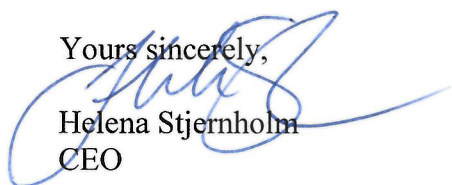


Communication on Progress - United Nations Global Compact

September 27, 2017

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 second annual Communication on Progress, we describe our actions to integrate the UN 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 2017

Time period October 2016 - September 2017

Creating value through active ownership

Industrivärden's mission is to conduct long-term asset management that creates value through active ownership. The long-term goal is to increase net asset value and thereby generate a return for Industrivärden's shareholders that exceeds the market cost of capital. Taking into account the risk profile of the portfolio's investments, the shareholders are to be given a total return which over time is higher than the average for the Stockholm Stock Exchange.

Operations are built upon a structured process of continuous analysis and evaluation of existing and potential new holdings. Active ownership is exercised primarily through involvement in nomination processes for board elections, through board representation, through evaluation of company boards, CEOs and executive managements, and by monitoring and – where necessary, through a company's board – influencing the portfolio companies' overall development. Through these measures Industrivärden contributes to the portfolio companies' growth in value over time.

Industrivärden is a major investor in and active owner of Handelsbanken, Sandvik, Volvo, Essity, Skanska, ICA Gruppen, Ericsson, SCA and SSAB.

Industrivärden's contribution to sustainability as an influential long-term active owner in its portfolio companies

Since many years, Industrivärden nurtures a culture of sustainability oriented corporate social responsibility, based on its capacity as a long-term asset manager and active owner. Corporate Social Responsibility is a 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 is actively involved in the strategic development and monitoring of its portfolio companies. This is a matter not only of risk management, but a strategy that opens up for new business opportunities. We look at social and environmental sustainability as a strategic investment. It strengthens the company and the product offerings and contributes to an increasingly strong shareholder value over time. With this in mind, major emphasis is placed 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.

In line with all other strategic issues, sustainability aspects fall under the framework of Industrivärden's processes for investment management and exercising active ownership.

In 2017 Industrivärden continued to develop and strengthen its analytical ability to influence sustainability-related matters in the portfolio companies. A new framework was developed, built upon four fundamental perspectives: organizational & governing frameworks, information & communication, sustainability for value-creating business opportunities, and risk management. Moreover, we engage in an ongoing dialogue on sustainability with representatives of existing and potential shareholders, our portfolio companies as well as other stakeholder groups with the aim of embracing new perspectives while sharing our own experiences. During 2017 Industrivärden has been actively involved in a collaborative project

hosted by SIDA (the Swedish Development Cooperation Agency) on the 2030 Agenda for Sustainable Development.

As a long-term asset manager and active owner, Industrivärden supports and encourages our portfolio companies to develop successful, responsible and sustainable operations. As an active owner, we have a strong focus on materiality based on the respective portfolio company's risks and opportunities. We address the sustainability related risks and opportunities that we believe are relevant based on materiality, and therefore have the greatest potential of value enhancement. Industrivärden's portfolio companies face different challenges, and conduct their daily operations in different contexts and with different preconditions. As a result, in our analysis we will not necessarily focus on the same areas or SDGs (Sustainable Development Goals) for each individual portfolio company. Furthermore, the SDGs that are highlighted under the principal of materiality may vary over time.

Industrivärden's contribution to the Sustainable Development Goals within its own asset management operation

Although a relatively small and efficient organization with 20 employees, Industrivärden aims to lead by example. In 2017, Industrivärden conducted a materiality analysis to identify the most critical areas regarding sustainability for our company. The analysis facilitated in identifying a number of SDGs that we can contribute to as an asset manager within our own operation.

- **SDG 5 – Gender equality.** We offer an attractive and dynamic workplace characterized by openness, responsiveness and mutual respect. We believe in diversity, including gender, culture, religion, as well as personality. We actively work to include different perspectives in our work and we will stay committed to enhancing diversity.
- **SDG 8 – Decent work and economic growth.** Sustainable economic growth is essential for realizing our business mission to create shareholder value through active ownership. We aspire to be a positive force in society that contributes to sustainable development. By supporting the value growth of our portfolio companies in a responsible way, we contribute to employment, decent work standards and strong, inclusive economies.
- **SDG 12 – Responsible consumption and production.** We make environmentally smart choices in our own office and operations, such as using renewable energy and selecting climate smart and efficient travelling alternatives. Proactive sustainability work and good business ethics are key success factors and an integral part of Industrivärden's daily operations.
- **SDG 13 – Combat climate change.** Climate change is one of the biggest challenges of our generation. For the seventh consecutive year, we have been reporting according to the CDP framework in order to monitor our impact on the environment. We strive to minimize our environmental impact in our own operations and compensate for our

carbon emissions. Our CDP-reporting also covers our ownership stakes in our portfolio companies.

The portfolio companies are active in a wide range of industries, 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 progress in capitalizing on the value potential provided by long-term corporate sustainability and score highly in various industry peer comparisons. All of the portfolio companies participate in the UN Global Compact, and are therefore committed to respecting and adhering to the UN Global Compact principles. The portfolio companies also work – according to their own ability and individual conditions – to contribute to the achievement of the global goals of the UN's 2030 Agenda for Sustainable Development.

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 Enterprises, the International Labour Organization's eight core principles and the UN Global Compact. Industrivärden expects all employees, board members and portfolio companies to comply with the Code of Conduct, which is reviewed annually by the Board of Directors.

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 respective company's annual and/or sustainability report.

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 former SCA, today Essity (www.essity.com)

“Human rights was an important theme for the year. To ensure that human rights are respected in all aspects of SCA’s business, we are constantly working to understand and manage the risks in the area. During the year, we developed a model to help SCA’s various units to map the risk of rights violations. SCA’s business unit in Latin America was the first to use the model. This work began with a workshop for SCA management in Latin America. Participants received an introduction to the UN’s Guiding Principles on Business and Human Rights and then drew up an overall risk map for the region. The second step included similar workshops and risk mapping for Mexico, Chile, Brazil and Central America. Action plans will also be drawn up to manage high-risk areas. The plans will be finalized in early 2017. The mapping of Latin America is a continuation of the global review carried out in cooperation with BSR (Business for Social Responsibility) in 2014. We will evaluate the results in Latin America and decide on the continued roll-out.”

(SCA Sustainability Report page 21)

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 Sandvik (www.sandvik.com)

“In 2016, capacity-building activities were continued in order to increase awareness, engagement and trust in our business partnerships and across our organization. We continued the roll out of our internal capacity-building program based on Sandvik’s Sustainable Purchasing Policy, related processes and the Supplier Code of Conduct. During 2016, 168 purchasers and related functions participated in the program. Additionally, comprehensive training on conflict minerals was provided to 220 employees.

During the year, we conducted 175 audits, out of which 174 were on-site audits, (China 66, India 60, Brazil 24, Mexico 9, Peru 7, Argentina 2, USA 2, Taiwan 1, Thailand 1, Europe 1, South Africa 1). All first time audits and re-audits were conducted against the Supplier Code of Conduct. Most deviations relate to health and safety, compensation and benefits and environment. During 2016, we did not identify any case of child labor. Regarding young workers (15–18 years), we identified issues related to incomplete employee files, recruitment policies and procedures. The deviations concerning forced labor relate to financial penalties imposed on employees at our suppliers in China, except for two cases. These two cases relate

to non-competition clauses included in employment contracts, where one of the cases has been closed in 2016 and the second one is ongoing. Please read more at home.sandvik.com.”

(Sandvik AR page 36.)

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 Skanska (www.skanska.com)

“A project so Deep Green that it transforms rain into drinking water: In 2016, the Brock Environmental Center in Virginia Beach, USA, became the 11th building in the world certified under the Living Building Challenge, which sets demanding green building criteria, including for materials. Living Buildings meet Skanska’s Deep Green criteria. In the Center’s first year, it generated 83 percent more power than it used, thanks to its photovoltaic panels and wind turbines. Also, it is the first USA commercial building permitted to turn rain into drinking water. Embodied carbon reduced by 7 percent. Extensive use of environmentally responsible construction materials, and 95.9 percent of construction waste diverted from landfill. Net-zero water, and was first commercial building in the USA to legally use purified rainwater for human consumption. As program manager, Skanska advised the customer and the design and construction team, drawing on the Group’s involvement with other Living Buildings.”

(Skanska Annual Report 2016, page 68)

Anti-Corruption

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

Example from SSAB (www.ssab.com)

“Anti-Corruption Policy

SSAB’s Anti-Corruption Policy defines SSAB’s zero tolerance approach to bribery and corruption and sets out guidance for our daily operations. The policy provides employees with information on how SSAB defines bribery and improper benefits, and how employees are expected to act in relation to our suppliers, customers and other business partners.

E-learning in business ethics

All employees are expected to comply with SSAB’s Code of Conduct, Anti-Corruption Policy and to have knowledge of how to report non-compliance in accordance with the Ethics Line. Shared ethical guidelines are fundamental in a global company such as SSAB. Training is organized through a global e-learning module to reach out to all employees in order to provide basic training in business ethics and implement anti-corruption efforts.

Face-to-face training in business ethics

Internal training in business ethics takes place on a regular basis. The training is mainly provided to employees in management, sales and procurement, and is based on SSAB's values, policies and guidelines. During the course of the training, participants are taught what is meant by corruption and bribery, and how SSAB's anti-corruption program is structured. This is followed by a discussion focused on practical, real-life examples and dilemma discussions. Experience has shown that business ethics training builds trust and provides for more personal discussions with employees. In 2016, training was mainly provided to employees in the sales organization.

Review of business partners

In some situations, SSAB reviews the integrity of our business partners more closely. SSAB has an instruction for business ethics reviews that mainly cover agents, certain distributors and consultants who represent SSAB in dealings with any third party. In most cases, there is no need to review the integrity of a business partner more closely, but the instruction means that SSAB may not enter into or renew agreements with business partners that are within the typical risk areas for corruption, before an initial assessment showing that such partners respect our fundamental rules of business ethics. There should be a written agreement between SSAB and the business partner specifying the duties to be performed, adequate and reasonable compensation and the business partner must be competent and qualified to perform the work for which they are being hired. An anti-corruption clause is also implemented in these agreements.

Anti-corruption manual

SSAB has an anti-corruption manual to audit fraud and corruption risks and carried out four audits in subsidiaries during 2016 based on this manual. These audits have not revealed any specific irregularities, but have identified potential to further reduce risks from this perspective. Defined risk mitigation measures are implemented according to agreed action plans.”

(SSAB Annual Report 2016, page 71-72)

Measurement of outcomes

Example from Volvo (www.volvogroup.com)

“Volvo Group was the world’s first automotive manufacturer to be approved by World Wildlife Fund (WWF) to participate in its Climate Savers program.”

“The results are audited by independent experts. The agreed target should challenge us to be more progressive than business as usual and it must also signify that we are leading our sector in the reduction of greenhouse gas emissions. The results for activities undertaken in 2016 show 9 Mton CO₂ reduction in lifetime emissions from products. During 2015 and 2016 about 400 energy saving activities have been implemented, resulting in 71 GWh/year in energy savings.”

(Volvo Annual and sustainability report 2016, page 44)

Example from ICA Gruppen (www.icagruppen.com)

“100% of ICA Gruppen’s corporate brand suppliers in high-risk countries will be socially audited. To ensure that ICA Gruppen’s corporate brand products are produced in an acceptable way with respect to human rights, social audits are performed on the premises of suppliers in highrisk countries. The audits are to be performed according to a model approved by ICA Gruppen or according to ICA Gruppen’s own social audit tool. By year-end 2016, 98% (98) of the suppliers in high-risk countries that produce ICA Gruppen’s corporate brand products had been socially audited. In the product categories food and home and personal care, work during the year resulted in all of the production units for ICA’s corporate brand products in high-risk countries having been socially audited. In the categories fruit, vegetables, flowers and non-food, improvements were made during the year, even if not all of the production units have yet been socially audited. The focus in 2017 is on ensuring that a social audit is carried out on new production units and the current production units that have not yet been socially audited.”

(ICA Gruppen Annual report 2016, page 17)