

# Sustainability statements<sup>1)</sup>

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## About this report

This report has been prepared in accordance with the GRI Standards "Core" option.

The reader will find relevant sustainability information in each part of the report. These statements provide SKF's stakeholders with information on the Group's sustainability performance according to GRI Standards.

### Topics related to the Annual Report

In addition to the information provided in this Annual Report, related Topics can be found at [skf.com/ar2019](http://skf.com/ar2019).

- GRI content index<sup>2)</sup>
- CO<sub>2</sub> emission data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing units 2019

### Statutory sustainability report

SKF has prepared a separate report according to the Swedish annual account act on sustainability reporting and reports on the topics:

- **Business model** pages 14–15
- **Anti-corruption** page 124
- **Climate and environment** pages 125–130
- **Employees** pages 131–137
- **Human rights and other relevant social topics** pages 138–141

Risks associated with the topics above are found in connection to the topics, in SKF's overall risk management on pages 54–57 and on page 118.

1) As defined by GRI Standards.

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

# General disclosures

## Organizational profile

### 102-01 Name of the organization

AB SKF

### 102-02 Activities, brands, products, and services

The SKF Group is a leading global supplier of products, solutions and services within bearings, seals, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimization, engineering consultancy and training. For information on SKF's brands please refer to [skf.com/brands](http://skf.com/brands).

### 102-03 Location of headquarters

Hornsgatan 1 in Gothenburg, Sweden.

### 102-04 Location of operations

SKF operations are global. The Group has manufacturing operations in 22 countries and direct sales channels in 70 countries. The Group is present in 130 countries. For more information please refer to SKF's global presence on pages 42–47.

### 102-05 Ownership and legal form

AB SKF, listed at Nasdaq Stockholm, Large cap. For more information about the SKF share, see pages 58–59.

### 102-06 Markets served

SKF is a global actor, with business across all geographical markets and major customer industries. Pages 42–47 and 50–53 provides an overview of geographies and industries served.

### 102-07 Scale of the organization

Represented in 130 countries, 43,360 employees, 15 technical centers and 103 manufacturing sites. Net sales in 2019 amounted to SEK 86,013 million.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 66. In 2019, SKF delivered 385,234 tonnes of bearings but also seals, condition monitoring, lubrication systems and services.

### 102-08 Information on employees and other workers

#### Employees and other workers by employment type

2019	Permanent		Temporary		Agency	Total
	White collar	Blue collar	White collar	Blue collar		
Western Europe	9,268	10,860	31	241	1,092	21,492
Asia and Pacific	3,268	6,615	10	179	2,161	12,233
North America (incl. Mexico)	1,953	3,378	24	1	184	5,540
Eastern and Central Europe	828	2,885	15	471	180	4,379
Latin America	624	2,255	3	19	49	2,950
Africa and Middle East	380	49	3	—	25	457
<b>Total</b>	<b>16,321</b>	<b>26,042</b>	<b>86</b>	<b>911</b>	<b>3,691</b>	<b>47,051</b>

Data was collected from the Group's financial consolidation system per all operational units within the Group. The numbers represents headcount per year end December 2019.

#### Employees by contract and region

2019	Full time	Part time
Western Europe	19,467	933
Asia and Pacific	9,914	158
North America	5,329	27
Eastern and Central Europe	4,194	5
Latin America	2,873	28
Africa and Middle East	427	5
<b>Total</b>	<b>42,204</b>	<b>1,156</b>

#### Employees by gender and contract

2019	Full time	Share	Part time	Share
Men	33,570	80%	509	44%
Women	8,634	20%	647	56%
<b>Total</b>	<b>42,204</b>	<b>100%</b>	<b>1,156</b>	<b>100%</b>

Gender and contract data is extrapolated from different sources using percentage of full time and part time per gender from local HR systems and applying these percentages to the total headcount per geographic area.

### 102-09 Supply chain

SKF's downstream 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 103 manufacturing plants across the world. SKF directly employs over 27,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations. The purchased material consists of steel 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 in the Americas. About 90% of supplies to SKF factories comes from local or regional suppliers. The total annual spend of the SKF Group is around SEK 40 billion and roughly around 1,100 suppliers make up 80% of the total spend by volume. For more information please refer to the section Supplier assessments on pages 140–141.

**102-10 Significant changes to the organization and its supply chain**

In 2019, SKF acquired RecondOil, Presenso Ltd. and Form Automation Solutions (FAS).

**102-11 Precautionary principle or approach**

As required by the International Chamber of Commerce (ICC) Charter, 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.

**102-12 External initiatives**

SKF endorses or subscribes to a number of internationally recognized principles, charters and guidelines which promote sustainable and ethical business practices. The main ones are:

- The United Nations Global Compact which 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 Annual Report is also the Group's Communication on progress for the principles of the Global Compact.
- The International Labour Organization (ILO) which draws up and oversees international labour standards, bringing together representatives of governments, employers and workers to jointly shape policies and programmes promoting decent work for all.

- The ICC is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity.
- The Organization for Economic Co-operation and Development (OECD) has the mission 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 Multi-national 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.

**102-13 Membership of associations**

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

## Strategy

**102-14 Statement from senior decision-maker**

The President's letter is found on pages 8–11. Strategic priorities, trends, targets and achievements and outlook are described throughout the report.

**102-15 Key impacts, risks, and opportunities**

The United Nations Sustainable Development Goals help to highlight risks and opportunities for business globally. The goals also provide a lens as to the social change needed to achieve them. External drivers, trends and opportunities are described on pages 16–19, SKF's overall risk management approach is described on pages 54–57.

SKF's materiality analysis described on page 121 helps the organization identify sustainability risks in the value chain and supports the organization to filter out and aggregate the risks that if they are materialized, would have the most significant impact on the company, its operations and society. SKF's integrated management system and processes for risk management are critical to integrate, monitor and manage the risks and opportunities that stem from internal and external forces – whether social, environmental, legal, political, technological and/or economic. For example human rights related issues, where SKF has worked for many years according to external principles and charters to integrate human rights risks in its policies and procedures.

## Ethics

### 102-16 Values, principles, standards, and norms of behavior

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 publicly available on SKF.com/code.

## The SKF Group values

Empowerment • High ethics  
Openness • Teamwork

### 102-17 Mechanisms for advice and concerns about ethics

SKF employees are requested to report behavior that is not in line with SKF's Code of Conduct to their manager, local human resources or to other senior managers. Employees can also raise concerns or seek advice via the SKF Ethics and Compliance Reporting Line. The reporting line is hosted by a third part and reports can be made anonymously, unless this is prohibited by local legislation.

The SKF Ethics and Compliance Reporting Line is available to external parties on SKF.com. SKF employees and others can report concerns in their own language via a designated web portal or by calling a local telephone number (telephone service is available only in Brazil and Mexico). SKF has a strict non-retaliation policy towards anyone raising concerns in good faith. During 2019, 340 concerns were reported to the central functions via the SKF Ethics and Compliance Reporting Line or via other channels. The major types of concerns reported were discrimination or harassment (17%), conflict of interest (9%) and fraud (7%). In addition to the concerns reported to the central functions, grievances related to ethics and compliance are reported to – and managed by – local management.

# 340

cases reported via the Group's  
whistle blowing system

## Governance

### 102-18 Governance structure

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 is organized in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Technologies. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations.

Group Management and the Board of Directors have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are implemented. The Director of Group Sustainability, report directly to the Chief Executive Officer and has the task to assure that all relevant aspects of sustainability are addressed and integrated into operations and activities throughout the Group, establishing policies, strategies and targets related to SKF's overall sustainability performance. These, in turn drive and support the integration of sustainability into business practices, processes, operations and staff functions.

Sustainability performance is the responsibility of the operations and shall be delivered in accordance with the strategic direction and fundamental requirements as set by Group Management.

The implementation of the sustainability program in the line organization is driven by the respective SKF areas, their business units, or by country organizations with direction and coordination from formal cross-functional, decision making bodies and working-groups such as:

- 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 EHS and Quality Board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, (soon to be ISO 45001), ISO 50001 and associated policies and instructions; and coordinates the deployment of the Group's related strategy.
- The Group Ethics and Compliance Committee, which oversees the risks and opportunities related to the ethics and compliance areas.

Authority and responsibility are further delegated to the country managers who are appointed by SKF's Group management. Each country and company manager is responsible for their entity's performance including financial metrics, social impact, compliance and other topics as stated in the SKF Group Policy on Country Manager and Managing Director Roles and Responsibilities.

## Stakeholder engagement

### 102-40–102-44

SKF aims to align its business practices with the needs and expectations from its stakeholders. Stakeholder groups are defined as entities or individuals that may both influence and be influenced by SKF's activities. SKF works in different ways to identify individuals with whom to engage and many times in the form of continual dialogues. Connected to sustainable development, the general rationale is that all these different stakeholders have specific concerns. Feedback and input are therefore sought from a wide range of stakeholders and in many different ways.

The input to SKF's sustainability activities is collected from customers, investors and analysts, employees, unions and representatives from civil society, and is collected via interviews, surveys, conferences, meetings and data analysis.

The work to engage with the stakeholder groups is conducted by respective functions within the Group (e.g. Investor Relations, Human Resources, Communication, Sales, Bearing Operations and Purchasing) including managing the direct dialogue and, identifying individuals from whom to seek feedback. SKF has not made a full stakeholder analyses during 2019, but has sought and received input which to some extent has changed the materiality

matrix (see 102-49). The materiality matrix is used by SKF to ensure that sufficient focus and resources are put into the areas where the stakeholder interests are the highest and which have the highest impact on SKF, such as health and safety, climate and compliance.

### Collective bargaining agreements

SKF holds collective bargaining agreements in most countries where present. In the 20 countries that are part of the SKF World Union council (Argentina, Austria, Brazil, Bulgaria, China, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, South Korea, Sweden, the U.K., Ukraine and USA), they all have agreements. These countries make up over 95% of all blue-collar workers (around 27,000). 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 20 countries above, SKF employed around 1,000 people in blue-collar roles in sales, logistics and manufacturing of which the biggest countries are: Peru, Colombia, South Africa, Singapore, Zambia, Russia and Finland.

	Approach to stakeholder engagement	Key topics and concerns raised
<b>Customers</b>	Customer input is sought and received via 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 collects key issues and concerns from customer surveys and assessments.	<ul style="list-style-type: none"> <li>• Climate impact</li> <li>• Conflict minerals</li> <li>• Environmental compliance</li> <li>• Human rights and labour rights (including health and safety)</li> <li>• Corruption</li> </ul>
<b>Investors and analysts</b>	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. Capital market days are held to present the strategy, targets and the different businesses in more detail. SKF receives feedback from investors via discussions during investor meetings.	<ul style="list-style-type: none"> <li>• Climate impact and financial climate risk and opportunities management</li> <li>• Human rights along the value chain (including health and safety)</li> <li>• Cost competitiveness and operational efficiency</li> <li>• Digitalization, job development and manufacturing footprint</li> </ul>
<b>Employees and union organizations</b>	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 148–154. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.	<ul style="list-style-type: none"> <li>• Environment, health and safety</li> <li>• Employment and competency development in relation to digital automation</li> <li>• Diversity and working climate</li> <li>• Leadership and change management</li> </ul>
<b>Civil society</b>	The communities in which SKF operates are important stakeholders for the company and their input helps shape local SKF activities. Local SKF organizations interact with their surrounding communities through various activities and initiatives ranging from business related matters to volunteer work, charity work, sponsoring and local network collaboration. Local media is also considered to represent civil society. Formal and informal networks are used to share experiences and ideas with other companies, topic experts and NGOs.	<ul style="list-style-type: none"> <li>• Climate impact</li> <li>• General responsible business conduct, tax transparency</li> <li>• Connection between the Group's strategy and the Global Goals</li> </ul>
<b>Suppliers</b>	Suppliers' input on material topics is managed via SKF's responsible sourcing programme. Local sourcing offices enable close communication on daily operations. On-site audits and training provide feedback to SKF on suppliers' performance related quality and sustainability as part of a total cost assessment of supplier development. The SKF Code of Conduct is the standard used during audits and screening.	<ul style="list-style-type: none"> <li>• Employment procedures</li> <li>• Health and safety</li> <li>• Overtime</li> <li>• Systematic environmental management</li> </ul>

## Reporting practices

### 102-45 Entities included in the consolidated financial statements

See pages 110–112.

### 102-46 Defining report content and topic boundaries

SKF seeks to provide stakeholders with relevant information regarding operational, financial, environmental and social performance, based on the input provided to the Group as presented in the previous section. To do this, SKF applies reporting principles of stakeholder inclusiveness, sustainability context, materiality and completeness. The topic boundaries have been evaluated from an organizational and business context as well as from a stakeholder perspective. It is also evaluated in terms of impact and contribution to the UN Sustainable Development Goals.

When approaching stakeholders proactively, the respondents are usually provided a short-list of potentially material topics. The stakeholders are asked to highlight the most significant topics for their assessments and decisions related to SKF. They are also asked to add additional issues or remove what they consider irrelevant. SKF uses this input, together with risk assessments, and general impact assessments to define the significant environmental, economic and social impacts.

### 102-47 List of material topics

When combining the feedback above with previously collected input from other stakeholder groups as presented on page 120, the result is translated and presented in terms of GRI Standard topics. All these topics are considered material and relevant to report. As indicated below, several topics at the top right of the matrix stick out as highly material. The ambition however is not to provide an exact numeric score for each topic but instead provide an approximated rating.

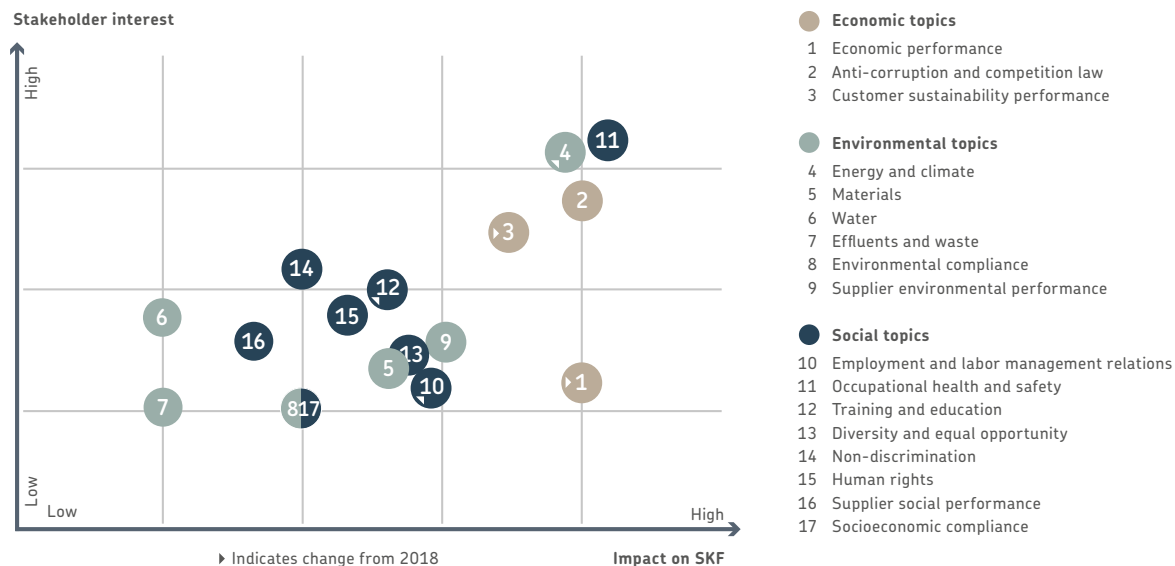
The context, scope and boundaries of each topic are described further in the specific disclosures on pages 123–141, along with the management approach.

### 102-48 Restatements of information

On pages 127–128, as defined by the GHG reporting protocol, Energy and CO<sub>2</sub> statements relating to scope 1 and 2 emissions have been restated due to acquisitions and divestments.

The weight of sold bearings and units shown on page 128 had been restated back to 2015 due an error found. Recycled or reused (tonnes) material shown in table 306-2 on page 130 was also restated for 2018 due to a reporting error.

For all HR data, Mexico is since 2019 included in NAM (previously in LAM). The tables under 102-8: Employees by contract and region and Number of employees by contract and gender, have been restated due to simplification of reporting.



Last year, the circles were of different size indicating the risk or opportunity for SKF from the latest Group risk assessment. This dimension is no longer covered in the matrix. The main risks are shown on pages 54–57. Opportunities are described on pages 16–19.

**102-49 Changes in reporting**

SKF adopted the new GRI Standard 403 – Occupational Health and Safety 2018. As this is the first full year using this standard, a few more omissions are used where information is not yet available.

SKF has also created an own specific topic referred to as Customer sustainability performance. This topic will be gradually developed as SKF develops its method further to assess sustainability impact of its customer solutions.

**Movement in the materiality matrix**

Input received from stakeholders during 2019 has been added to complement previously collected feedback. The main new input sought pro-actively in 2019 comes from SKF employees, unions, suppliers and local communities. SKF has also taken into consideration the increased focus on climate action that customers, politicians and the general public is showing. This input has, together with a slightly changed view on the importance of certain areas for SKF, resulted in a few changes in the materiality matrix. The topics that have moved since 2018 are marked with an arrow in the materiality matrix.

**102-50 Reporting period**

1 January to 31 December 2019.

**102-51 Date of most recent report**

The previous report was published on 6 March 2019.

**102-52 Reporting cycle**

Annual

**102-53 Contact point for questions regarding the report**

Johan Lannering  
Director, Group Sustainability & SKF Nova  
email: johan.lannering@skf.com

**102-54 Claims of reporting in accordance with the GRI Standards**

This report has been prepared in accordance with the GRI Standards: Core option.

**102-55 GRI index**

A complete GRI index is available together with topics related to the Annual Report on [skf.com/ar2019](http://skf.com/ar2019)

**102-56 External assurance**

To ensure SKF's stakeholders and readers of the Group's sustainability report are confident in the transparency, credibility and materiality of the information published, SKF Group Management has decided to submit the sustainability report for third-party review and verification. This has been done since the year 2000. The report is audited with ISAE3000 and RevR12. The board also signs the report.

Sustainability disclosures in the SKF Annual Report 2019 have been subject to limited assurance by SKF's auditors, please refer to auditor's limited assurance report on the Sustainability Report on page 142.

# SKF's material topics

## Economic Performance

### Material topic – GRI 201: Economic Performance

#### 103-1 Materiality and boundaries

Economic performance is considered to be material for the SKF Group and its subsidiaries. The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control.

#### 103-2–103-3 Management approach, its components and evaluation

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. Please refer to page 72 for more information about SKF's financial accounting policies.

#### 201-1 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, (MSEK)	2019	2018
Net sales	86,013	85,713
Revenue from financial investments and other operating income	107	1,594
<b>Economic value generated</b>	<b>86,120</b>	<b>87,307</b>
Operating costs	-50,801	-51,796
Employee wages and benefits	-26,227	-24,724
Economic value distributed to providers of capital	-3,469	-3,331
Economic value distributed to government (income taxes)	-2,677	-2,603
<b>Economic value distributed</b>	<b>-83,174</b>	<b>-82,454</b>
<b>Economic value retained</b>	<b>2,946</b>	<b>4,853</b>

**Economic value generated** includes net sales, interest income, and profit on sale of assets and businesses, net.

**Operating costs** include total operating expenses, plus the net of other operating income and expenses, plus financial net, less employee wages and benefits, less revenues from financial investments and other operating income, less interest expenses.

**Employee wages and benefits** includes costs related to wages and salaries including social charges.

**Economic value distributed to providers of capital** includes suggested dividends to SKF's shareholders and interest expenses.

**Economic value distributed to government** includes income taxes for Group. For the actual payment of taxes during the year, see consolidated statement of cash flow on page 68.

#### 201-2 Financial implications and other risks and opportunities for the organization's activities due to climate change

SKF's business is diversified in terms of products, customers, geographic markets and industries. The Group usually divides its customer into some 40 different industries. SKF owns and operates around 100 manufacturing units in 22 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change. SKF will start to report according to the Carbon Disclosure Project in 2020 and will continue to align with the TCFD.

#### Business risks and opportunities

SKF sees it as a key element in its strategy to identify industries that will benefit from new and tougher climate related regulations and changed customer preferences and needs. One example of this is SKF's early participation in the industrialization of wind energy. Another example is SKF's close partnerships with automotive customers in electrification and to improve energy efficiency of drive-lines. Many industries, especially all those producing vehicles or input material to vehicles, will likely be subject to similar transformational changes. SKF is following this on an industry, as well as on a customer level, to develop new technologies for new demands. Due to the different position of SKF in the value chain and wide variety of business, scenario planning and estimated effects on the bottom line are not aggregated at Group level.

Please see pages 50–53 for an overview of SKF's business areas.

#### SKF operations

SKF has mapped all its manufacturing units from a physical climate risk perspective (risks of flooding and strong wind). Climate change effects are considered when deciding where to locate new manufacturing sites.

One of the most immediate and obvious financial risks related to climate change for SKF's value chain is an increased cost of energy. It is with high uncertainty how and where e.g. CO<sub>2</sub> taxation would be implemented, and SKF chooses to address this as an integrated risk of energy cost. The best way to mitigate this risk is to reduce the energy demand. In terms of spend, electricity makes up the absolute majority of energy cost with a smaller share of natural gas, biomass, heat, fuel oil and LPG. A 10% increase in costs related to energy would impact the Group's result by around SEK 130 million. For more on SKF's climate objectives, please refer to Energy and emissions on page 125.

#### Supply chain

A general cost increase in energy would also impact the cost of raw materials and components purchased by SKF. Most direct materials undergo several refinement steps before being procured by SKF. This makes SKF less sensitive to raw material cost fluctuations but has traditionally made SKF more sensitive to other operational costs at suppliers. Regardless, energy cost remains one major cost driver in the supply chain. SKF has established an objective for energy intensive major suppliers to implement the ISO 50001 energy management standard to mitigate cost risks and to reduce environmental impact.



SKF has also incorporated risk management in the purchasing strategies. One risk area is supply issues linked to natural disasters. The risk mitigation actions will support suppliers to reduce the potential impact of climate change, such as extreme weather events.

In general, the costs associated with actions to commercialize opportunities and to mitigate risks related to climate change are embedded in other costs, such as research and development, maintenance and investment budgets, and cannot be reported separately.

## Anti-corruption and Anti-competitive Behaviour

**Material topics – GRI 205: Anti-corruption and GRI 206: Anti-competitive Behavior**

### 103-1 Materiality and boundaries

SKF addresses corruption and competition law as part of the Group's ethics and compliance programme. SKF has, over many years, had a strong focus on business ethics in its corporate values. This work has led to an increased number of reported concerns and a higher willingness to discuss ethical dilemmas more openly. Openness and transparency are key to a successful compliance program. SKF continues to work on fully incorporating these values in the corporate culture in all regions. See page 56 and 118 for a general description of corruption risk in relation to other risks.

### 103-2–103-3 Management approach, its components and evaluation

SKF's ethics and compliance programme cover fraud, anti-trust, corruption, money laundering, data privacy, export control, environment, health, safety, responsible sourcing, and human rights. SKF has Group policies and instructions setting out the expectations on how to act. Processes, controls, guidelines, training and tools are integrated parts of the programme and are available for employees on the Group's internal websites.

SKF's anti-corruption efforts are risk-based and focus on regions and activities with a high corruption risk. The regional risk assessment is mainly based on the Transparency International Corruption Perception Index. SKF has dedicated compliance resources for all high-risk regions: China, India, South-East Asia, Russia and CIS, Central and East Europe, Middle East and Africa, and Latin America. Together with Group Risk & Compliance, each region develops a compliance activity plan which is approved by the Audit Committee of AB SKF on a yearly basis.

A Group ethics and compliance risk assessment is performed annually. All relevant internal stakeholders (SKF Group staff functions of Group Audit, Human Resources, Environment, Health and Safety, Purchasing and Risk & Compliance) participate.

During 2019, a new mandatory anti-fraud e-learning course for employees working within sales was launched. As per January 2020, 6,132 employees (73% of the target group) has gone through it. Two new antitrust e-learning courses have been developed during 2019 and will be launched at the beginning of 2020. An anti-corruption e-learning course for SKF distributors has also been launched during 2019. 1,533 distributors have gone through it.

The efforts to increase the awareness, and the ease of use, of the SKF Ethics & Compliance Reporting Line has continued and has resulted in an increase of reported ethical concerns through this channel during 2019. Please refer to page 119 for an overview of cases reported. In order to simplify and facilitate for reporters, SKF has during 2019 implemented a new reporting tool. This new tool is hosted by an external party and allows anonymous reporting, as did the previously used tool.

### 205-1 Operations assessed for risks related to corruption

All units are required to perform yearly compliance risk assessments. One of the main challenges, and thus one of the main focus areas, is to create a commitment from local management to take ownership of compliance risk management, including development and implementation of mitigating activities. The main corruption risk for sales units is when distributors and other intermediaries are used for sales to state-owned entities. During 2019, SKF had a special anti-corruption focus on Central and East Europe, Middle East and Africa. A due diligence was performed on 100 of the distributors in Central and East Europe and Middle East representing 80% of the SKF sales to distributors in these regions. The sales units in Africa have made compliance risk assessments (covering all 41 countries in which these units have sales). Based on the assessments, mitigating activities have been put in place, including due diligence of 38 high risk distributors. Ethics and compliance training has been conducted for the two main management teams in Africa.

Full day ethics and compliance workshops have been conducted for the management teams in Malaysia, Indonesia, Taiwan and the Philippines. The main outcome was an increased compliance risk awareness and an agreed list of risk mitigating activities (per country). A comprehensive compliance risk assessment covering all units in India was made by the SKF India management team during 2019. The outcome of the risk assessment is used to strengthen and re-focus the compliance program in India.

At SKF's manufacturing units, risk-based ethics and compliance reviews are carried out, in conjunction with Group EHS audits. The purpose is to assist units in their work to identify and address specific ethics and compliance risks, including corruption. During 2019, 25 such reviews have been conducted around the world.

### 205-3 Confirmed incidents of corruption and actions taken

During 2019, 26 fraud and corruption incidents have been confirmed by Group Audit. As a result, 29 employees had to leave SKF. SKF also decided to terminate 20 distributors and other intermediaries for their involvement in unethical business practices. The majority of the confirmed incidents occurred in China and India. The main reasons for the historically high numbers of confirmed incidents are an increase in the number and quality of received concerns related to fraud and corruption, as well as higher awareness internally of the fraud and corruption risks that SKF and its distributors are exposed to. This has led to increased efforts and improved methods in preventing and detecting fraud and corruption.

### 206-1 Legal actions for anti-competitive behavior, anti-trust and monopoly practices

For any ongoing investigations, please refer to Risk management on page 54.

## Customer sustainability performance

### 103-1 Materiality and boundaries

For many years, SKF has focused on the environmental benefits of customer solutions, including energy use, CO<sub>2</sub> emissions, noise levels, water use, etc. This work has built up knowledge around lifecycle management and, e.g. how customer use phase emissions can be reduced or avoided. More than 60 solutions were assessed and promoted under the SKF BeyondZero concept as part of the climate objectives 2012-2016. Recent years' development with an increased understanding of the connection between economic, social and environmental risk and the launch of the SDGs from the United Nations has provided the SKF Group with the opportunity to collaborate more closely with customers to create and deliver ever more sustainable solutions. In doing so, the Group has carefully assessed the targets and activities proposed by the Agenda 2030 and mapped risks and opportunities related to both internal activities and the role of SKF in supporting customers with engineered solutions.

With SKF Care as the foundation and with the Global Goals as the opportunity map of the future, SKF has established two main ways it can have a positive impact:

1. The business we make – products, services and business models.
2. The way we make the business – the way of running operations as a responsible business partner, employer, and corporate citizen.

### 103-2–103-3 Management approach, its components and evaluation

SKF is establishing additional actions that the Group can take in collaboration with its customers to enable positive impact. These activities revolve around safety of machine operators, improve-

ment of air quality, reducing water use, water treatment and other infrastructure and utilities, development of renewable energy, sustainable transport systems, increase life and resource utilization, reducing chemicals and soil contamination. Building on the previous work to assess environmental impacts of products and services under the SKF BeyondZero concept, the Group now continues its efforts to improve and quantify other sustainability impacts of customer solutions. This work is in progress and it is clear that SKF customer solutions can provide positive impacts in relation to a number of the SDGs.

To support this work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating sustainability performance.

As part of the Group's climate objectives, SKF provides yearly aggregated revenue data from SKF customer solutions enabling climate change mitigation in four areas: renewable energy generation, electric vehicles, recycling industry and bearing remanufacturing. The total revenues of these areas amounted to SEK 5.1 billion in 2019. Going forward, SKF aims to develop and implement additional follow up and reporting related to customer sustainability performance.

SEK billion	2019	2018
Total revenues from renewable energy, electric vehicles, recycling industry and bearing remanufacturing	5.1	4.1

## Energy and emissions

### Material topics – GRI 302: Energy and GRI 305: Emissions

#### 103-1 Materiality and boundaries

Climate change presents a critical challenge for business, governments and society. The ability of SKF to run its operations in a highly energy-efficient and carbon-efficient manner reduces the environmental impact of the Group and increases SKF's competitive advantage. SKF focuses on four areas in the value chain to drive improvements regarding energy and emissions: raw material and components, SKF's own operations, goods transportation, and customer solutions. The areas are selected based on SKF's power to influence and the relevance in terms of impact from each area.

#### 103-2–103-3 Management approach, its components and evaluation

The Group's climate objectives are described in brief on page 23. SKF's quantitative climate objectives for 2025 are:

- 40% reduction of CO<sub>2</sub> emissions from manufacturing per tonne of bearings sold and
- 40% reduction of CO<sub>2</sub> emissions from goods transportation per tonne of shipped products to end customer.

The baseline year for these objectives is 2015 and scope 2 emissions are calculated using the market-based method (GHG Protocol, 2015). In this statement, the management approach along the value chain and total energy and emissions are disclosed.



#### SKF's own operations

In 2019, SKF used some 1,686 GWh of energy in its manufacturing operations, which has resulted in around 417,000 tonnes of CO<sub>2</sub> emissions. In addition to ISO 14001:2015 for environmental management, SKF has an energy management system globally certified according to ISO 50001:2011. SKF is currently in the process of updating to ISO 50001:2018 standard. The certificate covers around 50 more energy intensive operations making up about 80% of the Group's total energy use. SKF has a centralized function to manage strategic energy sourcing decisions for the Group, including cost effective reduction of CO<sub>2</sub> intensity.

SKF's management approach is decentralized to SKF's sites and integrated in the environmental management system. Energy efficiency work at sites is often closely linked to local maintenance strategies.

To increase focus and accelerate improvements, in both energy and CO<sub>2</sub> performance, SKF developed a new Group wide energy target during 2018. This applies to all units within the scope of the ISO 50001 standard. In 2019, SKF required an improvement in energy performance of 3% compared to Unit, Cluster, Area or Group energy base line. To drive even stronger focus on energy efficiency, this target has been strengthened in 2020 to a required improvement of 5%. The base line is established using linear regression of the previous two years' monthly energy use vs. value added (a measure of production activity which is known to correlate with energy demand). This KPI removes distortions, which impact more

simplistic measurements of energy performance (such as production volume variations) and allows a focus on the real underlying energy performance. The 2019 performance against this target was -2.8% vs. the -3.0% target.

**Goods transportation**  
SKF is directly managing the majority of goods transportation downstream and part of the transportation upstream. The Group works to reduce CO<sub>2</sub> emissions from transports in four main ways: optimize transport network and routing; use energy-efficient transport modes with low CO<sub>2</sub> intensity (e.g. ocean and rail instead of air where feasible); procure transport with high fuel efficiency and low-carbon fuels; and minimize mileage between suppliers, factories and end customers (i.e. optimize SKF's footprint). As of 2017, the Group changed efficiency measure to CO<sub>2</sub> emissions per shipped weight, compared to emissions per shipped weight and distance that was previously used. The difference in metric means that activities resulting in shorter transport distances now are better reflected in the result.

**Raw material and components**  
The emissions from raw material and components are about as much as those from SKF's own operations, with the important difference being that it is not in the Group's direct control. As a main mean of cutting cost and emissions from the supply chain, SKF works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001. This standardized way of managing energy and emissions is considered a pragmatic approach to cut emissions in the upstream value chain.

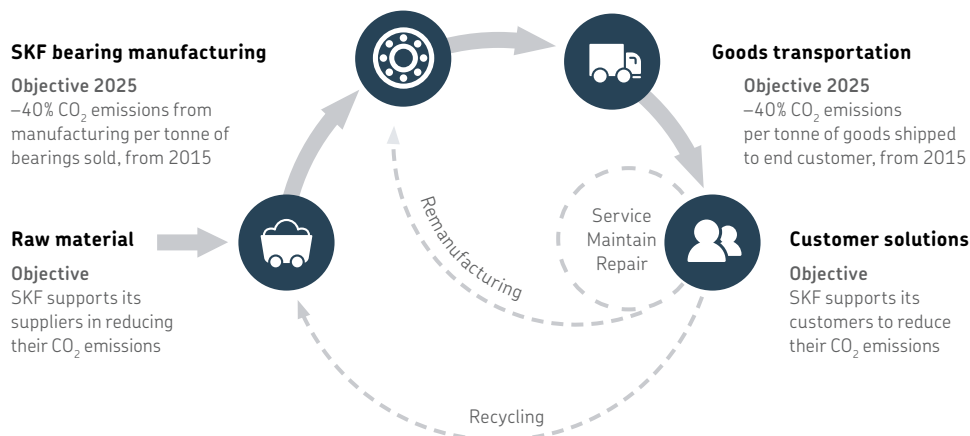
**Customer solutions**  
Life cycle studies confirm that the greatest potential for SKF to reduce environmental impact, lies in the customer use phase of the Group's products and solutions.

As reported on page 125, many of SKF's offerings can be strongly linked to sustainability needs alongside other business needs and in doing so, create value for customers, investors and society. Some are more specifically linked to mitigating climate change.

**Lifecycle impact**  
In addition to cutting climate impact in the transactional value chain, SKF also works to develop new business models to reduce environmental impact alongside cost. First of all, the Group works to predict maintenance and enable cost-effective repair and service within the customers' processes. Secondly, SKF brings back bearings and units for refurbishment or remanufacturing – a process which can cut energy and emissions by up to 90%, compared to the production of a new bearing.

**Data reporting according to the Greenhouse Gas Protocol guidance**  
In these statements, all SKF's manufacturing sites, technical and engineering centres and logistics centres are included, also those outside the ISO 50001 scope. Joint ventures are included where SKF has management control. Energy data and related greenhouse gas (GHG) emissions are reported monthly and followed up bi-annually by the SKF Group management.

SKF uses the GHG Protocol Corporate Guidance for reporting its emissions. Due to the nature of SKF's operations, only three greenhouse gases are likely to be released in significant quantities for tracking. These are CO<sub>2</sub>, methane and nitrous acid, where CO<sub>2</sub> is by far the biggest contributor to SKF's emissions. Scope 1 and 2 emissions are all reported in CO<sub>2</sub>-equivalents (CO<sub>2</sub>e), including the above mentioned other emissions. Refrigerants are currently not included in the GHG reporting scope as their impact on the overall carbon footprint is considered to be insignificant.



### 302-1 Energy consumption within the organization

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol.

Source, GWh	2019	2018	2017
LPG	19	20	20
Natural gas	285	300	300
Fuel oil	6	9	8
Renewable energy generated on-site	23	23	3
District heating and cooling	112	137	144
Electricity	1,241	1,316	1,329
<b>Total energy use</b>	<b>1,686</b>	<b>1,805</b>	<b>1,804</b>

### 302-3 Energy intensity

This disclosure includes all energy generating scope 1 and scope 2 emissions for the SKF Group, and revenues in SEK billion for the SKF Group. In this disclosure, the data have not been adjusted for acquisitions and divestments.

GWh per SEK billion	2019	2018	2017
Total energy use within the organization (GWh)	1,686	1,805	1,804
Revenues, net sales (SEK billion)	86,013	85,713	77,938
<b>Energy intensity (GWh/SEK billion x 1,000)</b>	<b>19.60</b>	<b>21.06</b>	<b>23.15</b>

### 302-4 Reduction of energy consumption

During 2019, SKF has implemented a new target and KPI to drive further reductions in electricity use at the main manufacturing sites. The KPI measures monthly electricity use in relation to a defined energy driver for each site that is ISO 50001 certified.

The baseline is actual performance during the two previous years.

This KPI showed an improvement of 2.8% vs. a target of 3% – indicating an improvement in underlying energy efficiency with a saving of 29 GWh compared to the baseline.

### 305-1 Direct (Scope 1) GHG emissions and 305-2 Energy indirect (Scope 2) GHG emissions

During 2019, SKF did not purchase any carbon offsets. In general, SKF does not use carbon offsets to achieve the targets.

Historical data in this disclosure has been adjusted for acquisitions and divestments in line with the GHG Protocol.

Market-based emissions, tonnes	2019	2018	2017
<b>Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> e emissions scope 1,	57,879	61,558	61,682
<b>Energy indirect (Scope 2) GHG emissions</b>			
CO <sub>2</sub> e emissions Scope 2, market-based	359,229	429,525	542,395
<b>Total CO<sub>2</sub>e emissions, market-based</b>	<b>417,108</b>	<b>491,083</b>	<b>604,077</b>
Location based, tonnes	2019	2018	2017
<b>Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> e emissions Scope 1,	57,879	62,067	62,269
CO <sub>2</sub> e emissions Scope 2, location-based	518,500	585,300	605,771
<b>Total CO<sub>2</sub> emissions, location-based</b>	<b>576,379</b>	<b>647,367</b>	<b>668,040</b>

### Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2019	2018	2017
<b>Direct (Scope 1)</b>			
LPG (3.0 per tonne)	3,996	4,178	4,316
Fuel oil (3.2 per tonne)	1,536	2,256	2,051
Natural gas (0.002 per cubic meter)	52,347	55,124	55,315
<b>Supplied (Scope 2), market-based</b>			
Electricity	339,200	405,403	516,932
District heating and cooling	20,029	24,123	25,464
<b>Total CO<sub>2</sub>e emissions, market-based</b>	<b>417,108</b>	<b>491,084</b>	<b>604,078</b>

Scope 1 emission factors have been gathered used from Folksam and Finanstidningens Environmental Index 2000.

Scope 2 emission factors have been gathered from SKF's contracts with electricity and district heating and cooling suppliers.

### 305-3 Other indirect (Scope 3) GHG emissions

Under Scope 3 emissions, SKF reports CO<sub>2</sub> emissions from goods transportation and business travel, which is only a smaller part of the total Scope 3 emissions. A significant part is related to raw material but these cannot be reported due to complexity of aggregating accurate data.

### Goods transportation data and related CO<sub>2</sub> emissions

	2019	2018	2017	2016	2015
CO <sub>2</sub> emissions from transport Scope 3, (tonnes)	128,791	129,421	114,970	99,079	107,995
Transport works (tonnes shipped)	431,060	436,056	360,819	369,810	362,641

### Shipped volumes and emissions per transport mode 2019

	Road	Sea	Air
Transport works, tonnes shipped, % of total	75.1	23.1	1.8
CO <sub>2</sub> emissions, % of total	35.2	36.4	31.1

### Business travel

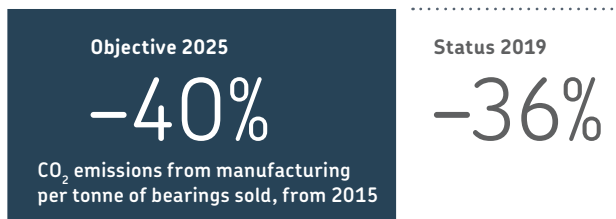
SKF monitors CO<sub>2</sub> emissions from its air travel in Europe, the U.S., China and some countries in Latin America. From 2019, SKF has updated the calculation method to the GHG Protocol to better align the reporting to peers. This means that previous data is not comparable and therefore not included in this year's report.

Data from other regions, including India has not yet been included because multiple travel agencies have been used, making reliable data collection very difficult for 2019. This affects the total reported volumes as significant volumes exist in excluded countries.

	2019
CO <sub>2</sub> emissions (tonnes) from air travel (Scope 3)	12,954

**305-4 GHG emissions intensity**

All greenhouse gases are included and converted to CO<sub>2</sub>e emissions according to the GHG Protocol for Scope 1–3.

**SKF's bearing manufacturing (Scope 1 and 2)**

Intensity	2019	2018 <sup>1)</sup>	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015 <sup>1)</sup>
CO <sub>2</sub> -emissions – bearing & units factories (tonnes)	350,804	408,685	496,256	480,496	481,383
Weight bearings and units sold <sup>2)</sup> (tonnes)	385,234	395,435	372,251	338,472	336,729
GHG emissions intensity CO <sub>2</sub> -emissions/tonnes sold products	0.91	1.03	1.33	1.42	1.43
% change vs 2015	-36	-28	-7	-1	—

1) All data has been restated to reflect acquisitions and divestments.

2) "Weight bearing and units sold" have been modified for a significant weight error found.

**Goods transportation (Scope 3)**

	2019	2018 <sup>1)</sup>	2017 <sup>1)</sup>	2016 <sup>1)</sup>	2015 <sup>1)</sup>
GHG emissions intensity kg CO <sub>2</sub> emissions per tonnes shipped goods to end customer <sup>2)</sup>	299	297	319	268	306
% change vs 2015	-2	-3	4	-12	—

1) All year have been restated to include express shipment.

2) The baseline for emissions from goods transportation has been restated to include express shipment.

**305-5 Reduction of GHG emissions****Scope 1 and 2**

Following the good trend of recent years, absolute CO<sub>2</sub> emissions were again significantly reduced in 2019. This is due to a combination of factors, mainly increased energy efficiency, increased share or renewable energy and the consolidation and closure of a number of facilities.

**Scope 3 Goods transportation**

For goods transportation, SKF's absolute emissions have increased by 19% since the baseline year 2015. This is explained by a significant increase in transport works (tonnes shipped increased by 22%). The relative emissions per tonnes shipped have been reduced by 2%, including express shipments. The restatement to include express shipments has worsened the performance since 2015.

During 2019, the overall weight shipped to customers has decreased and the demand for airfreight shipments has increased significantly, this led to a slight deterioration in performance compared to 2018.

## Materials, Water, Effluents and waste, Environmental compliance

**Material topics – GRI 301: Material, GRI 303: Water, GRI 306: Effluents and waste, GRI 307: Environmental compliance**

### 103-1 Materiality and boundaries

Details can differ between the environmental topics, but overall SKF has a similar management approach to Materials, Water, Effluents and waste, and Environmental compliance. These topics are material first of all within SKF and its subsidiaries.

**Materials** The Group sourced about 472,000 tonnes of metal components in 2019. The main impact from this lies within the value chain and is associated to energy and emissions. The main way in which SKF can influence this is by focusing on material efficiency in the manufacturing processes. By avoiding wasted material at SKF, the waste associated with the embedded energy and emissions up-stream are also avoided.

**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.

Downstream, SKF can provide solutions to reduce the water footprint for customers or help to make large scale water treatment viable and cost efficient.

**Effluents and waste** are relevant from SKF's manufacturing operations.

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

### 103-2–103-3 Management approach, its components and evaluation (combined)

SKF has deployed an environmental management system certified according to ISO 14001:2015. 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. It includes all significant manufacturing sites, technical and engineering centres and logistics centres. New or recently acquired subsidiaries are provided a time frame for inclusion. This is typically one to two years but can be extended if the company acquired is of significant size and or complexity. 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.

SKF assures that environmental matters are prioritized through the line organization by integrating environmental performance delivery into the responsibilities of the factory manager, the cluster or Business Unit Manager and up through to Business Area and Group. Local support, competence (particularly for legal compliance) and coordination for the units is provided by the EHS country coordinators.

Potential spills, incidents and fines are publicly reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to [skf.com/ar2019](http://skf.com/ar2019).

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. Environmental performance at suppliers is further reported on page 141.

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. The most important dimension of water for SKF is the water needed to generate energy for use over the value chain.

During 2017 and 2018, and based on an impact analysis at Group level, SKF has developed new KPIs to measure and drive a reduced environmental impact. The Group started to report according to the new parameters in 2018. It has been possible to define specific objectives for some of these KPIs. However, others are based on parameters not previously followed up and so the Group will need to monitor and establish a base line for these during 2019/2020 before defining specific objectives. The KPIs where objectives are defined are:

- Eliminate solvents (emitting volatile organic compounds) from washing of bearings and bearing components by 2025.
- Reach and maintain a recycling rate of grinding swarf at 80%.
- Water use targets are established at SKF sites with significant water risks. In 2019, SKF had eleven such sites.

KPIs where specific objectives are to be defined during 2020 cover the following aspects:

- Waste recycling excluding direct material waste.
- Waste recycling including direct material waste.
- Waste water treatment.

### Data collection

All data is compiled either monthly, bi-annually 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. Data from sites can be included in the compilation even if the site is not yet fully integrated in the management systems. Information is reported at a local operating unit level, aggregated to site, country/area, and Group level.

### 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.

### Restatement and changes in reporting

SKF has during 2018 updated many of the environmental parameters and KPIs in the Group's management system. This means that several fractions cannot be reported for 2017.

Water use has been restated for 2017 due to a significant reporting error at one site.

### 301-1 Materials used by weight or volume

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.

SKF does not report any renewable materials or recycled input material. The most significant part of the material used comes from components which have been machined and refined along the value chain. This means that SKF does not have direct influence over the source of the material but only the specified quality. In general, bearing steel is made out of a significant proportion of scrap steel, however an exact percentage cannot be provided.

#### Non-renewable material

Tonnes	2019	2018	2017
Metal as raw material from external suppliers	472,256	535,183	578,025
Rubber as raw material from external suppliers	3,966	4,645	5,540
Oils	8,139	8,874	8,808
Greases	2,209	2,479	2,645

#### Group target: eliminate solvents (volatile organic compounds) from washing of bearings and bearing components by 2025

SKF halved its use of solvents between 2007 and 2016. Thereafter, newly acquired businesses resulted in an increase. In 2018, SKF has set a target to eliminate the use of solvents in washing processes for bearings and bearing components, which is the main way volatile organic compounds are emitted from the Group operations.

### 303-1 Water withdrawal by source

As the clear majority of SKF's factories are located in industrial zones, water is supplied by municipalities. Other sources have not been considered material. Therefore, SKF monitors total water consumption at operating units and not per withdrawal by source. As the reporting is based on actual measurements from water suppliers or at SKF sites, no specific assumptions are referred to.

Water use targets are established at SKF sites with significant water risks. In 2019, SKF had eleven such sites.

Water (1,000 N cubic meters)	2019 <sup>3)</sup>	2018 <sup>3)</sup>	2017 <sup>3)</sup>
Water from municipal supply	1,867	2,063	n/a
Water use from other source <sup>2)</sup>	922	951	n/a
Water withdrawal total <sup>1)</sup>	2,789	3,014	3,230

1) 2017 is restated after significant reporting error was found.

2) Other source is mostly wells from which water is extracted.

3) All data has been restated to reflect acquisitions and divestments.

### 306-2 Waste by type and disposal method

During 2017 and 2018, SKF has updated its environmental KPIs which is reflected in this report. The Group reports disposal methods by reuse, recycling, incineration with and without energy recovery and landfill. A new KPI has been established where the Group shall move upwards in the waste hierarchy with the ultimate goal to reach zero waste. Due to some issues in stabilizing the data, a precise target has not yet been defined. This will be finalized during 2020.

The amounts of residual material and recycling rate are disclosed below and in more detail in the Environmental data spreadsheet available at [skf.com/ar2019](http://skf.com/ar2019). 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.

Non-hazardous waste	2019	2018 <sup>2)</sup>	2017 <sup>2)</sup>
Total residuals generated (tonnes)	139,146	120,237	n/a
Recycled or reused (tonnes)	114,990	105,833	n/a
Recycling rate (%)	83%	88%	n/a
Incinerated with energy recovery (tonnes)	10,144	4,742	n/a
Incinerated without energy recovery (tonnes)	1,650	870	n/a
Landfill, excl grinding swarf (tonnes)	12,362	8,792	n/a

1) 2018 was the first year of reporting according to these fractions.

2) Due to an error found in the 2018 data, the above figures have been restated.

#### Group target: 80% recycling of grinding swarf

On hazardous waste, SKF reports only grinding swarf, which is a mix of small metal particles mixed with emulsion. The Group has set a target to reach and maintain 80% recycling, which was actually achieved the first time in 2015. SKF continues to depend greatly on variations in regional legislation, volatile scrap prices and other aspects which mean that this continues to be a very challenging target.

SKF is constantly working to find business partners who are able to use grinding swarf as input to their production, both as direct and indirect material. In 2019, the rate of recycled or reused grinding swarf decreased to 65%. This result was impacted by problems in the recycling supply chain in some regions most notably in the Ukraine. During 2020 SKF will focus on sharing good practice measures with all sites to increase the recyclability of this waste.

Hazardous waste, grinding swarf	2019	2018	2017
Grinding swarf generated (tonnes)	22,521	23,443	22,492
Recycled or reused (tonnes)	14,749	16,818	15,290
Recycling rate (%)	65%	72%	67%
Incinerated, heat recovery (tonnes) <sup>1)</sup>	1,637	1,230	n/a
Incinerated, no recovery (tonnes) <sup>1)</sup>	2,972	1,222	n/a
Landfill <sup>1)</sup>	3,163	4,173	n/a

1) 2018 was the first year of reporting according to these fractions.

### 307-1 Non-compliance with environmental laws and regulations

SKF received no significant fines or directives from the environmental authorities in 2019.

## Employment

### Material topic – GRI 401: Employment

#### 103-1 Materiality and boundaries

As an employer, SKF needs to attract and develop a diverse and effective workforce to stay competitive and to deliver on the objectives set out by the Group. The work focuses on the Group and its subsidiaries where SKF works with central recruitment processes, training, leadership and talent management to proactively manage the need of future skills.

#### 103-2–103-3 Management approach, its components and evaluation

SKF's human resources function (Group HR Operations) is integrated in the Group People, Communication, Legal and Sustainability organization. There are Human Resources activities at Group, business area, region, country and site level. The vision of Group HR Operation is to enable a culture where people with passion will perform, develop and take own leadership for the best of SKF. Strategic initiatives for Group HR Operations guiding the work during 2019 have been A Modern Learning Workplace, World Class Leadership, Talent Acquisition and Employee Excitement and Digitalization. To ensure that the right steps are taken in building the desired culture, SKF Team Pulse has been piloted, a survey tool that enables employees to give quick temperature checks to day by day take small and important steps with on-the-job improvements. Group People has a regular dialogue with the SKF World Union Council (WUC) according to the global framework agreement, which is based on the SKF Code of Conduct.

Issues relating to significant changes at SKF are always handled in close collaboration between company management, the WUC, the European Work Council and local unions. As the SKF Group operates under Swedish legislation and the Swedish Corporate Governance Code, employee representatives are part of the Board. Among other things, this means that employee representatives from white and blue collar unions have direct insight on board level issues and the strategic outlook for the Group.

Human Resources has a strong local presence. However, digitalization of operations and business has increased the need and enabled a more centralized approach to processes, systems and organizations. New common systems are being put in place to facilitate this work. As these common systems are not yet fully operational across the Group, SKF cannot report retention rate and turnover by age Group but only by gender and region.

The top risk for SKF when it comes to talent attraction is identified as a scarcity of key capabilities on the labour market. As society and industry is digitalized, more organizations are competing for the same capabilities. To mitigate this risk, SKF has a strategic approach to future skills, recruitment, and to further develop our position as an employer of choice. This can be exemplified by the development and promotion of a concept for working with strategic workforce planning, the move to more proactive recruitment methods, the creation of one recruiter community in Europe to set quality standards and reach efficiency, increased focus on inclusion and diversity, and the increased use of social media platforms to attract future senior leaders.

### 401-1 New employee hires and employee turnover

#### Employee retention rate by region (excluding lay-offs)

%	2019			2018	2017
	Women	Men	Total		
Asia and Pacific	87	88	88	89	88
Middle East and Africa	97	95	96	90	90
North America	90	90	90	91	91
Latin America	93	94	93	94	93
Eastern and Central Europe	92	90	91	92	90
Western Europe	97	97	97	96	96
<b>Group</b>	<b>91</b>	<b>94</b>	<b>93</b>	<b>93</b>	<b>93</b>

Retention rate as reported above 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.



**Employee turnover by region**

%	2019			2018	2017
	Women	Men	Total		
Asia and Pacific	16	15	15	13	13
Middle East and Africa	12	13	13	13	11
North America	15	18	17	17	18
Latin America	24	17	18	14	20
Eastern and Central Europe	9	10	10	10	11
Western Europe	4	4	4	5	5
<b>Group</b>	<b>11</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>

**New hires by region**

Total number	2019			Women as share of total, %
	Women	Men	Total	
Asia and Pacific	524	1,407	1,931	27
Middle East and Africa	12	25	37	32
North America	135	352	487	28
Latin America	77	650	727	11
Eastern and Central Europe	175	267	442	40
Western Europe	147	607	754	19
<b>Group</b>	<b>1,070</b>	<b>3,308</b>	<b>4,378</b>	<b>24</b>

**Labour management relations****Material topic – GRI 402: Labour management relations****103-1 Materiality and boundaries**

The main priority of the relationship between labour and management is to ensure that the Global Framework Agreement between SKF and the unions works in practice. This is based on the SKF Code of Conduct and the work focuses on labour management relations between SKF Group and workers within SKF Group and its subsidiaries. SKF also collaborates with other companies in formal and informal networks.

**103-2–103-3 Management approach, its components and evaluation**

Issues relating to significant changes at SKF, such as acquiring, divesting or consolidating operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council (WUC). The precise approach must be adapted to the specific conditions of each occasion. The European Work Council (EWC) directive is a base for European related issues. SKF makes it clear in its Code of Conduct that all employees have the right to join a union and to bargain collectively. Continual dialogue is on-going to ensure that it works for both SKF, and the union members.

The WUC, which today includes 20 countries (see page 120) meets every year to discuss labour issues in an open format and to share what is currently happening in the Group. In addition to the SKF WUC meeting, an EWC meeting involving only European delegates is set up in conjunction to the WUC. All countries with major operations and fulfilling the EWC and WUC agreement requirements have the right to send appointed union officials or observers to the SKF EWC/WUC meeting. In 2019, it was held in Austria at SKF Steyr. The focus areas were, employment, environment, health and safety, and digitalization. Overall, SKF's setup with the WUC is seen as a great competitive advantage for addressing and deploying global initiatives between Group management and unions.

**402-1 Minimum notice periods regarding operational changes**

SKF does not state a specific minimum notice period as the Group cannot overrule the centrally agreed collective bargain agreements in the countries SKF operates in. SKF holds consultations and provides information to relevant parties, which are two separate procedures. 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. SKF units located in EU member states also adhere to the EWC directive 2009/38/EG.

## Occupational health and safety

Material topic – GRI 403: Occupational health and safety

### 103-1 Materiality and boundaries

Health and safety are a material issue in different aspects of SKF's direct operations, as well as activities occurring along the value chain. SKF employs around 27,000 people in blue-collar work roles and the focus here is primarily on physical health and safety. This is also relevant for suppliers and is addressed as part of SKF's responsible sourcing approach, see page 141. However, traditional office tasks are increasing and thus psychological health and well-being are increasingly material.

### 103-2–103-3 Management approach, its components and evaluation

SKF's accident rate has steadily improved over the last two decades, but the rate of improvement has slowed down in recent years.

In 2019, the accident rate was 0.77 per 200,000 worked hours. SKF strives to achieve further reductions in the accident rate by increasing the effectiveness of its management approach towards health and safety in various ways.

During 2018, a major reorganization of the overall EHS governance in SKF took place with the primary objective to improve health and safety (and environmental) performance. The change reinforced the line ownership for health and safety by appointing EHS managers in the manufacturing clusters, business units and their equivalent management teams across SKF. Working as part of the operational management teams, these individuals make sure that appropriate attention, resources and investments are given health and safety in their respective units. They are supported in this work by the long established EHS country coordinators who provide local competence, guidance and support to the units. This new set up was fully deployed during 2019. It is now functioning well and starting to deliver improvement in performance – particularly in the area of health and safety.

### 403-1 Occupational health and safety management system

SKF has established and deployed a Group-wide health and safety management system according to the OHSAS 18001 management standard. High-level requirements on health and safety are defined in the Group's EHS policy and detailed instructions and procedures are integrated within the environment, health and safety management system at Group, country and site level. The system drives compliance with legal requirements and those defined by the Group, its customers and other stakeholders. The system also provides a framework to drive continuous improvement in health and safety performance. SKF is currently in the process to update the management system to the new ISO 45001:2018 standard, which replaced OSHAS 18001. SKF aims to be certified according to the new standard during 2021.

The scope of the management system includes physical and psychological health and safety. It covers employees at SKF sites, in commute or working for SKF off-site, such as maintenance engineers at a customer to SKF, please refer to disclosure 403-8.

### 403-2 Hazard identification, risk assessment, and incident investigation

SKF and its subsidiaries apply tools and processes as prescribed in the management system and according to legal requirements to prevent accidents and ill-health. Risk assessments are carried out on a regular basis at all levels from shop floor to office. The quality of risk assessments is assured by training EHS staff and other persons undertaking them. Risk assessments are a focus during internal and external audits, where typically a sample of risk assessments, corrective and preventative actions are reviewed.

Measures to mitigate or eliminate the identified risks are defined and implemented and risk assessments are reviewed and updated periodically or after any incident has occurred. Recordable accidents are reported and followed up both at the unit level and further up in the organization right up to Group level.

Thorough investigations, which result in effective corrective and preventative actions must be deployed after each recordable accident. In cases where the issue is linked to risks which may be relevant for other units, the causes of the accident and the corrective and preventative measure to avoid a repeat are shared with other relevant units. In certain cases, changes may be needed in the Group level management system as part of a preventative measure.

All employees are required to report accidents, incidents and unsafe conditions, as they are a vital source of improvements and indicate opportunities to better control the associated risk. The SKF Code of Conduct and related processes make it clear that any management reprisals against individuals making such reports are strictly forbidden. In the unlikely event that a manager acts against the Code of Conduct, the SKF Ethics and compliance reporting line can be used to escalate this. Risks reported must be addressed at the local level but are not required to be reported in detail further up in the organization. Only the total number of such cases should be reported for the unit as this gives an indication of the level of safety related activity. No distinction is made between SKF employees, agency workers or other persons on site for the identification and control of risk.

SKF employs health and safety coordinators with expertise to support team leaders and managers at all levels in the organization. Periodic training is also organized on health and safety procedures, roles and responsibilities for factory managers and health and safety coordinators, as part of the SKF Improvement Academy and the SKF Manufacturing Academy.

Based on the risk assessment carried out for a specific machine, process or role, employees receive training so that they understand the risks and how to manage them by following defined procedures or wearing personal protective equipment for example. Any employees who intentionally ignore the defined safety rules will face disciplinary measures to protect themselves and their colleagues from unsafe behaviours.

When defining corrective or preventative actions in response to identified risk, SKF's management system requires that the hierarchy of control measures principles be applied. First option is hazard elimination. If this is not possible, substitution, engineering controls, administrative controls and finally personal protective equipment.

SKF's Group policies on environment, health, safety and quality are distributed and are highly visible on the walls of every factory and office within the SKF Group.

#### 403-3 Occupational health services

Occupational health services are provided to workers at most units and vary from one country to another (depending on the need of the unit, the level of health service provided externally, etc.). SKF cannot report exactly how the quality of such health services are evaluated and ensured. Services are generally supplied by third parties who ensure data privacy in accordance with applicable regulations.

#### 403-4 Worker participation, consultation, and communication on occupational health and safety

Worker representatives are appointed to the health and safety committees by the employees using a voting system in line with SKF World Union Council (WUC) processes. SKF health and safety committees operate on factory or unit management level with the objective to bring together worker and management representatives to discuss and agree on needed measures to improve the health and safety performance at the factory or unit. The committees meet at least once per quarter and decisions taken shall be communicated to the workforce and acted and followed upon. The committees are often involved in accident and incident investigations and may define additional corrective or preventative measures based on this. During 2019, a joint project between SKF's WUC, Group EHS and Group HR was executed. The project aimed to find ways to increase the effectiveness of these committees and resulted in updated procedures, guidance materials and training and awareness, which will be delivered to the units during 2020.

#### 403-5 Worker training on occupational health and safety

All employees and agency workers, are provided health and safety training, as well as other Code of Conduct trainings as part of induction training. More specific training is provided depending on the job description. Specific training for potentially hazardous jobs, such as working with electricity, at heights, hot work and so on is mandatory for employees working with these aspects. SKF also provides general health and safety training via mandatory e-learning. All trainings are provided during work hours. The efficiency is assessed based on accident rates in combination with severity rates, which are expected to be reduced towards zero over time.

#### 403-6 Promotion of worker health

The SKF Group has for a long time provided various health promoting activities beyond occupational safety. Close to 95% of the employees are covered by health promoting programmes including HIV/AIDS prevention, substance abuse, obesity, healthy life style, and stress management. Increasingly these programmes or initiatives take a more holistic approach to health and, in 2018, SKF formalized this process further by issuing the SKF Group Employee Well-Being policy. This is focused on three areas: psychological work safety, life-balance and healthy life choices. The confidentiality of individuals is protected in line with general data privacy laws.

#### 403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships

As part of the SKF Code of Conduct for suppliers and sub-contractors, the Group performs on-site audits on a wide variety of sustainability topics. Health and safety are central elements of these follow-ups with suppliers. Read more about this on pages 140–141, Supplier social assessments.

SKF's employees also work at customers' sites, at suppliers or other locations outside SKF premises. As part of the process of defining such off-site activities, SKF assess health and safety risks. Occasionally, risks not previously identified by the customer or supplier are found, and in such cases, control measures must be agreed before work commences.

Occupational safety is also a central element in courses held by SKF for customers on mounting and dismounting bearings.

#### 403-8 Workers covered by an occupational health and safety management system

Over 86%, or some 38,000 employees are covered by the certified part of the health and safety management system. The system focuses on the manufacturing sites, workshops, logistics and technical centres. In addition, 83%, around 3,000 consultants or agency workers under SKF's management control, are also covered by the management system. No specific type of workers or staff are excluded. Newly acquired sites and companies are given a period before being included in the scope of SKF certification of management systems. All units are subject to internal audit every one to three years.

The data has been collected from the SKF financial reporting system using headcount data for sites and units included in the Group's OHSAS 18001 certification. Accidents reporting is divided by the total headcount, including agency workers and consultants.

SKF is globally certified according to OHSAS 18001, ISO 14001, ISO 9001 and ISO 50001. SKF engages a qualified third party audit company to audit for compliance to these management standards at Group and unit level. In addition to these external audits, a number of SKF employees are qualified as Group internal auditors and these individuals also audit units to assure compliance with the standards, the environment, health and safety policy and related Group instructions and requirements. Read more on the certification on [skf.com/18001](http://skf.com/18001).

#### 403-9 Work-related injuries

SKF does not separately report accidents on workers who are not employees, but includes them in the total figures reported on the next page.

Health and safety data are collected on a quarterly basis using the Group's main reporting and consolidation tool.

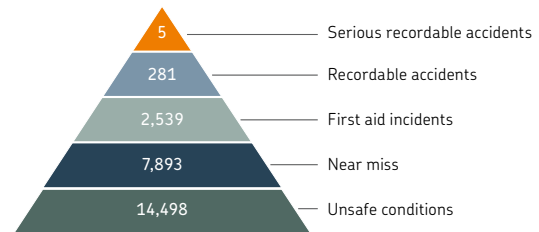
The accident rate is calculated with  $R \times 200,000/h$ , where  $R$  = number of recordable accidents and  $h$  = total hours worked at the site/unit

	2019	2018	2017	2016	2015	2014	2013	2012
Accident rate for the Group	0.77	0.81	0.85	0.87	0.99	1.13	0.99	1.06
Rate of high consequence work related injuries	0.013	0.013	0.013	—	—	—	—	—

	2019	2018
Work related fatalities	0	0
High consequence work accidents	5	5
Recordable accidents	281	319
First aid incidents	2,539	2,920
Near miss incidents	7,893	5,731
Worked hours (x 200,000)	374	398

At some units, near miss and first aid incidents occur and are addressed locally but are not reported at Group level. The ambition with the pyramid is to increase the attention and reporting of near miss incidents and unsafe conditions, which would result in better risk mitigation and a reduced number of recordable and serious accidents.



Unsafe conditions are added at the base of the pyramid to increase a proactive reporting, i.e. the detections and study of event before they have a consequence for workers.

## Training and Education

### Material topic – GRI 404: Training and Education

#### 103-1 Materiality and boundaries

SKF's history of success has been dependent on the collective skills and experiences of our people. With digitalization, globalization and new technologies come new opportunities to deliver sustainable offerings to our customers and to enhance production processes and ways of working. These opportunities create both challenges and possibilities for SKF employees to develop new skills that are of value to them as individuals, to SKF and to customers. To continue succeeding in the global competitive landscape, it is a necessity to continue to develop our people. SKF has a wide range of competence development activities available such as trainings, educational programs and an increasing amount of performance support opportunities aimed at the Group's employees, distributors and customers. Closely connected to social impact is employee development.

#### 103-2–103-3 Management approach, its components and evaluation

Learning and development must happen continuously in the company for SKF to be competitive in the market. The employees' own commitment and motivation for competence development are key elements to keep skills and experiences updated. In today's environment, the informal learning taking place continuously at the workplace is increasingly important. This can be through sharing and collaboration locally or virtually using social platforms, participating in external open forums and communities, by self-studying, using performance support tools etc. This type of learning adds on another dimension than what is traditionally steered by SKF. Both informal and formal learning are supported in different ways by SKF, such as offering of training programs, tools and forums. A new tool to support employee engagement is currently being implemented throughout the SKF organization, where one aspect is to capture employees' perception on learning and development.

To ensure competence development is supporting the strategic business challenges, SKF has different academies in place that work closely with the business dimension. Recent initiatives include, for example, the Rotating Equipment Performance (REP) business offer programs with workshops for sales and advanced sales team training to support transforming the business offerings towards value based services. Other examples are the Sales Excellence for service engineers, Supply Chain Global Accelerate Program and different Industry 4.0-related initiatives. Local centers of learning and learning experts are in place in the main SKF operations to support implementation and local adaptation of SKF's global curriculum, as well as to drive development programs and initiatives meeting local needs.

The Group's HR function coordinates the overall strategy, methods and main global tools for enhanced learning in SKF. Using the centrally maintained learning- and performance platform, employees can for example search and register for formal programs and propose and document their own main competence development activities in an individual development plan (IDP). The IDP is agreed with the manager and training can range from job rotation, shadowing and mentoring to specific technical training on a wide range of subjects such as project management, quality or application engineering. SKF also develops short videos and e-learning to provide cost effective training to enable learning.

The involvement and support from managers are an important aspect for employees to achieve sustained personal and professional growth and for inspiring employees to take advantage and responsibility of the learning opportunities available. Managers are expected to continuously discuss development and career wishes. The global system can be used to support this and for documentation, although other means can be used as well.

Utilizing the joint resources of the central human resources function, SKF Academies, local learning experts, managers and employees, SKF has a solid foundation for effective competence enhancing activities.

#### 404-2 Programmes for upgrading employee skills and transition assistance programmes

SKF offers internal programmes and funding for external education. The exact approach differs from country to country. In several entities, employees can seek scholarships from employee development foundations. These are usually open for all employees and, at times, also to children of employees. Training and skill upgrading are also done at varying depths or degrees in different parts of the organization.

In collaboration with the SKF WUC, the Group identified needs to re-skill people as part of meeting the demands of new digital technologies and new ways of doing business. Initiatives include re-skilling from production execution to maintenance by offering theoretical and practical education in electronics and mechanics, up-skilling in automation technology, robotics and simulations as well as possibilities to combine work with part-time university studies in production development. SKF in Italy is one example, where an Industry 4.0 training package is delivered with training on Industry 4.0 Enabling Technologies and Big Data Analysis to assist the introduction of new technologies. In the hub bearing unit factory in Airasca, Italy, blue collars were re-skilled to work in other parts of the manufacturing process when visual inspection was transferred to a new automated process. Similar activities are also done in the St Cyr factory in France, where training is offered to all employees on technologies such as 3D printing, laser cutting and electronics.

In Sweden, SKF is participating in a national pilot on master level within Industry 4.0 – cyber-physical production systems

and connected industry. The concept is to conduct training and work in parallel in a flexible format including theoretical lessons being available online and in virtual classrooms.

SKF is also offering the possibility of transition assistance to the external market through coaching support for employees that find new internal demands difficult and would like to explore professions not available at SKF.

#### 404-3 Percentage of employees receiving regular performance and career development reviews

Managers in SKF are accountable to work with their teams to define individual and team goals to create clarity on how their achievements contribute to the overall result and strategy. This process is supported by a global platform where managers and employees can agree, review and update progress and priorities throughout the year.

An overall performance rating is defined during the performance review meeting held annually and is used as input for the salary review process and for the talent management process for white collar employees. The global platform for performance management (Cornerstone) covers about 12,500 white collar employee users in 2019.

%	2019		2018	
	Women	Men	Women	Men
% of users with documented performance reviews in SKF's global system	81	84	86	86

## Diversity and Equal Opportunity

### Material topic – GRI 405: Diversity and Equal Opportunity

#### 103-1 Materiality and boundaries

Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. It is crucial for SKF to offer equal prerequisites to compete for open positions. In the ever increasing competition for talent, SKF needs to be inclusive to all. The Code of Conduct was therefore the starting point stipulating the importance of encouraging diversity as a means to gaining competitive advantage.

#### 103-2–103-3 Management approach, its components and evaluation

According to the International Labour Organization (ILO), the global pay gap is estimated at over 20% and is one of the main challenges for freedom and equality for society. SKF's overall approach is to start with equality, and make sure that everyone in SKF has a fair chance to develop and compete for jobs. That competition should be based on professionalism.

The Group works to integrate equality in relevant processes, such as learning, succession planning and recruitment. SKF's recruitment principles are based on the SKF Code of Conduct and facilitates recruitment based on skills and knowledge.

To keep delivering in times of change, SKF is dependent on its people. SKF needs a truly inclusive atmosphere where differences bring people together, rather than separating them. To stay competitive and attractive, SKF has during 2019, put more effort into gender diversity. Failing to achieve gender balance means organizations miss out on talents and abilities—robbing themselves of creativity and innovation.

In 2019, several new activities and programs were started to put focus on improving gender equality. In Gothenburg, female networks were launched in November 2018 and around 150 women now participate. A leadership program for women in the USA kicked off in March. Bearing Operations is now running a pilot in SKF Italy to inspire more women to come into the manufacturing environment. The virtual global programme Elevate, targeting women with leadership ambition will start in 2020. In addition, a number of inclusion workshops have been conducted with management teams.

#### 405-1 Diversity of governance bodies and employees

The graphs show % of women and men at different categories within the organization. Information on age groups and minorities is not available.



##### The Board

**Women 20%, men 80%**

The Board refers to the SKF Board of Directors which makes up the highest governance body for the organization, please refer to page 152.



##### Group Management

**Women 20%, men 80%**

Group Management is the operational management team of the SKF Group, please refer to page 157.



##### Higher management

**Women 13%, men 87%**

Higher management refers to the around top 500 managers in the SKF Group. The actual number in this population changes over time.



##### Local management teams

**Women 20%, men 80%**

Local management teams refers to the around 200 different legal entities in SKF around the world. SKF measures how many individuals in total are in these groups and the proportion of women and men, as well as how many of these management groups have one or more women.



##### Total employees

**Women 21%, men 79%**

Total employees refers to the average number of employees in SKF during the year.

#### 405-2 Ratio of basic salary and remuneration of women to men

Range position (RP) is being used as a relative salary measure since it makes it possible to compare salary between positions and across countries. RP is calculated for each employee by using the SKF salary structure in each country.

RP = Annual base salary / Market salary midpoint per position class

##### Categorization

In SKF, salaries are set by individual position classification, job category, performance and responsibilities. The Group uses an internationally well-known position classification system (IPE) for defining positions.

The complexity of the categorization between job roles, job categories, position classification, country context and currencies make it challenging to present a detailed analysis. For this reason, SKF has chosen to divide the data into two categories in 2019:

- **Professionals** includes job roles such as entry, specialists, expert or team leaders.
- **Management** includes roles such as professional team leader, manager, senior manager or sub-function head.

Average ratio of salaries using range position (women/men)

	Management	Professionals
Total	-1%	-4%

##### Comments

On average, the data in the gender analysis indicates that the female employees on average have a salary 3.4% lower than the male employees. This measurement varies from -7.5% to -0.7% for the eight countries included in the analysis. There are also variations between job categories.

This gender analysis has not been able to account for factors such as age or years of experience for the employees. Such factors may explain some degree of the differences in relative salary.

##### Scope and data collection

The scope of the salary mapping includes a representative selection of SKF's eight biggest countries with a total of over 12,000 salaried employees (China, France, Germany, India, Italy, Sweden, U.K. and USA).

For comparing salaries for men and women, SKF uses relative salary for staff, i.e. the so-called range (in) position. The relative salary is calculated as base salary divided by market salary (mid-point). Using relative salary enables comparability of salaries independent of weight (i.e. PC). This is necessary as SKF normally has fewer individuals in higher position classes and also fewer women, which makes absolute comparison statistically inaccurate.

## Human rights

**Material topics: Non-discrimination, Freedom of association and collective bargaining, Child labour, Forced or compulsory labour, Human rights assessments**

This part of the report is prepared according to UN Guiding Principles on Business and Human Rights Reporting Framework as well as GRI Standards.

### 103-1 Materiality and boundaries

SKF owns and operates around 100 manufacturing plants across the world, employing around 27,000 people in different types of production. These facilities have local and global supply of components and raw material. On risk to people, the salient issues for SKF relate to SKF employees and people working in the supply chain. The work is continually evolving as risk assessment and due diligence processes are developing and as more knowledge is gained of how the Group's activities can have an impact on the people in proximity to the company's operations, its distribution, sales and end-use of products and services.

### 103-2–103-3 Management approach, its components and evaluation (combined)

#### Background and policy commitment

The SKF Code of Conduct is based on a number of international external principles and charters, such as ILO conventions, UN Guiding Principles for Human Rights, the International Chambers of Commerce Business Charter for Sustainable Development and

#### Modern Slavery Act 2015

AB SKF is committed to ensure that the companies within the SKF Group do not allow slavery or human trafficking. As with other human rights, this commitment extends to the supply chains used by the SKF Group. This statement is made pursuant to Section 54, Part 6 of the Modern Slavery Act 2015 and sets out the steps the SKF Group has taken to ensure that slavery and human trafficking are not taking place in company operations or supply chains.

the UN Global Compact. The SKF Code of Conduct has been used to develop many related policies on specific topics and to address business partners along the value chain. The Code is available on SKF.com/code and is part of commercial agreements with suppliers, sub-contractors, distributors and agents. The SKF Code of Conduct is the main policy for human rights, backed up by adapted versions specifically addressing suppliers, sub-contractors and distributors, but they are all based on the same principles.

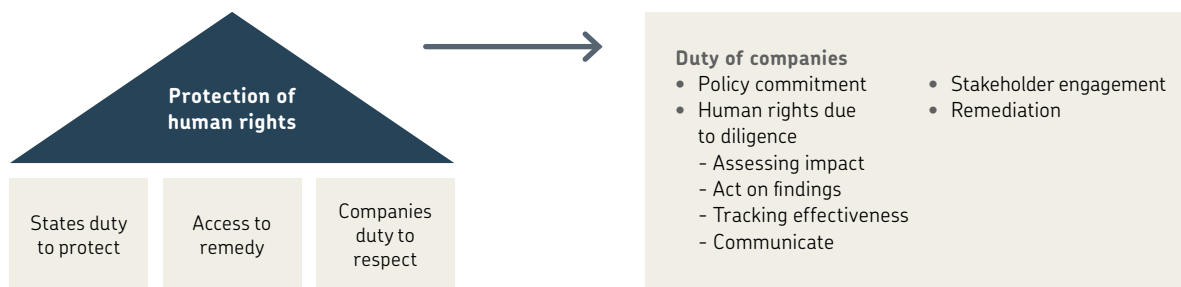
SKF works to integrate human rights aspects in all processes where SKF sees a risk that people could be adversely affected. This means that in screening and audit activities, such as internal ethics and compliance reviews and audits, quality audits, Code of Conduct audits at suppliers, etc., human rights are considered. Deviation or risks are resolved in the operations or escalated if needed. Alarming issues would be escalated to the audit committee at board level. SKF Group management are continually being updated on specific issues, such as health and safety for SKF's employees and serious incidents. The Group's EHS, and responsible sourcing programmes are vital parts of managing salient human rights in SKF operations and supply chain.

#### Salient human right risks

SKF perceives the salient human rights being related to freedom of association and collective bargaining, compensation, work hours, health, safety, wellbeing and discrimination. The salient risks are mainly associated to the supply chain. Lack of transparency and traceability means that the further upstream in the value chain, the more difficult it is for SKF to identify concrete human rights risks.

Other human rights issues that SKF is following closely, although not deemed salient, are related to children's rights, child labour and young workers, and forced or bonded labour. SKF follows up closely, first of all with potential new suppliers on their risks related to these human rights. In this work, SKF focuses on geographic regions where risks are higher, where rule of law and social inequality are weaker. SKF takes in third party data to assess the overall risks on human rights.

During 2019, SKF assigned the international organization "Save the Children" to review the SKF Code of Conduct for Suppliers and Sub-contractors, as well as the SKF supplier audit checklist, related to the risk of child labor. The review resulted in SKF making adjustments to better align with the UN Human Rights definitions and benchmark related to protecting the children's rights.



#### **Stakeholder collaboration**

SKF collaborates with a range of stakeholder groups to avoid or mitigate human rights risks. Customers typically require SKF to manage such risks. The primary stakeholder group with whom SKF has a direct relationship is the employees, and so a social dialogue is held between local management and worker representatives. In addition to this on-going dialogue on a local level, the SKF Group management meets annually with the SKF WUC.

SKF also maintains dialogues with peers and NGOs via networks such as the UN Global Compact, Transparency International and Roundtable on Sustainable Palm Oil (RSPO) as a supplier of bearings and solutions into that industry.

#### **Trends and patterns 2019**

In 2019, there has been a continued focus on preventing harassments to safeguard safe workplaces.

The annual conference between the SKF WUC and the Group also this year focused on health, safety, decent working conditions and automation driven by digitalization.

#### **Integrating findings and taking action**

The SKF Code of Conduct implies that the different stakeholder aspects shall be taken into consideration prior to any business decisions. Should any decision be taken that may have adverse impact on human rights, meaning against the SKF Code of Conduct, the individual who records such an event is expected to report this via formal grievance mechanisms so that the decision can be avoided. For cases where the normal escalation routine is not an option, SKF uses an externally hosted ethics and compliance reporting mechanism, read more on page 119.

The work to prevent adverse impact is a continuously ongoing task. The most obvious issues for SKF are related to freedom of association and collective bargaining as SKF has operations in countries where such do not exist. The Group works together with the WUC to seek pragmatic ways to bargain collectively and nominate worker representatives. This is to be in line with its global framework agreement with the union, while at the same time making sure to adhere to local laws, and not put employees at risk.

#### **Impact from SKF's business and products**

SKF works to continuously reduce any negative downstream impact relating to its business. SKF works to ensure compliance to laws and regulations, and to phase out material and substances hazardous to people and the natural environment.

With regards to SKF's business, the purpose of SKF's products and solution is to make things work better, run faster, longer, cleaner and more safely. SKF considers that business can drive prosperity and growth to overcome social issues over time.

The work related to human rights focuses on adhering to export control regulation and ensuring that SKF's distributors adhere to the SKF Code of Conduct. SKF has identified a few industry hotspots where the general human risks are higher, such as the extractive industries, forestry and energy, as these are associated with significant land use. No cases of systematic human rights violations linked to SKF business activities have been identified during 2019.

#### **406-1 Incidents of discrimination and corrective actions taken**

During 2019, 58 reports related to discrimination and harassment have been received through the SKF Ethics & Compliance Reporting Line. These cases are investigated locally and actions based on the findings are taken locally. The result of the investigations and actions taken are not available on a central level. SKF is working on getting processes in place to ensure that this information is reported to Group HR or another relevant Group function.

#### **407-1 Operations and suppliers in which the freedom of association and collective bargaining may be at risk**

All employees are covered by collective agreement or the SKF Framework agreement.

The overall approach from the state towards union membership, and the level of independence of trade unions in certain countries where SKF has operations, creates challenges in this respect. SKF works pragmatically with the WUC and the appointed union representatives to try and address these challenges. Please refer to pages 119 and 132 for a description of the SKF WUC's work related to collective bargaining agreements. Information on which countries SKF has operations in is available on [skf.com/group/support/skf-locations](http://skf.com/group/support/skf-locations).

#### **408-1 Operations and suppliers at significant risk for incidents of child labour**

SKF considers the risk for child labour in SKF's operations as small. The issue of child labour is nonetheless included in SKF's internal audits. The risk for use of child labour at SKF suppliers are considered higher and SKF's supplier audits have a high focus on this topic. In 2019, SKF found no actual cases of child labour at its operations or at SKF's suppliers. Two cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the Responsible sourcing programme.

#### **409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour**

The issue of forced, bonded and compulsory labour is included in both SKF's Code of Conduct, internal and supplier audits. In 2019, no cases of forced or bonded labour have been identified.

#### **412-1 Operations that have been subject to human rights reviews or impact assessments**

All SKF's units are subject to human rights reviews as part of ethics and compliance reviews. These reviews include the full range of the Code of Conduct. All SKF's manufacturing units are subject to review within a three-year interval using a risk-based approach. In 2019, 25 such reviews were carried out. In addition, sites undergo risk-based, in-depth audits on specific topics. Most in-depth audits related to human rights focus on health and safety. In addition, SKF carries out site audits at suppliers, read more on next page.



## Supplier assessments

**Material topics –GRI 414: Supplier social assessment and GRI 308: Supplier environmental assessment**

### 103-1 Materiality and boundaries

SKF addresses supplier impact on the environment, human rights, labor practices and society under the Responsible sourcing programme. The programme covers all of SKF's suppliers but uses a risk-based approach focusing auditing on tier one and sometimes tier two suppliers.

### 103-2–103-3 Management approach, its components and evaluation (combined)

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, which must be met in order to be considered as an SKF supplier.

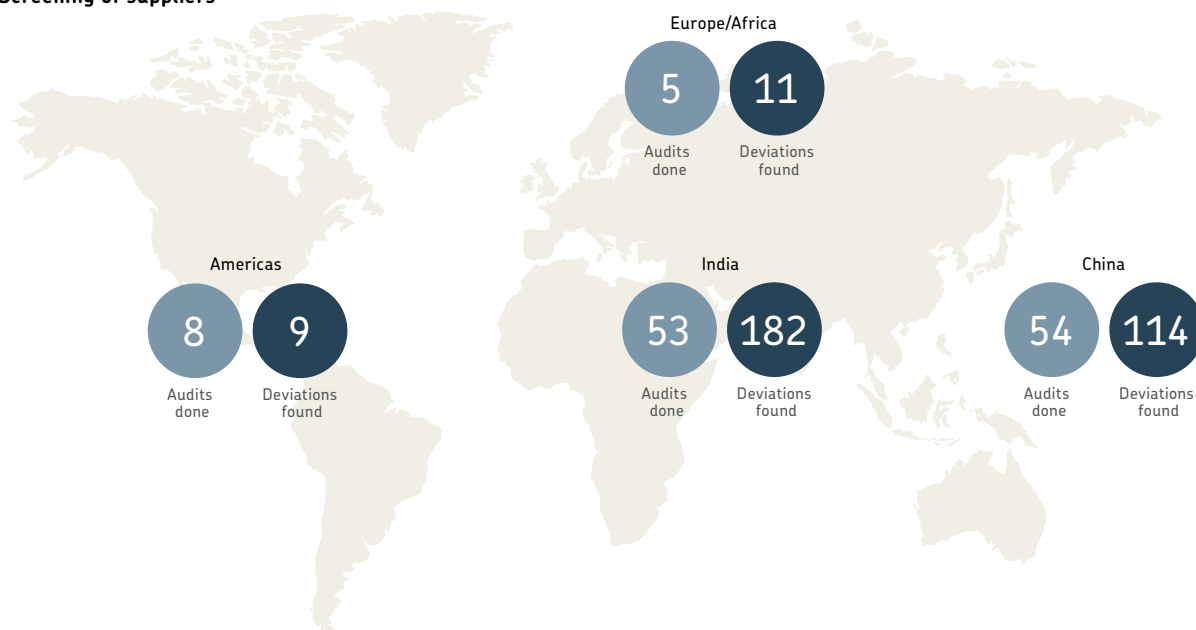
SKF's responsible sourcing strategy uses a risk based approach, where direct material suppliers making up 90% spend are automatically subject to audits if they are located in high risk regions. These can be both tier one and tier two suppliers. In addition to these,

when risks to people, the environment or business ethics are flagged, during site visits or screenings, the suppliers are escalated to be audited. This can be any type of supplier, e.g. professional services or other indirect material. Screening of suppliers is done using SKF's own risk tool and audits are always done on suppliers' locations by SKF specialists or third-party auditors. Warning signs may also be raised by other SKF staff visiting suppliers, such as at a quality review. The Code of Conduct audit procedure is based around a checklist with 62 specific questions focusing on a wide range of aspects, such as human rights and labour standards, environment, bribery, fraud, and other ethical guidance

Most non-compliance cases are managed by SKF's regional purchasing offices. Significant deviations are escalated to SKF Group's Responsible Sourcing Committee. First and foremost, the work focuses on establishing a strong partnership and developing targeted suppliers. However, suppliers which fail to address critical issues over time risk having their contracts with SKF terminated.

In 2019, critical deviations were found at seven suppliers in India, China and Turkey. The cases were escalated to the Responsible Sourcing Committee, who decided to assign specific support to help these suppliers to improve. At the end of the year, the main problems have been solved and four of the seven suppliers were confirmed as business approved. Sourcing was completely stopped and contract terminated with the other three suppliers. During 2019,

### Screening of suppliers



External risk maps, combined with SKF's operations and spend have resulted in a region or country focus when it comes to risk assessment audits and follow-ups.

SKF worked to bring quality and Code of Conduct audits closer, striving to improve the process of escalating warning signs found during any supplier visits to a full Code of Conduct audit. The most common deviations found are related to compensation, work hours, employment contract procedures, health and safety, and pollution and waste control. The data reported in these statements are consolidating SKF's findings into GRI's designations.

#### **414-1, 308-1 New suppliers that were screened using social and environmental criteria**

All new suppliers of direct material in high risk countries are visited on site. In other countries, all new direct material suppliers are subject to a modular quality audit, which could include or trigger a Code of Conduct audit. Major suppliers in high risk countries are subject to re-audit. Indirect material suppliers are audited when awarded strategic sourcing status.

In 2019, 120 suppliers have been audited, the total number of suppliers assessed in other ways cannot be disclosed. 21 out of 120 have been audited without negative impact identified. With the 99 other suppliers, 96 have confirmed improvements. 35 new suppliers were audited on site using environmental and social criteria and one of these was disqualified to supply to SKF.

#### **414-2 Negative social impacts in the supply chain and actions taken**

In 2019, 274 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. Seven suppliers with major deviations have been escalated to Responsible Sourcing Committee. All cases are prioritized and addressed according to their urgency.

#### **308-2 Negative environmental impacts in the supply chain and actions taken**

In 2019, 42 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to resolve these. SKF has the management systems, skills and experience to do this which is a competitive advantage in the local supplier development. Specific training program about Code of Conduct, social and environmental matters have been done in India and China with particular focus on suppliers having social and environmental issues, including direct and indirect material suppliers and sub-contractors, and service providers. Around 180 suppliers attended the training in China, and 193 in India. To strengthen these supplier follow-ups, local purchasing staff also has to be trained.

With the intent of continuous monitoring of suppliers to convert negative impacts to positive, in India a pilot on a mobile app, "Connect@CoC4S" has been launched. The corrective and preventive actions are captured in real-time by SKF employees visiting the suppliers to measure the growth.

## **Socioeconomic compliance**

### **Material topic – GRI 419: Socioeconomic compliance**

#### **103-1 Materiality and boundaries**

SKF addresses socioeconomic compliance as part of the Group's ethics and compliance programmes across the full value chain. Within this report, the focus is with SKF's operations and parties with whom SKF has a direct business relationship.

Compliance with international declarations, conventions, and treaties, and local regulation is one of the most important tasks a multinational enterprise can manage to support sustainable development. SKF works proactively to prepare for and live up to such requirements.

#### **103-2–103-3 Management approach, its components and evaluation**

A Group wide programme of short online training courses with content about issues such as data privacy (78%), workplace harassment (82%), how to report ethical concerns (81%), anti-corruption (79%), and safety at work (80%). The numbers in brackets represents the % of the total number of the employees (for whom the courses are mandatory) who have gone through the training as per January 2020. The courses are mandatory for all employees having an SKF email address.

One important compliance area for SKF is data privacy. The General Data Protection Regulation (GDPR) came into force within the EU in 2018 and puts clearer responsibility and higher accountability on companies handling personal data. As SKF shares information globally, these rules affect SKF also outside the EU. SKF meets

this increased responsibility and has for example established a data privacy policy, appointed data protection officers, assessed and registered IT applications and reviewed supplier contracts.

SKF monitors and follows the development and recommendations from the OECD as regards tax transparency. In line with these recommendations, Sweden has introduced rules on country by country reporting, and a report including e.g. income, profit, taxes paid, employees and economic activity in each country needs to be filed with the Swedish Tax Authority. SKF has filed such information but does not report publicly due to sensitive competitive information. Tax is an important sustainability topic and SKF makes its tax policy public on skf.com. The global bearing market, which is the main business of the SKF Group is made up of a small number of large enterprises. This is explained more on pages 4–5 and 40. This means that publicly disclosing earnings and tax per country, or even by region, would provide competitors with information on exactly where SKF does business and the size of it. This information would be highly valuable for any competitor. For this reason, SKF will not disclose tax or earnings by country publicly.

In addition to the above topics and other socioeconomic areas reported within these statements, SKF works closely to ensure compliance to topics such as corruption, money laundering, export control and human rights.

#### **419-1 Non-compliance with laws and regulations in the social and economic area**

No cases of non-compliances related to these topics have been identified.

# Auditor's Limited Assurance Report on Sustainability Report and Report on the Statutory Sustainability Report

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

## Introduction

We have been engaged by the Board of Directors of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2019 in the sections "Sustainability Statements" and "Objectives and results – climate and social", as well as "GRI-Content Index 2019" published on SKF's website. We refer to these disclosures collectively as the "Sustainability Report". The statutory sustainability report is defined on page 116.

## Responsibilities of the Board and Group Management

The Board of Directors and Group Management are responsible for preparing the Sustainability Report, including the statutory sustainability report, in accordance with applicable criteria and the Annual Accounts Act. The criteria are described on page 116 of the Sustainability Report and consist of the parts of the framework for sustainability reporting published by GRI (Global Reporting Initiative) that 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 misstatement, 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, and to provide opinion statement on the statutory sustainability report.

We conducted our limited assurance engagement in accordance with ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. 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. We have conducted our review regarding the statutory sustainability report in accordance with RevR 12, *Auditor's Report on the Statutory Sustainability Report*, issued by FAR. A limited assurance engagement and a review according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an

audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit 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. We are independent in relation to AB SKF (publ) according to generally accepted auditing standards in Sweden and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the same level of assurance that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Group Management as described above. We consider these criteria as 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, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Group Management.

A statutory sustainability report has been prepared.

Gothenburg, 3 March 2020  
Öhrlings PricewaterhouseCoopers AB

Peter Clemedtson  
Authorised Public Accountant

Åsa Ekberg  
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 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. analytical procedures of the information stated in the Sustainability Report,
- h. assessment of the company's declared "in accordance" option according to the GRI Standards,
- i. assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.

