

Green Bond

# Investor Letter and Impact Report 2022

- 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 net zero greenhouse gas emissions in the operations by 2030 and 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.
- As part of the Green Bond governance process, several hundred of potential projects have been assessed against defined categories and criteria.
- By the end of 2022, SKF had financed 130 projects (whereof 40 in 2022) through the Green Bonds, amounting to EUR 495 million (whereof 195 in 2022) of allocated proceeds, with the following distribution:
  - 42% China & Northeast Asia, 1% India & Southeast Asia, 38% Europe, 12% global and 7% The Americas.
  - 78% new financing, 22% refinancing.
  - 93% investments and acquisitions, 7% expenses.
- Impact calculations to determine the quantified savings in terms of, for example, energy use, material use, and CO<sub>2</sub>e emissions have been supported and verified by the Group Sustainability experts.

## 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 net zero 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 units, seals, services, and lubrication systems. 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.

In July 2021, SKF signed up to the Science Based Targets initiative and committed that the climate targets shall be in line with the Paris Agreement to limit global warming to 1.5°C. During 2022, SKF has been following the SBTi approval process and at time of writing was waiting for final confirmation from SBTi.

In 2021, SKF announced its target to achieve net zero greenhouse gas emissions in the full SKF value chain (from raw material to finished product delivered to the customer) by 2050.

## 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 compo-

nents. The Group has investigated the emissions of most of the largest suppliers (representing 96% of total steel sourcing by weight, 57% of total forging supply, and 56% of total rolling elements supply).

## SKF's own operations

SKF works to reduce CO<sub>2</sub>e 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.

The long-term objective is to have net zero greenhouse gas emissions in SKF operations by 2030 (scope 1 and 2), including 100% renewable electricity. Comparing 2022 to 2015, absolute CO<sub>2</sub>e emissions have been reduced by 46.5%, while revenues have increased by 27%.

The mid-term objective is to achieve a 40% reduction of CO<sub>2</sub>e emissions from bearing manufacturing per tonne of bearings sold, by 2025 compared to 2015. By the end of 2022, the Group had achieved a 61% reduction.

## Goods transportation

SKF works to reduce CO<sub>2</sub>e emissions from transports in several ways:

- Optimize transport network and routing.
- Use energy efficient transport modes and procure transports with low CO<sub>2</sub>e intensity (e.g. ocean and rail instead of air, and transports using low-carbon fuels).
- Minimize mileage between suppliers, factories, warehouses, and customers.

The mid-term objective is to achieve a 40% reduction of CO<sub>2</sub>e emissions per tonne of goods shipped to end customer, by 2025 compared to 2015.

The outcome for 2022 was an increase of 1%.

## 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 CO<sub>2</sub>e emissions, improved safety, reduced water use, increased lifetime of applications, increased material efficiency, reduced noise levels, etc.

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

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 10.1 billion in 2022.

# SKF's second Green Bond

## 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 will also be displayed on the Luxembourg Green Exchange (LGX).

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.

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 CO<sub>2</sub>e 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

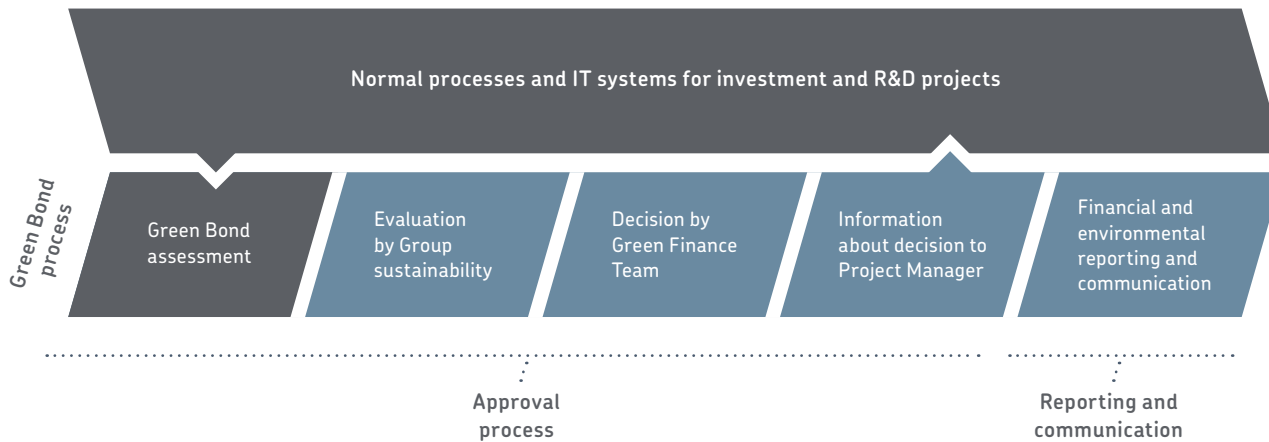
Category	Criteria
Investments in world-class manufacturing	<ul style="list-style-type: none"> <li>• More than 25% improvement in energy use and/or material use, per unit of output.</li> </ul>
Investments enabling cleantech	<ul style="list-style-type: none"> <li>• Investments: 75% or more of the total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

# 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 manufacturing.



# Projects in the Green Portfolio

By the end of 2022, SKF had financed 130 projects through Green Bonds. An overview of these with focus on the 40 projects financed in 2022 is presented below.

## Example 1

### 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. Some examples include installation of:

1. RecondOil equipment, making it possible to reuse oil in the manufacturing process.
2. Central hydraulic power unit with energy saving features.
3. Energy efficient electric furnace for heat treatment process.

A more specific example from 2022 is related to our netzero manufacturing unit in Steyr, Austria. A Green Bond eligible project was initiated with the ambition to improve the unit's energy performance. This will be done through the following three specific activities:

1. New heat pump with 1,6 MW cooling power.
2. New lighting with LED technology in production areas.
3. Upgrading of six heating and ventilation systems with variable speed drive motors.

The expected benefits from these three projects will improve the energy efficiency with 50%, compared to the previous solutions. This improvement equals to an annual saving of 1.5 GWh's. In this case, there is no savings in CO<sub>2</sub>e emissions, since the factory in Steyr is using 100% renewable electricity.



The new heat pump at SKF Steyr.



## Example 2

### 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 reach net zero greenhouse gas emissions and use 100% renewable electricity by 2030, SKF continues to invest in renewable energy installations. In 2022, five photovoltaic solar panel projects in SKF's European operations were approved for Green Bond financing.

Expected yearly renewable energy generation from these five projects is around 16,000 MWh, corresponding to a yearly reduction of more than 5,000 tonnes of CO<sub>2</sub>e emissions based on an estimated EU-28 average conversion factor for electricity generation.

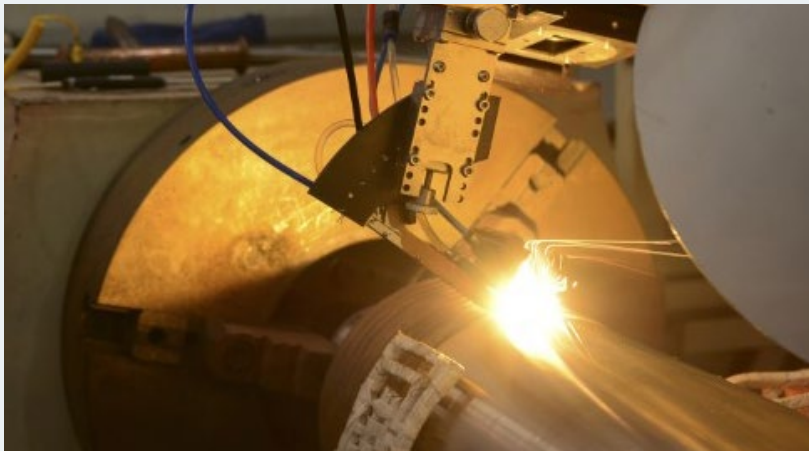
### Example 3

## Investments in laser cladding to enable circular bearing business

### Category: Investments enabling cleantech

SKF has acquired Laser Cladding Venture, a company in Belgium with high reputation in additive manufacturing technology. Laser cladding technology is used to create metallic coatings by combining metal powder and a high-power laser. This new technology can significantly reduce the CO<sub>2</sub>e footprint of products as well as enable remanufacturing and upgrading, thereby contributing to the circular economy.

The Group has also approved an investment in a new laser cladding production cell for remanufacturing of steel caster rolls and production of floating off-shore windmill bushings, providing 60-80% reduction of CO<sub>2</sub>e emissions compared to the traditional processes.



Laser cladding

### Overview of projects

Category	Overview
Investments in world-class manufacturing	<ul style="list-style-type: none"><li>• New technologies strengthening SKF's global manufacturing capability, including automation and digitalization, leading to significant energy and material efficiency improvements.</li></ul>
Investments enabling cleantech	<ul style="list-style-type: none"><li>• Increased production and testing capacity for products enabling renewable energy generation, electric vehicles and railway applications.</li><li>• Increased capacity for the remanufacturing of bearings and units.</li><li>• Acquisition of Laser Cladding Venture enabling additive manufacturing and circular economy.</li></ul>
Investments in Green Buildings	<ul style="list-style-type: none"><li>• A new world-class logistics building in Gothenburg.</li></ul>
Investments in renewable energy installations for SKF	<ul style="list-style-type: none"><li>• Onsite renewable energy generation (mainly photovoltaic solar power) at multiple sites in Europe.</li></ul>
Investments in process/facility energy or resource efficiency	<ul style="list-style-type: none"><li>• New technologies improving material and energy efficiency in manufacturing operations, such as installations of RecondOil, hydraulic power unit with energy saving features and electric furnace for heat treatment process, at SKF factories.</li></ul>
R&D expenses targeting cleantech	<ul style="list-style-type: none"><li>• Research focusing on technologies and products for renewable energy generation and electric vehicles.</li></ul>
R&D expenses targeting green products and processes	<ul style="list-style-type: none"><li>• Research focusing on significant improvements in friction characteristics.</li></ul>

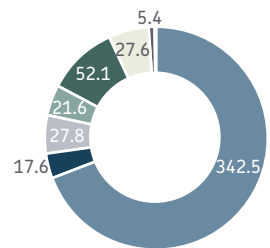


# Allocation and impact reporting

By the end of 2022, SKF had allocated proceeds amounting to EUR 495 million (whereof 195 in 2022) of EUR 700 million outstanding amount. The distribution of the total Green Portfolio as well as the estimated impact from projects financed in 2022, is presented below.

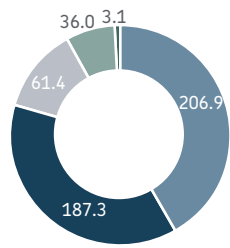
## Allocation of proceeds

Per category, EUR million



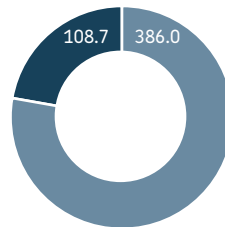
- Investments enabling cleantech
- Investments in Green Buildings
- Investments in process/facility energy or resource efficiency
- Investments in renewable energy installations for SKF
- Investments in world-class manufacturing
- R&D expenses targeting cleantech
- R&D expenses targeting green products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

Per geography, EUR million



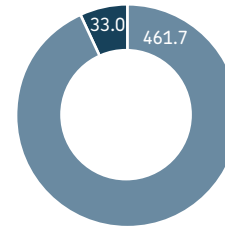
- China & Northeast Asia
- Europe
- Global
- The Americas
- India & Southeast Asia

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 CO<sub>2</sub>e 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 2022

Category	Estimated impact
Investments in world-class manufacturing	Savings in energy use from approved investments amount to 17,000 MWh per year, corresponding to 6,500 tonnes of CO <sub>2</sub> e per year using SKF site specific CO <sub>2</sub> e conversion factors.
Investments enabling cleantech	SKF's investment in increased capacity enables the growth of industries such as wind, electric vehicles, and railway. Moreover, SKF has invested in increased capacity to remanufacture bearings, thereby reducing material use and CO <sub>2</sub> e emissions in the production phase (compared to manufacturing of new products). SKF has acquired the Belgium company Laser Cladding Venture to enable additive manufacturing and circular economy.
Investments in Green Buildings	Minimum LEED Gold. This means that the building has been designed to improve performance in areas such as energy savings, water efficiency, CO <sub>2</sub> e emissions reduction, indoor environmental quality, and savings of materials. SKF has during the year initiated a project to establish a world class logistics building in Gothenburg, where the ambition is to meet the minimum LEED Gold criteria.
Investments in renewable energy installations for SKF	SKF is investing in onsite renewable energy generation. The expected yearly renewable energy generation from the five projects approved for Green Bond financing in 2022, amounts to around 16,000 MWh, corresponding to a yearly reduction of more than 5,000 tonnes of CO <sub>2</sub> e emissions based on an estimated EU-28 emission factor for electricity generation.
Investments in process/facility energy or resource efficiency	For example, Green Bond financing has been used in investments to make upgrades to a manufacturing unit in Steyr, Austria. By upgrading equipment related to heating, ventilation, cooling and lighting, savings in energy use amount to 1,500 MWh per year, and energy efficiency is improved by 50%. In this case, there are no savings in CO <sub>2</sub> e emissions, since the factory in Steyr is using 100% renewable electricity.
R&D expenses targeting cleantech	SKF's R&D focusing on technologies and products for renewable energy generation, electric vehicles and railway applications will help to improve performance of current cleantech technologies as well as enable new cleantech innovations. Thereby, SKF aims to support the growth of these technologies and industries, which in turn, will help to reduce environmental impact on a large scale. However, quantifications of the reduced environmental impact from R&D projects need to be based on several assumptions with many uncertainties and are therefore not presented at this stage.
R&D expenses targeting green products and processes	SKF's R&D related to improving product and application performance in for example friction, service life and reliability will help to reduce the environmental impact in terms of savings in energy use, savings in material use and avoided CO <sub>2</sub> e emissions. However, quantifications of the reduced environmental impact from R&D projects need to be based on several assumptions with many uncertainties and are therefore not presented at this stage.

## 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 CO<sub>2</sub>e 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 over-estimation. 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 CO<sub>2</sub>e emissions from an investment in new production channels for the production of bearings to electric vehicles is estimated based on the enabled production of new electric vehicles. It is calculated as the difference in CO<sub>2</sub>e 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.



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