

Communication on Progress - United Nations Global Compact

August 27, 2018

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 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 2018
Time period October 2017 - September 2018

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's required rate of return. 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 (Nasdaq Stockholm).

Operations are built upon a structured investment 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 board representation – 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 the listed companies Sandvik, Volvo, Handelsbanken, Essity, SCA, Ericsson, ICA Gruppen, Skanska and SSAB.

Industrivärden's contribution to sustainability as an influential long-term active owner

Long-term value creation requires sustainable solutions and decisions, which is why our asset management decisions and influencing activities are based on a distinct sustainability perspective, and matters such as protecting the environment, human rights, diversity and business ethics are therefore regarded as key aspects of the portfolio companies' operations. As an active owner we contribute to developing responsible companies that capitalize on sustainability-related opportunities. This creates competitive companies and favors long-term sustainable development in the communities in which the portfolio companies operate.

Industrivärden looks at sustainability as a strategic investment. It strengthens a company and its 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.

Like other strategic matters, sustainability aspects in the portfolio companies are handled within the framework of Industrivärden's active ownership process. The work is based on our sustainability analysis framework, which covers the portfolio companies' organization, structure, risk management, utilization of value-creating opportunities and communication. Through this analysis process we obtain a wealth of knowledge about the portfolio companies' sustainability work, which benefits our active ownership.

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 policy on corporate social responsibility is addressed through our 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 and board members to comply with the Code of Conduct, which is reviewed annually by the Board of Directors. Through our active ownership we also advocate for our values and ethical guidelines, and that they will also permeate the companies in which we are active owners.

In 2018 Industrivärden issued its first sustainability report based on the GRI framework. We engage in an ongoing stakeholder 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.

Industrivärden's contribution to the Sustainable Development Goals

Based on our own business, our role vis-a-vis the portfolio companies as well as our materiality analysis, we have chosen to focus particularly on the following SDGs: 5 – Gender equality; 8 – Decent work and economic growth; 9 – Industry, innovation and infrastructure; 12 – Responsible consumption and production; and 13 – Climate action. From an influence perspective, SDG 5 and SDG 13 pertain mainly to our own operations, while the other three pertain to our portfolio companies within the framework of our active ownership.

- **SDG 5 – Gender equality.** Diversity and gender equality are priorities both in our own operations as well as in our portfolio companies. Industrivärden offers an attractive and dynamic workplace characterized by openness, responsiveness and mutual respect. We believe in diversity, including gender, culture, religion, as well as personality and other aspects. 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 a linchpin in our work on contributing to the development of responsible and successful companies. 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 9 – Industry, innovation and infrastructure.** Promotion of sustainable industrialization and innovation is in focus in our portfolio companies and is encouraged in our role as active owner.

- **SDG 12 – Responsible consumption and production.** All of our portfolio companies conduct strategic sustainability work that is integrated in their business models and communicated externally. The companies aim to offer long-term sustainable and efficiently produced products and services that contribute to sustainable production and consumption.
- **SDG 13 – Combat climate change.** Climate change is one of the biggest challenges of our generation. For the eighth consecutive year, we have been reporting according to the CDP framework in order to monitor our impact on the environment. Our CDP-reporting also covers our ownership stakes in our portfolio companies. 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. We are committed to reducing our own impact over time, and we offset for our actual greenhouse gas emissions through carbon credits.

Industrivärden is a participant in SISD (Swedish Investors for Sustainable Development), a project sponsored by Sida (Swedish International Development Cooperation Agency). The aim is to gain knowledge and share experience with other project participants in the investor community. Within the framework of this project we are part of a work group focusing on anti-corruption, which is one of the specific targets in SDG 16 – Peace, justice and strong institutions.

Industrivärden's portfolio companies

The portfolio companies, Sandvik, Volvo, Handelsbanken, Essity, SCA, Ericsson, ICA Gruppen, Skanska and SSAB, 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 has an expectation that its portfolio companies;

- treat sustainability as a vital strategic opportunity
- integrate sustainability aspects in their business models, business cultures, strategies, processes and product offerings,
- comply with applicable laws, rules and regulations, and generally accepted principles for corporate social responsibility,
- continuously improve their work with the support of relevant guidelines and measureable goals, and
- communicate their sustainability work, including the ways in which they contribute to long-term sustainable development in the communities they operate in.

Industrivärden's portfolio companies have all made good progress in capitalizing on the values conveyed 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.

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.

Examples from Ericsson (www.ericsson.com)

- Global Network Initiative: The GNI is a unique multi-stakeholder group that is dedicated to protecting and advancing freedom of expression and privacy in Information Communications Technology (ICT). In late 2017, Ericsson announced its decision to join as an observer for 2018. This will allow us to engage directly on freedom of expression and privacy issues with internet and telecommunications companies and more than 35 human rights and press freedom groups, investors and academic members.
- Definition of a process for customized Human Rights Impact Assessments (HRIAs): Consultations with human rights stakeholders helped us gather input to the customized HRIA that we piloted in Cuba. Labor issues were highlighted and we further strengthened our mitigation measures.
- The Circle of Innovators: Together with the Institute for Human Rights and Business (IHRB) we explored the subject of safeguarding human rights in the big data and AI revolution at the Circle of Innovators meeting. Together with other participants, Ericsson representatives addressed the interface of business and human rights within the context of this “disruptor”. The initiative built on previous Wilton Park events on safeguarding rights in the big data revolution.
- Shift Business Learning Programme: Ericsson has been a member of the Shift Business Learning Programme since 2012, which has the purpose to foster leading practice by companies and to gain insight, both for the organization, for participants and for the wider business and human rights community, about how to implement the UNGPs.”

(Ericsson Sustainability and Corporate Responsibility Report 2017, page 26)

Example from Volvo (www.volvogroup.com)

“During 2017, we finalized our pilot project for the human rights review process that we have developed and tailored for Volvo Group operations, based on input from the Danish Institute for Business and Human Rights, as well as the UN Global Compact's self-assessment tool. In the pilot, we conducted human rights reviews through self-evaluations and workshops with the management team responsible for the operations of concern, followed by extensive stakeholder dialogues, joint development of mitigation plans with local management and continuous follow-up. During 2017 two assessments were finalized; one in India, being a high risk country, and one to test the first part of the review process in a low risk country, Germany. The assessment included all employees, consultants, and other people working on Volvo Group premises (e.g. service providers). By the end of 2017 we decided to continue

with the human rights reviews for Group operations, initially focusing on operations in high risk countries.”

(Volvo Annual and Sustainability Report 2017, page 77)

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 Essity (www.essity.com)

“In 2017, a training programme with seven workshops were carried out in three countries in Latin America with a total of 94 participants. As a result of these workshops, the units decided to continue working on such areas as fair wage structures, safety on the way to and from work, and working conditions at employment agencies. By the end of 2017, action plans were in place for all risk areas at each unit, of which 72% have been carried out to date.”

(Essity Annual and Sustainability Report, page 37)

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 Annual report 2017, page 122)

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 SSAB (www.ssab.com)

In 2016, SSAB, LKAB (Europe's largest iron ore producer) and Vattenfall (one of Europe's largest electricity producers) joined forces to create HYBRIT, a joint-venture project that endeavors to revolutionize steel-making. HYBRIT aims to replace coking coal, traditionally needed for ore-based steel making, with hydrogen. The result will be unique: The world's first fossil-free steel-making technology, with virtually no carbon footprint.

In 2018, a pilot plant for fossil-free steel production is planned and designed in Luleå and the Norrbotten iron ore fields, 250 km north west of Luleå. The goal is to have a solution for fossil-free steel by 2035. If successful, HYBRIT means that together we can reduce Sweden's CO₂ emissions by 10% and Finland's by 7%.

The pilot phase is planned to last until 2024, after which it will move to the demonstration phase in 2025–2035. The conclusion is that fossil-free steel, given today's price of electricity, coal and CO₂ emissions, would be 20–30% more expensive. With falling prices in electricity from fossil-free sources and increasing costs for CO₂ emissions through the European Union Emissions Trading System (ETS), the pre-feasibility study considers that fossil-free steel will, in future, be able to compete in the market with traditional steel.

Already before a solution for fossil-free steel making is in place, SSAB aims to cut its joint carbon dioxide emissions in Sweden by 25% by as early as 2025, through conversion of the blast furnace in Oxelösund, Sweden. Between 2030–2040, the aim is convert also the blast furnaces in Luleå, Sweden and Raahе, Finland to eliminate most of the remaining CO₂ emissions and to attain the target of being fossil-free by 2045.

(SSAB Annual Report 2017, page 59-60)

Examples from Handelsbanken (www.handelsbanken.se/en):*“Green loans*

In 2017, Handelsbanken launched green loans for buildings. Worldwide the real estate sector accounts for a very large proportion of energy consumption and – directly and indirectly – for a large proportion of global emissions of greenhouse gases. To minimise the long-term negative impact from the real estate sector, it is vitally important that new and old buildings consume less energy and that new buildings and major renovations take into account the environment and climate through the sound choice of materials, low energy consumption and proper operation and maintenance of the building over time. Technical criteria have been developed to ensure that the environment and climate are taken into consideration when a green loan is used to finance buildings, and Handelsbanken continuously monitors each project financed with a green loan.

Green bonds

Interest in green bonds continues to grow. Handelsbanken Capital Markets is very active as an advisor to new and existing issuers of green bonds, in formulating terms and conditions as well as in issuing green bonds. During the year, Handelsbanken participated in working groups connected to the Swedish government's inquiry to identify ways to promote the market for green bonds, whose final report was presented on 10 January 2018. Handelsbanken has also joined the Climate Bonds Initiative (CBI), which plays an important role in the continued existence and development of this product in international capital markets. The market is growing fast, and a volume close to SEK 80 billion was issued by Nordic borrowers during the year, representing growth of 49 per cent. During the year, Handelsbanken Capital

Markets was advisor to almost one third of the borrowers who issued green bonds for the first time in the Swedish market.”

(Handelsbanken Sustainability Report 2017, page 21)

Anti-Corruption

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

Example from Skanska (www.skanska.com)

“The Code of Conduct, anti-corruption policy and other policies provide clear directions to employees, and related training provides instruction on appropriate behaviors. Skanska encourages employees to have everyday discussions around the Group’s values. Short videos depicting situations encountered by employees support this activity.

Due diligence deepens Skanska’s knowledge of suppliers, subcontractors and other partners. Particular attention is given to those representing Skanska as intermediaries. Sellers and buyers of land and real property are also scrutinized, including identifying funding sources.”

(Skanska Annual Report 2017, page 82)

Example from Sandvik (www.sandvik.com)

“Our policy on anti-bribery and anti-corruption states the following: “Sandvik is firmly committed to fair business practices without any form of bribery or corruption and confirms to comply with anti-bribery laws in all countries where we operate.” This policy applies to all entities and employees within the Sandvik Group and we expect the same high ethical standards from our business partners, suppliers and intermediaries regarding anti-bribery and corruption.

Sandvik’s anti-bribery and corruption program closely conforms to the guidance provided by major regulators with policies and procedures, assessment of bribery and corruption risks, screening and vetting of business partners, training of employees and monitoring and reporting of these activities.

In 2017, Sandvik strengthened group-wide management of commercial intermediaries by acquiring new IT systems support, which facilitates risk assessment, due diligence, ongoing management and monitoring of commercial intermediaries. Sandvik further enhanced penetration and monitoring of anti-bribery and corruption compliance through embedding specific controls into the group-wide risk and control matrix.”

(Sandvik Annual Report 2017, page 38)

Measurement of outcomes

All of the nine portfolio companies, as well as Industrivärden itself, issue an annual sustainability report in accordance with the Global Reporting Initiative (GRI). The reports include both basic and comprehensive sustainability data, relevant for the respective company, on for example management, employees, human rights, social and environmental performance. Below we present examples of measured disclosures.

Example from Volvo (www.volvogroup.com)

“Carbon emissions from production

The Volvo Group has carbon-neutral facilities in Ghent, Belgium, as well as Vara, Tuve and Braås in Sweden. During 2017, we investigated the possibility to supply our facilities in Bengaluru (Bangalore) with solar power. Our intention is to supply these facilities with at least 70% of the electricity use with solar power starting in 2018.

We constantly improve our production processes. For example in 2017, we optimized humidity and temperature in the paintbooths in Blainville which led to a saving of 700 MWh/year.

Another example of an energy-saving activity is the Hagerstown facility, where the lighting was updated to LED lamps which gave a saving of 4,100 MWh compared to 2016. Continuous work with improving energy consumption in the engine plant in Skövde has resulted in a total saving of 2,200 MWh compared to 2016.

Carbon emissions for the total volume transported in our manufacturing supply chain, were calculated to 410,000 tons for 2017 compared to 510,000 in 2013. This means that a reduction of 20% CO₂ per produced unit has been achieved. The challenge remains to keep and improve this level going forward. One important reason for the reduction in 2017 is the filling rate of the vehicles that has improved considerably.”

(Volvo Annual and Sustainability Report 2017, page 50-51)

Example from SCA (www.sca.com)

“SCA’s instructions for anti-corruption establish rules to prevent anti-corruption in all Group operations regardless of country. The Group does not tolerate any form of corruption or bribery – it is forbidden to both accept or offer bribes. Employees with senior positions and those with external contacts are trained in anti-corruption legislation, and the target group in the Group comprises about 1,000 employees. The Executive Management Team and other relevant individuals receive training on these issues in conjunction with mini-seminars. New employees are provided with training through online courses as part of their onboarding program. In 2017, about 150 people took part in training sessions.”

(SCA Annual and Sustainability Report 2017, page 42)