Green finance framework

October 2019

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.

SKF's mission is to be the undisputed leader in the bearing business. SKF is represented through 15 technical centres, 94 manufacturing sites and 17,000 distributors in more than 130 countries.

1 Introduction

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 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 and means a significant step-up of SKF's sustainability strategy. It's a vehicle to engage our stakeholders in our integration of sustainability into SKF's business model and it's a way to challenge ourselves and to ensure our strategy, investments and development activities keep to our commitment.

The structure of this Green Finance Framework (the "GFF") is in line with the four key pillars of the Green Bond Principles issued by the International Capital Market Association (ICMA) and the Green Loan Principles published by the European Loan Market Association (LMA) and the Asia Pacific Loan Market Association (APLMA), namely;

- Use of proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting

2 SKF's sustainability focus

SKF focuses on activities that will have positive impact on people, climate and customers sustainability performance. We are working towards the Global Sustainable Development Goals (SDGs) and are signatories of the UN Global Compact.

Below is a brief overview of our climate footprint and the work we do on sustainability in customer solutions. We follow and are externally certified according to acknowledged ISO standards and guidelines relating to environment, energy and health and safety.

Climate and environmental footprint

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 in a carbon-efficient manner with minimal environmental impact helps meet those challenges and increases SKF's competitive advantage.

At the same time, SKF is well positioned to help its customers reduce their environmental impacts including greenhouse gas ("GHG") emissions, and those of their end products. Many of the products and solutions SKF offers enable the growth of cleantech industries – such as wind energy or electric vehicles and contribute to reducing the impacts and greenhouse gas emissions at all kinds of industries.

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 a thorough understanding of the life cycle impacts combined with SKF's power to influence.

For more details of the specific strategy and approach in these areas, please see the 2018 SKF Annual Report*.

Sustainability in customer solutions

Sustainability challenges such as climate change, material use, energy demand, water use and health and safety drive new customer requirements and legislation. SKF integrates sustainability into the business – our products, services and customer solutions.

SKF's customer solutions help deliver environmental improvements for customers and society at large in basically two ways.

(i) Innovative products and solutions that help enable transformative technologies such as wind and electric vehicles. SKF invests in the production capacity needed to meet the specific needs of these fast-growing sectors.

(ii) Products and solutions which, in and of themselves enable a lower environmental impact for the process or product where they are applied, such as the SKF Rotating Equipment Performance offer ("REP"). REP enables improvements in many areas of our customers' sustainability performance:

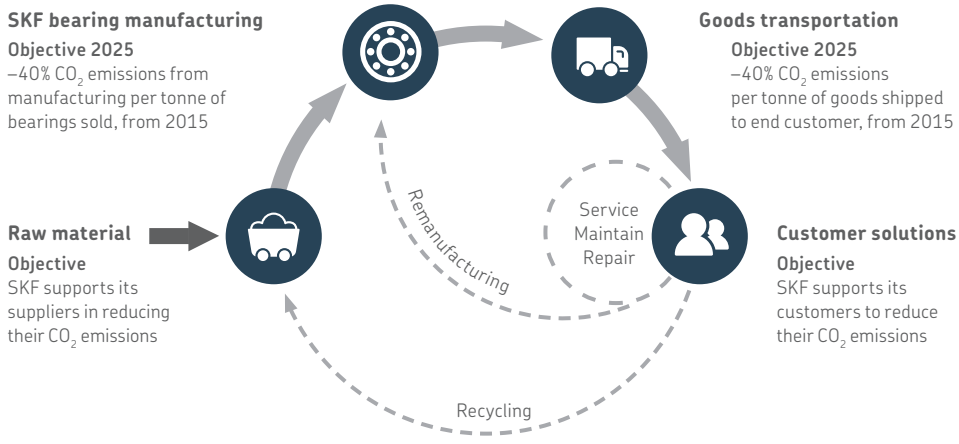
- Machine and operator safety
- Energy efficiency and reduced CO_2 emissions
- Material efficiency
- Improved production output and waste reduction
- Life time of components and the customer application
- Increased possibilities for remanufacturing
- Circular economy

SKF directly follows up and reports on the development of the first category. The second category is part of the SKF offers. Here we see an increasing recognition of the value from customers in all regions and sectors.

SKF applies life-cycle thinking to improve the total sustainability performance for the customer, including selection of materials, using efficient production processes, optimizing the function

*Refer to pages 131–133 in SKF Annual Report 2018. https://www.skf.com/irassets/afw/files/press/skf/201903065678-1.pdf

Objectives based on life-cycle thinking
SKF's climate objectives are based on life-cycle thinking – to reduce impact over the entire value chain; raw material and components, SKF's own operations, goods transportation, and customer solutions.



during customer use and preparing for remanufacturing or re-cycling when the product has reached its end of life.

The product development process includes aspects of climate and other environmental considerations by integrated tools and checklists. The product design process used in SKF considers the life cycle impact of choices made in terms of materials (recyclability, scarcity, trade-off) and functional performance (efficiency, weight). All of this is defined within the Group's quality management system.

SKF works to reduce the GHG's and other environmental impacts resulting from the production and supply of our products in the following ways;

- Improving energy efficiency of our factories.
- Securing an increasing share of green energy for our factories.
- Improving material efficiency, re-using, remanufacturing, recycling.
- Moving towards lower impact logistic solutions – closer to the customer – less air freight.
- Pushing our energy intensive suppliers to improve energy efficiency.

The Group's climate objectives are aligned with UN objectives (<2 degrees 2050) and reflect our high ambition.

3 SKF's climate objectives

UN objective <2°C 2050	Raw material	Manufacturing	Goods transportation	Customer solutions
Group Objectives	**Support** via systematic energy management	**–40%** CO_2 emissions from manufacturing per tonne of sold products	**–40%** CO_2 emissions from manufacturing per tonne of shipped products to end customers	**Enable** through innovation and better solutions

Result as of year-end 2018

- CO_2 emissions from SKF bearing manufacturing –24%
- CO_2 emissions from goods transportation –8%
- Total revenue cleantech 4.1 BSEK
- % of major energy intensive suppliers with ISO 50001 certification 76%

In addition, SKF has targets related to other significant environmental impacts, these are published in the Annual Report*. SKF publishes extensive information regarding energy and environmental performance on Sustainability at *skf.com*

Overall, SKF is on track or ahead of its published climate related objectives.

*Refer to pages 131–135 in SKF Annual Report 2018. https://www.skf.com/irassets/afw/files/press/skf/201903065678-1.pdf

4 Use of proceeds

SKF will finance assets in whole or in part that support the transition to low-carbon, climate resilient growth and lower environmental impacts as determined by SKF. The primary targets are climate impact mitigation, such as increased energy and material efficiency, use of renewable energy, as well as environmental impact reduction such as reduced waste and emissions. Categories eligible under the GFF are defined below.

(i) Capital investments in manufacturing, plant and property

SKF World Class Manufacturing
Transformation of SKF's global manufacturing capability with focus on technology step up including automation and digitalisation of manufacturing operations and buildings leading to more than 25% overall energy improvement and/or material use per unit of output.

Investments and acquisitions in production capacity, technology, testing and tooling for cleantech
Acknowledged cleantech industries, such as wind power, electrified vehicles and railway and SKF's remanufacturing concept which is a circular economy business model where SKF extends the product service life by refurbishing and servicing the bearing for the customer instead of producing a new.

To qualify as eligible at least 75% of the planned investment is required to target cleantech industries or SKF's remanufacturing concept.

In cases where the planned investment is below 75%, such investment may also be considered as eligible, however only the proportion of such investment applied towards cleantech and the remanufacturing concept will be included.

For acquisitions to qualify as eligible at least 90% of the business is required to be dedicated towards cleantech.

Green buildings
- New or refurbished buildings certified, or to be certified, to LEED minimum Gold or any equivalent system as determined by SKF.
- New factories certified or to be certified to LEED minimum Gold and to SKF internal certificate Sustainable Factory Rating.

Renewable energy
Investments on site or off site in renewable energy generation (wind, photovoltaic, solar thermal) associated to SKF facilities.

Improving process/facility energy or resource efficiency
Investments which result in >25% improvement in energy and or recourse use per unit of output vs. the previous solution within the scope of the machine/system to be replaced.

(ii) Research and Development expenses

Cleantech industries
R&D related to cleantech industries.

Product and process related R&D
- R&D related to efficiency technologies which can significantly improve climate, environmental or circular economy performance of SKF's customers.
- Expenses aimed at eliminating or mitigating harmful substances and materials in products or manufacturing, beyond legislative requirements.
- R&D related to World Class Manufacturing.

For the avoidance of doubt, investments in fossil fuel-based generation for electricity is excluded under the GFF. Investments in technologies that involve fossil fuel are also excluded with reservations for cleantech industries where bearing components may potentially be applied in hybrid vehicles and trains powered by diesel locomotives (where it is not always possible for SKF to know the type of engine to be applied in the system).

The proceeds raised under the GFF can be applied towards new assets and to refinance existing assets.

5 Process for project selection and evaluation

All capital investment requests in SKF undergo an approval process. As part of this process, all potential investments are evaluated on their expected impact on climate, environment, health and safety. The evaluation methodology is based on international standards and internal SKF criteria and is conducted by experts in the Environment, Health and Safety organization (EHS). Investments that are evaluated as eligible with the criteria in the GFF, are tagged in the investment system.

Budgets for expenses in R&D are set by respective internal organization and by SKF's R&D departments related to product and manufacturing development. Programs and projects and other activities are evaluated by EHS experts and tagged if deemed to fulfil the criteria of the GFF.

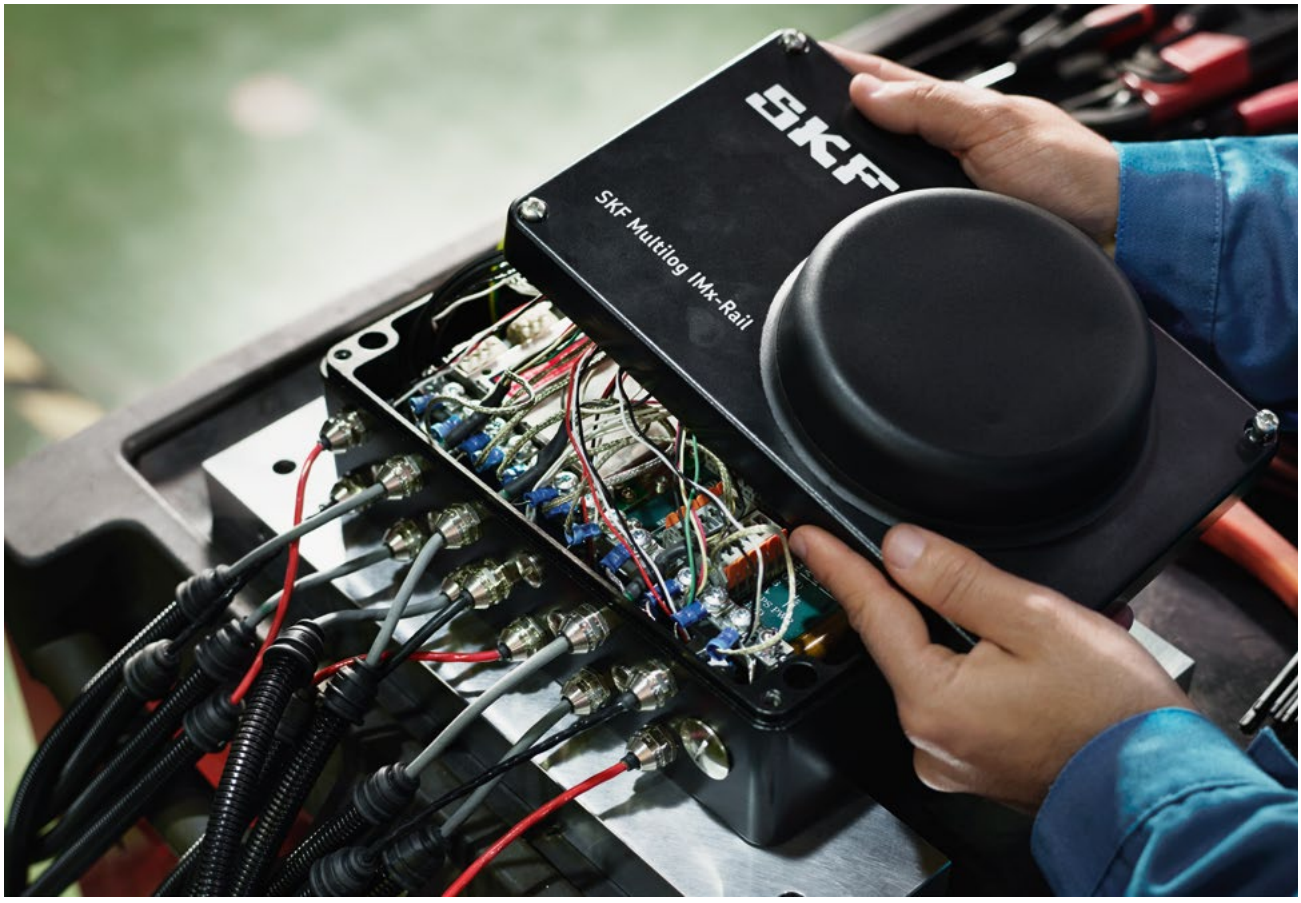
SKF has established a Green Finance Committee ("GFC") which approves the evaluations made by the EHS experts. The GFC also monitors all expenses and investments that have been financed under the GFF (the "Green Portfolio") and reports on the estimated green benefits. If for any reason GFC finds that an asset no longer qualifies for green financing such asset will be removed from the Green Portfolio and from the Green Pool (as defined below in article 6, Management of proceeds). GFC also oversees and implements the policies and procedures necessary for the experts to conduct the assessments according to the criteria set by the GFF.

The GFC consists of representatives with competence inter alia in treasury, sustainability and EHS. Decision-making is made on a unanimous basis and all decisions are to be documented.

Any future updates of the GFF shall be approved by the GFC.

6 Management of proceeds

An amount equal to the amount raised by SKF under the GFF is on the settlement day earmarked as green. SKF keeps a ledger with all disbursements of funds made under the GFF (the "Green Pool"). Proceeds yet to be allocated will be placed in the liquidity reserves and will be managed as such.



7 Reporting

SKF will annually provide and make available on SKF's webpage a report on its Green Portfolio as follows:

Allocation reporting
- Type of financing instruments and respective outstanding amounts
- The balance of unallocated amounts
- Distribution of the Green Portfolio per category
- Geographical distribution of the Green Portfolio

Impact reporting
- A selection of examples of the Green Portfolio
- Environmental Objective(s) pursued by the Green Portfolio
- Distribution of the Green Portfolio (investments vs expenses)
- Information on the split between new financing and re-financing
- Estimated impact of the Green Portfolio

The methodology for deriving the impact indicators will be described in the report.

Examples of impact indicators

Green portfolio	Examples of impact indicators	Targeted SDGs
SKF World Class Manufacturing concept	% average energy improvements/output	
Investments and acquisitions in production capacity, technology, testing and tooling for cleantech industries and remanufacturing	Estimated CO_2 reduction	
New or refurbished buildings certified, or to be certified, to LEED minimum Gold; or any equivalent system as determined by SKF New factories certified, or to be certified to LEED minimum Gold; and SKF internal certificate Sustainable Factory Rating	Certification obtained including level where relevant Estimated % of energy use reduced/avoided vs local baseline/building code	
Renewable energy installation for on site or off site operations	Capacity installed MW Estimated annual GHG emissions reduced/ avoided in tCO_2	
Improving process/facility energy or resource efficiency	Estimated aggregated savings, kWh, CO_2	

8 External Review

To secure alignment with national and international guidelines SKF has obtained an external third-party opinion on the GFF. The second opinion has received Light Green verification from Centre for International Climate and Environmental Research (CICERO) and a governance score of Excellent. The document is available on SKF's website.

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