



SKF



GREEN BOND
INVESTOR LETTER
AND IMPACT REPORT

2024

- In 2019, SKF launched its Green Finance Framework and the first EUR 300 million Green Bond to align SKF's funding strategy with the Group's climate objectives. The framework was independently evaluated and was rated by CICERO as Light Green.
- The implementation of the Green Finance Framework is an integral part of SKF's climate strategy. During 2020 and 2021, the Group has further raised the climate ambition level through the commitments to have decarbonized operations by 2030 and net zero greenhouse gas emissions in the supply chain by 2050.
- Based on the successful allocation of all proceeds from the first Green Bond early in 2022, a second EUR 400 million Green Bond was issued in September 2022. During 2024, all remaining proceeds from the second Green Bond were allocated.
- As part of the Green Bond governance process, close to one thousand potential projects have been assessed against defined categories and criteria.
- By the end of 2024, SKF had financed 220 projects (whereof 32 in 2024) through the Green Bonds, amounting to EUR 700 million (whereof 67 in 2024) of allocated proceeds, with the following distribution:
 - 37% China and Northeast Asia, 1% India and Southeast Asia, 43% Europe, 11% global and 8% The Americas.
 - 81% new financing, 19% refinancing.
 - 93% investments and acquisitions, 7% expenses.
- Impact calculations to determine the quantified savings in terms of, for example, energy use, material use, and greenhouse gas emissions have been supported and verified by the experts in Group Sustainability.

Introduction

Climate change and other environmental issues faced by the world present a critical challenge for business, governments and society. The ability of SKF to run its own operations towards becoming decarbonized by 2030, and to reach net zero greenhouse gas emissions in the entire value chain by 2050, helps to meet those challenges and increases SKF's competitive advantage. At the same time, SKF is well positioned to help its customers reduce their climate impacts, and those of their end customers and products.

SKF provides reliable rotation by combining hands-on experience in over 40 industries with in-depth knowledge across the SKF technology areas: bearings and bearing units, seals, lubrication systems, intelligent solutions and services. SKF's products and solutions help customers to improve safety, reduce friction, improve process

efficiency, reduce waste and use of material, extend service life, and to achieve other sustainability benefits. We also contribute to the growth of transformative cleantech sectors, such as the renewable energy industry and electric vehicles.

Engaging in green financing connects SKF's company funding strategy to the climate objectives. It is a way to engage our stakeholders in our integration of sustainability into SKF's business model and to ensure our strategy, investments and development activities keep to our commitment.

The Green Bonds are used to finance projects in whole or in part that support the transition to low-carbon, climate resilient growth and lower environmental impacts. The primary areas are increased energy and material efficiency, use of renewable energy, reduced waste, and reduced emissions.



SKF's climate objectives

SKF uses a life-cycle approach to drive improvements across the value chain in four main areas: raw material and components, SKF's own operations, goods transportation, and customer solutions. These areas are selected based on a thorough understanding of the life-cycle climate impacts, combined with SKF's ability to influence the changes needed to reduce these impacts.

During 2020 and 2021, SKF announced its targets to achieve decarbonized operations by 2030 and net zero greenhouse gas emissions in the full value chain by 2050. As part of these targets, SKF joined the RE100 initiative with a commitment to using 100% renewable electricity in the Group's own operations by 2030.

In July 2021, SKF signed up to the Science Based Targets initiative (SBTi) and committed that the climate targets shall be in line with the Paris Agreement to limit global warming to 1.5°C.

During 2023, SKF received approval of its near- and long-term climate targets by the SBTi.

Furthermore, during 2023 SKF decided to allocate SEK 3 billion to meet its energy and decarbonization goal by 2030. The Group also decided to ban any fossil fuel investments in its own operations, as well as to replace direct fossil gas use with renewable energy or approved non-fossil fuel alternatives by 2029.

For more details about SKF's climate targets and sustainability efforts please refer to the SKF Annual Report 2024.

Raw material and components

For several years, SKF has worked to influence energy intensive suppliers by requiring them to implement energy management systems certified according to ISO 50001. This standardized way of managing energy and emissions is considered a pragmatic approach to cut emissions in the upstream value chain.

SKF has also been increasing its focus on driving reductions related to raw materials and components. The Group has investigated the emissions of most of the largest suppliers.

SKF's own operations

SKF works to reduce greenhouse gas emissions from its production facilities in several ways:

- Improve material efficiency and reduce waste by assuring stable and efficient processes.
- Drive systematic improvement in energy efficiency. SKF is certified according to the ISO 50001 energy management standard and has defined clear targets, strategies, and actions to reduce energy demand in the factories.
- Procure or generate renewable energy whenever this is practically and commercially viable.
- Phase out fossil fuel use.

SKF's goal to decarbonize its own operations requires a 95% reduction in the scope 1 and 2 emissions by 2030 compared to 2019. The outcome 2024 was 59% reduction, which is well ahead of the 2030 goal trajectory.

The objective for 2025 (which was established in 2017) is to achieve a 40% reduction of green-

house gas emissions from bearing manufacturing per tonne of bearings sold, by 2025 compared to 2015. By the end of 2024, the Group has achieved a 76% reduction and thereby already exceeded the 2025 objective.

Goods transportation

SKF works to reduce greenhouse gas emissions from transports in several ways:

- Optimize transport network and routing.
- Use energy efficient transport modes and procure transports with low greenhouse gas emissions intensity (e.g. ocean and rail instead of air, and transports using low-carbon fuels).
- Minimize mileage between suppliers, factories, warehouses, and customers.

The objective for 2025 (which was established in 2017) is to achieve a 40% reduction of greenhouse gas emissions per tonne of goods shipped to end customer, by 2025 compared to 2015. The outcome for 2024 was a reduction of 7%.

Customer solutions

For many years, the Group has built up knowledge around lifecycle management and how environmental and social impacts can be reduced or avoided. Studies show that the greatest impact is during the use phase of SKF's products in customer applications and systems. SKF can enable improvements in customers' sustainability performance through products, services, business models and value propositions. The improvements include increased energy efficiency, reduced greenhouse gas emissions, improved safety,

reduced water use, increased lifetime of applications, increased material efficiency, reduced noise levels, etc.

The Group enables and drives technology development in industries such as renewable energy generation and sustainable transport systems, including electric vehicles. Moreover, the Group develops new circular business models and works in collaboration with its customers to improve sustainability performance of their applications and systems. To support that work, SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating customer sustainability performance.

As part of the Group's climate objectives, SKF provides yearly aggregated revenue data from SKF customer solutions enabling cleantech growth in areas where SKF's customer solutions clearly contribute to climate change mitigation and circular economy, including renewable energy, electric vehicles, electric railway, recycling industry, bearing remanufacturing, RecondOil and magnetic bearing solutions. The total revenues of these areas amounted to SEK 10.2 billion in 2024.

SKF's second Green Bond

Based on the successful allocation of all proceeds in early 2022 from the first Green Bond issued in 2019, a second Green Bond of EUR 400 million with a duration of six years was issued in September 2022. During 2024, all remaining proceeds from the second Green Bond were allocated.

To secure alignment with national and international guidelines SKF obtained an external opinion on the Green Finance Framework in 2019. This second opinion from the Centre for International Climate and Environmental Research (CICERO) rated the Green Finance Framework Light Green with a governance score of Excellent.

Categories and criteria

The Green Bonds are used to finance assets that support the transition to low-carbon, climate resilient growth and lower environmental impacts. It helps to further align the Group's funding strategy with the climate objectives, to reduce greenhouse gas emissions from its own manufacturing and supply chain operations, as well as support customers to reduce their emissions. The seven categories eligible under SKF's Green Finance Framework are described in the table to the right.

Categories and criteria

Category	Criteria
Investments in world-class manufacturing	<ul style="list-style-type: none"> More than 25% improvement in energy use and/or material use, per unit of output.
Investments enabling cleantech	<ul style="list-style-type: none"> Investments: 75% or more of the total cost must be related to cleantech, which makes the complete investment eligible. If less than 75% is related to cleantech, then only the actual part will be eligible. Acquisitions: 90% or more of the total business must be related to cleantech, which makes the complete investment eligible.
Investments in Green Buildings	<ul style="list-style-type: none"> Factories/buildings (new construction or refurbishment of existing) with a plan for LEED certification, minimum Gold level.
Investments in renewable energy installations for SKF	<ul style="list-style-type: none"> Investments on site or off site in renewable energy generation (wind, photovoltaic, solar thermal) for SKF facilities.
Investments in process/facility energy or resource efficiency	<ul style="list-style-type: none"> More than 25% improvement in energy use and/or material use, per unit of output.
R&D expenses targeting cleantech	<ul style="list-style-type: none"> The product/service/technology is being developed for cleantech.
R&D expenses targeting green products and processes	<ul style="list-style-type: none"> The product/service/technology is being developed for any of these purposes: <ul style="list-style-type: none"> R&D related to efficiency technologies which can significantly improve climate performance (reduce energy use, reduce greenhouse gas emissions), or circular economy performance (reduce, reuse or recycle materials) of SKF's products and processes. R&D aimed at eliminating or mitigating harmful substances and materials in products and processes, beyond legislative requirements. R&D related to world-class manufacturing.

SKF's Second Green Bond

Volume: EUR 400 million

Tenor: 6 years

Interest spread: MS+95 bps

Yield: 3.257%

Coupon: 3.125%

Price: 99.291%

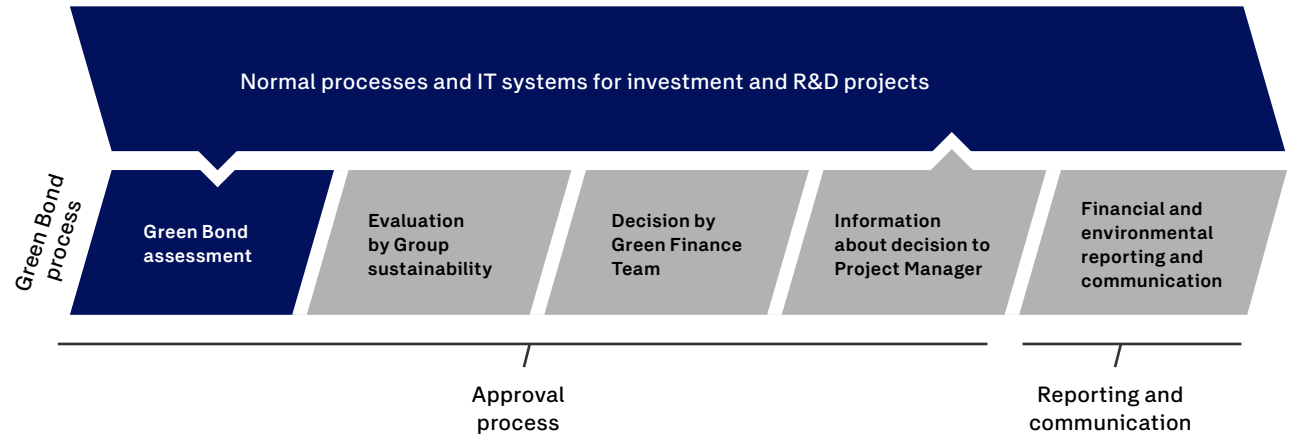
Listing: Luxembourg Stock Exchange (LuxSE).

The bond is also displayed on the Luxembourg Green Exchange (LGX).

Green Bond process

Process for project selection and evaluation

A Green Bond assessment is done as part of the normal processes for investments and R&D projects. Based on this assessment and the supporting documentation, experts in the Group Sustainability organization make an evaluation against the defined Green Bond categories and criteria. SKF has established a Green Finance Team which approves the evaluations made by the Group Sustainability experts and decides about Green Bond financing for investments and R&D projects. The Green Finance Team also reviews and approves the Green Bond processes and reporting. Decision-making is made on a unanimous basis and all decisions are documented. The Green Finance Team is chaired by the Group CFO and consists of representatives from finance, treasury, sustainability, and operations.



Projects in the Green Portfolio

By the end of 2024, SKF had financed 220 projects through Green Bonds. An overview of these with focus on the 32 projects financed in 2024 is presented below.

Factory energy performance improvement

Category: Investments in process/facility energy or resource efficiency

Green Bond financing has during the year been used for several investments to improve the energy and/or resource efficiency at our manufacturing facilities.

A specific example from 2024 is the ventilation system upgrade investment at the Poznan factory in Poland. Several ventilation units have been exchanged, replacing old equipment with modern air handling units with efficient heat exchangers,

fans and automatic control systems. These upgrades allow significant energy efficiency improvements with annual savings related to both electricity and heat consumption exceeding 2 GWh in total. The Poznan factory uses 100% renewable electricity, therefore these energy savings only provide savings in CO₂e related to district heat, which corresponds to around 750 tonnes of CO₂e per year. More importantly, these investments help to reduce energy demand which is a prerequisite for sourcing

of 100% renewable district heat from the supplier, for which the contract was signed early 2025.

The second specific example is the investment in new technology for building heating and cooling as well as hot water production at the Massa factory in Italy.

The previous equipment will be replaced with more efficient technologies, including a heating and cooling system with heat recovery, and an air-water heat pump for hot water.

Compared to the previous situation, the main benefits will be:

- Annual energy savings of 400 MWh, representing an energy efficiency improvement of 80% related to building heating and cooling as well as hot water production.
- Reduction of greenhouse gas emissions by around 100 tonnes of CO₂e annually.
- Improved air quality and ventilation with cooling.
- Cost savings related to maintenance of the equipment.



Ventilation system upgrade investment at the Poznan factory in Poland.



New technology for heating and cooling at the Massa factory in Italy.



Example 3

Renewable energy generation at SKF sites

Category: Investments in renewable energy installations for SKF

The main source of energy used in SKF's operations is electricity. As part of the journey, to decarbonize own operations and use 100% renewable electricity by 2030, SKF continues to invest in renewable energy installations. In 2024, two photovoltaic solar panel projects in SKF's European operations were approved for Green Bond financing.

Expected yearly renewable energy generation from these projects is around 2,100 MWh, corresponding to a yearly reduction of around 700 tonnes of CO₂e emissions based on country specific conversion factors for electricity generation.

Overview of projects financed in 2024

Category	Overview
Investments in world-class manufacturing	<ul style="list-style-type: none"> One world-class manufacturing investment for a new manufacturing cell at a factory in Europe, leading to improvements in capacity, availability and energy efficiency.
Investments enabling cleantech	<ul style="list-style-type: none"> Increased capacity to support the global growth of cleantech industries such as electric vehicles and railway. Increased capacity for the remanufacturing of bearings and units.
Investments in Green Buildings	<ul style="list-style-type: none"> No new such investments were approved during 2024.
Investments in renewable energy installations for SKF	<ul style="list-style-type: none"> Onsite renewable energy generation (photovoltaic solar power) at two sites.
Investments in process/facility energy or resource efficiency	<ul style="list-style-type: none"> Several investments to improve the energy and/or resource efficiency at our manufacturing facilities have been approved. Investments have for example included new technologies for compressed air systems, heating, ventilation and cooling systems, and new features such as heat recovery, automation, and digitalization.
R&D expenses targeting cleantech	<ul style="list-style-type: none"> No new such R&D expenses were approved during 2024.¹⁾
R&D expenses targeting green products and processes	<ul style="list-style-type: none"> No new such R&D expenses were approved during 2024.¹⁾

1) During 2024, SKF secured Euro 430 million financing from the European Investment Bank to support SKF's research and development (R&D) to increase the focus on high-growth segments and accelerate the design and development of enabling technologies particularly for the green transition and sustainability. Hence, no proceeds have been allocated for R&D projects in 2024.

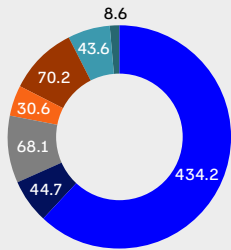
Allocation and impact reporting

By the end of 2024, SKF had allocated proceeds from both the first and second Green Bond amounting to EUR 700 million (whereof 67 in 2024).

Furthermore, until allocated the proceeds have been invested in a deposit with climate focus. The distribution of the total Green Portfolio as well as the estimated impact from projects financed in 2024, is presented below.

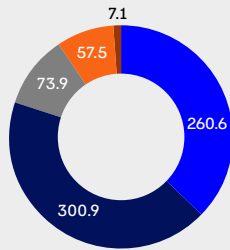
Allocation of proceeds

Per category, EUR million



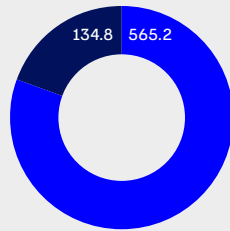
- Investments enabling cleantech
- Investments in Green Buildings
- Investments in process/facility energy or resource efficiency
- Investments in renewable energy installations for SKF
- Investments in world-class manufacturing
- R&D expenses targeting cleantech
- R&D expenses targeting green products and processes

Per geography, EUR million



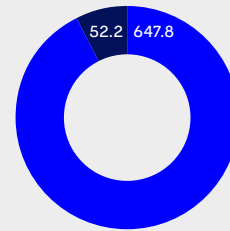
- China and Northeast Asia
- Europe
- Global
- The Americas
- India and Southeast Asia

Per new financing and refinancing, EUR million



- New financing
- Refinancing

Per investments and acquisitions and expenses, EUR million



- Investments and acquisitions
- Expenses

Green Bond impact

All projects financed through the Green Bonds have been assessed against the defined categories and criteria. Experts in the Group Sustainability organization have checked that necessary supporting documentation relating to the environmental impact of the projects has been collected.

Impact calculations to determine the quantified savings in terms of for example energy use, material use, and greenhouse gas emissions have been supported and verified by the Group Sustainability experts. The methodology applied for these calculations is presented in the appendix of this report.

Due to the diversity of projects in the various categories, it is not possible to provide a meaningful aggregated impact figure for the total Green Portfolio. Results from the impact calculations are presented for a selection of examples to demonstrate the type of environmental objectives pursued by the projects, as well as the magnitude of the savings.

Green Portfolio impact from projects financed in 2024

Category	Estimated impact
Investments in world-class manufacturing	Impact from the world-class manufacturing project approved in 2024 cannot be disclosed.
Investments enabling cleantech	During the year, SKF invested in increased capacity to support the global growth of cleantech industries such as electric vehicles and railway. Moreover, SKF has invested in increased capacity to remanufacture bearings, thereby reducing material use and greenhouse gas emissions in the production phase (compared to manufacturing of new products).
Investments in Green Buildings	No new such investments were approved during 2024.
Investments in renewable energy installations for SKF	SKF continued to invest in onsite renewable energy generation through photovoltaic solar power at two sites. The expected yearly renewable energy generation from the projects approved for Green Bond financing in 2024, amounts to around 2,100 MWh, corresponding to a yearly reduction of around 700 tonnes of CO ₂ e emissions based on country specific conversion factors for electricity generation.
Investments in process/facility energy or resource efficiency	Several investments to improve the energy and/or resource efficiency at our manufacturing facilities have been approved during 2024. For example, Green Bond financing has during 2024 been used for a ventilation system upgrade at the Poznan factory in Poland. The upgrade has reduced the system's energy consumption with more than 2 GWh per year, which corresponds to around 750 tonnes of CO ₂ e per year.
R&D expenses targeting cleantech	No new such R&D were approved for Green Bond financing during 2024. ¹⁾
R&D expenses targeting green products and processes	No new such R&D were approved for Green Bond financing during 2024. ¹⁾

1) During 2024, SKF secured Euro 430 million financing from the European Investment Bank to support SKF's research and development (R&D) to increase the focus on high-growth segments and accelerate the design and development of enabling technologies particularly for the green transition and sustainability. Hence, no proceeds have been allocated for R&D projects in 2024.

Appendix – methodology

SKF uses a method based on life cycle thinking, to calculate material and energy use related to manufacturing output to assess if investments fulfil the Green Bond criteria. When applicable, these results can be converted to greenhouse gas emissions using commercially available datasets.

Goal and scope, baseline, and allocation

The aim of the method is to provide a credible and practical way to quantify the improvement in environmental impact from investments. Each calculation starts with a definition of the goal and scope of the study, defining what is to be calculated and the context. The performance of the new technology is compared against that of the existing (baseline) technology. Material and energy used by other processes that are affected by the investment, for example hydraulics or compressed air, are allocated using the principles in ISO 14044.

Data quality and transparency

The method uses both primary and secondary data sources, for example, data measured in SKF manufacturing or obtained from suppliers. The quality is assessed in terms of technology, time, geography, completeness and reliability.

Calculations are documented and stored centrally. SKF uses a conservative approach to avoid overestimation. Data is collected to cover the most significant processes (contributing to around 90% of the material and energy use).

Note on cleantech and renewable energy

The environmental impact of investments enabling cleantech is estimated based on the capacity increase made possible by SKF. As an example, the reduced greenhouse gas emissions from an investment in new production channels to produce bearings to electric vehicles is estimated based on the enabled production of new electric vehicles. It is calculated as the difference in greenhouse gas emissions of electric vehicles compared to vehicles using combustion engines, and using economic allocation based on the value of SKF's products in relation to the whole electric vehicle.





AB SKF
SE-415 50 Gothenburg, Sweden
Telephone +46 31 337 10 00
www.skf.com

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