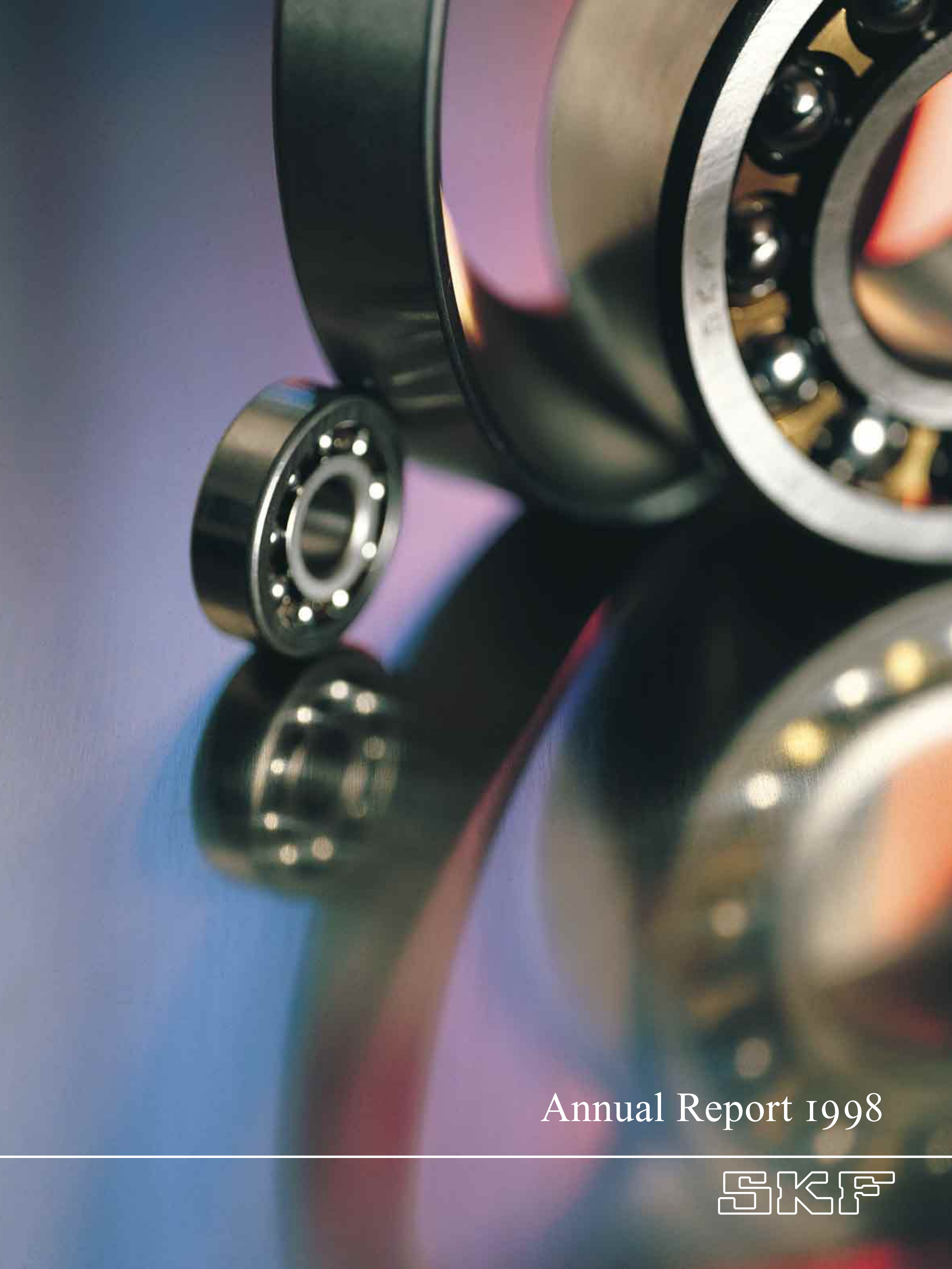


Annual Report 1998

SKF

KEY FIGURES	1998	1997	1996
Net sales, MSEK	**37 688**	36 922	33 589
Operating loss/profit, MSEK	**- 999**	2 949	2 874
Loss/profit after financial income and expense, MSEK	**- 2 063**	2 106	2 412
Additions to tangible assets, MSEK	**2 148**	2 664	2 710
Loss/earnings per share after tax, SEK	**- 14.40**	13.70	14.90
Dividend per share, SEK	**2.00***	5.25	5.25
Return on capital employed, %	**- 2.8**	13.0	14.7
Solvency, %	**29.0**	33.5	34.3
Number of employees registered	**45 436**	43 241	43 123

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

PHOTO: Bertil Strandell, Håkan Ludwigsson, Lars Möller and many others
PRODUCTION: Malmer & Partners AB, 1999

WORDS IN SKF'S WORLD

Aftermarket Those customers, such as distributors, who buy bearings for resale as spare parts.

Angular contact ball bearing Bearing in which the raceways of the inner and outer ring are displaced with respect to each other in the direction of the bearing axis. This means that the bearing is particularly suitable for the accommodation of simultaneously acting radial and axial loads.

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™ Toroidal bearing – 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.

Electromechanical flight control system System using electromechanical actuators for moving the control surface of the aircraft.

Fly-by-wire System in which the surface controls of the aircraft are powered by electrically signaled actuators associated to position transducers and flight control computers.

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

Kits Kits where the bearing is supplied together with the other components that the customer requires in order to perform a given repair.

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

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

Linear motor Electric motor which gives direct linear movement and force without the use of mechanical transformations.

Linear products Precision manufactured components, units and systems for linear movement.

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.

Positioning table Unit with linear guides combined with linear drive element. Could be equipped with electric motor, measurement system and electronics for position control.

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).

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 (eg 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.

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

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

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

Thrust bearing Ball or roller bearing for axial loads.

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

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.

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% 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.

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 predetermined 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.

Financial information and reporting

AB SKF will publish the following financial reports in 1999

Report on 1998 operations . . . . .January 28
Annual Report 1998 . . . . .March 18
Interim report January-March 1999 . . . . .April 22
Interim report January-June 1999 . . . . .July 15
Interim report January-September 1999 . . . . . . .October 21

The reports are available in Swedish and English. They are sent automatically to those shareholders who have informed the Company that they wish to receive them. They can also be ordered from
SKF Group Communication
SE-415 50 Göteborg
Sweden
tel +46-31-337 19 88, fax +46-31-337 17 22

The financial reports are also published on SKF's homepage on the Internet www.skf.com

An annual report, Form 20-F, is produced for the Securities and Exchange Commission in the US.

Annual General Meeting

The Annual General Meeting will be held at SKF Kristinedal, Byfogdegatan 4, Göteborg, Sweden, at 3.30 p.m. on Thursday, April 22, 1999.

In order to participate in the meeting, shareholders

must be recorded in the shareholders' register maintained by the Securities Register Centre (VPC AB) by Monday, April 12, 1999.

must notify the Company before noon on Monday, April 19, 1999, of their intention to attend (AB SKF, Group Legal, SE-415 50 Göteborg, Sweden, tel +46-31-337 24 36, fax +46-31-337 16 91), giving details of name, address, telephone and shareholding.

Shareholders whose shares are registered in the name of a trustee through the Trust Department of a bank must have their shares temporarily re-registered in their own names. Sharesholders must notify their trustees of their wish to re-register their shares in plenty of time before April 12.

Payment of dividends

April 27, 1999, is proposed as the record date for shareholders entitled to receive dividends for 1998. If this date is accepted by the Annual General Meeting, it is expected that the Securities Register Centre will send out notices of payment on May 4, 1999.

SKF Environmental Report 1998

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.

SKF GROUP
ISO 14001

CERTIFICATE OF APPROVAL

This is to certify that the Environmental Management System of:

AB SKF

has been approved by Lloyd's Register Quality Assurance to the following Environmental Management System Standards:

ISO 14001:1996

The Environmental Management System is applicable to:

Design, manufacture and sales of bearings, seals and related products in accordance with the publicly available Environmental Policy

This certificate is valid only in association with the certificate schedule bearing the same number on which the locations applicable to this approval are listed.

Approval Certificate No: 771837

Original Approval: 8th May 1998

Current Certificate: 24th December 1998

Certificate Expiry: 31st May 2001

on behalf of LRQA

LLOYD'S REGISTER QUALITY ASSURANCE

Aktiebolaget SKF, SE-415 50 Göteborg, Sweden
Telephone +46-31-337 10 00, fax +46-31-337 28 32, www.skf.com

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

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.

ENVIRONMENTAL FRIENDLY PRINTING

In January 1999 the SKF Group received a worldwide ISO 14001 certification, the international standard for environmental management. Considering the global spread of SKF manufacturing sites and customers, consistency is probably the most important feature resulting from our endeavours to achieve such a worldwide certification.

One of our ambitions is to select suppliers and raw materials that are least harmful to the environment. With respect to the printing process, it is therefore important to us that our suppliers use only processes and materials which are environmentally approved. That is why we have chosen to print this publication at the Falkenbergs Tryckeri AB, Sweden and on Arctic stock from Håfreströms AB, Sweden, both environmentally approved.

CONTENTS

FINANCIAL INFORMATION

Zinc mine in Canada
page 6

Assembly of snowmobile in Finland
page 8

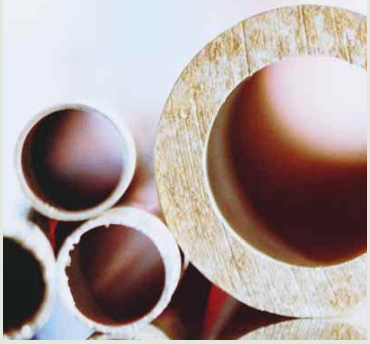
Filter bed in Austria
page 10

SKF in Formula 1
page 14

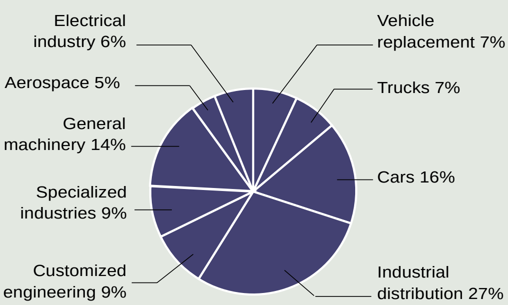
Industrial distributor in Singapore
page 17

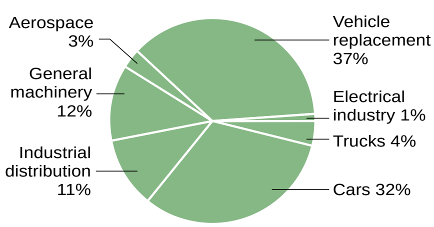
Truck customer in the U.S.
page 20

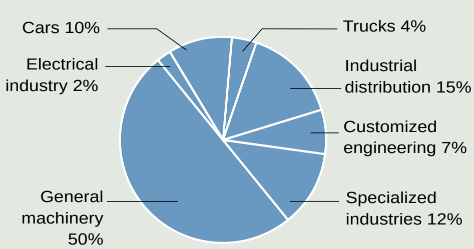
Bearing simulation program
page 30

	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 more than 50 bearing production facilities in 21 countries. A global sales organization, consisting of wholly owned sales companies and 7 000 distributors and dealers, annually supplies around one million customers in more than 130 countries with bearings from a range of more than 20 000 varieties.	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 US. Chicago Rawhide is, with 6 plants in the US, the largest company in the Seals Division, which also includes RFT in Italy, Europe's leading bearing-seals company, CR Elastomere in Germany, wholly owned production companies in India and Mexico, and three joint-venture companies: in Japan, China and Korea.	Chicago Rawhide has a very strong position in the US automotive aftermarket where the trademark CR is well established. Sales of SKF bearings to the US automotive aftermarket 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. Here, the division takes advantage of SKF's efficient distribution system for rolling bearings.
STEEL 	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 less than half its production to SKF's bearing manufacturing plants. An increasing share is sold to other bearing manufacturers and certain highly demanding applications primarily within Western Europe's machinery and automotive sectors. The steel is manufactured in Hofors (Sweden). Ovako Steel also has manufacturing facilities in France, the U.K. and the US.	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 1998

Increased sales to car and truck customers in both Western Europe and the US compensated for the downturn within heavy industry caused by the economic crisis in Asia. Deliveries increased but the change in customer mix and the severe competition led to depressed prices and lower earnings. Extensive measures were initiated to change the structure of the Group's bearing operations. Loss-making and less profitable operations were discontinued and resources redirected towards profitable parts of the business. A new division, with responsibility for the industrial aftermarket, was established.

Chicago Rawhide continued to strengthen its international presence in order to meet its customers' increasing globalization. Manufacturing units were established in Korea and Mexico. Production operations will be started in India during the first quarter of 1999. Restructuring in the distributor segment in the US led to the establishment of new customer groups and inventory reductions, which resulted in declined profitability. In Europe operations developed favorably as a result of deliveries to the automotive sector in Western Europe and more widespread use of sealed bearings.

After a good start to the year, demand gradually declined due to production decreases in the Group's bearing plants and lower demand from external customers. Steel production totalled approximately 423 000 tons. An important milestone for Ovako Steel during the year was the start-up of the new tube mill in Hofors, Sweden. Using advanced technology, the new tube mill will lead to improved productivity within steel operations and more cost-effective bearing production. The decision was made to sell or discontinue forging operations in Arvika, which have operated at a loss for several years.

What lies ahead?

The focus on developing the Group's profitable bearing operations will be strengthened. The aftermarket will be assigned greater prominence. Service centers will be built up to cultivate the service market. The efficiency enhancement programs will eliminate loss-making operations and improve earnings. Further reductions will be made to the product range and inventories. Investments will focus on plant rationalization and modernization programs. Flexibility within the plants will increase by reducing resetting times and raising production frequency. The development of new products with higher added value is continuing and new products will be launched in the market.

The division will develop and strengthen its presence in the newer markets where Chicago Rawhide has its own production operations. Dependence on the North American market will therefore decrease to some extent. In order to restore profitability, the division will also increase its focus on more profitable areas of operation. The focus on industrial customers and the aftermarket in Western Europe will continue, with the aim of increasing market share. Product development and the production of new products is continuing, as is the division's focus on the aviation sector, which is expected to generate good results during 1999.

Efforts to increase the amount of steel sold outside the SKF Group, which are already beginning to show material results, will continue. Deliveries of seamless hot-rolled tubes from the new tube mill in Hofors, Sweden, will gradually increase when the mill is fully run-in during the first quarter of 1999. Demand for tubes is already good. The first six months of 1999 will be characterized by the introduction of a completely new and totally integrated administrative system.

THE CHAIRMAN'S REVIEW

To a large extent, global economic developments during 1998 were shaped by the financial crisis that started in Southeast Asia in summer 1997.

The effects spread like rings on water, following the first devaluation. What started as a financial problem in a few countries developed into economic crises in many Asian countries and resulted in serious disruptions to the world economy. The weakening demand and virtually a total moratorium on investments in Asian infrastructure led to reduced demand for the products of European and US suppliers. As a result, production activity in heavy industries declined, which compounded the escalating uncertainty regarding economic developments in the rest of the world.

The sharp currency devaluations in many Asian countries improved the international competitiveness of local companies. This trend is increasing the need for continued structural changes among Western companies, to enable them to assert themselves in the face of the growing competition.

As the year progressed, a more general decline became increasingly evident in the economy. In its six-month report, SKF already drew attention to the decrease in demand that had become noticeable within heavy industries in both Western Europe and North America. This was a disturbing factor, particularly in view of the fact that the Group's profitability had weakened steadily during the preceding three years, despite favorable demand and growing volumes. At the same time, the intense competition remained unchanged. Although various packages of measures had been initiated in an effort to reverse the negative profit trend, their expected effects did not materialize.

A management change occurred on September 1, 1998, when Sune Carlsson took up the position as President and Chief Executive Officer. Accordingly, Peter Augustsson left the Group.

Additional action programs were initiated during the autumn. These entailed the termination and restructuring of certain loss-making operations and a clearly stated focus on improving the Group's profitability. To enable the necessary changes in the Group structure, the Board decided to post provisions totalling SEK 3.1 billion, which were charged against profit for 1998. As a result, SKF was forced to report a large loss for the fiscal year.

In view of the loss incurred for 1998, the Board proposes that a dividend of SEK 2.00 be paid per share.

I am convinced, as is the Board as a whole, that the ongoing programs, with an increased focus on operations in which the Group holds strong, leading positions, will lead to a positive earnings trend for SKF.

In conclusion, I would like to take this opportunity on behalf of the Board to thank the Group's employees for their good work in an extremely tough competitive climate. The ongoing restructuring of the company has also placed extra demands on the efforts of all employees.

Göteborg, January 28, 1999

ANDERS SCHARP
Chairman of the Board

LETTER FROM THE PRESIDENT

In 1998, the demand trend for SKF products turned downwards in most markets and customer segments. Competition increased and low inflation sharpened the price pressure in the market. The rate of capacity utilization within the Group's production units was unsatisfactory, particularly towards the end of the year, when a necessary reduction of inventories was made. In total, the SKF Group reported a substantial loss after provisions of MSEK 3 135 for the 1998 fiscal year.

In order to build the foundation for a favorable profit trend at SKF, an extensive program of efficiency enhancement and restructuring measures was decided during the year. These measures are currently being implemented with high speed. More long-term work was initiated to strengthen SKF's marketing activities and develop the Group's stronger businesses. It should be noted that a considerable proportion of SKF's approximately 400 profit centers are showing healthy profitability and that many of them also posted improved profits in 1998.

The aim of the ongoing efficiency program is to cut costs by reducing the number of employees by 4 000 prior to the end of 1999. To alleviate the social consequences of the personnel cutbacks, early retirement solutions have been applied extensively. Approximately half of the planned program of measures had been implemented by December 31, 1998.

During the autumn, a review was made of a number of operations that had given rise to substantial losses, in many cases over a considerable period of time. Among other consequences, this resulted in decisions to exit the textile machinery components area, to terminate the production of taper roller bearings in the US and to close a seals plant in the US. In addition, a decision was taken to exit the forging business in Arvika. Production capacity in Brazil is being reduced sharply due to weak demand. These restructuring measures will result in a further reduction of the workforce involving approximately 2 000 employees.

Due to the difficult market situation, SKF's strategy for expansion in Asia was focused on improving the earnings of recently acquired companies. Towards the end of the year, there was a certain stabilization of demand in the region. The fundamental assessment that Asia is an important market for SKF's long-term expansion stands firm.

SKF's organization was streamlined during 1998. Bearing operations are now organized in four global divisions, each with a distinct market focus: Automotive, Electrical, Industrial and Service. The Components, Emerging & Specialty and Asia Pacific divisions were integrated within these divisions. The Seals and Steel divisions remain essentially unchanged.

The Group will review its customer focus with the aim of developing value added business strategies to strengthen our competetive advantages. In an effort to improve profitability, considerable attention will be assigned to marketing, logistics, pricing and customer segmentation matters. The industrial aftermarket still has substantial potential and will thus continue to be a target area for SKF.

Another area that will be assigned priority is the SKF Group's structure and level of integration. The aim is to reduce the high amount of tied-up capital and to improve cash flow.

The business during 1998 was marked by an increasingly difficult market climate and by extensive changes within SKF aimed at improving profitability. Demand is expected to continue to decline this year. Earnings for the next few quarters are likely to remain weak until the efficiency improvement programs start to improve the profit.

Göteborg, January 28, 1999

SUNE CARLSSON
President

SKF distributor Fred E. Shillington, Canadian Bearings Ltd., shown here with Denis J. Babin, Noranda Inc., Brunswick Mine, during a visit to the Bathurst zinc mine in eastern Canada. This is a good example of a successful tripartite relationship between SKF, the distributor and the customer. The customer, Brunswick Mine, has access to all information from SKF with regard to technical support, delivery capacity, prices and other key data. In return, SKF receives all necessary information about the mining company's requirements via the distributor.

BOARD OF DIRECTORS' REPORT

Group operating earnings declined in the 1998 fiscal year to a loss of MSEK 999, compared with profit of MSEK 2 949 in 1997. Operating earnings were charged with provisions amounting to MSEK 3 025. Excluding these provisions, the operating profit would have been MSEK 2 026, down by 31% compared with 1997.

In 1998, SKF reported a loss, after financial income and expense, of MSEK 2 063, compared with profit of MSEK 2 106 in 1997. Excluding provisions, the profit would have been MSEK 1 072, down by 49% compared with 1997.

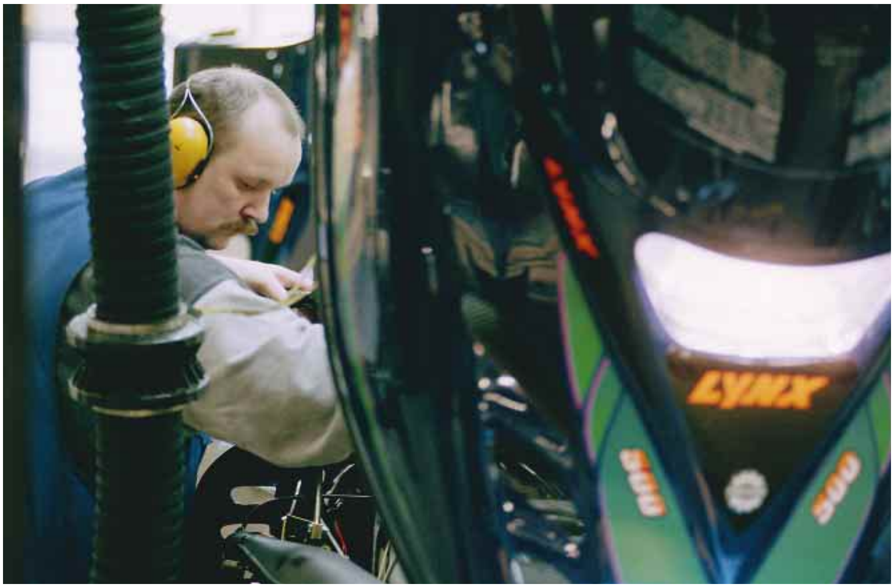
Group net sales increased 2% to MSEK 37 688, compared with MSEK 36 922 in 1997. Additional volumes accounted for 3.5% of the increase, compared with 7% in 1997. Currency changes led to net sales increasing by 1.0% when translated into SEK.

The price and product mix trend had a negative impact of 2.0% on Group sales, compared with 1997. The increased volumes were mainly sold to customers who purchase large volumes, but who provide SKF with lower margins.

There has been a growing overcapacity in the bearing industry in recent years. This has led to a battle for market share, which has had an adverse effect on sales price levels. Despite a favorable productivity trend in the SKF factories, the improvements were insufficient to offset the negative consequences of the price trend.

To reverse the negative trend affecting SKF in recent years, the Group's strategy was changed to prioritize profitability rather than volume expansion and discontinue unprofitable operations.

The cost-reduction measures announced in autumn 1997 and June 1998 will result in cost decreases amounting to approximately MSEK 1 500. The restructuring program decided in autumn 1998 is intended to improve earnings by about MSEK 600. The full impact will not be felt until fiscal year 2000 by which time all of the activities will have been implemented.



A snowmobile is tested following final assembly at the Lynx-Bombardien plant in Rovaniemi, Finland.

These structural changes also mean that the number of employees in the Group will be decreased by a further approximately 2 000 persons, in addition to the 4 000 announced earlier.

The total cost of the programs approved during 1998 was MSEK 3 135 and was charged against Group earnings in an amount of MSEK 1 216 during the third quarter and MSEK 1 919 during the fourth quarter.

During the year, focus was increased on the profitable industrial aftermarket for rolling bearings through the establishment of the Service Division, with global responsibility for this segment. An important part of the new division's operations is the development of new products and services to support its network of industrial distributors and MRO (Maintenance & Repair Operations) customers. In this field SKF can draw upon its unique competence and extensive and in-depth know-how of bearing technology, supplemented by a large and experienced team of field engineers.

The Group's financial net was MSEK -1 064 (-843). The deterioration was mainly attributable to increased net borrowings during the year, currency losses in joint-venture companies in Asia and a MSEK 110 write-down of SKF's shareholding in the Chinese bearing company Wafangdian Bearing Company Limited.

Group inventories expressed as a percentage of annual sales amounted to 27% (27) at the end of the year. In terms of value, inventories totalled MSEK 10 183 as of December 31, 1998 (9 924).

There was a build-up of inventories at the beginning of 1998 to meet expected

Final stages on the snowmobile assembly line at the Lynx-Bombardien plant on the Arctic Circle in Rovaniemi, northern Finland. Lynx-Bombardien is Europe's sole producer of snowmobiles, which are used extensively throughout the Arctic area. Since it is common for families in the region to have one or more snowmobiles, a strong aftermarket is being opened up for various SKF products.

higher demand that never materialized. The inventory levels were reduced during the second half of the year. This had an adverse effect on manufacturing costs.

The loss per share amounted to SEK 14.40, compared with earnings per share of SEK 13.70 in 1997.

The Group's solvency deteriorated from 33.5% at year-end 1997 to 29.0% at the end of 1998 as a result of the provisions made for the efficiency enhancement program.

Interest-bearing loans at year-end 1998 totalled MSEK 8 179 (8 391), while pension liabilities amounted to MSEK 7 139 (6 171). As of the same date, the Group had financial assets of MSEK 3 237 (4 761), including short-term financial assets of MSEK 2 353 (3 931).

SKF's capital expenditure in tangible assets amounted to MSEK 2 148 (2 664). Depreciation according to plan was MSEK 1 722 (1 528).

Approximately MSEK 149 (120) of the Group's total capital expenditure is attributable to environmental investments, the aim of which is to improve SKF's internal and external environment.

Capital expenditure during the next few years is expected to be slightly lower than annual Group depreciations.

Investments in research and development amounted to MSEK 702 (757), corresponding to 1.9% (2.1) of annual sales. This amount includes only investments in product and process development.

SKF is aiming at a high rate of innovation. During 1998, SKF submitted 145 first time patent applications. This can be compared with the 146 submitted in 1997 and 130 in 1996.

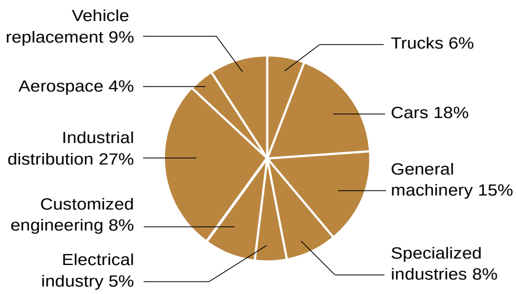
SKF increased its focus on training of its employees during 1998. The Learning Centre (TLC) was established at SKF's corporate head office. During the year, training programs were conducted in such areas as leadership, project management and financial and international management. TLC and the SKF College, which focuses on providing technical training, arranged courses for about 700 SKF employees during the year.

An international training program for managers, the Global Leadership Programme, was introduced in 1998. Each participant is assigned and carries out a personal development project during a 12-month period under the supervision of the immediate superior and a selected mentor.

Group work in the quality area continues at a high rate. The TQM (Total Quality Management) process has resulted in a growing number of production channels reporting "Zero Defects," meaning that no customer complaints have been received during a 12-month period. In general, the number of customer complaints has been halved during the past four years.

Steel tubes from Ovako Steel are sold to customers in Italy via the distributor Sandvik Italia.

Net sales by customer segment 1998



The Board of Directors and its work procedures

The Annual General Meeting of AB SKF, held in the spring of 1998, elected ten Board members. In addition hereto two members and two deputy members have been appointed by the employees. Peter Augustsson left as President of the Company and as member of the Board of Directors as of August 31, 1998.

During 1998 the Board held nine meetings. The Board has adopted written rules of procedure for its internal work. These rules confirm already existing practice and contain i a rules regarding

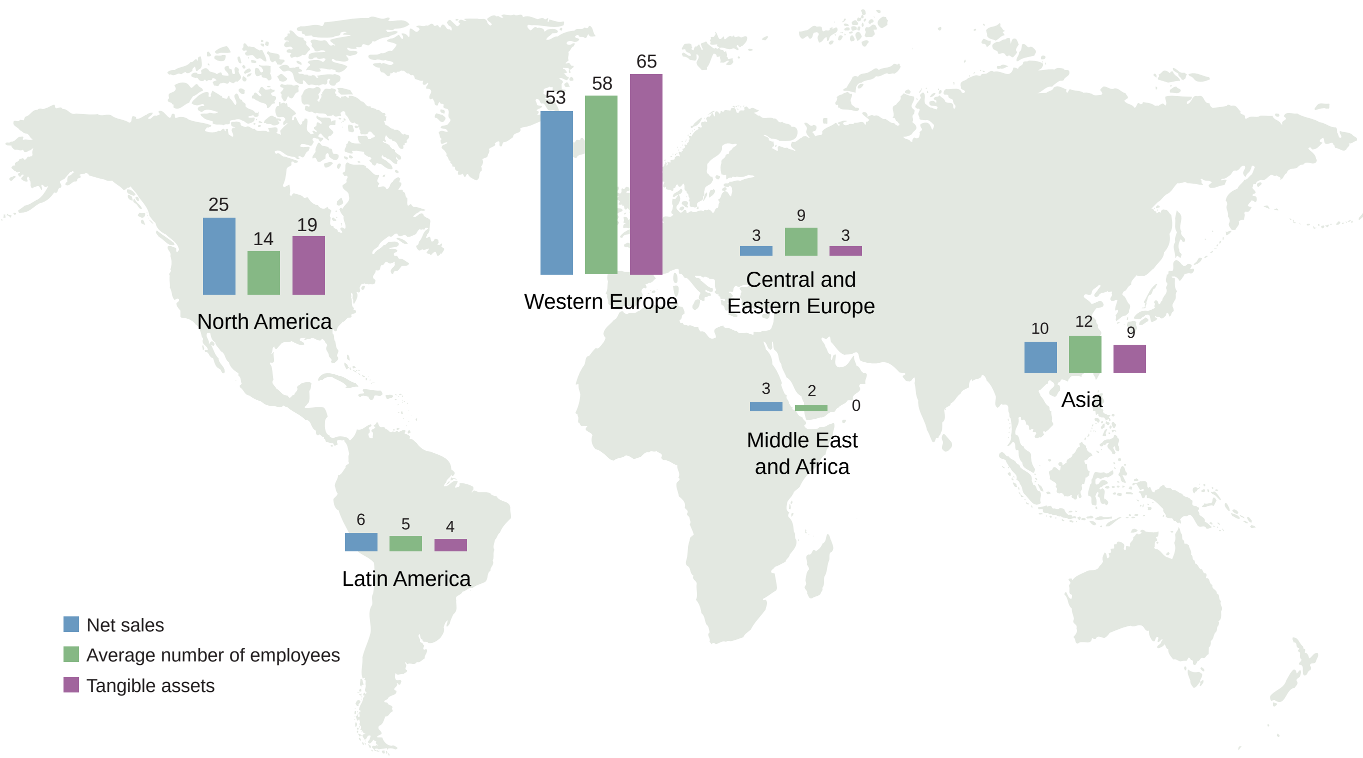
- number of Board meetings and timing for Board meetings
- items normally included in the Board agenda
- presentation to the Board of reports from the external auditors

The Board has also issued written instructions regarding

- when and how information required for the Board's assessment of the Company's and the Group's financial position shall be collected and reported to the Board;
- allocation of the tasks between the Board and the President; and
- the order in which the deputy Presidents shall act in the President's absence.

Also these written instructions confirm already existing practice within the Company.

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



SKF AWARDED GLOBAL ENVIRONMENTAL CERTIFICATE

The year 1998 was a special year for SKF and the environment, as the Group received worldwide certification to ISO 14001: the international standard for environmental management. The global certificate covers SKF's manufacturing units in 17 countries spread over five continents, and reflects the company's standing as the worldwide leader in its business.

Coping with cultural differences

The project for global approval to ISO 14001 included SKF's factories in India, South Africa and Poland, where environmental awareness has traditionally been much lower than in our factories in Western Europe and the US. The Group's employees in these countries worked extremely hard to achieve the very high standards required for ISO certification, concentrating especially on awareness training and culture change. The SKF factory at Poznan in Poland thus become one of the first organizations in that country to be approved to ISO 14001.

Cost-effective strategy developed

SKF applied to a leading certification body for a single ISO 14001 certificate covering all manufacturing units in the Group, rather than individual certificates for each unit. By developing a single environmental management system (EMS) which could be used by all its factories worldwide, SKF could be assessed by the auditors as one company rather than as numerous individual units. This strategy substantially reduces the costs for certification and subsequent surveillance audits.

Widespread benefits of certification

SKF's ISO 14001 approval will benefit customers, employees, shareholders and the environment. The certification provides assurance to customers, to shareholders and to other interested parties that SKF takes its environmental responsibility seriously; thus helping customers meet their own obligations.

The certification has also helped employee development. Extensive training was necessary to ensure that the Group's employees had sufficient environmental awareness to operate the management system, and this training has allowed employees to take on greater responsibility and authority. More than 20 000 employees have passed different types of environmental training.

ISO 14001 should also increase shareholder value, by helping to improve the long-term stability of the company. Environmental accidents can be very expensive to rectify, and may lead to damaging publicity and loss of reputation for any company. An effective environmental management system should minimize the potential for accidents and emergencies. This not only safeguards the environment, but also protects the company and the share value.

Of course, the environment is the most important beneficiary of the Group's approval to ISO 14001, as the standard focuses on continual improvement of environmental care. Examples of such improvements around the Group can be found in the SKF Environmental Report 1998.

Accidents and injuries reduced again

1998 provided further evidence of the downward trend in the number of work-related accidents and injuries in the Group. SKF Pune in India showed a 23% reduction in the number of injuries in 1998, but the best result was achieved by the plant at Altoona, PA, in the United States. They had no lost time due to injuries during the entire year.

SKF Environmental Report 1998

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

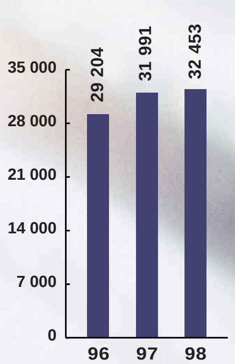
Filter beds at SKF Österreich in Steyr separate grinding waste from coolant liquid so that both can be recycled.

BEARINGS

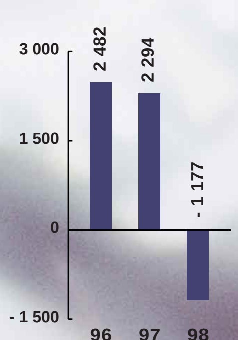
The bearing business reported a substantial loss for 1998 due to comprehensive provisions for restructuring. Operating earnings amounted to a loss of MSEK 1 177 compared with a profit of MSEK 2 294 in 1997. Operating earnings were charged with provisions of MSEK 2 882. Excluding these restructuring provisions operating earnings would have been MSEK 1 705.

Sales of bearings increased during 1998 to MSEK 32 453 (31 991).

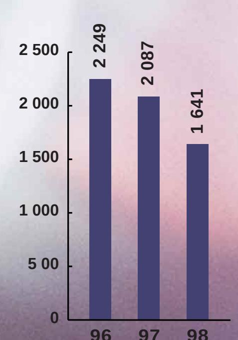
Net sales, MSEK



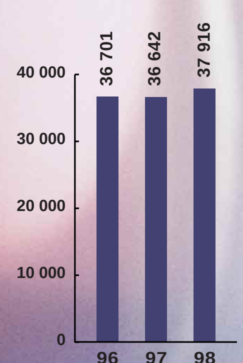
Operating loss/profit, MSEK



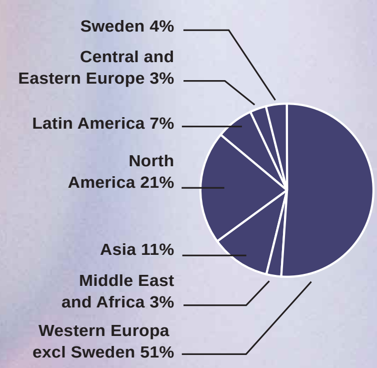
Additions to tangible assets, MSEK



Average number of employees



Net sales by geographic area 1998



This giant grinding mill at Noranda Inc., Brunswick Mine, in eastern Canada, is equipped with spherical roller bearings from SKF. The crushed zinc ore is delivered directly from the mine and is ground into smaller particles in the mill before going to the flotation process.

INDUSTRIAL DIVISION

The Industrial Division comprises three business areas – General Machinery, Specialized Industries and Customized Engineering – and focuses on industrial OEM customers. Manufacturing includes a large number of different types of industrial bearings, predominantly spherical, cylindrical and angular contact bearings.

Sales increased by 9.1% to MSEK 8 189 (7 506). Before provisions, the division's operating margin declined slightly during the year as a result of unsatisfactory capacity utilization and lower prices.

During the year, the Industrial Division developed new business activities with a focus on customers with more demanding applications. New solutions were developed with more functions integrated into the bearing application in order to improve the performance and lifecycle.

During 1998, telephone sales generated good results in Europe and the US. According to customers, this has improved the quality of their relations with SKF, since contacts have become more frequent and efficient for both parties.

Investments during the year amounted to MSEK 504 and focused mainly on increasing the efficiency of existing plants. A program has been initiated to reduce resetting times in production and thus enhance service levels and reduce inventories. At the same time, the product range is being reduced in cooperation with customers.

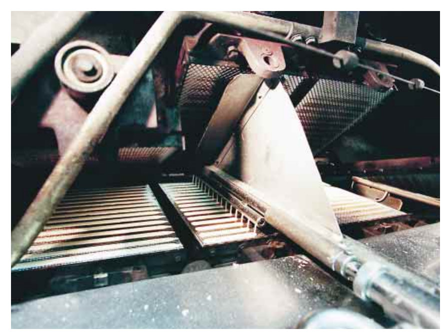
The Industrial Division also comprises the manufacturing and sales of linear motion products, which are found in the rapidly expanding market for ergonomic and mobility aiding equipment. Positioning systems is another product with significant growth in this area. These systems include specialized sub-assemblies, designed and built in close co-operation with the customers, as well as high speed, high precision positioning tables incorporating linear motors.

The sales development is positive in this business area, as is the profitability.

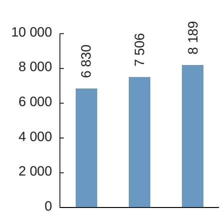
An area that the division is also focusing on is spindles for machine tools based on high-precision bearings. The acquisition of Russel T Gilman Inc., a leading US manufacturer of such spindles, increased SKF's sales in this segment to MSEK 150 during 1998. Machine tool spindles are also produced in Germany and Sweden.


Giant loader at Brunswick Mine, Noranda Inc., Canada.

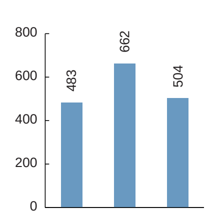

Assembly line for snowmobile production at the Lynx-Bombardien plant in Finland.


The baking ovens at the Göteborgs Kex biscuit plant in Sweden are equipped with SKF's High Temperature Bearings.

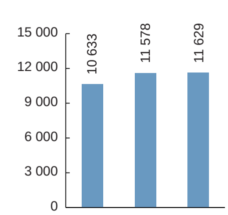
External sales, MSEK



Additions to tangible assets, MSEK



Registered number of employees



Race cars live a punishing life. Designed, engineered and maintained for one, single purpose: to win races.

The very popular NASCAR Winston Cup races are an excellent way to promote the SKF brand in the US. SKF has a sponsor agreement with Roush Racing and also delivers seals, bearings and technical support to this Ford Taurus and others in the Roush Racing stable.

SKF has been Ferrari's technical partner and bearing supplier since 1947. The longest unbroken technical partnership between a team and a supplier in Grand Prix history. The number of bearings in a modern race car is staggering. This season's F399 is equipped with nearly 150 SKF bearings, manufactured at nine different locations.

Steyr, Austria
Four-point contact ball bearings
Gearbox

Thomery, France
Thin section bearings
Engine and gearbox

Clevedon, UK
Rod ends
Spherical plain bearings
Suspension and engine

Mühlheim, Germany
Special needle cage
Differential

Fontenay, France
Deep groove ball bearings
Engine

Jamestown, US
Precision angular contact ball bearings
Wheels

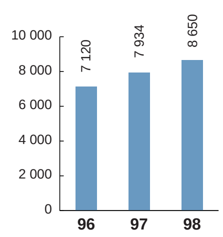
Cassino, Italy
Deep groove ball bearings
Engine

Schweinfurt, Germany
Special cylindrical roller bearings
Special four-point contact ball bearings
Gearbox and differential

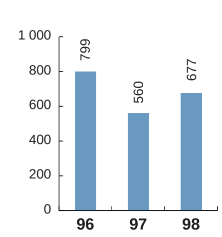
Villar Perosa, Italy
Precision angular contact ball bearings
Wheels

AUTOMOTIVE DIVISION

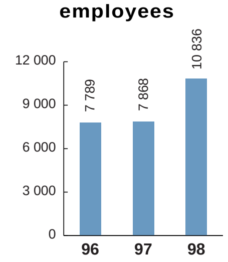
External sales, MSEK



Additions to tangible assets, MSEK



Registered number of employees



The Automotive Division is responsible for all sales to manufacturers of cars, trucks, buses and related aftermarkets. The division is also responsible for the manufacture of taper roller bearings, wheel hub units, special products for vehicle manufacturers, and kits for the vehicle aftermarket.

Sales increased by 9.0% to MSEK 8 650 (7 934). Although the division's operating margin, before provisions, remained unsatisfactory, it improved significantly during the year due to the restructuring program and efficiency improvements, which were started in the first half of the year, and to favorable volumes.

Global production of cars and light trucks declined by 3% during 1998, primarily as a result of significantly lower volumes in Asia. The production of cars rose by over 6% in Western Europe but decreased by 2% in the US.

The manufacture of heavy vehicles increased by 19% in Western Europe, by 12% in the US and by 13% in South America. Production in both India and Japan showed a decline of more than one third.

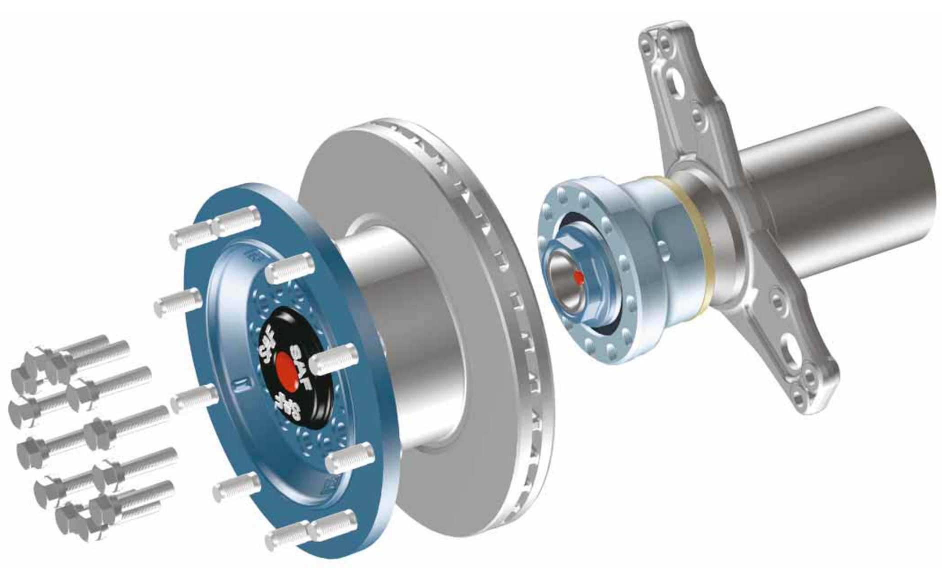
In the vehicle aftermarket, SKF continued to grow strongly in Europe and increased its market share. This was mainly attributable to sales of kits, which have been marketed heavily for the past few years and are now gaining increased market acceptance. During the year, SKF received an award from CLEPA, the components parts association in Europe, for its EDI link to vehicle component distributors.

In North America, SKF increased its shares of the markets for cars and light trucks. Group sales rose by 20%, due to highly favorable sales of the models to which SKF provides bearings and due to new business.

In Brazil, the sharp weakening of the automotive market also affected SKF. Sales of locally produced kits for the automotive aftermarket commenced during 1998. In the truck segment, SKF decided to terminate deliveries to Brazilian trailer manufacturers due to unprofitable price levels.

Due to the structural changes in the Korean bearing market, SKF acquired the remaining shares in the joint venture company for wheel hub units.

The SKF Group has had a joint venture company in Italy with INA for water pump spindles for cars. SKF has decided to leave this business and has agreed to sell its minority shareholding to INA.



Trailer axle equipped with disc brake and SKF truck hub unit manufactured at the Group's plant in Lüchow, Germany.

ELECTRICAL DIVISION

The Electrical Division is responsible for the sales to manufacturers of electric motors, household appliances, electric components for cars, and two-wheelers. The division is also responsible for the production of all deep groove ball bearings within SKF. The major part of these products is sold via the other bearing divisions.

Sales increased by 4.5% to MSEK 1 621 (1 551). The division's operating margin, before provisions, is unsatisfactory and also declined in 1998 as a result of sharply increased competition.

The sales increase was mainly attributable to customers in the white goods manufacturing segment in Europe and the US. In Europe, the strong demand from subsuppliers to the automotive industry also contributed to increased deliveries.

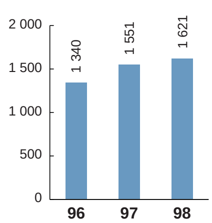
In India, production of two-wheelers improved during the year, leading to increased deliveries from SKF. At the same time, the Group encountered problems at the newly acquired plant in Indonesia due to a dramatic decline in demand for motorcycles. This led to prolonged production stoppages among SKF customers and thus also at the Group's own plant.

With the aim of strengthening its market position, SKF continued to assign priority to new products with higher added value. These included deep groove ball bearings with sensors. Bearings equipped with optical sensors are used for controlling high speed motors.

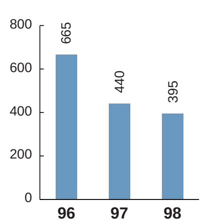
SKF also launched an environmentally friendly, lead-free lubricant during the year.

The investments made during 1998 focused on technical upgrades of various plants and environmental improvements.

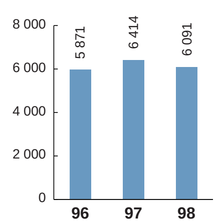
External sales, MSEK



Additions to tangible assets, MSEK



Registered number of employees



Two-wheelers, motorcycles and scooters, are a major market segment for the Electrical Division, particularly in Asia, where this picture was taken.

SLS, SKF's authorized distributor in Singapore and with facilities in Malaysia and Indonesia, is represented here by Tan Hwee Khim, daughter of the founder, Tan Tiong Seng. SLS supplies its customers with all manner of SKF products, including rolling bearings, seals, maintenance and VSM products. The strength factor underlying SLS's success is the company's close cooperation with customers and the extremely high levels of service it offers.

SERVICE DIVISION

The Service Division was established in mid-1998. The division comprises sales in the industrial aftermarket of all SKF-produced bearings and of externally purchased products. The division has sales units in more than 50 countries and a network of approximately 7 000 distributors and dealers, substantially more than any competitor.

Sales decreased by 5.3% to MSEK 11 669 (12 324). The division's operating margin before provisions declined slightly due to negative volume development in the US and Southeast Asia.

In Western Europe, the largest market for the division, sales increased although there was considerable price pressure.

In the United States, the second largest market, sales to distributors were seriously affected by structural changes, which led to substantial re-balancing of inventories.

As expected, sales to the Asia Pacific region were lower than in 1997. However, this negative trend has probably bottomed out and price levels are firming up.

Whilst growth in Eastern Europe continued, severe slowdowns occurred in both Middle East, Africa and Latin America sales regions.

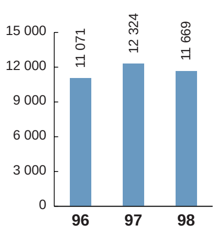
Most of the division's sales are made through the authorised distributor network and these channels have entered a period of consolidation and rationalization which is expected to continue.

SKF has developed a comprehensive offering of products and services. This is being enhanced by new, higher technology offerings, such that IMS or Integrated

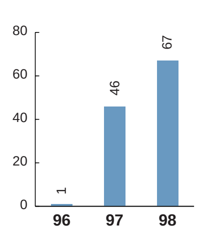
Maintenance Solution packages can be supplied to enduser customers. This concept aims to combine the excellent logistics service from our distributors with advanced high impact mechanical and electronic technology from SKF. The goal is that customers can increase productivity and the operational lifetime of their mechanical rotating machinery, and at the same time improve the efficiency and cost of their maintenance programs. This should result in improved uptime for the customers.

ISC, or Industrial Service Centres, are being established in key markets, and they will offer bearing repairs, assembly services, training, condition monitoring services and fault diagnosis.

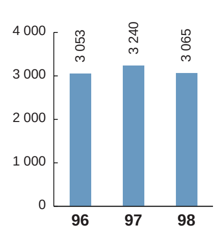
External sales, MSEK



Additions to tangible assets, MSEK



Registered number of employees



AIRCRAFT BUSINESS

The SKF Group's operations in the aviation sector comprises MRC and SKF AVIO, which manufacture aeroengine bearings, and SARMA and AMPEP, manufacturers of airframe bearings, electromechanical flight control systems and electromechanical equipment for fly-by-wire systems. Both these operations developed very favorably during 1998. The strong growth for large commercial aircraft, regional jet planes and helicopters in the US and Europe led to increased sales and improved margins.

The CFM56 jet aircraft engine is the best selling jet engine in the world today. SKF is the leading bearing supplier on the engine, featuring parts provided by SKF AVIO in Italy and MRC Bearings in the US.

The bearing market worldwide

SKF is the world's largest bearing supplier, followed by the two Japanese companies NSK and NTN, then FAG of Germany, Timken of the US and Koyo of Japan.

SKF is the largest supplier to the West European market. SKF is also the largest supplier to Latin America, Africa and the Middle East. In the US, Timken is the leading supplier, followed by SKF and Torrington of America.

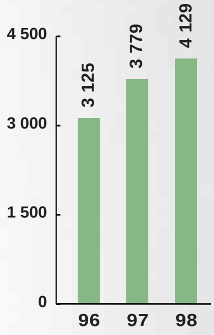
NSK is the largest supplier in Japan. SKF, which is the largest non-Japanese bearing company in this market, has a market share of around 2%.

Markets in Central and Eastern Europe, as well as China, are mainly supplied by local companies, although Western, as SKF, and Japanese producers have started to establish positions as manufacturers in these countries.

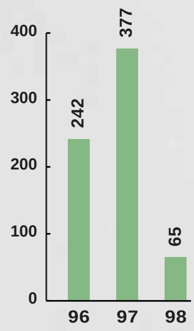
The global bearing market is estimated to be worth approximately SEK 160 billion, of which the US and Western Europe jointly account for about 60%

SEALS

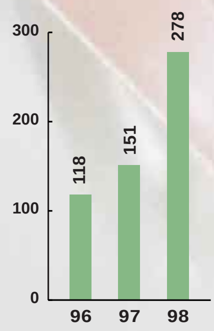
Net sales, MSEK



Operating profit, MSEK

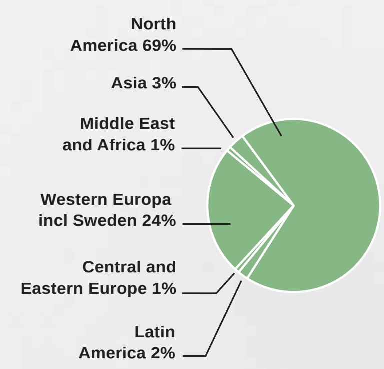


Additions to tangible assets, MSEK



Average number of employees

Net sales by geographic area 1998



With a large fleet of 230 trucks and more than 1 000 trailers, Jeff Kelly from G&D Transportation, Loves Park, Illinois in the United States, is an important customer for Chicago Rawhide. The company hauls various types of mixed freight throughout the North American continent. G&D Transportation receives its service and deliveries of CR seals and SKF bearings through TransAm Truck & Trailer Parts Inc. in Rockford, Illinois. TransAm is a well-equipped supplier of spare parts for heavy trucks and is a selected distributor of CR products. The company supplies not only individual truck owners but also delivers to the larger trucking companies, as shown here.

SEALS

The Seals Division's sales rose by 9.3% in 1998 to MSEK 4 129. The division's operating profit declined to MSEK 65 in 1998 from MSEK 377 in 1997, primarily as a result of the unsatisfactory market trend in North America. Excluding provisions the division posted an operating profit of MSEK 164.

North America accounts for 69% of the division's sales. The improvement in earnings in the division's European operations could not offset the major decline in the US. The important North American automotive aftermarket was exposed to extensive restructuring in the distributor area. This had an adverse effect on the division's earnings, since it resulted in increased costs for business development at new customers.

In order to restore profitability within Chicago Rawhide, the largest company in the Seals Division, a comprehensive restructuring program was initiated. At the same time a number of new products, such as a bonded piston seal for automatic gearboxes and valve stem seals, was launched.

Seals operations in Western Europe consist of CR Elastomere in Germany, which produces seals for the European automotive industry and RFT in Italy, which produces a range of seals for rolling bearings and shock absorbers.

Sales of seals to customers in Western Europe developed positively during the year. The Seals Division also benefited from the favorable growth in the European automotive industry. Sales of new products such as valve stem seals with integrated springs and new solutions for truck axles also contributed to the division's growth in Europe.

The new sign common to all distributors of Chicago Rawhide and SKF automotive aftermarket products.

A typical truck unit for the US heavy vehicles market, a key customer segment for Chicago Rawhide.

The building of a production base in Asia, which started a couple of years ago through the majority acquisition of a Chinese seals company, continued during 1998. SKF acquired 50% of the Korean seals company, KFOS, which has now been renamed CR Korea.

In India, Chicago Rawhide established a wholly owned subsidiary in Bangalore during autumn 1997. Following preparatory work, production is expected to commence during the first quarter of 1999.

During the year, CR Mexicana also became a wholly owned subsidiary through Chicago Rawhide's acquisition of the Mexican partner's 60% shareholding.

Global seals market

The total market for elastomeric products, which is how the Seals Division has chosen to define its market, is approximately SEK 80 billion.

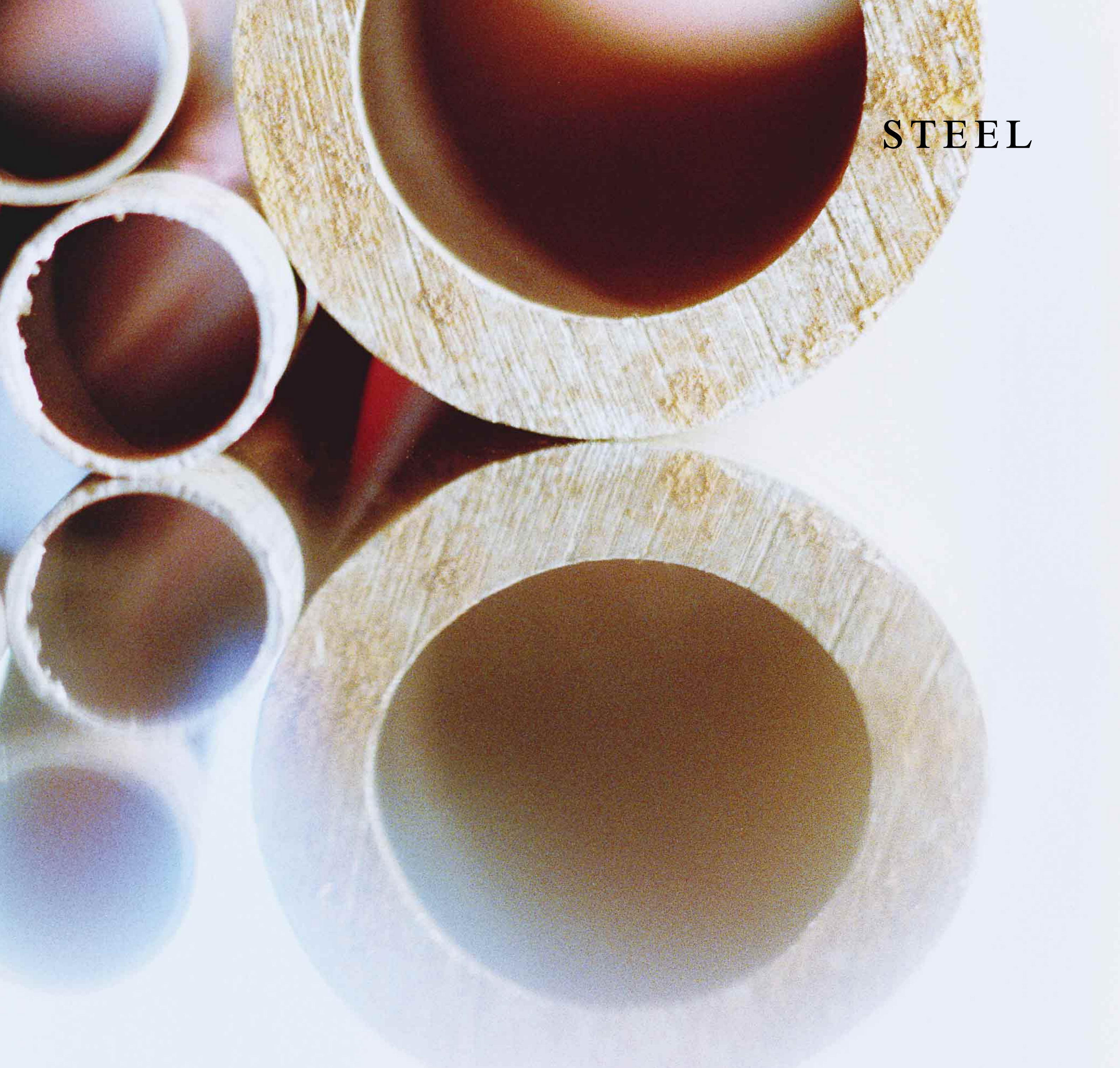
The leading companies within the elastomeric products area are Freudenberg/NOK (a German/Japanese alliance), Chicago Rawhide, America's Federal Mogul and Dana, and the TI Group in Europe. During the year, a number of structural changes occurred among the American competitors, but not within the segment in which Chicago Rawhide has its core business.

Chicago Rawhide is the leading supplier of radial seals in the North American market.

Repair of machine parts in the engine bay of a heavy truck at Rockford Truck Sales and Service.

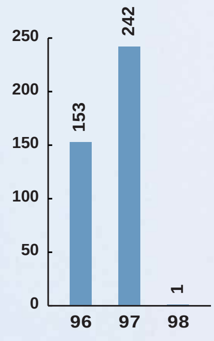
Miele, a German customer of the SKF Group is equipping its washing machines with SKF deep groove ball bearings and CR seals. The dynamic seal, see cut-out picture, has a special labyrinth feature towards the water side of the washing machine drum, in order to prevent washing powder residuals from influencing the sealability of the unit.

STEEL

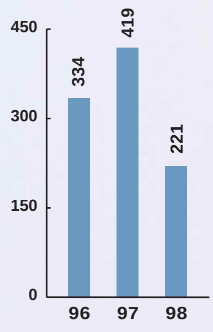


Net sales, MSEK

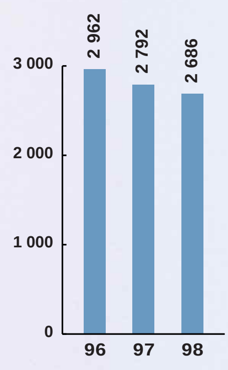
Operating profit, MSEK



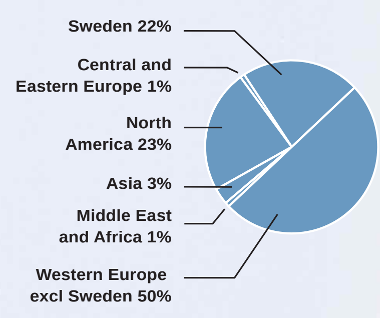
Additions to tangible assets, MSEK

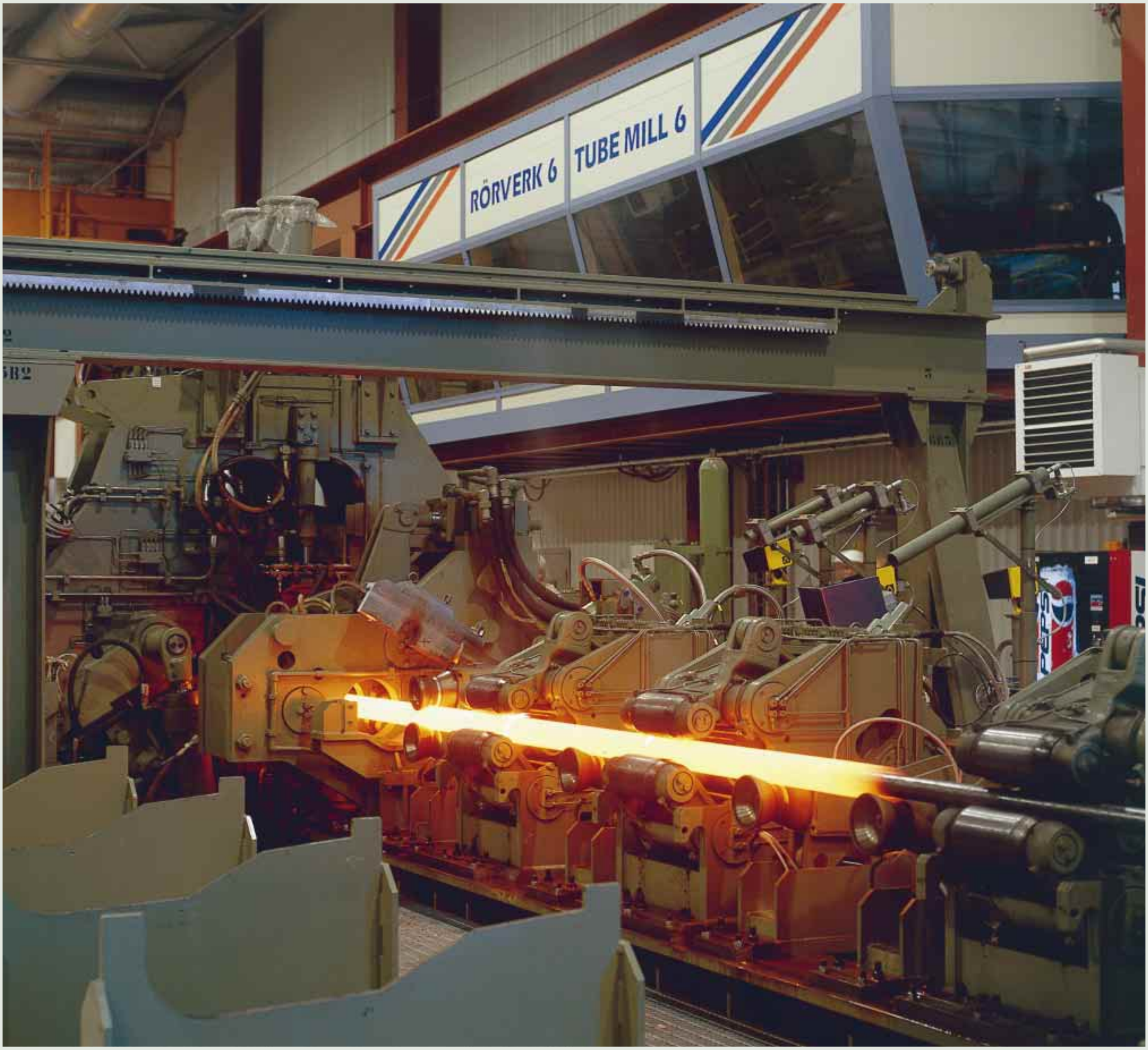


Average number of employees



Net sales by geographic area 1998





Interior view of Tube Mill 6 at Ovako Steel in Hofors, Sweden, which was inaugurated on August 19, 1998. The new mill is part of the Tube 2000 concept for the future, an investment of approximately MSEK 500, of which the TM 6 accounts for about MSEK 430. The new mill has an annual capacity of 50 000 tons and full production is expected to be reached early in 1999.

Sales of steel, which declined gradually during the fiscal year, totalled MSEK 3 229, down slightly compared with sales of MSEK 3 391 in 1997. The operating profit amounted to MSEK 1 for 1998, compared with a profit of MSEK 242 in 1997. Excluding provisions, the operating profit amounted to MSEK 45.

The Western European market for special steels was marked by strong demand and increasing volumes during the first half of the year. The second half was characterized by rapidly declining demand. Measures to adapt both production and manning to the new conditions became necessary.

In North America, which accounts for one fourth of the sales, demand also declined significantly during the second half of the year, due, among other reasons, to a sharp decline in the oil industry.

The weaker market conditions during the second half led to a deterioration in both sales and earnings. Profit was also adversely affected by the running-in costs related to the new tube mill in Hofors.

The new tube mill, an investment of about MSEK 500, was inaugurated in August and contributes capacity of 50 000 tons. The addition of this new mill strengthened Ovako Steel's position as a leading supplier of seamless hot-rolled tubes.

During 1998, preparatory work was initiated for a new and totally integrated system that will cover all of the administrative routines in the company. In January 1999, the first step in the process was taken, when the system was introduced within the accounting, purchasing and maintenance areas. The remaining administrative departments will adopt the new system in April 1999.

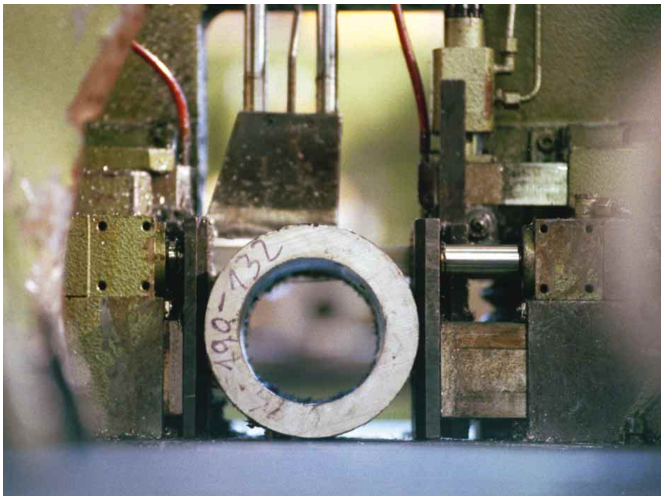
On the marketing side, continued efforts are being made to increase sales to customers outside the SKF Group. The proportion of outside sales increased during the year.

Global steel market

Ovako Steel is Europe's leading supplier of rolling-bearing steel. The company is also the world's largest producer of through-hardening steel for rolling bearings. Ovako Steel holds a unique position by being the only company to produce a combination of bars, tubes and rolled rings.

Certain European competitors are currently phasing out their production of bar products in order to focus on flat steel products. As a result, Germany's Thyssen has disposed of Nedstaal and the French company, Usinor, has announced that it intends to withdraw from Asco, an Ovako Steel competitor.

America's Timken, which like SKF has its own steel production operations, has taken over the UK's Desford, which produces tubes for bearing production.



Special steel tube being cut to length for Italian customers at a distribution plant in Milan, where Sandvik Italia distributes Ovako Steel's products.

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 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 is a simplified economic value-added model. It 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. 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% higher than interest on government bonds. Accordingly, the weighted capital cost after tax in the present interest situation is approximately 7.5%. 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 approximately 35%.

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 result, 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 1998, the average maturity of SKF's loans was 4.5 years.

According to the Group's financial policy, SKF should have – in addition to this loan financing – payment capacity in the form of surplus liquidity and/or long-term credit facilities, amounting to approximately MUSD 350. As of December 31, 1998, the Parent Company had long-term loan commitments totalling MUSD 425 from nine 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.

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 objective is to eliminate or minimize risk and to contribute to a better return on Group assets through an active management of risks.

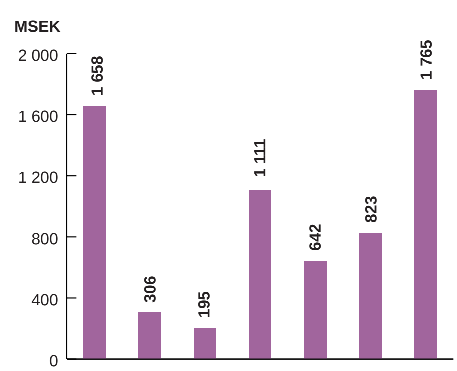
The management of these risks, and responsibility for all treasury operations, is largely centralized in SKF Treasury Centre, the Group's internal bank.

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 results, assets and liabilities in foreign cur-

Yearly currency flows	(- = outflow)
USD	2 600
DEM	900
FRF	- 400
GBP	600
SEK	- 4 200
Other	500

Maturity year for interest bearing liabilities



rencies 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. The introduction of the euro will reduce the currency risks for SKF's European operations. Over the long term, SKF is seeking to establish a balance between production and sales within the European, American and Asian zones, respectively.

SKF has flows in some 20 currencies. The total flow of goods exceeds MSEK 31 000. After offsetting flows in the same currency, the net flow amounts to approximately MSEK 7 500. 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% in foreign exchange rates in these currencies can affect Group result by a couple of hundred million kronor.

SKF's policy is to hedge currency flows for three to six months on average. This is the length of time deemed to be required to adjust to new conditions. Within the framework of established risk limits, it is possible for SKF Treasury Center to make 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 conformed with the basic policy.

Translation exposure
Group result is also affected by the effect of translating the results of foreign subsidiaries to Swedish kronor. When there is a change of approximately 10% 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 result 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 1998, SKF's net foreign assets amounted to MSEK 10 000. For the time being these currencies are not hedged. Translation effects in foreign net assets do not have any impact on Group result but are transferred directly to shareholders equity.

Economic exposure
SKF's principal competitors have the greater part of their production capacity in Germany, the US or Japan. Currency changes affecting those countries' cost situation primarily in relation to Sweden, Italy and France, where SKF, in addition to Germany and the US, has substantial manufacturing operations, affect SKF's competitiveness in relation to these competitors.

Interest-rate risks

The risk associated with interest rates is that changes in interest rates will have a negative impact on Group result. 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. Normal changes in interest rates are not considered to have any significant impact on SKF's result.

Credit risks

Credit risks pertain to the creditworthiness of counterparties. 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.

EMU

On January 1, 1999, the common currency known as the euro was introduced in the 11 member nations of the European Monetary Union (EMU).

SKF conducts extensive business operations in EMU, with strong concentration in Germany, France and Italy. In 1998, EMU countries accounted for approximately 45% of Group net sales and more than 50% of Group production.

The new euro currency, accordingly, will have far-reaching effects on SKF's operations, despite Sweden remaining outside EMU for the time being.

SKF's euro policy

SKF developed a euro policy during 1998 to introduce the new currency in the Group's operational activities, whereby:

- SKF companies in EU countries conclude their sales and purchasing transactions based on the euro effective January 1, 1999.
- SKF has been distributing price lists quoted in euro to EU countries since January 1, 1999.
- SKF has been equipped to send and receive invoices and payments in both euro and the local currencies of EU countries since January 1, 1999.
- During the transitional period from 1999 through 2001, SKF's customers have the option to select either the euro or their local currency as their invoicing currency.

SKF's EMU project

In November 1996, SKF appointed a working group to evaluate the effects of an eventual introduction of a common currency in Europe.

The preparations have encompassed strategic, financial, legal and infrastructural aspects of information technology, financial accounting and reporting.

Strategic aspects
SKF operates in an international industry, and the introduction of a common currency in Europe is not expected to create any significant changes in the Group's strategic direction. SKF has treated Europe as a single market for the past several years.

A change in the Group's overall direction of operations, or geographical localization, as a direct consequence of the new currency's introduction should not be expected, based on information available today.

Financial aspects
Because of the broad geographical spread of Group operations, SKF is exposed to a complex situation regarding currency risks. Introduction of the euro will simplify the Group's risk situation, since the number of currencies handled will be smaller. Furthermore, the euro will provide increased opportunities for more effective management of the Group's liquid assets.

Infrastructural aspects
Information technology will require the largest work input to prepare for conversion to euro as the Group's accounting and reporting currency.

Over the past two years, common and local systems for purchasing, sales and production have been reviewed and prepared to handle the new currency for invoicing and payments, effective January 1, 1999.

Beginning in 1999, euro is being used by SKF as the base currency in certain internal cost calculations used in the Group's production process.

Companies in the SKF Group will switch over from their local currencies to the euro for accounting and financial reporting purposes during the period 2000 to 2001. Various countries will probably switch to the euro at different times. The intention is that all companies within a given country should make the conversion simultaneously.

During 1998, installation was started of a Group-wide finance and accounting system called SARA (SKF Accounting and Reporting Applications), which is intended to be implemented at all of SKF's major European companies in the run-up to the year 2000. To minimize costs incurred to adapt existing financial systems to the new currency, the transition to euro as the finance and accounting currency will be completed after implementation of SARA in the company concerned.

Other IT-systems affected by conversion to euro as the finance and accounting currency will be adapted for the currency switch in parallel with the transition by the SKF companies in EU countries to euro from their local currencies.

According to present Swedish legislation, it is not permissible for companies with headquarters in Sweden to prepare their financial reports in any currency other than Swedish kronor. SKF's financial accounts for 1999, consequently, will be prepared in SEK.

YEAR 2000

Since 1985 SKF is quoted on the NASDAQ stock exchange. As a consequence, SKF each year submits to the Securities and Exchange Commission (SEC) certain financial and other information. For 1998 SEC has requested specific information related to the handling of the year 2000 issue. The below is the information that SKF intends to submit to SEC regarding SKF's handling of the year 2000 issue.

The Year 2000 issue refers to the risk that systems, products and equipment having date-sensitive components will not recognize the year 2000. Throughout this disclosure SKF uses the generic phrase "year 2000 compliant" to mean that a system, product or equipment will perform its intended functions on or after January 1, 2000 the same as it did before January 1, 2000.

1. The SKF Year 2000 Project

SKF has been actively addressing Year 2000 issues since 1996. In 1997 SKF decided to coordinate all Year 2000 activities centrally. The progress and status of the Year 2000 Project is reported to SKF Group Management every second month by the Project Leader.

Each Group Division, staff unit and service unit has a Year 2000 Project Leader. Each Project Leader has his/her own Project Team. In total approximately 350 people are involved in SKF's Year 2000 Project on a full or part time basis.

SKF's Year 2000 Project includes identifying the potential risk areas, increasing risk awareness and introducing action plans for managing Year 2000 issues.

2. State of Readiness

IT Applications and IT Platforms
Mapping and risk assessment of IT Applications (computer programs and databases) and IT Platforms (hardware, networks, operating systems, etc) including supplier compliance evaluations have been completed and most

business critical systems have been remediated and tested. The aim is to have the IT Applications and Platforms Year 2000 compliant by the end of June 1999. However, some lower risk systems are not expected to be compliant before the third quarter of 1999.

Embedded Systems
Mapping and risk assessment of Embedded Systems (electronic components and microchips) has been completed and remediation and verification testing are in progress. The embedded systems are expected to be Year 2000 compliant by the end of June 1999.

Products
Very few of SKF's products contain hardware, software or any devices that will be affected by the Year 2000 issue. Most products that will be affected by the year 2000 issue are already Year 2000 compliant. For those products which to date are not Year 2000 compliant, SKF aims to have compliance solutions in place during the second quarter of 1999.

Third Parties
SKF's Year 2000 activities include analyses and checks with third parties regarding their Year 2000 plans and readiness. Major customers, suppliers, banks and public authorities with whom SKF has a material relationship have been asked about their Year 2000 plans and readiness.

Suppliers have been segregated into two categories i e key and non-key suppliers. Suppliers in both categories have been asked for satisfactory commitments on their Year 2000 readiness. Key suppliers have also been requested to complete an assessment questionnaire and a document describing their Year 2000 plans and status. SKF is continuously following up this process. In addition SKF is also performing audits with a number of its key suppliers. Most of the audits are planned to be completed by the end of April 1999.

3. Costs

The costs directly related to Year 2000 issues are in total expected to be in the range of MSEK 130-160 of which 60% has been spent up to and including 1998, while 40% remains for activities to be completed during 1999.

Of the total costs of MSEK 130-160 approximately 60% consists of internal manpower and around 40% of external expenses for hardware, software and subcontractors. Cost estimates may vary in the future and will be updated as SKF gets additional information concerning the status of its and third parties' Year 2000 compliance.

The internal manpower cost does not represent incremental cost to the Group but rather represents the re-deployment of existing resources.

External expenses are included in normal business budgets. SKF does not believe that the incremental costs of addressing Year 2000 issues will have a material adverse effect on its consolidated results of operations, liquidity or capital resources.

Approximately 5% of the yearly IT budget during 1998 and 1999 is used for Year 2000 remediations. No major IT projects have been deferred due to the Year 2000 efforts. When judging the share of the IT budget used for Year 2000 remediation one should note the advantages of having globally deployed standardized and common IT solutions within the SKF Group.

These forecasted costs do not include the cost of potential business interruptions, additional remediation activities after January 1, 2000 or third party potential claims. They merely cover all costs related to SKF's efforts to be Year 2000 compliant by December 31, 1999.

4. Risks and Contingency Plans

The most reasonably likely worst case Year 2000 scenarios are the following: (i) no raw material supply, which would mean that one or several factories stop production; (ii) loss of power/electricity supply, which would mean that one or several factories stop production; (iii) the systems supporting SKF's warehouses fail to function, which would severely affect SKF's ability to deliver products to its customers; and (iv) communications (i e internal networks and/or external networks) fail to function, which would mean a stop in the integrated systems chain both within and outside SKF.

Approximately 65% of the raw material is supplied from within the SKF Group. Consequently the reliability of this source of supply can be more effectively controlled with regard to Year 2000 readiness than external sources.

The approximately 80 factories within the SKF Group are globally dispersed. The risk exposure from e g loss of power supply is thus local and not concentrated.

To minimize the potential impact of the most reasonably likely worst case scenario, SKF is developing contingency plans which are expected to be finalized in due time before January 1, 2000. Finalized contingency plans could involve alternative sources of supply, inventory adjustments, manual handling of orders and goods in warehouses, improvement of existing contingency plans for communications, creation of an emergency task force and planning of SKF's business activities during the millennium shift in order to minimize the risk exposure.

SKF has made certain statements herein which are not historical facts. These statements include SKF's expectations about when it will be Year 2000 compliant, SKF's expectations about the impact of the Year 2000 problem on its ability to continue to operate on and after January 1, 2000, the costs associated with the Year 2000 Program, and worst-case scenarios. SKF wishes to caution the reader that there are many factors that could cause the actual results to differ materially from these statements. This is especially the case because many aspects of SKF's Year 2000 Program are outside SKF's control such as the performance of third parties. Further, as a global company SKF operates in many different countries, in which the Year 2000 issue may be addressed in different ways and to a different extent. As a result, there may be unforeseen problems in different parts of the world. All of these factors make it impossible for SKF to ensure that it will be able to resolve all year 2000 related problems in a timely manner to avoid material adverse affect on its operations or business or exposure of SKF to third party liability.

Diamond-like carbon coating increases bearing service life

Diamond is the hardest material known to man. It has all the qualities we want for coating bearing components, except one – the price. The solution is DLC, a hard, thin coating of diamond-like carbon. DLC coating combines hardness and low friction. It helps reduce wear and increase the service life and performance of bearings. The coating can be used today on most SKF bearing components.

DLC coating makes it possible to combine the endurance and toughness of a conventional steel body with the exceptionally low friction and hardness of DLC. The result is a bearing that combines both high surface hardness and a very low coefficient of friction. The way in which the coating is applied can also tailor the future properties of the bearing, a feature that provides significant advantages to bearing users. Longer service life, lower running temperatures and enhanced lubrication conditions are some examples. The coating also helps prevent smearing damage in the bearings.

DLC-coated bearing components are used in compressors, paper-making machinery and hydraulic motors, for example. Today's coating technology marks just the beginning of a whole new range of concepts. New methods are being developed constantly and, in the future, we can expect to see several highly sophisticated coatings for bearing rings and rolling elements.

Ceramics for difficult conditions

Ceramics are defined as inorganic, non-metallic materials. They are hard and able to withstand wear; they also have electrical insulation properties and are chemically inert in harsh conditions. Engineering ceramics are used in a wide variety of industrial applications, from the electronics industry to chemical and processing industries. SKF is incorporating increasing quantities of ceramics in bearing products. The most common ceramic material used in bearing applications today is silicon nitride ($Si_3 N_4$).

The use of ceramic bearings is increasing. It is quite simple to incorporate the materials in various applications. In many cases, conventional bearings can be replaced directly by a corresponding ceramic bearing.

The ceramic bearings have different qualities and properties. SKF now delivers three types of bearing that contain ceramic materials.

In all-ceramic bearings, the rings and rolling elements are all made of silicon nitride. The bearings rotate easily and offer benefits of high-speed performance and extremely low weight. In addition to strong chemical resistance properties, all-ceramic bearings are non-magnetic and can withstand temperatures of up to 1 000 °C.

In hybrid bearings, the rings are made of steel, but the rolling elements are ceramic. The combination provides a tough, wear-resistant design that is also electrically insulating. Compared with traditional all-steel bearings, the service life of hybrid bearings can be increased by as much as tenfold.

The third type is an all-steel bearing with a single ceramic ball. SKF has applied for a patent for this design. The bearing is highly resistant to wear, and the single ceramic ball keeps the steel raceway free from foreign particles. It maintains the raceways and increases service life under extremely difficult, dusty and contaminated conditions.

The choice of ceramic bearings depends on the application. All-ceramic bearings are chosen for operations under severe conditions and applications in the food processing industry, metalworking and fluid-machinery processes. All-ceramic bearings are chemically inert and can be lubricated with almost anything from fuel oils to acid.

Hybrid bearings are used in machine tool spindles. They are also extremely well-adapted for professional hand tools and electric motors, applications in which high-speed performance and electrical insulation are important. Hybrid bearings are also being used increasingly to equip in-line roller blades. Single ceramic ball bearings are the best for industrial and automotive gearboxes and mining equipment in highly contaminated operating environments.

Added value with sensorized bearings

SKF's sensorized bearings have found one of their first industrial applications in electrical drive systems for forklift trucks. The bearing is included as part of the AC drive system for electronically controlled motors and represents an important step in the evolution of motor-control technologies.

The compact and powerful sensorized bearing solution, which offers added value for customers, makes SKF an attractive supplier. The first application is included in

Ceramic bearing components are made of silicon nitride, Si_3N_4, a ceramic material with properties such as high hardness, electrical insulation and low density, which contribute to its suitability as a bearing material.

Single ceramic ball bearing

Hybrid bearing

All-ceramic bearing

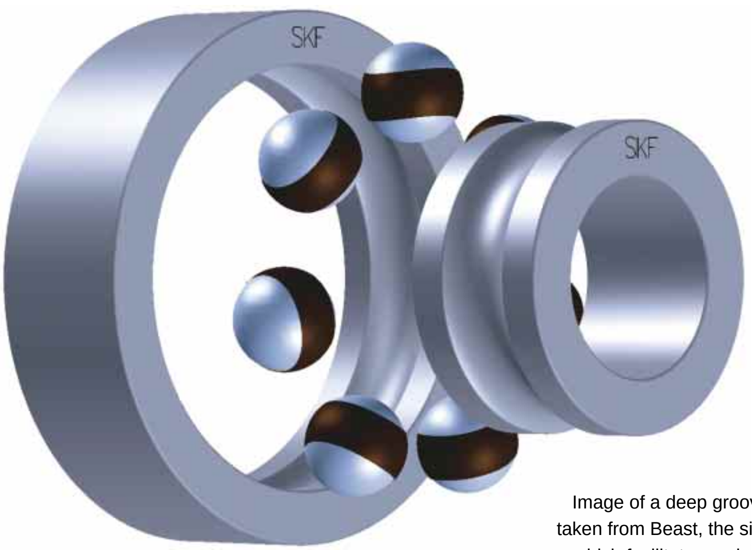


Image of a deep groove ball bearing taken from Beast, the simulation program which facilitates understanding of the various stages in a product's development and leads to reduced development times and optimized design engineering.

warehouse trucks from BT Industries AB. One of the advantages offered by SKF's sensorized bearings is that they do not require any extra space; they are well-protected inside the motor and provide reliable, steady impulse signals to the electronic control system.

The drive system for forklift trucks is the first commercial application in which SKF's sensorized bearings are used to control a vehicular drive system. However, at least 20 other development projects are now in progress throughout the world in which AC drives with SKF's sensorized bearings could be used in similar applications.

"Beast" saves time and money

Beast (Bearing Simulation Tool) is a computer-based 3D program used to simulate different types of bearings. It replaces expensive and time-consuming laboratory studies. The program increases insights and understanding of various process stages, which reduces development times and optimizes design engineering.

Beast was developed by the SKF Engineering & Research Centre to analyze and simulate various bearing dynamics and study the effects of dynamic loads on all bearings and their components. The interaction between cages and balls and rollers has been a particularly interesting subject of study. When the program was developed, simultaneous tests were conducted in the traditional laboratory environment. The results validated the findings of computer simulations.

Facts about bearing components as well as load and motion parameters are used as input data. All of the values can be animated to vary the effects during different time intervals. This type of simulation is extremely demanding in terms of calculations, and the Beast, therefore, can only be run on so-called "super computers." The results are presented graphically. Every phase and particularly interesting parts can be animated. The bearing models can be rotated, enlarged and studied in meticulous detail.

Beast was first used in the development of the toroidal bearing CARB™. The simulation confirmed the assumptions of geometries and illustrated how effective control could be created by the rollers without substantial cage forces. Beast is today used to analyze deep groove ball bearings and angular contact ball bearings. The advantages of Beast are numerous, and the program will be extremely important in the future development of bearings. Designs will become better, development times will be reduced and mistakes will be prevented at earlier stages of the design process.

Simulation tool may reduce noise from cars

Minimizing noise and vibration levels has been a difficult engineering challenge throughout the ages. SKF's customers are constantly increasing demands on noise abatement and reduced vibrations in their applications. A quiet gearbox, for example, is a prerequisite for low noise levels in cars.

SKF has developed a simulation tool that, supported by computer models and numerical analyses, now makes it possible to eliminate design features that cause noise and vibrations. Orpheus, as the new tool is called, uses the results of finite element analysis (FEA), a standard method used in sophisticated engineering for durability calculations and dimensioning. Vibration properties of motors and drive shafts are added to the FEA model. The amount of information needed to conduct reliable analyses is enormous, but it can be minimized using a smart compression method. The time required to process the data in a conventional PC has been reduced to about one hour.

The results are presented in 3D-visualization and animated in film sequences that show the entire process. The vibration analysis can then be produced graphically from a printer. Graphic illustrations make it possible to study form deviations, shaft flexing and other sources of noise and vibrations. Simulation increases the understanding of inherent problems and offers an important tool for optimizing future designs.

Orpheus has already shown its quality in design work. In one case, for example, a customer had a vibration problem between 5 and 8 kHz. Through analysis and simulation, an alternative bearing design was created that reduced the vibration problem – and thus the noise – by a full 5 dB. The analysis revealed weaknesses in other links of the dynamic chain, enabling engineers to define and address other sources of noise and vibrations. Orpheus is able to analyze the noise and vibration behavior of all types of rolling bearings.

CONSOLIDATED INCOME STATEMENTS

Millions of Swedish kronor		**1998**	1997	1996
Net sales		**37 688**	36 922	33 589
Cost of goods sold	*Note 2, 3*	**- 30 414**	- 27 790	- 24 700
Gross profit		**7 274**	9 132	8 889
Selling expenses	*Note 3*	**- 5 416**	- 5 148	- 4 882
Administrative expenses	*Note 3*	**- 1 818**	- 1 779	- 1 540
Other operating revenues		**367**	1 048	544
Other operating expenses		**- 1 295**	- 249	- 137
Loss from Associated Companies		**- 111**	- 55	–
Operating loss/profit		**- 999**	2 949	2 874
Financial income and expense, net	*Note 4*	**- 1 064**	- 843	- 462
Loss/profit after financial income and expense		**- 2 063**	2 106	2 412
Taxes	*Note 5*	**377**	- 583	- 701
Loss/profit after taxes		**- 1 686**	1 523	1 711
Minority interests' share in loss/profit for the year		**44**	35	- 19
Net loss/profit		**-1 642**	1 558	1 692

Values by quarterly reports, 1998

Millions of Swedish kronor unless otherwise stated	Quarter 1	Quarter 2	Quarter 3	Quarter 4	**Full year 1998**
Net Sales	9 476	9 695	9 075	9 442	**37 688**
Operating loss/profit	678	630	-706	- 1 601	**- 999**
Loss/profit after financial income and expense	466	351	-1 064	- 1 816	**- 2 063**
Loss/earnings per share after tax, SEK	2.30	2.00	-8.05	- 10.65	**-14.40**

Net sales

The SKF Group's sales in 1998 amounted to MSEK 37 688 (36 922 and 33 589)*.

The 2% increase in net sales was attributable to exchange-rate effects by +1%, to structural changes (operations acquired or discontinued) by -0,5%, to price and mix (volume shifts between various customer segments with different price levels) by -2%, and to volumes by +3,5%.

Operating loss/profit

The SKF Group's operating loss in 1998 amounted to MSEK 999 (profit 2 949 and 2 874)*.

The operating loss in 1998 was charged with costs for ongoing and decided efficiency enhancement programs amounting to approximately MSEK 3 025. The amount impacting cost of goods sold was MSEK 1 468, selling and administrative expenses was MSEK 408, other operating revenues and expenses – net, was MSEK 1 055 and result from Associated Companies was MSEK 94. Excluding these provisions, the operating profit would have been MSEK 2 026.

Other operating revenues and expenses – net, in 1998 amounted to MSEK -928 (799 and 407)*. In 1998, it included the costs for the withdrawal from the production of textile machinery components in Germany, the close-down of the production of seals in Gastonia, US, and the forging mill in Arvika, Sweden. In 1997, it mainly related to a gain of MSEK 760 on the sale of FlexLink Systems to Scandinavian Equity Partners. 1996 included a gain of MSEK 378 from the sale of a Japanese subsidiary which mainly included the property in which SKF's Tokyo office is located.

The loss from Associated Companies includes the SKF Group's share of losses in such companies, but also the SKF Group's cost to exit its share in the joint-venture WPB Water pump bearing GmbH (JV), Germany. The company was founded in 1996 by SKF and the German bearing manufacturer INA to produce waterpump spindles in Momo, Italy. An agreement has been reached with INA to sell the SKF Group's 40% share in the joint venture. This is in line with the Group's decision to leave unprofitable businesses.

Loss/profit after financial income and expense

The SKF Group's loss after financial income and expense amounted to MSEK 2 063 in 1998 (profit 2 106 and 2 412)*. In 1998, this included the costs for ongoing and decided efficiency enhancement programs amounting in total to MSEK 3 135. The profit after financial income and expense would have been MSEK 1 072 excluding provisions. The financial income and expense – net for the SKF Group amounted to MSEK -1 064 (-843 and -462)* and was affected negatively by increased borrowings in 1998, exchange losses in Asian joint-ventures and a MSEK 110 write-down of the shares in the Chinese bearing company Wafangdian Bearing Company Limited.

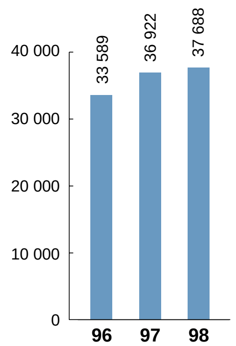
Loss/profit after taxes

The SKF Group's loss after taxes amounted to MSEK 1 686 in 1998 (profit 1 523 and 1 711)*.

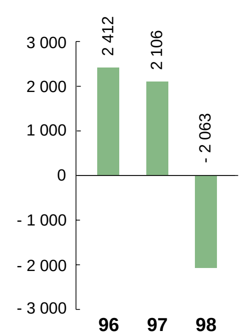
The effective tax rate in 1998 was 18 percent (28 and 29)*. The tax income in 1998 which amounted to 377 arose mainly due to tax losses carry-forwards. These tax losses carry-forwards occured due to provisions and was judged to result in future tax reductions for the Group. The taxes for 1997 were positively impacted by a reduction in the tax rates in Italy by approximately MSEK 100.

** Amounts in parentheses refer to comparable figures for 1997 and 1996, respectively.*

Net sales, MSEK



Loss/profit after financial income and expense, MSEK



CONSOLIDATED BALANCE SHEETS

Millions of Swedish kronor		**1998**	1997	1996
ASSETS				
Capital assets				
Intangible assets	*Note 6*	**1 042**	576	568
Long-term deferred tax assets	*Note 5*	**1 197**	715	693
Tangible assets	*Note 7*	**14 568**	13 631	12 541
Investments	*Note 29*	**200**	355	77
Long-term financial assets	*Note 8*	**884**	830	986
		17 891	16 107	14 865
Short-term assets				
Inventories	*Note 9*	**10 183**	9 924	9 476
Accounts receivable – trade	*Note 10*	**6 738**	6 697	6 000
Short-term tax assets	*Note 5*	**658**	562	534
Other short-term assets	*Note 11*	**1 192**	1 219	818
Short-term financial assets	*Note 12*	**2 353**	3 931	2 091
		21 124	22 333	18 919
Total assets		**39 015**	38 440	33 784
EQUITY, PROVISIONS AND LIABILITIES				
Shareholders' equity	*Note 13*			
Restricted equity				
Share capital		**1 423**	1 423	1 412
Restricted reserves		**7 029**	5 760	4 284
Unrestricted equity				
Unrestricted reserves		**4 122**	3 847	3 922
Loss/profit for the year		**- 1 642**	1 558	1 692
		10 932	12 588	11 310
Minority interest		**367**	290	288
Provisions				
Provisions for pensions and other postretirement benefits	*Note 14*	**7 139**	6 171	6 030
Provisions for deferred taxes	*Note 5*	**1 488**	1 642	1 701
Other provisions	*Note 15*	**4 095**	2 981	2 130
		12 722	10 794	9 861
Long-term liabilities				
Convertible bond loans	*Note 16*	**–**	–	1 525
Long-term loans	*Note 17*	**4 842**	6 538	3 321
Other long-term liabilities	*Note 18*	**88**	69	74
		4 930	6 607	4 920
Short-term liabilities				
Short-term loans	*Note 20*	**3 337**	1 853	1 693
Accounts payable – trade	*Note 21*	**2 884**	2 921	2 686
Short-term tax liabilities	*Note 5*	**106**	138	–
Other short-term liabilities	*Note 22*	**3 737**	3 249	3 026
		10 064	8 161	7 405
Total equity, provisions and liabilities		**39 015**	38 440	33 784
Assets pledged	*Note 23*	**734**	620	517
Contingent liabilities	*Note 24*	**178**	215	206

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

Assets and liabilities

The balance sheet items were affected by a Swedish krona which was approximately 5% weaker at year end 1998 compared to year-end 1997.

The SKF Group's inventories at December 31, 1998 amounted to MSEK 10 183 (9 924 and 9 476)*. Inventories as a percentage of annual sales totalled 27% (27 and 28)*.

The SKF Group's trade accounts receivable at December 31, 1998 amounted to MSEK 6 738 (6 697 and 6 000)*. Trade accounts receivable as a percentage of annual sales totalled 18% (18 and 18)*.

Financing

At year-end, the SKF Group's total interest-bearing loans amounted to MSEK 8 179 (8 391 and 6 539)*. Provisions for pensions and other postretirement benefits totalled MSEK 7 139 (6 171 and 6 030)*. At the same time, financial assets totalled MSEK 3 237 (4 761 and 3 077)*, of which MSEK 2 353 (3 931 and 2 091)*, consisted of short-term financial assets.

In July 1997, the SKF Group issued a MUSD 200 long-term bond loan, which was used for repayment of the convertible loan issued in 1992 amounting to MECU 145.

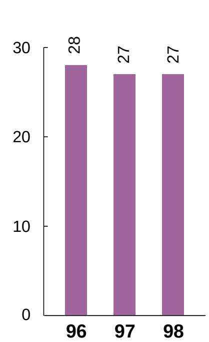
During the second half of 1996, real estate, previously leased under the terms of a sale/lease back agreement, was repurchased for approximately MSEK 650. The repurchase of the real estate resulted in an increase in interest bearing liabilities and a decrease of the Group's other long-term liabilities by a corresponding amount compared to 1995.

Key figures

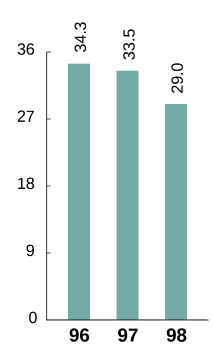
The loss/earnings per share in 1998 amounted to SEK -14.40 (13.70 and 14.90)*. The return on capital employed for 1998 was -2.8% (13.0 and 14.7)*. Return on shareholders' equity for 1998 was -13.3% (13.0 and 15.9)*. Group solvency at the end of 1998 was 29.0% (33.5 and 34.3)*.

* *Amounts in parentheses refer to comparable figures for 1997 and 1996, respectively.*

Inventories, % of annual net sales



Solvency, %



CONSOLIDATED STATEMENTS OF CASH FLOW

Millions of Swedish kronor	**1998**	1997	1996
Operating loss/profit	**- 999**	2 949	2 874
Depreciation according to plan and write-downs of tangible assets and goodwill amortization	**2 097**	1 528	1 461
Net loss/gain (–) on sales of tangible assets, companies and operations	**12**	- 743	- 362
Changes in working capital:			
Inventories	**- 196**	- 546	- 513
Accounts receivable – trade	**- 20**	- 877	101
Accounts payable – trade	**- 67**	302	- 87
Other operating assets, liabilities and provisions - net	**1 571**	758	- 93
Cash flow from operations	**2 398**	3 371	3 381
Additions to tangible assets	**- 2 148**	- 2 664	- 2 710
Investments in companies	**- 357**	- 290	- 151
Sales of tangible assets, companies and operations	**240**	1 289	682
Cash flow after investments	**133**	1 706	1 202
Financial income and expense - net	**- 1 064**	- 843	- 462
Taxes	**- 387**	- 554	- 663
Change in other long-term assets, liabilities and provisions - net	**573**	221	- 512
Cash dividends, AB SKF shareholders	**- 598**	- 593	- 593
Issue of new shares in AB SKF	**–**	189	–
Translation adjustments	**- 7**	- 86	65
Cash flow before financing	**-1 350**	40	-963
Change in loans	**- 228**	1 800	157
Change in short-term financial assets	**- 1 578**	1 840	- 806

Cash flow includes adjustments for acquired and sold companies and operations.

COMMENTS ON THE CONSOLIDATED STATEMENTS OF CASH FLOW

Cash flow from operations

The SKF Group's gross cash flow, defined as operating loss/profit plus depreciation according to plan and one-time write-downs, amounted to MSEK 1 098 for 1998 (4 477 and 4 335)*, which is 2.9% of annual sales (12.1 and 12.9)*.

Cash flow after investments

The SKF Group's capital expenditures in tangible assets decreased from MSEK 2 664 in 1997 to MSEK 2 148 in 1998.

During 1998, the SKF Group invested MSEK 357 in new companies and businesses. These acquisitions included Lutsk Bearing Plant in the Ukraine, R.T. Gilman Inc. in the US, CR Mexicana S.A. de C.V. in Mexico, CR Seals India Pvt. Ltd. in India and the joint ventures CR Korea Co. Ltd. in Korea and Dalian SKF Wazhou Bearings Co. in China.

Sale of companies and businesses related principally to ScanDust AB. Several real estates were also sold during 1998 and 1997.

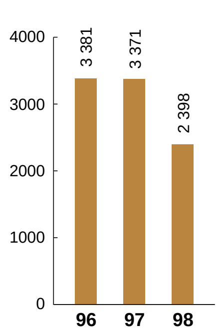
Cash flow before financing

The net liabilities of the SKF Group, defined as interest bearing loans less short-term financial assets, amounted in 1998 to MSEK 5 826 (4 460 and 4 448)*. The statement of cash flow was also affected by the impact of the weaker Swedish krona on the balance sheet.

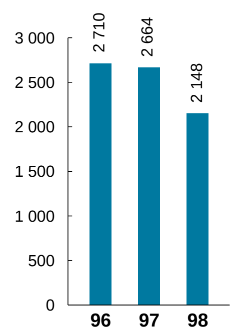
During the second half of 1996, real estate previously leased under the terms of a sale/lease back agreement, was repurchased for approximately MSEK 650. This transaction had a negative effect of the same amount on the cash flow before financing.

* *Amounts in parentheses refer to comparable figures for 1997 and 1996, respectively.*

Cash flow from operations, MSEK



Additions to tangible assets, MSEK



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amounts in millions of Swedish kronor (MSEK) unless otherwise stated. Amounts in parentheses refer to comparable figures for 1997 and 1996, respectively.

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% of the voting rights. AB SKF and its subsidiaries are referred to as ”the SKF Group” or ”the Group”.

Companies, representing 20 to 50% of the voting rights, and where the SKF Group has a significant influence, are referred to as ”Associated Companies” (see note 29).

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.

The accounting rules below refer to the SFAS (Statements of Financial Accounting Standards) recommendations issued by Financial Accounting Standards Board in the U.S.

Consolidation – subsidiaries

The consolidated financial statements are prepared using the purchase method. 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.

Investments in Associated Companies

Investments in Associated Companies are reported 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 in the results of these companies is based on their profit/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. All balance-sheet items in foreign subsidiaries have been translated to Swedish kronor based on the year-end exchange rates. Income Statement items are translated at average exchange rates. The translation adjustments that arise as a result of the current rate method 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 SFAS No. 52, ”Foreign Currency Translation.” 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. Operating gains and losses are included in Other operating revenue 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 have been used when translating the financial statements of foreign subsidiaries operating in the countries shown below into SEK:

Country	*Unit*	*Currency*	*Average rate*			*Year-end rate*		
			1998	1997	1996	**1998**	1997	1996
Belgium	100	BEF	**21.40**	21.32	21.66	**23.41**	21.36	21.45
Canada	1	CAD	**5.37**	5.47	4.91	**5.21**	5.49	5.02
France	1	FRF	**1.34**	1.31	1.31	**1.44**	1.32	1.31
Germany	1	DEM	**4.50**	4.40	4.45	**4.83**	4.41	4.42
India	100	INR	**19.26**	20.12	18.99	**18.99**	20.13	19.13
Italy	100	ITL	**0.46**	0.45	0.43	**0.49**	0.45	0.45
Japan	100	JPY	**6.03**	6.08	6.14	**7.01**	6.09	5.92
The Netherlands	1	NLG	**4.00**	3.90	3.92	**4.29**	3.91	3.94
Spain	100	ESB	**5.31**	5.20	5.29	**5.68**	5.21	5.25
Switzerland	1	CHF	**5.35**	5.43	5.44	**5.91**	5.43	5.09
United Kingdom	1	GBP	**13.20**	13.07	10.43	**13.52**	13.15	11.61
USA	1	USD	**7.94**	7.83	6.69	**8.08**	7.90	6.87

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 intended 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.

Tangible 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

The Group applies SFAS 13 ”Leases” which agrees with the Swedish accounting recommendation RR6 ”Accounting for leasing agreements.” 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 earnings over the lease term.

Other operating revenue and other operating expense

Other operating revenue 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 operations, rental revenues, 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 earnings 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 earnings. 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 transaction or decision. Such obligations are accounted for when the business transaction 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 1996, research and development expenditure is included in the 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 taking taxes into account, amounted to 238 and was charged against 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 in accordance with 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 their operations and financial position eleven times a year (ten for 1992 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 (Equity/assets ratio)*
   Shareholders' equity plus minority interest, as a percentage of total assets at year-end.

3. *Return on total assets*
   Operating profit/loss plus interest income, as a percentage of average total assets.

4. *Return on capital employed*
   Operating profit/loss plus interest income, as a percentage of average total assets less the average of non-interest bearing liabilities.

5. *Return on shareholders' equity*
   Profit/loss after taxes, as a percentage of average shareholders' equity.

6. *Profit margin*
   Operating profit/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*
   Profit/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 expenditure charged against earnings totalled 702 (757 and 751). 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 7 (4 and 4), and have been fully reimbursed.

3. DEPRECIATION

	1998	1997	1996
Land improvements	**7**	7	7
Buildings	**168**	145	170
Machinery, supply systems, machine tools, tooling and factory fittings	**1 839**	1 315	1 199
Goodwill	**70**	46	69
Leaseholds	**–**	1	1
Revaluations	**13**	14	15
	2 097	1 528	1 461

Depreciations according to plan accounted for as:

	1998	1997	1996
Cost of goods sold	**1 855**	1 305	1 179
Selling expenses	**211**	192	260
Administrative expenses	**31**	31	22
	2 097	1 528	1 461

A one-time write-down of 375 was included in depreciation according to plan in 1998.

4. FINANCIAL INCOME AND EXPENSE

	1998	1997	1996
Income from equity securities and long-term financial investments	**- 54**	103	95
Other financial income and similar items	**280**	501	592
Interest expense and similar items	**- 1 290**	- 1 447	- 1 149
	- 1 064	- 843	- 462

Specification of financial income and expense, net

	1998	1997	1996
Dividends related to			
- income from equity securites and long-term financial investments	**11**	8	5
Total dividends	**11**	8	5
Interest income related to			
- income from equity securities and long-term financial investments	**32**	99	87
- other financial income and similar items	**224**	264	404
Total interest income	**256**	363	491
Interest expense for			
- financial liabilities related to interest expense and similar items	**- 729**	- 813	- 758
- pensions and other post-retirement benefits (see note 14) related to interest expense and similar items	**- 398**	- 370	- 383
Total interest expense	**- 1 127**	- 1 183	- 1 141
Financial exchange gains and losses related to			
- income from equity securities and long-term financial investments	**13**	- 4	3
- other financial income and similar items	**56**	237	188
- interest expense and similar items	**- 163**	- 264	- 8
Total financial exchange gains and losses	**- 94**	- 31	183
Write-downs related to			
- income from equity securities and long-term financial investments	**- 110**	–	–
Total write-downs	**- 110**	–	–
Financial income and expense, net	**- 1 064**	- 843	- 462

Adjustment to market value of trading securities affected financial income and expense by -11 (-20 and -13).

Interest payments amounted to 715 (682 and 924).

5. TAXES

	1998	1997	1996
Taxes on loss/profit after financial income and expense			
- current taxes	**- 399**	- 724	- 390
- deferred taxes, net	**793**	163	- 291
Other taxes	**- 17**	- 22	- 20
	377	- 583	- 701

Deferred taxes for 1998 include a charge of 358 related to the net change in the valuation allowance. Of this charge, 9 represents an adjustment of the opening 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:

	1998	1997	1996
Deferred tax assets:			
- long-term	**1 197**	715	693
- short-term	**658**	562	506
	1 855	1 277	1 199
Provisions for deferred taxes:			
- long-term	**1 304**	1 275	1 288
- short-term	**184**	367	413
	1 488	1 642	1 701
Deferred tax asset/provisions for deferred taxes - net	**367**	- 365	- 502
Short-term income taxes receivable	**–**	–	28
Short-term income taxes payable	**106**	138	–
	106	138	28

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

	1998	1997	1996
Provisions for pensions and other postretirement benefits	**453**	404	340
Tax loss carry-forwards	**1 890**	1 273	1 234
Other	**1 830**	1 343	1 126
Gross deferred tax assets	**4 173**	3 020	2 700
Valuation allowance	**- 1 216**	- 858	- 688
Gross deferred tax assets after valuation reserve	**2 957**	2 162	2 012

	1998	1997	1996
Provisions for pensions and other postretirement benefits	**31**	28	34
Inventory	**444**	483	434
Tangible capital assets	**1 926**	1 754	1 595
Other	**189**	262	451
Gross provision for deferred taxes	**2 590**	2 527	2 514
Deferred tax asset/provision for deferred taxes - net	**367**	- 365	- 502

Corporate income tax

The corporate nominal income tax rate in Sweden was 28% in 1998, 1997 and 1996.

The effective tax rate on profit/earnings after financial income and expense, but before minority interest, was 18% (28 and 29). A reconciliation of the statutory tax in Sweden to the effective tax is outlined below:

	1998	1997	1996
Tax calculated on statutory tax rate in Sweden	**578**	- 590	- 675
Difference between statutory tax rate in Sweden and foreign subsidiaries' weighted statutory tax rate	**34**	- 109	- 120
Taxes other than income taxes	**- 17**	- 22	- 20
Permanent differences	**41**	114	113
Tax loss carry-forwards, net of changes in valuation allowance	**- 289**	- 11	27
Other, including translation adjustments	**30**	35	- 26
Effective tax	**377**	- 583	- 701

Tax loss carry-forwards

The Parent Company and certain subsidiaries, principally in Sweden and Germany had, at December 31, 1998, tax loss carry-forwards amounting to 5 526 (3 996 and 3 802). Such tax loss carry-forwards expire as follows:

1999	103
2000	225
2001	248
2002	102
2003	161
2004 and thereafter	4 687

As of December 31, 1998, the total tax loss carry-forwards have resulted in deferred tax assets of 819, 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 ASSETS

Acquisition cost:

	1998	Additions	Disposals	Other	Translation effects	1997	1996
Goodwill	**970**	138	- 1	- 4	20	817	698
Patents and similar rights	**16**	–	- 1	–	1	16	16
Leaseholds	**28**	6	–	- 2	1	23	29
Deferred charges	**478**	415	–	–	- 27	90	111
	1 492	559	- 2	- 6	-5	946	854

Accumulated depreciation according to plan:

	1998	Additions	Disposals	Other	Translation effects	1997	1996
Goodwill	**432**	70	–	–	9	353	269
Patent and similar rights	**13**	–	–	–	1	12	12
Leaseholds	**5**	–	–	–	–	5	5
	450	70	–	–	10	370	286
Net book value	**1 042**	489	- 2	- 6	- 15	576	568

One-time write-downs of goodwill were 43 (6 and 44).

7. TANGIBLE ASSETS

Acquisition cost:

	1998	Additions	Disposals	Other	Translation effects	1997	1996
Land, land improvements and buildings	**5 972**	138	- 176	568	175	5 267	5 141
- Revaluations	**513**	2	- 24	3	66	466	448
Machinery and supply systems	**21 826**	1 317	- 602	1 047	955	19 109	17 491
- Revaluations	**46**	–	- 33	–	5	74	78
Machine tools, tooling, factory fittings, etc	**3 417**	280	- 174	200	137	2 974	2 752
Construction in process including advances	**1 448**	413	- 4	- 658	53	1 644	1 542
	33 222	2 150	- 1 013	1 160	1 391	29 534	27 452

Accumulated depreciation according to plan:

	1998	Additions	Disposals	Other	Translation effects	1997	1996
Land improvements and buildings	**2 995**	175	- 85	208	116	2 581	2 593
- Revaluations	**238**	12	- 10	–	18	218	203
Machinery and supply systems	**13 174**	1 595	- 496	411	536	11 128	10 134
- Revaluations	**71**	1	- 3	–	5	68	71
Machine tools, tooling, factory fittings, etc	**2 176**	244	- 146	81	89	1 908	1 910
	18 654	2 027	- 740	700	764	15 903	14 911
Net book value	**14 568**	123	- 273	460	627	13 631	12 541

A one-time write-down of tangible assets of 375 was included in depreciation according to plan.

Divested and acquired companies are included in other.

Capital leases included in tangible assets consisted of the following:

Acquisition value:

	1998	1997	1996
Land, land improvements and buildings	**70**	66	61
Machinery and supply systems	**93**	92	101
Machine tools, tooling, factory fittings, etc	**41**	36	40
	204	194	202

Accumulated depreciation according to plan:

	1998	1997	1996
Land, land improvements and buildings	**43**	40	34
Machinery and supply systems	**58**	52	61
Machine tools, tooling, factory fittings, etc	**13**	13	15
	114	105	110

Tax value of Swedish tangible assets:

	1998	1997	1996
Land	**131**	242	245
Buildings	**706**	701	702
	837	943	947

8. LONG-TERM FINANCIAL ASSETS

.

	1998	1997	1996
Long-term financial receivables	**864**	812	969
Debt securities	**20**	18	17
	884	830	986

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

9. INVENTORIES

Inventories, net of allowance for obsolescence, consist of the following:

	1998	1997	1996
Raw materials and supplies	**1 657**	1 310	1 145
Work in process	**1 996**	2 200	2 372
Finished goods	**6 530**	6 414	5 959
	10 183	9 924	9 476

10. ACCOUNTS RECEIVABLE – TRADE

	1998	1997	1996
Accounts receivable	**6 342**	6 263	5 672
Acceptances receivable	**697**	732	603
	7 039	6 995	6 275
Allowance for doubtful accounts	**- 301**	- 298	- 275
	6 738	6 697	6 000

The change in allowance for doubtful accounts charged against loss/profit amounted to 80 (74 and 76).

11. OTHER SHORT-TERM ASSETS

	1998	1997	1996
Other short-term receivables	**746**	716	506
- Associated Companies	**1**	–	3
Prepaid expenses	**333**	292	193
Accrued income	**66**	167	89
Advances to suppliers	**46**	44	27
	1 192	1 219	818

12. SHORT-TERM FINANCIAL ASSETS

	1998	1997	1996
Short-term investments			
- in bonds and other securities	**549**	599	457
- in treasury bills and government bonds	**451**	1 688	236
- with banks	**251**	213	196
- other	**292**	506	504
Cash and bank accounts	**810**	925	698
	2 353	3 931	2 091

Unrealized holding loss on trading securities as per December 31, included in financial income and expense amounted to 11 (20 and 10).

13. SHAREHOLDERS´ EQUITY

Share capital

The share capital at December 31, 1998, 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

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% of net profit be transferred to the legal reserve (part of restricted reserves) until the legal reserve together with the premium reserve amounts to 20% of the share capital. As of 1997, premiums paid on new share issues must be transferred to the premium reserve. Premiums on 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 profit 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 1996-01-01	1 412	4 136	4 574	10 122
Cash dividend	–	–	- 593	- 593
Net profit	–	–	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
Cash dividend	–	–	-593	-593
Issue of new shares	11	178	–	189
Net profit	–	–	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
Cash dividend	–	–	- 598	- 598
Net loss	–	–	- 1 642	- 1 642
Transfer between restricted and unrestricted reserves	–	604	- 604	–
Translation adjustments	–	665	- 81	584
Closing balance 1998-12-31	**1 423**	**7 029**	**2 480**	**10 932**

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 shareholders’ equity, were as follows:

	1998	1997	1996
Balance at beginning of year	**- 229**	- 353	- 427
Aggregate translation adjustments	**560**	452	68
Gains/losses from hedges (net of taxes) of investments in foreign subsidiaries	**24**	- 328	6
Balance at end of year	**355**	- 229	- 353

14. PROVISIONS FOR PENSIONS AND OTHER POSTRETIREMENT BENEFITS

	1998	1997	1996
Provisions for pensions	**5 935**	5 019	5 046
Provisions for other postretirement benefits	**1 204**	1 152	984
	7 139	6 171	6 030

Provisions for pensions

Charges against profit in 1998, 1997 and 1996 for pensions were 848, 574 and 631, which include an interest cost calculated at 309, 284 and 309, respectively. In 1996 the interest arose mainly on obligations for pensions in Sweden, Germany and the U.S.

Interest rates used vary by country, and were 4.9% (3.7 and 6.0) for indexed Swedish pensions and 3.5% (3.5 and 3.5) for fixed Swedish pensions. An interest rate of 6.5% was used in 1998, 1997 and 1996 for the German companies, which represented in average 66% 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:

	1998	1997	1996
Service cost	**16**	14	11
Interest cost	**89**	86	74
Amortization	**- 6**	- 10	- 8
Other	**7**	–	–
Net periodic postretirement benefit cost	**106**	90	77

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

	1998	1997	1996
Retirees	**1 044**	933	785
Other fully eligible plan participants	**165**	160	147
Other plan participants	**171**	138	119
Total accumulated postretirement benefit obligation	**1 380**	1 231	1 051
Less: unrecognized loss	**- 176**	- 79	- 67
	1 204	1 152	984

A discount rate of 6.75% was applied in 1998.

The assumed annual rate of increase in the per capita cost of covered health care benefits:

For retirees under the age of 65	8.00% (8.5 and 9)
For retirees 65 and older	7.25% (7.5 and 8)

The rate was assumed to decline by 0.5% per year for retirees under the age of 65 and by 0.25% for retirees 65 and older, to an ultimate rate of 6%.

An increase in the assumed health care cost trend rates by 1% would increase the accumulated postretirement benefit obligation as of December 31 by 104 (108 and 93) and the aggregate of the service and interest cost components of the net periodic postretirement benefit by 9 (10 and 9).

15. OTHER PROVISIONS

	1998	1997	1996
Provisions for employee benefits other than pensions	**981**	900	833
Other provisions	**3 114**	2 081	1 297
	4 095	2 981	2 130

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 approximate 80% 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%. 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 MSEK 189.

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:

	1998	1997	1996
Debentures (maturing from 2000 to 2007) bearing interest from 6.6 to 14.5% *	**3 100**	3 703	1 393
Bank loans (maturing from 2000 to 2008) bearing interest from 2.0 to 14.3% *	**1 109**	2 078	1 091
Other loans (maturing from 2000 to 2013) bearing interest from 2.0 to 18.5% *	**633**	757	837
	4 842	6 538	3 321

* December 31, 1998

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, 1998 are as follows:

2000	306
2001	195
2002	1 111
2003	642
2004	823
2005 and thereafter	1 765

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 511 (389 and 274) were secured at December 31.

The market value of long-term loans was approximately the same as the book value after taking related interest rate swaps into account. 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

	1998	1997	1996
Long-term portion of capital leases (see note 19)	**32**	43	54
Other	**56**	26	20
	88	69	74

19. LEASES

Future minimum rental commitments at December 31, 1998, for capital leases and non-cancellable (within one year) operating leases were as follows:

	Capital leases	Operating leases
1999	**26**	**266**
2000	**12**	**184**
2001	**11**	**138**
2002	**6**	**109**
2003	**4**	**80**
2004 and thereafter	**5**	**365**
Less: Interest and executory costs	**- 8**	
Present value of minimum lease payments under capital leases	**56**	
Less: Current portion	**- 24**	
Long-term portion (see note18)	**32**	

Net rental expense related to operating leases was 300 (291 and 223). Contingent rentals and sub-lease revenues were not significant in any of the years presented.

20. SHORT-TERM LOANS

	1998	1997	1996
Bank loans	**1 486**	831	988
Other short-term loans	**193**	724	181
	1 679	1555	1 169
Short-term portion of long-term loans	**1 658**	298	524
	3 337	1 853	1 693

The maximum monthly short-term loans outstanding, excluding the short-term portion of long-term loans, was 2 348 (1 926 and 2 432). The average monthly short-term loans outstanding during the year was 1 605 (1 995 and 1 807). The weighted average interest rate was 7.8% (8.7 and 11), and 6.2% at December 31, 1998. 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, 1998, the Group had unutilized long-term lines of credit of 3 433 expiring in 2003. Commitment fees ranging from 0.0825% to 0.125% are required on these lines of credit.

21. ACCOUNTS PAYABLE – TRADE

	1998	1997	1996
Accounts payable	**2 578**	2 609	2 430
Acceptances payable	**306**	312	256
	2 884	2 921	2 686

22. OTHER SHORT-TERM LIABILITIES

	1998	1997	1996
Other short-term liabilities	**897**	776	743
- Associated Companies	**–**	2	11
Accrued expenses and deferred income	**2 840**	2 471	2 272
	3 737	3 249	3 026

Accrued expenses and deferred income included accrued vacation pay of 701 (633 and 650). It also included accrued social charges (including payroll taxes) of 473 (493 and 530).

23. ASSETS PLEDGED

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

	1998	1997	1996
Mortgages on real estate	**465**	440	329
Chattel mortgages	**269**	143	182
Other mortgages	**–**	37	6
	734	620	517

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 638 at December 31, 1998, (520 and 361).

24. CONTINGENT LIABILITIES

	1998	1997	1996
Discounted bills	**51**	47	49
Other guarantees and contingent liabilities	**127**	168	157
	178	215	206

25. GEOGRAPHIC INFORMATION

Net sales per geographic area were as follows:

	1998	1997	1996
Sweden	**1 983**	1 967	1 869
Europe (excluding Sweden)	**19 371**	18 164	17 274
U.S. and North America	**9 454**	9 078	7 550
Other countries	**6 880**	7 713	6 896
	37 688	36 922	33 589

Identifiable assets (total assets excluding cash, bank accounts, short-term investments, intercompany receivables and shareholdings, but before consolidation eliminations), amounted at December 31 to 38 278 (35 973 and 32 600). The geographic location of these assets were as follows:

	1998	1997	1996
Sweden	**6 175**	6 202	4 659
Europe (excluding Sweden)	**18 004**	16 530	16 107
U.S. and North America	**7 986**	7 295	6 265
Other countries	**6 113**	5 946	5 569
	38 278	35 973	32 600

26. SPECIFICATION OF SALARIES, WAGES AND REMUNERATIONS FOR EMPLOYEES

	1998 Salaries, wages and other remunerations	**1998 Social charges (whereof pension cost)**	1997 Salaries, wages and other remunerations	1997 Social charges (whereof pension cost)	1996 Salaries, wages and other remunerations	1996 Social charges (whereof pension cost)
Parent Company in Sweden	**116**	**89**	98	69	92	59
		(80)		(53)		(52)
Subsidiaries in Sweden	**1 627**	**865**	1 601	712	1 594	719
		(291)		(148)		(149)
Subsidiaries abroad	**8 800**	**3 000**	8 544	2 657	8 010	2 592
		(473)		(373)		(430)
	10 543	**3 954**	10 243	3 438	9 696	3 370
		(844)		(574)		(631)

Specification of salaries, wages and remunerations:

	1998 Board and President (whereof bonus etc)	**1998 Other employees**	1997 Board and President (whereof bonus etc)	1997 Other employees	1996 Board and President (whereof bonus etc)	1996 Other employees
Parent Company in Sweden	**32**	**84**	6 (1)	92	7 (1)	85
Total Parent Company in Sweden	**116**		98		92	
Subsidiaries in Sweden	**12 (1)**	**1 615**	10 (1)	1 591	22 (1)	1 572
Total subsidiaries in Sweden	**1 627**		1 601		1 594	
Subsidiaries abroad	**97 (2)**	**8 703**	91 (3)	8 453	83 (2)	7 927
Total subsidiaries abroad	**8 800**		8 544		8 010	
Group	**141 (3)**	**10 402**	107 (5)	10 136	112 (4)	9 584
Total Group	**10 543**		10 243		9 696	

Geographic specification of salaries, wages and renumerations in subsidiaries abroad:

	1998 Board and President (whereof bonus etc)	**1998 Other employees**	1997 Board and President (whereof bonus etc)	1997 Other employees	1996 Board and President (whereof bonus etc)	1996 Other employees
France	**10**	**996**	7	956	6	942
Germany	**11**	**2 642**	8 (1)	2 576	14 (1)	2 551
Italy	**4**	**1 341**	4	1 279	4	1 220
Western Europe excluding Sweden	**20 (1)**	**985**	25 (2)	941	19 (1)	911
Central and Eastern Europe	**7**	**105**	3	64	2	58
U.S.	**6 (1)**	**1 897**	5	1 823	7	1 528
North America	**–**	**43**	1	46	1	43
Latin America	**17**	**237**	15	260	12	238
Asia	**19**	**364**	20	413	15	342
Africa	**3**	**93**	3	95	3	94
	97	**8 703**	91	8 453	83	7 927
Total subsidiaries abroad	**8 800**		8 544		8 010	

In accordance with the resolution of the Annual General Meeting held in 1998, the Board has received a fee of SEK 2 900 000. SEK 700 000 should be distributed to the Chairman of the Board and SEK 275 000 to each elected board member who is not employed in active service in AB SKF (the Parent Company).

Giovanni Mario Rossignolo, Chairman of SKF's Italian subsidiary received a compensation of ITL 279 897 910 during 1998, 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 previously held the position of President and Chief Executive Officer through the Annual General Meeting 1995, received – in addition to his annual fee as a board member of AB SKF– an annual fee as board member of a subsidiary and a consultancy fee, totally amounting to SEK 272 500. In addition, Mauritz Sahlin received his retirement pension in accordance with a so-called ”60-year agreement".

Peter Augustsson, President and Chief Executive Officer of AB SKF up until August 31, 1998, received SEK 4 411 157 as salary and other remunerations. This included a bonus of SEK 675 000 and options of SEK 71 680 in accordance with the options program mentioned below. He received USD 14 000 as an additional fee as board member of a subsidiary and free housing. Peter Augustsson will receive a severance payment amounting to SEK 8 704 800.

Sune Carlsson, President and Chief Executive Officer of AB SKF from September 1, 1998, received SEK 17 288 629 as salary and other renumerations, in addition to his annual fee as a board member of AB SKF until August 31, 1998. This included options of SEK 15 372 093. In accordance with swedish legal practice option benefits will be taxed when given to the employee. Half of this amount SEK 15 372 093 was taxes paid. AB SKF will make provisions corresponding to 35% of Sune Carlsson's yearly salary, amounting to SEK 5 000 000, for the future pension benefit of Sune Carlsson. In the event of termination at the request of AB SKF, Sune Carlsson will receive a severance payment amounting to maximum 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 1998 to approximately MSEK 18 500 000 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 150 people and would allocate call options on SKF shares already issued.

27. AVERAGE NUMBER OF EMPLOYEES

	1998 Number of employees	**1998** Whereof men (percent)	1997 Number of employees	1997 Whereof men (percent)	1996 Number of employees	1996 Whereof men (percent)
Parent Company in Sweden	**151**	**62%**	160	66%	161	65%
Subsidiaries in Sweden	**5 993**	**83%**	6 130	84%	6 187	84%
Subsidiaries abroad	**38 814**	**80%**	35 573	82%	36 103	83%
	44 958	**80%**	41 863	83%	42 451	83%

Geographic specification of subsidiaries abroad:

	1998 Number of employees	**1998** Whereof men (percent)	1997 Number of employees	1997 Whereof men (percent)	1996 Number of employees	1996 Whereof men (percent)
France	**3 930**	**83%**	3 689	82%	3 892	83%
Italy	**5 864**	**85%**	5 833	86%	5 834	87%
Germany	**6 741**	**88%**	6 716	87%	7 006	87%
Western Europe excluding Sweden	**3 153**	**85%**	3 297	84%	3 398	84%
Central/Eastern Europe	**4 253**	**63%**	1 270	72%	1 392	71%
U.S.	**6 278**	**69%**	6 086	71%	6 133	72%
North America	**151**	**81%**	146	78%	148	80%
Latin America	**2 223**	**86%**	2 086	88%	2 147	89%
Asia	**5 313**	**84%**	5 452	87%	5 123	87%
Africa	**908**	**76%**	998	75%	1 030	72%
Total subsidiaries abroad	**38 814**	**80%**	35 573	82%	36 103	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 tangible assets
In certain countries, tangible assets have been revalued at an amount in excess of cost. U.S. GAAP does not permit the revaluation of tangible 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 assets. Such interest expense is required to be capitalized in accordance with U.S. GAAP and be depreciated according to plan.

4. Gain on sale of real estate
The real estate in Sweden, which was sold and leased back (through September 1996) in 1987, 1989, and 1990 is reported 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. Provisions for restructuring
Provisions for restructuring have been made based on Swedish generally accepted accounting principles. According to U.S. GAAP, restructuring plans should be made public and the terms communicated to the employees concerned before year-end, for SKF December 31, to qualify to be accounted for as provisions. Those provisions which have been reversed for U.S. GAAP purposes are mainly reversed since the above mentioned criteria are not fulfilled.

6. Provisions for pensions and postretirement benefits
Periodic pension cost and liability and postretirement benefits are 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” and be disclosed according to SFAS 132, ”Employers’ Disclosures about Pensions and Other Postretirement Benefits”. This statement supersedes the disclosure requirements in FASB Statements No. 87, 88 and 106 and is effective for fiscal years beginning after December 15, 1997. The disclosures for 1997 and 1996 have been restated according to SFAS 132.

Provisions 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 132.

	1998	1997	1996
Change in benefit obligation (PBO)			
Benefit obligation at beginning of year	**8 285**	7 566	7 713
Service cost	**151**	130	115
Interest cost	**550**	546	519
Settlements	**–**	- 71	–
Plan amendments	**- 4**	2	13
Adjustments*	**30**	- 17	- 38
Actuarial loss	**520**	259	310
Benefits paid	**- 618**	- 486	- 448
Other	**- 1**	- 1	1
Translation adjustment	**233**	357	- 619
Benefit obligation (PBO) at end of year	**9 146**	8 285	7 566

* *Adjustments made for new/sold companies and businesses.*

	1998	1997	1996
Change in plan assets			
Fair value of plan assets			
at beginning of year	**3 712**	2 898	2 657
Actual return on plan assets	**526**	608	408
Employer contribution	**16**	14	140
Plan amendments	**- 32**	–	–
Benefits paid	**- 321**	- 209	- 172
Other	**1**	- 3	32
Translation adjustment	**152**	404	-167
Fair value of plan assets			
at end of year	**4 054**	3 712	2 898
Funded status	**- 5 092**	- 4 573	- 4 668
Unrecognized transition amount			
at introduction of SFAS 87	**91**	110	332
Unrecognized prior service cost	**116**	109	99
Unrecognized actuarial loss	**306**	6	102
Net amount recognized	**- 4 579**	- 4 348	- 4 135
Weighted-average assumptions as of December 31			
Discount rate	**6.2**	6.6	7.3
Expected return on plan assets	**9.9**	9.9	9.9
Rate of compensation increase	**3.3**	3.2	3.7
Components of net periodic benefit cost			
Service cost	**151**	130	115
Interest cost	**550**	546	519
Expected return on plan assets	**- 318**	- 290	- 235
Amortization of			
- unrecognized transition amount	**22**	21	47
- prior service cost	**18**	16	13
- recognized losses	**10**	17	13
Other	**5**	- 13	6
Net periodic benefit cost	**438**	427	478

PBO = Projected Benefit Obligation

Adjustment required to recognize minimum liability	**506**	227	333
Amount included within other comprehensive income from a change in minimum pension liability	**- 279**	106	46

Plan assets are invested primarily in securities and bonds.

Provisions for postretirement benefits

SKF sponsors several postretirement benefit plans, defined according to SFAS 106, and covering most salaried and hourly employees in the United States. The plans provide certain health care and life insurance benefits to eligible retired employees.

	1998	1997	1996
Change in benefit obligation			
Benefit obligation			
at beginning of year	**1 231**	1 051	1 082
Service cost	**16**	14	11
Interest cost	**89**	86	74
Plan amendments	**–**	–	- 51
Participant contribution	**2**	–	–
Actuarial loss/gain (-)	**97**	- 7	- 26
Benefits paid	**- 85**	- 87	- 76
Other	**–**	14	–
Translation adjustment	**30**	160	37
Benefit obligation at end of year	**1 380**	1 231	1 051
Change in plan assets			
Employer contribution	**83**	87	76
Participant contribution	**2**	–	–
Benefits paid	**- 85**	- 87	- 76
Fair value of plan asset			
at end of year	**–**	–	–
Funded status	**- 1 380**	- 1 231	- 1 051
Unrecognized prior service cost	**- 23**	- 35	- 41
Unrecognized actuarial loss	**199**	114	108
Net amount recognized	**- 1 204**	- 1 152	- 984
Components of net periodic postretirement benefit cost			
Service cost	**16**	14	11
Interest cost	**89**	86	74
Amortization of			
- prior service cost	**- 12**	- 12	- 10
- recognized losses	**6**	2	2
Other	**7**	–	–
Net periodic postretirement			
benefit cost	**106**	90	77

7. Forward exchange contracts

According to U.S. GAAP, a forward exchange contract is reported 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 reported as hedges. In these cases, a valuation of the contract is not made.

At December 31, 1998 a net unrealized gain of 3 (loss of 58 and 21) 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 at December 31, 1998, are expected to occur between 1999 and 2001, but mainly in 1999.

8. Statements of cash flow

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

	1998	1997	1996
Net loss/profit	**- 1 642**	1 558	1 692
Depreciation and goodwill amortization	**2 097**	1 528	1 461
Minority interest in net profit	**- 44**	- 35	19
Net loss/gain(-) on sales of property, plant and equipment, companies and businesses	**12**	- 743	- 362
Changes in working capital:			
Inventories	**- 196**	- 546	- 513
Trade accounts receivable	**- 20**	- 877	101
Trade accounts payable	**- 67**	302	-87
Other oper. short-term assets, liabilities and provisions - net	**1 571**	758	-93
Changes in tax assets and provisions for taxes - net	**- 764**	29	38
Cash flow from operations	**947**	1 974	2 256
Cash flow used in investments	**- 2 265**	-1 665	-2 179
Cash flow used in financing activities	**- 253**	1 617	-948
Translation adjustments	**- 7**	-86	65
Change in short-term financial assets	**- 1 578**	1 840	-806

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.

9. 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. The Group also uses derivative financial instruments for trading purposes, which is in accordance with the Group’s policy.

During 1998, 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:

Derivative financial instruments

	1998	1997	1996
Type of instruments:			
Forward exchange contracts	**17 306**	25 192	15 975
Cross currency swaps	**–**	–	1 950
Currency options	**886**	2 114	5 923
Interest rate swaps	**5 347**	5 355	4 848
	23 539	32 661	28 696
Purpose:			
Hedging of:			
- firm commitments	**5 719**	6 272	4 133
- anticipated transactions	**1 746**	10 109	8 251
- net equity investments	**–**	300	4 310
- other internal bank activities	**8 008**	8 909	7 154
Trading	**2 719**	1 716	–
Interest rate management	**5 347**	5 355	4 848
	23 539	32 661	28 696

At December 31, 1998, the total carrying amounts and fair values of all derivative financial instruments were 674 and 915 (40 and 62 for 1997, and 36 and 77 for 1996) respectively. The increase in 1998 was mainly due to hedging of foreign currency rate exposure in Asia and Latin America. 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.

Recently Issued Accounting Standards

In August 1998, the Financial Accounting Standards Board issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments and requests that all derivatives be recognized as either assets or liabilities in the balance sheets. This new standard is effective for the Group for the year ending December 31, 2000. Based on information currently available, the Group does not expect the new standard to have a material effect on the financial position or results of operations.

10. Comprehensive loss/income according to SFAS 130

The comprehensive loss/income defined according to SFAS 130 amounted to -1 897 (1 336 and 1 739). The difference between the net loss/profit and comprehensive loss/income is the losses/gains from hedges (net of taxes) of investments in foreign subsidiaries (see note 13) and the change in minimum pension liability defined according to SFAS 87.

The net loss/profit is reconciled to comprehensive loss/income as follows:

	1998	1997	1996
Loss/profit for the year	**- 1 642**	1 558	1 692
Losses/gains from hedges (net of taxes)	**24**	- 328	6
Change in minimum pension liability	**- 279**	106	41
Comprehensive loss/income	**- 1 897**	1 336	1 739

11. Summary

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

Net loss/profit:

	1998	1997	1996
As reported in the consolidated income statements	**- 1 642**	1 558	1 692
Items increasing/decreasing net loss/profit:			
28.1 Deferred income taxes	**- 238**	18	- 39
28.2 Depreciation on revaluation of assets including effect in connection with sale	**21**	6	14
28.3 Capitalization of interest expense	**48**	54	57
28.5 Provisions for restructuring	**700**	–	–
28.6 Pensions	**- 14**	- 79	- 11
28.7 Forward exchange contracts	**61**	-37	- 53
Net change in net loss/profit:	**578**	- 38	- 32
Approximate net loss/profit in accordance with U.S. GAAP	**- 1 064**	1 520	1 660

Shareholders' equity:

	1998	1997	1996
As reported in the consolidated balance sheets	**10 932**	12 588	11 310
Items increasing/decreasing shareholders' equity:			
28.1 Deferred income taxes	**- 74**	164	146
28.2 Revaluation of assets	**- 251**	- 254	-253
28.3 Capitalization of interest expense	**217**	170	116
28.5 Provisions for restructuring	**700**	–	–
28.6 Pensions	**- 193**	- 179	-100
28.7 Forward exchange contracts	**3**	- 58	-21
Net change in shareholders' equity	**402**	- 157	-112
Approximate shareholders' equity in accordance with U.S. GAAP	**11 334**	12 431	11 198

Loss/earnings per share, in SEK[1]:

	1998	1997	1996
Net loss/earnings per share in accordance with U.S. GAAP	**- 9.50**	13.35	14.60
Weighted average number of shares outstanding	**113 837 767**	113 837 767	113 837 767

1) Loss/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		
	1998	1997	1996	**1998**	1997	1996
Intangible assets	**1 042**	576	568	**1 143**	724	833
Long-term deferred tax assets	**1 197**	715	693	**1 097**	809	759
Tangible assets	**14 568**	13 631	12 541	**14 534**	13 547	12 404
Long-term financial assets	**1 084**	1 185	1 063	**1 084**	1 185	1 063
Inventories	**10 183**	9 924	9 476	**10 183**	9 924	9 476
Short-term tax assets	**658**	562	534	**658**	578	534
Other short-term assets	**7 930**	7 916	6 818	**7 933**	7 916	6 818
Short-term financial assets	**2 353**	3 931	2 091	**2 353**	3 931	2 091
Total assets	**39 015**	38 440	33 784	**38 985**	38 614	33 978
Shareholders' equity	**10 932**	12 588	11 310	**11 334**	12 431	11 198
Minority interest	**367**	290	288	**367**	290	288
Provisions for pensions and other postretirement benefits	**7 139**	6 171	6 030	**7 561**	6 588	6 458
Provision for deferred taxes, long-term	**1 304**	1 275	1 288	**1 277**	1 222	1 214
Provision for deferred taxes, short-term	**184**	367	413	**185**	366	407
Other provisions	**4 095**	2 981	2 130	**3 267**	2 891	2 067
Long-term loans	**4 842**	6 538	4 846	**4 842**	6 538	4 846
Other long-term liabilities	**88**	69	74	**88**	69	74
Short-term loans	**3 337**	1 853	1 693	**3 337**	1 853	1 693
Other short-term liabilities	**6 727**	6 308	5 712	**6 727**	6 366	5 733
Total equity, provisions and liabilities	**39 015**	38 440	33 784	**38 985**	38 614	33 978

29. INVESTMENTS

	1998	1997	1996
Investments in Associated Companies	**–**	29	24
Other investments	**200**	326	53
	200	355	77

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	–
Held by subsidiaries:					
WPB Water Pump Bearing Beteiligungsgesellschaft mbH, Germany	40.0	1	DEM	20	–
WPB Water Pump Bearing GmbH & Co. KG, Germany	40.0	1	DEM	22 000	–
					–

Other investments

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Held by Parent Company					
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	8.6	1 125	SEK	112	114
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
Wafangdian Bearing Company Limited, Peoples Republic of China	19.7	65 000 000	CNY	65 000	120 009
Société Immobilière de l´Ecole Scandinave, Belgium		20	BEF	400	0
Other shares and securities					4
					158 750

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Held by subsidiaries					
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	139	FIM	1	221
Voimansiirto Oy, Finland	10.0	60	FIM	60	82
Industrilink A/S, Denmark	20.0	1	DKK	20	88
Société Immobilière de l´Ecole Scandinave, Belgium	12.0	150	BEF	3 000	702
Gemeinnützige Wohnungsbaugesellschaft Schweinfurt GmbH, Germany	25.0	1	DEM	250	1 207
Gesellschaft z. Entsorgung v. Sondermüll in Bayern mbH, Germany	0.4	1	DEM	80	386
GKS Gemeinschaftskraftwerk Schweinfurt GmbH, Germany	16.5	1	DEM	3 300	15 937
IBU Baugenossenschaft UST, Switzerland	11.9	10	CHF	210	55
Electrac, France	35.0	3 500	FRF	3 500	5 040
IPO, France	0.1	1	FRF	100	219
Indesit, Italy	0.17	12 775	ITL	23 000	–
Housing Development Finance Corp. Ltd., India	0.01	2 500	INR	250	47
Carried forward					26 454

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Held by subsidiaries, cont.					
Carried forward					26 454
United Trust of India, India	0.01	2 650 000	INR	26 500	5 558
Housing Development Finance Corp. Bank Ltd., India	0.01	37 700	INR	377	72
Bearhold Philippines, Philippines	40.0	38	HKD	144	150
FAIRSKQ Taiwan Co. Ltd., Taiwan	40.0	2 080	TWD	20 800	6 890
Skefko Bearings Newcastle, Australia	30.0	12 000	AUD	12	59
Other					2 542
Total					41 725

Total investments	
Held by subsidiaries	41 725
Held by Parent Company	158 750
Total investments SKF Group	200 475

Name and location	Holding in percent	Owned by subsidiary in:
Investments in SKF subsidiaries held by other subsidiaries*		
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	26.8	Germany
SKF Bearing Industries (Malaysia) Sdn.Bhd., Nilai, Malaysia	73.2	The Netherlands
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		**1998**	1997	1996
Administrative expenses	*Note 3*	**- 143**	- 163	- 93
Other operating revenues		**9**	17	11
Other operating expenses		**0**	- 40	0
Operating loss		**- 134**	- 186	-82
Financial income and expense - net	*Note 1*	**- 1 279**	1 200	1 052
Loss/profit after financial income and expense		**- 1 413**	1 014	970
Provisions	*Note 2*	**- 590**	149	528
Net loss/profit		**- 2 003**	1 163	1 498

PARENT COMPANY STATEMENTS OF CASH FLOW

Millions of Swedish kronor	**1998**	1997	1996
Operating loss	**- 134**	- 186	- 82
Depreciation according to plan of tangible assets	**3**	6	5
Net loss on sales of tangible assets	**–**	39	–
Group contribution and allowance for shareholders’ contribution - net	**- 591**	100	519
Changes in working capital:			
Accounts payable – trade	**- 3**	1	0
Other operating assets, liabilities and provisions - net	**468**	- 216	319
Cash flow from operations	**- 257**	- 256	761
Additions to tangible assets	**- 15**	- 7	-8
Changes in investments	**232**	- 524	-823
Sales of tangible assets	**4**	11	–
Cash flow after investments	**- 36**	- 776	- 70
Financial income and expense - net	**- 1 279**	1 200	1 052
Cash dividends to shareholders	**- 598**	- 593	- 593
Issue of new shares	**–**	189	–
Change in other long-term assets, liabilities and provisions - net	**2 159**	- 1 633	- 564
Cash flow before financing	**246**	- 1 613	- 175
Change in loans	**- 275**	1 633	165
Change in short-term financial assets	**- 29**	20	- 10

PARENT COMPANY BALANCE SHEETS

Millions of Swedish kronor		**1998**	1997	1996
ASSETS				
Capital assets				
Tangible assets	*Note 3*	**42**	34	83
Investments in consolidated subsidiaries	*Note 4*	**8 296**	8 371	8 146
Long-term receivables from consolidated subsidiaries		**4 005**	5 240	3 611
Investments in Associated Companies	*Note 4*	**0**	24	–
Other investments	*Note 4*	**159**	292	17
Other long-term receivables		**0**	0	3
		12 502	13 961	11 860
Short-term assets				
Short-term receivables from consolidated subsidiaries		**1 285**	1 501	1 322
Other short-term assets	*Note 5*	**15**	18	22
Short-term financial assets	*Note 6*	**5**	34	14
		1 305	1 553	1 358
Total assets		**13 807**	15 514	13 218
EQUITY, PROVISIONS AND LIABILITIES				
Shareholders' equity	*Note 7*			
Restricted equity				
Share capital (113 837 767 shares, nominal value SEK 12.50 per share)		**1 423**	1 423	1 412
Legal reserve		**633**	633	455
Unrestricted equity				
Retained earnings		**5 461**	4 896	3 991
Net loss/profit		**- 2 003**	1 163	1 498
		5 514	8 115	7 356
Untaxed reserves	*Note 2*	**14**	15	64
Provisions				
Provisions for pensions and similar commitments	*Note 8*	**394**	383	374
Other provisions		**24**	1	1
		418	384	375
Long-term liabilities				
Convertible bonds	*Note 9*	**–**	–	1 525
Long-term loans	*Note 10*	**3 993**	5 153	1 995
Long-term liabilities to consolidated subsidiaries		**1 040**	127	137
Other long-term liabilities		**–**	0	6
		5 033	5 280	3 663
Short-term liabilities				
Short-term loans	*Note 11*	**895**	10	10
Accounts payable - trade		**7**	10	9
Short-term liabilities to consolidated subsidiaries		**1 706**	1 468	1 604
Other short-term liabilities	*Note 12*	**220**	232	137
		2 828	1 720	1 760
Total equity, provisions and liabilities		**13 807**	15 514	13 218
Assets pledged	*Note 13*	**1**	–	0
Contingent liabilities	*Note 14*	**101**	344	293

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

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

1. FINANCIAL INCOME AND EXPENSE

	1998	1997	1996
Income from investments in consolidated subsidiaries	**- 1 136**	1 211	1 048
Income from investments in associated companies	**- 26**	–	–
Income from other equity securities and long-term financial investments	**346**	698	350
Other financial income and similar items	**14**	16	59
Interest expense and similar items	**- 477**	- 725	- 405
	- 1 279	1 200	1 052

Specification of financial income and expense, net

	1998	1997	1996
Dividends related to			
- investments in consolidated subsidiaries	**351**	650	1 081
- income from other equity securities and long-term financial investments	**6**	0	0
Total dividends	**357**	650	1 081
Interest income related to			
- income from other equity securities and long-term financial investments			
- consolidated subsidiaries	**349**	363	306
- other	**–**	0	0
- other financial income and similar items			
- consolidated subsidiaries	**12**	12	58
- other	**1**	1	2
Total interest income	**362**	376	366
Interest expense for			
- financial liabilities related to interest expense and similar items			
- consolidated subsidiaries	**- 8**	- 21	- 61
- other	**- 350**	- 360	- 304
- pensions and other postretirement benefits related to interest expense and similar items	**- 19**	- 14	- 22
Total interest expense	**- 377**	- 395	- 387

	1998	1997	1996
Financial exchange gains and losses related to			
- income from other equity securities and long term financial investments			
- consolidated subsidiaries	**100**	333	44
- other financial income and similar items			
- consolidated subsidiaries	**0**	0	- 1
- other	**1**	3	0
- interest expense and similar items			
- consolidated subsidiaries	**1**	- 16	22
- other	**- 101**	- 314	- 40
Total financial exchange gains and losses	**1**	6	25
Capital gains and losses from sales related to			
- investments in consolidated subsidiaries	**- 10**	651	- 33
- other equity securities and long-term financial assets	**1**	2	–
Total capital gains and losses from sales	**- 9**	653	-33
Write-downs related to			
- income from investments in			
- consolidated subsidiaries	**- 1 477**	- 90	–
- associated companies	**- 26**	–	–
- income from other equity securities and long-term financial investments	**- 110**	–	–
Total write-downs	**- 1 613**	- 90	–
Financial income and expense, net	**- 1 279**	1 200	1 052

2. PROVISIONS AND UNTAXED RESERVES

Provisions

	1998	1997	1996
Change in accelerated depreciation reserve	**1**	39	3
Change in other reserves	**0**	10	6
	1	49	9
Group contribution received	**93**	536	545
Group contribution paid	**- 672**	-413	- 6
Allowance for shareholders' contribution	**- 12**	- 23	- 20
	- 591	100	519
	- 590	149	528

Untaxed reserves

	1998	1997	1996
Accelerated depreciation reserve	**14**	15	54
Other reserves	**–**	0	10
	14	15	64

3. TANGIBLE ASSETS

Acquisition cost:

	1998	Additions during the year	Disposals	1997	1996
Land, land improvements and buildings	**27**	12	- 4	19	122
Machinery and supply systems	**36**	3	- 4	37	76
	63	15	- 8	56	198

Accumulated depreciation according to plan:

	1998	Depreciation during the year	Disposals	1997	1996
Land, land improvements and buildings	**2**	0	0	2	76
Machinery and supply systems	**19**	3	- 4	20	39
	21	3	- 4	22	115
Net book value	**42**	12	- 4	34	83

Depreciation according to plan is included in administrative expenses.

Tax value of tangible assets:

	1998	1997	1996
Land and land improvements	**3**	2	42
Buildings	**8**	7	153
	11	9	195

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, 1998

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	1 746 548	PLN	34 931	68 038
Lutsk Bearing Plant, Ukraine	89.7	111 997 788	UAH	27 999	132 366
SKF Actuators AB, Göteborg, Sweden	100	1 000	SEK	1 000	0
SKF AutoBalance Systems AB, Göteborg, Sweden	91.0	9 100	SEK	910	912
SKF Arvika AB, Arvika, Sweden	100	2 900	SEK	290	0
SKF de Mexico S.A. de C.V., Mexico	100	40 000	MXN	40	0
SKF do Brasil Limitada, Brazil	99.9	14 688 564	BRL	14 689	75 291
SKF Argentina S.A., Argentina	99.9	500 259	ARP	500	10 936
SKF Bearings India Ltd., India	42.4	1 067 248	INR	106 725	0
CR Seals India Private Limited, India	0.0	101	INR	1	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					1 644 411

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Carried forward					1 644 411
Share subscription in 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	93 524
SKF HANWHA Automotive Components Corporation, Republic of Korea	100	2 145 000	KRW	10 725 000	0
CR Korea Co., Ltd., Republic of Korea	50.0	100 320	KRW	1 003 200	9 653
PT. SKF Indonesia, Indonesia (incl. share subscription)	60.0	22 540	IDR	22 540 000	32 249
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	4 621 089	PES	4 621	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	0
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					7 627 228

Name and location	Holding in percent	Number of shares	Currency	Nominal value in thousands	Book value in SEK thousands
Carried forward					7 627 228
Share subscription in SKF (China) Investment co. Ltd., Peoples Republic of China	100				89 022
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 Logistic Services 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 International 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	10 000	SEK	1 000	998
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 Couplings Holding AB, Göteborg, Sweden	100	2 800 000	SEK	280 000	106 470
Ovako Ring AB, in liquidation, Göteborg, Sweden	100	1 000	SEK	100	99
Ovako Metallurgy AB, in liquidation, Göteborg, Sweden	100	500	SEK	50	60
Ovako Tube AB, Göteborg, Sweden	100	5 000	SEK	500	600
Ovako Steel Holding AB, Göteborg, Sweden	100	9 600 000	SEK	960 000	27
					8 295 729

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

5. OTHER SHORT-TERM ASSETS

	1998	1997	1996
Other short-term receivables	**15**	17	20
Prepaid expenses	**0**	1	2
	15	18	22

6. SHORT-TERM FINANCIAL ASSETS

	1998	1997	1996
Short-term financial receivables	**1**	27	–
Cash and bank accounts	**4**	7	14
	5	34	14

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 1996-01-01	1 412	455	4 584	6 451
Cash dividend	–	–	- 593	- 593
Net profit	–	–	1 498	1 498
Closing balance 1996-12-31	1 412	455	5 489	7 356
Cash dividend	–	–	- 593	- 593
Issue of new shares	11	178	–	189
Net profit	–	–	1 163	1 163
Closing balance 1997-12-31	1 423	633	6 059	8 115
Cash dividend	–	–	- 598	- 598
Net loss	–	–	- 2 003	- 2 003
Closing balance 1998-12-31	1 423	633	3 458	5 514

8. PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS

Charges against profit/loss for pensions and similar plans were 80 (53 and 52) which include an interest cost calculated at 19 (14 and 22).

Provisions for pensions include pensions in the FPG - PRI (Pension Registration Institute) system by 307 (298 and 294).

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:

	1998	1997	1996
Bonds	**2 897**	3 599	1 379
Bank loans	**606**	1 027	378
Other borrowings	**490**	527	238
	3 993	5 153	1 995

The above loans were denominated in the following currencies:

	1998	1997	1996
Swedish kronor	**1 292**	1 226	437
United States dollars	**2 701**	3 823	1 453
Spanish pesetas	**–**	104	105
	3 993	5 153	1 995

Maturities of long-term loans as at December 31, 1998, were as follows:

2000	14
2001	14
2002	921
2003	512
2004	812
2005 and thereafter	1 720
	3 993

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

11. SHORT-TERM LOANS

	1998	1997	1996
Current portion of long-term loans	**895**	10	10
	895	10	10

12. OTHER SHORT-TERM LIABILITIES

	1998	1997	1996
Other short-term liabilities	**4**	6	6
Accrued expenses and deferred income	**216**	226	131
	220	232	137

Accrued expenses and deferred income include accrued interest of 177 (185 and 83).

13. ASSETS PLEDGED

	1998	1997	1996
Mortgages in leasehold, land	**–**	–	0
Receivables	**1**	–	–
	1	–	0

14. CONTINGENT LIABILITIES

	1998	1997	1996
Guarantees in respect of consolidated subsidiaries' obligations	**70**	294	261
Other guarantees and contingent liabilities	**31**	50	32
	101	344	293

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	5 461 680 542
Net loss for the year	SEK	- 2 003 541 739
Total surplus	SEK	3 458 138 803
The Board of Directors and the President recommend,		
that a dividend of 2.00 Swedish kronor per share		
be paid to the shareholders	SEK	227 675 534
that the balance be carried forward	SEK	3 230 463 269
	SEK	3 458 138 803

The results of operations and the financial position of the Parent Company and the Group in 1998 are given in the income statements and in the balance sheets together with related notes.

Stockholm, January 28, 1999

Anders Scharp	Sören Gyll	Stig Blomberg
Mauritz Sahlin	Helmut Werner	Lennart Alverå
Giovanni Mario Rossignolo	Vito H Baumgartner	Anders Olsson
Per-Olof Eriksson	Ulla Litzén	
Sune Carlsson	Göran Johansson	

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 President of Aktiebolaget SKF for 1998. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. 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 President, 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 President, 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.

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 total surplus of the Parent Company be dealt with in accordance with the proposal in the Administration Report.

In our opinion, the Board members and the President 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 President be discharged from liability for the financial year.

Göteborg, February 26, 1999

Arthur Andersen AB

Mats Fredricson
Authorized public accountant

SHARES AND SHAREHOLDERS

Distribution of shares as per 31 December, 1998

		Stockholm (1914)	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.

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 1982-1998

	Amount paid MSEK	Share capital MSEK	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

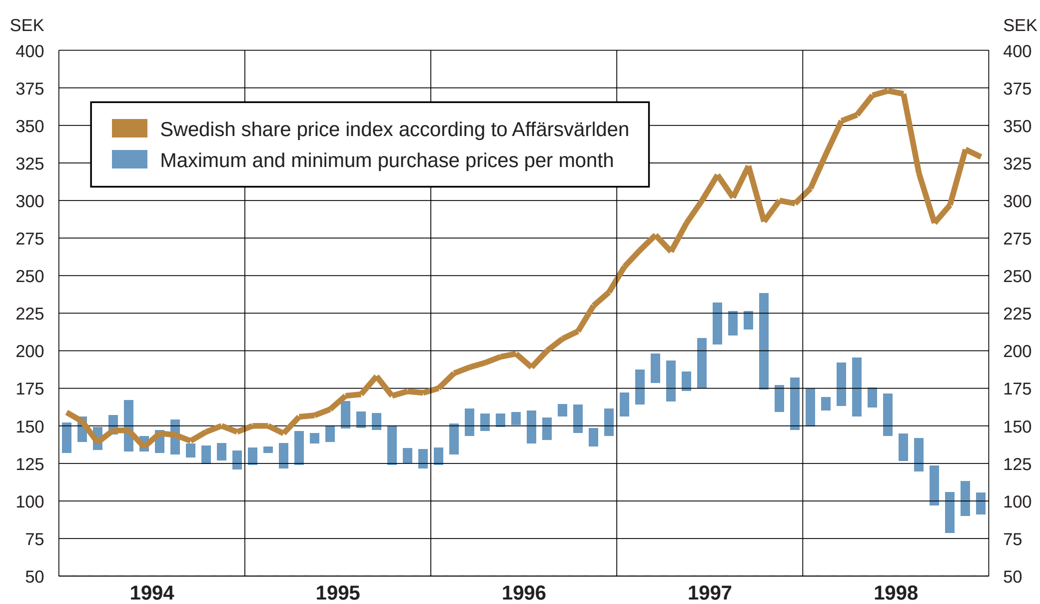
Trading in SKF shares

	Stockholm		London	
Year	Number of shares	MSEK	Number of shares	MSEK
1992	44 497 000	4 064	81 900 000	*
1993	69 120 000	6 940	92 532 000	*
1994	94 423 000	13 129	99 666 000	*
1995	89 040 000	12 414	72 060 000	*
1996	76 636 130	11 281	70 224 523	10 267
1997	80 880 606	15 335	79 329 702	15 746
1998	114 360 493	16 070	72 421 778	10 841

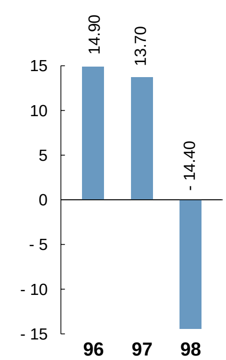
Source: Stockholm Stock Exchange, London Stock Exchange

* *No information available*

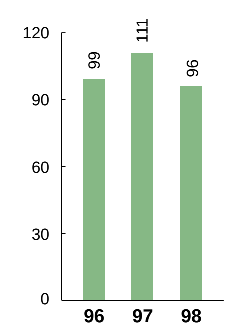
Price development of the SKF B share



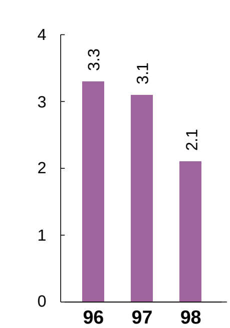
Loss/earnings per share, SEK



Shareholders' equity per share, SEK



Yield in percent, B



Convertible bonds

In May, 1992, AB SKF issued zero coupon convertible bonds amounting to 145 million XEU after a 8.75% 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 MSEK 189.

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, 1998, the SKF Allemansfond had 720 members and assets amounting to MSEK 45.

Distribution of shareholding

Shareholding	Number of shareholders	Percent	Number of shares	Percent
1– 1 000	32 063	92.4	6 795 890	6.0
1 001– 10 000	2 246	6.5	6 470 977	5.7
10 001– 100 000	283	0.8	8 758 976	7.7
100 001–	105	0.3	91 811 924	80.6
	34 697	100.0	113 837 767	100.0

Source: VPC AB's public share register as of 1998-12-30

The ten largest shareholders

	A-shares	B-shares	Number of shares	Number of votes	In percent of voting rights	In percent of share capital
1) Investor AB	15 820 952	150 000	15 970 952	15 821 102	32.1	14.0
2) Skanska Invest AB	9 870 000	–	9 870 000	9 870 000	20.0	8.7
3) SPP (pension funds)	2 316 136	2 138 100	4 454 236	2 318 274	4.7	3.9
4) Nordbanken savings funds	2 106 900	3 991 000	6 097 900	2 110 891	4.3	5.4
5) The National Insurance Fund, Fourth Fund Managing Board	2 026 800	1 729 000	3 755 800	2 028 529	4.1	3.3
6) Skandia (Insurance Group)	940 574	2 180 694	3 121 268	942 755	1.9	2.7
7) AMF Sjukförsäkring (Insurance Group)	874 200	346 000	1 220 200	874 546	1.8	1.1
8) Stiftelsen för Kunskaps- och Kompetensutveckling (foundation)	612 600	–	612 600	612 600	1.2	0.5
9) Wallenberg foundations	539 100	106 624	645 724	539 207	1.1	0.6
10) Svenska Handelsbanken savings funds	302 423	973 900	1 276 323	303 397	0.6	1.1
					71.8	41.3

Source: VPC AB's public share register as of 1998-12-31.

In total 36.6% of the shares representing 18% of voting rights were owned by foreigners 1998-12-30.
The proportion of institutional ownership was 60.6%.

Per-share data (Definitions see note 1)

Swedish kronor/share	1992	1993	1994	1995	1996	1997	**1998**
Loss/earnings per share (1)	- 14.05	- 4.05	11.25	18.10	14.90	13.70	- 14.40
Cash flow before financing per share (1)	- 9.70	1.10	17.00	10.50	- 8.50	0.40	- 11.90
Dividend per A and B share	–	–	4.25	5.25	5.25	5.25	2.00(2)
Total dividends paid in millions of Swedish kronor	–	–	–	480	593	593	598
Purchase price of B shares at year-end on the Stockholm Stock Exchange	74	132	122.50	127	160	169	94.50
Shareholders' equity per share (1)	72	73	81	89	99	111	96
Yield in percent (B) (1)	–	–	3.5	4.1	3.3	3.1	2.1
P/E ratio, B (1)	neg	neg	10.9	7.0	10.8	12.3	neg

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.

Analysts who follow SKF

ABG Securities, Stockholm
Michael Grundberg

Alfred Berg, Stockholm
Stefan Lundewall

Aros Securities, Stockholm
Mikael Sens

Cazenove & Co., London
Neil Wilkinson

Cheuvreux de Virieu, Stockholm
Peter Karlsson

Commerzbank, London
Brian O'Keefe

Credit Suisse First Boston, London
Dan Manor

D Carnegie, Stockholm
Ola Asplund

Den Danske Bank, Stockholm
Hans Westerberg

Den Norske Bank, Stockholm
Niklas Elmhammar

Deutsche Morgan Grenfell, Stockholm
Hans-Olov Borneman

Dresdner Kleinwort Benson, London
Peter Lawrence

Enskilda Securities, Stockholm
Anders Eriksson

Goldman Sachs International, London
Colin Gibson

Hagströmer & Qviberg Fondkommission, Stockholm
Johan Tisell

Handelsbanken Markets, Stockholm
Anders Bruzelius

HSBC James Capel, London
Roddy Bridge

JP Morgan, London
Niall O'Connor

Lehman Brothers, London
Michael Hagmann

Matteus Fondkommission, Stockholm
David Hallbäck

Merrill Lynch, Frankfurt
Olaf Toelke

Morgan Stanley, London
Gideon Franklin

Nordbanken Aktier, Stockholm
Mathias Wallerström

Orkla Securities, Stockholm
Anders Roslund

Paribas Capital Markets, London
Christian Diebitsch

Société Générale, Paris
Francine Lenoir

Swedbank Markets, Stockholm
Mats Larsson

Warburg Dillon Read, Stockholm
Per Afrell
Anders Fagerlund
Patrick Sjöblom

Williams de Broë, London
Alex Migliorini

BOARD OF DIRECTORS

BOARD OF DIRECTORS

ANDERS SCHARP, *Stockholm*
Born 1934. Chairman.
Board member since 1992.
Chairman Saab AB, Scania 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: 19 400

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 Air Liquide AB, FlexLink AB, Imego AB, Novare Kapital AB and West Sweden Chamber of Commerce and Industry.
Board member Scania AB, Investor AB, Iro AB, Billes Tryckeri AB, Sandvik AB, Statoil (Norway) and The Federation of Swedish Industries.
Shareholding in SKF: 17 700

PER-OLOF ERIKSSON, *Sandviken*
Born 1938. Board member since 1987.
Chairman Svenska Kraftnät (Swedish National Grid), Thermia 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: 3 000

GIOVANNI MARIO ROSSIGNOLO, *Turin, Italy*
Born 1930. Board member since 1987.
Chairman Consortium – Mediobanca (Italy).

SUNE CARLSSON, *Hovås*
Born 1941. President and Chief Executive Officer. Board member since 1991.
Board member Atlas Copco AB.
Shareholding in SKF: 5 000 and 500 000 stock options

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

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 and The Royal Swedish Academy of Engineering Sciences (IVA).
Shareholding in SKF: 2 000

HELMUT WERNER, *Stuttgart, Germany*
Born 1936. Board member since 1998.
Chairman of the Supervisory Boards of EXPO 2000 Hannover GmbH, Metallgesellschaft AG and Alcatel Deutschland GmbH.
Member of the Supervisory Boards of Alcatel, BASF AG and Gerling-Konzern Versicherungs-Beteiligungs AG.
Shareholding in SKF: 670

VITO H BAUMGARTNER, *Geneva, Switzerland*
Born 1940. Board member since 1998.
Vice President Caterpillar Inc.
Chairman of the Board of Caterpillar Overseas S.A.
Chairman of the Foundation Board of International Institute for Management Development (IMD).
Vice Chairman of the European-American Industrial Council (EAIC).
Vice President of the Swiss-American Chamber of Commerce.
Member of the Russian Academy of Transportation in St. Petersburg.
Shareholding in SKF: 600

ULLA LITZÉN, *Stockholm*
Born 1956. Board member since 1998.
Managing Director, Investor AB.
Deputy board member Saab Automobile AB.
Shareholding in SKF: 3 000

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.


Sune Carlsson


Göran Johansson

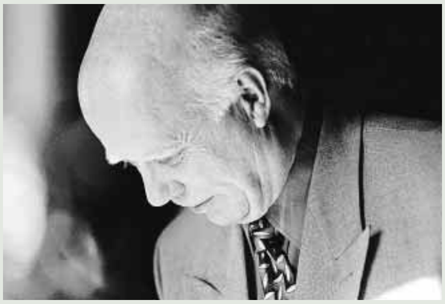

Anders Scharp


Per-Olof Eriksson

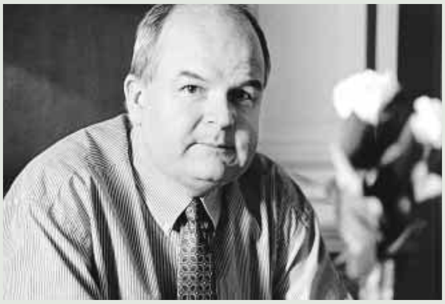

Ulla Litzén


Mauritz Sahlin


Sören Gyll


Stig Blomberg


Anders Olsson


Lennart Alverå


Giovanni Mario Rossignolo


Helmut Werner


Vito H Baumgartner


Mats Fredricson


Lennart Johansson

MANAGEMENT

PRESIDENT AND CHIEF EXECUTIVE OFFICER

SUNE CARLSSON*
Hovås, born 1941
Employed since 1998
Shareholding in SKF: 5 000
and 500 000 stock options
Board member Atlas Copco AB

EXECUTIVE VICE PRESIDENT AB SKF AND PRESIDENT SKF GMBH, SCHWEINFURT, GERMANY

GUNNAR GREMLIN
Schweinfurt, Germany, born 1945
Employed since 1969
Shareholding in SKF: 300
and 2 400 stock options

EXECUTIVE VICE PRESIDENT AB SKF AND PRESIDENT SKF USA, INC., NORRISTOWN, PA, USA

KRISTER PEIL
Berwyn, PA, USA, born 1942
Employed since 1970
Shareholding in SKF: 1 679
and 1 600 stock options

GROUP FINANCE

TORE BERTILSSON*
Göteborg, born 1951
Employed since 1989
Shareholding in SKF: 3 000
and 2 400 stock options
Board member Trygg Fonder AB and Ågrenska

INDUSTRIAL DIVISION

CHRISTER GYBERG*
Göteborg, born 1947
Employed since 1972
Shareholding in SKF: 500
and 2 270 stock options

AUTOMOTIVE DIVISION

TOM JOHNSTONE*
Göteborg, born 1955
Employed since 1977
Shareholding in SKF: 2 400 stock options

ELECTRICAL DIVISION

GIUSEPPE DONATO*
Turin, Italy, born 1944
Employed since 1979
Shareholding in SKF: 2 270 stock options

SERVICE DIVISION

PHIL KNIGHTS*
Brussels, Belgium, born 1948
Employed 1987-1993 and since 1996
Shareholding in SKF: 800

SEALS DIVISION

STEN E MALMSTRÖM
Askim, born 1943
Employed since 1973
Shareholding in SKF: 1 000
and 2 400 stock options
Chairman West Sweden China Forum and board member Gothenburg Research Institute

STEEL DIVISION

MARTIN IVERT
Stockholm, born 1948
Employed since 1974
Shareholding in SKF: 150
and 2 400 stock options

GROUP QUALITY & HUMAN RESOURCES

BENGT OLOF HANSSON
Pixbo, born 1947
Employed since 1964

GROUP TECHNOLOGY DEVELOPMENT

HENNING WITTMEYER
Hilversum, the Netherlands, born 1942
Employed since 1971
Shareholding in SKF: 3 000
and 2 400 stock options
Board member Ytkemiska institutet

GROUP COMMUNICATION

LARS G MALMER
Göteborg, born 1943
Employed since 1974
Shareholding in SKF: 1 200
and 2 400 stock options
Board member West Sweden Chamber of Commerce and Industry, International Council of Swedish Industries and Chalmers Teknikpark

GROUP BUSINESS DEVELOPMENT

KAJ THORÉN
Göteborg, born 1944
Employed since 1975
Shareholding in SKF: 5 051
and 2 400 stock options
Board member FlexLink AB

GROUP LEGAL

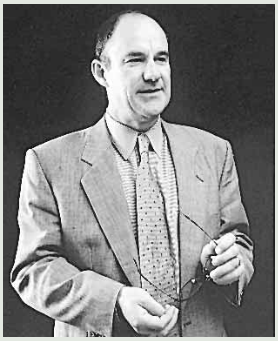
CARINA BERGFELT
Göteborg, born 1960
Employed since 1990
Shareholding in SKF: 1 335 stock options
Board member Forskarpatent i Västsverige AB

GROUP SOURCING

HANS-GÖRAN PERSSON
Lerum, born 1946
Employed since 1996
Shareholding in SKF: 1 870 stock options

* *member of the Group Executive Committee*


Sune Carlsson

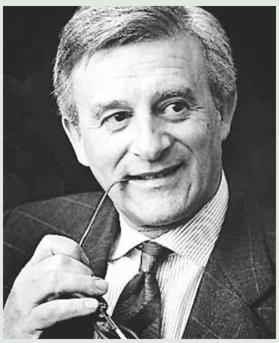

Krister Peil


Gunnar Gremlin


Tore Bertilsson

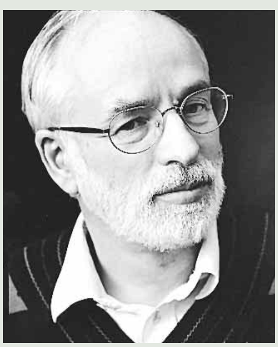

Phil Knights


Tom Johnstone

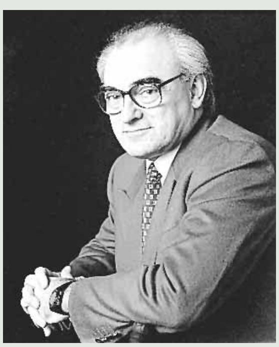

Giuseppe Donato


Christer Gyberg


Bengt Olof Hansson


Henning Wittmeyer


Sten E Malmström


Lars G Malmer


Kaj Thorén


Hans-Göran Persson


Carina Bergfelt


Martin Ivert

SEVEN-YEAR REVIEW OF THE SKF GROUP

Amounts in millions of Swedish kronor unless otherwise stated	1992	1993	1994	1995	1996	1997	**1998**
Income statements							
Net sales	26 649	29 200	33 273	36 700	33 589	36 922	**37 688**
Sweden	1 463	1 415	1 837	2 202	1 869	1 967	**1 983**
Operating expenses	- 27 759	- 28 922	- 30 833	- 32 775	- 31 122	- 34 717	**- 37 648**
Other operating revenue/expense - net	213	427	151	75	407	799	**- 928**
Loss in associated companies	–	–	–	–	–	- 55	**- 111**
Operating loss/profit	- 897	705	2 591	4 000	2 874	2 949	**- 999**
Financial income and expense, net	- 988	- 1 158	- 714	- 611	- 462	- 843	**- 1 064**
Loss/profit after financial income and expense	- 1 885	- 453	1 877	3 389	2 412	2 106	**- 2 063**
Taxes	333	- 7	- 570	- 1 301	- 701	- 583	**377**
Loss/profit after taxes	- 1 552	- 460	1 307	2 088	1 711	1 523	**- 1 686**
Extraordinary expense, net of taxes	- 52	–	–	–	–	–	**–**
Minority interest	7	–	- 28	- 30	- 19	35	**44**
Net loss/profit for the year	- 1 597	- 460	1 279	2 058	1 692	1 558	**- 1 642**
Balance sheets							
Intangible assets	1 072	2 284	1 793	1 374	1 261	1 291	**2 239**
Tangible assets	11 266	11 862	11 092	11 264	12 541	13 631	**14 568**
Long-term financial assets	1 651	1 452	1 348	1 212	1 063	1 185	**1 084**
Inventories	9 435	9 220	8 606	8 972	9 476	9 924	**10 183**
Short-term assets	6 382	6 841	7 517	7 276	7 352	8 478	**8 588**
Short-term financial assets	3 075	2 692	2 356	2 897	2 091	3 931	**2 353**
Total assets	32 881	34 351	32 712	32 995	33 784	38 440	**39 015**
Shareholders' equity	8 215	8 289	9 183	10 122	11 310	12 588	**10 932**
Provisions for pensions and other postretirement benefits	4 781	6 326	6 260	6 089	6 030	6 171	**7 139**
Provisions for taxes	1 172	1 370	1 386	1 420	1 701	1 642	**1 488**
Other provisions	3 415	3 258	2 159	2 377	2 130	2 981	**4 095**
Long-term loans (including convertible loans)	6 517	7 044	4 954	4 584	4 846	6 538	**4 842**
Other long-term liabilities, including minority interest	1 146	1 123	948	935	362	359	**455**
Short-term loans	3 258	2 228	2 047	1 715	1 693	1 853	**3 337**
Other short-term liabilities	4 377	4 713	5 775	5 753	5 712	6 308	**6 727**
Total equity, provisions and liabilities	32 881	34 351	32 712	32 995	33 784	38 440	**39 015**
Key figures (in percentages unless otherwise stated)							
Return on total assets	- 1.1	3.6	9.1	13.2	9.9	9.1	**- 1.6**
Return on capital employed	- 1.5	5.0	13.0	19.0	14.7	13.0	**- 2.8**
Return on shareholders' equity	- 16.1	- 5.1	13.4	19.4	15.9	13.0	**- 13.3**
Profit margin	- 1.3	4.2	9.4	12.4	10.0	9.0	**- 2.0**
Turnover of total assets, times	0.84	0.86	0.97	1.07	0.99	1.00	**0.97**
Share of risk-bearing capital	28.6	23.9	28.1	31.9	35.8	37.8	**32.8**
Solvency (equity/assets ratio)	25.3	24.5	28.5	31.2	34.3	33.5	**29.0**
Investments and employees							
Additions to tangible assets	1 121	933	1 356	2 296	2 710	2 664	**2 148**
Sweden	140	238	293	427	655	918	**434**
Research and development expenses	473	552	542	598	751	757	**702**
Patents - number of first filings	85	57	59	65	130	146	**145**
Average number of employees	46 672	39 439	40 072	42 641	42 451	41 863	**44 958**
Sweden	6 871	5 975	6 282	6 418	6 348	6 290	**6 144**
Number of employees registered at December 31	45 151	41 394	41 732	43 754	43 123	43 241	**45 436**
Salaries, wages and social charges	11 845	12 277	12 869	13 744	13 066	13 681	**14 497**
Sweden	2 377	1 979	2 117	2 361	2 464	2 480	**2 697**
Business areas							
Net sales							
Bearings	22 690	24 767	28 168	31 003	29 204	31 991	**32 453**
Seals	–	2 752	3 099	3 456	3 125	3 779	**4 129**
Tools	1 731	–	–	–	–	–	**–**
Steel	3 076	2 891	3 758	4 168	3 271	3 391	**3 229**
Other and eliminations	- 848	- 1 210	- 1 752	- 1 927	- 2 011	- 2 239	**- 2 123**
	26 649	29 200	33 273	36 700	33 589	36 922	**37 688**
Operating loss/profit							
Bearings	- 668	690	1 904	3 198	2 482	2 294	**- 1 177**
Seals	–	189	261	307	242	377	**65**
Tools	10	–	–	–	–	–	**–**
Steel	- 345	- 166	289	439	153	242	**1**
Other and eliminations	106	- 8	137	56	- 3	36	**112**
	- 897	705	2 591	4 000	2 874	2 949	**- 999**
Invested capital*							
Bearings	–	20 641	19 495	19 562	20 827	22 525	**23 736**
Seals	–	2 451	2 172	2 199	2 082	2 456	**2 775**
Special Steels	–	2 127	2 236	2 202	2 108	2 416	**2 512**
Other and eliminations	–	26	- 130	65	667	357	**79**
	–	25 245	23 773	24 028	25 684	27 754	**29 102**

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