

# Sustainability Statements

## – as defined by GRI G4

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

With reference to the GRI G4 Application Level Criteria, the 2015 Annual Report is self-declared as being in accordance with the Core application level, which is confirmed by the Group's external auditors PwC.

The Annual Report – SKF Group 2015 covers the reporting period January to December 2015. This report includes indicators on general standard disclosures, and specific standard disclosures where relevant. As part of the report's content definition and the reflection of its materiality, all aspects have been carefully evaluated from internal and external stakeholder perspectives. Those aspects that are considered of significant materiality are included in the specific standard disclosures below.

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

Sustainability related disclosures in the SKF Annual Report 2015 has been subject to limited assurance in accordance with FAR (the Institute for the Accounting Profession in Sweden) recommendation RevR 6 "Assurance of sustainability reports".

The Assurance Report on the review of the sustainability disclosures in the Annual Report is found on page 167.

### Topics related to Annual Report

In addition to the information provided in this Annual Report, topics related to the Annual Report is found at [skf.com/ar2015](http://skf.com/ar2015).

The documents referred to in these statements are:

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

\* Documents reviewed by SKF's auditors.

GRI G4 categories and aspects	Indicators	Page
<b>Economic category</b>		
Direct economic performance	<a href="#">EC1, EC2, EC3</a>	149
<b>Environmental category</b>		
Energy	<a href="#">EN3, EN5, EN6</a>	150-152
Emissions	<a href="#">EN7, EN15, EN16, EN17, EN18, EN19, EN20, EN27,</a>	150-152, 154
Effluents and waste	<a href="#">EN23, EN24</a>	153-154
Water	<a href="#">EN8</a>	154
Compliance	<a href="#">EN29</a>	153-154
Supplier assessment environment	<a href="#">EN32, EN33</a>	162

Potential omissions are specified next to the indicators on pages 149–162.

GRI G4 categories and aspects	Indicators	Page
<b>Social category</b>		
Occupational Health and Safety	<a href="#">LA6, LA5</a>	155-156
Employment	<a href="#">LA1</a>	156-157
Diversity and equal opportunities	<a href="#">LA12</a>	158
Training and education	<a href="#">LA10, LA11</a>	157
Equal remuneration for women and men	<a href="#">LA13</a>	158
Labour management relations	<a href="#">LA4</a>	159
Labour practice grievance mechanism	<a href="#">LA16</a>	161
Non-discrimination	<a href="#">HR3</a>	160
Freedom of association and collective bargaining	<a href="#">HR4</a>	160
Child labour	<a href="#">HR5</a>	160
Forced or compulsory labour	<a href="#">HR6</a>	160
Assessment	<a href="#">HR9</a>	160
Human rights grievance mechanism	<a href="#">HR12</a>	161
Local communities	<a href="#">S01</a>	159
Anti-corruption	<a href="#">S04, S05</a>	161
Anti-competitive behaviour	<a href="#">S07</a>	161
Compliance	<a href="#">S08</a>	161
Grievance mechanism for impact on society	<a href="#">S011</a>	161
Supplier assessment social	<a href="#">LA14, LA15, HR10, HR11, S09, S010</a>	162

# General standard disclosures

Indicator		Page	Indicator		Page
G4-1	Statement from the most senior decision-maker - CEO	2, 4-5	G4-27	Key topics and concerns that have been raised through stakeholder engagement	164
G4-2	Description of key impacts, risks, and opportunities	36-79, 80-83, 174	G4-28	Reporting period	147
G4-3	Name of the organization	Back cover	G4-29	Date of most recent previous report	183
G4-4	Primary brands, products, and services	15, 48, 36-43	G4-30	Reporting cycle	183
G4-5	Location of the organization's headquarters	Back cover	G4-31	Contact point for questions regarding the report or its contents	184
G4-6	Countries where the organization operates	skf.com/ar2015	G4-32	'In accordance' option chosen. GRI Content Index for chosen Reference to the External Assurance Report	147
G4-7	Nature of ownership and legal form	86, skf.com/ar2015	G4-33	Policy and current practice with regard to seeking external assurance for the report	166-167
G4-8	Markets served	36-43	G4-34	Governance structure of the organization, including committees of the highest governance body	168-169
G4-9	Scale of the organization	3, 21, skf.com/ar2015	G4-35	Process for delegating authority for economic, environmental and social topics	168-169, 165
G4-10	Employee data	73, 130	G4-36	Executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	169, 165
G4-11	Percentage of total employees covered by collective bargaining agreements	73	G4-39	Chair of the highest governance body and executive officer	172
G4-12	Describe the organization's supply chain	57-59	G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	172
G4-13	Significant changes during the reporting period	71	G4-42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	169, 165
G4-14	Precautionary approach or principle	61	G4-48	The highest committee or position that formally reviews and approves the organization's sustainability report	146, 165
G4-15	Externally developed economic, environmental and social charters, principles endorsed	61	G4-51	Remuneration policies for the highest governance body and senior executives	126-129
G4-16	Memberships of associations	61	G4-52	Process for determining remuneration	126-129, 172, 165
G4-17	Entities included in the organization's consolidated financial statements or equivalent documents.	142-143, 150, 153, 155	G4-56	The organization's values, principles, standards and norms of behaviour	79, The SKF Code of Conduct
G4-18	Process for defining the report content and the aspect boundaries	147, 164	G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour	72, 79
G4-19	Material aspects identified in the process for defining report content	164	G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity	72, 79
G4-20	For each material aspect, report the aspect Boundary within the organization	149-162			
G4-21	For each material aspect, report the aspect Boundary outside the organization	149-162			
G4-22	Effect of any restatements of information provided in previous reports	-			
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries	-			
G4-24	Provide a list of stakeholder groups engaged by the organization	164			
G4-25	Basis for identification and selection of stakeholders with whom to engage	163			
G4-26	The organization's approach to stakeholder engagement as part of the report preparation process	163			

# Specific standard disclosures – Economic Category

## Economic performance

### Boundaries

SKF Group and its subsidiaries.

### Disclosure on management approach

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

### Scope and basis of consolidation

The consolidated financial statements include the Parent company, AB SKF and those companies in which it directly or indirectly exercises control. Please refer to page 101 for more information about SKF's financial accounting principles.

### G4-EC1 Direct economic value generated and distributed

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

Economic value generated, SEKm	2015	2014
Net sales	75,997	70,975
Revenue from financial investments and other operating income	5,547	2,720
<hr/>		
Economic value distributed, SEKm		
Operating costs	-44,069	-40,416
Employee wages and benefits	-23,920	-21,881
Payments to providers of capital	-8,070	-3,519
Payments to government	-2,320	-2,090
Community investments	-32	-37
Economic value retained	3,133	5,752

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

SKF is organized to be diversified in terms of products and markets, manufacturing and currencies. In general, this diversification reduces SKF's overall exposure to business risks and positions the Group's overall risk profile as moderate. On climate change in particular, it is likely that cost associated with energy and related emissions will increase in the medium to long term. SKF takes an active approach to energy efficiency at its own facilities and suppliers - reducing energy demand and related risks.

Considering SKF's customers the general trend to internalise carbon costs and incentivise efficiency is a major driver in many of the industrial segments which the Group serves.

This presents both opportunities for growth and some risks in certain segments which may be negatively impacted by this trend. Please refer to pages 36–37 for an overview of SKF customer industries. The drivers in these segments create significant opportunities for SKF to contribute to climate change mitigation through the products and solutions it provides, and thereby create considerable value for customers and investors.

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

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

Please refer to page 69 for a detailed explanation of SKF BeyondZero and SKF's climate strategy.

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

SKF reports the coverage of its provisions of post-employment benefit in the financial statements on pages 120-122.

# Specific standard disclosures – Environmental Category

## Energy and emission

### Boundaries

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

### Disclosure on management approach

The most relevant emissions to the air from SKF are direct and indirect CO<sub>2</sub> emissions. These are related to the energy used when processing raw material, processes at SKF's operations, transporting goods and during the use-phase of SKF's products. Continued global emissions of greenhouse gases will cause further warming and increase the likelihood of severe, pervasive and irreversible impacts for people and the natural environment. Limiting emissions is a critical challenge for business, governments and society. At SKF, all relevant functions are included in the work along with specific responsibilities.

SKF is developing and deploying technology that enables improved energy efficiency for its customers and increased renewable energy generation. SKF's products and solutions help enable resource efficiency, energy and fuel savings for customers in numerous industrial segments, and SKF's solutions help make the wind industry more commercially viable. These solutions are defined by the SKF BeyondZero portfolio. Revenues and avoided emissions from the portfolio are reported on page 152.

SKF works to influence all energy-intensive suppliers to implement energy management systems certified according to ISO 50001. The current status is reported on page 52 in this report. SKF has deployed an energy management system according to ISO 50001 at its own operations, which covers all energy-intensive operations – about 90% of the Group's total energy use. The deployment and maintenance of systematic

energy management is the foundation of long-term improvement. Please refer to page 62 for more information about SKF's management systems.

Detailed data on SKF's energy and emissions are reported in this section. Ozone depleting substances are reported in kilograms used on page 154 under Chemicals and substances in production.

### Scope and data compilation

All energy and CO<sub>2</sub> data reported in the SKF Annual Report 2015 (except goods transportation data and business travel data) was compiled either quarterly or annually using the Group's main reporting and consolidation tool. Data includes all significant manufacturing sites, technical and engineering centres and logistics centres. Sales units are included when they are at the same site as manufacturing or logistics. Separate sales offices are excluded due to their minor environmental impact. Joint ventures are included where SKF has management control.

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

For site by site data, please refer to the Environmental performance data available at [skf.com/ar2015](http://skf.com/ar2015).

### G4-EN6 Reduction of energy use – Performance

Energy use compared to 2006 reduced in absolute terms by 17% (16%) and the Group continues to be well ahead of the targeted 5% reduction by 2016. Energy efficiency (per output) worsened slightly in 2015 compared to 2014, this was mainly due to a somewhat lower production volume.

### Energy use and associated CO<sub>2</sub> emissions from SKF's own facilities (Scope 1 and 2)

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

Energy	2015	2014	2013	2012	2011	2006
<b>G4-EN3</b> Energy in GWh scope 1	<b>284</b>	294	323	314	326	407
<b>G4-EN3</b> Energy in GWh scope 2	<b>1,336</b>	1,347	1,379	1,362	1,432	1,550
Total energy use (GWh)	<b>1,620</b>	1,641	1,702	1,676	1,758	1,957
<b>G4-EN5</b> Indexed energy efficiency (GWh/output)*	<b>102</b>	100	105			
<b>G4-EN5</b> Energy use per net sales (GWh/SEKm x 100)	<b>2.13</b>	2.31	2.67	2.59	2.65	3.68

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

CO <sub>2</sub> (tonnes)	2015	2014	2013	2012	2011	2006
Direct combustion (scope 1*)						
LPG	4,046	4,025	4,775	4,708	4,369	4,234
Fuel oil	2,689	3,221	3,069	3,750	5,868	11,891
Natural gas	51,363	53,035	58,207	56,178	57,116	69,165
<b>G4-EN15</b> Total scope 1	<b>58,098</b>	60,281	66,051	64,636	67,353	85,290
Supplied energy (scope 2*)						
Electricity	415,814	403,871	401,108	389,938	427,785	445,462
Heating energy	28,126	30,188	36,473	35,684	33,562	45,911
<b>G4-EN16</b> Total scope 2	<b>443,940</b>	434,059	437,581	425,622	461,347	491,373
Total CO <sub>2</sub> emissions Scope 1 and 2	<b>502,038</b>	494,340	503,632	490,258	528,700	576,663
<b>G4-EN18</b> CO <sub>2</sub> per net sales (tonnes/SEKm)	<b>6.61</b>	6.96	7.92	7.59	7.98	10.86

\* SKF reports greenhouse gas emissions in accordance with the Greenhouse Gas (GHG) protocol which defines an organization's GHG emissions as Scope 1 (direct emissions from on-site combustion) Scope 2 (indirect emissions associated with generation of energy used on site – electricity, district heat) and Scope 3 (all other indirect emissions from logistics, business travel etc.). Scope 2 emissions are calculated based on contractual emissions factors where available. Figures for 2006 to 2015 are adjusted according to the GHG-protocol for acquisitions and divestments. SKF sources energy locally for all sites and the level of detail in each contract differs, SKF can therefore not report the source of energy on scope 2 emissions on an aggregated level.

### Goods transportation data and related CO<sub>2</sub> emissions (Scope 3)

Target: 30% reduction of CO<sub>2</sub>/tonne-kilometre for goods transport by 2016 compared to 2011.

NOTE: A new baseline has been established for the remaining target period (2015-2016). The method now contains more absolute data and fewer assumptions, reflecting the market situation more transparently. The new baseline is based on Q3-Q4 2014. The total CO<sub>2</sub> emissions for 2014 are calculated by multiplying Q3 and Q4 by 2.

SKF measures the emissions of the air, ocean and express shipments on a global level. For road transportation, the Group mainly reports emissions from its network within Europe. The transport works (shipped volumes and distances) changes

rapidly over time and this is one of the reasons why SKF is using transport works efficiency (CO<sub>2</sub> per tonne-kilometre) as the main performance indicator in the target explained above.

The monitoring includes emissions of carbon dioxide (CO<sub>2</sub>), carbon monoxide (CO), nitrogen dioxide (NO<sub>2</sub>), sulphur dioxide (SO<sub>2</sub>), particles (PM) and hydrocarbons (HC).

	2015	2014*	2013	2012	2011
<b>G4-EN17</b> , Total CO <sub>2</sub> emissions (Tonnes) scope 3	<b>106,112</b>	101,926*	–	–	–
Transport works (million tonne-kilometres)	<b>2,374</b>	2,146*	–	–	–
Indexed CO <sub>2</sub> emission per tonne kilometre (Index 2014)*	97	100	95	119	118
<b>G4-EN19</b> Change from 2011 (%)	<b>-18%</b>	-15%	-19%	+1%	–
Fill rate for trucks** (% of available truck space utilized)	<b>70%</b>	79%	80%	79%	81%
Shipped volumes and emissions per transport mode 2015	Road	Sea	Air		
Transport works, tonnekilometre % of total	22.3	76.3	1.4		
CO <sub>2</sub> emissions, % of total	47	29	24		

\* Between 2012 and 2014 SKF reduced the total CO<sub>2</sub> per tonne-kilometre by 15% according to baseline 2011. Then in 2014, a new baseline was established for the remaining target period (2015-2016). Therefore, SKF reports CO<sub>2</sub> per tonne-kilometre indexed based on 2014.

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

### Business travel

SKF monitors CO<sub>2</sub> emissions from its air travel in Europe, the US and China. China was added to the scope in 2014. Data from other regions has not yet been included because multiple travel agencies have been used in these regions, making reliable data collection very difficult.

Tonnes	2015	2014	2013	2012	2011	2010
<b>G4-EN17</b> CO <sub>2</sub> emissions from air travel	<b>21,703</b>	24,236*	16,334	18,302	19,870	18,680

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

## The SKF BeyondZero portfolio

### Total SKF BeyondZero portfolio revenues, SEKm

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

The annual SKF BeyondZero portfolio revenues consist of the total sales from individually selected products and solutions as well as that from SKF's business with the renewable energy (wind, solar, ocean and hydro power) and electric vehicle industries. The growth 2015 is based on sales development of solutions included in previous years and the inclusion of new solutions in 2015.

SEKm	2015	2014	2013	2012	2011
Total SKF BeyondZero portfolio revenues	<b>5,930</b>	5,493	3,324	2,972	2,500*

\* The result for 2011 is estimated. From 2012 the SKF BeyondZero portfolio has been reviewed or audited annually by external auditors.

### Avoided greenhouse gas emissions enabled by specific SKF solutions\*\*

Tonnes CO <sub>2</sub> e	2015	2014	2013	2012
Avoided greenhouse gas emissions, specific SKF solutions** <b>G4-EN7, G4-EN27</b>	<b>410,000</b>	440,000	83,000	52,000

\*\*The figure shows the sum of the results from completed calculations so far of the avoided greenhouse gas emissions enabled by specific SKF BeyondZero portfolio solutions – Designed for Environment or Applied for Environment – sold during the respective year. These calculations focus on the difference in the life cycle impact of the SKF solutions compared to baseline solutions. The baseline is defined as the most common alternative on the market. This figure is intended to show the magnitude of the savings and will become more comprehensive as further calculations, updates and refinements are made during the course of 2016.

### Avoided greenhouse gas emissions enabled by SKF's business in the renewable energy and electric vehicles industries\*\*\*

Tonnes CO <sub>2</sub> e	2015	2014	2013	2012
Avoided greenhouse gas emissions*** <b>G4-EN7, G4-EN27</b>	<b>2,350,000</b>	1,760,000	1,220,000	1,620,000

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

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

### Material use in SKF's production

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

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

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

Tonnes	2015	2014	2013	2012	2011	2010	2009
Metal as raw material from external suppliers	<b>431,523</b>	446,978	405,235	368,401	413,945	412,068	297,950
Rubber as raw material from external suppliers	<b>5,485</b>	4,553	4,226	4,247	4,354	3,915	2,961

## Effluents and Waste, Water, Compliance

### Boundaries

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

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

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

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

### Disclosure on management approach

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

Roles and responsibilities have been established in accordance to the demands of SKF's environmental management system. The management system refers to SKF's minimum requirements and local legislation, whichever is the more stringent. Country managers are responsible for ensuring compliance with local laws. The local line organization manager is responsible for ensuring compliance with SKF's standards. The SKF Group function provides the overall structure and follow-up. Potential spills, incidents and fines are publically reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to [skf.com/ar2015](http://skf.com/ar2015).

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

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

### Scope and data compilation

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

Information is reported at a local operating unit level, aggregated to site, country/business area, and Group level. For site by site data, please refer to the Environmental performance data available at [skf.com/ar2015](http://skf.com/ar2015).

### 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.

### G4-EN23 Residual products and recycling

SKF measures and reports waste types and disposal methods in another way than GRI suggests, the amounts of residual material and recycling rate are disclosed below and in more detail in Environmental Data spreadsheet available at [skf.com/AR2015](http://skf.com/AR2015). SKF reports all significant residuals and waste site-by-site for all SKF's units. In this note, SKF highlights the most significant residuals, recycling rates and the amount of waste sent to landfill. All of SKF's units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. All scrap metal from SKF's operations is recycled, totalling 83,734 tonnes in 2015.

	2015	2014	2013	2012	2011	2010	2009	2008
Grinding swarf (tonnes)	20,110	20,706	20,466	20,297	23,221	20,899	15,740	24,324
Grinding swarf Recycled (%)	80	83	80	76	68	67	70	64

Grinding swarf is a common waste product from SKF's manufacturing processes. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf by 2016. This target was achieved in 2013 (80% recycling). In 2015, the rate was 80% (83%). Variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target to achieve, therefore SKF will maintain the 80% target up to year-end 2016.

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

### Chemicals and substances in production

SKF reports all significant use of chemicals and substances site by site for all SKF's units, please refer to the Environmental Data spreadsheet available at skf.com. In this note, SKF highlights the most significant uses and the progress on targets for solvents (VOCs).

	2015	2014	2013	2012	2011	2010	2009
Solvents (tonnes)	<b>902</b>	882	929	966	847	1,144	1,075

Solvents, referred to as volatile organic compounds (VOCs), form vapours that can be damaging to health and the environment. After a successful 25% reduction of solvents in 2002-2007, SKF set new a target in 2007 to reduce the use of solvents by 50% by 2012. Despite a significant improvement – over 40% in 2012 compared to 2007, this target has not been reached, and so it has been extended until 2016. In 2015, the amount used was 902 tonnes (882), a reduction of 44% from 2007.

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

### G4-EN20 Ozone-depleting substances (ODS)

SKF has been monitoring its consumption of ODS, referring to the Montreal Protocol, for many years. Consumption has steadily fallen over the years, supported by a number of local phase-out projects. Overall, the most harmful ODS have either been substituted with less harmful ones or usage has been totally eliminated due to process changes in manufacturing.

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

### G4-EN8 Water use

As the majority of SKF's factories are located in industrial zones, water, to a large extent, is supplied by municipalities. Therefore, SKF monitors total water consumption at operating units and not according to water withdrawal by source. SKF uses Global Water Tool from World Business Council for Sustainable Development to identify sites located in areas of potential water related risks. SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption.

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

### G4-EN24 Total number and volume of significant spills

No significant spills has occurred during 2015. SKF reports minor spills on page 66 and the monetary value of fines in the detailed Environmental performance data in Topics related to Annual Report on skf.com/ar2015.

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

No significant fines or sanctions 2015.

# Specific standard disclosures

## – Social category

### Occupational health and safety

#### Boundaries

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

#### Disclosure on management approach

SKF deploys a Group-wide health and safety management system according to OHSAS 18001. The high level requirements on health and safety are defined in the Group's EHS policy and the detailed instructions and procedures are integrated within the environmental health and safety management system. SKF's management system is further described on page 62. Please refer to page 72 for more information on Zero accidents.

#### Scope and data compilation

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

the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating accident rates. The scope of accident reporting covers all significant SKF sites. Together these sites cover over 90% of SKF's employees. Recently acquired companies are given a timeframe for implementing the management systems and reporting. The accident rate data also includes contractors and agency workers on SKF's sites.

SKF Group People data presented below and on pages 156–157, 159 and in the Employees section on page 74 is collected annually. All figures reflect the situation on 31 December each year and the scope includes the SKF Group and all subsidiaries included in the financial reporting.

#### Performance

Significant improvement has been made since the launch of Zero Accidents programme in 2000. In recent years the trend is still going in the right direction, but it requires more work to get closer to eliminating work related accidents and illness. SKF is increasingly taking a more proactive approach by reporting and following up on near-misses. At the same time efforts have focused on reducing the severity rate of accidents, with positive results.

#### G4-LA6 Accident rate for the Group

Data per region and gender cannot be reported. Lost days and severity rate is tracked and documented locally but is not aggregated on Group level.

	2015	2014*	2013	2012	2011	2010	2009
Accident rate for the Group	0.99	1.13	0.99	1.06	1.05	1.18	1.29

\*SKF changed the system for reporting accidents and worked hours in 2014, which may affect the comparability somewhat to previous years' figures.

#### Other health indicators

SKF measures health index and attendance rates on Group level.

Health and attendance	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and central Europe	Western Europe
Attendance rate 2015 (% of expected worked time)	96	99	93	98	99	94	95
Attendance rate 2014 (%)	95	99	99	98	99	95	93
Health Index 2015 (%)	74	89	85	91	93	43	63

**Attendance rate** = 1-(time off due to illness / total worked time). Total worked time has been estimated using the average of 1,920 hours per year per employee.

**Health index** is an internally developed indicator of overall long-term health. It is calculated by counting the number of employees who have five days or less total absence due to illness the last 12 months. These employees are considered to be long-term healthy. The index is the ratio of this figure and the total head count.

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

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

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

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

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

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

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

%	2015	2014	2013	2012
Asia and Pacific	78	92	71	69
Middle East and Africa	62**	100	100	82
North America	94	97	91	94
Latin America	71	84	98	98
Eastern and Central Europe	46	44	20	47
Western Europe	86	94	90	92
<b>Group</b>	<b>81</b>	<b>90</b>	<b>81</b>	<b>83</b>

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

## Employment

### Boundaries

The SKF Group and its subsidiaries.

### Disclosure on management approach

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

SKF has a global framework with the World Union Council which is based on the SKF Code of Conduct. Group People, manages Labour Affairs and heads up the official dialogue with

the SKF World Union Council. Issues relating to significant changes at SKF are always handled in close collaboration between company management, local union and the World Union Council. During the recent restructuring programme referred to on page 71, extensive dialogues were held with employees and their representatives and strenuous efforts were made to minimise the negative impacts on those employees leaving the Group. These included the use of early retirement schemes as well as voluntary redundancy programs.

### Scope and data compilation

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

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

%	Women	Men	2015 Total	2014	2013	2012
Asia and Pacific	89	90	90	89	87	88
Middle East and Africa	88	92	91	90	95	93
North America	89	90	90	93	91	91
Latin America	91	96	95	92	88	86
Eastern and Central Europe	93	94	94	95	95	96
Western Europe	94	96	96	96	95	97
<b>Group</b>	<b>92</b>	<b>94</b>	<b>93</b>	<b>93</b>	<b>92</b>	<b>93</b>

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

## G4-LA1 Employee turnover and new hires by region

	Group	Asia and Pacific	Middle East and Africa	North America	Latin America	Eastern and Central Europe	Western Europe
Employee turnover 2015, women %	<b>10.7</b>	13.3	18.3	12.6	27.6	7.6	7.5
Employee turnover 2015, men %	<b>8.3</b>	11.9	10.4	10.8	17.2	7.2	4.7
<b>Employee turnover 2015, total %</b>	<b>8.9</b>	<b>12.2</b>	<b>12.3</b>	<b>11.3</b>	<b>18.6</b>	<b>7.4</b>	<b>5.2</b>
Employee turnover 2014, total %	<b>8.1</b>	12.6	9.9	9.4	16.7	5.4	4.6
<b>New hires 2015</b>	<b>2,997</b>	<b>739</b>	<b>63</b>	<b>764</b>	<b>508</b>	<b>332</b>	<b>591</b>
Women (Number)	<b>731</b>	159	14	222	70	131	135
(Share of total)	<b>24%</b>	22%	22%	29%	14%	39%	23%
Men (Number)	<b>2,266</b>	580	49	542	438	201	456

## Training and education

### Boundaries

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

### Disclosure on management approach

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

All SKF employees are entitled to an individual development plan (IDP) and this is where specific training or development needs are identified and agreed between the employee and his or her manager. The IDP is also used to follow up on the completion of training and development activities. Training defined within an IDP can range from mandatory e-learning, which all employees must complete (Code of Conduct e-learning for example) to very specific technical training on a wide range of subjects such as project management or application engineering. Please refer to pages 73-74 in the employee section for more information about how training and development for SKF employees is managed.

Downstream, SKF provides training for distributors and end-users of SKF's products and services. This includes training on mounting and servicing SKF's products for example. For distributors, SKF's training includes aspects such as technical specifications of SKF's products, value selling, SKF's Code of Conduct and profitable business management. More information on distributor training is available on [skf.com](http://skf.com).

### Scope and data compilation

SKF follows up on performance reviews in the Working Climate Process (WCP) survey, which is deployed every 18–24 months. The data on development plans provided below is from the most recent survey carried out in 2014, which covered responses from 37,000 employees. The next WCP survey is planned for 2016.

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

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

### Development plans and performance reviews

%	2015	2014	2013	2012
<b>G4-LA10</b> Individual development plans	–	60	–	60
Men / Women	–	59/60*	–	–
<b>G4-LA11</b> Performance reviews	–	69	–	65
Men / Women	–	69/70*	–	–

\* SKF asks all employees from their perspective if they have had a performance review. In total, 69% said they have – men 69% women 70%. It is however optional to provide gender, therefore the male/female split is approximate. Breakdown on employee categories cannot be disclosed.

## Diversity and equal opportunities

### Boundaries

The SKF Group and its subsidiaries.

### Disclosure on management approach

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

The SKF Group is responsible for setting standards and providing tools that can help the business as a whole to increase diversity, and the operational parts of the business are responsible

for addressing diversity effectively and appropriately. The assurance of equal opportunity for all employees is mandated in SKF's Code of Conduct. All SKF's units are accountable for ensuring the effective deployment of SKF's Code of Conduct and this is coordinated and followed up at Group level, see page 73.

### Scope and data

SKF measures the ratio of women in management positions. The data covers all of SKF's units. Local management is defined as a management group for an SKF legal entity with at least two members. The proportion of women in the Group's total workforce was 22%. SKF does not categorize employees or management by age group or minority.

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

%	2015	2014	2013	2012	
Asia and Pacific	91	95	86	73	
Middle East and Africa	50	67	67	50	
North America	85	82	77	85	
Latin America	67	67	67	64	
Eastern and Central Europe	55	63	86	60	
Western Europe	81	90	68	69	
Group	80	83	76	70	For the detailed information on the Board of Directors and executive management, please refer to pages 170-171 and 176-177.

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

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

## Equal remuneration for men and women

### Boundaries

The SKF Group and subsidiaries.

### Disclosure on management approach

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

### Scope and data compilation

SKF is implementing common systems and job roles in the countries where SKF has significant operations. The ambition is to be able to report this accurately 2017 at the latest.

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

This cannot currently be fully disclosed. SKF does not have the data consolidated centrally due to differences in salary systems. A qualitative approach is explained on page 73 in the Employee Care section. SKF is working to implement systems in countries where the Group has significant operations.

## Labour management relations

### Boundaries

SKF Group and its subsidiaries.

### Disclosure on management approach

Issues relating to significant changes at SKF, for example in acquiring or divesting operations, are always discussed and resolved openly and constructively with union leaders locally and with the leadership of the SKF World Union Council. The precise approach must be adapted to the specific conditions of each acquisition. SKF makes it clear in its Code of Conduct that all employees have

the right to join a union and to bargain collectively. The Code of Conduct is the basis of the framework agreement between SKF and the World Union Council, and continual dialogue is on-going to ensure that it works for both SKF and the Union members.

### Scope and data compilation

The data covers all SKF's entities all across the world. Data is collected using SKF's main consolidation system and reviewed by the controller and human resource office before sent to the SKF Group.

### G4-LA4 Minimum notice periods

Notice regarding operational changes is always defined on a case-by-case basis with the local unions, and/or reviewed at the World Works Council. SKF reports employees covered by trade union agreements.

### SKF employees covered by independent trade union agreement, by region

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

## Local communities

### Boundaries

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

### Disclosure on management approach

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

### Scope and data compilation

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

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

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

34 SKF country organizations reported Community Care activities in 2015 and these countries make up over 95% of the Group's global operations in terms of employees. Out of a total quantifiable contribution of SEK 32 million, SEK 26 million was made up of financial sponsorship to various local charities, as well as for sports, cultural or educational events. Close to SEK 6 million was donated to help underprivileged people or victims of natural disasters. The remaining share was of in-kind giving. In addition, SKF employees have spent time on volunteer work related to tutoring, construction, other charity work and by donating blood.

## Human rights

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

### **Boundaries**

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

### **Disclosure on management approach**

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

Conduct in ways such as e-learning, introduction and awareness training and classroom training. Ethics is also included in management training programmes at all levels.

SKF's Code of Conduct is based on a number of internationally proclaimed principles and charters, including the ILO conventions and the UN Global Compact. In addition, SKF's Code of Conduct is the basis of the above-mentioned global framework agreement and has been used as a reference for establishing other documents such as SKF's Code of Conduct for Suppliers and Sub-contractors, and SKF's Code of Conduct for Distributors, demanding similar high levels of commitment from business partners.

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

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

Two serious cases of discrimination or harassment led to one contractor and one employee had their contracts terminated. Six cases of harassment between employees were substantiated leading to formal warnings. In addition, a number of harassment or discriminatory cases were reported which led to training, counseling or coaching on the SKF Code of Conduct. Please refer to SKF's Ethics and compliance programme on page 79.

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

The overall approach from the state towards union membership, and level of independence of trade unions, in certain countries where SKF has operations creates challenges in this aspect. SKF works pragmatically with the World Union Council and the appointed Union representatives to try and address these challenges.

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

Child labour is included in both SKF's internal and supplier audits. In 2015, SKF has found no actual cases of child labour at its operations or at SKF's suppliers. A smaller number of cases with inadequate controls of age at SKF's suppliers have been identified. SKF works to close such deviations under the Responsible Sourcing Programme, as explained on page 52 in the Annual Report.

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

Forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2015, no cases of forced or bonded labour have been identified.

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

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

## Ethics and compliance

This includes the aspects corruption, fraud, anti-competitive behaviour and compliance.

### Boundaries

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

### Disclosure on management approach

SKF's work to prevent corruption, fraud, anti-competitive behaviour, and to adhere to export control and other compliance issues is managed under SKF's Ethics and Compliance programme. Please refer to page 79 for a detailed explanation of this programme.

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

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

SKF has used the e-learning "The Fight Against Corruption" developed by the UN. All employees who interact with external parties such as all managers, all employees in sales and purchasing are in scope to undergo anticorruption training. In total, 75% (13,621) of these employees have completed their training. Completion rate broken down by region, employee category and governance body members cannot be provided.

### G4-S05 Confirmed incidents of corruption and actions taken

Please refer to page 79 and to the reported cases on S011 below. Ten investigations on fraud or corruption have in 2015 led to the people under investigation leaving the company or that they received verbal or written warnings.

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

For on-going investigations, please refer to page 91.

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

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

## Social grievance mechanisms

### Boundaries

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

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

### Disclosure on management approach

The SKF Ethics and compliance programme covers all topics in SKF's Code of Conduct. Please refer to page 79 for an overview. The SKF Code of Conduct is available in Topics related to Annual Report at [skf.com/ar2015](http://skf.com/ar2015).

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

As reported on page 79, SKF has received 160 cases from its Ethics and compliance reporting line, all of which have been addressed, 40 of these have been substantiated and closed during 2015, 51 were still under investigation at year end, the rest were unsubstantiated. Substantiated and closed cases:

- Two were related to overtime procedures which have resulted in revised and documented procedures at the SKF units.
- Six were related to fraud or serious misconduct which resulted in employees or contractors leaving SKF.
- The rest were related to grievances between employees or employee and supervisor. Most cases were resolved by counseling, coaching or training. A smaller number of cases resulted in verbal or written formal warnings and in one case led to demotion and transfer.

In addition to above reported cases, SKF's internal audit function has investigated misconduct. On those related to impact on society, ten investigations including fraud and corruption have led to people receiving written warnings or left the company, please refer to cases reported under indicator G4-S05 and on page 79.

## Suppliers

### **Boundaries**

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

### **Disclosure on management approach**

The day to day management of SKF's responsible sourcing programme is carried out by the supplier development function within Group Purchasing. Please refer to page 50–52 in the purchasing section for a detailed explanation of SKF's supply chain management. SKF's Responsible sourcing activities take

a risk based approach, which focuses on suppliers located in high risk regions, and which in these regions make up 90% of direct material spend.

### **Scope and data collection**

Between 2012 and 2015, over 500 audits have been carried out. These include first audits, follow-up audits and third party audits. The audit procedure includes a detailed checklist for every supplier audit with 45 specific questions focusing on a wide range of aspects, such as environment, labour, human rights and general code of conduct issues. The data reported in these statements are consolidating SKF's finding into GRI's designations.

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

All new suppliers are screened using these criteria.

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

Between 2012 and 2015, no case of significant environmental deviations has been identified. 19 cases of medium urgency has been found and actions are on-going to resolve these.

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

Between 2012 and 2015, 207 deviations in this category have been identified. All cases are prioritized and addressed according to their urgency. The most common deviations related to occupational health and safety, compensation and employment contracts procedures.

In order to become a Code of Conduct certified supplier to SKF, the supplier needs to have no open significant deviation. So far, since 2012, SKF has certified 155 suppliers, 55 of these were certified in 2015. Since the suppliers included in the 90% spend scope changes over time, SKF does not report an actual percentage of certified suppliers. However, the 155 suppliers represent a significant proportion of suppliers in scope and the rate of supplier certification is progressing well.

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

Between 2012 and 2015, no case of significant deviations with negative societal impact has been identified. Six cases of falsified records has been found. These cases have been resolved and closed.

# Materiality analysis and Stakeholder dialogue

SKF defines key stakeholder groups as customers, investors, suppliers, employee representatives and representatives from society in general. The Group works in different ways to interact with these and other stakeholders as part of the materiality assessment along with input from academic research and industry collaboration.

This allows SKF to better understand various perspectives and concerns, and address them quickly.

## Customers

Customer input is sought and received via the sales and marketing operations and activities carried out by the Group – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers plus extensive customer perception surveys carried out on a regular basis by SKF's business areas. The input received helps the company to continually improve customer value.

## Investors and analysts

SKF takes an active approach in communicating the Group's strategy and performance to existing and potential investors, analysts and media. Information is provided through various channels such as the quarterly reports, meetings with investors, telephone conferences, the company's website and press releases. An annual capital markets day is held to present the strategy, targets and the different businesses in more detail. SKF receives feedback from investors via its own questionnaires, feedback collected after investor meetings and continual feedback in discussions.

## Employees and union organizations

SKF holds an annual World Works Council meeting during which employee representatives meet with Group Management. The agreements and conclusions from these meetings are acted upon and followed up.

Employee representatives are also members of SKF's Board – see SKF's Corporate Governance Report, pages 168–174. In addition, SKF carries out an employee feedback survey in the SKF Working Climate Process (WCP), around every 18–24 months. The findings from the WCP are used to implement improvements in the working climate and performance at all levels within the company – from local teams to Group Management.

## Communities

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

## Non-governmental organizations

SKF is actively involved in various business organizations. SKF utilizes these networks to share experiences and ideas with other companies and develop the company's thinking and approach on many issues. SKF has established working relationships with certain nongovernmental organizations (NGOs) such as the World Wide Fund for Nature (WWF). SKF invites feedback and input from these NGOs about issues such as climate change and other environmental, social and economic concerns.

## Suppliers

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

## Specific surveys and interviews for materiality assessment

In accordance with the GRI G4 reporting requirements and in addition to the well-established processes described above, SKF undertook specific surveys and interviews in 2014 with a selection of individuals from main stakeholder groups. These provided confirmation and further understanding of potentially important aspects for the Group's stakeholders.

The individuals selected represented stakeholders including major strategic customers, employee representatives from staff and union organizations, investors and analysts and representatives from local communities. These individuals were asked to provide qualitative and quantitative feedback on a list of potentially material aspects.

This information was gathered through specific on-line surveys, direct discussions with customers and via telephone interviews conducted by a third party. Input from the supplier perspective was collected over the year via audits, training and other interaction carried out in the normal course of business.

## Material issues

Having gathered stakeholder input in the various ways described above, the key material issues for SKF have been established by combining this with input from senior representatives from the Business Areas and Group staff functions. This has been further verified with Group management.

The Group has not received any input from any stakeholders during 2015 that would question the material issues for SKF.

The result of this work is a list of eleven material issues presented on the next page, along with detailed input per stakeholder group.

## Stakeholder dialogue – top material issues per stakeholder group

Stakeholder group	Customers and peers	Investors and analysts	Employees and union organizations	Local community representatives	Suppliers*
Material aspects	Overall customer satisfaction	Overall customer satisfaction	Overall customer satisfaction	Local communities relationship	Occupational health and safety
	Ethical business conduct	Economic performance	Ethical business conduct	Ethical business conduct	Compensation
	Human rights	Ethical business conduct	Training and education	Overall environmental management	Employment practices
	Occupational health and safety	Research and development	Research and development	Occupational health and safety	Environmental protection
	Environmental compliance of products	Product environmental benefit	Occupational health and safety	Responsible sourcing	
	Non-Discrimination	Employment practices	Environmental compliance of products	Indirect economic impact	
	Responsible sourcing	Occupational health and safety	Energy and climate	Employment practices	
	Research and development	Training and education	Employment practices	Energy and climate	
	Overall environmental management	Energy and environment overall	Economic performance	Water	
	Employment practices	Non-discrimination	Water	Emissions to air	

\*Input from suppliers was collected from on-site audits and trainings.

A summary of these material issues and how they relate to the value chain can be found on page 6. A translation of SKF's material issues with reference to the GRI G4 reporting guidelines aspects can be found below.

SKF Material Issues	GRI aspects	SKF Material Issues	GRI aspects
<b>Customer value creation</b>	--	<b>Energy and climate</b>	Energy Emissions
<b>Business Conduct</b>	Anti-corruption Anti-competitive behaviour Compliance Grievance mechanism for impact on society	<b>Systematic environmental protection</b>	Effluents and waste Water Compliance
<b>Financial performance</b>	Economic performance	<b>Local Community Relations</b>	Local communities
<b>Health and safety</b>	Occupational Health and safety	<b>Safe and respectful workplace - equality, human and labour rights</b>	Equal remuneration for women and men Labour/Management relation Labour practice grievance mechanism Non-discrimination Freedom of association and collective bargaining Child labour Forced or compulsory labour Assessment Human rights grievance mechanism
<b>Innovation</b>	--		
<b>Positive and engaging workplace</b>	Employment Training and education Diversity and equal opportunities Supplier assessment for impact on environment Supplier human rights assessment		
<b>Responsible Sourcing</b>	Supplier assessment for impact on society Supplier assessment for labour practices		

# Organization of SKF's sustainability work

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

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

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

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

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

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

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

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

- SKF BeyondZero governance board which decides about inclusion and exclusion in the SKF BeyondZero portfolio.
- 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 Environment, Health and Safety committee, which coordinates the deployment of the Group's related strategy.

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

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

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

The Remuneration Committee (sub-set of SKF Board) determines the remuneration for the CEO and Group Management. Consultants are typically not involved.

The Annual Report – SKF Group 2015 includes SKF's sustainability reporting and is signed by all members of the Board.

# Auditor's Report

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

## Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of AB SKF (publ) for the year 2015. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 6–10, 12–37, 44–47 and 80–146.

## Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

## Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2015 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the

Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

## Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of AB SKF (publ) for the year 2015.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

## Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

## Opinions

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

Gothenburg, 7 March 2016  
PricewaterhouseCoopers AB

Peter Clemedtson  
Auditor in Charge  
Authorized Public Accountant

Bo Karlsson  
Authorized Public Accountant

# Independent Auditor's Limited Assurance Report on the Sustainability Report

To AB SKF (publ)

## Introduction

We have been engaged by the Group Management of AB SKF (publ) to undertake a limited assurance engagement of the sustainability performance disclosures in the SKF Annual Report 2015 on pages 11, 52, 58–79, and 147–165, as well as documents on SKF's website in "Topics related to Annual Report 2015" marked with \*. We refer to these disclosures collectively as the "Sustainability Report".

## Responsibilities of the Board and Management for the Sustainability Report

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 147 in the Annual Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative, GRI) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

## Responsibilities of the Auditor

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

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent

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

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

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

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

## Conclusion

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

Gothenburg, 7 March 2016  
PricewaterhouseCoopers AB

Peter Clemedtson  
Authorized Public Accountant

Fredrik Ljungdahl  
Expert Member of FAR