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# Sustainability statements as defined by GRI Standards

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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 transparent 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/ar2017](http://skf.com/ar2017).

- GRI content index<sup>1)</sup>
- Carbon dioxide emission data<sup>1)</sup>
- Environmental performance data<sup>1)</sup>
- Articles of Association
- SKF Code of Conduct
- SKF Environmental, Health and Safety (EHS) Policy
- Manufacturing and other operational units 2017

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

### 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** page 10,
- **Anti-corruption** page 130,
- **Environment** pages 131–134,
- **Employees** pages 135–139,
- **Human rights and other relevant social topics** pages 139–142.

Risks associated with the topics above are found in connection to the topics, in SKF's overall risk management on pages 60–63 and on page 123.

# Auditor's report on the statutory Sustainability Report

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

## Engagement and responsibility

It is the board of directors who is responsible for the statutory sustainability report for the year 2017 as defined on page 120 and that it has been prepared in accordance with the Annual Accounts Act.

## The scope of the examination

Our examination has been conducted in accordance with ISAE 3000. The auditor's opinion regarding the statutory sustainability report.

This means that our examination of the statutory sustainability report is substantially different and less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

## Opinions

A statutory sustainability report has been prepared.

Gothenburg, 2 March, 2018  
PricewaterhouseCoopers AB

Peter Clemedtson  
*Auditor in charge*  
*Authorized Public Accountant*

Bo Karlsson  
*Authorized Public Accountant*

# 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, mechatronics, services and lubrication systems. Services include technical support, maintenance services, condition monitoring, asset efficiency optimization, engineering consultancy and training. Examples are found in this report on pages 2–5, 14–19 and 56–59. For information on SKF's brands please refer to [skf.com/brands](http://skf.com/brands).

### 102-03 Location of headquarters

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

### 102-04 Location of operations

SKF operations are global, the Group has manufacturing operations in 24 countries and direct sales channels in 70 countries. The Group is present in 130 countries. A list of SKF operations can be found in Topic related to the Annual Report on [SKF.com/ar2017](http://SKF.com/ar2017). SKF's manufacturing, sales and other operations are also presented on pages 114–116 in this Annual Report.

### 102-05 Ownership and legal form

SKF provides articles of association on [skf.com/ar2017](http://skf.com/ar2017). These are part of Topics related to the Annual Report. In addition, information on shares and shareholder information can be found on pages 36–37.

### 102-06 Markets served

Pages 2–3 provides an overview of geographies and industries served. Information on Industrial and Automotive segments are further described on pages 4–5 and 56–59.

SKF sometimes describes its business as customer industries, more detailed information on these is available at [skf.com/skfs-business](http://skf.com/skfs-business)

### 102-07 Scale of the organization

Information on the SKF Group and its operations are found in various sections in the report. Employee information is found on this page and on page 104.

SKF Manufacturing and other operations are presented on [skf.com/ar2017](http://skf.com/ar2017).

Net sales are presented on page 68 and broken down further in the financial statements on pages 76–78.

Total capitalization broken down in terms of debt and equity are presented in the financial statements on page 71. SKF has delivered 367,000 tonnes of bearings 2017. In addition, the Group has delivered seals, mechatronics, condition monitoring, lubrication systems and services.

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

Registered employees and workers by employment type

2017	Permanent		Temporary		Agency		Total
	White collar	Blue collar	White collar	Blue collar			
Western Europe	9,434	11,261	83	482	1,265	22,525	
Asia and Pacific	3,567	6,815	12	521	2,359	13,274	
North America	1,966	2,893	28	17	205	5,109	
East and Central Europe	884	3,001	27	549	359	4,820	
Latin America	948	2,781	0	0	65	3,794	
Africa and Middle East	318	85	6	0	29	438	
<b>Total</b>	<b>17,117</b>	<b>26,836</b>	<b>156</b>	<b>1,569</b>	<b>4,282</b>	<b>49,960</b>	

Average number of employees by gender

2017	Number		Percentage		Total
	Men	Women	Men	Women	
Western Europe	15,172	3,227	82%	18%	18,399
Asia and Pacific	8,813	2,524	78%	22%	11,337
North America	3,498	1,277	73%	27%	4,775
East and Central Europe	2,904	1,705	63%	37%	4,609
Latin America	3,135	1,060	75%	25%	4,195
Africa and Middle East	379	120	76%	24%	499
<b>Total</b>	<b>33,901</b>	<b>9,913</b>	<b>77%</b>	<b>23%</b>	<b>43,814</b>

### 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 more than 100 manufacturing plants across the world. SKF directly employs over 28,000 people in manufacturing.

SKF sources both materials and services from suppliers around the world reflecting its global operations. The purchased material consists of metal raw material such as bars, wires, tubes and strips, and steel based components such as rings, balls, rollers, and sheet metal parts, and other direct material as well as subcontracted and traded products. In addition to direct materials, SKF sources shop supplies, capital equipment, and various types of services. To support SKF's global manufacturing footprint, SKF has sourcing offices around the world in Europe, China, India and in the Americas. About 85–90% of supplies to SKF factories come from local or regional suppliers. The total annual spend of the SKF Group is around SEK 40 billion and roughly around 1,200 suppliers make up 80% of the total spend by volume. Please refer to more information about SKF's supply chain in the section Purchasing on page 50 and page 141.

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

No significant changes affecting the reporting.

#### 102-11 Precautionary principle or approach

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

#### 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. This helps to reflect and communicate the importance of SKF Care – the Group's framework for sustainability. 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. The SKF Annual Report is also the Group's Communication on progress for the principles of the Global Compact.
- The International Labour Organization (ILO) which draws up and oversees international labour standards, bringing together representatives of governments, employers and workers to jointly shape policies and programmes promoting decent work for all.

- The International Chamber of Commerce (ICC) which is the voice of world business championing the global economy as a force for economic growth, job creation and prosperity.
- The Organisation for Economic Co-operation and Development (OECD), which has the mission to promote policies that will improve the economic and social wellbeing of people around the world. SKF endorses and works to apply the OECD Guidelines for Multi-national Companies. By doing this SKF commits to conducting business in a global context in a responsible manner, consistent with applicable laws and internationally recognized standards.

#### 102-13 Membership of associations

SKF is an active partner in several industry collaborations and initiatives and holds talks with industrial peers on issues relating to technical and management aspects across relevant short and long term aspects relating to financial, economic, governance, environmental and social dimensions. SKF takes part in 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 Standardisation Organisation among others. In addition, SKF collaborates formally with a number of internationally recognised universities on topics such as tribology, materials technology, remote diagnostics, environmental and social sustainability and metallurgy. A list of memberships is available at [skf.com](http://skf.com).

## Strategy

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

The CEO statement is found on pages 6–8. Strategic priorities, trends, targets and achievements and outlook is described throughout the report.

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

The United Nations Sustainable Development Goals help to highlight challenges and opportunities for business globally. External drivers and trends are further described on page 9 and SKF's overall risk management approach is described on pages 60–63. With reference to the definitions in the overall risk management section, sustainability risks and opportunities can be related to strategic, operational, compliance and financial risks.

Fraud and Corruption constitutes risks for SKF in terms of litigation, fines, bad-will, loss of business. SKF's anti-corruption activities include risk assessment, internal controls, training, SKF Ethics and Compliance Reporting Line, audits and investigations. In 2017, the Group was granted membership in Transparency International Sweden's Corporate Supporters Forum, a step to further understand the global corruption risks SKF is exposed to and how to mitigate them.

On environmental topics, energy, emissions and resource use stands out as the most significant topics, they can be related to direct business risks and opportunities SKF's solutions create value for customers by helping them to improve resource and energy efficiency. SKF's customer solutions provide significant environmental

benefits regarding for example global warming and resource use. More on customer solutions can be found in the Creating and capturing customer value section on pages 12–13 and Application driven innovation on pages 14–19. The environmental risks directly related to SKF's manufacturing and supply chain are managed by group wide management systems and procedures to mitigate all relevant risks. At the same time, industries served by SKF are expected to experience transformations related to sustainability and digitalization which can impact the demands for SKF services as both risks and opportunities.

Employee recruitment and development has gained increasing attention as technology development accelerates and work roles are becoming more and more complex. This can affect the Group's ability to attract and retain employees with the right skills. This risk is managed through both recruitment and internal development.

In terms of human rights, SKF works since many years according to external principles and charters to integrate human rights risks in its policies and procedures. SKF works according to UN Guiding Principles of Business and Human Rights and reports its work on pages 139–141.

SKF has established Group targets for a number of relevant sustainability topics, progress on these targets are presented under the SKF Care section on pages 42–51 and detailed results and governance mechanisms are presented in these statements on pages 129–142.

## Ethics

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

The SKF Code of Conduct is the main policy on ethical standards. There are several related policies, on Group level and in local adaptations of the SKF management systems but the SKF Code of Conduct is the superior policy, all other policies are subordinate to it. It is available in 17 languages and publicly available on SKF.com/code. The SKF Group's values, as set out by the Board of Directors, are also mentioned on page 10 with SKF's business model, they are:

- Empowerment
- High ethics
- Openness
- Teamwork

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

In addition to normal internal reporting possibilities, employees can raise concerns or seek advice via the SKF Ethics and Compliance Reporting Line which is hosted by a third party. The Group also makes use of an internal helpline via email.

SKF's 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. They can also raise concerns via the Group's reporting mechanism referred to above. As part of this mechanism, SKF employees can report concerns in their own language via a designated web portal or by calling a local telephone number. Locally reported grievances are often managed at local level with the local human resource department or country management. 228 (211) cases have been reported via the Group's Ethics and Compliance Reporting line (whistle blowing system) or to the group functions by other channels during 2017. 144 cases were resolved in 2017. Most cases led to training and policy reviews with people involved. A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved. In addition to the cases reported to the central functions, grievances related to ethics and compliance are managed by local SKF units and not escalated to Group.

## Governance

### 102-18 Governance structure

SKF Care defines the Group's approach to contribute to sustainable development over the short, medium and long term. SKF applies the principles of sound corporate governance as an instrument for increased competitiveness and to promote confidence in SKF among all stakeholders. Among other things, this means that the company maintains an efficient organizational structure with clear areas of responsibility and delegated authority for implementation, that the financial, environmental and social reporting is transparent and that the company in all respects maintains good corporate citizenship. Refer to page 148–149 in the Corporate Governance Report.

### 102-19 Delegating authority

The President of the company, who is also the Chief Executive Officer, is appointed by the Board of Directors and handles the day-to-day management of the company's business in accordance with the guidelines and instructions from the Board. SKF is organized in Industrial Sales Americas, Industrial Sales Europe and Middle East and Africa, Industrial Sales Asia, Automotive and Aerospace, Innovation and Business Development and Industrial Units. The responsibility for end-to-end procurement, manufacturing and logistics is combined into Bearing Operations. Further, there are two Group staff units; Group Finance and Business Transformation and Group People, Communication, Legal and Sustainability. In SKF, the implementation of sustainability programmes 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 for example:

- The Responsible sourcing committee, established to assure that SKF's Code of Conduct for Suppliers and Sub-contractors is effectively deployed, and that appropriate measures are taken when deviations from the code of conduct are identified at our suppliers.
- The EHS and Quality board oversees issues related to management systems, ISO 9001, ISO 14001, OHSAS 18001, ISO 50001 and associated policies and instructions and coordinates the deployment of the Group's related strategy.

- The Ethics and Compliance committee, who oversees the risk and opportunities related to ethics and compliance topics of sustainability.

Authority is further delegated to the country managers who are appointed by SKF's Group management. The country manager is typically the company manager in the largest SKF company in the country and is also the chairperson or board member in the other SKF companies in the country. Each country and company manager is responsible for their entity's performance including financial metrics, social impact, compliance and other topics as set out by the SKF Group and as is stated in the SKF Company and Country management policy.

For specific sustainability topics, such as safety and health, environment, quality and code of conduct compliance, SKF uses a systematic and standardized approach which is embedded throughout the organization and decision making processes. Group-wide management systems are used to support and drive continual improvement. SKF's quality management systems are certified to ISO 9001 and, where required by the markets, to ISO/TS 16949 (for automotive), AS 9100 (for aerospace) and IRIS (for railways). The SKF approach to environmental, health and safety management is based around a Group-wide certification to the requirements of ISO 14001 (environment), OHSAS 18001 (health and safety) and ISO 50001 (energy management).

On the individual level, incentives are set following SKF's performance management process. In general, the Group sets ambition and direction of the company and employees and managers then set their personal goals for the year, follow up achievements and discuss priorities. Specific, measurable, attainable, realistic and timely goals are set between employees and their immediate managers which is the basis for the annual performance review. This way, employees can influence their own work activities, performance behaviours and future compensation.

**102-20 Executive-level responsibility for economic, environmental, and social topics**

The Senior Vice President, Group People, Communication, Legal and Sustainability 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 shall be delivered in accordance with the strategic direction and fundamental requirements as set by Group Management. This responsibility 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 implemented. Group Sustainability & Compliance is responsible for establishing policies, strategies and targets related to SKF's overall sustainability performance. These in turn drive and support the integration of SKF Care into business practices, processes, operations and staff functions.

**102-21 Consulting stakeholders on economic, environmental, and social topics**

The Annual General Meeting 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 this report on page 160.

**102-22 Composition of the highest governance body and its committees**

Refer to pages 148–154 in the Corporate Governance Report.

**102-23 Chair of the highest governance body**

Refer to page 150 in the Corporate Governance Report.

**102-24 Nominating and selecting the highest governance body**

Refer to page 148 in the Corporate Governance Report.

**102-25 Conflicts of interest**

Refer to page 149 in the Corporate Governance Report.

**102-26 Role of highest governance body in setting purpose, values, and strategy**

With reference to the statements under 102-20, 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.

**102-32 Highest governance body's role in sustainability reporting**

The SKF Annual Report 2017 includes SKF's Sustainability Report and is signed by all members of the Board.

**102-36 Process for determining remuneration**

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

**102-37 Stakeholders' involvement in remuneration**

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.

## Stakeholder engagement

**102-40 List of stakeholder groups**

As part of the day to day work, and especially for the management of sustainability, a wide range of stakeholders have been approached such as, customers, investors and analysts, employees, unions, civil society, often represented by media and Non-governmental organizations, and suppliers.

**102-41 Collective bargaining agreements**

SKF holds collective bargaining agreements in 20 countries (Argentina, Austria, Brazil, Bulgaria, Czech Republic, France, Germany, India, Indonesia, Italy, Malaysia, Mexico, Poland, Spain, Sweden, UK, USA, China, Ukraine and South Korea, who's members took part of the World Union Council meeting for the first time in 2017). These countries make up over to 95% of all blue-collar workers (around 28,000). If the workers at a site choose not to be unionized, or if there are restrictions to the independence of a trade union, the employees in the country are still covered by the SKF Framework Agreement and part of a collective bargaining group. In addition to the 20 countries above, SKF employed around 1,000 people in blue-collar roles in sales, logistics and manufacturing of which the biggest countries are, Peru, Colombia, South Africa, Singapore, Zambia, Russia and Finland.

**102-42 Identifying and selecting stakeholders**

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

**102-43 Approach to stakeholder engagement and 102-44 Key topics and concerns raised**

SKF interacts with stakeholder in somewhat different ways depending on the type of relationship, see next page.

## Approach to stakeholder engagement

## Key topics and concerns raised

**Customers**

Customer input is sought and received via the sales and marketing operations and activities carried out by the Group – from global discussions with key account managers to daily conversations between customer representatives and SKF's local account managers. SKF also responds to a wide range of customer surveys and reviews scorecards from key accounts and strategic customers.

In addition to the overall interaction, SKF aggregates the requested sustainability information from customers' sourcing departments. In order to get a more nuanced view, this information is completed by direct discussions with key customers. Several customers highlight environmental management, climate change, business ethics, safety and human rights as the most important issues for them and their decisions related to SKF.

**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 markets days are 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.

Similar to that of customers, SKF aggregates the requested sustainability information from investors and analysts via the Group's investor relations department via direct conversations and from benchmark surveys and results. A number of owners have also been asked to rate the importance of sustainability topics through a survey. Several investors highlight the topics of energy and resource efficiency in SKF's own operations, as well as provision of clean technology in customers' applications. They further want to see proactive work to protect human rights, health and safety in the supply chain and some also highlight that SKF could make a better result by focusing on attracting and retaining a diverse workforce.

**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 150–154. In addition, SKF carries out periodic employee feedback surveys to drive continuous improvement on working climate.

SKF and the World Union Council have ongoing negotiations related to employment and SKF's overall development continuously. In addition, safety, health, and economic performance has been highlighted in 2017. An emerging topic that has been discussed over the year is also the digital transformation ongoing across the industry and in the Group. The automation this drives can have a significant impact on the definition of jobs in SKF and outside. This topic is likely to become increasingly important over the next years and related to a range of other sustainability topics, such as productivity and eco-efficiency, labour-management relations and education and development.

**Civil society**

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. Local media is also considered to represent civil society.

SKF country or regional communication teams monitor relevant topics for SKF locally. While the topics of concern differ between the communities, anti-corruption, overall environmental impact, energy and emissions, health, safety and training and development stick out as highly relevant for most communities.

**Topic experts, NGOs and business industry associations**

SKF utilizes formal and informal networks to share experiences and ideas with other companies and to develop the company's thinking and approach on many issues. SKF also collaborates with NGOs and welcomes feedback and positions on topics such as climate change and other environmental, social and economic aspects.

SKF has received input from topic experts within economic sustainability, environmental and social impact, resource theory, innovation, life-cycle management and other relevant topics. This input has been used to assess the Group's impact risk and opportunities. In addition, SKF has received input from its peer network. Climate change, resource use, economic prosperity and human rights stick out as highly relevant.

**Suppliers**

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.

The main issues identified at supplier audits related to sustainability are employment practices related to remuneration, work time and occupational health and safety. Inequality remains to be the main root cause for sustainable development in many high risk countries.



## Reporting practices

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

This information is available in the financial statements on pages 114–116.

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

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

As part of the report's content definition and the reflection of its materiality, topics and boundaries have been evaluated from internal and external stakeholder perspectives.

The statements on pages 129–142 provide more detailed information in a systematic manner to ensure that information is easily found.

SKF defines its stakeholders as those who can be significantly affected by the Group's activities. In 2017, SKF updated its materiality analysis. The overall approach is to use input provided by stakeholders for two years. This means that the result of the assessment 2017 is based on input from 2016–2017. The approach from the Group is to provide a short-list of potentially material topics based on previous assessments. 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, product life-cycle assessments and general impact assessments to define the significant environmental, economic and social impacts.

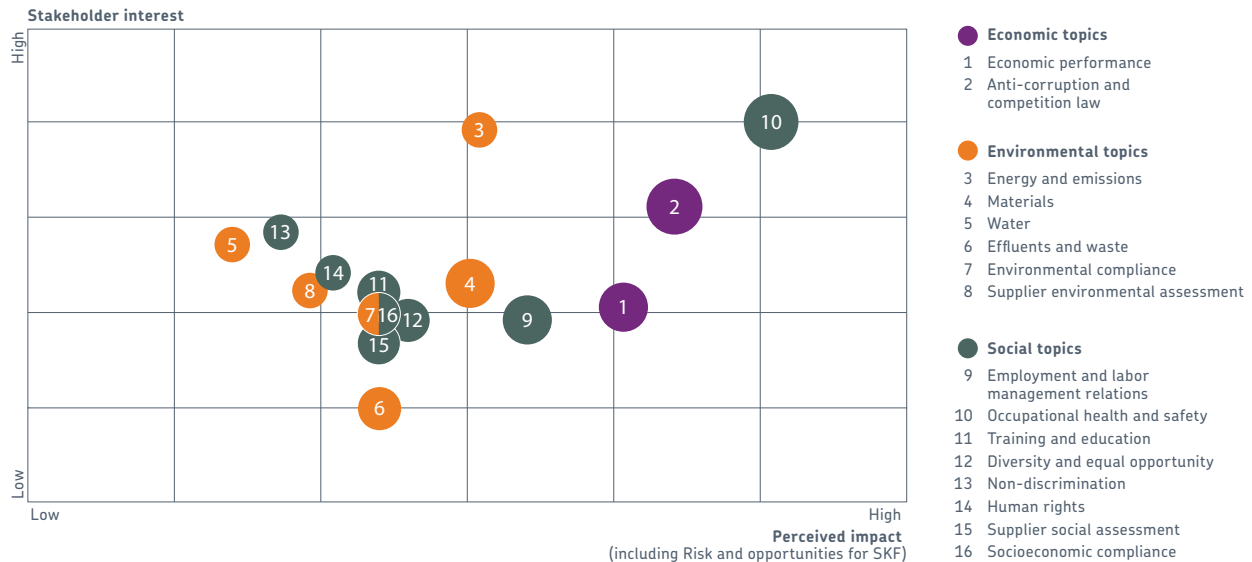
The context, scope and boundaries are described further in the specific disclosures on pages 129–142 along with the management approach.

### 102-47 List of material topics

Material topics	Boundaries
<b>■ Economic category</b>	
Economic performance	SKF Group companies.
Anti-corruption	Across the full value chain, but the strongest potential to control is with SKF's operations and parties with whom SKF has a direct business relationship.
Anti-competitive behavior	Across the full value chain, the strongest focus is within SKF's sales and downstream monitoring of distribution network.
<b>■ Environmental category</b>	
Energy and emissions	Across the value chain, four main areas in focus: suppliers, SKF's own operations, goods transportation, and customer solutions.
Materials	SKF Group companies.
Effluents and waste	Manufacturing sites within SKF Group.
Water	Manufacturing sites within SKF Group.
Environmental compliance	Manufacturing sites within SKF Group.
<b>■ Social category</b>	
Employment	SKF Group and its subsidiaries.
Labour management relations	The main priority is the labour and management is to ensure that the Global Framework Agreement between SKF and the unions works in practice.
Occupational health and safety	SKF Group companies. Focus on both physical and psychological health.
Training and education	Highly relevant over the value chain. The ones closely connected to social impact is that of SKF's employees' development.
Diversity and equal opportunities	Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. First priority is with SKF and its subsidiaries.
Human rights	SKF Group and upstream the supply chain.
Suppliers social and environmental assessment	SKF's upstream supply chain, tier one and tier two suppliers.
Socioeconomic compliance	Operations linked to or operated by SKF Group. Monitoring of compliance is bound to SKF's legal entities.



## Materiality



### 102-48 Restatements of information

Several data points for 2016 have been restated. Some SKF sites extrapolates data for December based on the first eleven months. These sites have updated their results. Some have been restated due to reporting errors. The corrected data is reported on page 133.

As part of SKF new climate objectives for 2025, the Group has updated its emission reporting guidelines. This also resulted in an updated inventory of scope 1 and 2 emissions according to the Greenhouse gas protocol and restated figures from baseline 2015.

### 102-49 Changes in reporting

During 2017, SKF has updated its procedures in the reporting of energy and CO<sub>2</sub> emissions, see above.

SKF has also changed the reporting of avoided emissions and revenues from customer solutions with significant environmental/sustainability benefits, read more on page 132.

SKF does not report on the topics Local community relations. This is a result of the most recent, and previous year's materiality assessment. The relationship with the local community is critical, however, the topics often discussed with community representatives, such as employment, education and environment, are covered by other topics in this report.

### 102-50 Reporting period

SKF Annual Report covers the financial year 1 January to 31 December 2017.

### 102-51 Date of most recent report

The report was published on 5 March, 2018. The most previous report was published on 7 March, 2017.

### 102-52 Reporting cycle

Annual.

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

SKF's Annual Report refers to two main contact points, please refer to page 160.

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

With reference to the GRI Standards accordance criteria, SKF Annual Report 2017 is self-declared as being in accordance with the Core option, which is confirmed by the Group's external auditors.

### 102-55 GRI content index

A complete GRI content index is available online together with Topics related to the Annual Report on [skf.com/ar2017](http://skf.com/ar2017)

### 102-56 External assurance

To ensure SKF's stakeholders and readers of the Group's sustainability reporting transparency, credibility and materiality of the information published, SKF has been submitting its sustainability reports for third-party review and verification since the year 2000.

Sustainability disclosures in the SKF Annual Report 2017 have been subject to limited assurance by SKF's auditors, please refer to auditor's limited assurance report on the Sustainability Report on page 143.

# SKF's material topics

## Economic Performance

### Material topic: GRI 201 – Economic Performance

#### 103-1 Materiality and boundaries

Economic performance is considered to be material for 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 75 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. 2016 is restated according to the new definition.

Economic value generated and distributed, (SEKm)	2017	2016
Net sales	77,938	72,589
Revenue from financial investments and other operating income	156	164
<b>Economic value generated</b>	<b>78,094</b>	<b>72,753</b>
Operating costs	-46,219	-42,808
Employee wages and benefits	-23,540	-22,770
Economic value distributed to providers of capital	-3,181	-2,940
Economic value distributed to government (taxes)	-1,898	-2,530
<b>Economic value distributed</b>	<b>-74,838</b>	<b>-71,048</b>
<b>Economic value retained</b>	<b>3,256</b>	<b>1,705</b>

**Economic value generated** includes net sales, see page 68, interest income, see page 81, and profit on sale of assets and businesses, net, see page 80.

**Operating costs** include the total operating expenses, see page 80, plus the net of other operating income and expenses, see page 80, plus financial net, see page 81, less employee wages and benefits, see page 80, less revenues from financial investments and other operating income, see page 80, less interest expenses, see page 81.

**Employee wages and benefits** includes costs related to wages and salaries including social charges, see page 80.

**Economic value distributed to providers of capital** includes suggested dividends to SKF's shareholders, see page 92 and interest expenses, see page 81.

**Economic value distributed to government** includes income taxes for Group, see page 68.

For the actual payment of taxes during the year, see cash-flow analysis on page 72.

#### 201-2 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. Please refer to pages 56–59 for an overview of SKF's Areas. Customer industries are further described on [skf.com/skfs-business](http://skf.com/skfs-business).

Within SKF's own operations, an increased cost by SEK 250 per tonne of CO<sub>2</sub> emissions would impact SKF's operating profit by around SEK 150–170 million related to the Group's direct energy spend. Cost increases for raw materials and components have not been included in this calculation.

The costs associated with actions to mitigate climate change risks are embedding in other costs, such as research and development, maintenance and investment budgets etc. and cannot be reported separately.

The motivation for SKF's continued commitment in addressing climate change as part of its risks and opportunities 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 the long-term competitive position.
- SKF is uniquely positioned to significantly contribute to the transition to a low carbon economy and 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 47 for an overview of SKF's climate objectives.

#### 201-3 Coverage of the organization's defined benefit plan obligations

SKF reports extensively on the coverage of its provisions of post-employment benefits in the financial statements on pages 93–96.

## Anti-corruption and Anti-competitive behavior

**Material topics: GRI 205 – Anti-corruption and GRI 206 – Anti-Competitive behavior**

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

SKF addresses anti-corruption and competition law as part of the Group's ethics and compliance programmes across the full value chain. The strongest potential to control is with SKF's operations and parties with whom SKF has a direct business relationship.

SKF operates on markets across the world where corruption indexes indicate high risks. SKF has over many years had a strong focus on business ethics in its corporate values and works continuously to institutionalize these. In several regions, SKF has received very positive feedback from customers on the Group's rigorous work to fight corruption. Nevertheless, when it comes to both corruption and anti-trust, SKF has recorded cases in recent years and there is a strong demand from all stakeholders that SKF works hard and proactively to avoid non-compliances.

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

SKF's ethics and compliance programmes cover a wide range of areas, of which several relate to the SKF Code of Conduct. SKF's ethics and compliance programmes rely on Group policies and instructions related to each issue, setting out the expectations on how to act, tools to use for compliance and where to turn for guidance.

The SKF Group ethics and compliance programme address these risks in a coherent and consolidated approach for SKF, and include the following risk aspects; anti-fraud, anti-trust, anti-corruption, anti-money laundering, data privacy, export control, environment, health, safety, responsible sourcing, and human rights.

A key element of the programmes is the yearly Group compliance risk assessment, in which all relevant internal stakeholders participate. SKF Group staff functions of Internal Auditing, Human Resources, Environment, Health and Safety, Purchasing and Sustainability & Compliance are acting risk owners of their respective area of responsibility. These functions identify, plan and act on risks together with the business and operational units.

In 2017, SKF published a new policy on Anti-corruption. Employees and managers receive training and awareness on a regular basis. SKF's Anti-Fraud and Anti-Corruption policy is available for all employees on the Groups internal webpages. Anti-corruption is also included in the SKF Code of Conduct which is available in its full format on SKF.com/code.

Preventative training, in combination with investigations, is believed to have led to increased awareness on both anti-corruption and competition law.

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

All SKF units are screened for compliance issues, this includes corruption. Risk based reviews are carried out and the main purpose of these reviews is to assist units in their work to identify and address their ethics and compliance risks. In 2017, reviews on ethical leadership have been held at 54 SKF sites around the world.

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

SKF's internal audit department has investigated 21 cases related to fraud and/or corruption during 2017, compared to 16 during 2016. Four remaining cases from 2016 have been closed and all were unsubstantiated. 13 cases from 2017 have been closed whereof one was substantiated, investigations on eight cases are still ongoing. One person had to leave SKF as result of the investigations.

The impersonation fraud attempts (also called Fake President fraud) remain at high levels. The attempts are getting more sophisticated. Information and alerts are sent out to maintain awareness of this risk.

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

For any ongoing investigations, please refer to Risk management on page 60.

## Energy and emissions

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

#### 103-1 Materiality and boundaries

Climate change presents a critical challenge for business, governments and society. The ability of SKF to run its operations in a highly energy- 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 pages 33 and 47. SKF's quantitative climate objectives for 2025 are:

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

The baseline 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.

#### Raw material and components

SKF works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001. Suppliers of raw material and metal components are generally considered to be energy intensive and there are synergies to reduce both energy use, emissions, costs and risks.

#### SKF's own operations

Energy data and related GHG emissions are reported monthly. Data includes all significant manufacturing sites, technical and engineering centres and logistics centres. Joint ventures are included where SKF has management control. 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. In addition to ISO 14001 for environmental management, SKF has an energy management system certified according to ISO 50001 at its own operations, which covers around 50 energy intensive operations making up about 90% 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 carbon intensity.

#### Goods transportation

SKF is directly managing the majority of goods transportation downstream and parts of the transportation upstream. The Group works to reduce CO<sub>2</sub> emissions from transports in four main ways: optimize transport network and routing, use energy-efficient transport modes with low CO<sub>2</sub> intensity (e.g. ocean and rail instead of air where feasible), procure transport with high fuel efficiency and low-carbon fuels and minimize mileage between suppliers, factories and end customers (i.e. optimize SKF's footprint).

As of 2017, the Group changed efficiency measure to CO<sub>2</sub> emissions per shipped weight, compared to emissions per shipped weight and distance that was previously used. The difference in metric means that activities resulting in shorter transport distances now are better reflected in the result.

#### Customer solutions

SKF can help to mitigate climate change through the products and solutions provided, and in so doing create value for customers, investors and society. SKF's products and solutions can enable resource efficiency, energy and fuel savings, improved reliability and safety in numerous industrial applications and segments. SKF's solutions help to make the wind, ocean and other renewable energy technologies more commercially viable. As part of the climate targets follow-up, SKF has previously reported aggregated avoided emissions (Scope 4) for several verified and measured customer solutions. From 2017, SKF will not provide such aggregated data.

SKF continuously evaluates its management approach, taking into account internal performance development and capabilities, as well as external inputs for long-term improvement and reduction of both energy use and emissions.

#### Energy use

GWh	2017	2016	2015
<b>GRI 302-1 Energy within the organization</b>	1,817	1,745 <sup>1)</sup>	1,733 <sup>1)</sup>
of which from renewable sources	168	103	140
<b>GWh per SEKbn</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>GRI 302-3 Energy intensity</b>	23.31	24.04	22.87

1) All energy and emissions data has been restated previous years as a result of new reporting systems and recalculation of baseline related to the new climate targets. See additional information on the next page related to greenhouse gas emissions reporting.

**GRI 302-4 Reduction of energy use**

Absolute energy increased by 4% in 2017 compared to 2016. This is explained by a significant increase in net sales and production output. Organic net sales increased by 8%.

**Greenhouse gas emissions, scope 1 and 2**

During the year, a full restatement of the greenhouse gas emission data from 2015 has been made in line with the updated GHG Protocol guidance for Scope 2 emissions.

As of 2017, SKF further expands its reporting scope by including greenhouse gas other than CO<sub>2</sub> where relevant, in line with the GHG protocol. Due to the nature of SKF's operation, only three greenhouse gases are likely to be released in significant quantities for tracking, including CO<sub>2</sub>, CH<sub>4</sub>, and N<sub>2</sub>O, where CO<sub>2</sub> is by far the biggest contributor to SKF's emissions. Refrigerants are currently not included in the GHG reporting scope as their impact on the overall carbon footprint is considered to be insignificant.

Tonnes	2017	2016	2015
<b>305-1 Direct (Scope 1) GHG emissions</b>			
CO <sub>2</sub> emissions scope 1	62,269	59,982	60,317
<b>305-2 Energy indirect (Scope 2) GHG emissions</b>			
CO <sub>2</sub> emissions Scope 2, Market based	544,923	528,037	527,513
CO <sub>2</sub> emissions Scope 2, Location based	605,771	576,851	583,525
<b>Total CO<sub>2</sub> emissions (Market based)</b>	<b>607,192</b>	<b>588,019</b>	<b>587,830</b>
<b>Total CO<sub>2</sub> emissions (Location based)</b>	<b>668,040</b>	<b>636,833</b>	<b>643,842</b>
<b>Intensity</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
CO <sub>2</sub> -emissions – bearing & units factories (tonnes)	496,256	480,496	481,383
Weight bearings and units sold (tonnes)	367,336	335,240	334,554
<b>305-4 GHG emissions intensity</b>			
CO <sub>2</sub> -emissions/tonnes sold products	1.35	1.43	1.44
% Change vs 2015	-6%	0%	—

**GRI 305-5 Reduction of GHG emissions scope 1 and 2**

Absolute CO<sub>2</sub> emissions followed the increase of energy use, see table above. Emissions increased driven by higher output, but the percent increase in production output was significantly higher, which resulted in reduced emissions relative to net sales and tonnes sold bearings.

**Greenhouse gas emissions, scope 3**

Under scope 3 emissions, SKF reports CO<sub>2</sub> emissions from goods transportation and business travel.

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

	2017	2016	2015
<b>305-3 Other indirect GHG emissions</b>			
CO <sub>2</sub> emissions from transport Scope 3, (tonnes)	114,970	99,079	107,995
Transport works (tonnes shipped)	361,989	369,810	352,641
<b>305-4 GHG emissions intensity</b>			
CO <sub>2</sub> emissions per tonnes shipped goods to end customer	318	268	306
% Change vs 2015	+4	-13	—

Shipped volumes and emissions per transport mode 2017	Road	Sea	Air	Express
Transport works, tonnes shipped				
% of total	76	22	0.7	0.4
CO <sub>2</sub> emissions, % of total	29	35	30	6

**Business travel**

SKF monitors CO<sub>2</sub> emissions from its air travel in Europe, the US and China. 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.

	2017	2016	2015
<b>305-3 Other indirect (Scope 3) GHG emissions</b>			
CO <sub>2</sub> emissions from air travel	21,612	20,604	21,703

**GRI 305-5 Reduction of GHG emissions scope 3**

For goods transportation, SKF emissions have increase slightly between 2015 and 2017. The emission intensity has increased relative to the transports works. The main reason for the increase is increased demand from customers leading to longer lead times, which has resulted in significantly increased use of express shipments in 2017.

**Customer solutions and reduced climate impact**

As part of the new climate objectives, SKF provides yearly aggregated revenue data from the following key areas: renewable energy generation, electric vehicles, recycling industry, and bearings remanufacturing. The total revenues of these areas amounted to almost SEK 4.5 billion in 2017. This data has not been reported previously.

SEKm	2017
Total revenues from renewable energy, electric vehicles, recycling industry and bearings remanufacturing.	4,452

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.

Since many years, SKF has intensified efforts on developing customer solutions that reduce environmental impacts and help customers meet their requirements to reduce emissions, increase energy efficiency, reduce water use, etc.

Building on what the Group has learnt from the focus on environmental impacts, SKF decided in 2017 to broaden the scope of the efforts to cover all relevant sustainability aspects for the Group's customers. Going forward, SKF will make sure that the sustainability needs of its customers are understood and integrated into all products, services and solutions which SKF develops and offers to the market.

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

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

### 103-1 Materiality and boundaries

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

**Material** is highly relevant as the Group sourced about 600,000 tonnes of metal components in 2017, the main impact from this lies within the value chain and is associated to energy and emissions. However, in SKF the work focuses on material efficiency in the machining processes.

**Water** is relevant in different ways depending on where in the value chain it is used. Direct water use is material at SKF sites located in areas of actual and potential water scarcity. Indirect water use is relevant due its close correlation to energy generation. (Downstream, SKF can provide solutions to reduce the water footprint for customers or help to make large scale water treatment viable and cost efficient, this will not be reported in this section).

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

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

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

SKF has deployed an environmental management system certified according to ISO 14001. 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. In terms of environmental impact, the systems included close to 100 percent of operations. New or recently acquired subsidiaries are provided a time frame for inclusion. This is typically on to two years but can be extended if the company acquired is of significant proportion.

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 publicly reported in the Environmental Data spreadsheet in Topics related to the Annual Report, please refer to [skf.com/ar2017](http://skf.com/ar2017).

SKF also has a grievance mechanism in place for incidents at suppliers. This is coordinated by SKF's responsible sourcing committee and reported in an aggregated overview of deviations from supplier audits. Environmental performance at suppliers is further reported on page 141.

One important feature of SKF's global environmental management system is to ensure that all operating SKF units are compliant with local rules and legislation, to ensure efficient water use and responsible water management, including wastewater handling.

SKF's sites located in areas of water scarcity have established specific targets for reducing water consumption. The most important dimension of water for SKF is that of the water needed to generate energy for use over the value chain.

During 2017, SKF has developed new objectives to reduce environmental impact. The Group will start reporting on these in 2018. For the time being SKF has extended the previous targets. Progress is reported below next to the indicators.

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. 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. For site by site data, please refer to the Environmental performance data available at [skf.com/ar2017](http://skf.com/ar2017).

### Performance

SKF has set realistic and ambitious targets to reduce environmental impact from its operations. Overall, the data presented indicates that SKF is reducing its environmental impact from its operations.

### Restatement from previous year

Several sites have restated their results for 2016. The restatements are associated with previous errors in reporting and corrections of extrapolated data. All restatements for 2016 and are marked with an asterisk\*.

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

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

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

### Non-renewable material

Tonnes	2017	2016	2015
Metal as raw material from external suppliers	591,138	477,131*	431,523
Rubber as raw material from external suppliers	5,616	5,505*	5,485

\* Restated



	2017	2016	2015
Solvents (tonnes)	1,155	916*	902

\* Restated

**Group target – halve the use of solvents from 2007**

Solvents, referred to as volatile organic compounds, form vapours that can be damaging to health and the environment. SKF set a target in 2007 to halve the consumption of solvents from 1,600 tonnes per year. In 2016 a 42% reduction had been achieved. In 2017, two newly acquired sites in China were included in the reporting. These sites have not yet commenced any projects to reduce or substitute use of solvents. SKF will continue to reduce and report usage of solvents in future environmental targets.

	2017	2016	2015
Alcohols (tonnes)	2,094	1,922*	1,890
Hydraulic Oil (tonnes)	2,091	1,712*	1,885
Grease (tonnes)	2,651	2,065*	1,876
PCB (Sites with)	0	0	0
Other oils (tonnes)	2,929	2,231*	2,242
Lubrication Oils (tonnes)	1,155	791*	707
Cutting Oils (tonnes)	2,745	2,420*	2,412

\* Restated

	2017	2016	2015
ODS-Class I Manufacturing (kilogram)	0	0	0
ODS-Class II Manufacturing (kilogram)	0	0	0
ODS-Class III Manufacturing (kilogram)	96	102	209
ODS-Class I Non-Manufacturing (kilogram)	0	0	0
ODS-Class II Non-Manufacturing (kilogram)	0	0	0
ODS-Class III Non-Manufacturing (kilogram)	481	437	638

SKF concludes its focus to eliminate ozone-depleting substances as successful. (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 local phase-out projects. Overall, the most harmful ODS have either been substituted with less harmful ones or usage has been eliminated due to process changes in manufacturing. In 2018, SKF will not report ODS.

**303-1 Water withdrawal by source**

**Omission:** 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. During 2017–2018, work is on-going to refine the Group's water reporting.

	2017	2016	2015
Water use (1,000 N Cubic Meters)	4,682	4,921*	5,558

\* Restated

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

**Omission:** The main fractions used by SKF is recycling, recovery (incl heat/energy recovery), incineration and landfill. All details on these and other fractions cannot be reported for 2017 as SKF does not have data from all sites, but SKF aims to report this for 2018.

Like the case of water, SKF has been reviewing the reporting of waste and disposal methods during 2017. An updated approach environmental reporting has been established and will be presented from 2018 along with progress on new targets.

The amounts of residual material and recycling rate are disclosed below and in more detail in Environmental data spreadsheet available at [skf.com/AR2017](http://skf.com/AR2017). 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 SKF's units are aiming to minimize waste and increase recycling, for both environmental and cost reasons. Practically all scrap metal from SKF's operations is recycled.

	2017	2016	2015
Grinding swarf (tonnes)	22,839	20,522*	20,110
Grinding swarf Recycled (%)	67	76*	80

\* Restated

**Group target – 80% recycling of grinding swarf**

Grinding swarf is a common waste product from SKF's manufacturing processes and a particularly difficult one to handle. SKF set a target to achieve at least an 80% recycling rate for its grinding swarf. This target was achieved in 2013 and since then the result has fluctuated around 80 percent. Variations in regional legislation, volatile scrap prices and other aspects mean that this continues to be a very challenging target. In 2017, the rate was 67%. This is mainly a result of changing regulation in India, making it more difficult to recycle grinding swarf. The target for grinding swarf has been extended to end of year when new targets will be established.

	2017	2016	2015
Turning Chips (tonnes)	50,418	43,010*	42,885
Turning Chips Recycled (%)	100	98	100
Other metal scrap (tonnes)	6,745	6,383*	7,537
Other metal scrap recycled (%)	100	100	100
Rubber scrap (tonnes)	2,117	1,755*	1,631
Rubber scrap recycled (%)	90	88	86
Used oils (tonnes)	3,684	3,771*	3,701
Used oils recycled (%)	98	97	91
Paper and carton (tonnes)	4,484	4,502*	4,630
Paper and carton recycled (%)	97	99	96
Waste sent to landfill (tonnes)	11,593	9,774*	9,043

\* Restated

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

SKF received no significant fines or directives from the environmental authorities in 2017. One less significant spill was recorded. This has been communicated and resolved with local environmental authorities.



## Employment

### Material topic: GRI 401 – Employment

#### 103-1 Materiality and boundaries

As an employer, SKF needs to attract and develop a diverse and effective workforce to lead and deliver on the objectives as 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 succession planning.

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

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

customers. The staff function Group People, manages labour affairs and the formal dialogue with the SKF World Union Council. Issues relating to significant changes at SKF are always handled in close collaboration between company management, local unions and the World Union Council. SKF has employee representatives at the Board – the highest governance body. Among other things, this means that employee representatives have direct insight on board level issues and strategic outlook for the Group.

SKF's operations are diverse both in terms of industries and geographies served and this has been reflected in the workforce planning and strategy, where SKF has relied on a decentralized approach to human capital development and planning. An expected transformation of business and employment related to digitalization and the increased demand in agility has initiated a centralizing of parts of the workforce planning and strategy. Uniform people management systems and processes are put in place to facilitate this work. As these common systems are not yet fully operational, SKF can report retention rate and turnover by gender and region, but not by age group or other fraction.

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

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

%	2017			2016	2015
	Women	Men	Total		
Asia and Pacific	81	90	88	92	90
Middle East and Africa	91	90	90	93	91
North America	91	91	91	92	90
Latin America	91	93	93	95	95
Eastern and Central Europe	89	91	90	90	94
Western Europe	95	97	96	96	96
<b>Group</b>	<b>89</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>93</b>

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

#### Employee turnover 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 2017, women %	13.7	20.6	9.4	19.0	18.4	12.4	6.3
Employee turnover 2017, men %	9.4	11.2	11.6	17.0	19.7	10.3	4.3
<b>Employee turnover 2017, total %</b>	<b>10.3</b>	<b>13.4</b>	<b>11.1</b>	<b>17.5</b>	<b>19.5</b>	<b>11.1</b>	<b>4.7</b>
Employee turnover 2016, total %	9.1	9.3	8.2	14.5	17.2	9.7	5.6
<b>New hires 2017</b>	<b>4.875</b>	<b>1.804</b>	<b>56</b>	<b>395</b>	<b>798</b>	<b>747</b>	<b>1.075</b>
Women (Number)	1.281	550	16	89	148	236	242
(Women as share of total)	26%	21%	20%	27%	17%	35%	25%
Men (Number)	3.594	1.254	40	306	650	511	833

## Labour management relations

**Material topic: GRI 402 – Labour management relations**

### 103-1 Materiality and boundaries

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

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

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. Continual dialogue is on-going to ensure that it works for both SKF and the Union members.

The Council, which includes all 20 countries referred to on page 125, meets every year to discuss labour issues in an open format and share what is currently happening in the Group. All countries with major operations have the right to send union officials or observers to the World Union Council. In addition, representatives of SKF World Union Council are invited to speak about specific issues such as; collective bargaining, health and safety, diversity and other issues.

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

SKF cannot overrule the centrally agreed collective bargain agreements. 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. At year-end 2017 90% of employees were covered by trade union agreements.

## Occupational health and safety

**Material topic: GRI 403 – Occupational health and safety**

### 103-1 Materiality and 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 28,000 people in blue-collar work roles 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.

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

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 environment, health and safety management system.

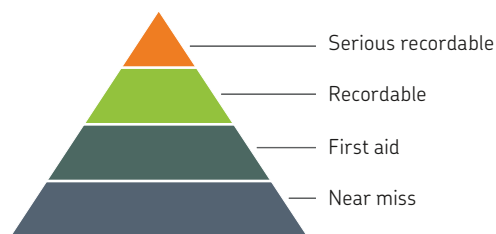
Health and safety data is collected on a quarterly basis using the Group's main reporting and consolidation tool. SKF adopts the US Occupational Safety and Health Administration's (OSHA) standard for defining recordable accidents and its formula for calculating accident rates. The scope of accident reporting 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 but this is not separately reported.

SKF's accident rate has steadily improved over the last two decades but the rate of improvement has slowed down in recent years. SKF has taken a more proactive approach and continuously tries out new ways to create safe workplaces, increase awareness, improve risk assessment and increase commitment to put safety first. Still, just under one person (0.85) out of 100 full time employees had a recordable accident in 2017, which should not have to be the case.

As the majority of workers (employees at SKF or its suppliers, or agency employees under SKF's supervision), work in a factory or workshop environment, physical safety has been and still is a main priority. However, SKF anticipates that employees will increasingly work in office environments and has taken steps to raise awareness on social and organizational health on Group level. The exact approach on e.g. work and life-balance will differ from one country to another. In Sweden, one of the initial focus areas is connectivity and the fact that most people carry the work with them in mobile devices, whereas in China, SKF has spent more focus on employee commuting time.

Over the last years governance and follow up on performance and reporting has been transferred to the line organisation as an ongoing gradual process. This process has been fully implemented for the majority of the manufacturing sites in SKF. In other parts of the organisation this process is still in the implementation stage. As part of this change, more parameters have been included in the reporting and follow up process. In addition to recordable accidents, it now also encompasses first aid and near miss incidents, and severity rate for recordable accidents. All details in the near miss and unsafe condition reporting is not reported on a Group level, due to the large amount of incidents. However, SKF works to increase the reporting of incidents to prevent accidents waiting to happen. Ideally, the base of the pyramid would be as flat as possible.



#### 403-1 Workers representation in formal joint management-worker health and safety committees

%	2017	2016	2015
Asia and Pacific	88	89	85
Middle East and Africa	88	77	93
North America	95	99	99
Latin America	85	97	96
Eastern and Central Europe	84	94	94
Western Europe	91	94	97
<b>Group</b>	<b>90</b>	<b>94</b>	<b>94</b>

Typically, these committees operate at factory management level.

#### 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities

	2017	2016	2015	2014	2013	2012	2011	2010
Accident rate for the Group	0.85 <sup>1)</sup>	0.87 <sup>1)</sup>	0.99	1.13	0.99	1.06	1.05	1.18

1) SKF has included recordable accidents from one or two sites which were at the time being integrated in common systems, but not been able to include all worked hours. The actual accident rate 2016 and 2017 is therefore slightly lower than reported.

	2017
Work related fatalities	0
Serious recordable accidents	5
Recordable accidents	325
First aid incidents	3,054
Near miss incidents	5,153
Severity rate (lost time per accident)	20.68
Total lost days	6,823

The severity rate per accident is measured as lost time. One challenge with this metric on Group level is that time lost for one specific type of accident can differ from one country to another depending on the specific regulations and praxis for sick leave. This data has not been reported previously.

#### 403-4 Health and safety topics covered in formal agreements with trade unions

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.

## Training and Education

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

#### 103-1 Materiality and boundaries

SKF has a wide range of competence development activities such as trainings and educational programmes available aimed at Group's employees, distributors and customers. The ones closely connected to social impact is that of employee development.

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

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.

Managers involvement and support are an important aspect for employees to achieve sustained personal and professional growth and for inspiring employees to take advantage and responsibility of the learning opportunities available. The recent working climate analysis shows that SKF employees are motivated to take such responsibility as competence development is a key priority for SKF going forward.

To have an effective competence development in place is increasingly important for SKF to succeed in the competitive market. The Group's human resources function coordinates the overall strategy, methods and tools for enhanced learning in SKF. The SKF Academies are in place to ensure that competence development activities are implemented to support the strategic business agenda. Major recent initiatives include the Sales Excellence Programme, Business Acumen, SAP and Industry 4.0-related initiatives.

Local centres of learning and learning experts are in place in the main SKF operations to support implementation and local adaption of SKF's global curriculum as well as driving development programmes and initiatives meeting the local needs.

Utilizing the joint knowledge and resources of the central human resources function, SKF Academies and local learning experts, SKF has a solid foundation for development and implementation of effective competence enhancing activities. Tools and methods such as web-conferencing, e-learning, SKF's social medias platforms and collaborative communities are supporting these efforts.

To support customer's success, SKF also 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).

#### 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 Sweden, employees can seek scholarship from SKF employee development foundations. These are open for all SKF employees and some also to children of employees.

Training and skill upgrading is also done at varying depth or degrees in different parts of the organisation. As stated under the topic Employment, SKF has identified a potential need to re-skill people as part of meeting the demands of new digital technologies and new ways of doing business.

SKF has a long tradition of training and developing people. In Katrineholm in Sweden, SKF has experienced challenges to recruit the right competence for the heavy industrial operations. One of the solutions has been to not go for an exact skill profile, but to attract people of the right attitude and mindset and then train them with the skills they need to perform the task.

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

**Omission:** Breakdown per employee category cannot be provided. The data is collected from SKF's people and learning management system and the percentages provided are defined as employees receiving formal documented performance reviews which have been signed off by the manager.

The scope of this survey covers around 13,000 staff workers included in the people and learning management system (LMS).

%	2017		2016	
	Women	Men	Women	Men
% of LMS users with documented performance reviews	94	96	95	97
% of assigned LMS users with active individual development plans <sup>1)</sup>	58		52	

1) Individual development plans can only be reported as a total, and not by gender or category.

## Diversity and Equal Opportunity

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

#### 103-1 Materiality and boundaries

Equal opportunity and non-discrimination are central elements of the SKF Code of Conduct. It is crucial for SKF that all employees compete on the same level in order to attract for the most suitable people on the market. In the ever increasing competition for talent, SKF cannot afford to attract only a certain type of people. The Code of Conduct was therefore the starting point stipulating the importance of encouraging diversity in all senses as a means to competitive advantage.

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

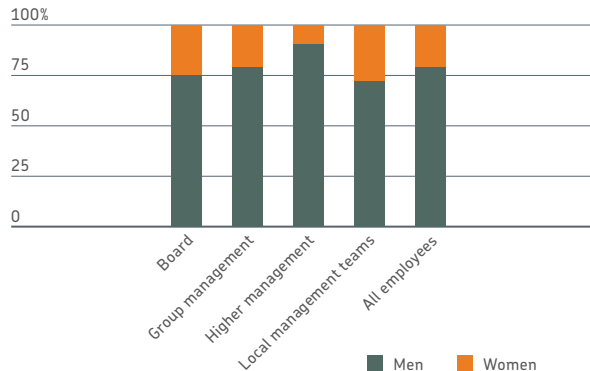
According to the International Labour Organization (ILO), the global pay gap is estimated at over 20% and is one of the main challenges for freedom and equality for society. SKF's overall approach is to start with equality, and make sure that everyone in SKF has a fair chance to develop, compete for jobs and that competition should be based on the professionalism. The Group works to integrate equality in relevant processes, such as learning, succession planning and recruitment. SKF's recruitment principles is based on the SKF Code of Conduct and facilitates recruitment based on skills and knowledge.

On remuneration, SKF aggregates basic salaries for significant operations in its eight biggest countries by employee headcount, these are presented in the table on the next page. In total, these operations cover 25,000 employees, including both office- and shop floor workers. The salary mapping breaks down per job category, job family, and maturity level.

Even though women in junior management positions and local management teams have increased over time, one of the main challenges is to first of all attract more women into SKF and to simultaneously balance the ratio of women and men at senior management level.

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

The table provides % of women and men at different categories within the organization.



**Omission:** Information on age groups and minorities is not available.

### Definitions

**The Board** refers to the SKF Board of Directors which makes up the highest governance body for the organization, please refer to page 150.

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

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

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

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

### Geographic diversity

SKF also tracks diversity in terms of geographic origin. SKF has 70 country managers representing 66 nationalities.

In higher management all regions are represented. In the table below, the proportion of individuals by regions are compared to where SKF does business (net sales).

Region	Proportion of people from region in higher management	Net sales
Europe excl. Sweden	51%	38%
Sweden	26%	3%
Asia/Pacific	10%	26%
North America	10%	23%
Latin America	3%	8%
Middle East and Africa	<1%	2%

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

	Female/Male ratio %	Employees in scope
Germany	94%	5,873
USA	79%	4,099
Italy	91%	3,536
China	107%	3,472
Sweden	104%	3,111
France	101%	2,893
India	161%	2,563
United Kingdom	89%	1,003
<b>Group</b>	<b>95%</b>	<b>26,550</b>

### Comment on result

In SKF, salaries are set per individual position class, performance and responsibilities. The Group uses an internationally well-known position class system (IPE) for defining positions. Structural errors are managed locally as part of the annual salary review.

The complexity of the categorization between job roles, job categories, position classification, country context and currencies make it challenging to present a detailed analysis. For this reason, SKF only discloses the overall salary ratio between women and men aggregated per country.

Within the different categories there are greater differences, the average remuneration is heavily skewed by the different levels on the job roles, job categories and position class. E.g. at SKF in India, women on average earn 61% more than men. This is explained by the very small proportion of women in blue-collar work roles. Most women working at SKF in India work in office or managerial positions. Sweden is a similar example, where the share of women in management position is relatively high, but not as well represented in blue-collar roles.

The details in the mapping 2017 indicates an overall gap when it comes to average salaries per country, but no conclusion can be made that these are related to structural errors or irregularity.

## Human rights

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

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

### 103-1 Materiality and boundaries

The human rights perspective has been part of SKF's work for decades and was formulated in the first issues of the SKF Code of Conduct, which was originally based on the SA8000 standard. As with other aspects, SKF initial response to human rights was to start in its own back yard – looking at the Group's internal operations and processes and then the supply chain with the responsible sourcing programme which was initiated in 2005. SKF owns and operates over 100 manufacturing plants across the world, employing around 28,000 people in different types of production. These facilities have local and global supply of material and components and raw material.

Since the first assessment on risk to people, the salient issues for SKF have been related to people at work, first and foremost at suppliers and sub-contractors.

The work is continually evolving as risk assessment and due diligence processes are maturing and as more knowledge is gained of how the Group's activities can have impact on the people in proximity to the company's operations, its distribution, sales and end-use of products and service.

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

#### Background and policy commitment

Initially back in 2002, the SKF Code of Conduct was established based on a number of international external principles and charters, such as ILO conventions and the International Chambers of Commerce Business Charter for Sustainable Development and later the UN Global Compact when the Group joined in 2006. The SKF Code of Conduct has since been used to develop many related policies on specific topics, and addressing business partners along the value chain.

When the UN Guiding Principles was first launched, SKF's Code of Conduct was updated to fulfil the demands of the policy commitment.

The Code is available on SKF.com/code and is part of commercial agreements with suppliers, subcontractors, distributors and agents. The SKF Code of Conduct is the main policy for human rights, there are versions of it specifically addressing SKF owned companies, suppliers, subcontractors and distributors but are all based on the same principles.

SKF works to integrated human rights 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 reviews and audits, supplier screening and audits etc., human rights shall be considered. Deviation or risks are resolved in the operations or escalated if needed. Alarming issues would be escalated from the Group's ethics and compliance board to the audit committee at board level. SKF Group management are continually being updated on specific issues, such as health and safety for SKF's employees and serious incidents.

**Salient and relevant human rights**

As explained in the introduction, SKF perceives the salient human rights being related to *freedom of association and collective bargaining, compensation, work hours, health, safety and wellbeing and discrimination*. So far, the most salient risks are associated to the supply chain and the rationale is that the further upstream in the value chain, the less transparent and the higher risk of human rights issues.

Other human rights that SKF is following closely, although not deemed salient, is 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. In this work, SKF focuses on geographies where risks are higher, where rule of law and social inequality is weaker. SKF works with a third party to assess the overall risks on human rights as reported in global statistics.

**Stakeholder collaboration**

SKF collaborates with a range of stakeholder groups to avoid or mitigate human rights risks. Customers typically require SKF to

**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 is not taking place in company operations or supply chains.

manage such risks. The primary stakeholder group with whom SKF has direct relationship with the rights-holder is the employees, and so formal social dialogue is held between local management and annually between the SKF Group and the World Union Council. SKF also keeps close dialogues with peers and NGOs via networks and roundtables such as via UN Global Compact, Railsponsible (specific to the railway industry), at the end of 2017, SKF also joined RSPO (Roundtable on Sustainable Palm Oil) as a supplier of bearings and solutions into that industry.

**Trends and patterns 2017**

In 2017, much of the focus on human rights in SKF's external environment has been related to the #metoo movement. This movement has gained a lot of attention during the autumn of 2017, and related to this, SKF took the opportunity to underlined its commitment to non-discrimination and harassments.

On labour related human rights, SKF World Union Council grew to include representatives from South Korea and the clear majority of blue collar workers now are represented during the annual council meeting, see more on page 125.

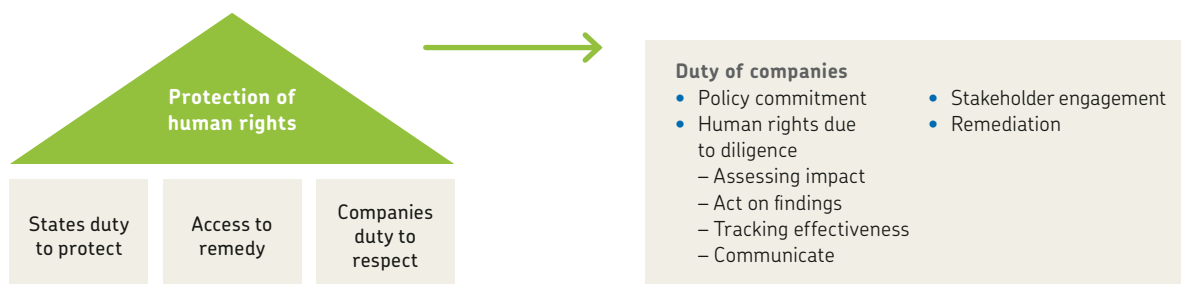
A new company wide business policy was adopted in 2017, underlining that during business trip for SKF, the employee must adhere to SKF Code of Conduct and other Group Policies at all times during business travel.

SKF's responsible sourcing strategy was updated. The approach was based on human rights and the deeper understanding of salient issues at the Group's tier two suppliers and increased focus on indirect material. The number of suppliers in high risk countries that cannot live up to SKF's minimum demands has decreases, see details on the supplier assessments and audits on the next page.

**Integrating finding and taking action**

The SKF Code of Conduct states 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 encouraged to report this via formal grievance mechanisms so that the decision can be avoided. For cases where the normal escalation routines is not an option, SKF has implemented an externally hosted Ethics and compliance reporting mechanism. All significant cases reported are disclosed on page 124.

The work to prevent adverse impact is a continuously ongoing task. The most obvious issues is related to freedom of association and collective bargaining as SKF has operations in countries where such is not existing. The Group works together with the World Union Council still see to it than collective bargaining can exist in some way, in line with the Global framework agreement.





**Tracking performance**

SKF continuously addresses salient human rights at audits, both internally and in the supply chain. SKF has established that: if the Group finds cases, and then set up action plans with business partners to reduce risks or initiate remediation activities, this is considered effective management. SKF internal ethics and compliance reviews are summarized on page 124.

**Downstream impact via SKF's business and products**

SKF works to continually reduce any negative impacts of its products or solutions. Given the nature of SKF's business. Negative impact to people from the Group's products could be related to environmental performance and SKF works to ensure compliance to laws and regulation and phase out material and substance hazardous to people and the natural environment. One example is the hexavalent chromium which has been phased out from SKF's lubrication system offerings. The work put into was awarded with an internal SKF Excellence Award 2017.

Looking at the business that SKF makes, the purpose of SKF's products and solution is to make thing work better, run faster, longer, cleaner or more safely. SKF considers that business can drive prosperity and growth to overcome social issues over time. SKF's linkage to human rights infringements downstream in the value chain is so far considered weak. The work so far that may be related to human rights focuses on adhering to export control regulation. 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 actual cases of human rights linked to SKF risks have been identified.

**Omission:** SKF has chosen to report on human rights from the overall perspective according to UN Guiding Principle Reporting Framework. Hence, specific operations, suppliers or countries are not listed in the disclosures. SKF's work is prioritized based on general human rights risk assessed from reliable and unbiased external sources.

## Supplier assessments

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

**103-1 Materiality and boundaries**

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

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

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

All potential suppliers are initially screened using a set of minimum criteria related to the Code of Conduct and quality demands and which must be met in order to be considered as an SKF supplier.

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

A number of cases related to harassment or discrimination have led to verbal or written warning to the individuals involved.

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

The overall approach from the state towards union membership, and level of independence of trade unions in certain countries where SKF has operations, creates challenges in this aspect. SKF works pragmatically with the World Union Council and the appointed union representatives to try and address these challenges. Please refer to page 125 for a description on SKF World Union Council's work related to collective bargaining agreements.

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

The issue of child labour is included in both SKF's internal and supplier audits. In 2017, 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 below on this page.

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

The issue of forced, bonded and compulsory labour is included in both SKF's internal and supplier audits. In 2017, no cases of forced or bonded labour have been identified.

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

All SKF's units are subject to human rights reviews as part of the SKF Code of Conduct review. These reviews include the full range of the Code of Conduct. All SKF's units are subject to review within a three-year interval using a risk-based approach. In 2017, 54 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.

In 2017, SKF's responsible sourcing strategy was updated. Using a risk based approach, direct material suppliers making up 90% spend are still automatically subject to audits if they are located in high risk regions, these can be both tier one and two suppliers.

In addition to these, when risks to people or the environment 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 are done using SKF's own risk tool and audits are always done on suppliers' locations by SKF specialists or third party auditors. Warning signs may also be raised by other SKF staff visiting suppliers, such as at a quality review. The Code of Conduct audit procedure is based around a checklist with 45 specific questions focusing on a wide range of aspects, such as human rights and labour standards, environment and other Code of Conduct issues.

Most noncompliance cases are managed by SKF's regional purchasing offices in alignment with global category managers until resolved. Significant deviations are escalated to SKF Group's Responsible Sourcing Committee to decide ways of resolving



complex issues. First and foremost, the work focuses on establishing a strong partnership and develop targeted suppliers. However, suppliers which fail to address critical issues over time risk having their contracts with SKF terminated.

In 2017, over 127 audits have been carried out. These include first audits, follow-up audits and third party audits. The most common deviations found are related to compensation, work hours, employment contract procedures, health and safety, and pollution and waste control. The data reported in these statements are consolidating SKF's finding into GRI's designations.

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

All new suppliers are screened using these criteria. In 2017, 2 out of 35 potential suppliers to SKF did not pass SKF's criteria to become a supplier, directly related to social or environmental risks.

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

In 2017, 59 deviations to the SKF Code of Conduct in this category have been identified and are being resolved in the operations. The most common deviations are related to occupational health and safety, work hours, compensation and employment contracts procedures. 2 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 2017, 33 environmental deviations related to pollution control and waste handling have been identified and actions are on-going at the suppliers to remediate these.

## Socioeconomic compliance

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

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

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

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

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

In 2017, SKF has prepared for stricter data privacy rules to meet the demands of the GDPR (General data protection regulation), which puts clearer responsibility and higher accountability for companies handling personal data and is entering into force in the European Union in 2018. As SKF shares information globally, these rules affect SKF also outside the European Union.

SKF is prepared to meet 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 also follows the development on OECDs tax transparency requirements. The Swedish government has included country by country reporting of tax to be filed to the national tax authority. SKF has filed such information but does not report publicly due to sensitive competitive information.

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

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

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

# 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 2017 in the sections "SKF Care" and "Sustainability Statements", as well as documents on SKF's website in "Topics related to Annual Report" marked with \*. We refer to these disclosures collectively as the "Sustainability Report".

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

The Board of Directors and Group Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained in the "Sustainability Statements" section of the Annual Report, and are the parts of the *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 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 *ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by IAASB. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability

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

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

The 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.

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, 2 March, 2018  
PricewaterhouseCoopers AB

Peter Clemetson  
Authorized Public Accountant

Fredrik Ljungdahl  
Expert Member of FAR

## Appendix

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

- Update of our knowledge and understanding of SKF's organization and activities,
- Assessment of suitability and application of the criteria regarding the stakeholders' need for information,
- Assessment of the outcome of the company's materiality analysis and stakeholder dialogue,
- Interviews with management at group level and visits to selected business units in order to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, accurate and sufficient,
- Examination of internal and external documents in order to assess if the information stated in the Sustainability Report is complete, accurate and sufficient,
- Evaluation of the design of selected systems and processes used to obtain, manage and validate sustainability information,
- Analytical procedures of the information stated in the Sustainability Report,
- Assessment of the company's declared "in accordance" option according to the GRI Standards,
- Assessment of the overall impression of the Sustainability Report, and its format, taking into consideration the consistency of the stated information with applicable criteria.