

Sustainability statements as defined by GRI G4

The SKF Annual Report takes an integrated approach to reporting financial, environmental and social performance. Information that may be referred to as sustainability reporting is found in various parts of the report. These statements provide a consolidated summary of SKF's sustainability performance with reference to GRI G4.

With reference to the GRI G4 in accordance criteria, the 2016 Annual Report is self-declared as being in accordance with the 'Core' option, which is confirmed by the Groups' external auditors PwC.

The Annual Report – SKF Group 2016 covers the reporting period January to December 2016. This report includes indicators on general standard disclosures, and specific standard disclosures where relevant. As part of the report's content definition and the reflection of its materiality, all aspects have been carefully evaluated from internal and external stakeholder perspectives. Those aspects that are considered of significant materiality are included in the specific standard disclosures below.

SKF submits Annual Reports for third party assurance to ensure quality reporting in terms of accuracy, comparability, clarity, timeliness, balance, and reliability.

Sustainability related disclosures in the SKF Annual Report 2016 has been subject to limited assurance in accordance with FAR (the Institute for the Accounting Profession in Sweden) recommendation RevR 6 "Assurance of sustainability reports".

The limited assurance report on the sustainability disclosures in the Annual Report is found on page 143.

Topics related to Annual Report

In addition to the information provided in this Annual Report, topics related to the Annual Report is found at skf.com/ar2016.

The documents referred to in these statements are:

- Carbon dioxide emission data¹⁾
- Environmental performance data¹⁾
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing and other operational units 2016

1) Documents subject to limited assurance by SKF's auditors.

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General standard disclosures

Strategy and analysis

G4-1 Statement from the most senior decision-maker – CEO

The CEO statement is found on page 6–7 in this report. Strategic priorities, trends, targets and achievements and outlook is described throughout the report.

G4-2 Description of key impacts, risks, and opportunities

An overview of SKF's risk management is provided on pages 56–59 along with short descriptions on the risk management approaches applied. Sustainability risks are integrated in this section. Prioritised risks are agreed at Group management level. The most significant sustainability risks and opportunities are managed under the SKF Care framework which is further described on pages 36–47.

The United Nations Sustainable Development Goals help to highlight challenges and opportunities for business globally. External drivers and trends are further described on page 8. SKF's solutions create value for customers by helping them to improve resource and energy efficiency. SKF's BeyondZero customer solutions provide significant environmental benefits regarding for example global warming and resource use, these solutions generated about 9% of SKF Groups total revenues 2016.

More on customer solutions can be found in the Creating and capturing customer Value section on page 14 and Application driven innovation on page 20.

SKF has established Group targets for a number of relevant sustainability issues, progress on these targets are presented under the SKF Care section and detailed result and governance mechanisms are presented in these statements on pages 126–139.

Organisational profile

G4-3 Name of the organization

AB SKF

G4-4 Primary brands, products, and services

The SKF Group is a leading global supplier of products, solutions and services within rolling bearings, seals, mechatronics, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimization, engineering consultancy and training. Examples are found in this report on page 4, 19, 28, 33, 49 and 51. For information on SKF's brands please refer to skf.com/brands.

G4-5 Location of the organization's headquarters

SKF Group headquarters is located at Hornsgatan 1 in Gothenburg, Sweden.

G4-6 Countries where the organization operates

SKF operations are global, the Group has manufacturing operations in 24 countries and direct sales channels in 70 countries. The Group is present in 130 countries. A list of SKF operations can be found in Topic related to annual report on SKF.com/ar2016.

SKF operations, sales and distribution are also described on page 16–17 in this Annual Report.

G4-7 Nature of ownership and legal form

SKF provides articles of association on skf.com/ar2016. These are part of Topics related to annual report. In addition, information on shares and shareholder information are found on page 54–55.

G4-8 Markets served

Page 2–3 provides an overview of geographies and industries served. Information on Industrial and Automotive areas is further described on page 4–5 and 50–53. Additional information is available on skf.com/ar2016.

G4-9 Scale of the organization

Information on the SKF Group and its operations are found in various sections in the report. Employee information is found on page 102.

SKF Manufacturing and other operations are presented on skf.com/ar2016, Net sales are presented on pages 66 and broken down further in the financial statements on pages 74–76.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 69. Quantity of products or services is not disclosed,

G4-10 Employee data

	Permanent		Temporary		Agency workers
	White collar	Blue collar	White collar	Blue collar	
Asia and Pacific	3,685	6,506	7	627	1,777
Middle East and Africa	366	32	8	0	27
North America	2,281	3,754	44	31	195
Latin America	760	1,856	0	0	46
Eastern and Central Europe	853	2,908	19	500	199
Western Europe	9,250	11,088	48	245	810
Group	17,195	26,144	126	1,403	3,054

G4-11 Percentage of total employees covered by collective bargaining agreements

SKF holds collective bargaining agreements in 19 countries (Argentina, Austria, Brazil, Bulgaria, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, Sweden, UK, USA, China and Ukraine). These countries make up close to 95% of all blue-collar workers (around 26,000). If the workers at a site choose not to be unionized, or if there are restrictions to the independence of a trade union, the employees in the country are still covered by the SKF Framework Agreement and part of a collective bargaining group.

In addition to the 19 countries above, in 2016 SKF employed around 600 blue-collar workers in South Korea, Japan, and Singapore. Of these, South Korea is the largest with 450 blue-collar employees. South Korea is the next country to be considered for inclusion in the SKF World Union Council.

The global framework agreement between SKF and SKF World Union Council (representing the various labour unions working with the company) was first signed by all parties in 2003. It is based on the SKF Code of Conduct and was one of the first agreements of its kind in Europe. Through the years, it has helped to promote a healthy and productive relationship between SKF and the unions – which in turn contributes to the effective realization of Employee Care throughout the Group.

G4-12 Describe the organization's supply chain

SKF's down stream value chain serves some 40 different industries in 130 countries. To serve the diverse customer base in these markets in the best way, SKF owns and operates more than 100 manufacturing plants across the world. SKF directly employs around 26,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations in terms of property plant and equipment. The purchased material consists of metal raw material such as bars, wires, tubes and strips, and steel based components such as rings, balls, rollers, and sheet metal parts, and other direct material as well as subcontracted and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment, and various types of services. To support SKF's global manufacturing footprint, SKF has sourcing offices around the world in Europe, China, India and the Americas. About 85–90% of supplies to SKF factories come from local or regional suppliers.

The total annual spend of the SKF Group is around SEK 40 billion and roughly around 2,000 suppliers make up 80% of the total spend by volume. Please refer to more information about SKF's supply chain in the section Purchasing on page 31 and page 139.

G4-13 Significant changes during the reporting period

No significant changes affecting the reporting.

G4-14 Precautionary approach or principle

As required by the ICC Charter, see below, and referring to the Rio Declaration on Environment and Development, SKF applies a precautionary approach in its development work. Conservative assumptions are also used for any claims made by SKF regarding product or operational performance.

G4-15 Externally developed economic, environmental and social charters, principles endorsed

The SKF Group endorses or subscribes to a number of internationally recognized principles, charters and guidelines which promote

sustainable and ethical business practices. This helps to reflect and communicate the importance of SKF Care – the Group's framework for sustainable development.

The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. SKF has participated in the Global Compact since 2006. SKF commits to the defined principles within the Global Compact and to communicate its progress via its Annual Report.

The International Labour Organization (ILO) draws up and oversees international labour standards. It brings together representatives of governments, employers and workers to jointly shape policies and programs promoting decent work for all. SKF adheres to the ILO Declaration on Fundamental Principles and Rights at Work. By doing so SKF commits to upholding basic human values established by the ILO.

The International Chamber of Commerce (ICC) is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity. Its Business Charter for Sustainable Development issued in 1991 defines 16 principles for environmental management. SKF has endorsed the ICC Charter since 1992 and consequently applies its principles in all its business activities.

The mission of the Organisation for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social wellbeing of people around the world. SKF endorses and works to apply the OECD Guidelines for Multinational Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.

G4-16 Memberships of associations

SKF is an active partner in several industry collaborations and initiatives and holds talks with industrial peers on issues relating to technical and management aspects across relevant short and long term aspects relating to financial, economic, governance, environmental and social dimensions. SKF takes part in UN Global Compact, World Bearing Association, the Conference Board, Teknikföretagen, The Royal Swedish Academy of Engineering Sciences, Swedish Life-cycle Centre and International Standardisation Organisation among others. In addition, SKF collaborates formally with a number of internationally recognised universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy.

Identified material aspects and boundaries

G4-17 Entities included in the organization's consolidated financial statements or equivalent documents

This information is available in the financial statements on pages 112–114.

G4-18 Process for defining the report content and the aspect boundaries

SKF seeks to provide stakeholders with relevant information regarding operational, financial, environmental and social performance. In order to do this, SKF applies reporting principles of Stakeholder inclusiveness, Sustainability context, Materiality and Completeness.

SKF defines its significant stakeholders as those who can be significantly affected by the Group's activities. Stakeholders and Materiality is described in more detail below.

The context, scope and boundaries are described further in the specific standard disclosures along with management approach.

G4-19 Material aspects identified in the process for defining report content

SKF's materiality work integrates a mix of periodic dialogues, surveys, questionnaires and megatrend analysis with internal risk management and strategic capabilities. The result of this work is a list of material issues presented on the next page, input from external stakeholders is presented on pages 121–122.

Material issues for SKF have been established by combining stakeholder input with that input from senior representatives of from SKF's Areas and Group staff functions. This has been further verified with Group management. These issues are presented and explained on page 123 in this report.

Overall, the analysis of SKF's qualitative and quantitative input indicates that the stakeholders expects and relies on SKF to manage sustainability challenges in three main ways.

- The first is to live up to a fair standard and manage risk, avoiding the negative impact for the Group and its stakeholders. More on SKF's risk management is explained on pages 56–59.
- The second is to be an agile and innovative business partner that can create opportunities from relevant sustainability issues and make use of these to generate business. Please refer to pages 51 and 53 for examples.

Material issues

GRI G4 categories and aspects	Indicators reported
Economic category	
Direct economic performance	EC1, EC2, EC3
Environmental category	
Energy	EN3, EN5, EN6
Emissions	EN7, EN15, EN16, EN17, EN18, EN19, EN20, EN27
Effluents and waste	EN23, EN24
Water	EN8
Compliance	EN29
Supplier assessment environment	EN32, EN33
Social category	
Occupational Health and Safety	LA6, LA5
Employment	LA1
Diversity and equal opportunities	LA12
Training and education	LA11
Equal remuneration for women and men	LA13

G4-20 For each material aspect, report the aspect Boundary within the organization

Specific standard disclosures are described on pages 126–139. Boundaries are described under each aspect.

G4-21 For each material aspect, report the aspect Boundary outside the organization

In those cases where boundaries outside the organization are relevant, this is stated in the aspect boundary text on pages 126–139.

- The third is to be the enabler of new solutions, technologies and business models. Please refer to pages 14, 20–23 and 43 for examples.

In terms of sustainability reporting, the important issues translate into the following aspects as defined by GRI G4 guidelines. Potential omissions are specified next to the indicators on pages 126–139.

GRI G4 categories and aspects	Indicators reported
Social category (cont.)	
Labour management relations	LA4
Labour practice grievance mechanism	LA16
Non-discrimination	HR3
Freedom of association and collective bargaining	HR4
Child labour	HR5
Forced or compulsory labour	HR6
Assessment	HR9
Human rights grievance mechanism	HR12
Local communities	S01
Anti-corruption	S04, S05
Anti-competitive behaviour	S07
Compliance	S08
Grievance mechanism for impact on society	S011
Supplier assessment social	LA14, LA15, HR10, HR11, S09, S010

G4-22 Effect of any restatements of information provided in previous reports

No significant restatements.

G4-23 Report significant changes from previous reporting periods in the Scope and Aspect Boundaries

Under the aspect Training and education the scope of data collection has been narrowed to include white collar employee. This job category shares a common learning and development platform.

Stakeholder engagement

G4-24 Provide a list of stakeholder groups engaged by the organization

Customers

Customer input is sought and received via the sales and marketing operations and activities carried out by the Group – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. SKF also responds to a wide range of customers surveys and reviews scorecards from key accounts and strategic customers. Aggregated results from surveys and scorecards are used as input to SKF continual improvement work. The input received helps the company to continually improve customer value, measure benefits of SKF offerings and stay as the preferred supplier.

Investors and analysts

SKF takes an active approach in communicating the Group's strategy and performance to existing and potential investors, analysts and media. Information is provided through various channels such

as the quarterly reports, meetings with investors, telephone conferences, the company's website and press releases. An annual capital markets day is held to present the strategy, targets and the different businesses in more detail. SKF receives feedback from investors via its own questionnaires, feedback collected after investor meetings and continual feedback in discussions.

Employees and union organizations

SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management, this is a form of social dialogue to make sure that the framework based on the SKF Code of Conduct is deployed across the Group.

Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report, pages 144–150. In addition, SKF carries out periodic employee feedback survey in the SKF Working Climate Process (WCP), around every 18–24 months. In addition to this Group wide survey, the working climate also calls for more frequent status updates in the cultural and leadership change

currently taking place in SKF. The findings from the WCP are used to implement improvements in the working climate and performance at all levels within the company – from local teams to Group Management.

Communities

The communities in which SKF operates are important stakeholders for the company. Local SKF organizations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, other charity work and sponsoring and local network collaboration.

Non-governmental organizations

SKF is actively involved in various business organizations. SKF utilizes these networks to share experiences and ideas with other companies and to develop the company’s thinking and approach on many issues. SKF has established working relationships with certain non-governmental organizations (NGOs). SKF invites feedback and input from these NGOs around issues relating to environmental, social and economic concerns.

Suppliers

The cost of goods and services purchased by SKF amounts to about half of the Group’s revenues. Close collaboration and dialogue with suppliers is crucial for assuring the Group’s continued success. Local sourcing offices enable close communication on daily operations. On site audits provide feedback to SKF on suppliers’ adherence to the Code of Conduct and on their performance, it also supports competence development of both suppliers and SKF.

G4-25 Basis for identification and selection of stakeholders with whom to engage

SKF defines key stakeholder groups as customers, investors, suppliers, employee representatives and representatives from society in general, these groups includes entities or individuals who can be significantly affected by SKF’s activities. The Group works in different ways to interact with these and other stakeholders as part of the materiality assessment along with input from academic research and industry collaboration. This allows SKF to better understand various perspectives and concerns, and address them quickly.

G4-26 The organization’s approach to stakeholder engagement as part of the report preparation process

The basis for SKF’s materiality work relies on an integration of periodic dialogues, surveys, questionnaires and megatrend analysis. In accordance with the GRI G4 reporting requirements and in addition to the well-established processes described above, SKF has also gathered input from a selection of individuals from main stakeholder groups more focused on the Annual Report, both in terms of content and how this is being presented. This work provided confirmation and further understanding of potentially important aspects for the Group’s stakeholders and within which boundaries are more important to manage.

From the customer perspective, SKF aggregates the most relevant issues coming in from various questionnaires and assessments. This has been completed with a number of interviews to receive more qualitative information of their perception. Input from employees was collected from surveys. Investor input was gathered by aggregating the most common assessments from this stakeholder group and completed with a number of face to face dialogues to receive a nuanced picture of important issues. Input from communities was gathered from SKF’s public relations functions in the regions where SKF is present. Supplier input was collected through site audits.

G4-27 Key topics and concerns that have been raised through stakeholder engagement

Stakeholder dialogue – top material issues per stakeholder group

Stakeholder group	Customers and peers	Investors and analysts	Employees and union organizations	Local markets and communities	Suppliers
Material aspects	<ul style="list-style-type: none"> • Creating and capturing customer value • Energy and climate • Business ethics • Systematic environmental protection • Equality and human rights • Health and safety 	<ul style="list-style-type: none"> • Business ethics • Positive and engaging workplace • Financial performance over time • Energy and climate 	<ul style="list-style-type: none"> • Equality and human rights • Business ethics • Health and safety • Positive and engaging workplace 	<ul style="list-style-type: none"> • Creating and capturing customer value • Energy and climate • Innovation • Local community relationship • Systematic local environmental protection • Employee engagement • Financial performance 	<ul style="list-style-type: none"> • Occupational health and safety • Work hours • Compensation • Other employment practices • Environmental protection
Specific issues addressed	<p>SKF customers see the value provided to them as a combination of operational benefits and that SKF can be an agile and resilient business partner.</p> <p>Customers further expect SKF to work with these aspects in a systematic way over the value chain and enabling customers to reduce their supply chain risks.</p>	<p>Governance, reduced risk. Ensure that proper actions are taken on all issues to ensure strong future cash-flow, at the same time as avoiding negative impact on people, environment and society today.</p>	<p>Union organizations focus on job development, diversity, health and safety.</p> <p>From the individual employee perspective, a clear customer focus, ethical leadership in combination with an engaging work environment has been highlighted as most material.</p>	<p>Most important issues are related to local investments leading to job and responsible restructuring and that SKF acts as a responsible corporate citizen on environmental and human rights issues in general.</p> <p>Experts from the academic field see innovation as the most important aspect of SKF’s response to sustainability issues. Especially in combination with current challenges such as emissions and water.</p>	<p>Suppliers have been engaged by site audits and the topics material aspects above are the most common findings of improvement related to SKF’s Code of Conduct. These are mostly related to occupational health and safety and employment practices.</p>

These issues or areas above translates into one or more aspects referring to GRI G4 guidelines, on the next page they are presented in the way SKF groups them into different material issues or challenges.

Customer expectation	The fundamental ability to anticipate, meet and exceed customer expectations in terms of value, quality and service in the highly competitive global market place.
Business ethics	The ability to conduct all business in a highly ethical manner, which complies with all applicable laws and conforms to the SKF Code of Conduct.
Financial performance	The ability to deliver sustained financial performance with efficient working capital management, and cash flow over time, which meets the expectations of investors and customers and communicate this transparently.
Health and safety	The ability to assure the health and safety of all SKF's employees and working to protect the health and safety of the customers and users of SKF's products and solutions and work to assure good work environment also in the supply chain.
Application driven innovation	The capacity and ability to commercialize application driven innovations and new business models in order to support customers in the rapidly changing and evolving markets and industries where SKF is present.
Attract retain and engage a diverse and effective workforce	The ability to create positive and engaging workplaces through openness, high ethics, teamwork and empowerment.
Equality, human and labour rights	The ability to assure equal opportunities, fair remuneration and working conditions, human rights and positive and constructive relations between labour and management, at SKF and its supply chain.
Environmental impact over the value chain	The capacity to assure that the environmental impact resulting from SKF's products, related processes and activities is understood and minimized and supporting SKF customers to do the same. The ability to realize the significant business opportunities that result from the associated environmental and economic constraints while at the same time reduce related risks and costs.
Create additional value in the communities around SKF	The capacity to use business and economic growth to support the local communities and to create additional value in the communities around SKF's operations, enhancing the company's reputation within the community and workforce.

Report profile

G4-28 Reporting period

SKF Annual report covers the financial year 1 January to 31 December 2016.

G4-29 Date of most recent previous report

The report was published on 7 March, 2017. The most previous report was published on 8 March, 2016.

G4-30 Reporting cycle

Annual

G4-31 Contact point for questions regarding the report or its contents

SKF's Annual Report refers to three main contact points, please refer to page 156.

G4-32 'In accordance' option chosen.

GRI Content Index for chosen Reference to the External Assurance Report

With reference to the GRI G4 in accordance criteria, SKF Annual Report 2016 is self-declared as being in accordance with the Core option, which is confirmed by the Group's external auditors PwC.

G4-33 Policy and current practice with regard to seeking external assurance for the report

To ensure SKF's stakeholders and readers of the Group's sustainability reporting transparency, credibility and materiality of the information published, SKF has been submitting its sustainability reports for third-party review and verification since the year 2000. Sustainability disclosures in the SKF Annual Report 2016 have been subject to limited assurance by SKF's auditors, please refer to Auditor's Limited Assurance Report on the Sustainability Report on page 143.

Governance

G4-34 Governance structure of the organization, including committees of the highest governance body

SKF Care defines the Group's approach to securing sustainable, positive development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility and delegated authority for implementation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship. Refer to page 145–148 in the Corporate Governance Report.

G4-35 Process for delegating authority for economic, environmental and social topics

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board.

SKF primarily operates with two areas: Industrial and Automotive. Each area is further, with the support from relevant Group staff units, responsible to integrate the vision, mission, values and drivers into its operations.

In SKF, the implementation of sustainability programmes in the line organization is driven by the respective SKF areas, their business

units, staff functions or by country organizations with direction and coordination from formal cross-functional decision making bodies and working-groups such as for example:

- SKF BeyondZero governance board which decides about inclusion and exclusion of SKF BeyondZero customer solutions.
- The Responsible Sourcing Committee, established to assure that SKF's Code of Conduct for Suppliers and Sub-contractors is effectively deployed, and that appropriate measures are taken when deviations from the Code of Conduct are identified at our suppliers.
- The Quality and EHS board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 etc. and related policies and instructions and coordinates the deployment of the Group's related strategy.

In each country where the Group has manufacturing or logistics centres, there is a country coordinator who oversees the Environment, Health and Safety (EHS) at local SKF facilities together with the EHS site coordinators. Country coordinators work as the extended arm of the Group and a number of them are members of the Group EHS audit team, which audits SKF's units to ensure compliance with Group standards and national legislation.

Key indicators of sustainability performance of the Group are reported to Group Management on a six months basis. This includes accident rates, energy and CO₂ emission reports. The Group Management team and area management teams also perform annual reviews on the functioning of the Group EHS management system, which is covering ISO 14001, ISO 50001 and OHSAS 18001. The area presidents and human resources directors are updated regularly about the Group's internal audit findings on the environment, health and safety, as well as the SKF Code of Conduct.

SKF uses a systematic and standardized approach which is embedded throughout the organization and decision making processes and uses Group-wide management systems to support and drive continual improvement. SKF's quality management systems are certified to ISO 9001 and, where required by the markets, to ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). The SKF approach to environmental, health and safety management is based around a Group-wide certification to the requirements of ISO 14001 (environment), OHSAS 18001 (health and safety) and ISO 50001 (energy management). During 2016, SKF has initiated projects to update these management systems in the light of the ISO revisions ISO 14001:2015, ISO 9001:2015 and IATF 16949.

For material aspects, depending on the specific role, incentives for responsible people are set on an individual performance basis following SKF's performance management process. Employees and managers invest time to ensure they have relevant goals set for the year and to follow up achievements and discuss priorities. By setting SMART goals (specific, measurable, attainable, realistic and timely) between employees and their immediate managers and which are aligned with the Group's objectives, employees can influence their own work and future compensation.

G4-36 Executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body

SKF Corporate Sustainability reports to the Senior Vice President Group Legal and Sustainability and has the task to assure that the principles defined by SKF Care are addressed and integrated into all

operations and activities throughout the Group. This means that sustainability performance is the responsibility of the operational parts of the company and this must be delivered in accordance with the strategic direction and fundamental requirements as set by Corporate Sustainability and the Group. This authority is delegated from Group Management and the Board of Directors who have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are acted upon accordingly. SKF Corporate Sustainability is responsible for outlining and shaping policies, strategies and targets related to SKF's overall sustainability performance and these in turn drive and support the integration of SKF Care into business practices, processes, operations and staff functions.

G4-39 Chair of the highest governance body and executive officer

Refer to page 146 in the Corporate Governance Report.

G4-41 Processes for the highest governance body to ensure conflicts of interest are avoided and managed

Refer to page 145 in the Corporate Governance Report.

G4-42 Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts

The Board of Directors is the highest governance body of the company. The Board of Directors has a responsibility for the company's organization and for the oversight of the management of the company's affairs and is, together with the President and Group Management defining and continually monitoring SKF's vision, mission, values and drivers, its strategies, performance and related information.

The tenure on the governance body and competencies relating to sustainability impacts are integral parts of the nomination of board members.

G4-48 The highest committee or position that formally reviews and approves the organization's sustainability report

The SKF Annual Report 2016 includes SKF's sustainability reporting and is signed by all members of the Board.

G4-51 Remuneration policies for the highest governance body and senior executives

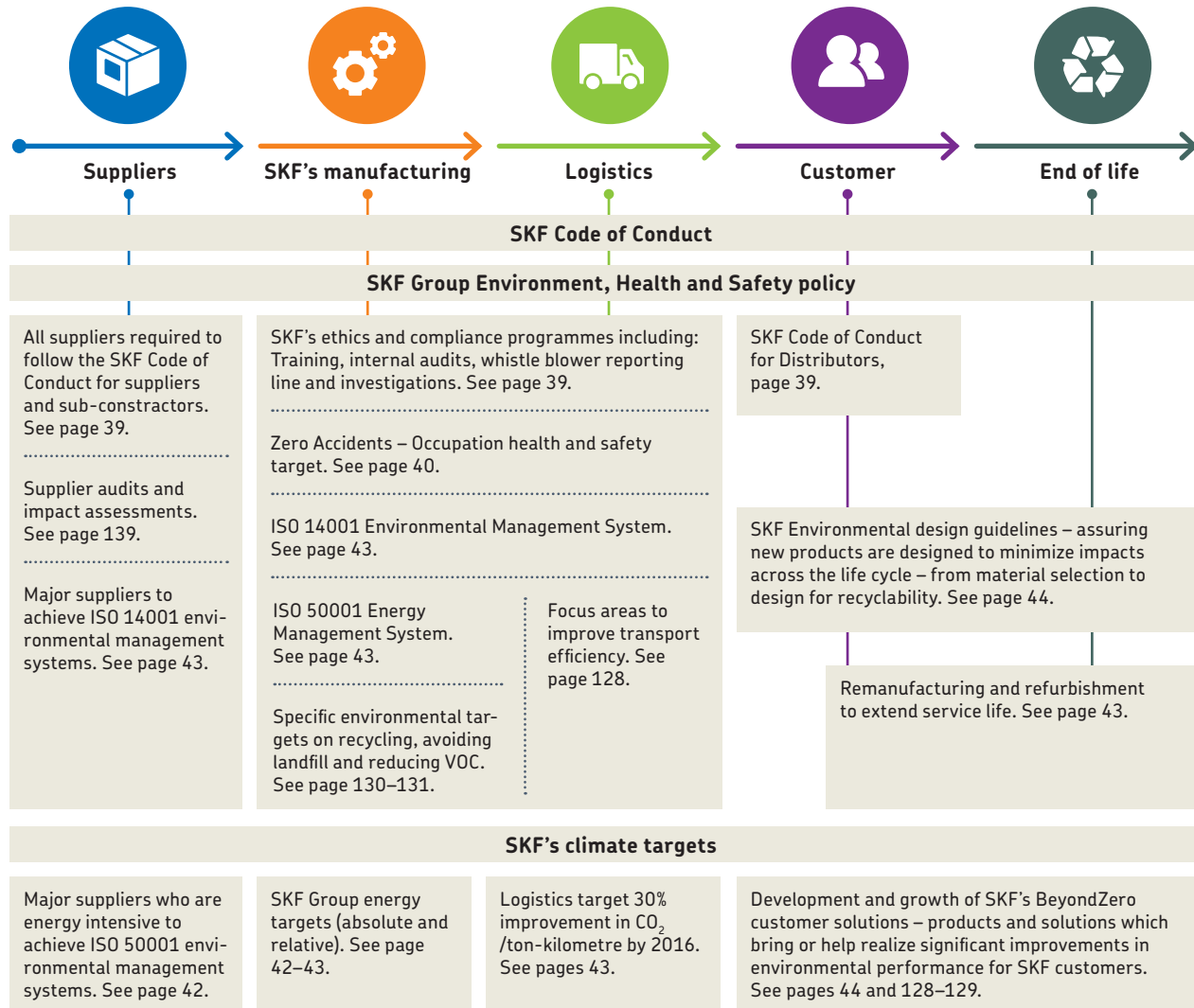
Refer to financial statements, Note 23 on pages 98–101.

G4-52 Process for determining remuneration

The principles of remuneration for Group Management is submitted by the Remuneration Committee to the Board, which submits a proposal for such remuneration principles to the Annual General Meeting (AGM) for approval.

The AGM is the main function for direct consultation between stakeholders and the highest governance body on economic, environmental and social topics. SKF also announces points of contact in its annual report. Operational stakeholder dialogue is delegated via the SKF Group Management. Stakeholder views on topics such as remuneration are taken into account via the AGM – proposals are sent out beforehand.

Actions over the value chain for environmental and social performance



Ethics and Integrity

G4-56 The organization's values, principles, standards and norms of behaviour

The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, on Group level and in local adaptations of the SKF management systems but the SKF Code of Conduct is the superior policy, all other policies are subordinate to it. It is available in 17 languages and publically available on SKF.com/code. The SKF Group's values are presented on page 10 and 41. These are:

- Empowerment
- High ethics
- Openness
- Teamwork

G4-57 Internal and external mechanisms for seeking advice on ethical and lawful behaviour

In addition to normal internal reporting possibilities, employees have the opportunity to report raise concerns or seek advice via SKF's Ethics and compliance reporting line which is externally hosted by a third party. SKF also makes use of an internal helpline via email.

G4-58 Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity

SKF employees are requested to report behaviour that is not in line with SKF's Code of Conduct to their manager, local human resources or escalate to the country management. SKF employees can also raise concerns via the Group-level reporting mechanism referred to above. As part of this mechanism, SKF employees can report concerns in their own language via a designated web portal or by calling a local telephone number. Locally reported grievances are often managed at local level with the local human resource department or country management. Cases managed by the SKF Group are disclosed in this report on page 138 under Social grievance mechanisms.

Specific standard disclosures

Economic category

Economic performance

Boundaries

SKF Group and its subsidiaries.

Disclosure on management approach

SKF is a profit driven organization. The financial performance is the overall indicator of the economic impact SKF has on society. All SKF entities are accountable for their financial and economic performance. SKF reports its financial performance in accordance with IFRS.

Scope and basis of consolidation

The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control. Please refer to page 73 for more information about SKF's financial accounting policies.

G4-EC1 Direct economic value generated and distributed

The data from the financial statements has been used to break down economic value generated and distributed as described below.

Economic value generated and distributed, (SEKm)	2016	2015
Net sales	72,787	75,997
Revenue from financial investments and other operating income	107	108
Economic value generated	72,894	76,105
Operating costs	-40,097	-42,219
Employee wages and benefits	-22,770	-23,920
Payments to providers of capital	-3,071	-3,245
Payments to government (tax)	-1,897	-2,320
Community investments	-25	-32
Economic value distributed	-67,860	-71,736
Economic value retained	5,034	4,369

Economic value generated includes net sales (page 66) and interest income (page 79).

Operating costs include the total operating expenses (page 78) and the net of other operating income and expenses (page 78) less depreciation, amortization and impairments (page 78), less employee wages and benefits (78), less Community Care activities (page 47).

Employee wages and benefits including related tax and social charges (page 78).

Payments to providers of capital include suggested dividends to SKF's shareholders (page 70) and interest expenses (page 79).

Payments to governments include the total taxes paid according to the consolidated statement of cash-flow the Group (page 70).

Community investments are those also reported under the section Community Care (page 47).

G4-EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change

SKF is organized to be diversified in terms of products and markets, manufacturing and currencies. In general, this diversification reduces SKF's overall exposure to business risks and positions the Group's overall risk profile as moderate. On climate change in particular, it is likely that costs associated with energy and related emissions will increase in the medium to long term. An increased cost of carbon emissions by SEK 250 per tonne CO₂ impacts SKF's operating profit by around SEK 120–150 million. Carbon taxes are developing in different ways in different parts of the world with different mechanisms but in general, the associated costs are likely to increase over time. This cost only takes into consideration SKF's costs of sourced energy used at the Group's own operations, carbon pricing mechanisms would also affect cost for suppliers of raw material and components. SKF takes an active approach to energy efficiency at its own facilities and suppliers – reducing energy demand and related risks.

Considering SKF's customers, the general trend to internalise carbon costs and incentivise efficiency is a major driver in many of the industrial segments served by the Group. This presents both opportunities for growth and some risks in certain segments which may be negatively impacted by this trend. Please refer to pages 50–53 for an overview of SKF's Areas. Customer industries are further described on skf.com/skfs-business. The drivers in these industries create significant opportunities for SKF to contribute to climate change mitigation through the products and solutions it provides, and thereby create considerable value for customers and investors.

The motivation for SKF's continued commitment in addressing climate change can be summarized in three points:

- Climate change presents a critical long-term challenge to humanity and the natural environment. Failure to address it may have catastrophic long-term consequences for both.
- Energy prices are likely to increase in the medium to long-term. SKF's ability to run its business activities in a highly energy and carbon-efficient way will increasingly affect a long-term competitive advantage.
- SKF is uniquely positioned to significantly contribute to climate change mitigation through the products and solutions it provides, and in doing so create considerable value for customers and investors.

Please refer to page 45 for a detailed explanation of BeyondZero and SKF's climate targets.

G4-EC3 Coverage of the organization's defined benefit plan obligations

SKF reports the coverage of its provisions of post-employment benefits in the financial statements on pages 91–93.

Specific standard disclosures

Environmental category

Energy and emissions

Boundaries

The Group's climate targets address energy and emissions over the full value chain. Targets have been established for suppliers, goods transportation, SKF's operations and customer solutions – the areas where SKF can significantly contribute.

Disclosure on management approach

The most relevant emissions to the air from SKF are direct and indirect CO₂ emissions. These are related to the energy used when processing raw material, processes at SKF's operations, transporting goods and during the use-phase of SKF's products. Continued global emissions of greenhouse gases will cause further global warming and increase the likelihood of severe, pervasive and irreversible impacts for people and the natural environment. Limiting emissions is a critical challenge for business, governments and society. At SKF, all relevant functions are included in the work along with specific responsibilities.

SKF is developing and deploying technology that enables improved energy efficiency for its customers and increased renewable energy generation. SKF's products and solutions help enable resource efficiency, energy and fuel savings for customers in numerous industrial segments, and SKF's solutions help make the wind industry more commercially viable. These solutions are defined by the SKF BeyondZero customer solutions. Revenues and avoided emissions from the portfolio are reported on page 129.

SKF has an energy management system certified according to ISO 50001 at its own operations, which covers all energy-intensive operations – about 90% of the Group's total energy use. The deployment and maintenance of systematic energy management is the foundation of long-term improvement. Please refer to page 124 for more information about SKF's management systems. SKF also works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001.

Detailed data on SKF's energy and emissions are reported in this section. Ozone depleting substances are reported in kilograms used on page 131 under Chemicals and substances in production.

SKF's climate targets 2012–2016 are concluded on page 42. In general, the Group considers the progress on these targets a success:

- On scope 1 and 2 emissions, SKF has reduced its energy use and related emissions by 14% compared to 2006. Going forward, SKF will focus on reducing CO₂ emissions per tonnes of bearings sold as main KPI. Energy management efficiency will continue to be a major strategic lever, in combination with material efficiency and the use of renewable energy.

Energy use and associated CO₂ emissions from SKF's own facilities (Scope 1 and 2)

Targets: 5% reduction in absolute energy use in 2016 vs. 2006 and reduce the energy use per production output by 5% year-on-year (measured as energy use/output)

Energy	2016	2015	2014	2013	2012	2006
G4-EN3 Energy in GWh scope 1	275	284	294	323	314	407
G4-EN3 Energy in GWh scope 2	1,408	1,336	1,347	1,379	1,362	1,550
Total energy use (GWh)	1,683	1,620	1,641	1,702	1,676	1,957
G4-EN5 Indexed energy efficiency (GWh/output) ¹⁾	95	100	98			
G4-EN5 Energy use per net sales (GWh/SEKm x 100)	2.31	2.13	2.31	2.67	2.59	3.68

1) Energy efficiency is calculated by dividing GWh used at SKF's production sites by an internal measure of output. In this table it is shown as an indexed indicator based on the previous year as index 100. Because the measure of output is recalculated, only the last three years are comparable.

- On scope 3, SKF's target on suppliers was to have all energy intensive major suppliers ISO 50001 certified. At year-end 2016, 25 of 30 suppliers had achieved this. This certification will continue to be a key target on SKF's suppliers. SKF also targeted to reduce CO₂ emissions per volume shipped goods from its logistics operations by 30% 2012–2016, which has been achieved.
- On scope 4 emissions, SKF's target was to develop the sales from SKF BeyondZero customer solutions from BSEK 2.5 in 2011 to BSEK 10 in 2016. In 2016, the total net sales from these solutions was BSEK 6.8, which is over 9% of the Group's total net sales. The net sales from SKF BeyondZero customer solutions will continue to be the main KPI of SKF scope 4 performance.

Scope and data compilation

All energy and CO₂ data reported in the SKF Annual Report 2016 (except goods transportation data and business travel data) was compiled either quarterly or annually using the Group's main reporting and consolidation tool. Data includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

Information is reported at a local operating unit level, aggregated to site, country/area, and Group level. The reporting of greenhouse gas emissions is done according to the Greenhouse Gas Reporting (GHG) protocol published by the World Business Council for Sustainable Development and the World Resources Institute.

For site by site data, please refer to the Environmental performance data available at skf.com/ar2016.

G4-EN6 Reduction of energy use – Performance

Absolute energy use has been reduced by 14% 2016 compared to 2006. This has been achieved by for example more volumes from recently built efficient facilities using LEED standards, effective energy management of central systems in factories, and investments in more efficient machines. Energy efficiency (per output) was improved by 5% in 2016 compared with 2015. SKF's energy management system was certified according to ISO 50001 in 2015 and is expected to enable improvement in energy management over time, emission performance, cost and risk over time.

CO ₂ (tonnes)	2016	2015	2014	2013	2012	2006
Direct combustion (scope 1) ¹⁾						
LPG	3,707	4,046	4,025	4,775	4,708	4,234
Fuel oil	2,459	2,689	3,221	3,069	3,750	11,891
Natural gas	50,047	51,363	53,035	58,207	56,178	69,165
G4-EN15 Total scope 1	56 213	58,098	60,281	66,051	64,636	85,290
Supplied energy (scope 2) ¹⁾						
Electricity	443,622	415,814	403,871	401,108	389,938	445,462
Heating energy	30,747	28,126	30,188	36,473	35,684	45,911
G4-EN16 Total scope 2	474,369	443,940	434,059	437,581	425,622	491,373
Total CO ₂ emissions scope 1 and 2	530,582	502,038	494,340	503,632	490,258	576,663
G4-EN18 CO ₂ per net sales (tonnes/SEKm)	7.29	6.61	6.96	7.92	7.59	10.86

1) SKF reports greenhouse gas emissions in accordance with the Greenhouse Gas (GHG) protocol which defines an organization's GHG emissions as Scope 1 (direct emissions from on-site combustion) Scope 2 (indirect emissions associated with generation of energy used on site – electricity, district heat) and Scope 3 (all other indirect emissions from logistics, business travel etc.). Scope 2 emissions are calculated based on contractual emissions factors where available. Figures for 2006 to 2016 are adjusted according to the GHG-protocol for acquisitions and divestments. SKF sources energy locally for all sites and the level of detail in each contract differs, SKF can therefore not report the source of energy on scope 2 emissions on an aggregated level.

Goods transportation data and related CO₂ emissions (Scope 3)

SKF Logistics and Demand Chain reduces emissions from transport as part of its transport efficiency programme. In 2016, the target to reduce CO₂ emissions per tonne-kilometre by 30% between 2012 and 2016 has been achieved. Overall, the work to reduce CO₂ emissions and costs of transport can be summarised in three main points:

- Shifting to transport alternatives with lower CO₂ intensity, such as sea, road and rail, instead of air.
- Continual improvements in the efficiency of each transport mode chosen.
- Avoiding unnecessary transports.

Examples can be found in previous annual reports and on skf.com/climate.

SKF measures the emissions of the air and ocean shipments on a global level. For road transportation, the Group measures emissions for local transportation in most of the countries where Logistics and Demand Chain is responsible for. Going forward, SKF will shift focus to reducing CO₂ emissions per tonne shipped goods, this to optimize the footprint and shorten routes even more. The recording partly includes other emissions such as SO_x, NO_x, and particles.

	2016	2015	2014 ¹⁾	2013	2012	2011
G4-EN17 , Total CO ₂ emissions (tonnes) scope 3	96,439	106,112	101,926 ¹⁾	—	—	—
Transport works (million tonne-kilometres)	2,462	2,374	2,146 ¹⁾	—	—	—
Indexed CO ₂ emission per tonne kilometre (Index 2014) ¹⁾	84	97	100	95	119	118
G4-EN19 Change from 2011 (%)	-31%	-18%	-15%	-19%	+1%	—
Fill rate for trucks ²⁾ (% of available truck space utilized)	75%	70%	79%	80%	79%	81%
Shipped volumes and emissions per transport mode 2016		Road	Sea	Air		
Transport works, tonnekilometre % of total		19.5	79	1.5		
CO ₂ emissions, % of total		38	34	28		

1) Between 2012 and 2014 SKF reduced the total CO₂ per tonne-kilometre by 15% according to baseline 2011. Then in 2014, a new baseline was established for the remaining target period (2015–2016). Therefore, SKF reports CO₂ per tonne-kilometre indexed based on 2014.

2) The fill rate indicator covers SKF Logistics Services own shipments by truck in the DTS network (Daily Transportation System Network).

Business travel

SKF monitors CO₂ emissions from its air travel in Europe, the US and China. China was added to the scope in 2014. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult.

Tonnes	2016	2015	2014	2013	2012	2011
G4-EN17 CO ₂ emissions from air travel	20,604	21,703	24,236 ¹⁾	16,334	18,302	19,870

1) The scope of reporting was extended in 2014 by adding China. According to the previous scope – for comparability the number for 2014 would be 18,569 tonnes.

The SKF BeyondZero customer solutions

Total SKF BeyondZero customer solutions revenues

Target: To reach total revenues of the SKF BeyondZero customer solutions of SEK 10 billion in 2016.

Result: Although the revenues almost tripled in five years, SKF did not meet the initial target set in 2011. The target set was based on a view on aggressive growth of the wind industry which did not fully materialise. Going forward, net sales of SKF BeyondZero customer solutions will continue to be the main indicator on the Group's contribution to customers, investors and the environment. Read more on SKF's 2025 climate targets on page 45.

The annual revenues from SKF BeyondZero customer solutions consist of the total sales from specific products and solutions as well as that from SKF's business with the renewable energy (wind, solar, ocean and hydro power) and electric vehicle industries.

The growth is based on sales development of solutions included previous years and the inclusion of new solutions during the year.

SEKm	2016	2015	2014	2013	2012	2011
Total SKF BeyondZero customer solutions revenues	6,819	5,930	5,493	3,324	2,972	2,500 ¹⁾

1) The result for 2011 is estimated. From 2012 the work with SKF BeyondZero customer solutions has been reviewed or audited annually by external auditors.

Avoided greenhouse gas emissions enabled by specific SKF solutions¹⁾

Tonnes CO ₂ e	2016	2015	2014	2013	2012
G4-EN7, G4-EN27	400,000	410,000	440,000	83,000	52,000

1) The figure shows the sum of the results from completed calculations so far of the avoided greenhouse gas emissions enabled by specific BeyondZero customer solutions – Designed for Environment or Applied for Environment – sold during the respective year. These calculations focus on the difference in the life cycle impact of the SKF solutions compared to baseline solutions. The baseline is defined as the most common alternative on the market. This figure is intended to show the magnitude of the savings and will become more comprehensive as further calculations, updates and refinements are made during the course of 2017.

Avoided greenhouse gas emissions enabled by SKF's business in the renewable energy and electric vehicles industries¹⁾

Tonnes CO ₂ e	2016	2015	2014	2013	2012
G4-EN7, G4-EN27	1,960,000	2,350,000	1,760,000	1,220,000	1,620,000

1) The figure has been estimated as SKF's part of the avoided greenhouse gas emissions made possible by the whole renewable energy industry. An economic allocation factor of 6% has been used. Going forward, this category will also include SKF's sales to the electric vehicle industry.

There is yet no standard method for companies to calculate environmental benefits, such as avoided carbon dioxide emissions, from their products and services. The statements in this report concerning environmental impacts, as well as cost savings and revenue increases, are based on results experienced by SKF's customers and/or based on internal calculations by SKF's personnel and do not constitute a guarantee that any future results will be the same. For more details, methodology and documentation about reduced environmental impact, visit: www.beyondzero.com.

Material use in SKF's production

SKF uses various materials such as metals, rubber, solvents, hydraulic oil and grease. Steel is the main material used by SKF and much of the steel purchased by the Group is produced by re-melting steel scrap, as this provides favourable material properties and is widely available.

The Group is continually working to improve resource efficiency. SKF reports material use because the amount of material is closely linked to cost and environmental impact. Life cycle assessments and material flow analysis of raw materials used indicates a significant environmental impact, mostly related to energy and associated emissions from material refinement.

The company invests in research into advanced manufacturing technology that minimizes the amount of material to be removed to produce finished products. At the same time, SKF's designers, process engineers and purchasing staff are working towards minimizing material waste throughout the value chain.

Tonnes	2016	2015	2014	2013	2012	2011	2010
Metal as raw material from external suppliers	446,260	431,523	446,978	405,235	368,401	413,945	412,068
Rubber as raw material from external suppliers	5,487	5,485	4,553	4,226	4,247	4,354	3,915

Effluents and waste, water, compliance

Boundaries

Systematic environmental protection is relevant over the value chain of SKF.

The generation of effluents and waste from the Group's manufacturing operations along with water use are relevant and material issues for SKF.

Water is relevant in different ways depending on where in the value chain it is used. Direct water use is material at SKF sites located in areas of actual and potential water scarcity. Indirect water use is relevant due its close correlation to energy generation.

Compliance is material in relation to SKF's manufacturing operations and those of its suppliers.

Disclosure on management approach

SKF has deployed an environmental management system certified according to ISO 14001. This is integrated with the health and safety management system and is based on the Group EHS Policy. The management system is further defined at Group, country and site level. The overall coordination of the work is managed by a central staff function and the responsibility to drive improvements is with SKF's functional areas in the line organization.

Roles and responsibilities have been established in accordance to the demands of SKF's environmental management system. The management system refers to SKF's minimum requirements and

local legislation, whichever is the more stringent. Country managers are responsible for ensuring compliance with local laws. The local line organization manager is responsible for ensuring compliance with SKF's standards. The SKF Group function provides the overall structure and follow-up. Potential spills, incidents and fines are publically reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to skf.com/ar2016.

SKF also has a grievance mechanism in place for incidents at suppliers. This is coordinated by SKF's responsible sourcing committee and reported in an aggregated overview of deviations from supplier audits.

One important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant with local rules and legislation, to ensure efficient water use and responsible water management, including wastewater handling. SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption. Water risk management is an integral aspect in LEED and SKF's Sustainable Factory Rating (SFR). Downstream, SKF can provide solutions to reduce the water footprint for customers. The most important dimension of water for SKF is that of the water needed to generate energy for use over the value chain.

Environmental permits

Operations requiring permits exist in all countries where SKF has manufacturing sites. On 31 December, 2016, SKF held permits in Sweden covering 10% of the Group's overall production volume for its operations at Gothenburg, Katrineholm and Hofors. The permits relate to the production of bearings, bearing housings and couplings.

Landfills

Many SKF plants have disposed of various types of waste at approved landfill sites. Because of stricter laws and regulations – some with a retroactive effect – relating to landfill disposal, some SKF companies are currently involved in cleaning up old landfills, most of which

have not been used for many years. Relevant provisions have been made to cover these costs.

Scope and data compilation

All data was compiled either quarterly or annually, using the Group's main reporting and consolidation tool. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

Information is reported at a local operating unit level, aggregated to site, country/area, and Group level. For site by site data, please refer to the Environmental performance data available at skf.com/ar2016.

Performance

SKF has set realistic and ambitious targets to reduce environmental impact from its operations. Overall, the data presented indicates that SKF is reducing its environmental impact from its operations. Most targets were set with 2016 as target year. During 2017, new targets on energy and climate have been published, other environmental targets will be set during the year as part of an updating of SKF's environmental management system.

G4-EN23 Residual products and recycling

SKF measures and reports waste types and disposal methods in another way than GRI suggests, the amounts of residual material and recycling rate are disclosed below and in more detail in Environmental Data spreadsheet available at skf.com/AR2016. SKF reports all significant residuals and waste site-by-site for all SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill. All of SKF's units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. Practically all scrap metal from SKF's operations is recycled.

	2016	2015	2014	2013	2012	2011	2010	2009
Grinding swarf (tonnes)	20,332	20,110	20,706	20,466	20,297	23,221	20,899	15,740
Grinding swarf Recycled (%)	74	80	83	80	76	68	67	70

Recycling of grinding swarf

Grinding swarf is a common waste product from SKF's manufacturing processes. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2016. This target was achieved in 2013 and in 2015 the rate was at 83%. Variations in regional legislation, volatile scrap prices and other aspects mean that this contin-

ues to be a very challenging target to achieve and in 2016 the rate was down at 74%. This is mainly a result of new regulations in Italy, where SKF has previously had high recycling rate. The target on grinding swarf is extended until 2017 and during the year, new targets will be established as part of the update of SKF's environmental management system to the new standard ISO 14001:2015.

	2016	2015	2014	2013	2012	2011	2010	2009
Turning Chips (tonnes)	40,088	42,885	46,972	49,328	49,207	54,536	64,782	51,085
Turning Chips Recycled (%)	98	100	100	100	100	100	100	100
Other metal scrap (tonnes)	6,096	7,537	6,011	6,098	5,625	6,318	7,487	7,670
Other metal scrap recycled (%)	100	100	100	100	100	100	100	100
Rubber scrap (tonnes)	1,686	1,631						
Rubber scrap recycled (%)	88	86						
Used oils (tonnes)	3,531	3,701	3,954	4,369	3,861	3,899	4,275	3,880
Used oils recycled (%)	97	91	93	91	96	95	94	96
Paper and carton (tonnes)	4,446	4,630	4,544	4,615	4,276	4,193	4,084	3,390
Paper and carton recycled (%)	99	96	95	98	100	100	98	96
Waste sent to landfill (tonnes)	9,533	9,043	9,507	8,505	9,371	10,938	10,722	7,740

Chemicals and substances in production

SKF reports all significant use of chemicals and substances site by site for all SKF's units, please refer to the Environmental Data

spreadsheet available at skf.com/ar2016. In this note, SKF highlights the most significant uses and the progress on targets for solvents (VOCs).

	2016	2015	2014	2013	2012	2011	2010	2009
Solvents (tonnes)	808	902	882	929	966	847	1,144	1,075

Solvents – VOCs

Solvents, referred to as volatile organic compounds (VOCs), form vapours that can be damaging to health and the environment. After a successful 25% reduction of solvents in 2002–2007, SKF set new a target in 2007 to reduce the use of solvents by 50%. The In 2016,

the amount used was 808 tonnes – meaning that over 49% reduction has been achieved. As with the recycling target, this target will be extended until 2017 and new targets will be set out as part of the updated management system.

	2016	2015	2014	2013	2012	2011	2010	2009
Alcohols (tonnes)	1,893	1,890	1,865	1,636	1,500	1,542	1,514	1,293
Hydraulic Oil (tonnes)	1,712	1,885	2,214	2,386	2,435	2,515	2,501	1,932
Grease (tonnes)	2,046	1,876	1,718	1,717	1,615	1,515	1,416	1,175
PCB (Sites with)	0	0	0	0	0	1	1	1
Other oils (tonnes)	2,260	2,242	2,642	2,862	3,246	3,843	3,114	3,160
Lubrication Oils (tonnes)	5,328	707	825	703	793	986	880	649
Cutting Oils (tonnes)	2,338	2,412	2,102	2,492	2,271	2,456	2,656	1,971

G4-EN20 Ozone-depleting substances (ODS)

SKF has been monitoring its consumption of ODS, referring to the Montreal Protocol, for many years. Consumption has steadily fallen over the years, supported by a number of local phase-out projects.

Overall, the most harmful ODS have either been substituted with less harmful ones or usage has been totally eliminated due to process changes in manufacturing.

	2016	2015	2014	2013	2012	2011	2010	2009
ODS-Class I Manufacturing (kilogram)	0	0	0	0	0	0	0	0
ODS-Class II Manufacturing (kilogram)	0	0	0	0	0	0	15	1
ODS-Class III Manufacturing (kilogram)	102	209	323	311	300	138	119	24
ODS-Class I Non-Manufacturing (kilogram)	0	0	0	0	0	0	30	30
ODS-Class II Non-Manufacturing (kilogram)	0	0	0	0	2	124	107	253
ODS-Class III Non-Manufacturing (kilogram)	436	638	257	1,511	745	294	477	281

G4-EN8 Water use

As the majority of SKF's factories are located in industrial zones, water, to a large extent, is supplied by municipalities. Therefore, SKF monitors total water consumption at operating units and not according to water withdrawal by source. SKF uses the Global Water

Tool from World Business Council for Sustainable Development to identify sites located in areas of potential water related risks. SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption.

	2016	2015	2014	2013	2012	2011	2010	2009
Water use (1,000 N Cubic Meters)	5,508	5,558	5,200	5,451	5,662	5,584	5,652	6,898
Water use at SKF sites in water stressed locations	1,294	1,179	1,265	1,472	1,428	1,495	—	—

G4-EN24 Total number and volume of significant spills

SKF received no significant directives from the environmental authorities in 2016. One minor spill was recorded during the year. This has been communicated and resolved with local environmental authorities.

G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

No significant fines or sanctions 2016.

Specific standard disclosures

Social category

Occupational health and safety

Boundaries

Health and safety is a material issue in different aspects of SKF's direct operations as well as activities occurring along the value chain. SKF employs around 25,000 people in manufacturing and the focus here is on physical health and safety. This is also relevant upstream as part of SKF's responsible sourcing approaches, as well as for work carried out by sub-contractors. Downstream, the main relevant health and safety aspects relate to products and customer solutions. For SKF's white-collar employees, health is mostly related to stress and psycho-social health.

Disclosure on management approach

SKF deploys a Group-wide health and safety management system according to OHSAS 18001. The high level requirements on health and safety are defined in the Group's EHS policy and the detailed instructions and procedures are integrated within the environmental health and safety management system. SKF's management system is further described on page 123.

Scope and data compilation

Health and safety data is collected on a quarterly basis using the Group's main reporting and consolidation tool. SKF adopts the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating

accident rates. The scope of accident reporting covers all significant SKF sites. Together these sites cover over 90% of SKF's employees. Recently acquired companies are given a timeframe for implementing the management systems and reporting. The accident rate data also includes contractors and agency workers on SKF's sites.

SKF Group People data presented on pages 131–134, and in the Employee Care section on page 40 is collected annually. All figures reflect the situation on 31 December each year and the scope includes the SKF Group and all subsidiaries included in the financial reporting.

Performance and serious incidents

As referred to in the Employee Care section on page 40, regrettably two fatal accidents occurred in 2016. One was a traffic accident on the way from a customer visit and one was a fork-lift truck accident on SKF's premises where the driver did not use the seatbelt. The Group has driven initiatives aimed at further improving safety awareness during business travel and fork-lift truck safety. Other focus areas in 2017 include machine and finger safety.

Since the start of the Zero Accidents programme in 2000, significant improvement has been made. Today, less than one individual (0.87) out of 100 full time employees is involved in a recordable accident. Even if the trend is still moving in the right direction, more focus and dedication is required to completely eliminate accidents.

G4-LA6 Accident rate for the Group

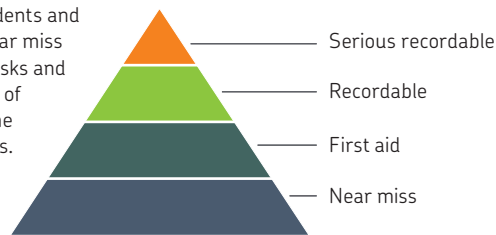
Data per region and gender cannot be reported. Lost days are documented locally, so far this is not aggregated and reported on Group level.

	2016	2015	2014	2013	2012	2011	2010	2009
Accident rate for the Group	0.87 ¹⁾	0.99	1.13	0.99	1.06	1.05	1.18	1.29

1) In 2016, SKF has included recordable accidents from two sites which are currently being integrated in common systems, but not been able to include all worked hours. The accident actual rate 2016 is therefore lower than reported.

Proactive and preventative work

The accident rate for the Group includes recordable accidents and illnesses. SKF's sites around the world work to report near miss and first aid incidents. This is a way to identify potential risks and prevent accidents from happening. In the figure the base of the pyramid is near miss, the second layer is first aid, the top layers are recordable and serious recordable incidents. The objective is to have more near miss and first aid incidents reported and acted upon, and thereby reduce recordable accidents over time.



G4-LA8 Health and safety topics covered in formal agreements with trade union

SKF's global framework agreement with the World Union Council is based on the SKF Code of Conduct – including health and safety. These aspects are included in both global and local formal agreements, a percentage cannot be given.

SKF deploys joint health and safety committees with management and worker representatives as part of the health and safety management system. Some units that have not yet fully implemented such a management system have still a joint health and safety committee. Typically, these committees operate at factory management level.

G4-LA5 SKF employees covered by joint health and safety committees with management and worker representatives, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	89	85	77	71	59
Middle East and Africa	77	93	100	100	59
North America	99	99	98	99	88
Latin America	97	96	86	99	88
Eastern and Central Europe	94	94	94	97	45
Western Europe	94	97	97	97	89
Group	94	94	91	91	77

SKF employees covered by formalized health and well-being policy/programme, by region

These programmes may include for example HIV/aids and other infectious diseases, health and fitness, stress, work-life balance or other issues relevant to the local context.

%	2016	2015	2014	2013	2012
Asia and Pacific	87	78	92	71	69
Middle East and Africa	79	62 ¹⁾	100	100	82
North America	97	94	97	91	94
Latin America	88	71	84	98	98
Eastern and Central Europe	61	46	44	20	47
Western Europe	88	86	94	90	92
Group	88	81	90	81	83

1) One recently acquired subsidiary started reporting as a separate legal unit in 2015. On 31 December the unit had no formal programme in place. The unit, located in South Africa has launched such programme co-funded by SWHAP (Swedish Workplace HIV/Aids Programme) in February 2016.

Employment

Boundaries

The SKF Group and its subsidiaries.

Disclosure on management approach

SKF has a long established human resources function (Group People) that is integrated in the Group People, Communication and Quality management function. There are specific Human Resources personnel and responsibilities at Group, Area, Country and site level. Group People works to ensure that the company has the right people, in the right place at the right time and that these people are competent, motivated and able to create and capture value for our customers.

SKF has a global framework with the World Union Council which is based on the SKF Code of Conduct. The staff function Group People, manages labour affairs and the formal dialogue with the SKF World Union Council. Issues relating to significant changes at SKF are always handled in close collaboration between company management, local union and the World Union Council. The SKF Group operates under Swedish legislation and the Swedish Corporate

Governance Code, as an effect of this, employee representatives are part of the Board – the highest governance body. Among other things, this means that employee representative have direct insight on board level issues and strategic outlook for the Group.

During recent years, SKF has undergone significant restructuring, extensive dialogues were held with employees and their representatives and efforts were made to minimise the negative impacts on those employees leaving the Group. These included the use of early retirement schemes as well as voluntary redundancy programmes. Employee Care describes the overall approach from the Group towards employees – further information can be found on pages 40–41.

Scope and data compilation

SKF reports retention rate and turnover by gender and region, not by age group. This is due to differences in human resource and salary systems which makes it challenging to aggregate this on Group level.

G4-LA1 Employee retention rate by region (excluding lay-offs)

%	2016			2015	2014	2013
	Women	Men	Total			
Asia and Pacific	90	92	92	90	89	87
Middle East and Africa	95	93	93	91	90	95
North America	91	92	92	90	93	91
Latin America	91	95	95	95	92	88
Eastern and Central Europe	90	91	90	94	95	95
Western Europe	94	96	96	96	96	95
Group	92	94	93	93	93	92

Voluntary retention rate is measured by comparing remaining SKF employees at year end (minus newly employed) to the number at the start of the year. Lay-offs are excluded in the calculation.

G4-LA1 Employee turnover and new hires by region

	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and central Europe	Western Europe
Employee turnover 2016, women %	11.2	11.2	6.4	17.2	22.3	9.9	7.4
Employee turnover 2016, men %	8.5	8.9	8.8	13.5	16.6	9.7	5.2
Employee turnover 2016, total %	9.1	9.3	8.2	14.5	17.2	9.7	5.6
Employee turnover 2015, total %	8.9	12.2	12.3	11.3	18.6	7.4	5.2
New hires 2016	3,755	1,040	44	678	550	639	804
Women (Number)	904	217	9	175	81	223	199
(Share of total)	24%	21%	20%	26%	15%	35%	25%
Men (Number)	2,851	823	35	503	469	416	605

Training and education

Boundaries

The SKF Group and its subsidiaries, SKF's distributor network and users of SKF's products and services.

Disclosure on management approach

SKF has established a wide range of training and educational programmes aimed at the Group's employees, distributors and customers. These are based on the Group's overall strategy and the specific competency and development needs of the various functions and job roles.

All SKF employees are entitled to an individual development plan (IDP) and this is where specific training or development needs are identified and agreed between the employee and his or her manager. The IDP is also used to follow up on the completion of training and development activities. Training defined within an IDP can range from mandatory e-learning, which all employees must complete (Code of Conduct e-learning for example) to very specific technical training on a wide range of subjects such as project management or application engineering.

SKF College is the central function in SKF that manages and coordinate tools for learning in SKF. An assortment of development programmes focusing on professional skills (e.g. sales and marketing, engineering, products and platforms, demand chain, manufacturing), leadership skills, personal skills (e.g. negotiation skills, communication skills, time management), and other strategic areas are made available to employees according to the Group's strategies and priorities.

Utilizing different tools and methods – web conferencing, e-learning, classroom setting, group work, projects, and coaching – SKF's learning and development programmes aim at enhancing the quality in learning for employees. Managers' involvement and support through coaching is important for employees to achieve sustained personal and professional development.

The Group has established SKF College campuses in Sweden, USA, Argentina, China, India and Singapore. This enables SKF's global curriculum to be locally adapted and provided in local languages by local trainers.

Downstream, SKF provides training for distributors and end-users of SKF's products and services. This includes training on mounting

and servicing SKF's products for example. For distributors, SKF's training includes aspects such as technical specifications of SKF's products, value selling, SKF's Code of Conduct and profitable business management. More information on distributor training is available on skf.com.

Scope and data compilation

SKF measures performance reviews and development plans in two main ways. Employees in traditional white collar work roles, such as sales and administration are using a Group-wide learning management system in which training, development plans and performance is managed, around 17,500 employees are in the scope of performance reviews and development plans in this system. This is the scope of the population in the 2016 data below. SKF also follows up on performance reviews and development plans in the a Group-wide employee engagement survey. This survey would cover all SKF employees. The next survey was planned for fourth quarter, 2016, but it has been rescheduled to the second quarter, 2017.

What could externally be referred to as Programmes for skills management and lifelong learning are defined at SKF as individual development plans.

The percentage of employees receiving regular performance and career development is defined at SKF as people receiving formal documented performance reviews. In addition, SKF's general approach to providing on-going performance feedback helps to shape the training and development needs for employees.

Performance reviews

%	2016	2015	2014 ²⁾
G4-LA11 Performance reviews	75 ¹⁾	—	69
Men/Women		—	69/70

1) For 2016, 13,099 out the scope of around 17,500 employees had their performance reviews finalized by 31 January, 2017.

2) In 2014, the data is aggregated from a Group-wide survey covering all employees. In 2016, the data is derived from the learning management system, covering around 17,500 white collar employees.

Breakdown on employee categories or gender cannot not be provided.

Diversity and equal opportunities

Boundaries

The SKF Group and its subsidiaries.

Disclosure on management approach

SKF works to increase diversity in various aspects to reflect and support the Group's diverse customer and manufacturing base and create sustained competitive advantage. The objective is to gain this advantage by utilizing diverse ways of thinking to cover as many aspects as possible. The work focuses on gender, national origin, industry background and other indicators of diversity.

The SKF Group is responsible for setting standards and providing tools that can help the business as a whole to increase diversity, and the operational parts of the business are responsible for addressing diversity effectively and appropriately. The assurance of equal opportunity for all employees is mandated in SKF's Code of Conduct. All SKF's units are accountable for ensuring the effective deployment of SKF's Code of Conduct and this is coordinated and followed up at Group level.

Scope and data

SKF measures the ratio of women in management positions. The data covers all of SKF's units. Local management is defined as a management group for an SKF legal entity with at least two members. The proportion of women in the Group's total workforce was 21%. SKF does not categorize employees or management by age group or minority.

G4-LA12 Local management with at least one woman, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	95	91	95	86	73
Middle East and Africa	60	50	67	67	50
North America	94	85	82	77	85
Latin America	75	67	67	67	64
Eastern and Central Europe	58	55	63	86	60
Western Europe	84	81	90	68	69
Group	85	80	83	76	70

For the detailed information on the Board of Directors and executive management, please refer to pages 152–153 and 154–155.

G4-LA12 Total percentage rate of women in local management, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	15	22	17	20	16
Middle East and Africa	18	14	17	15	16
North America	20	16	19	18	16
Latin America	17	17	23	19	18
Eastern and Central Europe	26	30	27	30	29
Western Europe	19	19	19	16	16
Group	18	20	18	18	17

Equal remuneration for men and women

Boundaries

The SKF Group and subsidiaries.

Disclosure on management approach

The SKF Code of Conduct stipulates that all employees are to be treated equally, fairly and with respect. Therefore SKF strives to assure that all remuneration is based on individual performance without any bias from a gender (or other) perspective.

Scope and data compilation

SKF is implementing common systems and job roles in the countries where SKF has significant operations. The ambition is to be able to report this more and more accurately over time.

G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation

Due to differences in salary systems, SKF does not have this data consolidated centrally for all employees. SKF aggregates base salaries for significant operations in its biggest countries by employee headcount, these are presented in the table below. In total, these operations cover 25,000 employees, blue collar as well as white collar employees. For total compensation, the data coverage is slightly smaller. SKF is implementing common systems and job roles in the countries where SKF has significant operations and the coverage of the data will increase steadily over time.

	Female/Male ratio %	Employees in scope	Coverage of total workforce %
Germany	93	4,949	72%
USA	79	4,288	79%
China	102	3,544	59%
Sweden	101	3,322	100%
Italy	99	2,919	82%
France	102	2,685	84%
India	140	2,621	84%
United Kingdom	83	913	76%
Group	93	25,241	56%

In Sweden, SKF performs salary mapping taking into consideration job roles and seniority. For staff, SKF in Sweden has 17 different job roles and three levels of seniority in each. The latest salary mapping in Sweden showed no significant deviations between men and women when comparing employees within the same roles and level of seniority, the next mapping in Sweden is due 2017.

Across the Group, SKF does not have the same possibility to map all employees in detail as the job roles and categories are defined locally, therefore SKF can only disclose salary ratio between women and men aggregated per country. The ratio varies from one country to the other for various reasons. One example is India where very few women work in manufacturing but are relatively well represented in junior management. This is reflected in the extreme difference

where women on average earn 140% of that of men. On the Group total however, there is an indication that while women are relatively well represented in junior management positions (compared to the total population), men are overrepresented in top management.

Although the share of women in the SKF Group in total and in leading positions has increased over the years, increasing the speed with which this ratio improves remains a key challenge.

Labour management relations

Boundaries

SKF Group and its subsidiaries.

Disclosure on management approach

Issues relating to significant changes at SKF, for example in acquiring or divesting operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council. The precise approach must be adapted to the specific conditions of each acquisition. SKF makes it clear in its Code of Conduct that all employees have the right to join a union and to bargain collectively. The Code of Conduct is the basis of the framework agreement between SKF and the World Union Council, and continual dialogue is on-going to ensure that it works for both SKF and the Union members.

Scope and data compilation

Data is collected using SKF's main consolidation system and reviewed by the controller and human resource office before sent to the SKF Group.

G4-LA4 Minimum notice periods

Notice regarding operational changes is always defined on a case-by-case basis but always with the local unions involved, and/or reviewed at the World Works Council. The main purpose of the

World Union Council is to make sure that the Global Framework Agreement works in practice. The Council, which includes all 19 countries referred to above meets every year to discuss labour issues in an open format and share what is currently happening in the Group. All countries with major operations have the right to send union officials or observers to the World Union Council. In addition, representatives of SKF World Union Council are invited to speak about specific issues such as; collective bargaining, health and safety, diversity and other issues with labour and management representatives from all over the world.

SKF reports employees covered by trade union agreements.

SKF employees covered by independent trade union agreement, by region

%	2016	2015	2014	2013	2012
Asia and Pacific	77	81	77	70	70
Middle East and Africa	13	41	23	21	23
North America	88	88	83	88	91
Latin America	75	76	76	77	88
Eastern and Central Europe	91	92	81	86	85
Western Europe	92	95	91	92	94
Group	86	89	84	84	86

Local communities

Boundaries

SKF reports activities and plans that are aimed at supporting and improving communities close to SKF's local operations.

Disclosure on management approach

SKF's Social Policy aims to promote employees' involvement in commendable local social projects. As part of this, the country management team is asked to prepare and submit an annual Community Care plan. To support the appropriate development of these plans, the SKF Group provides instructions for sponsoring and charitable activities. As a basis for the Community Care plan, local management assesses and defines the support that best caters for the local society's needs and contributes to the community's development. Simplified impact assessments are carried out on high level with reference to SKF's Social policy, however the Group works to improve impact assessments on local level by continuous dialogues with country management.

Scope and data compilation

SKF has 70 country organizations (with a country manager). The focus is on operations that are significant, in terms of number of employees, customers or revenues. SKF mainly engages in community care activities through volunteer work, donations, in-kind giving and sponsorship.

- Volunteer work: Paid-working hours to employees for volunteering at approved projects by the local management.
- Donations: One-off or non-repetitive monetary contribution such as fund raising.
- In-kind giving: Contribution with products or services, such as free bearings or free technical services.
- Sponsorship: Periodical monetary contribution to an institution, organization or project/activity.

G4-S01 Percentage of operations with implemented local community engagement, impact assessments, and development programmes

34 SKF country organisations reported Community Care activities in 2016 and these make up 90% of the Group's global operations in terms of employees. Please refer to page 46 for examples. In accordance with the UN Guiding Principles on Business and Human Rights and in addition to established initiatives related to the Code of Conduct, SKF has started to conduct Human Rights Impact Assessments in markets where the Group has significant operations. In 2016 the Group completed impact assessments in India on a country level and at several sites. Based on this pilot work method and building on existing auditing and review processes, SKF will conduct similar assessments across the Group during 2017.

Human rights

This includes the aspects non-discrimination, freedom of association and collective bargaining, child labour, forced or compulsory labour, assessment and human rights grievance mechanism.

Boundaries

The requirement to protect salient human rights for people working in the SKF Group and its subsidiaries as well as for suppliers, sub-contractors and distributors is defined in SKF's Code of Conduct, and related policies.

Disclosure on management approach

Relevant human rights and related aspects for SKF includes health and safety, non-discrimination, freedom of association and collective bargaining, avoidance of child, forced or compulsory labour and the provision of effective grievance mechanisms. The protection of these rights is managed by the deployment and follow-up processes and procedures of SKF's Code of Conduct. This is a Group policy to which all other policies are subordinate and owned by Group People, Communication and Quality. This function carries out risk-based internal audits on subsidiaries responsible for implementation and performance. All SKF employees are provided with training in the SKF Code of Conduct in ways such as e-learning, introduction and awareness training and classroom training. Ethics is also included in management training programmes at all levels.

SKF has taken steps to address the specific requirements set out in the UN Guiding Principles on Business and Human rights. The Code of Conduct was updated in 2014 in light of the Guiding Principles. Further work is on-going to update and improve the overall due diligence process around human rights as encouraged by the Guiding Principles.

With reference to the UK modern slavery act 2015, SKF works continuously to ensure that slavery and human trafficking is not taking place in company operations or supply chains. The SKF Code of Conduct and the SKF Code of Conduct for Suppliers and Sub-contractors are policies published by the Group which define required standards of ethical behaviour within SKF's global operations and the Group's suppliers. The policies are based on UN Guiding Principles for Business and Human Rights and external principles and charters such as, ILO Declaration on Fundamental Principles and Rights at Work, OECD Guidelines for Multinational Companies and the UN Global Compact. For more detail and SKF Group's statement in relation to the UK modern slavery act, please refer to SKF.com/care.

G4-HR3 Total number of incidents of discrimination and corrective actions taken

Nine cases related to discrimination or harassment were substantiated. Four of the cases led to verbal or written warnings and two led to people having to leave the company.

In addition, a number of harassment or discriminatory cases were reported which led to training, counseling or coaching on the SKF Code of Conduct.

G4-HR4 Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights

The overall approach from the state towards union membership, and level of independence of trade unions, in certain countries where SKF has operations creates challenges in this aspect. SKF works pragmatically with the World Union Council and the appointed Union representatives to try and address these challenges. Please refer to page 119 for a description on SKF World Union Council's work related to collective bargaining agreements.

G4-HR5 Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour

The issue of child labour is included in both SKF's internal and supplier audits. In 2016, SKF has found no actual cases of child labour at its operations or at SKF's suppliers. A smaller number of cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the Responsible Sourcing Programme, as explained on page 139 in this report.

G4-HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour

The issue of forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2016, no cases of forced or bonded labour have been identified.

G4-HR9 Total number and percentage of operations that have been subject to human rights assessments

SKF's units are subject to human rights assessment and due diligence as part of the internal policy audit programme (including the Code of Conduct, Environment, Health and Safety). All SKF's units are subject to audit within a three-year interval using a risk-based approach.

Ethics and compliance

Boundaries

SKF addresses ethics and compliance across the full value chain. Clearly the strongest potential to control is with SKF's operations and parties with whom SKF has a direct business relationship. However, SKF works to find practical ways to ensure that the issue is addressed further upstream and downstream.

Disclosure on management approach

SKF's Ethics and compliance programmes cover a wide range of areas related to the SKF Code of Conduct as described on page 38 in this report. These statements focus on the aspects as described in GRI G4 guidelines: corruption, anti-competitive behaviour and compliance. SKF Ethics and compliance programmes rely on Group policies and instructions related to each issue, setting out the expectations on how to act, tools to use for compliance and where to turn for guidance.

G4-S04 Communication and training on anti-corruption policies and procedures

All (100%) of SKF's employees have been communicated SKF's Anti-Fraud and Anti-Corruption policy.

In 2016, SKF has trained 16,521 employees (94% of scope) in anti-corruption with a new e-learning which was launched during the year. The training is mandatory for about 17,500 staff employees. Completion rate broken down by region, employee category and governance body members cannot be provided.

G4-S05 Confirmed incidents of corruption and actions taken

SKF's internal audit department has investigated and closed 17 cases related to fraud and/or corruption during the year, five of which were carried over from 2015. Seven were unsubstantiated. Disciplinary consequences have been taken for ten confirmed cases. Two employees received warning letters and nine employees left the company as a result of the investigations. Investigations are on-going on four cases.

G4-S07 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes

Please refer to page 56, Risks and uncertainties in the business.

G4-S08 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations

No significant fines have been paid and no non-monetary sanctions have occurred during the year.

Social grievance mechanisms

Boundaries

This section covers all social grievance mechanisms as SKF works to resolve potential and actual grievances under the SKF Ethics and compliance programme.

Disclosure on management approach

The SKF Ethics and compliance programme covers all topics in SKF's Code of Conduct. Please refer to page 38 for an overview. The SKF Code of Conduct is available in Topics related to Annual Report at skf.com/ar2016.

SKF employees are requested to report behaviour that is not in line with SKF's Code of Conduct to their manager, local human resources or escalate to the country management. SKF employees can also raise concerns to a Group-level reporting mechanism. As part of this mechanism, SKF employees can report concerns in their own language via a designated web portal or by calling a local telephone number. Locally reported grievances are often managed at local level with the local human resource department or country management. A new reporting line has been recently launched and as awareness of this channel is heightened, it is likely that reported cases will increase.

LA16, HR12, S011 Number of grievances about labour practices, human rights and impacts on society filed, addressed, and resolved through formal grievance mechanisms

SKF's central functions on ethics and compliance received 211 (160) cases during 2016 – of which 63 (40) were substantiated, investigated and closed. Most of the cases led to training on the topics and people involved. A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved. Please refer to G4-HR3.

In addition to the cases managed by the central functions, many grievances related to ethics and compliance are managed by local SKF units which are not escalated to the Group.

SKF's internal audit function has also investigated misconduct related to fraud and corruption, please refer to cases reported under indicator G4-S05.

Suppliers

Boundaries

SKF addresses supplier impact on the environment, human rights, labour practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers and uses a risk based approach to focus auditing and other efforts.

Disclosure on management approach

SKF's responsible sourcing programme works to ensure the Group's effective deployment of the SKF Code of Conduct for Suppliers and Sub-contractors. The programme is part of Supplier development, which covers areas of delivery, quality, product compliance and Code of Conduct.

All potential suppliers are initially screened using a set of minimum criteria related to the Code of Conduct and quality demands and which must be met in order to be considered as an SKF supplier. In addition to potential suppliers, existing direct material suppliers (making up 90% of spend) in high risk regions are required to undertake an on-site Code of Conduct audit conducted either by SKF specialists or third party auditors. The audit procedure is based around a checklist with 45 specific questions focusing on a wide range of aspects, such as human rights and labour standards, environment and other Code of Conduct issues.

Most noncompliance cases are managed by SKF's regional purchasing offices in alignment with global category managers until resolved. Significant deviations are escalated to SKF Group's Responsible Sourcing Committee to decide ways of resolving complex issues. First and foremost, the work focuses on establishing a strong partnership and develop targeted suppliers. However, suppliers which fail to address critical issues over time risk having their contracts with SKF terminated. No such termination was necessary during 2016.

Scope and data collection

In 2016, over 122 audits have been carried out. These include first audits, follow-up audits and third party audits. The most common deviations found are related to health and safety, work hours, compensation and other employment practices. The data reported in these statements are consolidating SKF's finding into GRI's designations.

NOTE: In SKF Annual Report 2015, all deviations found and closed 2012–2015 were reported. In 2016, this report includes audit findings 2016 and the cases which have been escalated the central Responsible Sourcing Committee, most cases are dealt with in the operations with procurement staff, category manager and supplier.

EN32, LA14, HR10, S09 Percentage of new suppliers that were screened using environmental, human rights, labour and society impact

All new suppliers are screened using these criteria. In 2016, 30 out of 51 potential suppliers to SKF did not pass SKF's criteria to become a supplier, directly related to Code of Conduct risks.

EN33 Significant actual and potential negative environmental impacts in the supply chain and actions taken

In 2016, 21 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to remediate these. Two of these cases have been escalated to Responsible Sourcing Committee.

LA15, HR 11 Significant actual and potential negative labour and human rights impacts in the supply chain and actions taken

In 2016, 181 deviations to the SKF Code of Conduct in this category have been identified and are being resolved in the operations, the most common deviations are related to occupational health and safety, work hours, compensation and employment contracts procedures. 11 deviations in this category have been escalated to the Responsible Sourcing Committee. All cases are prioritized and addressed according to their urgency.

S010 Significant actual and potential negative impacts on society in the supply chain and actions taken Supplier code of conducts audits

In 2016, no case of significant deviations with negative societal impact has been identified. One case of falsified records has been found and escalated to Responsible Sourcing Committee. This case is not considered to significantly impact society, but is a critical deviation related to business ethics.

Auditor's report

To the general meeting of the shareholders of AB SKF (publ), corporate identity number 556007-3495

Report on the annual accounts and consolidated accounts Opinions

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 8–35 and 50–117 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December, 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December, 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

SKF is a process-oriented company and the business is highly transactional operating on a number of systems and databases that initiate and process transactions. The SKF's IT infrastructure is complex and the group is currently undergoing a significant change process including implementation of a new ERP system.

SKF has a defined Internal Controls framework, SICS. SKF has developed a set of controls for IT applications within the SICS framework being relevant for financial reporting. The group audit team together with IT specialists, have identified and assessed those processes, applications and databases that has an impact to significant transaction flows and consequently are critical for the financial reporting and our audit.

Our audit strategy included local audits for those entities and countries that together represent larger operations and markets for the group. We included those operations that were viewed to have a particular relevance including the group's treasury unit. No individual entity is viewed to represent a significant component to the group audit. In addition to the local audits, we have performed testing to group consolidation together with consolidated analytical assessments in order to have a reasonable basis for our group audit. For those entities being in scope for group audit procedures we have issued detailed instructions and received reporting and reviewed procedures performed through discussions and meetings with local teams to confirm that we have satisfactory basis for our group audit opinion.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the Key audit matter

Valuation of intangible assets

Refer to Note 10 of the consolidated accounts for the related disclosures

As of 31 December, 2016 intangible assets amount to SEK 19,568 million for the group. Out of this total, an amount of SEK 11,137 million relate to goodwill and SEK 2,585 million to other intangible assets with an indefinite life.

According to IFRS, the company is required, at least annually, to test these assets for impairment.

Impairment testing involves assumptions with a significant degree of judgment, in particular for those assumptions that relate to the company's applied discount rates and expectations on market development and the future cash flow generation of the business.

Valuation of intangible assets and impairment testing represent a key audit matter for our audit in light of the significant values of the group's intangible assets and the inherent uncertainties of assumptions and estimates involved.

Our audit procedures and testing of the valuation and impairment tests of intangible assets include areas and tests described below, however are not limited to these.

We have evaluated models for impairment testing used by the company together with valuation and accounting specialists and have assessed these to be in line with common valuation techniques used.

We have assessed assumptions used in the calculations and that are further described in Note 10. Our procedures to assess assumptions used included to compare company's future cash flow forecasts to available business plans and other information relevant for the estimated development of the business.

We have assessed the group's sensitivity analyses of impairment tests to changes in significant assumptions and the risk that negative changes could lead to an impairment.

We have further performed independent sensitivity analyses and performed back testing to prior year assumptions to under build the quality of forecasting process and assess assumptions for reasonableness and consistency.

Recognition of provisions and contingent liabilities for lawsuits and claims

Refer to Risk management at SKF page 56 and Note 18 of the consolidated accounts for the related disclosures

SKF together with other companies in the bearing industry are part of investigations from competition authorities in different territories. During 2016, lawsuits have been initiated from purchases of bearing to SKF together with the other companies affected by the EU ruling and fine for violation of EU competition rules in 2014. There is a risk for further civil claims from direct and indirect purchasers of bearings.

Risks and uncertainties from such investigations and potential claims need to be carefully assessed and analyzed. The assessment of outcome from legal proceedings and the potential need of provisions is an area of significant judgement involving the legal situation as well as factual circumstances together with the risk of a financial impact. These considerations make the area one of the key audit matters in our audit.

Our independent assessment of management's descriptions and assessments of legal proceedings and claims included inquiries to local management as well as to group management and parent company.

Our procedures further involve reading of minutes and the group's internal documentation of legal proceedings and claims to assess the accuracy and completeness of the disclosures in the consolidated accounts.

In specific cases, we have collected statements from external legal advisors to risks and assessments made.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–7, 36–49, 118–139 and 152–157. Other information further includes those documents listed on SKF's website in "Topics related to SKF's annual report". Beyond other information in this document the company publishes a yearly report "SKF in brief 2016" that we expect to have access to after the date of the auditor's report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information

identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual

Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of AB SKF (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities

section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Gothenburg, 6 March, 2017
PricewaterhouseCoopers AB

Peter Clemetson
Auditor in Charge
Authorized Public Accountant

Bo Karlsson
Authorized Public Accountant

Independent Auditor's Limited Assurance Report on the Sustainability Report

To AB SKF (publ)

Introduction

We have been engaged by the Group Management of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2016 in the sections "SKF Care" and "Sustainability Statements", as well as documents on SKF's website in "Topics related to Annual Report" marked with *. We refer to these disclosures collectively as the "Sustainability Report".

Responsibilities of the Board and Management for the Sustainability Report

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained in the "Sustainability Statements" section of the Annual Report, and are the parts of the *Sustainability Reporting Guidelines* (published by The Global Reporting Initiative, GRI) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 *Assurance of Sustainability Reports* issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report,

and applying analytical and other limited assurance procedures. A summary of the assurance procedures performed is presented in the appendix.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

The firm applies ISQC 1 (*International Standard on Quality Control*) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Group Management.

Gothenburg, 6 March, 2017
PricewaterhouseCoopers AB

Peter Clemetson
Authorized Public Accountant

Fredrik Ljungdahl
Expert Member of FAR

Appendix

Our limited assurance engagement has, based on an assessment of materiality and risk, included the following procedures:

- a. Update of our knowledge and understanding of SKF's organization and activities,
- b. Assessment of suitability and application of the criteria regarding the stakeholders' need for information,
- c. Assessment of the outcome of the company's materiality analysis and stakeholder dialogue,
- d. Interviews with management at group level (including members of Group Management) and visits to selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient,
- e. Examination of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient,
- f. Evaluation of the design of selected systems and processes used to obtain, manage and validate sustainability information,
- g. Evaluation of the model used to calculate CO₂ emissions, including the SKF BeyondZero portfolio,
- h. Analytical procedures of the information stated in the Sustainability Report,
- i. Assessment of the company's declared "in accordance" option according to the GRI guidelines,
- j. Assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.