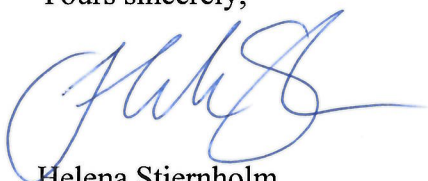


## Communication on Progress - United Nations Global Compact

Stockholm, Sweden on October 24, 2016

“I am pleased to confirm that Industrivärden AB reaffirms its support of the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption. In this our first annual Communication on Progress, we describe our actions to integrate the Global Compact and its principles into our business strategy, culture and daily operations. We are also committed to share this information with our stakeholders using our primary channels of communication.”

Yours sincerely,



Helena Stjernholm  
CEO

Industrivärden AB, COP for 2016  
Time period December 2015 – October 2016

## Background

In its capacity as a long-term active owner, Industrivärden has a culture of sustainability-oriented corporate social responsibility dating back many years. Corporate Social Responsibility is a key prerequisite for long-term value creation, and matters such as protecting the environment, human rights, diversity and business ethics are therefore regarded as key aspects of the portfolio companies' operations. Industrivärden monitors and takes a long-term involvement in the strategic development of its portfolio companies. This is a matter not only of risk management, but a form for creating business opportunities. A fundamental principle is that sustainability work, in the form of social and environmental responsibility, is a strategic investment that strengthens the company and its product offering, which contributes to enduring shareholder value over time. Against this background, major emphasis is put on ensuring that the portfolio companies have the boards, leadership, organization and resources required to integrate sustainable value creation in their business models, processes and product offerings.

Sustainability aspects in the portfolio companies are handled, like other strategic issues, within the framework of Industrivärden's processes for exercising active ownership. In 2016 Industrivärden initiated development work aimed at strengthening its analysis and ability to influence sustainability-related matters. This new framework is built upon four fundamental perspectives: organizational and governing frameworks, information and communication, sustainability for value-creating business opportunities, and risk management.

The portfolio companies are active in a wide range of industries, and thus their conditions and actions naturally differ from each other. However, Industrivärden's overall ambition from a long-term ownership perspective is the same for all of the portfolio companies. As an active owner, Industrivärden strives to ensure that its portfolio companies;

- regard sustainability as an important strategic opportunity
- integrate sustainability aspects in their business models, strategies, processes and product offerings,
- comply with applicable laws, rules and regulations, and generally accepted principles,
- continuously strive to improve their positions with the support of relevant guidelines and measureable results, and
- communicate their sustainability work.

Industrivärden's portfolio companies have all made great progress in capitalizing on the value potential provided by long-term corporate sustainability and score highly in various industry peer comparisons.

Industrivärden's policy on corporate social responsibility is addressed through the company's Code of Conduct. The Code of Conduct reflects the OECD Principles for Multinational Companies, the International Labour Organization's eight core principles and United Nations Global Compact. Industrivärden expects all employees, board members and portfolio companies to comply with the Code of Conduct. The Board of Directors annually reviews the Code of Conduct.

Below are some examples of current activities in the areas of Human Rights, Labour, Environment and Anti-Corruption from Industrivärden's portfolio companies. Additional examples and information can be found in the portfolio companies' annual and/or sustainability reports.

## Human Rights

*Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and*

*Principle 2: make sure that they are not complicit in human rights abuses.*

### Example from Volvo

”The Volvo Group is a company with a global reach, and as such, we have operations, suppliers, customers and other business partners in countries with higher risks of human rights abuses. We have embarked on the journey to implement the UN Guiding Principles on Business and Human Rights. Specific policies guide our work such as our Code of Conduct, our Health and Safety Policy and our Responsible Supply Chain Directive. The Volvo Group has defined our salient human rights issues as

- labour rights of business partners’ employees;
- rights of people in communities near operations in our value chain and
- right to life, liberty, security and health.

We are increasingly developing and integrating tools to assess and manage human rights in all our main processes. During 2016 we will initiate human rights due diligence for our own organization.

### *Labour rights of business partners’ employees*

The Volvo Group’s Code of Conduct sets out our minimum standards for respecting human rights and labour practices. We encourage all partners to share and apply these standards, regardless of country or business. Our responsible sourcing program and customer CSR assessment process are two tools we work with to ensure that human rights are respected in our value chain. Where human rights issues are identified, the Group believes that we can have more impact by cooperating with partners and applying influence from the inside, than by abstaining from business and remaining on the outside.

### *Rights of people in communities near operations in our value chain*

All people have the right to an adequate standard of living and to ownership of land and property. For people living in certain communities near operations in our value chain, we see risks of these rights not being properly respected. We have policies and procedures to reduce the negative environmental impact and ambitions to increase the positive social impact from our operations. We encourage our business partners to do the same.”

(The Volvo Group Annual and Sustainability Report 2015, p. 72)

Additional examples of work in the area of Human Rights can be found in the portfolio companies’ annual and/or sustainability reports.

## Labour

*Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;*

*Principle 4: the elimination of all forms of forced and compulsory labour;*

*Principle 5: the effective abolition of child labour; and*

*Principle 6: the elimination of discrimination in respect of employment and occupation.*

**Example from ICA Gruppen**

“ICA Gruppen’s basic rule when it comes to child labour is that people younger than 15 may not work for any of the Group’s suppliers. If national laws have stricter limits, these apply. In China, for example, the minimum legal working age is 16. ICA Gruppen also requires its suppliers to give special consideration to young workers (younger than 18) in matters such as the right to limited working hours. If ICA Gruppen detects or suspects that a worker has not reached the minimum legal working age, the contract with the supplier obliges the supplier to take measures to protect the best interests of that person. Together with the supplier, ICA Gruppen tries to find the best possible solution in light of the child’s age, education and social situation.”

“ICA Gruppen’s focus on diversity is long-term and is based on the Company’s values. Within the Group everyone – regardless of gender, gender identity, ethnic affiliation, functional disability, sexual orientation, age, faith or other belief system – has the same chance for recruitment and development in their work role. ICA Gruppen condemns any form of sexual harassment or discrimination.

ICA Gruppen has a number of initiatives to increase diversity, including a programme to create jobs for young people and people with disabilities, and to help recent arrivals to Sweden to get established. In 2015 ICA Gruppen joined the 100 Club, an initiative by the Swedish Government aimed at helping new arrivals get a job. Companies who join commit to employ at least 100 new arrivals within three years.

The ICA 2020 initiative is aimed at young people who find themselves excluded from the labour market, and this also includes young new arrivals. The initiative is being run by the Group in cooperation with ICA stores. Since the start in 2014 more than 1,200 young people have had internships and just over 450 have gone on to be employed. The pharmacy industry is currently suffering from a shortage of pharmacists. Meanwhile there are many trained pharmacists among recent immigrants. Apotek Hjärtat is offering assistant positions and internships to people who are educated as pharmacists in other countries, even before they received their Swedish identification documents.

The initiative called “We can do more” was launched in 2009 to increase employment opportunities at Swedish ICA stores for individuals with functional impairment. Today roughly 700 ICA stores employ more than 1,400 people with functional disabilities.”

(ICA Gruppen Annual Report 2015, p. 24-25 & 123)

Additional examples of work in the area of Labour can be found in the portfolio companies’ annual and/or sustainability reports.

## Environment

*Principle 7: Businesses should support a precautionary approach to environmental challenges;*

*Principle 8: undertake initiatives to promote greater environmental responsibility; and*

*Principle 9: encourage the development and diffusion of environmentally friendly technologies.*

### Example from SCA

”SCA is investing in the development of black pellets, which are expected to make a commercial breakthrough. This new bio-based product has the potential to replace fossil coal in many applications. Black pellets are made from biomass roasted at a very high temperature in an oxygen-free environment, resulting in pellets that contain 20% more energy per volume unit than traditional white pellets. Black pellets offer many advantages. They make transport more efficient, are easier to grind and can be handled outside – even when it is raining – without absorbing water. Black pellets are a climate-smart alternative for areas that currently use various types of fossil coal, for example, in emerging markets such as China. SCA is investing in black pellets through a partnership with BioEndev, which is building a demo facility in Holmsund.”

(SCA, Sustainability Report 2015, p. 28)

### Participation in CDP (formerly Carbon Disclosure Project)

Since 2011 Industrivärden has been reporting to CDP. The participation includes annual disclosure of greenhouse gas emissions, strategy, and risks and opportunities in the area of climate change. The portfolio companies SCA, Svenska Handelsbanken, Sandvik, Skanska, Ericsson and Volvo respond annually to CDP and receive high rankings.

Additional examples of work in the area of Environment can be found in the portfolio companies’ annual and/or sustainability reports.

## Anti-Corruption

*Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.*

### Example from Handelsbanken

”Conflicts of interest occur daily in society and the financial sector is no exception. All employees of Handelsbanken, regardless of where they work in the Group, are obliged to follow the Bank’s regulations concerning conflicts of interest and to identify these on a regular basis, and as far as possible ensure that they are avoided. Handelsbanken has established procedures for managing conflicts of interest with the purpose of preventing customers’ interests from being negatively affected. The Bank’s regulations contain requirements for transparency, whereby the customer must be informed when a conflict of interest has been identified which might affect the customer. Handelsbanken’s Board has revised the Bank’s policy for managing conflicts of interest where it states how the work of identifying and managing conflicts of interest is conducted. The revision applies at the time this Sustainability Report is published.

In banking operations there is a risk that staff will be exposed to a situation that can be linked to attempts at bribery, which in turn may lead to a position of dependence. It is therefore important that the Bank's employees comply with laws and the Bank's regulations regarding bribery and improper influence so that they avoid being dependent on a customer or supplier, or have improper influence on a customer. The Bank's employees must not participate in actions that may involve bribery or any other improper influence, either within the Bank's operations, or when they perform other assignments outside the Bank. All unit heads must annually go through the regulations applying to bribery and improper influence with their employees. There are also procedures for how employees are to report a suspected breach of these regulations. The regulations must be followed in all contexts, such as gifts, entertainment and other events. In addition, employees' business travel must always be paid for by the Bank.

During the year, Handelsbanken has worked to further reinforce and guarantee the quality of its work to counteract conflicts of interest, corruption, bribery and improper influence. For example, a special analysis was made of the risk of bribery, corruption and improper influence within the Handelsbanken Group and this was documented in preparation for revision of the Bank's policy. The analysis identified the areas where the Bank is at greatest risk of being exposed to, or complicit in, bribery, corruption and improper influence. In addition to this analysis, operational risk analyses are performed each year which include the area of corruption. Security reviews are also performed every year and these contain a training and information section on corruption. No verified corruption incidents were reported in 2015.

Handelsbanken's Board has revised the Bank's anti-corruption policy, which states that all new employees of the Bank must complete a course on corruption, bribery and improper influence. Completion of the course must be documented. All employees must also update their knowledge annually. The policy also applies to all Board members throughout the Group who must complete applicable parts of the course. Service providers and representatives of the Bank must also be informed of the Bank's rules on bribery, improper influence and corruption, and they are subject to these rules when they perform assignments on behalf of the Bank."

(Handelsbanken Annual Report 2015, p.221)

Additional examples of work in the area of Anti-Corruption can be found in the portfolio companies' annual and/or sustainability reports.

## Measurement of outcomes

### Example from Industrivärden

During 2015 the average number of employees decreased from 23 to 21, and still nine were women. Together with Helena Stjernholm as a new CEO Industrivärden moved from the black to the grey list in the yearly AllBright report.

### Example from Sandvik

“We have worked toward achieving a continued improvement in injury frequency rates. The goal for this year was to achieve a Lost Time Injury Frequency Rate of 1.9 (work-related incidents that result in >1 day lost from work per million hours worked). At year-end we reported a LTIFR for the Group of 2.1, which shows that the injury rate continued to improve, even though the target was not fully reached. Nevertheless, the rate of 2.1 is the lowest in Sandvik's history.”

(Sandvik Sustainable Business Report 2015, p.21)

### Example from SSAB

“Recycled steel has a big impact on reducing the environmental footprint of the product's lifecycle. It replaces the iron ore as input material in iron and steel-making. In 2015, SSAB used 2.6 (3.0) million tonnes of external scrap and 1.0 (1.2) million tonnes of internal recycled scrap, which equates to an average of 43% of recycled steel used in all of SSAB's steel production. SSAB uses approximately 20% of scrap metal in conjunction with steel production in the Nordics, and nearly 100% in the US.”

(SSAB GRI Report 2015, p.15)

Additional examples of measurement of outcomes can be found in the portfolio companies' annual and/or sustainability reports.