounting and Reporting Applications), will be implemented at all of SKF's major European companies in the run-up to the year 2000. SARA will be able to meet the requirements faced by each SKF company when EMU is introduced. The transition to the euro will be co-ordinated among all the Group companies that change their financial systems during the period from 1999 to 2001.

The preparatory work prior to implementation of EMU will continue during the next few years, and will cease when the present local currencies have been completely replaced by the euro.

Environment - Toward ISO 14001

Nineteen ninety-seven was a milestone year for Group environmental affairs. SKF became the first of the major bearing manufacturers to achieve a certificate for ISO 14001: the new international standard for environmental management. Seven of the Group's plants were registered to this standard during the year, and SKF has embarked on an ambitious program to certify the rest of the Group.

Group certification before 1999

In 1997 SKF applied to a leading certification body for Group registration to ISO 14001. The registration process takes about 18 months, and should be completed by the end of 1998. The application is for a single certificate covering all manufacturing units in the Group, rather than individual certificates for each unit. The strategy for Group certification was developed after extensive liaison with external auditing/certification bodies, and is unique to SKF.

To be eligible for a Group certificate, SKF has developed an environmental management system conforming to ISO 14001, suitable for all manufacturing units; whether they make bearings, seals, steel or other related products. The new system allows SKF to operate globally to a set of common management procedures by defining national and local variations in supplements or appendices to these procedures.

A major advantage of Group certification is a much reduced frequency of external auditing, which greatly reduces the costs. The external auditors can assess the whole Group based on sample audits at selected sites. About one third of the sites are expected to receive this external assessment prior to certification. The frequency of subsequent surveillance audits at the sites is also reduced, cutting the overall cost of a Group certificate to about 20 percent of that for individual certification.

Corporate audits improved

Several improvements were made in 1997 to the corporate program for environmental, health and safety auditing. The number of auditors was increased, and all audit staff received training to "Lead Auditor" level.

The revised audit scheme, and the ISO 14001 project, have together significantly increased the rate at which environmental improvements have been implemented. This rate of improvement will be maintained in 1998, as more companies reach the standard for ISO 14001 certification.

Accidents and injuries reduced worldwide

The improvement trend seen is not confined to environmental performance. Accidents and injuries have been reduced in the Group's plants worldwide. An example is the plant at Pune in India. The number of work related injuries there was reduced by 53 percent in 1997, with a 40 percent reduction in the number of hours lost, when compared to 1996.

Performance improved during 1997

The total consumption of electrical energy at all SKF manufacturing units in 1997 was about 1 777 gigawatt hours (GWh); the same as in 1996. About 28 percent of the electrical energy was used in the steel mills.

However, when compared to 1996, the consumption of electricity and most hydrocarbon materials reduced in relation to the production volumes, which increased significantly. This enhanced performance is a result of continual improvements to the Group's manufacturing equipment and processes.

Investments in environmentally related projects at SKF Engineering and Research Centre was SEK 3.8 m in 1997. In addition, a total of SEK 120 m was invested in environmental, health and safety improvement projects throughout the Group during the year.

SKF Environmental Report 1997

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.

Toward Year 2000

Problems related to the inability of computer systems, microprocessors, and other electronic devices to deal appropriately with dates on or after January 1, 2000, are becoming a major issue for all businesses.

About a year ago SKF started to identify Year 2000 critical computer hardware and systems. Adaptation work is in progress and several of our main common business systems are today Year 2000 compliant. The work proceeds in all the affected operations during 1998 and 1999 with the objective of solving the major issues by the end of 1998.

Our Year 2000 activities also include checks with our business partners, including customers, suppliers, transport providers, communication providers, financial services, and utilities, regarding their Year 2000 plans and readiness.

The Year 2000 program is organized under the umbrella of a Group project to secure a safe and trouble-free transition into Year 2000 and the new millennium.

SKF 100 – A sprint that never ends

"The difference between the many athletes who can run 100 meters in 10 seconds and the few who can do it in 9.8 seconds is mostly mental," says world-famous American track coach John Smith. It is a question of believing that it is possible to improve the speed in every stride by a few thousandths of a second, achieving barely measurable gains that demand the mobilization of everything the individual can give.

This particular coach is no different from many others in today's most highly competitive sports. It is true that sprints are the most extreme form of competition, with the competitors in a world-class final often finishing within a few hundredths of a second of each other. A sprinter who runs at only 99.9 percent of his or her capacity in an important final risks losing. This tough and unrelenting competition characterizes an increasing number of sports.

For one who has been writing about companies and competition for almost three decades, it is impossible not to be fascinated by the nature of competition, whether in relation to sport or to business. There are competitive situations where it seems that those who quickly move into the lead will be able to retain it for some time. Microsoft, Intel and certain other IT companies operate in young, rapidly changing markets in which the competition seems to fall into this pattern.

Difference between winning and losing becoming smaller

By contrast, the more established form of competition between companies is more akin to those sporting events where the difference between winning and losing is becoming even smaller.

At the beginning of this century, SKF resembled today's IT companies, as the company grew within a few decades from being a basement operation to become a world leader. During World War II, SKF was even regarded as such an important international player that the company's products played a substantial part in the economic aspect of the war. Toward the end of the war, the SKF management in Göteborg was allowed to negotiate directly with governments.

However, SKF's competitors learned more about the company's capabilities, and in due course the customers began reviewing all the alternatives. During the 1970s, the situation reached the point where SKF had to fight for its very existence. The competition in the ball bearing segment changed character, as happened in many other traditional segments.

Last year was SKF's ninetieth anniversary. The company produced more than ever and was still the world leader, but had barely two thirds as many employees as during the 1960s. The intervening years were a period of constant rationalization and the pursuit of greater efficiency. And this must continue to be the case.

How do you learn to pick up your feet a few thousandths of a second faster with every stride?

How is it possible to maintain the lead in a field where competition is so fierce? How do you learn to pick up your feet a few thousandths of a second faster with every stride? How can the company secure its world leadership for another decade?

For me, the company's SKF 100 program is an interesting example of the manner in which tough global competition transforms the competing companies. Competition is now entering the mental phase to which John Smith referred. Even the best technology and the most rigorous discipline are no longer sufficient; results must also come from motivation and total mental mobilization.

When SKF was in its infancy, Taylorism held sway, with its emphasis on "the technology of interchangeable parts." Which led in turn to production based on interchangeable personnel. Power was concentrated at the management level. Now, however, in an era when minute differences count, power is gradually shifting back to the many team members - albeit only the power to "vanquish or vanish." Any organization that fails to motivate its employees incurs such a disadvantage that it can totally lose the battle.

The most extensive cultural change process in the company's history

Accordingly, SKF 100 should not be viewed as preparation for the company's centenary, but rather as an attempt to mobilize another few percentage units of the company's potential resources. It will be the most extensive cultural change process ever in the company's history.

The tool which the company uses in its efforts to involve all employees in an ongoing process of change and mental mobilization is called TQM (Total Quality Management). It is a work process that involves the participation of all company employees – more akin to the study circles arranged by popular movements in former times than to the mass meetings, marshaled with militaristic discipline, that used to characterize companies. The objective is that all employees will work toward a common **vision** by both accepting and actively changing the steps that lead there. Some of the old military terms (such as authority and strategy) have been complemented with concepts such as ethical standards and openness.

The process is never-ending. Continuous measurement of factors such as quality, work climate, speed and financial results constantly provides incentives to go back and try to repeat the same steps – but better and faster.

SKF's basic values

The first step in SKF's process of change is based on the seven **basic values** which all employees must know, share and practice:

- **Business focus** – which means never losing sight of objectives and customer needs.
- **Continuous improvement** – which means continuously growing and improving in every area.
- **Empowerment** – which means that decisions and initiatives should, as a matter of course, be concentrated wherever the best expertise is to be found.
- **High ethics** – which simply means that the organization shall display honor and integrity in all its actions.
- **Innovation** – which is the organization's weapon for responding to every change and new opportunity.
- **Openness** – the aim of which is that all employees shall have access to the information they require, regardless of their position in the organization.
- **Teamwork** – which is founded on common values and mutual respect.

"Just empty phrases," may be the scornful response of a few financial analysts or adherents of the old-style militaristic school of management. In that case they have ignored the trend that has characterized the manner in which companies are viewed during the past decade. And the old-style idealists of the popular movements might well be horrified and amazed at the manner in which organizations dedicated to capitalism are now appropriating the dream of the "model organization." It is a potent dream, which was valid when circumstances were different. Motivated and committed people can achieve miracles by working together. But the key is to constantly keep the pioneering spirit alive. Perhaps competition itself provides a guarantee that even companies that are approaching 100 years of age can enjoy eternal youth. Otherwise the era of the megacompany will be no more than a brief interlude.

SKF's strategic drivers

The second step concerns SKF's four **strategic drivers**, or day-to-day methods as they could also be termed.

- **Quality**, or total quality, means that the job is done "right from the start." It is a fundamental precept.
- **Cost** means that products and services will be supplied at the lowest possible cost, and faster than before.
- **Growth** will be assured by being able to offer customers better products and services than the competition.
- **Speed** means eliminating waste and unnecessary steps and processes without compromising quality.

Reading between the lines, we can detect here a blend of traditional entrepreneurial wisdom and oriental influences. Everything should be simple and clear. Those who want to be the masters cannot afford to dissipate their energy. Because the competition won't do so either!

SKF's strategies

The third step in the process focuses on understanding the SKF Group's **strategies**, meaning the competitive weapons and the parameters Group management has established for operations based on analyses of customers and competitors. The four most important strategies are as follows:

- SKF will concentrate on bearings, seals and closely related products, as well as providing services and support in the software area to the company's extensive customer base.
- SKF will increase its world market share in the bearings segment.
- SKF will actively participate in the restructuring of the bearings production industry.
- SKF will grow strongly in Asia, Central and Eastern Europe and North America, and consolidate its position in Western Europe.

More "minimalism." No extravagant gestures. The company will do precisely what it has always done, with no deviations. The aim is to achieve the same market position in North America and Asia as exists in Europe. Growth must derive from market growth, or occur at the expense of competitors. Certain competitors will be acquired if the opportunity arises. There are no other options.

SKF's vision

The vision of SKF that everyone will perceive is as a world leader in all the above-named product areas. This will be achieved by being best at giving customers value for money, best at developing the company's own employees, and best at creating value for shareholders.

While coach John Smith's expertise may not extend to team sports, he would nod approvingly at SKF's mental mobilization process. There will be no huge, revolutionary changes for SKF prior to the company's centenary in 2007, since we are so close to reaching the limits of the vision. Rather, everything depends on gaining those thousandths with every step. This is why the changes demand so much from all who are involved.

And don't forget that – just as in sport – the winner takes all!

RONALD FAGERFJÄLL

The author, who was editor-in-chief of Affärsvärlden (Business World) magazine for many years, has also received plaudits for his series of books entitled Företagsledarnas Århundrade (The Company Managers' Century), published by Norstedts.

CONSOLIDATED INCOME STATEMENTS

Millions of Swedish kronor		**1997**	1996	1995
Net sales		**36 922**	33 589	36 700
Cost of goods sold	*note 2, 3*	**- 27 790**	- 24 700	- 26 229
Gross income		**9 132**	8 889	10 471
Selling expenses	*note 3*	**- 5 148**	- 4 882	- 5 086
Administrative expenses	*note 3*	**- 1 779**	- 1 540	- 1 460
Other operating income		**1 048**	544	571
Other operating expense		**- 249**	- 137	- 496
Result from Associated Companies		**- 55**	–	–
Operating income		**2 949**	2 874	4 000
Financial income and expense - net	*note 4*	**- 843**	- 462	- 611
Income after financial income and expense		**2 106**	2 412	3 389
Taxes	*note 5*	**- 583**	- 701	- 1 301
Income after taxes		**1 523**	1 711	2 088
Minority interest		**35**	- 19	- 30
Net income		**1 558**	1 692	2 058

Comparison according to quarterly reports - 1997

Millions of Swedish kronor unless otherwise stated	Quarter 1	Quarter 2	Quarter 3	Quarter 4	**Full year 1997**
Net Sales	8 864	9 883	8 837	9 338	**36 922**
Operating income	695	862	683	709	**2 949**
Income after financial income and expense	501	602	423	580	**2 106**
Earnings per share after tax, SEK	2.60	3.30	3.65	4.15	**13.70**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENTS

Net sales

The SKF Group's sales in 1997 amounted to SEK 36 922 m (33 589 and 36 700)*.

The 10 percent increase in sales was attributable to exchange-rate effects by +6 percent, to structural changes (operations acquired or discontinued) by -1 percent, to price and mix (volume shifts between various customer segments with different price levels) by -2 percent, and to volumes by +7 percent.

Operating income

The SKF Group's operating income in 1997 amounted to SEK 2 949 m (2 874 and 4 000)*. Compared to 1996, operating income was affected positively by exchange-rate fluctuations by approximately SEK 600 m.

Operating income in 1997 was charged with costs for ongoing and decided efficiency enhancement programs amounting to approximately SEK 750 m. The amount impacted cost of goods sold by approximately SEK 510 m and selling and administrative expenses by approximate SEK 240 m.

Other operating income and expense, net, in 1997 amounted to SEK 799 m (407 and 75)*. In 1997 it included, among other items, a gain of SEK 760 m related to the sale of the FlexLink business. 1996 it included, among other items, a gain of SEK 378 m related to the sale of a Japanese subsidiary which mainly included the property in which SKF's Tokyo office is located.

Result from associated companies includes the SKF Group's share of losses in the newly established joint-venture WPB Water pump bearing GmbH (JV), Germany. The business is located in Italy.

Income after financial income and expense

The SKF Group's income after financial income and expense amounted to SEK 2 106 m in 1997 (2 412 and 3 389)*.

The financial income and expense - net for the SKF Group amounted to SEK - 843 m (-462 and -611)* and was affected negatively by exchange-rate fluctuations by approximately SEK 250 m compared to 1996. Therefore, the positive effect on the income after financial income and expense due to exchange-rate fluctuations was limited to approximately SEK 350 m compared to 1996. Further, the Group's increase in net indebtedness during 1997 also had a negative impact on the financial net compared to 1996.

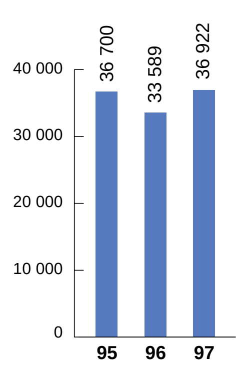
Income after taxes

The SKF Group's income after taxes amounted to SEK 1 523 m in 1997 (1 711 and 2 088)*.

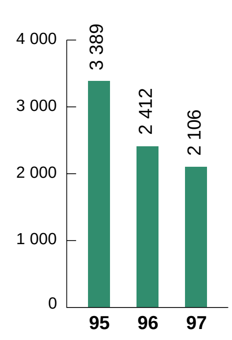
The effective tax rate in 1997 was 28 percent (29 och 38)*. The lower tax rate in 1997 and 1996 compared with 1995 was due to certain non-recurring items together with a transfer of gains within the Group from countries with a high tax rate to countries with a lower tax rate. The taxes for 1997 were also positively impacted by a reduction of the future tax rates in Italy by some SEK 100 m.

** Amounts in parentheses refer to comparable figures for 1996 and 1995, respectively.*

Net sales, SEK m



Income after financial income and expense, SEK m



CONSOLIDATED BALANCE SHEETS

Millions of Swedish kronor		**1997**	1996	1995
ASSETS				
Capital assets				
Intangible capital assets	*note 6*	**576**	568	601
Long-term tax assets	*note 5*	**715**	693	773
Tangible capital assets	*note 7*	**13 631**	12 541	11 264
Investments	*note 29*	**355**	77	74
Financial capital assets	*note 8*	**830**	986	1 138
		16 107	14 865	13 850
Short-term assets				
Inventories	*note 9*	**9 924**	9 476	8 972
Trade accounts receivable	*note 10*	**6 697**	6 000	6 111
Short-term tax assets	*note 5*	**562**	534	476
Other short-term assets	*note 11*	**1 219**	818	689
Short-term financial assets	*note 12*	**3 931**	2 091	2 897
		22 333	18 919	19 145
Total assets		**38 440**	33 784	32 995
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	*note 13*			
Restricted equity				
Share capital		**1 423**	1 412	1 412
Restricted reserves		**5 760**	4 284	4 136
Unrestricted equity				
Unrestricted reserves		**3 847**	3 922	2 516
Net income		**1 558**	1 692	2 058
		12 588	11 310	10 122
Minority interest		**290**	288	166
Provisions				
Provisions for pensions and other postretirement benefits	*note 14*	**6 171**	6 030	6 089
Provisions for taxes	*note 5*	**1 642**	1 701	1 420
Other provisions	*note 15*	**2 981**	2 130	2 377
		10 794	9 861	9 886
Long-term liabilities				
Convertible bonds	*note 16*	**–**	1 525	1 389
Long-term loans	*note 17*	**6 538**	3 321	3 195
Other long-term liabilities	*note 18*	**69**	74	769
		6 607	4 920	5 353
Short-term liabilities				
Short-term loans	*note 20*	**1 853**	1 693	1 715
Trade accounts payable	*note 21*	**2 921**	2 686	2 764
Short-term tax liabilities	*note 5*	**138**	–	265
Other short-term liabilities	*note 22*	**3 249**	3 026	2 724
		8 161	7 405	7 468
Total liabilities and shareholders' equity		**38 440**	33 784	32 995
Assets pledged	*note 23*	**620**	517	806
Contingent liabilities	*note 24*	**215**	206	199

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

Assets and liabilities

The SKF Group's inventories at December 31, 1997 amounted to SEK 9 924 m (9 476 and 8 972)*. Inventories as a percentage of annual sales totaled 27 percent (28 and 24)*. The inventory value was affected by exchange-rate fluctuations during 1997. Translated in 1996 year-end exchange-rates the inventory value would have been SEK 9 612 m.

The SKF Group's accounts receivable at December 31, 1997 amounted to SEK 6 697 m (6 000 and 6 111)*. Accounts receivable as a percentage of annual sales totaled 18 percent (18 and 17)*.

Financing

At year-end, the SKF Group's total interest-bearing loans amounted to SEK 8 391 m (6 539 and 6 299)*. Provisions for pensions totaled SEK 6 171 m (6 030 and 6 089)*. At the same time, financial assets totaled SEK 4 761 m (3 077 and 4 035)*, of which SEK 3 931 m (2 091 and 2 897)*, consisted of short-term financial assets.

In July 1997, the SKF Group issued a USD 200 m bond loan, which was used for conversion of the convertible loan issued in 1992 amounting to ECU 145 m.

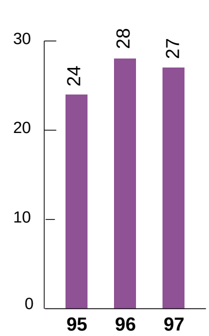
During the second half of 1996, real estate, previously leased under the terms of a sale/lease back agreement, was repurchased for approximately SEK 650 m. The repurchase of the real estate resulted in an increase in interest bearing liabilities and a decrease of the Group's other long-term liabilities by a corresponding amount.

Key figures

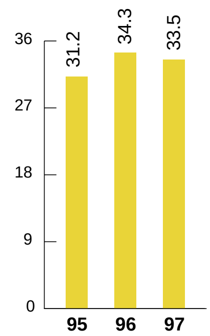
Earnings per share in 1997 amounted to SEK 13.70 (14.90 and 18.10)*. The return on capital employed for 1997 was 13.0 percent (14.7 and 19.0)*. Return on shareholders' equity for 1997 was 13.0 percent (15.9 and 19.4)*. Group solvency at the end of 1997 was 33.5 percent (34.3 and 31.2)*.

** Amounts in parentheses refer to comparable figures for 1996 and 1995, respectively.*

Inventories, % of annual net sales



Solvency, %



CONSOLIDATED STATEMENTS OF CASH FLOW

Millions of Swedish kronor	**1997**	1996	1995
Operating income	**2 949**	2 874	4 000
Depreciation and goodwill amortization	**1 528**	1 461	1 434
Net gain(-) on sales of tangible capital assets, companies and businesses	**- 743**	- 362	- 98
Changes in working capital:			
Inventories	**- 546**	- 513	- 525
Trade accounts receivable	**- 877**	101	- 87
Trade accounts payable	**302**	- 87	229
Other operating assets, liabilities and provisions - net	**758**	- 93	- 115
Cash flow from operations	**3 371**	3 381	4 838
Additions to tangible capital assets	**- 2 664**	- 2 710	- 2 296
Purchases of companies	**- 290**	- 151	- 65
Sales of tangible capital assets, companies and businesses	**1 289**	682	554
Cash flow after investments	**1 706**	1 202	3 031
Financial income and expense - net	**- 843**	- 462	- 611
Taxes	**- 554**	- 663	- 893
Change in other long-term assets, liabilities and provisions - net	**221**	- 512	57
Cash dividends, AB SKF shareholders	**- 593**	- 593	- 480
Conversion of bonds	**189**	–	–
Translation adjustments	**- 86**	65	95
Cash flow before financing	**40**	-963	1 199
Change in loans	**1 800**	157	- 658
Change in short-term financial assets	**1 840**	- 806	541

The cash flow is adjusted for acquired and sold companies and businesses.

COMMENTS ON THE CONSOLIDATED STATEMENTS OF CASH FLOW

Cash flow from operations

The SKF Group's gross cash flow, defined as operating income plus depreciation according to plan, amounted to SEK 4 477 m for 1997 (4 335 and 5 434)*, which is 12.1 percent of annual sales (12.9 and 14.8)*.

Cash flow after investments

The SKF Group's capital expenditures in tangible capital assets decreased from SEK 2 710 m in 1996 to SEK 2 664 m in 1997. Adjusted for exchange-rate fluctuations in 1997 the capital expenditures in tangible capital assets would have been approximately SEK 2 600 m instead of SEK 2 664 m.

During 1997, the SKF Group invested SEK 290 m in new companies and businesses. The investments included the Chinese company Wafangdian and certain new joint-venture companies. The new joint-ventures in 1997 were Zhongding CR Seals Ltd. in China, PT Logam Sari Bearindo in Indonesia (renamed to PT. SKF Indonesia) and Revolve Magnetic Bearings Inc. in Canada.

In December 1997, the SKF Group signed an agreement with the Ukrainian government regarding the acquisition of the majority holding in Lutsk Bearing Plant in Ukraine. The acquisition was finalised in 1998.

Sale of companies and businesses related not only to the FlexLink Systems Group but also to Mikronwerk GmbH, Germany and the Nice and Bremen plants, U.S. The sales price for the FlexLink Systems Group amounted to approximately SEK 900 m. A number of operating buildings were also sold during 1997.

Cash flow before financing

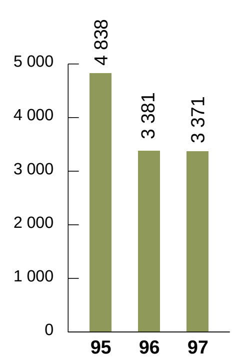
In connection with redemption and conversion of SKF's convertible bonds, issued in ECU in 1992, 838 211 new B-shares were issued. The restricted reserves of the parent company and the Group thereby increased by SEK 189 m.

During the second half of 1996, real estate, previously leased under the terms of a sale/lease back agreement, was repurchased for approximately SEK 650 m. This transaction had a negative effect on the cash flow before financing.

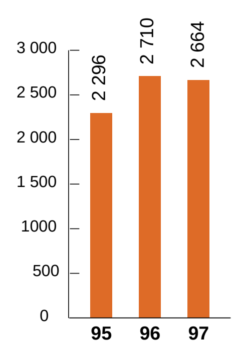
The net liabilities of the SKF Group, defined as interest bearing loans less short-term financial assets, amounted in 1997 to SEK 4 460 m (4 448 and 3 402)*.

** Amounts in parentheses refer to comparable figures for 1996 and 1995, respectively.*

Cash flow from operations, SEK m



Additions to tangible capital assets, SEK m



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”.

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”.

When describing accounting principles below, recommendations called SFAS are referred to. SFAS stands for Statement of Financial Accounting Standards issued by Financial Accounting Standards Board in the U.S.

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 28.

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.

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.

Translation of foreign financial statements

The current rate method is used for translating the financial statements of the majority 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

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. Operational gains and losses are included as Other operating income and Other operating expense. Financial gains and losses are included in Financial income and expense – net.

Forward exchange contracts

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 related to Other financial income.

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 – net.

Exchange rates

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

			Average rate			*Year-end rate*		
Country	*Unit*	*Currency*	**1997**	1996	1995	**1997**	1996	1995
Belgium	100	BEF	**21.32**	21.66	24.31	**21.36**	21.45	22.65
Canada	1	CAD	**5.47**	4,91	5.21	**5.49**	5.02	4.88
France	1	FRF	**1.31**	1.31	1.43	**1.32**	1.31	1.36
Germany	1	DEM	**4.40**	4.45	5.00	**4.41**	4.42	4.65
India	100	INR	**20.12**	18.99	21.91	**20.13**	19,13	18.93
Italy	100	ITL	**0.45**	0.43	0.43	**0.45**	0.45	0.42
Japan	100	JPY	**6.08**	6.14	7.64	**6.09**	5.92	6.47
The Netherlands	1	NLG	**3.90**	3.92	4.46	**3.91**	3.94	4.15
Spain	100	ESB	**5.20**	5.29	5.73	**5.21**	5.25	5.49
Switzerland	1	CHF	**5.43**	5.44	6.06	**5.43**	5.09	5.79
United Kingdom	1	GBP	**13.07**	10.43	11.27	**13.15**	11.61	10.30
USA	1	USD	**7.83**	6.69	7.14	**7.90**	6.87	6.66

Debt and marketable equity securities

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

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

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 on a straight-line basis, normally over 10 years, but in some cases over 20 years. Amortization of goodwill is included in selling expenses.

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

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 income and other operating expense

Other operating income and Other operating expense include 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, results from reinsurance operations and exchange gains and losses arising on operating assets and liabilities.

Research and development

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

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

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 the active service life of the employee. Up until 1992, the cost of these benefits was expensed on a cash basis.

Provisions

Provisions are defined as obligations related to the current or previous financial years as a result of a business event or a business decision. Such obligations are accounted for when the business event is known, but as long as there is some uncertainty as to the final amount and the settlement date, the obligation should be accounted for as a provision.

Pensions and other postretirement benefits, deferred taxes, restructuring reserves and similar items such as warranty reserves and benefits to employees, other than pensions, are classified as provisions in the balance sheet.

Changes in accounting principles

As from 1995, the interest portion of the costs for pensions and other postretirement benefits is 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 and 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, is accounted for as a 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.

As from 1996, the research and development expenditures are included in cost of goods sold instead of selling and administrative expenses in the consolidated income statements.

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

Beginning in 1997, the amortization of goodwill is accounted for as selling expenses and no longer as administrative expenses in the consolidated income statements.

Previous years have been restated according to the new principles.

As from 1997 the Annual Report is presented in accordance with the Swedish Accounts Act (1995:1554). Previous years have been reclassified accordingly.

Definitions of key figures

The majority of the subsidiaries within the SKF Group report their results of operations and financial position eleven times a year (ten for 1991 to 1996). 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 interest income, as a percentage of average total assets.

4. *Return on capital employed*
   Operating income/loss plus interest 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 interest 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 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 757 in 1997, 751 in 1996 and 598 in 1995. 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 such contracts were 4, 4 and 9 in 1997, 1996 and 1995 respectively, and have been fully reimbursed.

3 DEPRECIATION

	1997	1996	1995
Land improvements	**7**	7	9
Buildings	**145**	170	140
Machinery, supply systems, machine tools, tooling and factory fittings	**1 315**	1 199	1 195
Goodwill	**46**	69	74
Leaseholds	**1**	1	1
Revaluations	**14**	15	15
	1 528	1 461	1 434

Depreciations according to plan included in:

	1997	1996	1995
Cost of goods sold	**1 305**	1 179	1 181
Selling expenses	**192**	260	231
Administrative expenses	**31**	22	22
	1 528	1 461	1 434

4 FINANCIAL INCOME AND EXPENSE

	1997	1996	1995
Income from equity securities and long-term financial investments	**103**	95	91
Other financial income and similar items	**501**	592	270
Interest expense and similar items	**- 1 447**	- 1 149	- 972
	- 843	- 462	- 611

Specification of financial income and expense - net

	1997	1996	1995
Dividends			
- related to income from equity securites and long-term financial investments	**8**	5	4
Total dividends	**8**	5	4
Interest income			
- related to income from equity securities and long-term financial investments	**99**	87	90
- related to other financial income and similar items	**264**	404	442
Total interest income	**363**	491	532
Interest expense			
- for financial liabilities related to interest expense and similar items	**- 813**	- 758	- 800
- for pensions and other post-retirement benefits (see note 14) related to interest expense and similar items	**- 370**	- 383	- 392
Total interest expense	**- 1 183**	- 1 141	- 1 192
Financial exchange gains and losses			
- related to income from equity securities and long-term financial investments	**- 4**	3	- 3
- related to other financial income and similar items	**237**	188	- 172
- related to interest expense and similar items	**- 264**	- 8	220
Total financial exchange gains and losses	**- 31**	183	45
Financial income and expense - net	**- 843**	- 462	- 611

Adjustment to market value of trading securities affected financial income and expense by -20 in 1997, -13 in 1996 and 16 in 1995.

5 TAXES

	1997	1996	1995
Taxes on income after financial income and expense			
- current taxes	**- 724**	- 390	- 774
- deferred taxes	**163**	- 291	- 451
Other taxes	**- 22**	- 20	- 76
	- 583	- 701	- 1 301

Deferred taxes for 1997 include a charge of 170 related to the net change in the valuation allowance. Of this charge, 69 represents an adjustment of the beginning of the year balance 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.

Deferred tax assets, provisions for deferred taxes and short-term tax receivables and payables at December 31, were:

	1997	1996	1995
Long-term deferred tax assets	**715**	693	773
Short-term deferred tax assets	**562**	506	476
	1 277	1 199	1 249
Provisions for deferred taxes:			
- long-term	**1 275**	1 288	1 228
- short-term	**367**	413	192
	1 642	1 701	1 420
Net provisions for deferred taxes	**- 365**	- 502	- 171
Short-term income taxes receivable	**–**	28	–
Short-term income taxes payable	**138**	–	265
	138	28	265

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

	1997	1996	1995
Provisions for pensions and other postretirement benefits	**404**	340	370
Tax loss carry-forwards	**1 273**	1 234	1 261
Other	**1 343**	1 126	1 171
Gross deferred tax assets	**3 020**	2 700	2 802
Valuation allowance	**-858**	-688	-649
Gross deferred tax assets after valuation reserve	**2 162**	2 012	2 153

	1997	1996	1995
Provisions for pensions and other postretirement benefits	**28**	34	39
Inventory	**483**	434	412
Tangible capital assets	**1 754**	1 595	1 474
Other	**262**	451	399
Gross provision for deferred taxes	**2 527**	2 514	2 324
Net provision for deferred taxes	**-365**	-502	-171

Corporate income tax

The corporate nominal income tax rate in Sweden was 28 percent in 1997, 1996 and 1995.

The effective tax rate on income after financial income and expense, but before minority interest, was 28 percent in 1997, 29 percent in 1996 and 38 percent in 1995. A reconciliation of the statutory tax to the effective tax in Sweden is outlined below:

	1997	1996	1995
Tax calculated on statutory tax rate in Sweden	**- 590**	- 675	- 933
Difference between statutory tax rate in Sweden and foreign subsidiaries' weighted statutory tax rate	**- 109**	- 120	- 166
Taxes other than income taxes	**- 22**	- 20	- 76
Permanent differences	**114**	113	13
Tax loss carry-forwards, net of changes in valuation allowance	**-11**	27	18
Tax adjustments pertaining to previous years	**–**	–	-86
Other, including translation adjustments	**35**	- 26	- 71
Effective tax	**- 583**	- 701	- 1 301

Tax loss carry-forwards

The Parent Company and certain subsidiaries, principally in Sweden and Germany had, at December 31, 1997, tax loss carry-forwards amounting to 3 996 (3 802 in 1996 and 3 876 in 1995). Such tax loss carry-forwards expire as follows:

1998	44
1999	126
2000	205
2001	216
2002	97
2003 and thereafter	3 308

As of December 31, 1997, the total tax loss carry-forwards have resulted in deferred tax assets of 690, net of valuation allowances, which are included in gross deferred tax assets above. Such losses 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 INTANGIBLE CAPITAL ASSETS

Acquisition cost amounted to:

	1997	Additions	Disposals	Translation effects	1996	1995
Goodwill	**817**	23	–	96	698	706
Patents and similar rights	**16**	–	–	–	16	16
Leaseholds	**23**	3	- 3	- 6	29	27
Deferred charges	**90**	–	- 13	- 8	111	95
	946	26	- 16	82	854	844

Accumulated depreciation according to plan amounted to:

	1997	Additions	Disposals	Translation effects	1996	1995
Goodwill	**353**	46	–	38	269	226
Patent and similar rights	**12**	–	–	–	12	12
Leaseholds	**5**	1	- 1	–	5	5
	370	47	- 1	38	286	243
Net book value	**576**	- 21	- 15	44	568	601

Lump-sum write-offs of goodwill in 1997, 1996 and 1995 were 6, 44 and 29.

7 TANGIBLE CAPITAL ASSETS

Acquisition cost amounted to:

	1997	Additions	Disposals	Other	Translation effects	1996	1995
Land, land improvements and buildings	**5 267**	434	- 439	32	99	5 141	5 475
Revaluations	**466**	1	–	8	9	448	424
Machinery and supply systems	**19 109**	1 422	- 678	543	331	17 491	16 664
Revaluations	**74**	–	- 5	–	1	78	83
Machine tools, tooling, factory fittings, etc	**2 974**	230	- 119	44	67	2 752	2 621
Construction in process including advances	**1 644**	578	- 3	- 561	88	1 542	513
	29 534	2 665	- 1 244	66	595	27 452	25 780

Accumulated depreciation according to plan amounted to:

	1997	Additions	Disposals	Other	Translation effects	1996	1995
Land improvements and buildings	**2 581**	152	- 191	- 8	35	2 593	2 702
Revaluations	**218**	13	–	–	2	203	173
Machinery and supply systems	**11 128**	1 138	- 379	11	224	10 134	9 753
Revaluations	**68**	1	- 4	–	–	71	82
Machine tools, tooling, factory fittings, etc	**1 908**	177	- 230	- 8	59	1 910	1 806
	15 903	1 481	-804	- 5	320	14 911	14 516
Net book value	**13 631**	1 184	-440	71	275	12 541	11 264

Capital leases included in tangible capital assets consisted of the following:

Acquisition value amounted to:

	1997	1996	1995
Land, land improvements and buildings	**66**	61	50
Machinery and supply systems	**92**	101	100
Machine tools, tooling, factory fittings, etc	**36**	40	39
	194	202	189

Accumulated depreciation according to plan amounted to:

	1997	1996	1995
Land, land improvements and buildings	**40**	34	45
Machinery and supply systems	**52**	61	50
Machine tools, tooling, factory fittings, etc	**13**	15	12
	105	110	107

Tax value of Swedish tangible capital assets amounted to:

	1997	1996	1995
Land	**242**	245	242
Buildings	**701**	702	700
	943	947	942

8 LONG-TERM FINANCIAL ASSETS

	1997	1996	1995
Long-term financial receivables	**812**	969	1 106
Long-term financial receivables - Associated Companies	**–**	–	18
Debt securities	**18**	17	14
	830	986	1 138

Substantially all the long-term financial receivables are recorded at market value.

9 INVENTORIES

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

	1997	1996	1995
Raw materials and supplies	**1 310**	1 145	1 178
Work in process	**2 200**	2 372	2 325
Finished goods	**6 414**	5 959	5 469
	9 924	9 476	8 972

10 TRADE ACCOUNTS RECEIVABLE

	1997	1996	1995
Accounts receivable	**6 263**	5 672	5 753
Acceptances receivable	**732**	603	648
	6 995	6 275	6 401
Allowance for doubtful accounts	**- 298**	- 275	- 290
	6 697	6 000	6 111

The change in allowance for doubtful accounts charged against income amounted to 74 in 1997, 76 in 1996 and 37 in 1995.

11 OTHER SHORT TERM ASSETS

	1997	1996	1995
Other short-term receivables	**716**	506	446
Other short-term receivables - Associated Companies	**–**	3	–
Prepaid expenses	**292**	193	149
Accrued income	**167**	89	58
Advances to suppliers	**44**	27	36
	1 219	818	689

12 SHORT TERM FINANCIAL ASSETS

	1997	1996	1995
Short-term investments in bonds and other securities	**599**	457	261
Short-term investments in treasury bills and government bonds	**1 688**	236	1 271
Short-term investments with banks	**213**	196	153
Other short-term investments	**506**	504	360
Cash and bank accounts	**925**	698	852
	3 931	2 091	2 897

Unrealized holding loss on trading securities as per December 31, included in financial income and expense amounted to 20 in 1997, 10 in 1996 and 0 in 1995.

13 SHAREHOLDERS´EQUITY

Share capital

The share capital at December 31, 1997, 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	64 581 435	807
	113 837 767	1 423

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 together with the premium reserve amounts to 20 percent of the share capital. Premiums paid on new share issues must, for new share issues from 1997, be transferred to the premium reserve. Premiums at new share issues prior to 1997 have been 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 unrestricted equity 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
Opening balance 1995-01-01	1 412	4 854	2 917	9 183
Cash dividend	–	–	- 480	- 480
Net income	–	–	2 058	2 058
Transfer between restricted and unrestricted reserves	–	- 225	225	–
Translation adjustments	–	- 495	- 146	- 641
Revaluations	–	2	–	2
Closing balance 1995-12-31	1 412	4 136	4 574	10 122
Cash dividend	–	–	- 593	- 593
Net income	–	–	1 692	1 692
Transfer between restricted and unrestricted reserves	–	46	- 46	–
Translation adjustments	–	87	- 13	74
Revaluations	–	15	–	15
Closing balance 1996-12-31	1 412	4 284	5 614	11 310

	Share capital	Re-stricted reserves	Unre-stricted equity	Total
Closing balance 1996-12-31	1 412	4 284	5 614	11 310
Cash dividend	–	–	-593	-593
Conversion of bonds	11	178	–	189
Net income	–	–	1 558	1 558
Transfer between restricted and unrestricted reserves	–	1 278	-1 278	–
Translation adjustments	–	20	104	124
Closing balance 1997-12-31	**1 423**	**5 760**	**5 405**	**12 588**

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

	1997	1996	1995
Balance at beginning of year	**- 353**	- 427	214
Aggregate translation adjustments	**452**	68	- 775
Losses/gains from hedges (net of taxes) of investments in foreign subsidiaries	**- 328**	6	134
Balance at end of year	**- 229**	- 353	- 427

14 PROVISIONS FOR PENSIONS AND OTHER POSTRETIREMENT BENEFITS

	1997	1996	1995
Provisions for pensions	**5 019**	4 979	5 077
Provisions for other postretirement benefits	**1 152**	1 051	1 012
	6 171	6 030	6 089

Provisions for pensions

Charges against income in 1997, 1996 and 1995 for pensions were 574, 631 and 640, which include an interest cost calculated at 284, 309 and 314, respectively. In 1996 the interest arose 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 3.7, 6.0 and 6.2 percent in 1997, 1996 and 1995, respectively, for indexed Swedish pensions and 3.5 percent in 1997, 1996 and 1995 for fixed Swedish pensions. An interest rate of 6.5 percent was used in 1997, 1996 and 1995 for the German companies, which represented approximately 65 percent of the Group's total pension obligation.

Provisions for 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:

	1997	1996	1995
Service cost	**14**	11	11
Interest cost	**86**	74	78
Amortization	**- 10**	- 8	–
Net periodic postretirement benefit cost	**90**	77	89

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

	1997	1996	1995
Retirees	**933**	856	863
Other fully eligible plan participants	**160**	147	147
Other plan participants	**138**	119	139
Total accumulated postretirement benefit obligation	**1 231**	1 122	1 149
Unrecognized loss	**- 79**	- 71	- 137
	1 152	1 051	1 012

A discount rate of 7% was applied in 1997.

The assumed annual rate of increase in the per capita cost of covered health care benefits was 8.5 percent in 1997 for retirees under the age of 65 and 7.5 percent for retirees 65 and older, 9 percent and 8 percent respectively in 1996 and 10 percent and 8.5 percent in 1995. The rate was assumed to decline by 0.5 percent per year to an ultimate rate of 6 percent.

The assumed discount rate used in the calculations was 7 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 108 in 1997, by 93 in 1996 and by 94 in 1995 and the aggregate of the service and interest cost components of the net periodic postretirement benefit by 10 in 1997, 9 in 1996 and 9 in 1995.

15 OTHER PROVISIONS

	1997	1996	1995
Provisions for employee benefits other than pensions	**900**	833	799
Other provisions	**2 081**	1 297	1 578
	2 981	2 130	2 377

Provisions for employee benefits other than pensions include an employees' right to certain benefits when leaving the company either before or at the retirement. The benefit is paid out in a lump-sum and not during the remaining lifetime of the employee. Italy accounted for slightly more than 80 percent of the provision.

16 CONVERTIBLE BONDS

In May 1992, AB SKF issued zero coupon convertible bonds amounting to XEU 145 million after a discount of 8.75 percent. If fully converted on the due date, the nominal amount of XEU 286 million would have resulted in the issuance of 7 122 928 B shares.

In June 1997, SKF called for redemption of the convertible bonds. A number of holders opted to convert their bonds into shares and as a result of the conversion, 838 211 new B shares were issued in July 1997. The total number of shares issued is now 113 837 767. The conversion rate was slightly less than SEK 225 per share, which means that Shareholders' equity increased by SEK 189 m.

The bonds converted to shares amounted to XEU 22 million including accrued interest. Following conversion and redemption of the remaining bonds, the loan has been repaid in full.

17 LONG-TERM LOANS

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

	1997	1996	1995
Debentures (maturing from 1999 to 2007) bearing interest from 6.6 to 14.5 percent *	**3 703**	1 393	1 445
Bank loans (maturing from 1999 to 2008) bearing interest from 2.0 to 14.3 percent *	**2 078**	1 091	935
Other loans (maturing from 1999 to 2010) bearing interest from 2.0 to 18.5 percent *	**757**	837	815
	6 538	3 321	3 195

* December 31, 1997

The short-term portion of long-term loans is included in short-term loans (see note 20).

Maturities of long-term loans outstanding at December 31, 1997 are as follows:

1999	1 607
2000	791
2001	121
2002	1 278
2003	505
2004 and thereafter	2 236

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 389, 274 and 322 were collateralized at December 31, 1997, 1996 and 1995, respectively.

At December 31, 1997, the market value of long-term loans was approximately the same as the 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.

18 OTHER LONG-TERM LIABILITIES

	1997	1996	1995
Long-term portion of capital leases (see note 19)	**43**	54	53
Other	**26**	20	716
	69	74	769

”Other” for 1995 includes the liability arising from the financing transaction of real estate in Sweden. (See note 1, Changes in accounting principles).

19 LEASES

Future minimum rental commitments at December 31, 1997, for capital leases and non-cancellable (within one year) operating leases were as follows:

	Capital leases	Operating leases
1998	23	226
1999	22	156
2000	10	99
2001	8	68
2002	4	49
2003 and thereafter	7	355
Less: Amount representing interest and executory costs	- 10	
Present value of minimum lease payments under capital leases	64	
Less: Current portion	- 21	
Long-term portion (see note18)	43	

Net rental expense related to operating leases was 291 in 1997, 223 in 1996 and 213 in 1995. Contingent rentals and sublease income were not significant in any of the years presented.

20 SHORT-TERM LOANS

	1997	1996	1995
Bank loans	**831**	988	1 128
Other short-term loans	**724**	181	135
	1555	1 169	1 263
Short-term portion of long-term loans	**298**	524	452
	1 853	1 693	1 715

The maximum monthly short-term loans outstanding, excluding the short-term portion of long-term loans, was 1 926 in 1997, 2 432 in 1996 and 2 204 in 1995. The average monthly short-term loans outstanding during the year was 1 995 in 1997, 1 807 in 1996 and 1 973 in 1995. The weighted average interest rate was 8.7 percent, 11 percent and 9.9 percent in 1997, 1996 and 1995, respectively, and 7.6 percent at December 31, 1997. 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, 1997, the Group had unutilized long-term lines of credit of 3 753 expiring from 2001 to 2004. Commitment fees ranging from 0.0825 percent to 0.175 percent are required on these lines of credit.

21 TRADE ACCOUNTS PAYABLE

	1997	1996	1995
Accounts payable	**2 609**	2 430	2481
Acceptances payable	**312**	256	283
	2 921	2 686	2 764

22 OTHER SHORT-TERM LIABILITIES

	1997	1996	1995
Other short-term liabilities	**776**	743	691
Other short-term liabilities - Associated Companies	**2**	11	-
Accrued expenses and deferred income	**2 471**	2 272	2 033
	3 249	3 026	2 724

Accrued expenses and deferred income included accrued vacation pay of 633, 650 and 624 for 1997, 1996 and 1995, respectively. It also included accrued social charges (including payroll taxes) of 493, 530 and 545 for 1997, 1996 and 1995 respectively.

23 ASSETS PLEDGED

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

	1997	1996	1995
Mortgages on real estate	**440**	329	470
Chattel mortgages	**143**	182	276
Other mortgages	**37**	6	60
	620	517	806

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 loans and other obligations of 520 at December 31, 1997, 361 in 1996 and 777 in 1995.

24 CONTINGENT LIABILITIES

	1997	1996	1995
Discounted bills	**47**	49	35
Other guarantees and contingent liabilities	**168**	157	164
	215	206	199

25 GEOGRAPHIC INFORMATION

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

	1997	1996	1995
Sweden	**1 967**	1 869	2 240
Europe (excluding Sweden)	**18 164**	17 274	19 328
North America	**9 078**	7 550	7 955
Other countries	**7 713**	6 896	7 177
	36 922	33 589	36 700

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, 1997, to 35 973 and to 32 600 in 1996 and 30 763 in 1995. The geographic location of these assets were as follows:

	1997	1996	1995
Sweden	**6 202**	4 659	4 386
Europe (excluding Sweden)	**16 530**	16 107	15 683
North America	**7 295**	6 265	5 890
Other countries	**5 946**	5 569	4 804
	35 973	32 600	30 763

26 SPECIFICATION OF SALARIES, WAGES AND REMUNERATIONS FOR EMPLOYEES

	1997	**1997**	1996	1996	1995	1995
	Salaries, wages and other remunerations	**Social charges (whereof pension cost)**	Salaries, wages and other remunerations	Social charges (whereof pension cost)	Salaries, wages and other remunerations	Social charges (whereof pension cost)
Parent Company	**98**	**96**	92	59	85	82
		(53)		(52)		(56)
Subsidiaries in Sweden	**1 601**	**712**	1 594	719	1 487	707
		(148)		(149)		(123)
Subsidiaries abroad	**8 544**	**2 657**	8 010	2 592	8 445	2 938
		(373)		(430)		(461)
	10 243	**3 465**	9 696	3 370	10 017	3 727
		(574)		(631)		(640)

Specification of salaries, wages and remunerations:

	1997 Board and MD (whereof bonus etc)	**1997 Other employees**	1996 Board and MD (whereof bonus etc)	1996 Other employees	1995 Board and MD (whereof bonus etc)	1995 Other employees
Parent Company	**6 (1)**	**92**	7 (1)	85	12 (3)	73
Total Parent Company	**98**		92		85	
Subsidiaries in Sweden	**10 (1)**	**1 591**	22 (1)	1 572	13 (2)	1 474
Total subsidiaries in Sweden	**1 601**		1 594		1 487	
Subsidiaries abroad	**91 (3)**	**8 453**	83 (2)	7 927	110 (7)	8 335
Total subsidiaries abroad	**8 544**		8 010		8 445	
The Group	**107 (5)**	**10 136**	112 (4)	9 584	135 (12)	9 882
Total Group	**10 243**		9 696		10 017	

Geographic specification of subsidaries abroad:

	1997 Board and MD (whereof bonus etc)	**1997 Other employees**	1996 Board and MD (whereof bonus etc)	1996 Other employees	1995 Board and MD (whereof bonus etc)	1995 Other employees
France	**7**	**956**	6	942	7 (2)	955
Germany	**8 (1)**	**2 576**	14 (1)	2 551	18 (1)	2 823
Italy	**4**	**1 279**	4	1 220	4	1 196
The rest of Western Europe excluding Sweden	**25 (1)**	**941**	19 (1)	911	26 (2)	988
Central and Eastern Europe	**3**	**64**	2	58	1	26
USA	**5**	**1 823**	7	1 528	7	1 627
The rest of North America	**1**	**46**	1	43	1	44
Latin America	**15**	**260**	12	238	23	242
Asia	**20**	**413**	15 (1)	342	20	337
Africa	**3**	**95**	3	94	3	97
	91	**8 453**	83	7 927	110	8 335
Total subsidiaries abroad	**8 544**		8 010		8 445	

In accordance with the resolution of the Annual General Meeting, the Board received a fee of SEK 1 900 000 of which 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 Parent Company).

Giovanni Mario Rossignolo, Chairman and Chief Executive of SKF's Italian subsidiary received a compensation of ITL 304 725 000 during 1997, in addition to his annual fee as a board member of AB SKF. Of this amount ITL 34 425 000 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 168 750, free housing during the period January to September 1997 and a SEK 100 000 fee for board membership in subsidiaries. Mauritz Sahlin also received pension according to SKF's so-called ”60-year agreement”.

Peter Augustsson, President and Chief Executive Officer of AB SKF, received SEK 4 449 263 as salary and other remunerations. This included a bonus of SEK 594 000 and options of SEK 158 880 in accordance with the options program mentioned below. He received USD 30 000 as an additional fee as board member of 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 times the basic amount (basic amount 1997 was SEK 36 200) will be paid. In the event of termination at the request of AB SKF, 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. The total commitment for these benefits amounted in 1997 to approximately SEK 11 m and was fully provided for in the Group accounts.

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 would allocate call options on SKF shares already issued.

27 AVERAGE NUMBER OF EMPLOYEES

	1997	**1997**	1996	1996	1995	1995
	Number of employees	**Whereof men (percent)**	Number of employees	Whereof men (percent)	Number of employees	Whereof men (percent)
Parent Company in Sweden	160	66%	161	65%	147	65%
Subsidiaries in Sweden	6 130	84%	6 187	84%	6 271	84%
Subsidiaries abroad	35 573	82%	36 103	83%	36 223	83%
	41 863	83%	42 451	83%	42 641	83%

Subsidiaries abroad specified by geographic areas:

	1997	**1997**	1996	1996	1995	1995
	Number of employees	**Whereof men (percent)**	Number of employees	Whereof men (percent)	Number of employees	Whereof men (percent)
France	**3 689**	**82%**	3 892	83%	3 881	82%
Italy	**5 833**	**86%**	5 834	87%	5 821	87%
Germany	**6 716**	**87%**	7 006	87%	7 533	87%
Other Western Europe excluding Sweden	**3 297**	**84%**	3 398	84%	3 560	84%
Central/Eastern Europe	**1 270**	**72%**	1 392	71%	726	73%
U.S.	**6 086**	**71%**	6 133	72%	6 704	71%
Other North America	**146**	**78%**	148	80%	152	75%
Latin America	**2 086**	**88%**	2 147	89%	2 493	89%
Asia	**5 452**	**87%**	5 123	87%	4 366	90%
Africa	**998**	**75%**	1 030	72%	987	73%
	35 573	**82%**	36 103	83%	36 223	83%

28 RECONCILIATION TO UNITED STATES GENERALLY ACCCEPTED 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 tangible capital assets. Such interest expense is required to be capitalized in accordance with U.S. GAAP.

4. Gain on sale of real estate
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 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:

	1997	1996	1995
Service cost	**130**	115	102
Interest cost	**526**	519	543
Actual return on assets	**-608**	-408	-558
Other, net	**379**	252	402
Net periodic pension cost	**427**	478	489

Assumptions used in the calculations:

	1997	1996	1995
Discount rates	**5-7%**	6.5-8.5%	6.5-8.5%
Rates of increase in compensation level	**2.5-5%**	2.5-5%	2.5-5%
Rate of return on investments	**3-10%**	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:

	1997	1996	1995
Actuarial present value of:			
Vested benefit obligation	**7 317**	6 741	7 022
Accumulated benefit obligation	**7 736**	7 113	7 275
Projected benefit obligation	**8 285**	7 566	7 713
Plan assets at fair value	**- 3 712**	- 2 898	- 2 657
Projected benefit obligation in excess of plan assets	**4 573**	4 668	5 056
Unrecognized net profit/loss	**- 6**	- 102	- 37
Unrecognized net obligation at initial application	**- 110**	- 332	- 436
Unrecognized prior service cost	**- 109**	- 99	- 101
Adjustment required to recognize minimum liability	**227**	333	374
Pension liability	**4 575**	4 468	4 856

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. Contracts hedging anticipated 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.

According to Swedish GAAP, contracts hedging anticipated transactions are also accounted for as hedges. In these cases, a valuation of the contract is not made.

At December 31, 1997 a net unrealized loss of 58 (loss of 21 in 1996 and 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. All hedges of firm commitments and anticipated transactions are expected to occur in 1998.

7. Statements of cash flow

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

	1997	1996	1995
Net income	**1 558**	1 692	2 058
Depreciation and goodwill amortization	**1 528**	1 461	1 434
Minority interest in net income	**- 35**	19	30
Net gain(-) on sales of property, plant and equipment, companies and businesses	**- 743**	- 362	-98
Changes in working capital:			
Inventories	**- 546**	- 513	-525
Trade accounts receivable	**- 877**	101	-87
Trade accounts payable	**302**	-87	229
Other oper. short term assets, liabilities and provisions - net	**758**	-93	-115
Changes in tax assets and provisions for taxes - net	**29**	38	408
Cash flow from operations	**1 974**	2 256	3 334
Cash flow used in investments	**-1 665**	-2 179	-1 807
Cash flow used in financing activities	**1 617**	-948	-1 081
Translation adjustments	**-86**	65	95
Change in short-term financial assets	**1 840**	-806	541

The Group considers short-term financial assets to be cash and cash equivalents (see note 12).

The statements of cash flow are adjusted for aquired and sold companies

8. Financial instruments and credit risks

Financial instruments

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 risk management”. The policy sets forth the financial risk mandates and the financial instruments authorized for use in the management of financial risks. Derivative financial instruments 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.

During 1997, loans, forward exchange contracts, cross currency swaps and currency options were the derivative financial instruments used to hedge foreign currency rate exposure, including the hedging of net equity investments in foreign subsidiaries, firm commitments, anticipated transactions and internal bank activities. Cross currency swaps and interest rate swaps 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:

	1997	1996	1995
Type of instruments:			
Forward exchange contracts	**25 192**	15 975	17 774
Cross currency swaps	**–**	1 950	2 602
Currency options	**2 114**	5 923	1 257
Interest rate swaps	**5 355**	4 848	2 365
	32 661	28 696	23 998
Purpose:			
Hedging of:			
- firm commitments	**6 272**	4 133	3 817
- anticipated transactions	**10 109**	8 251	6 221
- net equity investments	**300**	4 310	4 720
- other internal bank activities	**8 909**	7 154	6 575
Trading	**1 716**	–	–
Interest rate management	**5 355**	4 848	2 665
	32 661	28 696	23 998

At December 31, 1997, the total carrying amounts and fair values of all derivative financial instruments were 40 and 62 (36 and 77 for 1996 and -12 and 92 for 1995) respectively. The fair value of these financial derivative instruments was calculated as the amount that the Group would receive or pay to terminate the contracts at year-end. Market quotes were obtained for all financial derivative instruments.

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 derivative instruments subject to credit risk.

9. Changes in accounting principles

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).

10. Summary

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

	1997	1996	1995
Net income as previously reported	**–**	–	2 026
Effect of changes in accounting principles: - pensions recorded as a liability (1996)	**–**	–	32
Net income as reported in the consolidated income statements	**1 558**	1 692	2 058
Items increasing/decreasing net income:			
28.1 Deferred income taxes	**18**	- 39	- 80
28.2 Depreciation on revaluation of assets including effect in connection with sale	**6**	14	15
28.3 Capitalization of interest expense	**54**	57	- 1
28.5 Pensions	**- 79**	- 11	- 6
28.6 Forward exchange contracts	**-37**	- 53	7
Net decrease in net income:	**- 38**	- 32	-65
Approximate net income in accordance with U.S. GAAP	**1 520**	1 660	1 993

	1997	1996	1995
Shareholders' equity as previously published	**–**	–	10 273
Effect of changes in accounting principles: - pensions recorded as a liability (1996)	**–**	–	-151
Shareholders' equity as reported in the consolidated balance sheets	**12 588**	11 310	10 122
Items increasing/decreasing shareholders' equity:			
28.1 Deferred income taxes	**164**	146	185
28.2 Revaluation of assets	**-254**	-253	-250
28.3 Capitalization of interest expense	**170**	116	59
28.5 Pensions	**- 179**	-100	-89
28 6 Forward exchange contracts	**-58**	-21	31
Net decrease in shareholders' equity	**-157**	-112	-64
Approximate shareholders' equity in accordance with U.S. GAAP	**12 431**	11 198	10 058

	1997	1996	1995
Earnings per share, in SEK:[1]			
Net earnings per share in accordance with U.S. GAAP	**13.35**	14.60	17.50
Weighted average number of shares outstanding	**113 837 767**	113 837 767	113 837 767

1) Earnings per share have been recalculated to take into account changes in accounting principles (see note 1) and the conversion of 838 211 shares in July 1997.

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		
	1997	1996	1995	**1997**	1996	1995
Intangible capital assets	**576**	568	601	**724**	833	912
Deferred tax assets	**715**	693	773	**809**	759	860
Tangible capital assets	**13 631**	12 541	11 264	**13 547**	12 404	11 072
Financial capital assets	**1 185**	1 063	1 212	**1 185**	1 063	1 212
Inventories	**9 924**	9 476	8 972	**9 924**	9 476	8 972
Short-term tax assets	**562**	534	476	**578**	534	476
Other short-term assets	**7 916**	6 818	6 800	**7 916**	6 818	6 800
Short-term financial assets	**3 931**	2 091	2 897	**3 931**	2 091	2 897
Total assets	**38 440**	33 784	32 995	**38 614**	33 978	33 201
Shareholders' equity	**12 588**	11 310	10 122	**12 431**	11 198	10 058
Minority interest	**290**	288	166	**290**	288	166
Provisions for pensions and other postretirement benefits	**6 171**	6 030	6 089	**6 588**	6 458	6 562
Provision for taxes - long-term	**1 275**	1 288	1 228	**1 222**	1 214	1 114
Provision for taxes - short-term	**367**	413	192	**366**	407	207
Other provisions	**2 981**	2 130	2 377	**2 891**	2 097	2 304
Long-term loans	**6 538**	4 846	4 584	**6 538**	4 846	4 584
Other long-term liabilities	**69**	74	769	**69**	74	769
Short-term loans	**1 853**	1 693	1 715	**1 853**	1 693	1 715
Other short-term liabilities	**6 308**	5 712	5 753	**6 366**	5 733	5 722
Shareholders' equity and total liabilities	**38 440**	33 784	32 995	**38 614**	33 978	33 201

29 INVESTMENTS

	1997	1996	1995
Investments in associated companies	**29**	24	16
Other investments	**326**	53	58
	355	77	74

Investments in associated companies

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Held by Parent Company:					
Revolve Magnetic Bearings Inc, Canada	40.0	444 000	CAD	3 813	24 393
Held by subsidiaries:					
Shanghai SMM Textile Machinery Components Co. Ltd.,					
People's Republic of China	50.0	40	CNY	23 500	0
WPB Water pump bearing GmbH (JV), Germany	40.0	1	DEM	6 400	4 128
					28 521

Other Investments

Held by Parent Company

Name and location	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		30	SEK	30	30
Fastighets AB Johannebergshus, Göteborg, Sweden	9.7	170	SEK	17	2 555
FlexLink AB, Göteborg, Sweden	10.0	2 170 000	SEK	2 170	21 700
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
Lutsk Bearing Plant, Ukraina	24.0	17 031 684	UAH	4 258	23 481
Wafangdian Bearing Company Limited, Peoples Republic of China	19.7	65 000 000	CNY	65 000	230 009
Svenska skolan, Belgium		20	BEF	400	0
Other shares and securities					6
					292 413

Held by subsidiaries

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Hofors Energi, Hofors, Sweden	49.0	2 000	SEK	2 000	2 000
Jernkontoret, Stockholm, Sweden	0.8	8	SEK	187	187
Gävle Sjöfarts AB, Gävle, Sweden	2.5	270	SEK	27	54
AB Järnbruksförnödenheter, Stockholm, Sweden	20.0	300	SEK	30	69
Företagshälsovården i Hofors, Hofors, Sweden	50.0	500	SEK	50	50
Tågåkeriet i Bergslagen AB, Kristinehamn, Sweden	10.0	2	SEK	60	60
IUC Sandviken AB, Sandviken, Sweden	12.5	500	SEK	50	50
Suomen Voimansiirto Oy, Finland	13.7	140	FIM	1 000	202
Industrilink A/S, Denmark	20.0	1	DKK	20	77
SIMES, Belgium	12.0	150	BEF	3 000	641
Gemeinnützige Wohnungsbaugesellschaft Schweinfurt GmbH, Germany	25.0	1	DEM	250	1 102
Gesellschaft z. Entsorgung v. Sondermüll in Bayern mbH, Germany	0.4	1	DEM	80	353
Gemeinschaftskraftwerk Schweinfurt GmbH, Germany	16.5	1	DEM	3 300	14 545
Industrieaufbauges Schaeffler KG, Germany	40.0	1	DEM	20	88
IBU Baugenossenschaft UST, Switzerland	11.9	10	SEK	55	55
IPO, France	0.1	1	FRF	100	219
Indesit, Italy	0.17	12 775	ITL	23 000	0
Housing Development Finance Corp. Ltd., India	0.01	2 500	INR	250	50
United Trust of India, India	0.01	2 650 000	INR	26 500	5 892
Housing Development Finance Corp. Bank Ltd., India	0.01	37 700	INR	377	76
Voimansiirto Oy, Finland	10.0	60	FIM	60	82
Bearhold Philippines, Philippines	40.0	38	HKD	144	147
FAIRSKQ Taiwan Co. Ltd., Taiwan	40.0	2 080	TWD	20 800	6 890
Skefko Bearings Newcastle, Australia	30.0	12 000	AUD	12	62
Other					878
Total					33 829

Total investments

Held by subsidiaries	33 829
Held by Parent Company	292 413
Total investments SKF Group	326 242

Investments in SKF subsidiaries held by other subsidiaries *)

Name and location	Holding in percent	Owned by subsidiary in:
SKF GmbH, Schweinfurt, Germany	99.9	The Netherlands
SKF Industrie S.p.A, Turin, Italy	100	The Netherlands
SKF France S.A., Clamart, France	100	France
SKF (U.K.) Ltd., Luton, U.K.	100	U.K.
SKF Española, S.A., Madrid, Spain	100	Italy
SKF Bearings India Ltd., Bombay, India	0.85	Sweden
SKF Bearings India Ltd., Bombay, India	7.52	U.K.
SKF do Brasil Ltda., Guarulhos-São Paulo, Brazil	0.1	Sweden
RFT S.p.A., Turin, Italy	100	Italy
SKF Argentina S.A., Buenos Aires, Argentina	0.1	The Netherlands
SKF Textilmaschinen-Komponenten GmbH, Stuttgart, Germany	100	Germany
SKF Japan Ltd., Tokyo, Japan	100	The Netherlands
SKF Latintrade, Panama	100	Switzerland
CR Elastomere GmbH, Leverkusen-Opladen,Germany	100	Germany
Ovako Ajax Inc., York, USA	100	USA
SKF Canada Ltd., Scarborough, Canada	37.5	The Netherlands
SKF Belgium S.A., Brussels, Belgium	100	The Netherlands
SKF Gleitlager GmbH, Püttlingen (Saar) Germany	100	Germany
SKF Nederland B.V., Veenendaal, The Netherlands	100	The Netherlands
SKF Bearing Industries (Malaysia) Sdn. Bhd., Nilai, Malaysia	40.9	Germany
SKF Bearing Industries (Malaysia) Sdn. Bhd., Nilai, Malaysia	59.1	Italy
SKF Kogellagerindustrie B.V., Veenendaal, The Netherlands	100	The Netherlands
SARMA, Saint Vallier s/Rhone Cedex, France	100	France
SKF Intertrade S.A., Brussels, Belgium	0.01	Belgium
SKF Intertrade S.A., Brussels, Belgium	99.99	The Netherlands
SKF China Ltd., Hong Kong, China	100	Hong Kong
Ovako Stahl GmbH, Germany	100	Sweden

*) For investments in subsidiaries held by Parent Company, see Note 4 in footnotes to the Parent Company.

PARENT COMPANY INCOME STATEMENTS

Millions of Swedish kronor		**1997**	1996	1995
Administrative expenses	*note 3*	**- 163**	- 93	- 91
Other operating income		**17**	11	8
Other operating expense		**- 40**	0	0
Operating loss		**- 186**	-82	- 83
Financial income and expense - net	*note 1*	**1 200**	1 052	492
Income after financial income and expense		**1 014**	970	409
Provisions	*note 2*	**149**	528	866
Net income		**1 163**	1 498	1 275

PARENT COMPANY STATEMENT OF CASH FLOW

Millions of Swedish kronor	**1997**	1996	1995
Operating loss	**- 186**	- 82	- 83
Depreciation according to plan of tangible capital assets	**6**	5	5
Net loss on sales of tangible capital assets	**39**	–	0
Group contribution and allowance for shareholders’ contribution - net	**100**	519	873
Changes in working capital:			
Trade accounts payable	**1**	0	0
Other operating assets, liabilities and provisions - net	**- 216**	319	- 1 142
Cash flow from operations	**- 256**	761	- 347
Additions to tangible capital assets	**- 7**	-8	- 2
Changes in investments	**- 524**	-823	- 248
Sales of tangible capital assets	**11**	–	0
Cash flow after investments	**- 776**	- 70	- 597
Financial income and expense - net	**1 200**	1 052	492
Cash dividends to shareholders	**- 593**	- 593	- 480
Conversion of bonds	**189**	–	–
Change in other long-term assets, liabilities and provisions - net	**- 1 633**	- 564	346
Cash flow before financing	**- 1 613**	- 175	- 239
Change in loans	**1 633**	165	257
Change in short-term financial assets	**20**	- 10	18

PARENT COMPANY BALANCE SHEETS

Millions of Swedish kronor		**1997**	1996	1995
ASSETS				
Capital assets				
Tangible capital assets	*note 3*	**34**	83	80
Investments in consolidated subsidiaries	*note 4*	**8 371**	8 146	7 319
Long-term receivables from consolidated subsidiaries		**5 240**	3 611	3 456
Investments in Associated Companies	*note 4*	**24**	–	–
Other investments	*note 4*	**292**	17	21
Other long-term receivables		**0**	3	3
		13 961	11 860	10 879
Short-term assets				
Short-term receivables from consolidated subsidiaries		**1 501**	1 322	1 598
Other short-term assets	*note 5*	**18**	22	68
Short-term financial assets	*note 6*	**34**	14	24
		1 553	1 358	1 690
Total assets		**15 514**	13 218	12 569
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity	*note 7*			
Restricted equity				
Share capital (113 837 767 shares, nominal value SEK 12.50 per share)		**1 423**	1 412	1 412
Legal reserve		**633**	455	455
Unrestricted equity				
Retained earnings		**4 896**	3 991	3 309
Net income		**1 163**	1 498	1 275
		8 115	7 356	6 451
Untaxed reserves	*note 2*	**15**	64	73
Provisions				
Provisions for pensions and similar plans	*note 8*	**383**	374	362
Other provisions		**1**	1	7
		384	375	369
Long-term liabilities				
Convertible bonds	*note 9*	**–**	1 525	1 389
Long-term loans	*note 10*	**5 153**	1 995	1 965
Long-term liabilities to consolidated subsidiaries		**127**	137	559
Other long-term liabilities		**0**	6	5
		5 280	3 663	3 918
Short-term liabilities				
Short-term loans	*note 11*	**10**	10	11
Trade accounts payable		**10**	9	9
Short-term liabilities to consolidated subsidiaries		**1 468**	1 604	1 601
Other short-term liabilities	*note 12*	**232**	137	137
		1 720	1 760	1 758
Total liabilities and shareholders' equity		**15 514**	13 218	12 569
Assets pledged	*note 13*	**–**	0	0
Contingent liabilities	*note 14*	**344**	293	619

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

For description of accounting principles, see note 1 to the Consolidated Financial Statements.

1 FINANCIAL INCOME AND EXPENSE

	1997	1996	1995
Income from investments in consolidated subsidiaries	**1 211**	1 048	528
Income from other equity securities and long-term financial investments	**698**	350	40
Other financial income and similar items	**16**	59	13
Interest expense and similar items	**- 725**	- 405	- 89
	1 200	1 052	492

Specification of financial income and expense - net

	1997	1996	1995
Dividends			
- related to investments in consolidated subsidiaries	**650**	1 081	493
- related to income from other equity securities and long-term financial investments	**0**	0	1
Total dividends	**650**	1 081	494
Interest income			
- related to income from other equity securities and long-term financial investments - consolidated subsidiaries	**363**	306	346
- related to income from other equity securities and long-term financial investments - other	**0**	0	1
- related to other financial income and similar items - consolidated subsidiaries	**12**	58	14
- related to other financial income and similar items - other	**1**	2	1
Total interest income	**376**	366	362
Interest expense			
- for financial liabilities related to interest expense and similar items - consolidated subsidiaries	**- 21**	- 61	- 82
- for financial liabilities related to interest expense and similar items - other	**- 360**	- 304	- 322
- for pensions and other post-retirement benefits related to interest expense and similar items	**- 14**	- 22	- 22
Total interest expense	**- 395**	- 387	- 426

	1997	1996	1995
Financial exchange gains and losses			
- related to income from other equity securities and long term financial investments - consolidated subsidiaries	**333**	44	- 328
- related to other financial income and similar items - consolidated subsidiaries	**0**	- 1	0
- related to other financial income and similar items - other	**3**	0	- 2
- related to interest expense and similar items - consolidated subsidiaries	**- 16**	22	39
- related to interest expense and similar items - other	**- 314**	- 40	298
Total financial exchange gains and losses	**6**	25	7
Capital gains and losses from sales			
- related to investments in consolidated subsidiaries	**651**	- 33	35
- related to other equity securities and long-term financial assets	**2**	–	20
Total capital gains and losses from sales	**653**	-33	55
Writedowns			
- related to income from investments in consolidated subsidiaries	**- 90**	–	–
Total writedowns	**- 90**	–	–
Financial income and expense - net	**1 200**	1 052	492

2 PROVISIONS AND UNTAXED RESERVES

Provisions

	1997	1996	1995
Change in accelerated depreciation reserve	**39**	3	3
Change in other reserves	**10**	6	- 10
	49	9	- 7
Group contribution received	**536**	545	920
Group contribution paid	**-413**	- 6	–
Allowance for shareholders' contribution	**- 23**	- 20	- 47
	100	519	873
	149	528	866

Untaxed reserves

	1997	1996	1995
Accelerated depreciation reserve	**15**	54	57
Other reserves	**0**	10	16
	15	64	73

3 TANGIBLE CAPITAL ASSETS

Acquisition cost amounted to:

	1997	Additions during the year	Disposals	1996	1995
Land, land improvements and buildings	**19**	4	-107	122	118
Machinery and supply systems	**37**	3	-42	76	72
	56	7	-149	198	190

Accumulated depreciation according to plan amounted to:

	1997	Depreciation during the year	Disposals	1996	1995
Land, land improvements and buildings	**2**	2	-76	76	73
Machinery and supply systems	**20**	4	-23	39	37
	22	6	-99	115	110
Net book value	**34**	1	-50	83	80

Depreciation according to plan is included in administrative expenses.

Tax value of tangible capital assets amounted to:

	1997	1996	1995
Land and land improvements	**2**	42	41
Buildings	**7**	153	151
	9	195	192

4 INVESTMENTS

Investments in subsidiaries are specified below. For specification of investments in Associated Companies and other investments held by the Parent Company, see note 29 to the Consolidated Financial Statements.

Investments in subsidiaries held by the Parent Company on December 31, 1997

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Manufacturing companies					
SKF Sverige AB, Göteborg, Sweden	100	2 650 000	SEK	265 000	363 300
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	99.6	1 696 548	PLZ	33 931	102 574
SKF Actuators AB, Göteborg, Sweden	100	1 000	SEK	1 000	0
SKF Arvika AB, Arvika, Sweden	100	2 900	SEK	290	15 000
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	499 946	ARP	500	10 936
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
Carried forward					1 669 321

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Carried forward					1 669 321
Share subscription in					
SKF Automotive Bearings Company Limited, Peoples Republic of China	60.0				30 260
Anhui Zhongding CR Seals Ltd, Peoples Republic of China	60.0				25 212
Beijing Nankou SKF Railway Bearings Company Limited, Peoples Republic of China	51.0	–	CNY	126 713	118 524
SKF HANWHA Automotive Components Corporation, Republic of Korea	80.0	1 716 000	KRW	8 580 000	44 042
PT. SKF Indonesia, Indonesia	60.0	22 540	IDR	22 540 000	35 542
Non-cash issue in SKF do Brasil Limitada, Brazil					10 463
Sales companies					
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	430	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
Other Companies					
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
Carried forward					7 756 919

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Carried forward					7 756 919
Share subscription in					
SKF (China) Investment co. Ltd., Peoples Republic of China	100				34 869
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	1 000	SEK	100	101
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
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
SKF Fondförvaltning AB, Göteborg, Sweden	100	2 500	SEK	250	248
AB Svenska Kullagerfabriken, Göteborg, Sweden	100	1 000	SEK	100	101
SKF Dataservice AB, Göteborg, Sweden	100	1 000	SEK	100	0
SKF Nova AB, Göteborg, Sweden	100	1 000	SEK	100	0
AB Transmatic, Göteborg, Sweden	100	1 000	SEK	100	101
Bagaregården 16:7 KB, Göteborg, Sweden	99.9	–	SEK	250 103*	15 617
KB Nya Kulan, Göteborg, Sweden	99.0	–	SEK	290 615*	31 075
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 (subject to change of name to Ovako Couplings Holding AB), Göteborg, Sweden	100	2 800 000	SEK	280 000	106 470
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 (subject to change of name to Ovako Steel Holding AB), Göteborg, Sweden	100	9 600 000	SEK	960 000	27
					8 370 517

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

5 OTHER SHORT-TERM ASSETS

	1997	1996	1995
Other short-term receivables	**17**	20	67
Prepaid expenses	**1**	2	1
	18	22	68

6 SHORT-TERM FINANCIAL ASSETS

	1997	1996	1995
Short-term financial receivables	**27**	–	–
Cash and bank accounts	**7**	14	24
	34	14	24

7 SHAREHOLDERS' EQUITY

The distribution of share capital between share types is shown in note 13 to the Consolidated Financial Statements.

Changes in shareholders' equity

	Share capital	Legal reserve	Un-restricted equity	Total
Opening balance 1995-01-01	1 412	455	3 789	5 656
Cash dividend	–	–	- 480	- 480
Net income	–	–	1 275	1 275
Closing balance 1995-12-31	1 412	455	4 584	6 451
Cash dividend	–	–	- 593	- 593
Net income	–	–	1 498	1 498
Closing balance 1996-12-31	1 412	455	5 489	7 356
Cash dividend	–	–	- 593	- 593
Conversion of bonds	11	178	–	189
Net income	–	–	1 163	1 163
Closing balance 1997-12-31	1 423	633	6 059	8 115

8 PROVISIONS FOR PENSIONS AND SIMILAR PLANS

Charges against income in 1997, 1996 and 1995 for pensions and similar plans were 53, 52 and 56, which include an interest cost calculated at 14, 22 and 22, respectively.

Provisions for pensions include pensions in the FPG - PRI (Pension Registration Institute) system by 298, 294 and 277 for 1997, 1996 and 1995, respectively.

9 CONVERTIBLE BONDS

See note 16 to the Consolidated Financial Statements.

10 LONG-TERM LOANS

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

	1997	1996	1995
Bonds	**3 599**	1 379	1 346
Bank loans	**1 027**	378	366
Other borrowings	**527**	238	253
	5 153	1 995	1 965

The above loans were denominated in the following currencies:

	1997	1996	1995
Swedish kronor	**1 226**	437	448
United States dollars	**3 823**	1 453	1 407
Spanish pesetas	**104**	105	110
	5 153	1 995	1 965

Maturities of long-term loans as at December 31, 1997, were as follows:

1999	863
2000	443
2001	8
2002	1 203
2003	495
2004 and thereafter	2 141
	5 153

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

11 SHORT-TERM LOANS

	1997	1996	1995
Current portion of long-term loans	**10**	10	11
	10	10	11

12 OTHER SHORT-TERM LIABILITIES

	1997	1996	1995
Other short-term liabilities	**6**	6	10
Accrued expenses and deferred income	**226**	131	127
	232	137	137

Accrued expenses and deferred income include accrued interest of 185, 83 and 82 for 1997, 1996 and 1995, respectively.

13 ASSETS PLEDGED

	1997	1996	1995
Mortgages in leasehold, land	**–**	0	0
	–	0	0

14 CONTINGENT LIABILITIES

	1997	1996	1995
Guarantees in respect of consolidated subsidiaries' obligations	**294**	261	575
Other guarantees and contingent liabilities	**50**	32	44
	344	293	619

15 AVERAGE NUMBER OF EMPLOYEES, WAGES, SALARIES AND REMUNERATIONS

For wages, salaries and other remunerations to employees - see note 26 to the Consolidated Financial Statements.

For average number of employees - see note 27 to the Consolidated Financial Statements.

PROPOSED DISTRIBUTION OF SURPLUS

Retained earnings	SEK	4 895 825 382
Net income	SEK	1 163 503 437
Total surplus	SEK	6 059 328 819

The Board of Directors and the President recommend,		
that a dividend of 5.25 Swedish kronor per share		
be paid to the shareholders	SEK	597 648 277
that the balance be carried forward	SEK	5 461 680 542
	SEK	6 059 328 819

The results of operations and the financial position of the Parent Company and the Group in 1997 are given in the income statements and in the balance sheets together with related notes.

Stockholm, January 30, 1998

Anders Scharp	Lennart Alverå	Giovanni Mario Rossignolo
Mauritz Sahlin	Sören Gyll	Peter Augustsson
Per-Olof Eriksson	Göran Johansson	Stig Blomberg
Sune Carlsson	Gösta Bystedt	Anders Olsson

AUDITORS' REPORT

We have audited the Parent Company and the consolidated financial statements, the accounts and the administration of the Board of Directors and the Managing Director of Aktiebolaget SKF for 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the Managing Director. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any Board member or the Managing Director, or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the Parent Company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and, consequently we recommend

- that the income statements and the balance sheets of the Parent Company and the Group be adopted, and
- that the profit of the Parent Company be dealt with in accordance with the proposal in the Administration Report.

In our opinion, the Board members and the Managing Director have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

- that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Gothenburg, 26 February, 1998

Arthur Andersen AB

Mats Fredricson
Authorised public accountant

SHARES AND SHAREHOLDERS

Distribution of shares as per 31 December, 1997

		Stockholm (1916)	London (1928)	Paris (1929)	Geneva (1935)	Basel (1985)	Zürich (1985)	New York (1985)
A shares, unrestricted	49 256 332	•						
B shares, unrestricted	64 581 435	•	•	•	•	•	•	•
Total	113 837 767							

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 1982-1997

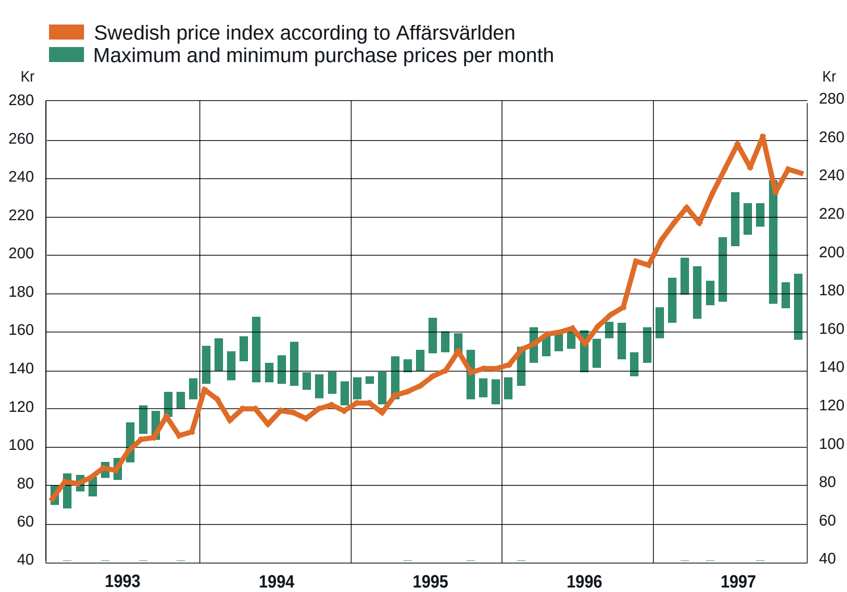
	Amount paid SEK m	Share capital SEK m	Number of shares in millions
1982 Bonus issue 1:4		1 350	27.0
1989 Split 4:1		1 350	108.0
1990 Conversion of debentures	62	1 412	113.0
1997 Conversion of bonds	11	1 423	113.8

Trading in SKF shares

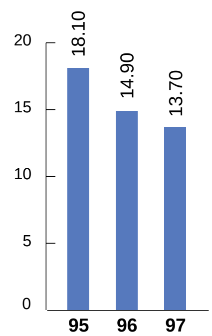
	Number of shares		
Year	**Stockholm**	**London**	**Stockholm, SEK m**
1991	27 212 000	38 896 000	2 659
1992	44 497 000	81 900 000	4 064
1993	69 120 000	92 532 000	6 940
1994	94 423 000	99 666 000	13 129
1995	89 040 000	72 060 000	12 414
1996	76 636 130	70 224 523	11 281
1997	80 880 606	79 329 702	15 335

Source: Stockholm Stock Exchange, London Stock Exchange

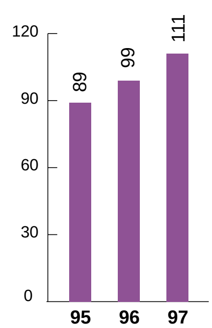
Price development of the SKF B share



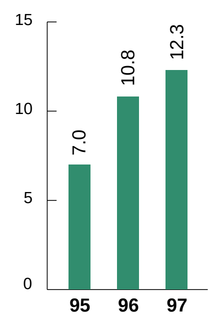
Earnings per share, SEK



Shareholders' equity per share, SEK



P/E ratio, B



Convertible bonds

In May, 1992, AB SKF issued zero coupon convertible bonds amounting to 145 million XEU after a 8.75 percent discount. At full conversion, 7 122 928 B shares would have been issued.

In June 1997, SKF called for redemption of the convertible bonds. A number of holders opted to convert their bonds into shares and as a result of the conversion, 838 211 new B shares were issued in July 1997. The total number of shares issued is now 113 837 767. The conversion rate was slightly less than SEK 225 per share, which meant that Restricted shareholders' equity increased by SEK 189 m.

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, 1997, the SKF Allemansfond had 694 members and assets amounting to SEK 56 m.

Distribution of shareholding

Shareholding	Number of shareholders	Percent	Number of shares	Percent
1– 1 000	31 492	92.9	6 418 043	5.6
1 001– 10 000	2 027	6.0	5 875 585	5.2
10 001–100 000	259	0.8	8 720 253	7.7
100 001–	109	0.3	92 823 886	81.5
	33 887	100.0	113 837 767	100.0

Source: VPC AB's public share register as of 1997-12-30

The ten largest shareholders

	Number of shares	Number of votes	In percent of voting rights	In percent of share capital
1) Investor AB	15 223 252	15 223 252	30.9	13.4
2) Skanska Invest AB	9 870 000	9 870 000	20.0	8.7
3) SPP (pension funds)	5 530 936	2 316 136	4.7	4.9
4) Nordbanken savings funds	4 838 500	2 109 632	4.3	4.3
5) The National Insurance Fund, Fourth Fund Managing Board	3 062 700	2 028 191	4.1	2.7
6) Folksam with AMF Sjukförsäkring (Insurance Group)	2 772 000	1 753 619	3.6	2.4
7) Skandia	2 476 568	805 247	1.6	2.2
8) Svenska Handelsbanken savings funds	1 038 384	782 540	1.6	0.9
9) Stiftelsen för Kunskaps- och Kompetensutveckling	615 000	615 000	1.3	0.5
10) Wallenberg foundations	539 100	539 100	1.1	0.5
			73.2	40.5

Source: VPC AB's public share register as of 1997-12-30.

In total 39.5 percent of the shares representing 13.6 percent of voting rights were owned by foreigners 1997-12-30. The proportion of institutional ownership was 62.6 percent.

Per-share data (Definitions see note 1)

Swedish kronor/share	1991	1992	1993	1994	1995	1996	**1997**
Earnings per share (1)	-10.10	-14.05	-4.05	11.25	18.10	14.90	**13.70**
Dividend per A and B share	4.25	–	–	4.25	5.25	5.25	**5.25**(2)
Total dividends in millions of Swedish kronor	480	–	–	480	593	593	**598**
Purchase price of B shares at year-end on the Stockholm Stock Exchange	94	74	132	122.50	127	160	**169**
Shareholders' equity per share (1)	84	72	73	81	89	99	**111**
Yield in percent (B) (1)	4.5	-	-	3.5	4.1	3.3	**3.1**
P/E ratio, B (1)	neg	neg	neg	10.9	7.0	10.8	**12.3**

1) Data per share has been recalculated due to changed accounting principles of the Group (see Note 1) and to take into account the conversion of 838 211 shares in July 1997.

2) Dividend according to the Board's proposed distribution of surplus.


Anders Scharp


Göran Johansson


Per-Olof Eriksson


Mauritz Sahlin


Giovanni Mario Rossignolo


Sune Carlsson


Gösta Bystedt


Sören Gyll


Stig Blomberg


Peter Augustsson


Anders Olsson


Lennart Alverå


Mats Fredricson


Lennart Johansson

Board of Directors

Board of Directors

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

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 Statens Vattenfallsverk.
Shareholding in SKF: 100

MAURITZ SAHLIN, *Göteborg*
Born 1935. Board member since 1976.
Chairman ELGA AB, Air Liquide AB, FlexLink Systems AB and Novare Kapital AB.
Board member Scania AB, Investor AB, Sandvik AB, Statoil (Norway) and The Federation of Swedish Industries.
Shareholding in SKF: 27 700

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: 3 000

PER-OLOF ERIKSSON, *Sandviken*
Born 1938. Board member since 1987.
Chairman Svenska Kraftnät (Swedish National Grid), Berslagsinvest AB and Odlander, Fredriksson & Co. AB.
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.
Shareholding in SKF: 1 000

GIOVANNI MARIO ROSSIGNOLO, *Turin, Italy*
Born 1930. Board member since 1987.
Chairman Electrolux Zanussi, Atlas Copco Italia, Perstorp Italia, Sanitari Pozzi, Consortium (Italy) and Olivetti Computers Worldwide.
Vice Chairman and member of the Ericsson S.p.A. Executive Committee.

SUNE CARLSSON, *Kilchberg, Switzerland*
Born 1941. Board member since 1991.
Executive Vice President of the ABB Group.
Board member Atlas Copco AB.

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

PETER AUGUSTSSON, *Göteborg*
Born 1955. President and Chief Executive Officer.
Board member since 1995.
Board member Chalmers Industriteknik (CIT).
Shareholding in SKF: 3 200 and 4 800 stock options.

SÖREN GYLL, *Stockholm*
Born 1940. Board member since 1997.
Chairman Pharmacia & Upjohn Inc.
Board member AB Volvo, Skanska AB, Bilia AB, SCA Svenska Cellulosa Aktiebolaget, Oresa Ventures S.A. (Belgium), The Federation of Swedish Industries, The Swedish Employers' Confederation, The Royal Swedish Academy of Engineering Sciences (IVA) and The Association of Swedish Engineering Industries.

Deputy Board Members

LENNART ALVERÅ, *Göteborg*
Born 1952. Employee representative.
Deputy board member since 1987.
Chairman Metalworkers' Union, AB SKF, Göteborg.
Shareholding in SKF: 20

ANDERS OLSSON, *Filipstad*
Born 1952. Employee representative.
Deputy board member since 1998.
Chairman SIF (The Swedish Union of Clerical and Technical Employees in Industry), Ovako Steel AB, Hällefors
Shareholding in SKF: 33

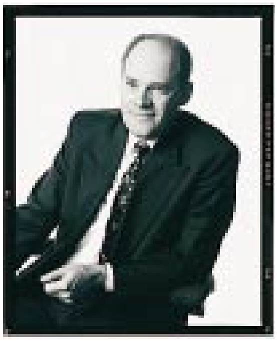
Honorary Chairman

LENNART JOHANSSON
Honorary Chairman of the Board of Directors of AB SKF.

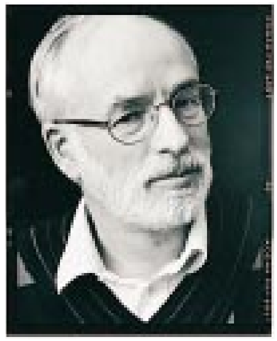
Auditor

MATS FREDRICSON
Authorized Public Accountant
Arthur Andersen AB.

Management

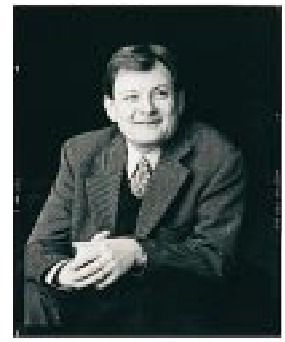


Peter Augustsson

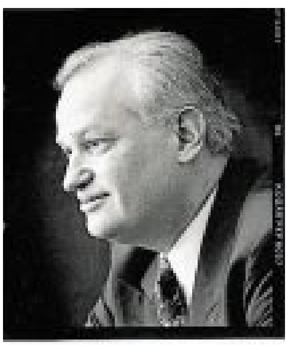


Henning Wittmeyer

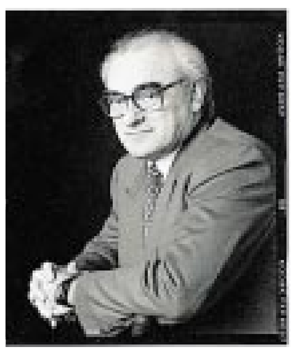
Tore Bertilsson



Bengt Olof Hansson

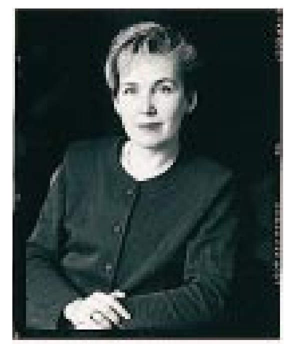


Gunnar Gremlin

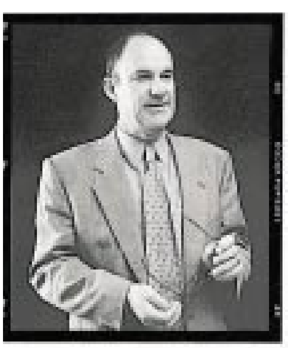


Lars G Malmer

Kaj Thorén



Carina Bergfelt



Krister Peil

Management of AB SKF

PETER AUGUSTSSON
Managing Director

GUNNAR GREMLIN
Deputy Managing Director

KRISTER PEIL
Deputy Managing Director

Group management

PETER AUGUSTSSON
Göteborg, born 1955
Chief Executive Officer
Employed since 1994
Shareholding in SKF: 3 200 and 4 800 stock options
Board member Chalmers Industriteknik (CIT)

STAFF DIRECTORS

BENGT OLOF HANSSON
Pixbo, born 1947
Group Quality & Human Resources
Employed since 1964

HENNING WITTMEYER
Hilversum, the Netherlands, born 1942
Group Technical Development
Employed since 1971
Shareholding in SKF: 2 400 stock options
Board member Ytkemiska institutet

LARS G MALMER
Göteborg, born 1943
Group Communication
Employed since 1974
Shareholding in SKF: 200 and 2 400 stock options
Board member Western Sweden Chamber of Commerce, the International Council of Swedish Industries and Chalmers Teknikpark

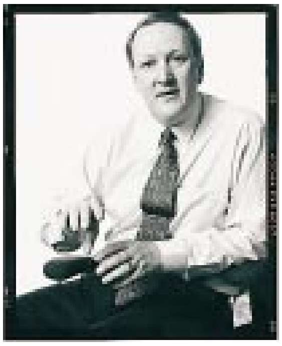
KAJ THORÉN
Göteborg, born 1944
Group Business Development
Employed since 1975
Shareholding in SKF: 4 051 and 2 400 stock options
Board member Cutting Tools Technology, Frankfurt, Germany

TORE BERTILSSON
Göteborg, born 1951
Group Finance
Employed since 1989
Shareholding in SKF: 1 000 and 2 400 stock options
Board member S-E-Banken Allemansfonder AB and Ågrenska

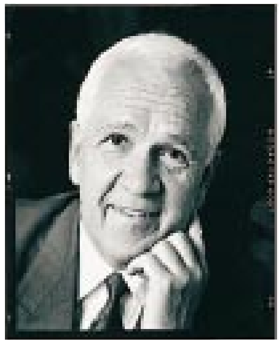
CARINA BERGFELT
Göteborg, born 1960
Group Legal
Employed since 1990
Shareholding in SKF: 1 335 stock options
Board member Forskarpatent i Västsverige AB

DIVISION DIRECTORS

ROLF JACOBSON
Lerum, born 1939
Components Division (Certain manufacturing of rings and

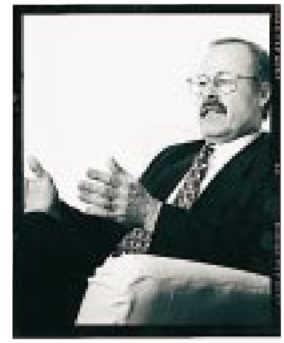


Tom Johnstone



Rolf Jacobson

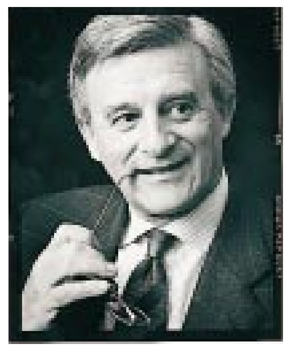
Michael Haupt



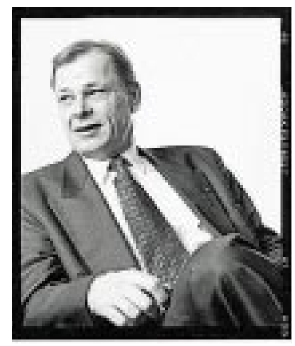
Martin Ivert

Sten E Malmström

Hans-Göran Persson



Giuseppe Donato



Christer Gyberg

rollers as well as ball and cage production)
Employed since 1959
Shareholding in SKF: 400 and 2 400 stock options

GUNNAR GREMLIN
Singapore, born 1945
Asia Pacific Division (Total responsibility for most of the Group's bearing operations in Asia)
Employed since 1969
Shareholding in SKF: 300 and 2 400 stock options

MICHAEL HAUPT
Schweinfurt, Germany, born 1944
Emerging & Specialty Division (Includes new and fast-growing business related to both products and markets, as well as four different business areas, characterized by high-tech performance and strong market position)
Employed since 1970
Shareholding in SKF: 33 and 2 400 stock options
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
Shareholding in SKF: 2 270 stock options

STEN E MALMSTRÖM
Askim, born 1943
Seals Division (The manufacturing and sale of seals)
Employed since 1973
Shareholding in SKF: 1 000 and 2 400 stock options
Chairman West Sweden China Forum

MARTIN IVERT
Stockholm, born 1948
Steel Division (The manufacturing and sale of special steels. Supplier of most of the Group's bearing steel)
Employed since 1974
Shareholding in SKF: 150 and 2 400 stock options

TOM JOHNSTONE
Göteborg, born 1955
Automotive Division (The manufacturing and sale of bearings and bearing-related products for the automotive industry)
Employed since 1977
Shareholding in SKF: 2 400 stock options

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
Shareholding in SKF: 2 270 stock options

HANS-GÖRAN PERSSON
Lerum, born 1946
Sourcing & Information Technology Division (Provides service within these areas to all bearing plants and sales units)
Employed since 1996
Shareholding in SKF: 1 870 stock options

KRISTER PEIL
Berwyn, PA, USA, born 1942
Deputy Managing Director
President of SKF USA Inc.
Employed since 1970
Shareholding in SKF: 1 679 and 2 400 stock options

SEVEN-YEAR REVIEW OF THE SKF GROUP

Amounts in millions of Swedish kronorunless otherwise stated	1991	1992	1993	1994	1995	1996	**1997**
Income statements*							
Net sales	26 302	26 649	29 200	33 273	36 700	33 589	**36 922**
Sweden	969	1 463	1 415	1 837	2 202	1 869	**1 967**
Operating expenses	– 26 416	– 27 759	– 28 922	– 30 833	– 32 775	– 31 122	**– 34 717**
Other operating income/expense - net	238	213	427	151	75	407	**799**
Result of associated companies	–907	—	—	—	—	—	**– 55**
Operating income/loss	–783	– 897	705	2 591	4 000	2 874	**2 949**
Financial income and expense - net	–299	– 988	–1 158	– 714	– 611	– 462	**– 843**
Income/loss after financial income and expense	– 1 082	– 1 885	– 453	1 877	3 389	2 412	**2 106**
Taxes	-86	333	– 7	– 570	– 1 301	– 701	**– 583**
Income/loss after taxes	– 1 168	– 1 552	– 460	1 307	2 088	1 711	**1 523**
Extraordinary expense - net of taxes	—	–52	—	—	—	—	**—**
Minority interest	17	7	—	– 28	– 30	– 19	**35**
Net income/loss for the year	– 1 151	– 1 597	– 460	1 279	2 058	1 692	**1 558**
Balance sheets*							
Intangible capital assets	883	1 072	2 284	1 793	1 374	1 261	**1 291**
Tangible capital assets	11 369	11 266	11 862	11 092	11 264	12 541	**13 631**
Financial capital assets	1 170	1 651	1 452	1 348	1 212	1 063	**1 185**
Inventories	9 426	9 435	9 220	8 606	8 972	9 476	**9 924**
Short term assets	6 099	6 382	6 841	7 517	7 276	7 352	**8 478**
Short term financial assets	3 823	3 075	2 692	2 356	2 897	2 091	**3 931**
Total assets	32 770	32 881	34 351	32 712	32 995	33 784	**38 440**
Shareholders' equity	9 542	8 215	8 289	9 183	10 122	11 310	**12 588**
Provisions for pensions and other postretirement benefits	4 209	4 781	6 326	6 260	6 089	6 030	**6 171**
Provisions for taxes	1 348	1 172	1 370	1 386	1 420	1 701	**1 642**
Other provisions	2 622	3 415	3 258	2 159	2 377	2 130	**2 981**
Long-term loans (including convertible loans)	4 443	6 517	7 044	4 954	4 584	4 846	**6 538**
Other provisions and long-term liabilities, including minority interest	1 046	1 146	1 123	948	935	362	**359**
Short-term loans	4 978	3 258	2 228	2 047	1 715	1 693	**1 853**
Other short-term liabilities	4 582	4 377	4 713	5 775	5 753	5 712	**6 308**
Total liabilities and shareholders' equity	32 770	32 881	34 351	32 712	32 995	33 784	**38 440**
Key figures (in percentages unless otherwise stated) *							
Return on total assets	– 0.3	– 1.1	3.6	9.1	13.2	9.9	**9.1**
Return on capital employed	– 0.4	– 1.5	5.0	13.0	19.0	14.7	**13.0**
Return on shareholders' equity	– 9.9	– 16.1	– 5.1	13.4	19.4	15.9	**13.0**
Profit margin	– 0.3	– 1.3	4.2	9.4	12.4	10.0	**9.0**
Turnover of total assets, times	0.84	0.84	0.86	0.97	1.07	0.99	**1.00**
Share of risk-bearing capital	33.4	28.6	23.9	28.1	31.9	35.8	**37.8**
Solvency	29.6	25.3	24.5	28.5	31.2	34.3	**33.5**
Investments and employees							
Additions to tangible capital assets	1 778	1 121	933	1 356	2 296	2 710	**2 664**
Sweden	129	140	238	293	427	655	**918**
Research and development expenses	538	473	552	542	598	751	**757**
Patents - number of first filings	97	85	57	59	65	130	**146**
Average number of employees	45 285	46 672	39 439	40 072	42 641	42 451	**41 863**
Sweden	4 500	6 871	5 975	6 282	6 418	6 348	**6 290**
Number of employees registered at December 31	52 469	45 151	41 394	41 732	43 754	43 123	**43 241**
Salaries, wages and social charges	11 279	11 845	12 277	12 869	13 744	13 066	**13 708**
Sweden	1 488	2 377	1 979	2 117	2 361	2 464	**2 507**
Product areas*							
Net sales							
Bearings**	24 347	22 690	24 767	28 168	31 003	29 204	**31 991**
Seals**	—	—	2 752	3 099	3 456	3 125	**3 779**
Tools	1 978	1 731	—	—	—	—	**—**
Special steels	—	3 076	2 891	3 758	4 168	3 271	**3 391**
Other and eliminations**	– 23	– 848	– 1 210	– 1 752	– 1 927	– 2 011	**– 2 239**
	26 302	26 649	29 200	33 273	36 700	33 589	**36 922**
Operating income							
Bearings**	– 866	– 668	690	1 904	3 198	2 482	**2 294**
Seals**	—	—	189	261	307	242	**377**
Tools	25	10	—	—	—	—	**—**
Special steels	—	– 345	– 166	289	439	153	**242**
Other and eliminations**	58	106	– 8	137	56	– 3	**36**
	– 783	– 897	705	2 591	4 000	2 874	**2 949**

* *Previously published amounts have been recalculated to reflect changes in accounting principles and restated in accordance with the new Swedish Annual Accounts Act .(1996:56) implemented in 1997.*

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