

Sustainability statements¹⁾

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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/ar2020.

- GRI content index²⁾
- CO₂ emission data
- Environmental performance data
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing units 2020
- Risk Matrix
- TCFD Report
- Green Bond Investor Letter and Impact Report

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 18–19
- **Anti-corruption** page 118
- **Climate and environment** pages 119–125
- **Employees** pages 125–131
- **Human rights and other relevant social topics** pages 132–135

Risks associated with the topics above are found in connection to the topics in SKF's overall risk management on pages 50–51 and on page 112. Risks not addressed in this report are described in the Risk Matrix published on topics related to the Annual Report 2020 on skf.com/ar2020

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.

102-03 Location of headquarters

Sven Wingquists Gata 2 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 52–53.

102-06 Markets served

SKF is a global actor, with business across all geographical markets and major customer industries. Pages 6–8 and 42–47 provide an overview of geographies and industries served.

102-07 Scale of the organization

Represented in 130 countries, 40,963 employees, 15 technical centres and 91 manufacturing sites. Net sales in 2020 amounted to SEK 74,852 million.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 60. In 2020, SKF delivered 367,532 tonnes of bearings, as well as seals, condition monitoring, lubrication systems and services.

102-08 Information on employees and other workers

Employees and other workers by employment type

2020	Permanent		Temporary		Agency	Total
	White collar	Blue collar	White collar	Blue collar		
Western Europe	9,143	10,591	21	141	847	20,743
Asia and Pacific	2,762	6,281	7	184	2,380	11,614
North America (incl. Mexico)	1,674	3,055	22	2	186	4,939
Eastern and Central Europe	767	2,654	20	453	78	3,972
Latin America	525	2,279	0	75	33	2,912
Africa and Middle East	263	44	0	0	21	328
Total	15,134	24,904	70	855	3,545	44,508

Data was collected from the Group's financial consolidation system per all operational units within the Group. The numbers represent headcount per year-end December 2020.

Employees by contract and region

2020	Full time	Part time
Western Europe	18,994	902
Asia and Pacific	9,222	12
North America	4,746	7
Eastern and Central Europe	3,890	4
Latin America	2,864	15
Africa and Middle East	305	2
Total	40,020	943

Employees by gender and contract

2020	Full time	Share, %	Part time	Share, %
Men	31,790	79	328	35
Women	8,231	21	615	65
Total	40,020	100	943	100

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 91 manufacturing plants across the world. SKF directly employs over 26,000 people in manufacturing.

Reflecting its global operations, SKF sources materials and services from suppliers around the world. 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 37 billion and roughly around 1,100 suppliers make up 80% of the total spend by volume. For more information please refer to the Supplier assessments section on pages 134–135.

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

No significant changes, acquisitions or divestments, as described on pages 69–70.

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 channel 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 International Chamber of Commerce (ICC) is the voice of world business, championing the global economy as a force for economic growth, job creation and prosperity.

- 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 Multinational Companies. By doing this, SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.
- Pursuant to SKF's climate neutral target, SKF joined the RE 100 (Renewable Energy 100) initiative in 2020. This global initiative brings together some of the world's most influential businesses committed to using 100% renewable electricity.

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 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 10–13. 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 20–21. SKF's overall risk management approach is described on pages 50–51.

SKF's materiality analysis, described on page 115, 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, at 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 19 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 2020, 437 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 (15%), conflict of interest (10%) fraud (5%) and bribery (7%). Cases related to COVID-19 amounted to 19%. In addition to the concerns reported to the central functions, grievances related to ethics and compliance are reported to – and managed by – local management. During 2020, a procedure has been developed for local grievances related to discrimination and harassment, to be reported centrally.

437

cases reported via the Group's
whistle blowing system

Governance

102-18 Governance structure

The President of the Group, who is also the Chief Executive Officer, is appointed by the Board 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, SKF Technology 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 reports 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. The Director of Group Sustainability also establishes 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, and the operational EHS network, 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.

In general, EHS and Sustainability topics are integrated into SKF processes and governance structures – for example, performance and strategy are regularly addressed by the Bearing Operations management team. 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 establish ongoing dialogue. 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). This includes managing the direct dialogue and identifying individuals from whom to seek feedback. SKF has not made a full stakeholder analysis during 2020 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 enough 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 it is present. The 20 countries that are part of the SKF World Union Council (WUC) 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 – all have collective bargaining agreements. These countries make up over 95% of all blue-collar workers (around 25,000). 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 are 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.

In 2020, annual EWC and WUC meetings were held – due to the pandemic – in an online format with online translations.

	Approach to stakeholder engagement	Key topics and concerns raised
Customers	Customer input is sought and received via sales and marketing operations and activities carried out by the Group. These range 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"> • Climate impact • Conflict minerals • Environmental compliance • Human rights and labour rights (including health and safety) • Corruption
Investors and analysts	SKF takes an active approach in communicating the Group's strategy and performance to existing and potential investors, analysts and media. Information is provided through various channels, such as the quarterly reports, meetings with investors, telephone conferences, the company's website and press releases. 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"> • Climate impact and financial climate risk and opportunities management • Human rights along the value chain (including health and safety) • Cost competitiveness and operational efficiency • Digitalization, job development and manufacturing footprint
Employees and union organizations	SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management. This is a form of social dialogue to make sure that the framework based on the SKF Code of Conduct is deployed across the Group. Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report, pages 141-148. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.	<ul style="list-style-type: none"> • Environment, health and safety • Employment and competency development in relation to digital automation • Diversity and working climate • Leadership and change management
Civil society	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"> • Climate impact • General responsible business conduct, tax transparency • Connection between the Group's strategy and the Global Goals
Suppliers	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"> • Employment procedures • Health and safety • Overtime • Systematic environmental management

Reporting practices

102-45 Entities included in the consolidated financial statements

See pages 104–106

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 shortlist 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 114, 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 117–135, along with the management approach.

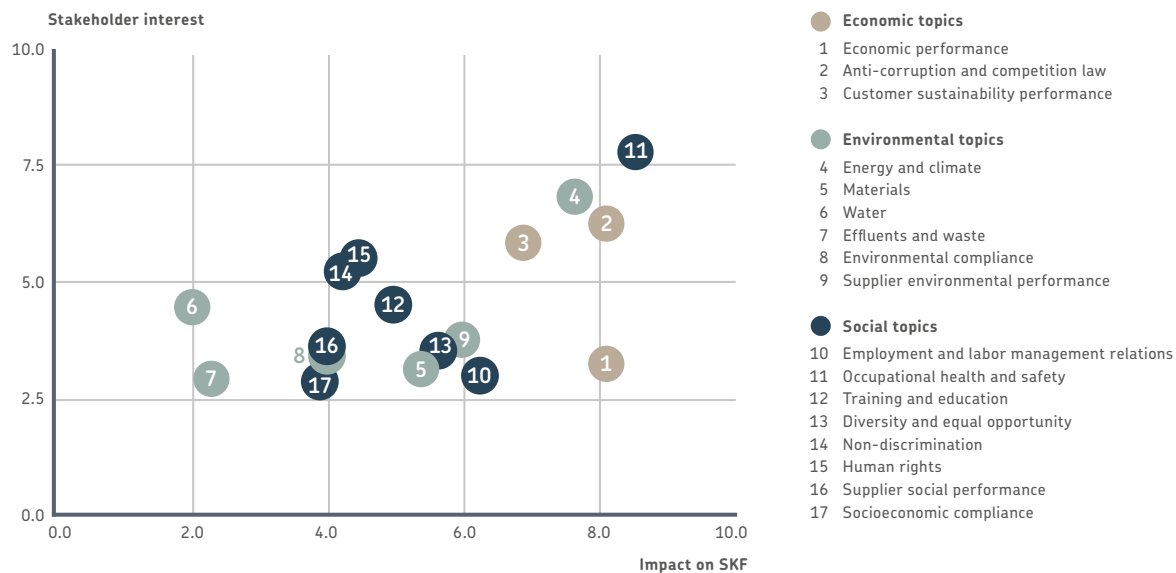
102-48 Restatements of information

On pages 121–122, as defined by the GHG reporting protocol, Energy and CO₂ 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 122 had been restated back to 2015 due to an error found. Recycled or reused (tonnes) material shown in table 306-2 on page 125 was also restated for 2018 due to a reporting error.

Due to an error in the volume reporting between 2017–2019, the CO₂ emissions related to goods transportation have been restated.

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.



102-49 Changes in reporting

During 2020 SKF has started to report Scope 3 Green House Gas Emissions related to purchased materials – specifically Steel and Forgings, see pages 121–122.

The following entities started to report in 2020 and will be included in the annual report from 2021 (i.e. in Jan 2022) when 2 years of reporting are available:

- Airasca Metal Stamping (acquired in March 2019, started reporting in 2020) – Italy
- Frossasco Metal Stamping (same as above) – Italy

In the 2020 annual report, the following entity is included for the first time:

- Cooper Bearings (was part of Kaydon acquisition and started reporting during 2019) – Kings Lynn (UK).

Movement in the materiality matrix

Input received from stakeholders during 2020 has been added to complement previously collected feedback. The main new input sought pro-actively in 2020 comes from senior SKF managers, SKF customers, employees, unions and suppliers.

Broadly speaking, the updated analysis rates the issues in the same order as 2019, with some increased priority for Employee and Labour management relations and Human rights.

There were no new or removed material topics.

102-50 Reporting period

1 January to 31 December 2020.

102-51 Date of most recent report

The previous report was published on 4 March 2020.

102-52 Reporting cycle

Annual

102-53 Contact point for questions regarding the report

Johan Lannering
Director, SKF 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 content index

A complete GRI content index is available together with topics related to the Annual Report on skf.com/ar2020

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 has also approved this report.

Sustainability disclosures in the SKF Annual Report 2020 have been subject to limited assurance by SKF's auditors, please refer to Auditor's Limited Assurance Report on the Sustainability Report on page 136.

SKF's material topics

Economic Performance

Material topic – GRI 201: Economic Performance 2016

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 66 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)	2020	2019
Net sales	74,852	86,013
Revenue from financial investments and other operating income	290	107
Economic value generated	75,142	86,120
Operating costs	-46,074	-50,801
Employee wages and benefits	-23,000	-26,227
Economic value distributed to providers of capital	-3,249	-1,989
Economic value distributed to government (income taxes)	-1,826	-2,677
Economic value distributed	-74,149	-81,694
Economic value retained	993	4,426

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 Group income taxes. For the actual payment of taxes during the year, see consolidated statement of cash flow on page 62.

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 customers into some 40 different industries. SKF owns and operates around 91 manufacturing units in 22 countries around the world. This diversification reduces SKF's overall exposure to risks related to climate change. SKF has started to report to CDP in 2020 and has aligned with the TCFD framework as described on page 22. It is described in detail in the report included in the Topics Related at skf.com/ar2020.

Business risks and opportunities

SKF sees it as a key element in its strategy to provide products and offerings which are sustainable, low carbon and which can improve customers' operations in these regards. SKF is also focusing on markets and industries that will benefit and grow due to the actions needed to manage the climate crisis. One example is SKF's early participation in the industrialization of wind and tidal energy. Another example is SKF's close partnerships with automotive customers in electrification and to improve energy efficiency of drivelines. Many industries, especially those producing vehicles or input material to vehicles are 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 6–7 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. CO₂ 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 most of the 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 MSEK 100. For more on SKF's climate objectives, please refer to Energy and emissions on page 119.

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 Behavior

Material topics – GRI 205: Anti-corruption 2016 and GRI 206: Anti-competitive Behavior

103-1 Materiality and boundaries

SKF addresses anti-corruption and anti-trust as part of the Group’s compliance program. The compliance program includes the areas and supporting processes that follow from the illustration below.



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 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.

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

To have a single body providing support for operations to manage compliance risk, a new corporate function has been established by merging the previous Group Audit and Group Compliance functions. The new function is called Group Compliance & Assurance and is responsible for internal control, compliance, internal audit and enterprise risk management of the Group.

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 program and are available for employees on the Group’s internal websites. SKF’s anti-corruption efforts 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 Compliance & Assurance, each region develops a compliance activity plan which is approved by the Audit Committee of AB SKF on a yearly basis.

As response to an increased number of fraudulent emails to SKF employees, a mandatory fraud e-learning course for all SKF employees was launched in late December 2020.

In the area of compliance, two new mandatory antitrust e-learning courses were launched. The completion rates in 2020 for the two antitrust courses were 70%, respectively 80%. Furthermore, mandatory e-learning regarding diversity & inclusion and ethical leadership for managers were launched, with 86% respectively 84% completion rate.

The number of ethical concerns reported via SKF Ethics & Compliance Reporting Line has increased from 340 (2019) to 437. This includes 82 reports related to COVID-19.

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 focus areas, is to create a commitment by local management to take ownership of compliance risk management, including development and implementation of mitigating activities. The main corruption risk is when distributors and agents are used to represent SKF when interacting with governments or state-owned entities in regions with a high corruption risk. During 2020, such compliance risk assessments have been done by the Sales organizations in Eastern Europe, Latin America, Russia, North East Asia and South-East Asia.

At SKF’s manufacturing units, risk-based ethics and compliance reviews are carried out, in conjunction with environmental, health and safety audits. The purpose is to assist units in their work to identify and address specific ethics and compliance risks, including corruption. During 2020, 11 such reviews have been reported. The number of reviews made are significantly lower than 2019 due to travel restrictions.

205-3 Confirmed incidents of corruption and actions taken

During 2020, 60 fraud and corruption incidents have been confirmed. In total, 68 employees have left SKF as consequence of findings from these investigations, including confirmed incidents related to other violations of the Code of Conduct. The majority of these employees left SKF due to confirmed conflicts of interest and expense fraud, and most cases were from SKF in China. There were no reported cases of contracts with business partners were terminated or not renewed due to violations related to corruption. There were also no reported public legal cases regarding corruption.

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

For any ongoing investigations, please refer to note 19 on pages 86–87.

Customer sustainability performance

Material topic, SKF indicator: Customer sustainability performance

103-1 Materiality and boundaries

For many years, the Group has built up knowledge around lifecycle management and how environmental and social impacts can be reduced or avoided. Studies show that the greatest impact is during the use phase of SKF's products in customer applications and systems. SKF can enable improvements in customers' sustainability performance through products, services, business models and value propositions. The improvements include for example increased energy efficiency, reduced CO₂ emissions, improved safety, reduced water use, increased lifetime of applications, increased material efficiency, reduced noise levels and more. The Group also brings value to customers through the way we run our operations as a responsible business partner.

Recent years' development with an increased understanding of the connection between economic, social and environmental issues and the implementation of the Sustainable Development Goals (SDGs) from the United Nations has provided the 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 how SKF can further support customers with engineered solutions.

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

SKF has made cleantech one of its strategic focus areas and will continue to add technologies and offerings to the value propositions. The Group enables and drives technology development in industries such as renewable energy generation and sustainable transport systems, including electric vehicles. Moreover, the Group develops new circular business models and works in collaboration with its customers to improve sustainability performance of their applications and systems. To support that work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating customer sustainability performance. This work is in progress and SKF can enable improvements in relation to many of the SDGs.

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 6.4 billion in 2020. Going forward, SKF aims to develop and implement additional follow up and reporting related to customer sustainability performance.

SEK billion	2020	2019
Total revenues from renewable energy, electric vehicles, recycling industry and bearing remanufacturing	6.4	5.1

Energy and emissions

Material topics – GRI 302: Energy 2016 and GRI 305: Emissions 2016

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 25. SKF's quantitative climate objectives for 2025 are:

- 40% reduction of CO₂ emissions from manufacturing per tonne of bearings sold and
- 40% reduction of CO₂ 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. In June 2020, SKF announced a new objective for manufacturing and other operations to become carbon neutral by 2030. This relates to Scope 1

and 2 emissions. This will be achieved by a combination of efforts focused on energy and material efficiency, generating renewable energy, sourcing renewable energy and (as a last resort to cover any remaining emissions) purchasing carbon offsets. As part of this approach, SKF has joined the RE100 initiative – a signal that the Group intends to source 100% renewable electricity by 2030.

In August 2020, SKF announced a further objective to reduce CO₂ emissions from business travel. This new target sets the maximum allowable amount of CO₂ from business travel at 50% of the full year 2019. The target commits to stay below this ceiling each year for the coming several years. This will be achieved by significantly increasing the use of digital collaboration in order to reduce the need for business travel.



SKF's own operations

In 2020, SKF used some 1,561 GWh of energy in its manufacturing operations, which has resulted in around 381,790 tonnes of CO₂ emissions. In addition to ISO 14001:2015 for environmental management, SKF has an energy management system globally certified according to ISO 50001:2011. SKF plans to complete the process of updating to ISO 50001:2018 standard in Q2 of 2021. 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 CO₂ 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 CO₂ 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 2020, SKF required an improvement in energy performance of 5% compared to Unit, Cluster, Area or Group energy base line. 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. In 2020, the performance against this target was -2.3% vs. the - 5.0% target. Energy efficiency measures have been slowed down as a result of the COVID-19 pandemic; however, an increased focus will be applied in this area during 2021.



Goods transportation

SKF is directly managing most of the goods transportation downstream and part of the transportation upstream. The Group works to reduce CO₂ emissions from transports in four main ways: optimizing transport networks and routing; using energy-efficient modes of transport with low CO₂ intensity (e.g. ocean and rail instead of air where feasible); procuring transport with high fuel efficiency and low-carbon fuels; and minimizing mileage between suppliers, factories and end customers (i.e. optimize SKF's footprint). As of 2017, the Group changed efficiency measure to CO₂ 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 typically as much or more than those from SKF's own operations, with the important difference being that they are not in the Group's direct control. As a main way to cut costs 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.

During 2020, SKF has increased its focus on driving reductions related to raw materials and components. The company is working with the five largest steel suppliers (representing 53% of total steel sourcing by weight) and the five largest suppliers of steel forgings (representing 26% of total forging supply by weight). SKF has started to focus here because steel and forgings are by far the most energy intensive types of supplier to SKF and steel represents more

than 95% of weight total direct material purchased by company. The focus is applied in several ways. Firstly, the companies in scope are required to report the Scope 1 and 2 emissions which result from the materials supplied to SKF. The first aggregated report of this data is included in this report. Secondly, the suppliers are required to explain and present their plans to improve energy efficiency and CO₂ per tonne of output. SKF has developed a tool which allows product designers and purchasing colleagues to estimate the upstream CO₂ impact of different steel supplier options. This allows SKF to meet increasing customer focus on reducing the embedded CO₂ emissions in the products which they buy.



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 119, 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 mitigate climate change.

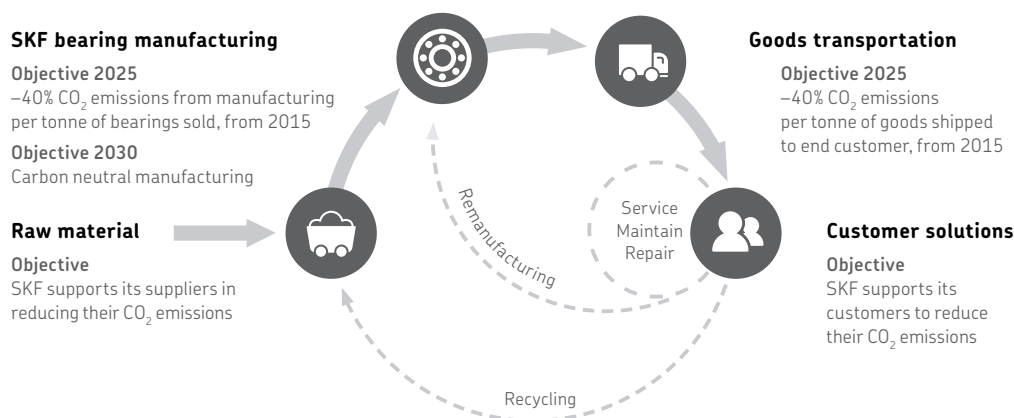
Life cycle impact

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. Firstly, 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, including 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 biannually 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 CO₂, methane and nitrous acid, where CO₂ is by far the biggest contributor to SKF's emissions. Scope 1 and 2 emissions are all reported in CO₂-equivalents (CO₂e), 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	2020	2019	2018
LPG	16	19	20
Natural gas	255	288	303
Fuel oil	5	6	9
Renewable energy generated onsite	20	23	23
District heating and cooling	118	112	137
Electricity	1,146	1,248	1,318
Total energy use	1,561	1,696	1,810

302-3 Energy intensity

This disclosure includes all energy generating Scope 1 and 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	2020	2019	2018
Total energy use within the organization (GWh)	1,561	1,696	1,810
Revenues, net sales (SEK billion)	74,852	86,013	85,713
Energy intensity (GWh/SEK billion x 1,000)	20.85	19.72	21.11

302-4 Reduction of energy consumption

During 2019, SKF 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. In 2020, this KPI showed an improvement of 2.3% vs. a target of 5% – indicating an improvement in underlying energy efficiency with a saving of 21 GWh compared to the baseline.

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

During 2020, SKF purchased a small quantity of carbon offsets. These covered the last few tonnes of scope 1 emissions (for building heat) needed to make SKF's factory in Tudela, Spain, carbon neutral. During 2021, SKF aims to switch from gas fired heating to renewable electric heating at this facility, thereby eliminating the need for continued offset purchases.

In general, SKF considers carbon offsets to be a last resort in achieving its targets – only to be deployed when all other measures to avoid emissions (energy & material efficiency, fuel switching, renewable energy sourcing or generation) have been exhausted.

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

Market-based emissions, tonnes	2020	2019	2018
Direct (Scope 1) GHG emissions			
CO ₂ e emissions	50,285	58,606	62,255
Energy indirect (Scope 2) GHG emissions			
CO ₂ e emissions market-based	331,509	361,960	430,033
Total CO₂e emissions, market-based	381,794	420,566	492,288

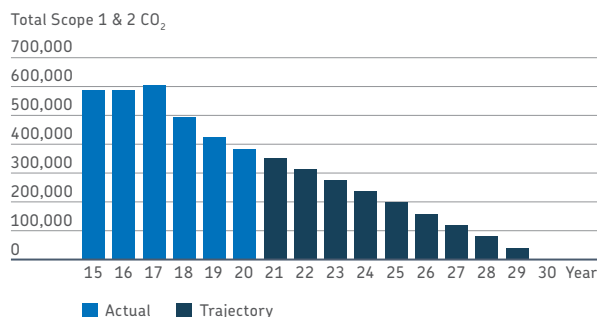
Location-based, tonnes	2020	2019	2018
Direct (Scope 1) GHG emissions			
CO ₂ e emissions	50,285	58,606	62,255
Energy indirect (Scope 2) GHG emissions			
CO ₂ e emissions, location-based	466,248	501,067	551,661
Total CO₂e emissions, location-based	516,533	559,673	613,916

Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2020	2019	2018
Direct (Scope 1)			
LPG (3.0 per tonne)	3,468	3,996	4,178
Fuel oil (3.2 per tonne)	1,302	1,565	2,256
Natural gas (0.002 per cubic meter)	45,515	53,045	55,822
Supplied (Scope 2), market-based			
Electricity	310,282	341,931	405,910
District heating and cooling	21,226	20,030	24,123
Total CO₂e emissions, market-based	381,794	420,566	492,289

Scope 1 emission factors have been gathered used from Folksam and Finanstidningen's Environmental Index 2000. Scope 2 emission factors have been gathered from SKF's contracts with electricity and district heating and cooling suppliers.

Progress towards Carbon Neutral Goal



305-3 Other indirect (Scope 3) GHG emissions

Under Scope 3 emissions, SKF reports CO₂ emissions from the most significant direct material suppliers (steel and forgings), goods transportation and business travel.

Direct material supplier emissions

These data are based on aggregation of figures provided by the major (top 5) suppliers of steel and forgings to SKF. This scope covers 17% by volume of total direct material spend and 53% by weight of steel purchased. This is the first time SKF reports this information and should be considered as indicative rather than precise quantification of these upstream impacts. Going forward, SKF is working to increase both the scope and accuracy of the data collected and reported.

CO ₂ e Tonnes	2020
Scope 3 direct material supplier emissions ¹⁾	356,000

1) See text for description of scope.

Goods transportation data and related CO₂ emissions

	2020	2019 ¹⁾	2018 ¹⁾	2015
CO ₂ emissions from transports Scope 3, (tonnes)	100,925	123,369	123,448	107,995
Transport works (tonnes shipped)	340,934	392,224	397,013	352,641

1) Due to an earlier error in the volume reporting, derived between 2017–2019, emission calculations have been restated with corrected base data. This resulted in a changed KPI result.

Shipped volumes and emissions per transport mode 2020

	Road	Sea	Air
Transport works, tonnes shipped, % of total	76.3	22.8	0.8
CO ₂ emissions, % of total	30.6	38.2	31.1

Business travel

An increasing number of countries have been reported in 2020. SKF now monitors CO₂ emissions from its air travel in Europe, USA, Canada, Mexico, Brazil, Argentina, Uruguay, Chile, China and India.

	2020	2019
CO ₂ emissions (tonnes) from air travel (Scope 3)	3,584	12,954

The drastic reduction in business travel and related emissions is mainly due to the travel restrictions imposed during the COVID-19 pandemic.

In August 2020, SKF announced a further objective to reduce CO₂ emissions from business travel. This new target sets the maximum allowable amount of CO₂ from business travel at 50% of the full year 2019. The target commits to stay below this ceiling each year for the coming several years.

This will be achieved by significantly increasing the use of digital collaboration in order to reduce the need for business travel.

305-4 GHG emissions intensity

All greenhouse gases are included and converted to CO₂e emissions according to the GHG Protocol for Scope 1–3.



SKF's bearing manufacturing (Scope 1 and 2)



Intensity	2020	2019 ¹⁾	2018 ¹⁾	2015 ¹⁾
CO ₂ emissions – bearings & units factories (tonnes)	323,750	352,376	410,258	482,956
Weight bearings and units sold ²⁾ (tonnes)	367,532	388,679	405,958	345,686
GHG emissions intensity CO ₂ emissions/tonnes sold products	0.88	0.91	1.01	1.40
Change vs 2015, %	-37	-35	-28	—

1) All data has been restated to reflect acquisitions and divestments. Missing historical data for acquisitions are estimated.
2) "Weight bearings and units sold" for 2015 restated in 2020



Goods transportation (Scope 3)



	2020	2019 ¹⁾	2018 ¹⁾	2015 ¹⁾
GHG emissions intensity kg CO ₂ emissions per tonnes shipped goods to end customer ²⁾	296	315	311	306
Change vs 2015, %	-3	3	2	—

1) Include express shipment
2) Data are adjusted for a significant error found in 2018 and 2019.

305-5 Reduction of GHG emissions

Scope 1 and 2

Following the good trend of recent years, absolute CO₂ emissions were again significantly reduced in 2020. This is due to a combination of factors. There was a significant reduction in production volume at several units in the early period of the COVID-19 crisis. In addition, further increases in energy efficiency, increased share of renewable energy and the consolidation and closure of a number of facilities also contributed to the positive development.

Scope 3 Goods transportation

For goods transportation, SKF's absolute emission has decreased by 7% since baseline year 2015. This is mainly explained by a reduction

of airfreight usage, replaced partly by new rail freight set ups and multi-modal solutions.

The relative CO₂ emission per ton shipped to customer, has been reduced by 3%.

Absolute emissions have decreased by 18% since 2019. This have resulted from optimization of transport modes and a significant reduction in air freight. The COVID-19 pandemic reduced the need of air freight during 2020. All transport modes accounts for a reduction, but the main contributor is 28% of less airfreight tonnage. The development over the year has been heavily influenced by the pandemic circumstances, with a significant rise in airfreight demand the second half of the year.

Material, Water, Effluents and waste, Environmental compliance

Material topics – GRI 301: Material 2016, GRI 303: Water and Effluents 2018, GRI 306: Effluents and waste 2016, GRI 307: Environmental compliance 2016

103-1 Materiality and boundaries

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

In 2020, the Group sourced about 459,000 tonnes of metal components. 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 upstream are also avoided.

Although SKF operations are not considered to be water-intensive, 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 (see table below). In other locations the nature of SKF's processes (most systems utilising water are closed loop) means that SKF typically does not represent a major water user in the local industrial context. Water is withdrawn from municipal supplies or other sources (ground and surface water) and is discharged in surface water or sewage systems after treatment, with quality levels according to local regulations and in this way, water related impacts are addressed. Sites in water scarcity areas establish specific targets for reducing water consumption (see table below). Indirect water use is relevant due to 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.

Water efficiency performance for sites in water stressed areas

Unit	KPI 2020 vs. 2019, %
SKF Shanghai Bearings Co, Deep Groove Ball Bearings	-20
Nankou	30
Dalian, Large Size Bearings	1
Dalian, Medium Size Bearings	38
Jakarta	37
Ahmedabad	31
Bangalore, Deep Groove Ball Bearings	-21
Haridwar	-36
Mysore	-2
Puebla, Hub Units	20
Tudela	-47
Shanghai, Automotive Technologies Co	NA

KPI = water intensity – water use / production volume

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. Water quality, following local regulation, refers to the physical, chemical and biological characteristics.

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/ar2020.

Evaluation of the effectiveness of the management approach is done through internal and external audits and periodical reporting reviews governance being adjusted accordingly.

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 134.

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. 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 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 Group objectives for some of these KPIs (listed below). However, after reviewing the aggregated data for some of the KPIs it has been concluded that it is more effective to require that local KPIs shall be defined. Group wide targets are not suitable in these cases due to the wide variation in the types and quantities of waste produced, as well as the local related infrastructure. The KPIs where Group level 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 2020, SKF had eleven such sites.

KPIs where local objectives have been or are to be defined cover the following aspects:

- Waste recycling excluding direct material waste.
- Waste recycling including direct material waste.
- Wastewater 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.

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 favorable 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 from a significant proportion of scrap steel, however an exact percentage cannot be provided.

Non-renewable material

Tonnes	2020	2019	2018
Metal as raw material from external suppliers	459,307	484,854	516,466
Rubber as raw material from external suppliers	3,780	3,974	4,637
Oils	7,072	8,183	8,807
Greases	2,153	2,223	2,448

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 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.

Group target – Eliminate solvent (volatile organic compounds) from all washing processes by 2025

Tonnes	2020	2019	2018
VOC (Organic solvents) total use	968	1,102	1,255
VOC (Organic solvents) emitted to the atmosphere (washing of bearings and components in bearings manufacturing ¹⁾	207	255	183

1) First year reporting this way was in 2018. Before only total VOC use was reported. Past data are restated for divested units.

303-1, Interactions with water as a shared resource and 303-2, Management of water discharge-related impacts

Water is used at SKF sites for processes and civil purposes (toilets, showers, cooking facilities, etc.). Focus on efficient water use is applied in various ways, for example, new factory building projects where latest technologies have been put in place also to achieve minimal impact on local resources. Practices like closed loop systems for industrial water used and rainwater harvesting are common in many SKF facilities.

Water use is metered at site level for "water from municipal supply" (the most common source) and "water from other sources". The first is the aqueducts supply and the second includes supply by wells or other surface sources (e.g. rivers, creeks) practiced according to regional regulations. There are no cases of sourcing from the sea, or local water production.

Numerous lifecycle assessments (LCAs) (according to ISO 14044:2006) have been conducted both on product and process levels, and water impacts have been identified. The main findings from these studies are that SKF's direct water use is relatively insignificant compared to upstream use in energy generation, steel production, etc. However, SKF recognizes the increased importance of water efficiency and other measures at its sites located in areas of water scarcity. SKF uses the World Resources Institute's (WRI) Water Stress Tool to identify those sites in areas of water stress or projected water stress. These sites are then required to define improvement plans and KPI's to drive reduced water use through various means.

Due to low water intensity of SKF direct operations and the measures in place to follow applicable wastewater treatment requirements, the chances of SKF water usage impacting local community water availability/quality are very low.

As part of our overall environmental approach, SKF works with upstream users of water, such as steel and energy suppliers, to reduce water use. For example, by switching to renewable electricity sources, a dramatic reduction in water needed per/KWh can be achieved compared to thermal power sources. The SKF requirements for suppliers to adopt the ISO 14001 and 50001 standards will also help increase focus on water in the direct material suppliers (e.g. steel).

303-3 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 usage targets are established at SKF sites with significant water risks. In 2020, SKF had eleven such sites.

Water (1,000 N cubic meters)	2020 ²⁾³⁾	2019 ²⁾	2018 ²⁾
Water from municipal supply	2,044	1,842	2,047
Water use from other source ¹⁾	1,034	922	951
Water withdrawal total	3,078	2,764	2,998

1) "Other source" is mostly wells from which water is extracted.

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

3) In 2020, additional 461,000 cubic meters due to an undetected leakage at Falconer US site.

303-4 Water discharge

Water discharge follows regional regulations. The flow is going to local sewage systems or to surface water flow in compliance to mentioned regulations for the quality of discharged water (suspension, temperature, etc.). Metered discharge flows are thus not reported.

306-2 Waste by type and disposal method

During 2017 and 2018, SKF 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. New local objectives have been required by Group to be established and these shall drive sites upwards in the waste hierarchy with the goal to reach zero waste.

The amounts of residual material and recycling rate are disclosed below, and in more detail in the Environmental data spreadsheet available at skf.com/ar2020. 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	2020	2019	2018 ¹⁾
Total residuals generated (tonnes)	124,511	137,374	117,255
Recycled or reused (tonnes)	101,752	113,460	103,014
Recycling rate, %	82	83	88
Incinerated with energy recovery (tonnes)	8,743	10,144	4,742
Incinerated without energy recovery (tonnes)	1,930	1,650	870
Landfill, excl. grinding swarf (tonnes)	12,086	12,118	8,630

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

Group target: 80% recycling of grinding swarf

On hazardous waste, SKF reports only grinding swarf, which is a mix of small metal particles and abrasives mixed with emulsion. The target is to reach and maintain 80% recycling, which was achieved the first time 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 can use grinding swarf as input to their production, both as direct and indirect material. In 2020, the rate of recycled or reused grinding swarf decreased to 64%. This result was impacted by problems in the recycling supply chain in some regions most notably in the Ukraine. During 2021, SKF will focus on sharing good practice measures with all sites to increase the recyclability of this waste.

Hazardous waste, grinding swarf	2020	2019	2018
Grinding swarf generated (tonnes)	19,536	22,453	23,223
Recycled or reused (tonnes)	12,412	14,681	16,598
Recycling rate, %	64	65	71
Incinerated, heat recovery (tonnes) ¹⁾	1,491	1,637	1,230
Incinerated, no recovery (tonnes) ¹⁾	3,366	2,972	1,222
Landfill ¹⁾	2,268	3,163	4,173

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 2020.

Employment

Material topic – GRI 401: Employment 2016

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) has been centralized and is now represented in SKF's Group Management by the Senior Vice President Human Resources. Group HR's contribution to SKF's strategy is clarified by focus areas and deliverables. The deliverables are to establish a customer centric culture, borderless collaboration in the full value chain, a great employee experience, data driven decision making and a fearless leadership making change happen. The strategic initiatives are connected to the deliverables to ensure that the right steps are taken in the Human Resource activities driven on Group, business area, region, country and site levels. Guiding the work is the simple Group HR vision "People make it happen".

Group HR has a regular dialogue with the SKF World Union Council (WUC) and the European Work Council (EWC) 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 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 and synergies 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.

The top risk in the workforce area is to secure the right skills and expertise. To deliver on the SKF strategy, the company is reliant upon a workforce that is competent, engaged and flexible in all its dimensions and geographies. In many markets there is a troublesome demographic profile and, in combination with "the war for talent" and the need of a digital competence shift, there is a risk of a skills deficit in the labor market. The competition to attract and retain talented people is expected to become even fiercer, although recent events have temporarily eased the situation. SKF is also dependent upon very deep technical expertise and this expertise is held by few individuals.

To mitigate the risks, workforce planning is being combined with a structured approach to define and build critical skills for the future. SKF continues to strengthen the recruitment activity in social media, to reach a higher brand awareness among talents. Implementation of a new assessment methodology enables skills-based recruitment with less bias and increased selection precision.

To further engage the workforce in making SKF a great place to work, the company is speeding up the global reach of the employee satisfaction survey (SKF Team Pulse). In the pipeline is also how to better work with performance development having continuous alignment and feedback between managers and employees improved.

401-1 New employee hires and employee turnover

Employee retention rate by region (excluding lay offs)

%	2020			2019	2018
	Women	Men	Total		
Asia and Pacific	90.2	91.2	91.0	88	89
Middle East and Africa	94.7	93.4	93.8	96	90
North America	92.9	92.4	92.5	90	91
Latin America	87.7	89.7	89.5	93	94
Eastern and Central Europe	92.6	89.4	90.6	91	92
Western Europe	96.9	97.3	97.2	97	96
The Group	93.6	94.1	94.0	93	93

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

%	2020			2019	2018
	Women	Men	Total		
Asia and Pacific	15.1	14.4	14.5	15	13
Middle East and Africa	20.5	26.1	24.6	13	13
North America	17.6	16.8	17.0	17	17
Latin America	22.9	19.4	19.8	18	14
Eastern and Central Europe	9.0	13.5	13.5	10	10
Western Europe	5.2	4.3	4.5	4	5
The Group	11.1	10.4	10.6	10	10

New hires by region

Total number	2020			Women as share of total, %
	Women	Men	Total	
Asia and Pacific	266	716	982	27
Middle East and Africa	15	59	74	20
North America	139	261	400	35
Latin America	65	524	589	11
Eastern and Central Europe	173	263	436	40
Western Europe	115	344	459	25
The Group	773	2,167	2,940	26

Labour management relations

Material topic – GRI 402: Labour management relations 2016

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 114) 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 2020 annual EWC and WUC meeting were held – due to the pandemic – in an online format with online translations. 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 2018

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 26,000 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 134. 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 and, while the rate of improvement has slowed down in recent years, 2020 showed a small improvement of 2.5% in the recordable accident rate vs. 2019. In 2020, the accident rate was 0.75 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 to health and safety in their respective units. They are supported in this work by the long established EHS country coordinators who provide local expertise, 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.

Protecting Health and Safety during the COVID-19 pandemic

During the COVID-19 pandemic, the SKF Group has worked according to the following priorities;

- Protecting the health and safety of employees and their families.
- Following all applicable guidance and requirements from relevant authorities
- Protecting SKF customers by keeping workplaces safe and maintaining production

Due to the highly dynamic and regionalised nature of the pandemic, the definition and execution of risk assessments and control measures has been largely devolved to the locally established crisis response teams which have been set up at country and site level.

SKF Group has maintained an overview of the status at all units and supported local crisis teams via the Global EHS network. SKF Group EHS and Group Human Resources have held regular (bi-weekly) meetings with the World Union Council in order to discuss and address any concerns of feedback raised via the local Union delegates from around the SKF Group.

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 and 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 measures 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 behaviors.

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 up on. 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 have been partially delivered to the units during 2020. In some cases, the delivery and training has been delayed due to the COVID-19 response, however this will be addressed in 2021.

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 lifestyle, 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 134–135, 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 assesses 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 88%, or some 36,000 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, over 90% of consultants or agency workers under SKF's management control (around 3,000 people) are also covered by health and safety 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.

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.

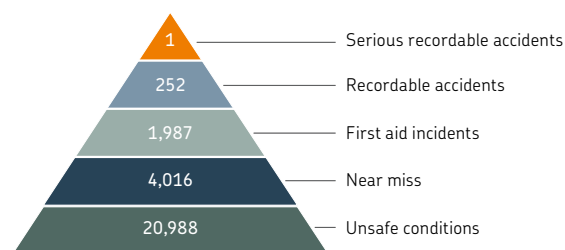
The accident rate is calculated with $R \times 200,000/h$, where R = number of recordable accidents and h = total hours worked at the site/unit.

	2020	2019	2018	2017	2016	2015	2014	2013
Accident rate for the Group	0.75	0.77	0.81	0.85	0.87	0.99	1.13	0.99
Rate of high consequence work related injuries	0.003	0.013	0.013	0.013	—	—	—	—

	2020	2019	2018
Work related fatalities	0	0	0
High consequence work accidents	1	5	5
Recordable accidents	252	281	319
First aid incidents	1,987	2,539	2,920
Near miss incidents	4,016	7,893	5,731
Unsafe conditions	20,988	14,498	n.a.
Worked hours (x 200,000)	338	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 detection and study of events before they have a consequence for workers.



Training and Education

Material topic – GRI 404: Training and Education 2016

103-1 Materiality and boundaries

SKF's history of success has been dependent on the collective skills and experiences of the employees. With digitalization, globalization and new technologies come new opportunities to deliver sustainable offerings to customers, to enhance production processes and ways of working. This creates both challenges and possibilities for SKF employees to develop new skills that are of value to them as individuals, to SKF and to the customers. To succeed in the global competitive landscape, it is a necessity to develop the employees. SKF has a wide range of competence development activities available such as trainings, educational programs and an increasing amount of performance support aimed for development of employees, customers and distributors. This lifelong learning is contributing positively to society.

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

Learning and development must happen continuously to be competitive in the market. The employees' own commitment and motivation for competence development are key elements to keep skills and experiences updated. Increasingly important is the informal learning taking place in the daily work through knowledge sharing and collaboration, using social platforms, open forums and communities, self-studies and performance support tools. SKF supports informal and formal learning in multiple ways. To fast track the virtual learning in the organization, a new initiative was launched in spring 2020. The initiative, #SKFstronger, gives SKF employees opportunity to share and capture knowledge through open self-organizing webinars on a variety of knowledge areas. During the first three months, more than 370 sessions were delivered on 160 topics with more than 10,000 attendees, demonstrating the high

ambition of employees to learn and share knowledge and experiences. #SKFstronger is here to stay and is also offered to customers and distributors.

To ensure competence development is supporting the strategic business challenges, academies are established within the business. Recent initiatives focus on virtual training deliveries in areas such as manufacturing, leadership, sales and application engineering. Local learning initiatives are also in place to meet the needs of specific units and locations.

The Group's HR function coordinates the overall strategy, methods and tools for enhanced learning in SKF. Using the centrally maintained learning and performance platform, employees can access e-learning and formal programs, and their individual development plan (IDP). The IDP is agreed with the manager and the development can include, e.g. job rotation, shadowing, mentoring, and specific technical training. To support employee engagement, SKF Team Pulse continues to be rolled-out throughout the SKF organization, where one aspect is to capture employees' perception on learning and development. Utilizing the joint resources of Group HR, SKF Academies, 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. These initiatives are continuing in the different SKF locations.

SKF is also offering the possibility of transition assistance to the external market through coaching support for employees who 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 at 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. This is used as input to the salary review and talent management for white collar employees. The global platform for performance management (Cornerstone) covers about 13,000 white collar employee users in 2020.

	2020		2019	
	Women	Men	Women	Men
Users with documented performance reviews in SKF's global system, %	90	89	81	84

Diversity and Equal Opportunity

Material topic – GRI 405: Diversity and Equal Opportunity 2016

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.

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 2020, put continued effort into gender diversity. Succeeding to achieve gender balance means organizations don't miss out on talents and abilities – robbing themselves of creativity and innovation.

The Group works to integrate equality in people processes, such as learning, succession planning and recruitment. SKF Group's recruitment principles are based on the SKF Code of Conduct and facilitate skills-based recruitment by utilizing Assesio's Matrigma ability test, which is a scientifically robust instrument that has been reviewed and certified by Det Norske Veritas.

In 2020, activities and programs were continued to keep focus on improving equality. The virtual global programme, Elevate, targeting women with leadership ambition started in the beginning of 2020 and will continue during 2021. A mandatory E-learning was launched during spring 2020 on the topic Diversity and Inclusion. SKF has also done targeted marketing on LinkedIn to attract females and younger generations. In addition to global initiatives there are many local activities ongoing.

405-1 Diversity of governance bodies and employees

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



The Board

Women 27%, men 73%

The Board refers to the SKF Board of Directors which makes up the highest governance body for the organization. Please refer to page 146.



Group Management

Women 20%, men 80%

Group Management is the operational management team of the SKF Group. Please refer to page 150.



Higher management

Women 14%, men 86%

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 23%, men 77%

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 makes it challenging to present a detailed analysis. For this reason, SKF has chosen to divide the data into two categories in 2020:

- **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 2020, %	-1	-2.90

Comments

On average, the data in the gender analysis indicates that the female employees on average have a salary 2.76% lower than the male employees. This measurement varies from -8.2% to -1% 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 11,000 salaried employees (China, France, Germany, India, Italy, Sweden, UK 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 (midpoint). 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 2016, Freedom of association and collective bargaining 2016, Child labour 2016, Forced or compulsory labour 2016, Human rights assessments 2016

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 91 manufacturing plants across the world, with around 26,000 employees 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 about how the Group's activities can have an impact on the people in proximity to the SKF'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 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.

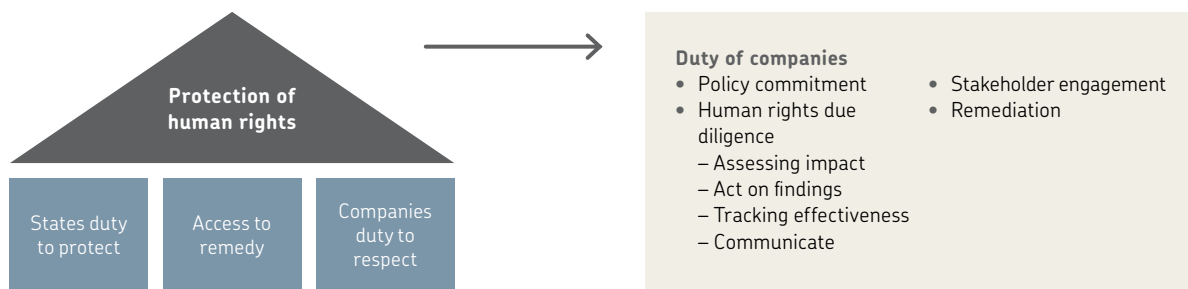
Salient human right risks

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.

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 ongoing dialogue on a local level, SKF Group Management meets annually with SKF World Union Council (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 2020

In 2020, there has been a continued focus on preventing harassment to safeguard safe workplaces.

At the annual conference, SKF WUC and the Group 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 113.

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 solutions 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 2020.

406-1 Incidents of discrimination and corrective actions taken

During 2020, 64 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 to get 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 114 and 127 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/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 is considered higher and SKF's supplier audits have a high focus on this topic. In 2020, 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 SKF's Code of Conduct and internal and supplier audits. In 2020, no cases of forced or bonded labour have been identified.

SKF applies regional risk characterization from tools such as Maplecroft to help identify countries with these potential risks. (407-1, 408-1, 409-1)

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 2020, 11 (reduced number due to COVID-19 travel restrictions) 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 the next page.

Supplier assessments

Material topics –GRI 414: Supplier social assessment 2016 and GRI 308: Supplier environmental assessment 2016

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

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

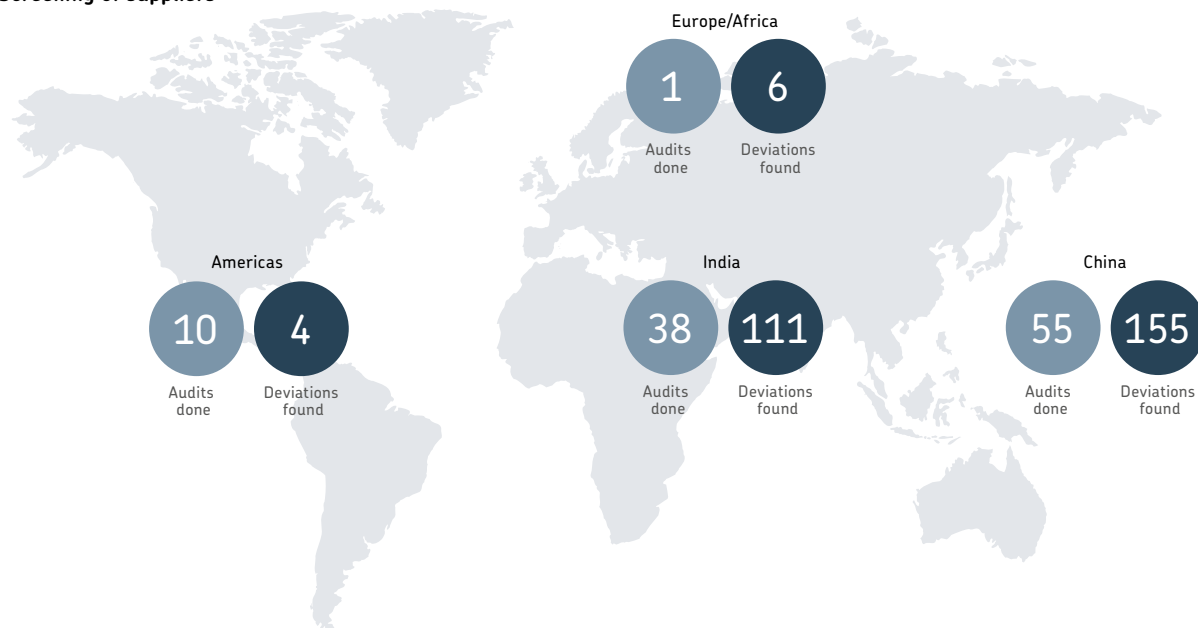
SKF's responsible sourcing strategy uses a risk based approach, where direct material suppliers making up 90% spend are automatically subject to audits if they are located in high risk regions. These can be both tier one and tier two suppliers. In addition to

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 during 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 labor 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 that fail to address critical issues over time risk having their contracts with SKF terminated.

In 2020, critical deviations were found at seven suppliers in India and China. 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, some of the main problems have been solved and three of the seven suppliers were confirmed as business approved. Contracts were terminated with the other four suppliers, and sourcing with them has already been

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.

stopped or will finish within Q1 2021. During 2020, SKF worked to closer align quality and Code of Conduct audits, 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, pollution and waste control, and environmental permits. 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 2020 (heavily impacted by the COVID-19 pandemic and major travel restrictions), 104 suppliers have been physically audited. The total number of suppliers assessed in other ways cannot be disclosed. 16 out of 104 have been audited without negative impact identified (no critical deviations). With the 88 other suppliers, 84 have confirmed improvements. 40 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 2020, 220 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 contract procedures. Seven suppliers with major deviations have been escalated to the 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 2020, 56 environmental deviations related to pollution control and waste handling have been identified and actions are ongoing at the suppliers to resolve them. SKF has the management systems, skills and experience to do this which is a competitive advantage in the local supplier development. Specific training programmes about Code of Conduct, as well as social and environmental matters, have been conducted 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 India. To strengthen these supplier follow-ups, local purchasing staff also have to be trained.

With the intent to continuously monitor suppliers to convert negative impacts to positive, a pilot on a mobile app, "Connect@CoC4S" has been launched in India and is now in use. 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 2016

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 on SKF's operations and parties with whom SKF has a direct business relationship.

Compliance with international declarations, conventions, 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

There is a Group-wide programme of short online training courses, which are mandatory for all employees having an SKF email address, with content about issues such as IT Fraud awareness (76%), Corruption at SKF (82%), Diversity & Inclusion (86%), Anti-trust risks in relation to competitors (70%), Avoid anti-trust risks in sales (80%) and Ethical leadership (84%). The numbers in brackets represents the % of the total number of the employees who have completed the training as per January 2021.

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 6–7 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-compliance related to these topics have been identified.

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

To the annual general meeting of 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 2020 in the sections "Sustainability Statements" and "Objectives and results – climate and social", as well as "GRI-content Index 2020" published on SKF's website. We refer to these disclosures collectively as the "Sustainability Report". The statutory sustainability report is defined on page 110.

Responsibilities of the Board and Group Management

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report, including the statutory sustainability report, in accordance with the applicable criteria and the Annual Accounts Act. The criteria are described on page 110 of the Sustainability Report, and consists of the parts of the GRI Sustainability Reporting Standards which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the company has developed. This responsibility also includes the internal control which is deemed necessary to establish a sustainability report that does not contain 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 a statement on the statutory sustainability report. Our assignment is limited to the historical information that is presented and thus does not include future-oriented information.

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 examination regarding the statutory sustainability report in accordance with FAR's recommendation RevR 12, the Auditor's Opinion on the Statutory Sustainability Report. A limited assurance engagement and an examination 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 an examination 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 conclusion based on a limited assurance engagement and an examination in accordance with RevR 12, therefore, does not provide the same level of assurance as a 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 prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Group Management.

A Statutory Sustainability Report has been prepared.

Gothenburg, 2 March 2021
Öhrlings PricewaterhouseCoopers AB

Johan Rippe
Authorised Public Accountant

Karin Juslin
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 remote 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.