


SKF Climate risks and opportunities

2021

Climate report aligned with
the TCFD recommendations



SKF was founded in 1907 and is a leading global supplier of bearings, seals, lubrication systems and services, which include technical support, maintenance and reliability services, engineering, consulting, and training.



Core elements of the TCFD recommendations

Governance

The organization's governance around climate-related risks and opportunities.

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.

Risk management

The processes used by the organization to identify, assess, and manage climate-related risks.

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Source: TCFD

Introduction

There is an urgent need to transform from a non-circular carbon-based economy to one which is clean, net zero and fully circular. This transformation needs to happen with a speed and on a scale not seen before and SKF is determined to be at the heart of it. SKF products and services are already helping to enable the transformation, and SKF's strategic focus on clean-tech will accelerate it further – helping more customers and industries to make the transition across the world.

SKF works across the full value chain to understand the CO₂ impact and find viable and effective ways to minimize them. Considering SKF's direct operations (factories, warehouses, research centres), the Group has been able to decouple the economic growth of the business from the CO₂ impact. Comparing 2021 to 2015, SKF's absolute CO₂ emissions have reduced by 37%, while the revenues have increased by 10%.

In June 2020, SKF announced the target to achieve net zero greenhouse gas emissions for all its manufacturing, warehouse and research centres by 2030. This will happen through a combination of efforts, primarily related to energy efficiency, material efficiency, generating and sourcing renewable energy, and as a last resort to cover any remaining emissions, purchasing carbon offsets.

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.

In October 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.

SKF's focus and performance in this area is becoming an increasingly important differentiator for the increasing number of customers who seek to achieve carbon neutrality in their full value chain.

The purpose of this report is to summarize SKF's ambitions and actions on climate related risks and opportunities, guided by the TCFD recommendations in four sections: Governance, Strategy, Risk management, Metrics and targets.

TCFD is the Task Force on Climate-related Financial Disclosures initiated by the Financial Stability Board. The aim with the initiative was to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures.

Governance

The SKF Board's oversight of climate related risks and opportunities

Sustainability and the risks and opportunities related to climate are fundamental to the Group's strategy and are consequently frequently discussed with the Board in connection with strategic decisions.

The Group's sustainability work and targets are reviewed and approved by the Board every year. SKF's key environmental goals and progress are presented to the Board each quarter and are part of SKF's quarterly reports. SKF manages its climate related risks primarily through the Enterprise Risk Management (ERM) process. The results from the ERM process are presented every year to the Audit Committee, which includes three members from the Board. The ERM process provides input to all strategic activities such as investment decisions and strategic business plans.

Management's role in assessing and managing climate-related risks and opportunities

Group Management and the Board have the ultimate responsibility to state SKF's mission and to ensure that the values and drivers are implemented. The Director of Group Sustainability has the task to ensure that all relevant aspects of sustainability are addressed and integrated into operations and activities throughout the Group, establishing policies, strategies and targets related to SKF's overall sustainability performance. These drive and support the integration of sustainability into business practices, processes, operations and staff functions. Sustainability performance, which includes climate related issues, is the responsibility of the operations and shall be delivered in accordance with the strategic direction and fundamental requirements as set by Group Management and the Board. This means that the identified risks and opportunities are handled by the part of SKF that is concerned.

SKF's ERM process covers all parts of the Group and includes assessing and managing climate-related risks. The result is shared twice per year with Group Management and once per year

with the Audit Committee. There is also a half-year internal assessment to monitor changes and make sure mitigation actions are in place and delivering expected results, which is presented to Group Management. Mitigating actions or actions to seize the opportunities are initiated and fed into the Group's strategic work.

The Group Energy Committee meets frequently to decide on how SKF should drive energy efficiency and source renewable energy. SKF has joined the RE100 initiative with a target and commitment to source 100% renewable electricity by 2030, and this committee is actively driving this work.

The Group Environment, Health & Safety (EHS) function and the Group Sustainability team provide support to the business to understand the environmental impact and carbon footprint of SKF operations, products and services, based on a life-cycle approach.

The implementation of the sustainability program in the line organization is driven by the respective business areas, their business units, and by country organizations with direction and coordination from formal cross-functional, decision-making bodies and working groups.

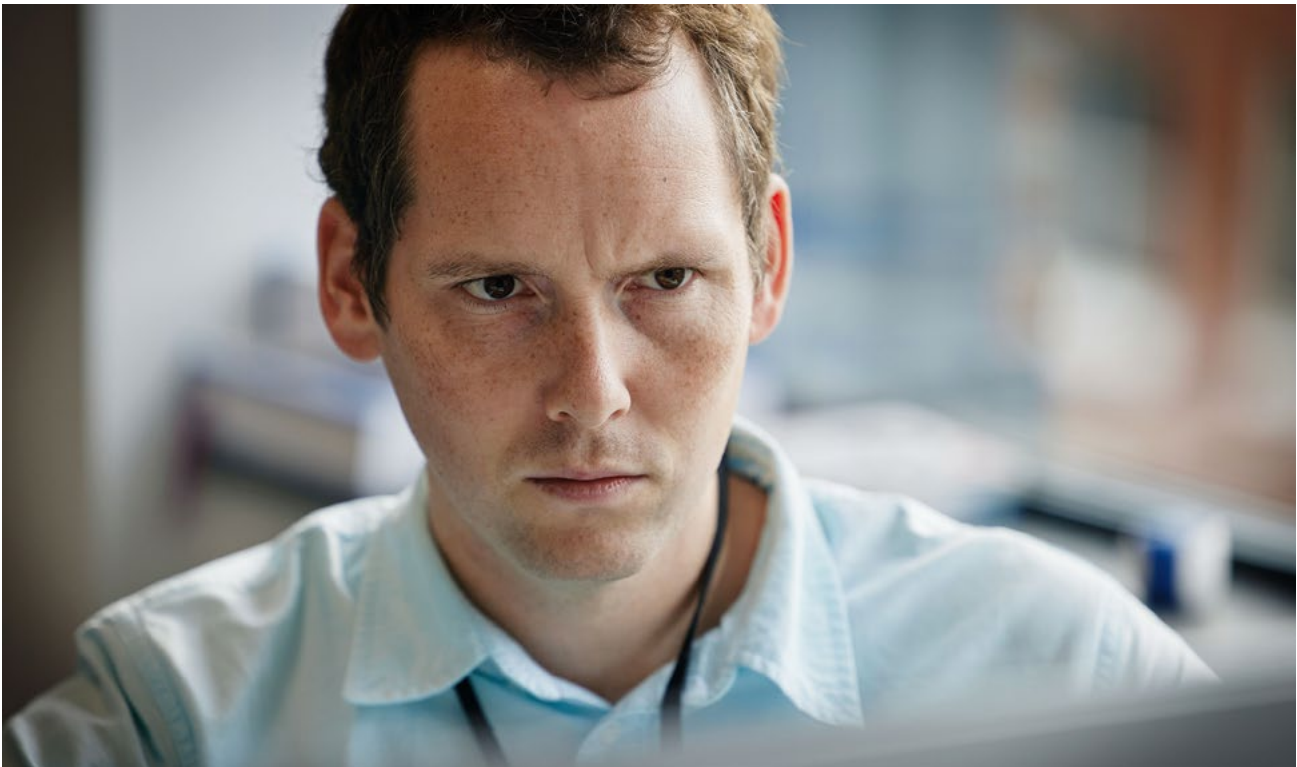
SKF's Green Bond

As one of the first industrial companies, SKF issued a Green Bond in November 2019. The value of the bond is EUR 300 million with a duration of ten years.

To secure alignment with national and international guidelines SKF has obtained an external third-party opinion on the Green Finance Framework. Engaging in green financing connects SKF's company funding strategy to the climate objectives. It's a way to engage stakeholders in the Group's integration of sustainability into SKF's business model and to ensure the strategy, investments and development activities keep to our commitment. The Green Bond is used for financing of 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.

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 EHS 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 EHS experts and decides about Green Bond financing for investments and R&D projects. The Green Finance Team is chaired by the Group CFO and consists of representatives from finance, treasury, EHS, sustainability and manufacturing. In December 2021, SKF had allocated the full value of the Green Bond to investments in accordance with the Green Finance Framework.

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



Strategy

Group strategy overview

In the beginning of 2022, SKF presented a new strategic framework based on two concepts: intelligent and clean. These concepts will be the guide on the journey to become an even more focused, innovative and profitable industrial player.

The broad business reach gives SKF a platform to drive

profitable growth, as it allows the Group to continuously target the most attractive opportunities. Within these growth areas, strong market demand matches the ability to differentiate and provide customer value. This means that SKF is well positioned to accelerate profitable growth.



Intelligent and clean growth means:

Intelligent ...

- Customer offerings & solutions
- Portfolio management
- Digital value chain & processes
- Capital allocation and resource deployment

Clean ...

- Tech applications
- Industries: minimize friction and waste
- Value chain: net zero emissions and high transparency
- Business practice and high ethics

Climate-related risks and opportunities and impact on SKF

SKF's core business is based on well-established technology and the Group is diversified in terms of products, markets, manufacturing location and currencies used, which reduces SKF's overall exposure to business risks. Based on this diversification, SKF does not anticipate that climate-related business risks will have substantially negative financial or strategic impact on Group level in the short or medium term. Some specific market sectors will be negatively affected, such as the demand for SKF products to diesel and gasoline engines. However, other sectors will be positively affected, such as the market demand for SKF products to electric motors. Overall, SKF believes that the climate-related business opportunities outweigh the risks also in the long term. In the green transition there will be major investments which will create significant opportunities for SKF to capture new business with the Group's enabling technology, which is reflected in SKF's strategy.

Short term (0–1 years) climate risks and opportunities are integrated into yearly operational business planning and follow-up.

Medium term (1–3 years) and long term (>3 years) climate risks and opportunities are integrated into strategic business planning. The Group's climate targets typically cover a longer time horizon (for example, the target to have net zero greenhouse gas emissions in SKF's operations by 2030 and in the supply chain by 2050), to make sure that long term climate-related risks and opportunities are proactively identified.

As part of the strategy work, a comprehensive list of climate-related risks and opportunities have been identified. A few areas

are highlighted below. Some of these have also been quantified using the Sustainable Development Scenario (SDS) to analyze what their financial impact could be in 2030.

CO₂ taxes and increasing cost of steel

The production of steel is energy intensive and mostly also CO₂ intensive. SKF has for a long time been working actively to reduce CO₂ in the supply chain in collaboration with suppliers. It is still not clear how and where CO₂ taxation will be implemented, but it is anticipated that this will influence the cost of steel. The ongoing transition plans, notably in the EU, will to a high degree be funded by various forms of carbon taxes. Similar discussions are ongoing in the United States but where taxation might not be the preferred method. The effect will be relatively higher on steel with high embodied CO₂ emissions. For the last years, SKF has simulated potential outcomes of the Carbon Border Adjustment Mechanism to understand the impact. During 2020 and 2021, SKF has accelerated the collection of energy and CO₂ data from its major steel and forging suppliers representing the majority of value, weight and environmental impact in the upstream supply chain. Through scenario analysis and financial simulation on cost increase at different levels of CO₂ taxation, SKF has increased the understanding of this risk, the potential financial impact to SKF, and actions the Group can deploy to mitigate this risk. SKF is interacting with suppliers and customers in order to create a common view of how to manage the introduction and increased cost of steel with lower embodied carbon.



Increasing cost of energy

A structural transformation is expected in the energy sector and massive investments globally are planned for more efficient and cleaner energy production. One of the most immediate and obvious financial risks, related to climate change for SKF and its value chain, is an increased cost of energy, linked to, for example, CO₂ taxation but also due to an increasing demand when more and more products run on electricity. 2021 has seen such sharp increase and has also illustrated the limitations in many grid systems during a transition to more renewable energy production. Based on the SDS, the Group has analyzed the impact from an increased cost of energy and defined actions to minimize that impact. The best way to mitigate this risk is to reduce the energy demand. In terms of spend, electricity makes up most of the energy cost with a smaller share of natural gas, biomass, heat, fuel oil and LPG. To give an indication of the potential financial impact, based on 2021 data, a 20% increase in costs related to energy would impact the Group's result by around SEK 260 million.

Transformation of the automotive industry

Electrification is a strong trend in many industries, especially in the automotive industry. The growing market of electric and connected vehicles is positive for SKF, as the bearings play an important role in these applications. Today, SKF has a portfolio of innovative solutions that enable robust and efficient e-power-train drives.

SKF's innovation within the automotive sector focuses on the technology transformation heading to a net zero vehicle market. SKF is partnering with key OEMs and tier1 pioneers for the launch of full electric vehicles, for example, by providing a complete package offering of bearings and seals featuring high speed, thin sections and electric current insulation options. Power density and friction reduction are some of the main drivers of current and new vehicles. SKF has become a leader by developing low friction bearings for electric vehicles.

The specific requirements for electrification like bearing features for high speed and electric current insulation have considerably increased the value for bearings. Transmission electrification drives for bigger bearing sizes, and for more innovative features both on seals and bearings. Through analysis and financial simulations, the conclusion is that SKF is well positioned for the transition to full electric vehicles and sees it as more an opportunity than a risk.

Growth of cleantech, including wind energy generation

Cleantech covers all businesses in SKF which provide a sustainable output, for example, wind and tidal energy, remanufacturing, RecondOil circular use of oil, the Rotating Equipment Performance (REP) value proposition and specific applications that provide a reduced environmental footprint. To build the position and capabilities within cleantech, SKF is accelerating the remanufacturing offer, scaling magnetic bearings and other low friction applications.

SKF has also made a number of acquisitions in the field e.g. in laser cladding in order to improve offers within the circular economy by increasing the possibilities to remanufacture worn products instead of scrapping them.

SKF is finding and developing new cleantech applications, solutions and technologies, for example, through partnerships, business development and acquisitions. This is an area where SKF is looking at possibilities outside the core business, around the rotating shaft, if it can provide a significant environmental or sustainability impact.

A significant opportunity is the investments in wind energy production, which are projected to increase in the years until 2030 and then accelerate even further up to 2050. SKF offers both products and services for the wind market. SKF technology and solutions enable wind farm operators to optimize the efficiency and thereby the competitiveness of wind turbines. The wind industry is growing worldwide and SKF sees a large business potential in sales of both products and services.

An increasingly important factor for winning new business is how a solution contributes to the customer's climate footprint. The combination of SKF's offering and internal commitment to reduce the impact of SKF's operations will continue to be a source of competitive advantage in the future. Industries will adopt new and efficient business models, which are less dependent on physical resources and generate less climate impact.

Energy and material efficient manufacturing operations in SKF

New technologies such as digitalization and automation, the use of sensors and AI etc. will support further improvements in energy and material efficiency of SKF manufacturing operations. The result will be lower costs, better material utilization and a significantly lower carbon footprint for the SKF factories and the products they produce.

Mitigation actions and resilience of SKF's strategy Scenario analysis

To further understand the climate risks and opportunities and the resilience of SKF's strategy a scenario analysis was conducted during 2020 and further refinement was done in the strategic work 2021. The scenario analysis was based on the SDS from the International Energy Agency. The SDS shows a future course to meet the requirements in the Paris agreement which SKF wants to contribute to with its enabling technology.

SKF has also included the quantitative perspective on climate related risks and opportunities in the scenario analysis using the TCFD framework and best practices. The time frame for the scenario analysis is 2030.

The method used was to present SDS to senior persons in various areas of expertise, including Finance, Sales, Marketing, R&D, Sustainability and Operations. Each person contributed with their view on what impact it would have on SKF if the society would act to fulfil actions needed to meet the SDS projection.

Their input resulted in an updated list with the major climate related risks and opportunities. Actions to meet these risks and opportunities were identified and discussed.

A shortlist of the risks and opportunities and their related financial impact until 2030 was estimated together with Group Finance and SKF subject matter experts within the respective field. Based on the conclusions from the scenario analysis, further understanding of climate related risks and opportunities was achieved and resulted in updated actions that SKF will drive going forward. Further work and refinement of the analysis was done in 2021 and SKF's objective is that this analysis will be further developed and conducted on a yearly basis.

The risk and opportunity assessment together with the scenario analysis have shown, that climate-related risks in the short- and medium-term time horizons are limited, however in the long-term time horizon there are some risks. SKF's diversification in terms of products, markets, manufacturing location and currencies used reduces SKF's overall exposure to business risks. With the green transformation the world is going through, SKF believes that there are opportunities in the short- and medium time horizons but especially the long-term horizon which will be covered in more detail later in this report.

The business strategy will be continually adapted and adjusted to mitigate the risks and manage the opportunities coming up with a stronger focus in society to combat climate change. A significant review of the SKF business and the risks and opportunities related to the transition to a greener economy was made during the fall 2021 which formed the basis for SKF's strategic decisions.

Products and services

SKF is well positioned to enable reduced CO₂ emissions in customer industries and applications. SKF's products and solutions help to reduce friction and enable reliable rotation, which leads to reduced energy use and CO₂ emissions in customer applications. SKF also provides products and services enabling the growth of cleantech industries such as renewable energy generation, electric vehicles, etc.

SKF is focusing on the environmental benefits of products, services and customer solutions, including increased energy efficiency, reduced CO₂ emissions, improved safety, reduced water use, increased lifetime of applications, increased material efficiency, reduced noise levels and more. For many years, SKF has built up knowledge around lifecycle management and worked closely with customers to reduce or avoid CO₂ emissions. Already in 2005, SKF introduced its BeyondZero concept to this regard. SKF has established guidelines for product development, environmental pre-evaluation tools and guidelines for quantifying and communicating sustainability performance.

The shift to a more circular way of doing business is changing the way business is done and how SKF provides value to customers. By combining sensor technology with direct access to SKF expertise and analysis from the REP centers, customers can perform condition-based maintenance to avoid costly unplanned down-

time. By creating and capturing customer value through e.g. fee-based business models with incentives based on key performance indicators, the interests of SKF and the customers are aligned to reduce cost, safety risks and environmental impacts.

Supply chain

The emissions from raw material and components are about as much as those from SKF's own operations. As a main mean of cutting cost and emissions from the supply chain, SKF works to influence energy intensive suppliers to implement energy management systems certified according to ISO 50001. The Group also works to reduce emissions from transports.

During 2020 and 2021, SKF has accelerated the collection of energy and CO₂ data from its major steel and forging suppliers representing the majority of value, weight and environmental impact in the upstream supply chain.

SKF also works to develop new business models to reduce environmental impact alongside cost. For example, SKF works to predict maintenance and enable cost-effective repairs and services within the customers processes. This reduces unplanned shutdowns, which are very often linked to significant waste of energy, materials and related CO₂ emissions. Secondly, SKF brings back bearings and units for refurbishment or remanufacturing – a process which can cut energy and emissions by up to 90%, compared to the production of a new bearing.

Research and development

In 2019, SKF was one of the first industrial companies ever to issue a Green Bond. The bond raised EUR 300 million to fund eligible green projects in accordance with the Group's Green Finance Framework, which was also launched in 2019. R&D projects targeting cleantech as well as green products and processes are eligible for Green Bond financing. For example, 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. As an example of strategic research activities, SKF has joined the Center for Hydrogen Energy Systems Sweden - CH2ESS at Luleå University of Technology to enable the transition to steel with low embodied carbon.

Operations

SKF has an energy management system globally certified according to ISO 50001. SKF has a centralized function to manage strategic energy sourcing decisions for the Group, but daily work is decentralized to SKF's sites and integrated in the environmental management system. To increase focus and drive improvements in both energy and CO₂ performance, SKF has defined yearly energy efficiency targets for all major manufacturing units.

Risk management

Processes for identifying and assessing climate related risks

Identifying risks

Risk identification, evaluation and response are carried out within the operations through a number of means, such as Group policies and instructions, training, management systems, reporting reviews and approval processes. All are coordinated and overseen by the related Group functions.

Current and emerging regulations

The Group's energy and EHS management systems assure that SKF operations are up to date with applicable current regulations and have adequate ways of addressing them. Obligations on emissions reporting are followed via implementation of relevant reporting frameworks such as the GRI Standards. SKF has a segment organization with marketing specialists who focus on understanding the needs and drivers of customers. Group Sustainability's work includes mapping of relevant trends from a legislative perspective, including for example, impacts from current energy and carbon related regulations, such as, carbon tax and carbon emissions trading schemes, banned substances or other product material compliance issues.

Technology risks

SKF was founded based on technology innovation and has ever since focused on staying in the forefront of new technology development. Within the R&D organization the monitoring of technology trends in general, which also includes climate related trends, is mainly achieved through the management review process. The approach used is based on PESTEL with input received through a structured stakeholder analysis. Throughout the year, there is a continuous patent watch with special focus in the steels and materials area and looking into competitors' filings. Based on the risks and opportunities captured in these processes, the required mitigation actions are put in place.

Climate related requirements are embedded in the design process, the targets include, for example, reducing friction, design for sustainability/circular economy, and adhering to EHS/legislation compliance. There are also specific guidelines on material compliance and sustainability performance in product development, enabling SKF to proactively manage related risks and opportunities.

Legal risks

SKF considers the risk of legal non-compliance climate-related risk for the Group to be very low. SKF is not a heavy emitting industry and has a well-established way of working to measure, report and mitigate the climate impact related both to its operations and to the products and services provided to customers. Inclusion in the EU Emissions Trading System is an example of a legal risk. SKF's EHS management system assures that we are aware of any such legal obligations.

Market risks

Bearing Market Information (BMI) is SKF's key instrument to understand and monitor the sizes and structures of the markets for rolling bearings. It is a way to monitor the key trends in the global bearings market and the competitive landscape. BMI gives an understanding of the SKF market position and the market share development vs. competition. BMI is an annual process analysis involving around 70 countries globally. Climate related trends and market developments are integrated and captured within the BMI process. The work also includes mapping of relevant trends from a macroeconomic perspective, including, for example, sustainability drivers.

Reputational risks

SKF's performance and credibility in the climate related area is very important for the SKF brand and for our stakeholders, such as, shareholders, employees, customers and general society. Poor performance and/or associated stakeholder perception is judged as a potential risk for negative impact on the brand value. To mitigate this risk, SKF tries, for example, to be as transparent as possible regarding the climate impact, not only from SKF's own operations, but from a value chain perspective. SKF reports on scope 1, scope 2, and some scope 3 emissions through the Annual Report. The data is third-party verified to improve quality and credibility.

All SKF communication is developed in accordance with SKF communication guidelines and policies, whereby all communication is factual and delivered in a way that minimizes risks for misunderstanding and greenwashing. A Group guideline for quantification and communication of sustainability impact is available to support the organization.

Physical risks

SKF has a globally unified EHS management system, which is certified according to the ISO 14001, ISO 45001 and ISO 50001 management standards. This system requires that all sites conduct regular risk assessments including the identification of physical climate-related risks such as flooding, water shortages or forest fires which could impact the facilities.

SKF also incorporates the identification of such risks into the due diligence process when building new facilities or acquiring companies. In addition, SKF's loss prevention activities require that site-level risks of flooding and related scenarios are captured through Flood Emergency Response Plans, which is part of SKF's loss prevention activities with processes for assessing the potential size and scope of identified climate-related risks.

Assessing risks

Risks and opportunities are assessed two times per year and shared with Group Management. Once per year it is also shared with the Audit Committee and a summary of this is included in the Annual Report. This process is managed by SKF’s risk manager with input from the risk owners, senior members from different parts of SKF. Based on the risk and opportunity assessment the needed actions are also developed or updated based on the conclusion of the assessment. This process covers also climate risks and opportunities.

The key risks are assessed on both probability and impact. The probability ranging from very low to high. The impact is assessed based on impact on strategic execution, financial performance and brand & reputation.

To further understand the sustainability risks, SKF’s materiality analysis is used to identify sustainability and climate-related risks in the value chain and supports the organization to filter out and aggregate the risks, that if they are materialized, would have the most significant impact on the SKF Group, its operations and society. SKF’s materiality analysis includes feedback from all stakeholder groups such as investors, suppliers, customers, employees and the community.

In 2021, a comprehensive strategy review was performed replacing the yearly opportunity assessment in the ERM process. Risk assessment was done as planned.

Processes for managing climate-related risks

SKF’s integrated management system and processes for risk management is critical to manage the risks and opportunities. Sustainability including climate is an integrated part of this framework and is therefore integrated in the overall risk management. The basis of the assessment also provides input to the corporate strategy development and execution.

The result of the overall risk assessment is presented and reviewed by Group Management two times per year, feedback is provided to the respective risk owners in the business to drive the mitigation actions in their respective area. Where needed additional actions are started in order to mitigate the risks and assigned to the relevant risk owner. Follow-up of the risk mitigation is executed in the respective area with assigned resources based on the competence needed. Issues and deviations are escalated to Group Management whenever there is a need.



Metrics and targets

SKF reports on an extensive number of metrics related to sustainability and climate, including for example, energy and emissions, materials, water, effluents, and waste. These are fully disclosed in the Annual Report. A summary of the specific metrics related to greenhouse gas emissions is provided hereafter.

Greenhouse gas (GHG) emissions

SKF uses the GHG Protocol Corporate Guidance for reporting its emissions. Due to the nature of SKF's operations, only three greenhouse gases are likely to be released in significant quantities for tracking. These are CO₂, methane and nitrous acid, where CO₂ is by far the biggest contributor to SKF's emissions.

Energy data and related greenhouse gas (GHG) emissions are reported monthly and followed up bi-annually by the SKF Group management.

Scope 1 and scope 2 GHG emissions

Market-based emissions, tonnes	2021	2020	2019
Direct (Scope 1) GHG emissions			
CO ₂ e emissions	56,478	50,285	58,606
Energy indirect (Scope 2) GHG emissions			
CO ₂ e emissions market-based	313,403	331,509	361,960
Total CO₂e emissions, market-based	369,881	381,794	420,566
Location-based, tonnes	2021	2020	2019
Direct (Scope 1) GHG emissions			
CO ₂ e emissions	56,478	50,285	58,606
Energy indirect (Scope 2) GHG emissions			
CO ₂ e emissions location-based	525,849	466,248	501,067
Total CO₂e emissions, location-based	582,327	516,532	559,673

Sources of emissions

Tonnes, conversion factors in tonne per unit in brackets	2020	2020	2019
Direct (Scope 1)			
LPG (3.0 per tonne)	3,890	3,468	3,996
Fuel oil (3.2 per tonne)	1,937	1,302	1,565
Natural gas (0.002 per cubic meter)	50,651	45,515	53,045
Supplied (Scope 2), market-based			
Electricity	288,589	310,282	341,931
District heating and cooling	24,813	21,226	20,030
Total CO₂e emissions, market-based	369,881	381,794	420,566

Scope 1 emission factors have been derived from the UK DEFRA standard, except Gothenburg where the local RECERT standard has been applied.

Scope 2 contractual emission factors have been provided by relevant electricity suppliers. Scope 2 location based emission factors have taken from IEA, DEFRA and other recognized data sources.

DEFRA Standard used for district heat except certain sites in Germany, Sweden and Poland where specific emission factors from suppliers are provided by the local district heat provider.

Scope 3 GHG emissions

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

Direct material suppliers

These data are based on aggregation of figures provided by the major (top 28) suppliers of steel and forgings to SKF. This scope covers 33% by volume of total direct material spend and 80% by weight of steel purchased (an increased reporting scope compared to 2020 of 16% and 27% respectively). This is the second year in which SKF reports this information and the data should be considered as indicative rather than a precise quantification of these upstream impacts. Going forward, SKF is working to increase the scope and accuracy of the data collected and reported.

CO ₂ e Tonnes	2021
Scope 3 direct material supplier emissions in scope ¹⁾	770,246
Scope 3 direct material supplier emissions in total ²⁾	1,060,424

1) See text for description of scope.

2) Total estimated emissions related to steel, forging, rolling elements.

Goods transportation data and related CO₂ emissions

	2021	2020 ¹⁾	2019 ¹⁾	2015
CO ₂ e emissions from transport Scope 3, (tonnes)	226,666	144,466	173,459	153,031
Transport works (tonnes shipped)	422,720	340,934	392,224	352,641

1) Scope of reporting was increased and figure for 2020 recalculated, previous figures re-stated accordingly.

Business travel

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

	2021	2020	2019
CO ₂ e emissions (tonnes) from air travel (scope 3)	3,990	3,584	12,954

SKF's climate targets

The Group has defined climate targets based on life cycle thinking. SKF's quantitative climate targets for 2025 are:

- 40% reduction of CO₂ emissions from manufacturing per tonne of bearings sold, and
- 40% reduction of CO₂ emissions from goods transportation per tonne of shipped products to end customer.

The baseline year for these objectives is 2015 and scope 2 emissions are calculated using the market-based method (GHG Protocol, 2015). These targets were developed and aligned with an analysis based on IPCC data using the Sectoral Decarbonization Approach method from the Science Based Targets initiative. The analysis was discussed with third party experts and SKF is confident that the CO₂ reduction target levels defined as result from the analysis are well in line with the requirements.

In June 2020, SKF announced a new objective for manufacturing and other operations to have net zero operations by 2030. This relates to scope 1 and scope 2 emissions. This will be achieved by a combination of efforts focused on energy and

material efficiency, generating renewable energy, sourcing renewable energy and as a last resort to cover any remaining emissions purchasing credible carbon offsets. As part of this approach, SKF has joined the RE100 initiative – a signal that the Group intends to source 100% renewable electricity within 2030.

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

In October 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.

The operations are responsible to develop plans to reach the targets, implement relevant actions and report on the progress. The Group EHS function provides a climate targets report to the Group Management, based on input from the operations. Group Sustainability is responsible for the coordination of the activities taking SKF to net zero greenhouse gas emission in the operations by 2030 and the supply chain by 2050.



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