



Council on Ethics
Swedish National Pension Funds

Annual Report 2022

Sustainable ownership through
dialogue and engagement



The guiding principle of the Swedish National Pension Funds' ("AP Funds") Council on Ethics

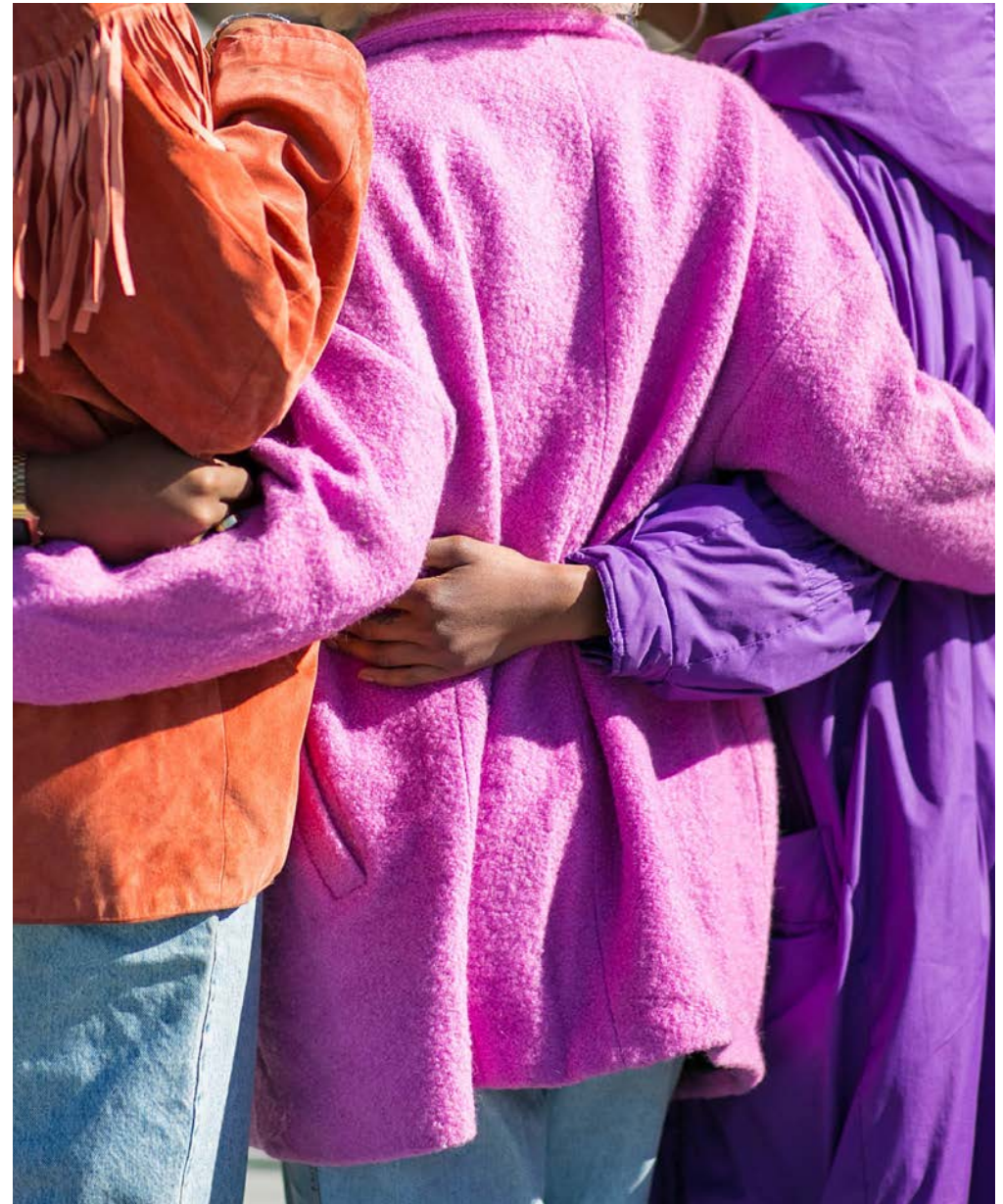
To make a difference

The guiding principle of the AP Funds' Council on Ethics

is to make a difference. Our mission is to exert influence on companies around the world to account of sustainability with respect to the environment, social issues and corporate governance. This means putting pressure on companies regarding issues that have major impact on people and society and that create value for the companies concerned.

Through dialogue, we exert influence on companies to bring about positive change, both proactively and in response to incidents. It is through dialogue that violations are prevented and it is thanks to dialogue that high values can be upheld.

We believe that sustainable companies generate long-term value. That is how we contribute to sustainable development and sustainable pensions for the pensioners of today and tomorrow.



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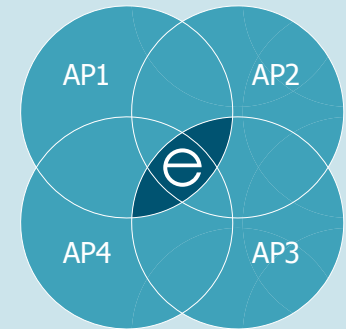
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In 2022, the Council completed an important and successful collaborative effort to combat child labour in the cocoa industry. [Read more on page 26.](#)

Encouraging positive change and transparency

It is the view of the AP Funds (AP1, AP2, AP3 and AP4) that, over time, well-managed companies that take responsibility for sustainability deliver higher returns at lower risk over time. The Council on Ethics is an ownership collaboration between the AP Funds aimed at jointly acting to influence companies to pursue sustainable value creation and transparent reporting.



Through dialogue and engagement with companies, the Council can, with the help of contracted providers (Sustainalytics and ISS) and other institutional partnerships, engage in dialogue and exert influence on companies to make improvements, thereby contributing to the long-term returns of the AP Funds. In 2022, the Council worked on the companies in the AP Funds' equity and credit portfolios, primarily focusing on the Funds' non-Swedish holdings. As of 2023, the AP funds will expand their cooperation through the Council by including Swedish and foreign listed equities and listed credit investments, both directly and indirectly owned through fund investments, in their screening and reactive work.

Collaboration – a key to success

The collective work and communication of the AP Funds on sustainability issues help drive sustainable development, strengthen the role of the AP Funds as responsible stewards and exemplary managers and increase trust in the AP Funds. Working together for positive impact creates greater force in the dialogue with companies and plays a part in creating better investments and sustainable returns. The Council works **proactively** with companies to help bring about positive change in not only complex sustainability challenges but also material systemic risks. The Council also works **reactively**. If a violation of international conventions has already taken place, the Council endeavours to ensure that the company takes action and ensures that a similar violation is not repeated. Collaboration with other international investors with a similar sustainability agenda further increases the scope to exert an influence on companies for positive change and increased transparency.

Long-termism and responsibility are part of the mandate

The AP Funds' mandate from riksdagen (the Swedish Parliament) is to manage the funds for the maximum benefit of the pension system. Assets are to be managed in an exemplary way through responsible investments and stewardship. In asset management, particular emphasis must be paid as to how sustainable societal development should be promoted without compromising on the goal of high returns.

2022 in brief

Proactive work

The Council's proactive work helps bring about positive change and addresses not only complex sustainability challenges but also material systemic risks. This work is helping to improve the quality of companies' management of sustainability issues in all parts of the value chain and prevents violations and incidents. In turn, this is playing a part in making companies better and reducing risk in the assets of the AP Funds.



Proactive projects

Description

Tech companies and human rights



The big tech companies make information globally available, advancing democracy and an open society. This also brings new sustainability challenges, such as in the processing and commercialisation of personal data, disinformation, extremism, terrorism and election rigging. Multiple challenges that may also have serious consequences to vulnerable groups at risk, not least children and young people.

In 2022, the Council launched a new collaborative project with international investors to jointly engage with a number of major tech companies in dialogues on human rights and the companies' information sharing platforms. The Council's objective is for the tech giants to strengthen and adjust their sustainability practices in human rights so the companies' activities are conducted in line with the UN Guiding Principles on Business and Human Rights (UNGPs). [Read more on page 19.](#)

Transition in emission-intensive sectors



Climate change demands significant and swift action, and here investors have a responsibility to ensure that the companies in which the AP Funds have a stake manage climate risks responsibly. Within the Climate Action 100+ investor initiative, the Council is working to persuade actors in particularly emission-intensive sectors to collaborate and develop action plans to enable the transition to a low-fossil society. The project has

to date developed and published expectations documents for the aerospace, food, steel and power sectors. During 2022, a number of meetings were held, including with companies in the mining sector, and an expectations document is in production. For various reasons, including Covid-19 and the war in Ukraine, it has not been possible for some roundtables to take place as planned. This has also affected the production of expectations documents. [Read more on page 21.](#)

Climate – for greater transparency



In 2019, the Council contacted 110 companies regarded as having high climate impact, urging them to start reporting under the TCFD, an international reporting framework focused on usable, forward-looking information. The Council's objective is to help companies develop their public disclosures and make such disclosures more relevant and comparable. Greater transparency on the part of companies, in line with the TCFD's

recommendations, will better equip them to more reliably assess climate-related risk exposures in investment decisions. In 2022, the Council analysed how the 110 companies had developed their climate-related reporting since 2019. In general, companies have developed both focus on and transparency in climate-related issues. Most companies appreciated the feedback and the opportunity to discuss how the company could further develop its reporting. [Read more on page 23.](#)

Proactive projects

Description

Forced labour in the construction and textile industries



Forced labour and various forms of modern slavery exist both in countries in developed markets and in countries with weaker legislation in the area. Demand for low-paid, flexible labour is often filled by marginalised groups in society. In 2021, the Council launched a three-year project focused on companies in the construction, clothing and footwear sectors. The aim is, via dialogues, to support

companies in their efforts to continuously develop their due diligence processes to identify various forms of forced labour in their supply chain. Despite the challenges, tangible improvements were confirmed at the companies in 2022. For example, two out of fifteen companies identified that recruitment fees (a potential indicator of forced labour) had occurred in their supply chains and both companies took steps to remedy and refund fees paid by workers. [Read more on page 24.](#)

Child labour in the cocoa industry



Ivory Coast and Ghana are the world's leading cocoa producing countries, accounting for almost 70 percent of cocoa production worldwide. An estimated 1.5 million children work in its supply chain. Cocoa is mainly grown on family farms and child labour is still common, and often necessary to the families' economy. Working with other investors, the Council has engaged in dialogue with seven of the world's largest cocoa and chocolate producers.

The results have been positive and the project was closed in 2022. Throughout the value chain, major efforts have been made by the cocoa industry, governments and other actors, boosting the proportion of children attending school and reducing the scale of hazardous child labour. The Council notes that the companies made a major positive shift in the course of the project. This is confirmed by the KPIs used by the project for each area of development. [Read more on page 26.](#)

Biodiversity and food production



The ongoing and rapid loss of biodiversity threatens very serious consequences to people, the environment, ecosystem services and the economy. Companies producing food face a number of challenges as a result of which production may have negative impact in terms of climate change, water shortages and soil degradation. At the same time, the

companies concerned depend on good and stable access to natural resources to assure food production over time. During 2022, the Council conducted dialogues with companies in agriculture, agrochemicals, the food industry and retail. This helped create a better understanding of the companies' various strategies and actions, and clarified which new initiatives the companies are expected to engage in. [Read more on page 28.](#)

Deforestation, biodiversity and climate change



Palm oil and soybean cultivation, together with livestock production, provide essential commodities for many different products, both industrial and for consumption. These industries face many difficult challenges where deforestation and biodiversity loss must be halted. This has been a focus of the Council's work since 2014. Since 2021, the Council has been working with a group of investors through

the Principles for Responsible Investments network (PRI) with the aim of increasing investors' understanding of the challenges of deforestation and financial and systemic risk in their holdings. During 2022, a number of workshops and meetings were held on, for example, transition risks, how companies are affected by more rigorous regulatory requirements and changing patterns of consumption. The project is in its final phase. [Read more on page 30.](#)

Anti-corruption



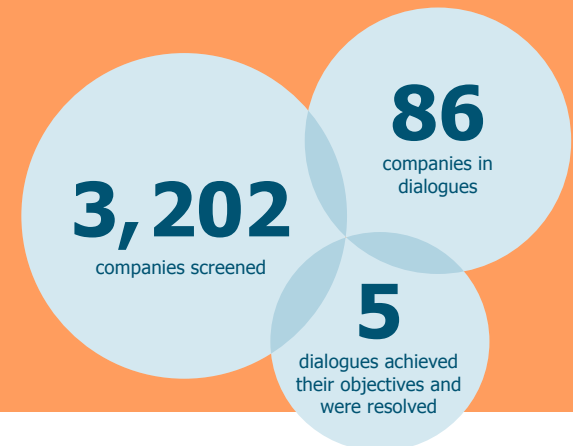
Corruption leads to unhealthy competition, undermines democracies and erodes economic growth. Tackling corruption is difficult, as it takes place covertly. In the management of natural resources such as oil, gas, metals and minerals, there is a major need for transparency and control, especially in countries with rich natural resources but weak political governance.

As part of the Council's work to combat corruption, the Council supports the Extractive Industries Transparency Initiative (EITI). As part of its work, EITI supported in 2022 eleven nations in drawing up registers of beneficial owners in the extractive industries. Such registers are very helpful in tracking and combating corruption and money laundering. EITI also produced various reports and guidance documents. [Read more on page 32.](#)

2022 in brief

Reactive work

The Council’s reactive work aims to exert an influence on companies to manage and address accidents and incidents if such occur. By influencing companies to take a more systematic approach to sustainability through policies, implementation and transparency, the Council can help prevent incidents from occurring.



Screening

	2022	2021	2020	2019
Number of screened companies in AP Funds’ portfolios	3,202	3,168	2,430	3,557
of which, confirmed violations	28	23	22	29
of which with risk of violation	83	89	72	91
of which, no comment from screening	3,091	3,056	2,336	3,437

The Council’s screening of just over 3,200 holdings at year-end 2022 identified a total of 111 companies with a confirmed, or at risk of, violation of an international convention. 3,091 companies passed the screening process without comment. At year-end 2022, active dialogues were ongoing with 86 companies out of the 111 identified in the screening process with confirmed or at risk of violation.

The difference between the number of companies in active dialogue and companies identified via the screening process arises because the screening process also includes not only companies where the Council has resolved the dialogue but is still monitoring the company, but also companies under investigation.

Dialogues

Number of companies in active dialogue	2022
Number of companies in active dialogue, beginning of year	81*
Number of companies where new dialogues have started	16
Number of companies with dialogue resolved and objectives achieved	-5
Number of companies with dialogue resolved and objective not achieved (recommendation for exclusion)	0
Number of companies with dialogue resolved due to changes in AP funds' holdings	-6
Number of companies in active dialogue, December 2022	86

*The number of companies in active dialogue at the beginning of the year was 81. 85 companies were in active dialogue in October 2021, as reported in the 2021 report. Four of these dialogues were resolved with objectives achieved by December 2021.

The five dialogues that were resolved in 2022 are described in more detail on pages 35–39. The Council did not recommend the exclusion of any company in 2022 and re-included one company as it no longer violates any convention.

Non-compliant

Confirmed violation – A violation of an international convention is regarded as being confirmed when it is verified and assessed against a number of criteria: the seriousness of the violation in terms of scale, extent and preventability of the violation, how closely the company is involved or linked to the violation, and the company’s handling of the situation.

Risk of violation includes cases that, after analysis based on the above criteria, do not meet all the criteria for a confirmed violation, but where the Council assesses the degree of seriousness as high. This category of companies also includes those where a possible violation is under investigation and those where a dialogue has not yet been initiated. The category also includes companies where the Council has engaged in dialogue, the objectives have been achieved and the dialogue has been closed, but where the risk is still assessed as high. This is why the Council monitors the company’s work and the outcome of the measures taken by the company.

Progress

During the year, a total of **66 new dialogue stages** were achieved in the dialogues conducted (77 stages in 2021), of which 62 stages were achieved in dialogues that were active at year-end and 4 stages in dialogues that were resolved in 2022. See page 7 for a description of the progress in the dialogues and a breakdown by region and sector.

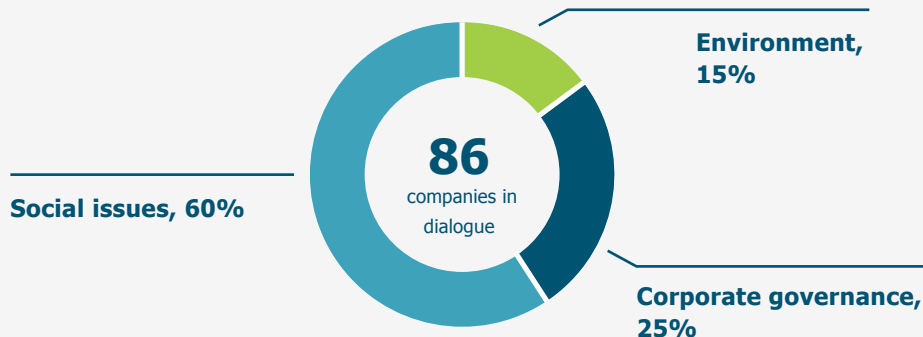
In 2022, the definitions of stages achieved were further refined. As a result, the number of stages is not fully comparable year-on-year. Under the new definitions, more is required for a company to achieve the first stages of the dialogue. The Council may also be engaged in more than one dialogue with the same company. In such cases, the statistics include all stages achieved in all dialogues conducted with the companies concerned.

2022 in brief

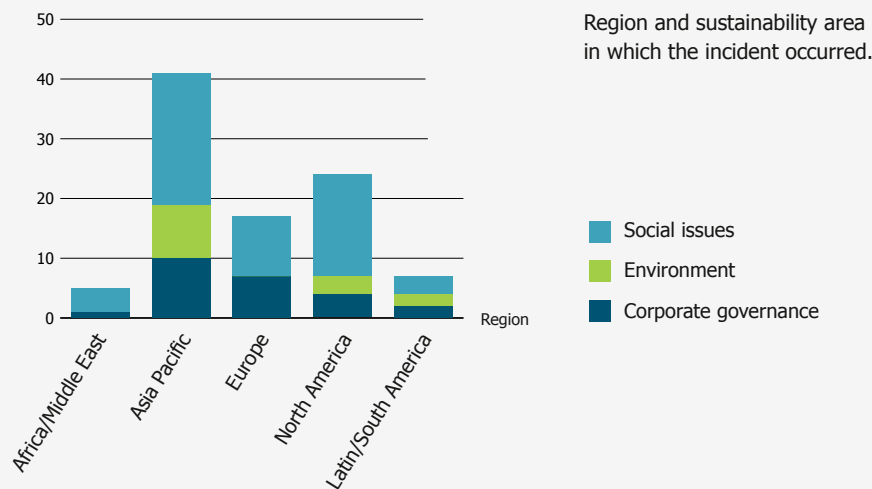
Reactive work

60 percent of the reactive dialogues with 86 companies were on social issues, 15 percent on the environment and 25 percent on corporate governance. Breakdown of the Council's ongoing reactive company dialogues by region, sector and sustainability area.

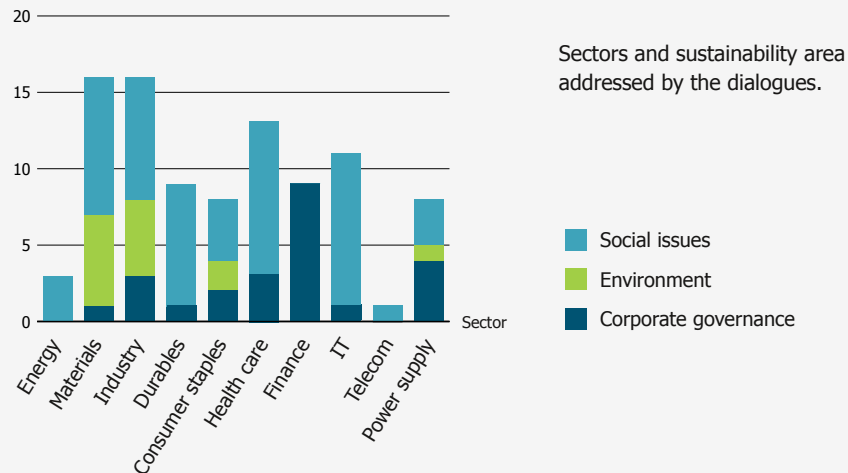
Dialogues, by sustainability area



Dialogues, by region



Dialogues, by sector



Comments from the Chair

The synergetic role and power of the AP Funds' Council on Ethics – more important than ever

With hopes for a brighter year, 2022 began with a relaxation of pandemic restrictions, but right at the end of February Russia invaded Ukraine. The invasion that became a full-scale war is causing human suffering and enormous tragedy, as well as affecting the whole world through high energy prices and high inflation. In many ways, sustainability has been brought even closer to people's everyday lives and is an important issue that cannot be placed high enough on the political and economic agenda.

Large areas of Europe have long been dependent on Russian oil and gas for their energy supplies. At the same time, we are facing a global climate crisis, with rising average global temperatures and increasingly frequent extreme weather events. In many ways, sustainability has been brought even closer to people's everyday lives and is an important issue that cannot be placed high enough on the political and economic agenda.

The past year

During 2022, the Council focused its attention intensively and in parallel on day-to-day and strategic activities. The Council's strategic activities were led by the CEOs of the four AP funds with the objective of evaluating and developing the Council's mandate, goals, working processes and

organisation. During the autumn, the Council began the process of selecting focus areas for the Council's proactive work in the years ahead. The managements of all four AP Funds and the Council are working together in this process and decisions on priorities will be taken in 2023.

A new proactive project was launched during the year, focusing on the global information platforms of the big tech companies and their management of human rights risks. This is a collaborative project with other international institutional investors, led by the Council, with the aim of using dialogue to exert influence on companies to improve their management of human rights risks. Two proactive projects, which are considered to have achieved their objectives with good effect, were resolved and closed.

Climate change constantly in focus

At the Council, climate change is constantly in focus and is being addressed in several reactive company dialogues, as well as in proactive projects. Transparency as to how far companies have progressed in their transition, along with measurable and realistic roadmaps, are crucial to successful transition.

In its proactive work during the year, the Council contacted around 100 companies regarding their climate-based reporting, with the aim of promoting greater transparency in line with the TCFD's recommendations. The Council also collaborates with other investors through sector-wide dialogues, within the Climate Action 100+ project, in order to help companies in emission-intensive industries develop roadmaps

for the transition to a low-fossil fuel society.

The war in Ukraine has affected the Council's work by forcing companies to change their priorities, which has affected the opportunities for dialogue meetings. Many companies, governments and civil societies are working for transition, but the process is complex and will take time. It is clear that collaboration at many levels, globally and within and across sectors, is crucial to the success of rapid transition.

Increased integration of sustainability

Over time, sustainability has become increasingly integrated into the management of each AP fund and today sustainability is a major focus at all AP funds. Against this background, the AP Funds jointly reviewed the Council's mandate and strategy in 2022

to ensure that the Council remains a key partner in the coordinated sustainability work of the AP Funds. It is important for the AP Funds to take an active stewardship role and to continue to develop the Council so that the good work being done can continue to evolve. The Council serves as an important coordinating body for the AP Funds, enabling resource-efficient management of various complex sustainability risks. This increases the opportunities for the AP Funds to achieve better results for the income pension scheme, both today and in the future.

Development work

Through its development activities, the Council's reactive work will as of 2023 be extended to cover more asset classes. This means that the Council will continue to screen foreign-listed shareholdings, but now also Swedish listed shareholdings and credit investments. Both directly owned and indirectly owned holdings through fund investments will be screened, with the focus on identifying companies deemed to violate international conventions to which Sweden is a signatory.

Reactive work during the year

In its reactive work, the Council contacts the companies identified in the screening process and, in dialogue with the company, requires it both to remedy what happened

and to have policies and procedures in place that reduce the risk of it recurring. Building on conventions to which Sweden is a signatory is a working model for the reactive process that has been used by the AP Funds since 2007 and that has proved effective. This will remain the Council's working model, going forward, including in connection with recommendations for exclusions of companies. The Council's working model – to take stewardship responsibility and to engage in dialogue with companies – has evolved over time into best practice.

Proactive work during the year

The Council's proactive work, focusing on addressing complex sustainability challenges to which the AP Funds' portfolios are exposed, also remains important to the AP Funds. This work is aimed at improving companies' management of sustainability-related risks across the value chain. It also aims to address material systemic risks by taking a proactive stewardship responsibility.

Increased resources for the Council

In order to implement and deliver on its new strategy, the AP Funds have agreed to increase the Council's resources and establish a three-person office. The process to recruit a manager for the Council's office will be completed in spring 2023.



The Council on Ethics – organisation

The overall organisation of the Council will be slightly different from previous years. As of 2023, each AP Fund will have a representative on the Council's Board. The Board members already work on sustainability within their respective funds and they are tasked with overseeing the work of the office. They are also to ensure that the work of the Council is even more closely integrated with the activities of the AP Funds.

With these changes and with increased resources, I am confident that the Council will continue to be of great assistance to the AP Funds in their work of addressing and taking account of complex sustainability challenges, which will also contribute

to the strength of the pension system.

In conclusion, I would like to thank my colleagues in the Council for a job well done through an intensive year. It has been a privilege to have the opportunity to get to know and work in the Council alongside the talented people of other AP Funds. On behalf of the entire 2022 Board, I would also like to wish the 2023 Board and a new future Council on Ethics Office the best of luck in the important and challenging work of managing and further developing the activities of the Council on Ethics.

Pia Axelsson
*Chair of the AP Funds'
Council on Ethics 2022*

How the Council on Ethics works

Framework that guide the Council's work

The Council operates on the basis of the Swedish National Pension Insurance Funds Act, Sweden's instrument of government, a number of Swedish and international regulations, conventions, standards and other frameworks, which together set the course for its work.

The Swedish National Pension Insurance Funds Act

Responsible investment is part of the mandate set out in the National Pension Insurance Funds Act (2000:192). The Council's activities are based on a collaboration between the AP funds on sustainability issues, which mainly apply to the foreign listed equity portfolios of the AP funds. The activities of the AP Funds are governed by

the National Pension Insurance Funds Act, which states that the overall objective is to manage the assets of the funds for the maximum benefit of the income pension scheme. The AP Funds are also required to manage their assets in an exemplary way through responsible investments and stewardship. Management of assets is to focus specifically on promoting sustainable development without compromising on the overall objective.

Sustainability (ESG – Environmental, Social and Governance) is today a common concept among investors and companies and embraces a number of different aspects:

- Environment (E)
- Social issues (S)
- Governance (G)

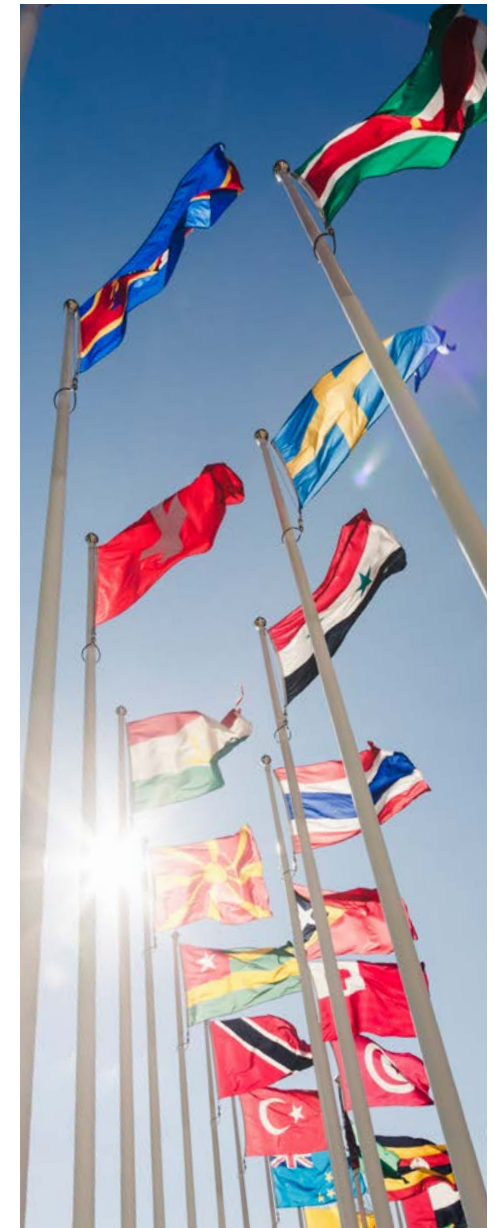
Stewardship is exercised by responsible owners through activities that include, for example, dialogues with companies with a view to bringing about positive change. The AP Funds

exercise stewardship both individually and in partnership, including through the work of the Council.

International conventions

The Council's work is based on national and international legislation and on statements of position by Sweden and the EU. It is also based on the UN's international conventions that Sweden has signed up to concerning issues such as human rights, the environment and – in particular – inhumane weapons. These include:

- The International Covenant on Economic, Social and Cultural Rights (ICESCR)
- The Convention of the Rights of the Child (CRC)
- The Convention against Corruption (UNCAC)
- The Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons (UNCCW)



Framework for the assessment of violations

The Council's regular reviews of the holdings of the AP funds form the basis for the Council's reactive dialogues with companies in order to exert pressure on them to improve their activities. Screening identifies violations and risks of violations, based on the ten principles of the UN Global Compact (the UNGC principles), see information box on right. The principles are derived from the UN Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the UN Convention against Corruption.

The OECD Guidelines for Multinational Enterprises represent another important framework, being recommendations from governments to multinational companies regarding responsible business practices. The OECD Guidelines set out voluntary principles and standards for responsible business conduct and are used as standards on a range of issues such as human rights, labour law, the environment and anti-corruption measures.

The governments of the acceding countries commit to promoting the guidelines by establishing a National Contact Point (NCP), where stakeholders can report companies that they believe have breached the guidelines.

“ Selling holdings in companies is recommended only as a last resort, as UNGP considers this to be less effective in bringing about positive change in society.”



UN Global Compact – 10 principles for business

Human rights

1. Support and respect international human rights in the sphere of corporate influence
2. Ensure that their own companies are not complicit in human rights abuses

Labour rights

3. Uphold freedom of association and recognise the right to collective bargaining
4. Eliminate all forms of forced labour
5. Abolish child labour
6. Eliminate discrimination in recruitment and occupation

Environment

7. Support a precautionary approach with regard to environmental risks
8. Undertake initiatives to promote environmental awareness
9. Encourage the development of environmentally friendly technologies

Anti-corruption

10. Combat all forms of corruption, including extortion and bribery

UN Guiding Principles on Business and Human Rights

Define corporate responsibility for human rights

The UN Guiding Principles on Business and Human Rights (UNGP) are a set of guidelines for states and companies in identifying, preventing and addressing human rights violations committed in business activities. UNGP was endorsed by the UN Human Rights Council in 2011 and has been guiding the process ever since. UNGP is in part the basis of the work of the Swedish government and future EU legislation in this area.

A key principle of UNGP that is particularly relevant to the AP Funds in their stewardship role is that responsible stewardship means continually seeking to identify and analyse risks in portfolios of holdings and exerting influence on companies in the way their portfolios are managed.

When a risk of negative impact is identified, the first step is to try to persuade the company to deal with the situation, compensate those affected and take action to prevent negative impacts in the future. In order to be better able to influence companies, UNGP recommends that investors work together and speak with one voice, which is exactly the concept on which the Council is based. Selling holdings in companies is recommended only as a last resort, as UNGP considers this to be less effective in bringing about positive change in society.

The global sustainable development goals

The 17 SDGs, adopted by 193 member states at the United Nations in 2015, provide a globally shared framework to address the world’s most urgent sustainability challenges. Achieving the SDGs, which are divided into 169 sub-objectives, requires commitment not only from governments and companies, but also from investors.

The 17 SDGs address global challenges including climate change, inequality, environmental degradation, poverty, peace and justice. The SDGs have achieved a broad reach and acceptance among companies and investors alike. For example, the SDGs are used as a framework for sustainability in dialogues with companies and in the development of financial products.

The SDGs show the importance of sustainability to the development of society, as they can also stimulate investments that can contribute to solutions to major global problems.

At the same time, the SDGs help set the conditions for long-term sustainable development. There is a strong business case for



investing in opportunities aligned with the SDGs, and the benefits of meaningful sustainability disclosures are well established.

As global investors, the AP Funds are able to contribute in various ways to the global sustainability goals via their sustainability work and via their investments.

“The Council seeks to contribute to the SDGs through both reactive and proactive work.”

The Council seeks to contribute to the global goals through both reactive and proactive work.

Reactive work is guided by the violations that are identified in the portfolios of the AP Funds and the seriousness of these violations. The Council’s proactive works helps bring about positive change and by addressing complex sustainability challenges and material systemic risks. Since 2018, the Council has based its work on a number of priority sustainability areas and also identifies how work on these priorities contributes to attainment of the global goals.



The Council’s contribution to the UN Sustainable Development Goals

Human rights – focus on child and forced labour, and on health and safety:



Climate – Focus on transition:



Environment – focus on biodiversity:



Corporate governance – focus on anti-corruption and responsible business practices:



How the Council on Ethics works

Dialogue as the primary tool of advocacy

Engaging in dialogue with a company is the Council's principal tool of stewardship. The aim is to influence and demand improvement. The Council's company dialogues always focus on companies acting to improve the governance of their own operations, i.e. policies, implementation and transparent reporting. Change takes time – often many years.



What is a dialogue?

A company dialogue is initiated when contact is established with the company. In the dialogue, a discussion takes place with the company about challenges and the Council's expectations and requirements for improvements in specific areas of sustainability. Dialogues are conducted directly by the Council and also with the support of a service provider. They may be conducted with other investors. Contact is by e-mail, telephone, video meeting or on-site visit.



Who takes part in a dialogue?

Participants in a dialogue may be a representative of the Council, a service provider (for example, Sustainalytics, ISS or other provider engaged via procurement) on behalf of the Council, or a group of investors acting together in the dialogue with the company. The dialogue is often initiated via the company's investor relations or via direct contact with the company's sustainability officer, and with other stakeholders concerned.



What are the objectives for a dialogue?

The aim is to exert influence on companies, for example, to strengthen their preventive work whereby they actively address and minimise sustainability risks in their operations. Companies are encouraged to identify areas for improvement and implement viable processes for identifying, managing and monitoring that work. The companies are also expected to report transparently on this work. A viable process requires staff training and effective complaint handling functions.



Striving for greater transparency

The Council is very clear about the importance of openness, and demands transparency in reporting by companies. On that basis, the Council also strives to be as transparent as possible by openly reporting on how it conducts its own business.

At the same time, it is of the utmost importance to safeguard the trust the Council has built up through dialogue with a company. Work to achieve improvement takes time. If it is able to create a positive climate for the dialogue, the Council is more likely to be able to bring about positive change. Dialogue with a company is conducted in confidence and so cannot always be reported on publicly.

The Council strives to create greater openness and to the greatest extent possible reports on its work transparently.

How the Council on Ethics works

Proactive and reactive work

The Council's work underpins the role of the AP Funds as exemplary asset managers and responsible owners. This serves to improve management of sustainability by companies across the value chain from an economic, environmental and social perspective. The process helps to create better companies, reduce risk in the assets of the AP Funds and lower the risk of negative impact on people and the environment.

Proactive work

The Council's proactive work creates positive change by addressing complex sustainability challenges. It serves to improve management of sustainability by companies across the value chain, preventing violations and incidents and addressing material systemic risks.

Dialogues are conducted with companies in sectors where the AP Funds have direct and/or indirect exposure. Direct exposure refers to investee companies, whereas indirect exposure refers to the value chains of investee companies. In many cases, proactive work involves activities connected with various commodities and supply chains facing major challenges.

The Council's prioritisation and choice of focus areas is based, for example, on the risk of potential negative impact on people and the environment, as identified in the Council's analysis of external factors, the financial exposure of the AP Funds and the adjudged opportunities for the Council to make a positive difference.

Reactive work

The Council's reactive work aims to make demands of companies to manage and remedy any accidents and incidents that occur. Another objective is, by influencing companies to take a more systematic approach to sustainability through policies, implementation and transparent public reporting, to help prevent incidents from occurring.

This dialogue work applies to companies all over the world and addresses sustainability issues such as human rights, labour law, the environment and business ethics.

Dialogues are initiated with companies that have been identified in the bi-annual, standards-based screening process.

How the Council on Ethics works

Proactive work – creating positive change in complex sustainability challenges

The Council's proactive work addresses complex sustainability challenges and material systemic risks. Work is performed in three broad sustainability areas: Environment, Social Issues and Corporate Governance.

Three broad sustainability areas

Corporate governance

Anti-corruption and responsible business. Corruption destroys and undermines society, democracy and the rule of law. Corruption leads to violations of human rights and the environment, and paves the way for organised crime and terrorism. Corruption distorts fair competition between companies, contributing to less effective solutions to problems and lower economic growth.

Social issues

Focus on **child and forced labour**, and **health and safety**. The Council's work focuses on the most vulnerable and the most serious risks to human rights.



Environment

Focus on transition. To succeed in the climate transition, carbon dioxide emissions need to fall sharply over the next ten years. According to IPCC (the Intergovernmental Panel on Climate Change), emissions in 2030 need to be about half of the current level, and net zero by 2050. This requires transition on a major scale.

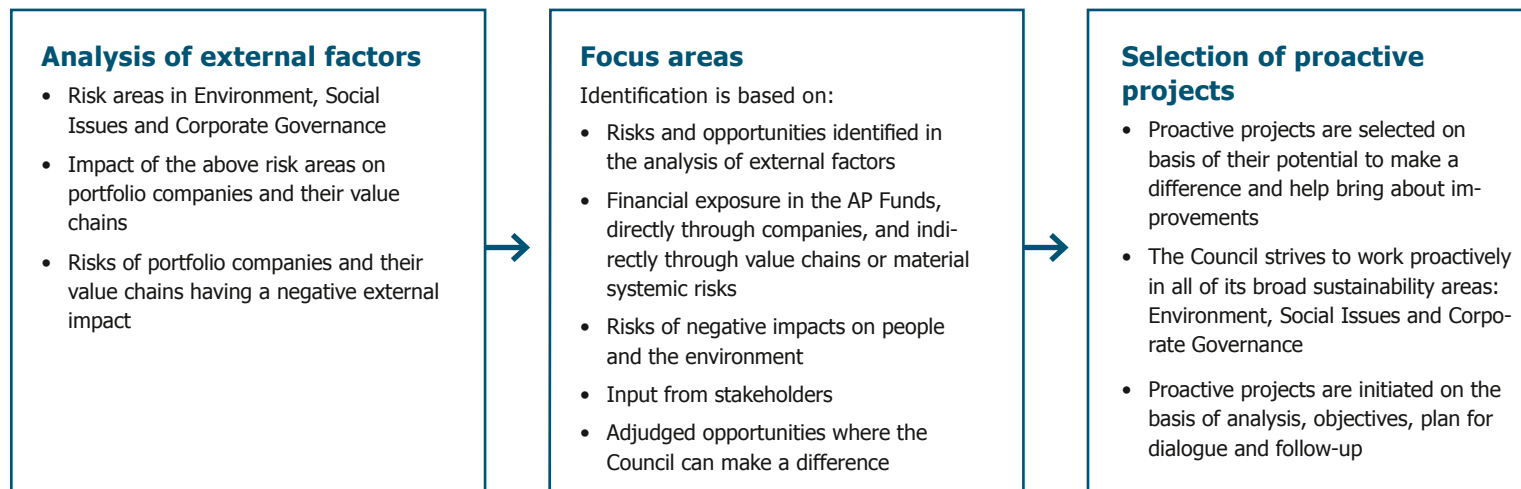
Environment and biodiversity include many issues that are crucial to the conditions for life on Earth. Biodiversity loss has a negative impact on important ecosystems and ecosystem services such as clean air, water and supply of food.

The Council focuses on issues where there is a risk that companies may contribute to, and be affected by, this negative trend.

How the Council on Ethics works

Choice of proactive work

Prioritisation and selection of proactive projects and initiatives is based on a systematic process. The overall objective is to make a difference and help make a positive shift in the complex sustainability challenge being addressed. This is a long-term venture and a project usually lasts at least three years.



Different forms of dialogue – for the best impact

The Council conducts its proactive work through various mutually complementary forms of dialogue. The forms of dialogue have been developed over time to effectively address and contribute to solutions to various types of problems.

Depending on whether problems are company-specific or sector-wide, dialogues are conducted on a company-specific basis or with several companies simultaneously within the sector concerned. In certain cases, various actors in the value chain may also need to be brought together to jointly address the problem. In such projects, the Council can play a facilitating role and support the participation and responsibility of actors to achieve a common result and positive change.



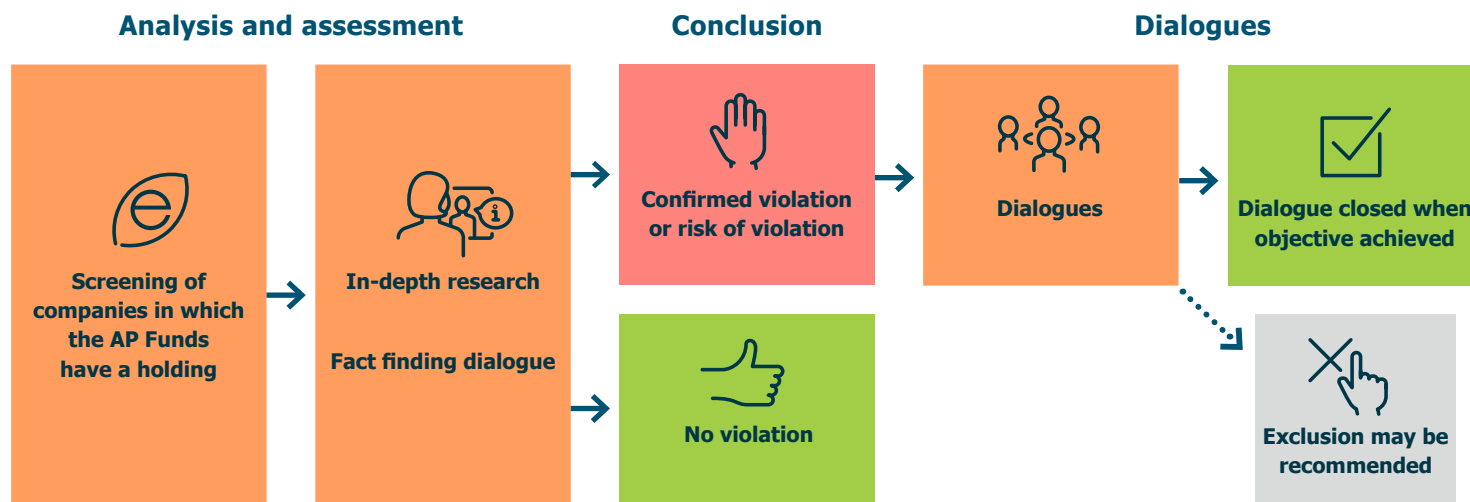
Success factors

- **Good knowledge** of a sustainability area makes for successful dialogue and advocacy.
- **Achieving the best impact through collaboration** – to be able influence even large companies to change, the Council can work with other investors, often internationally, to create leverage for change.
- **Selection of procedure and form of dialogue** – the Council uses different forms of dialogue depending on the problem to be addressed.
- **Highlighting best practice in a sector.** No company wants to be the worst, and working with several companies in a sector at the same time is often a strategy for success.
- **Sharing best practices between different sectors** is a form of support that the Council can provide.

How the Council on Ethics works

Reactive work – screening and influencing

The Council screens all listed companies in which the AP Funds have a holding. If a company is found to be violating or at risk of violating an international convention, the Council seeks to ensure that the company remedies what has happened and ensures that it cannot happen again.



Confirmed violation – A violation of an international convention is regarded as being confirmed when it is verified and assessed against a number of criteria, such as: the seriousness of the violation in terms of scale, extent and preventability of the violation, how closely the company is involved or linked to the violation, and the company’s handling of the situation.

Risk of violation – includes cases that do not meet all the criteria for a confirmed violation,

but where the Council judges the degree of seriousness as high.

If a dialogue does not, within four years, lead to the outcome that the Council considers reasonable, the Council may recommend that the

company be excluded from the AP Funds. However, this is a last resort that the Council regards as a failure, as the misconduct is likely to continue unless another responsible investor takes action to influence the company to improve.

To exert influence for positive change is to exercise responsibility – recommending exclusion is a last resort

When?

Twice a year, the Council screens just over 3,000 foreign companies within the AP Funds’ global listed equity and credit portfolios to identify any violations of the international conventions that Sweden has ratified. The Council uses service providers for both analysis and dialogue. The Council always makes its own assessment and, if necessary, conducts its own dialogues.

Why?

In the screening process, a company is flagged when a violation is confirmed or when it is judged that a violation might have occurred. A dialogue is then initiated with the company to exert pressure on it to rectify what has happened and to ensure that it will not happen again.

Long-term involvement

The Council’s reactive dialogues with companies address the most serious violations. A dialogue with a company usually lasts for several years. This is often the time needed for a company to institute the remedy and ensure that similar incidents do not recur.

Outcome

The objective of the Council’s dialogues is to ensure that companies remedy what has happened and ensure that they do not recur. Our dialogues always focus on ensuring that companies improve their policies, implementation and transparency.

Proactive work

The Council's proactive work helps bring about positive change and addresses not only complex sustainability challenges but also material systemic risks.

This work is helping to improve the quality of companies' management of sustainability issues in all parts of the value chain and prevents violations and incidents. It often involves activities related to various commodities and supply chains with significant challenges.

The Council's proactive work helps create better companies and reduce risk in the assets held by the AP Funds.

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Tech companies and human rights

Information technology has become integrated as a natural part of people's day-to-day lives throughout the world. The Internet and social media have thus become part of the economic and social fabric, presenting both opportunities and challenges to sustainability. During the year, the Council initiated a new proactive collaborative project with a number of international investors to engage in dialogues with a number of big tech companies in order to persuade them to strengthen and adapt their human rights practices.



Background facts

Region: North America, Asia

Sustainability area: Social Issues, Corporate Governance

Topics: Disinformation, influencing and privacy

Number of companies: 7

UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

The tech companies need to understand and manage risks to human rights and

social impact in a responsible way, to ensure long-term sustainability.

The big tech companies, including Alphabet (Google), Meta Platforms (Facebook) and Microsoft, are creating huge opportunities by making information available to the public. This is helping to advance, for example, human rights, democracy and an open society, but it also raises new questions.

Sustainability challenges are linked to complex issues, such as management and commercialisation of personal data, extremism and terrorism, election rigging and other serious impacts on vulnerable people and groups at risk, not least children and young people.

Other challenges concern data management and the dissemination of opinions; effects of content moderation that may lead to discrimination and the circulation of one-sided opinions that can in turn lead to polarisation and human rights abuses. At a systemic level, risks include the erosion of democracy and damage to social structures.

Legislators and regulators have struggled to establish regulatory and governance systems to keep up with the rapid pace of technological development. Tech companies have grown rapidly in a relatively short period of time; their businesses are dynamic, diversified, global and technologically complex. In many cases, the root causes of human

rights risks may be traced to the companies' business models, corporate culture and remuneration practices.

Objective for the project

The Council's objective for the project is to persuade the tech companies to strengthen and adapt their human rights practices, including bringing their activities into line with the UN Guiding Principles on Business and Human Rights (UNGPs).

Another aim is to encourage companies focus more closely on understanding and managing systemic risks associated with the use and role of the Internet platforms in society.

OUTCOME OF THE PROJECT: **Sub-objectives achieved. Framework for systematic monitoring created. A number of international investors brought together.**

Start-up and development of framework and key performance indicators for monitoring the progress in human rights by the tech companies. Brought together a number of international investors to engage in heavy-weight advocacy dialogues with the tech companies.

2022

Outcome

In 2022, the Council continued its work with major tech companies on human rights and the companies' information platforms, and initiated a proactive project, building on the work the Council successfully conducted between 2019 and 2021.

The new proactive project will run for three years and aims to persuade big tech companies to better manage and report on their human rights risks.

During the year, the Council established broad support from other major institutional investors in order to be able to exert stronger influence in promoting positive change at the companies.

The project is based on a framework developed by the Council. This framework is used, for example, to support the investor group in the dialogue process, and the key performance indicators enable systematic monitoring of the companies' progress. The

framework was developed on the basis of the expectations document produced jointly by the Council and the Danish Institute for Human Rights (DIHR), [Tech giants and human rights: Investor expectations](#). The document outlines the long-term expectations of the Council and other investors as to how the tech sector are to work strategically on human rights. The framework also draws on the UN Guiding Principles and existing assessments of the sector.

Next steps

The Council is coordinating and overseeing the project, and will continue to be involved in the advocacy dialogues with the companies starting in early 2023.

The project will address issues such as:

- how the companies manage the impact that information on tech companies' platforms and content moderation has on people, especially vulnerable groups and society
- the corporate culture of the companies
- how the companies' internal structures and processes enable action in line with the UN Guiding Principles
- how the companies cooperate with and lobby legislators and regulators



Transition in emission-intensive industries – dialogue across the entire value chain

Climate transition requires significant and rapid action. Governments need to introduce clear policies, consumers and the public at large need to change their patterns of consumption and behaviour, and many companies need to adapt their business models.

Investors such as the AP Funds have a responsibility to ensure that the companies we have a stake in manage climate risks responsibly. The transition is system-critical and the Council is working to ensure that actors in emission-intensive industries work together on developing action plans to enable the transition to take place.



Background facts

Region: Global

Sustainability area: Environment, Social Issues, Corporate Governance

Topics: Transparency, Global standard

UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

In many emission-intensive sectors, the transition to a low-carbon society may be highly complex and costly. It demands a lot of individual companies to develop action plans for how best to manage the transition, as they are also dependent on the decisions and activities of other actors. In many cases, innovation and uncharted technology are required. There is a major need for investors, companies, companies' supply chains and customers, as well as other actors in

the sector, to come together to identify and prioritise technologies, activities and measures if an entire sector is to succeed in the transition.

Objective for the project

The objective of the Global Sector Strategies project, which is being conducted via the global investor collaboration Climate Action 100+, is for companies, investors, policymakers and other actors to work together on developing practical plans for

transitioning to a low-carbon society, and then to follow up implementation. The project also produces and publishes expectations documents for emission-intensive sectors.

The project aims to bring together different actors in a sector's value chain in order to develop joint action plans. Through coordination and interaction, investors are helping companies to increase the pace and scale of transition in their particular sector. The focus is on energy- and

OUTCOME OF THE PROJECT: **Project's sub-objectives achieved. Work is ongoing.**

Preliminary study, collaboration with the Institutional Investors Group on Climate Change (IIGCC) and others established, first roundtable discussion held with actors in the value chain in the oil and gas sector.

2020

CA 100+ establishes Global Sector Strategies. Dialogues conducted with actors in the relevant sectors' value chains. Expectations documents for four sectors published: air transport, food, steel and power supply.

2021

During 2022, a number of meetings were held, including with actors in the mining sector, and an expectations document is in production.

2022

emission-intensive sectors such as electric utilities, heavy transport, steel, cement, food, automotive, mining, chemicals and marine and air transport.

Outcome

To accelerate the climate transition in particularly exposed sectors, Global Sector Strategies support companies and their value chains in ensuring that they develop viable transition plans together.

The work is performed by investors with in-depth industry knowledge in the sectors concerned, and in collaboration with other investors, experts and companies.

During 2022, a number of meetings were held, including with actors in the mining sector, and an expectations document is in production. For various reasons, including Covid-19 and the war in Ukraine, it has unfortunately not been possible for some roundtables to take place as planned. This has also affected the production of expectations documents.

Next steps

Publication of an expectations document on the mining sector is planned for 2023. Work on the production of further expectations documents is in progress.



Expectations documents published:

- [Recommended investor expectations for net zero aviation](#)
- [Recommended investor expectations for food and beverage](#)
- [Investor interventions to accelerate net zero steel](#)
- [Investor interventions to accelerate net zero electric utilities](#)



Climate action 100+

The pace of climate transition is too slow and to counteract the negative impact of the climate transition we need firm and rapid action. Governments must pursue policies that promote a just transition, individuals must change their patterns of consumption and behaviour, and companies must manage climate risks responsibly.

Climate Action 100+ (CA 100+) was launched in 2017 and has grown into the largest investor engagement initiative on climate change. CA 100+ involves around 700 investors, who together have more than SEK 680 billion in assets under management. All AP funds are participating in CA 100+.

The CA 100+ investor group collaboration is coordinating efforts to exert influence on the biggest listed companies that are sources of greenhouse gas emissions to reduce their emissions and transform their operations. The investor group is engaged in a variety of advocacy actions aimed at inducing listed companies to improve governance of their operations, reduce emissions and publish more transparent data and reporting on their efforts to do so. CA 100+ focuses on 166 companies that are considered to have a key role to play in the transition to a net-zero greenhouse gas economy.

Commitments to net zero emissions

In 2017, only five companies had committed to reduce their greenhouse gas emissions to net zero. By 2022, the Council's screening activities showed that 75 percent of CA 100+ companies had committed to net zero emissions by 2050 or earlier.

However, commitments to net zero emissions have not yet been matched by the development and implementation of credible corporate strategies to reduce greenhouse gas emissions. While external factors, such as the ongoing energy crisis, are raising the pressure for transition, companies must vigorously prioritise the development and implementation of credible corporate strategies to reduce greenhouse gas emissions. This would include, for example, companies setting short- and medium-term emission reduction targets, including all material emissions, including Scope 3 emissions, and aligning investment strategies with their greenhouse gas emission targets.

The Council notes that progress

continues to be made on commitments by companies to net zero greenhouse gas emissions. For many companies, however, implementation is slow. The need for development and implementation of fit-for-purpose policies and investment plans to reduce greenhouse gas emissions is urgent.

Climate – for greater transparency

Climate change is a systemic risk that affects countries and companies throughout the world, and so also investments by the AP Funds. As investors, we have a responsibility to ensure that the companies in which we are shareholders manage climate risks responsibly. An important task is to ensure access to relevant and comparable information on the climate work of these companies.



Background facts

Region: Global

Sustainability area: Environment

Topics: Climate and environment; transparency

Number of companies: 110

UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

Work in 2022 was a follow-up to the outcome of a project conducted in 2019, when the Council contacted 110 listed companies with a level of climate impact

that was assessed as relatively high. The companies were recommended to start reporting according to the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). TCFD is an international reporting framework that focuses on usable, forward-looking information.

An important starting-point in the climate work of the AP Funds and the Council is to ensure transparent and relevant information from the companies on how they are working towards a climate transition. The AP Funds and the Council have for many years been active in the global investor collaboration Climate Action 100+ (CA 100+), whose task is to ensure that more

than 100 of the world's largest emitters of greenhouse gases take meaningful action to address climate change.

At the same time, there is a need to complement the work of CA100+ and address more companies among the holdings of the AP funds. The listed companies contacted by the Council in 2019 related to shareholders in companies that were not covered by the work of CA 100+, but were relatively large listed companies that were emitters.

The aim was to encourage those companies, too, to be more transparent about their climate change performance, in line with the TCFD recommendations.

Objective for the project

Greater transparency from companies, in line with the TCFD recommendations, offers investors more usable, forward-looking information to enable a better assessment of climate-related risk exposures and better informed investment decisions. Use of the TCFD recommendations also provides sup-

port to companies in their climate work. By encouraging companies to report in line with the TCFD recommendations, the Council aims to increase access to relevant and comparable company disclosure.

Outcome

During the year, the Council monitored and assessed how the 110 companies that were selected and contacted in 2019 had progressed with their climate-related reporting. During the year, the Council contacted all the companies and shared its conclusions on each company's progress.

In general, the companies contacted in 2019 have made progress in both focus on and transparency in climate-related issues. Most companies appreciated the opportunity to receive feedback on their work and the opportunity to further discuss how they intend to take their reporting further.

Next steps

This project was completed in 2022.

OUTCOME OF THE PROJECT: **Companies better and better at climate reporting.**

During the year, the Council followed up its work in 2019 on corporate climate reporting. 110 companies were contacted. Most companies had made progress in their public climate reporting and appreciated the opportunity to receive feedback on their work. The Council also discussed how the companies intended to take their reporting further.

2022

Forced labour in the construction and textile industries

Forced labour and various forms of modern slavery exist in all countries, both in developed markets and in countries with weaker legislation. Demand for low-paid, flexible labour is often filled by marginalised groups. Poverty and limited economic opportunities among low-skilled workers, especially among immigrants with poor language skills, often lead them to accept employment in abusive conditions. Fraud is also commonplace. The construction and manufacturing industries are considered to be particularly susceptible to the use of forced labour.

In 2021, the Council launched a three-year engagement project focused on companies in the construction, clothing and footwear sectors. The focus is on ensuring that companies implement processes to identify and address various forms of modern slavery in their supply chains.

Background facts

Region: Global

Sustainability area: Social issues

Topics: Forced labour/modern slavery in the construction and clothing sectors

Number of companies: 16

UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

The number of people kept in modern slavery conditions is estimated to have increased sharply over the past five years.

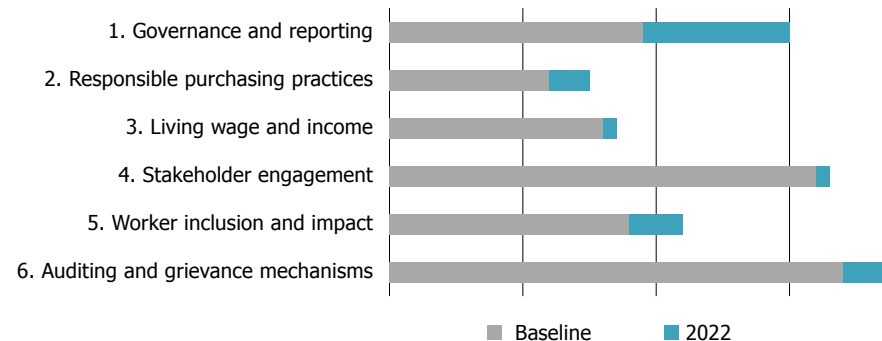
According to a report¹⁾, the number of people in modern slavery is estimated to have risen 25 percent, from around 40

¹⁾ International Labour Organization (ILO), Walk Free and the International Organization for Migration.

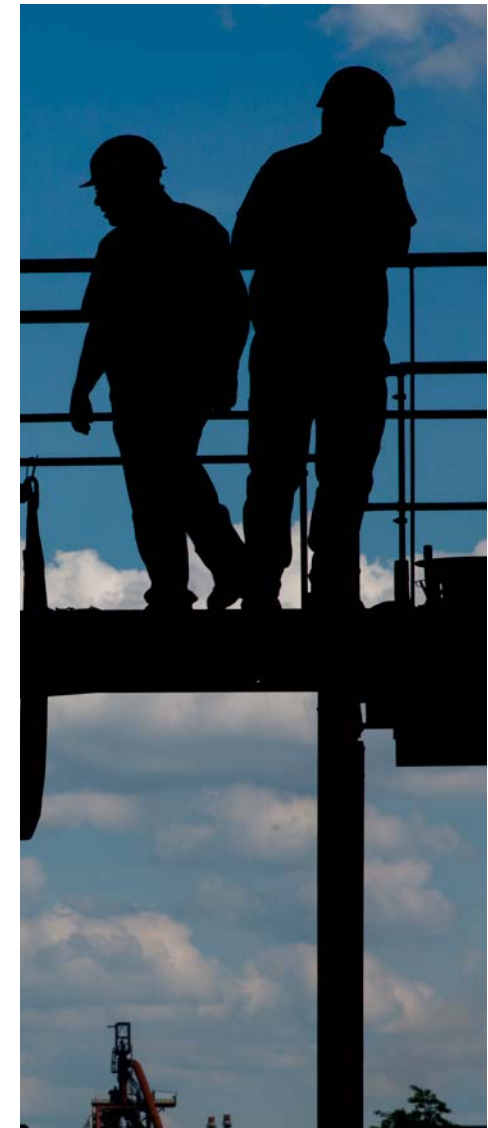
million people (2016) to around 50 million (2022). The private sector accounts for the largest number of forced workers, with an estimated more than 17 million people. All companies, including listed companies, risk of being linked to forced labour through their value chains.

The manufacturing and construction industries are the two sectors – apart from domestic work – that are estimated to have the highest share of forced labour, with more than 18 percent and 16 percent of the total workforce, respectively. People in forced labour are highly vulnerable and the

Progress in each target area for all companies, since inception



The graph illustrates developments, excluding four new companies not included in the base study.



report also documents the serious abuses to which people are at risk of being exposed to in forced labour in industries such as manufacturing and construction.

In 2021, the Council launched this three-year engagement project to support the companies' work to combat forced labour. The project is lead by a service provider and is conducted in collaboration with other institutional investors.

In 2022, the project continued advocacy dialogues with selected companies in the construction and apparel sectors. More companies joined the project during the year and the number of companies increased from 12 to 16.

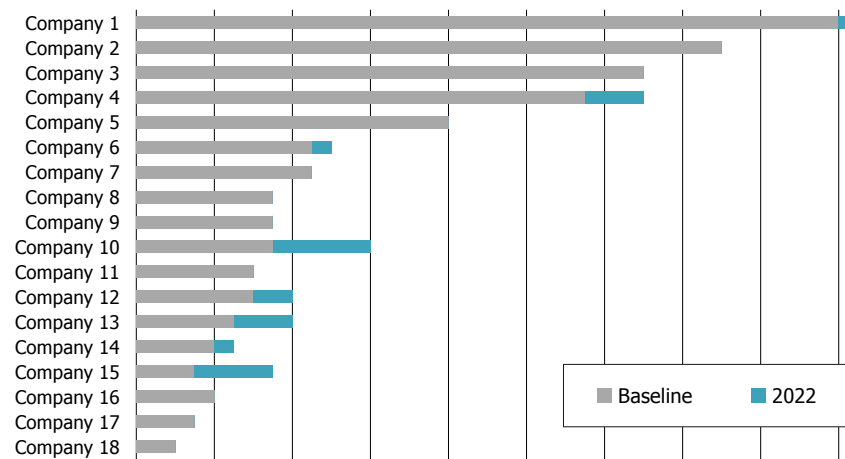
Through an probing and constructive dialogue, the project aims to encourage

companies to expand their capacity to identify and manage risks and any existence of slavery and forced labour in their value chains, and to develop and implement effective policies and control and monitoring processes. Examples of actions may include reviewing and developing the company's purchasing practices and training, as well as the provision of training to supply-chain workers.

Objective for the project

The objective for the project, which covers six development areas to address various forms of modern slavery, is to bring about positive advances in each target area, as well as for the individual companies involved in the project.

Progress in the target areas for each company, since inception



For the companies that were not included when the project's baseline study was carried out, the scores have been calculated for 2022 and are used in both the baseline study and for 2022.

Target areas:

1. Governance and reporting
2. Responsible purchasing practices
3. Living wage and income
4. Engagement with stakeholders
5. Worker inclusion and impact
6. Auditing and grievance mechanisms

Outcome

In the course of the project, it has become clear that the vast majority of companies have not been able to identify forced labour within their spheres of influence. This could mean that forced labour does not exist in the companies' value chains, but as the companies operate in high-risk sectors, the existence of forced labour can not be completely ruled out.

The dialogue process aims to encourage the companies to continuously work on developing their due diligence methods and processes to detect and address any occurrence of forced labour.

To better manage the risks involved, companies need to put more emphasis on oversight and control, processes to ensure that the voice of workers is heard and effective auditing.

The project noted a concern among companies about a greater risk of forced labour as an effect of commercial pressures, which may affect companies' purchasing practices, for example, due to price and time pressures on subcontractors.

Despite the challenges, the project is seeing results and discernible change. For example, two out of 16 companies identified

that recruitment fees (a potential indicator of forced labour) had occurred in their supply chains and both companies took steps to remedy and refund fees paid by workers.

Another company made a policy commitment under the "employer pays" principle, to ensure that no employee would become indebted through the recruitment process. The company recognised that further action was required to ensure that this policy commitment was integrated into its due diligence processes.

At several companies, the project has contributed to a greater awareness of and focus on the work to combat forced labour. Companies are also proactively seeking input into their strategic development around modern slavery.

In 2022, a roundtable was held to raise awareness of modern slavery in the global construction sector. This highlighted risks in key markets, including the USA, Europe and the Middle East, and speakers included a Member of the European Parliament, investors and industry experts.

Next steps

In 2023, the project will enter its final phase. The focus will continue to be on encouraging the companies to work systematically and develop fit-for-purpose processes. The engagement has also been important in providing the Council with a better understanding of these companies' risk management regarding working conditions in their supply chains.

Child labour in the cocoa industry

The Council has for many years been working to bring about a more sustainable cocoa industry. In Ivory Coast and Ghana, an estimated 1.5 million children work in the cocoa supply chain. These two countries are the world’s leading cocoa producing countries, supplying nearly 70 percent of cocoa production worldwide. Major improvements have been made in recent years, but many challenges remain. In 2022, a successful three-year project involving the Council and around 30 other institutional investors and led by a service provider was completed.

Background facts

Region: West Africa

Sustainability area: Social issues

Topics: Child labour

Number of companies: 7

UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

Cocoa is mainly grown on family farms and then processed in a complex supply chain. In small-scale cocoa farms, child labour at the expense of schooling is still common and often essential for family finances.

Many intermediaries in the production chain mean a low profit share for the farmers. Today, cocoa farming is difficult to make a living from and poverty is wide-

spread among cocoa farmers. As a result, many in the younger generation see no future in cocoa production and instead move to the cities.

In order to ensure sustainable cocoa production, attract and retain the right workforce and ensure a stable supply of cocoa as a commodity, the cocoa industry must ensure that cultivation is profitable and that farmers can earn a living.

Via this engagement project, the Council has been in dialogue with seven of the world’s largest cocoa and chocolate producers. Child labour is a widespread challenge in the cocoa industry and is considered a serious sustainability risk to companies that buy and sell cocoa.

Objective for the project

Within the project, the Council engaged with major cocoa and chocolate companies, focusing on three areas: child labour monitoring and remediation; access to education

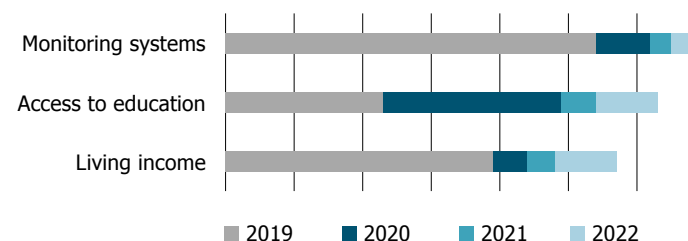
for children; and living incomes for cocoa farmers.

The objective has been that concrete measures should be taken and that child labour in cocoa farming should be reduced and eventually eliminated. The expectations for the seven cocoa and chocolate companies in the project has been to demonstrate, in the 2019–2022 period, significant progress in three focus areas:

1. expansion of Child Labour Monitoring and Remediation Systems (CLMRS)
2. how companies are promoting access to education for children in cocoa farming communities, and
3. enabling cocoa farmers in Ivory Coast and Ghana to earn a living, that is, the income needed to support their families.



Progress in each target area for all companies, since inception



Outcome

Across the value chain, the cocoa industry has made major efforts to ensure more sustainable cocoa production. Various programmes aimed at increasing productivity and improving the livelihoods of cocoa farmers have been scaled up over the years and targeted measures to combat the worst cases of child labour have been developed. This has contributed both to an increase in the number of children attending school and to a reduction in the occurrence of child labour. At the same time, most cocoa farms' situation remains difficult and child labour is common.

Through the project, the Council has taken part in regular meetings with cocoa and chocolate companies and has signed investor statements to the companies in association with a large number of other institutional investors. Roundtables have also been held with companies, leading experts

and other stakeholders on the issue of living wages. The service provider heading the project has also actively served on expert panels and developed materials to continue the drive to combat child labour, and for living wages for cocoa farmers and other small-scale farmers.

The Council notes that the companies made a major positive shift in the course of the project. This is confirmed by the KPIs for each focus area. These improved from 43 percent in November 2019, when the baseline study was carried out, to 70 percent in August 2022, when the project was completed. Improvements have been recorded in all three focus areas, and several cocoa and chocolate companies have clarified their policies on children's rights and farmers' wages.

In the three focus areas, the following improvements have been noted among the companies and other significant stakeholders:

Better, expanded child labour monitoring and remediation systems

Companies participating in the project have improved and extended the implementation of CLMRS. Most of them now have more than 50 percent CLMRS coverage in the cocoa-growing communities with which the companies trade, both in Ivory Coast and Ghana. A commitment that CLMRS or similar systems will be in place by 2025 also exists at industry level through the World Cocoa Foundation (WCF), which promotes a sustainable cocoa industry.

Access to education

Individual companies continue to assist in building schools and providing school supplies, as well as facilitating children's access to birth certificates, which are needed for attendance. In 2022, a major step forward was made when the implementation of a comprehensive education project, which is to reach five million children in Ivory Coast, commenced. All the companies with which the Council has engaged are actively involved in running the education project and are supporting it financially in association with the Ivorian government and other partners.

Access to a living income

Cocoa and chocolate companies are increasingly focusing on compensation and living wages, which are critical to the continued

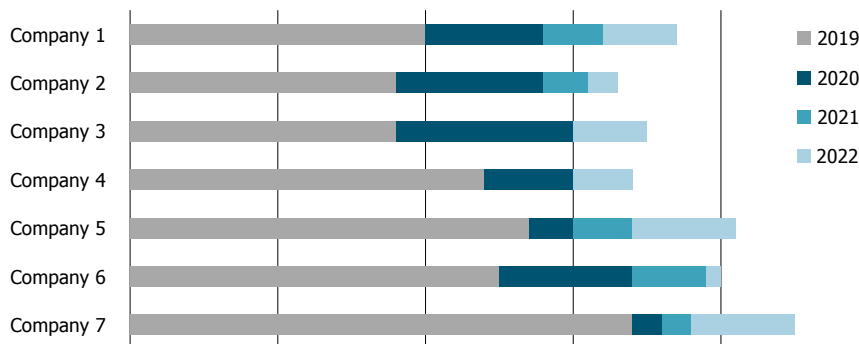
cultivation of cocoa and are needed to ensure a stable supply of cocoa as a commodity. All companies involved in the project are operating a number of activities to make a living income possible for cocoa farmers, and several of them have made specific commitments on living wages.

New sector initiatives place the focus not only on increasing productivity, but also on other measures to increase profitability for farmers. For example, Nestlé launched a specific "income accelerator" project in 2022, in which cocoa farmers are rewarded with extra payments if, for example, the family's children go to school and if they have sources of income other than cocoa, such as another crop or business.

Transparent reporting. Company disclosure has generally improved, and several companies now also include income-related data as part of their ongoing monitoring of the farmers within the scope of their programmes. In addition, greater consistency is now evident in how companies are addressing the income issue via factors such as crop diversification, access to finance, the right to and size of farmland, premiums and collaboration between farmers.

The governments of Ivory Coast and Ghana have also launched a joint initiative to increase farmers' incomes from cocoa production, including by introducing an additional premium to the farmer on the sale of the commodity cocoa.

Progress in the target areas for each company, since inception



Biodiversity and food production

The importance of biodiversity is increasingly being recognised as the risks become clearer. One sector that directly affects, and is at risk of being affected by, biodiversity loss is agriculture. Companies linked to the food production system need to ensure that natural resources are used in a sustainable way if they are to meet future demands and expectations. The Council's project focuses on environmental aspects. The objective is for the engaged companies to develop their efforts to switch to long-term sustainable food production.



Background facts

Region: Global

Sustainability area: Environment

Topics: Sustainable food production, water, chemicals, food waste, biodiversity

Number of companies: 15

UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

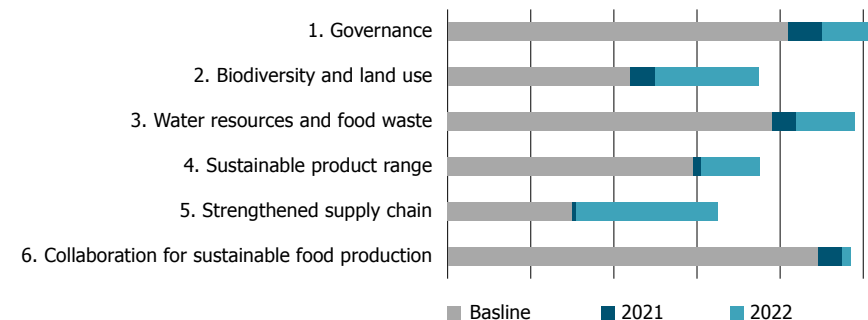
Food companies face a number of challenges. Food production can be a negative factor in climate change and water scarcity, and may threaten biodiversity. At the same time, the companies concerned

depend on good and stable access to natural resources to assure food production over time. In addition, the value chain is often complex, with many direct and indirect suppliers across the globe.

Higher expectations and tighter regulations, including stricter requirements on the use of chemicals and the import of goods, are affecting more and more companies. In December, the world's nations gathered at COP15 to agree on global targets and guidelines to reverse biodiversity loss.

The Council's Biodiversity and Food Production project was launched back in June 2021. In 2022, dialogues have been conducted with 15 companies in agriculture, agrochemicals, the food industry and grocery retailing, as part of the project.

Progress in each target area for all companies, since inception



The average score for each target area is affected both by changes in scores and by changes in the companies selected.

Objective for the project

The objective for the project, which covers six development areas for greater sustainability in food production, is to bring about positive advances in each focus area and in the individual companies involved in the project.

Development areas:

1. Governance
2. Biodiversity and land use
3. Water resources and food waste
4. Sustainable product range
5. Strengthened supply chain
6. Collaboration for sustainable food production

Outcome

Compared to the baseline study, the companies show improvements across all target areas. Dialogues with the companies have helped improve understanding of their strategies and actions, and have provided more clarity on the new initiatives they are working on.

Governance is the area where the Council sees the greatest progress. The companies are taking a holistic approach to dependencies and impacts related to climate and natural capital; they analyse both risks and opportunities in line with TCFD and engage in the process of establishing Science-Based Targets for Nature. During the year, improvements were made in management of water, carbon dioxide and food waste. For example, several companies have

adopted both short- and long-term climate targets. Collaboration remains another area of good progress where companies, through sector initiatives and collaboration with academic institutions, have taken steps to limit biodiversity impacts and expand regenerative agriculture.

As a result of engagement, advances are being made in biodiversity and land use. For example, more and more companies have been using geo-data to identify deforestation in the supply chain. The Council held fewer discussions on product development in 2022, but notes efforts to reduce the environmental impact of the use of agrochemicals.

Over the last six months, the focus of the dialogues was mostly on the supply chain. Although results are lagging in this area, there are noticeable, positive developments in how companies are supporting growers in handling sustainability challenges.

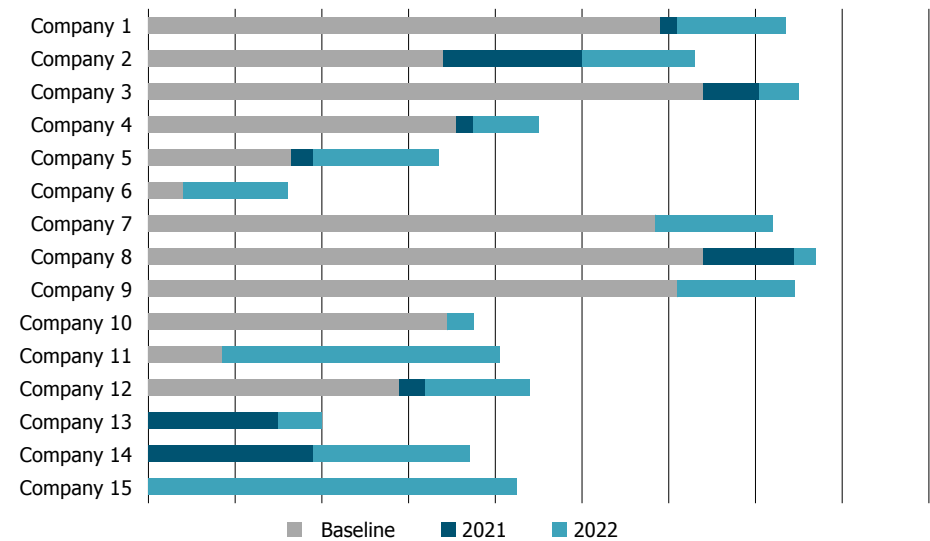
Biodiversity – development of a reporting framework

In 2022, various initiatives, including GRI, the World Benchmarking Alliance and the Taskforce on Nature-related Financial Disclosures (TNFD), introduced tools to improve transparency and comparability of companies' dependencies and impacts on biodiversity. Several of the companies involved in the project are interacting with the TNFD framework and working on how to apply its recommendations.

Next steps

Further dialogues with the companies involved in the project will take place in 2023. Work to increase the number of engaged companies will also continue. The project is over three years and is scheduled to end in 2024.

Progress in the target areas for each company, since inception



For the companies that were not included when the project's baseline study was carried out, the respective scores are only shown for 2021 and/or 2022.

Deforestation, biodiversity and climate change

Deforestation, biodiversity and climate change are “systemic” risks that are interlinked and need to be addressed for a successful transition to a sustainable society. The Council works both proactively and via individual reactive company dialogues with, for example, meat and soy producers in Brazil (see Reactive dialogues).



Background facts

Region: South America, Asia
 Sustainability area: Environment
 Topics: Biodiversity
 UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

Over time, the Council has worked both proactively and reactively on deforestation, biodiversity and climate change – sustainability issues that are interlinked.

Deforestation and burning of the rainforest contribute to global warming and destruction of an important greenhouse gas sink. In many cases, this is associated with the production of palm oil, soya and beef, and often takes place in areas with fragile ecosystems. Deforestation also threatens biodiversity as species-rich rainforests are felled and replaced by plantations. Humans, animals and plant species are being displaced and their habitats depleted or destroyed.

A growing world population is driving increased demand for food. It is estimated that more than 50 percent of deforestation is for the production of food and animal feed, including soya beans, beef and palm

oil. In addition, higher living standards are a contributory factor in the ravaging of land for crops and livestock (for more on this, see the article on the proactive *Biodiversity and Food Production* project, [page 28](#)). To investors, many risks are associated with the lack of data and tools for tracking links to risks present throughout the companies’ supply chains. In countries with weak legislation and/or poor monitoring of deforestation, companies often find it difficult to demand information on links to deforestation from suppliers and subcontractors, especially smaller companies.

In 2021/2022, the Council participated in a one-year collaborative project through

the Principles for Responsible Investment (PRI) with a focus on deforestation, the PRI Sustainable Commodities Practitioners’ Group project.

Objective for the project

Collaboration within the PRI Sustainable Commodities Practitioners’ Group project takes the form of regular workshops. The objective is in part to help participating investors better understand the challenges of deforestation in terms of financial and/or systemic risks in their holdings, as well as with regard to the data and tools for managing and reporting on risks related to deforestation during the climate transition.

OUTCOME OF THE PROJECT: **Objectives partly achieved, major challenges remain.**



2021

2022

Outcome

In 2022, the PRI's Sustainable Commodities Practitioners Group organised several workshops in which the Council participated. Topics included the transition, how companies are affected by tighter regulatory requirements, changing patterns in consumption and what actions are open to investors as stakeholders in order to influence change in companies. A key issue has been regulatory development – the new laws and guidelines that are in the pipeline. The EU is highly active in this area and is working on new legislation to prevent the import of goods that have played a part in the deforestation of rainforests.

Next steps

The project is in its final phase.



Extractive Industries Transparency Initiative (EITI) fighting corruption via double reporting

EITI was launched in 2002 with the aim of promoting responsible management of natural resources such as oil, gas, metals and minerals. The need for transparency and governance is particularly great in countries with rich natural resources but inadequate political governance. The Council supports the anti-corruption work of EITI, whose work extends to nations and companies alike.

Background facts

Region: Global

Sustainability area: Corporate governance

Topics: Corruption

UN Sustainable Development Goals:



Read more about the goals [here](#).

Background

Corruption weakens healthy competition, undermines democracies and saps economic growth, making it more difficult to address the problem because it happens covertly. The need for transparency and governance is particularly great in countries with rich natural resources but inadequate political governance.

Transparency and public debate are essential preconditions for responsible management of extractive industries. An examination of the legal and financial structures of the industry, which includes the awarding of contracts and licenses, is also necessary.

The geopolitical situation and the high and growing global demand for minerals that will enable a climate transition make it both more difficult and even more important to fight corruption in extractive industries.

As part of the Council's work to combat corruption, the Council supports EITI.

EITI

EITI is supported by a number of companies, organisations and more than 60 nations. The initiative provides a global standard for reporting revenues from extractable commodities. The guiding principle of the initiative is that a country's natural resources belong to its citizens and that a



country's income from extractive industries is to benefit the whole of society.

In order to counter corruption, EITI requires transparent reporting of payments throughout the value chain, from licensing, contract, extraction and sale, through to how they ultimately benefit citizens. Both the companies and the public authorities involved have to report. Clear and detailed double reporting of this kind enables the detection of corruption and other financial crimes. Such reporting also strengthens the ability of the public sector to collect tax revenues.

Objective

The objective is clear and transparent reporting from both nations and companies. Nations should publicly report their revenues from the extraction of natural resources, such as oil, gas and minerals, just as companies should report what they pay for the resources. Public, transparent reporting increases transparency throughout society, helps create better conditions for economic governance and makes corruption more difficult.

Outcome

Every participating country is evaluated against EITI principles and requirements for countries. If the requirements are not met and no progress is made in openness and anti-corruption in the extractive industries, the country may be temporarily or permanently excluded from the initiative.

At year-end 2022, five nations were excluded; São Tomé and Príncipe, Suriname, Tajikistan, Afghanistan and Myanmar. The latter two countries have been excluded due to political instability. Countries that previously implemented EITI, but have withdrawn or been “delisted” are Azerbaijan, Equatorial Guinea, the Solomon Islands, the USA and Yemen.

In 2022, EITI carried out a number of activities and produced various reports and guidance documents.

EITI has supported eleven nations in establishing registers of beneficial owners in the extractive industries. Such registers are very helpful in tracking and combating corruption and money laundering.

EITI has updated its key expectations document, [Expectations for EITI Supporting Companies](#). The document sets out what the expectations are and how companies should report to EITI. For example, policies on anti-corruption, taxes and payments to public authorities must be detailed. The document is valid as of the beginning of 2023.

Next steps

EITI seeks to raise awareness among actors and other stakeholders via regular webinars and by publishing information and news on its website.



EITI's expectations and the AP Funds

The AP Funds and the Council fully support EITI's expectations document, and report on how the Funds comply with the relevant sections of this document. However, as the AP Funds do not operate in extractive industries, only a small number of the EITI's expectations need to be reported on. The AP Funds invest in companies that are covered by the EITI's expectations, and every AP Fund publicly discloses its holdings on its website. The Council's website publishes the position statements of the AP Funds and the Council – including on business ethics – which deal with anti-corruption and financial crime, for example, as well as taxation.



Reactive dialogues

Through reactive dialogues, the Council exerts influence on companies worldwide to make improvements regarding their environmental, social and corporate governance sustainability issues. Issues that are highly important to people, society and company activities. A company dialogue is about how the company handles violations or difficult challenges in its business, such as corruption, human rights, working conditions, health and safety, environmental pollution and biodiversity.

The dialogues are initiated with the companies that have been identified in the bi-annual norm based screening process. The aim is to improve and be a force for positive change in the face of various challenges in sustainability.

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The progress in a reactive dialogue is illustrated by arrows in a five-stage process: 

The five stages are 1. Address the issue 2. Establish a strategy 3. Start implementation of the strategy 4. Demonstrate appropriate development of strategy and transparency 5. Strategy implemented and objectives of dialogue fulfilled.

The progress in the dialogue over the year is illustrated by arrows in different colours: 

Resolved dialogue

Dialogue with the Commonwealth Bank of Australia on business ethics and money laundering

Background facts

Status of dialogue: Closed

Company: Commonwealth Bank of Australia

Country: Australia

Area: Corporate governance

Dialogue on: Business ethics and anti-money laundering measures

Progress this year: ▲

Stages achieved in the dialogue:



Background

In autumn 2017, the Australian Financial Services Authority launched an investigation into the Commonwealth Bank of Australia (CBA) regarding the bank's internal governance, accountability and corporate culture. The investigation identified several serious offences including money laundering and terrorist financing breaches, as well as manipulation of the bank-bill swap rate.

The bank's ATMs had been used for criminal purposes to launder the proceeds, for example, from drugs and illegal arms imports. Between 2011 and 2015, the bank also made false and/or misleading promises about the insurance policies it sold.

In 2018, CBA paid a USD 530 million fine, to settle civil proceedings, for serious violations of money laundering laws. CBA was also fined USD 19 million for alleged manipulation of the bank-bill swap rate.

In response to the investigations by regulators, CBA developed a Remedial Action Plan (RAP) to address deficiencies in governance, risk and accountability processes.

Objective for dialogue

The Council's objective for the dialogue was to ensure that CBA put processes in place to ensure that the bank was not involved in money laundering or terrorist financing.

The bank needed to implement its action plan in entirety.

CBA had to ensure it had robust internal controls, risk management, and sufficient and effective board oversight. The company was also expected to improve its accountability and culture.

Outcome

The dialogue with CBA was successful and the objectives were achieved. CBA made significant improvements in its risk management and code of conduct. Some of the members of the board of directors and

executive management were replaced and a new position, Group Chief Compliance Officer, was created. The bank's risk management was enhanced by the introduction of Chief Control Officers at group, business unit and support unit levels, and by increasing resources for the operational risk management function and the compliance function. Annual risk culture assessments were introduced.

CBA is currently striving to create a "speak-up" culture with support from the bank's internal communication processes. CBA is committed to continue monitoring and reporting on the implementation of its action plan for a further two years.

Resolved dialogue

Based on these initiatives, the Council considers that CBA has fulfilled the objectives and the dialogue has therefore been closed.



Resolved dialogue

Dialogue with Dow on hazardous chemicals

Background facts

Status of dialogue: Closed

Company: Dow Inc.*

Country: USA

Area: Social issues

Dialogue on: Product-related incidents

Progress this year: ▲

Stages achieved in the dialogue:



*Associated company: Union Carbide Corp

Background

Dow has been involved in several serious incidents involving the company's crop protection products containing the pesticide chlorpyrifos.

Chlorpyrifos affects the nervous system and is classified as a potential carcinogen. It has been banned in both the EU and parts of the USA. Chlorpyrifos has been found at significant levels in drinking water in a number of locations in the USA and has been the subject of several class action lawsuits.

Dow was established in April 2019 as a spin-off from the then DowDuPont (a company formed from the merger of Dow Chemical and DuPont two years earlier, in 2017).

Objective for dialogue

The Council's objective for the dialogue was to address how Dow was dealing with the negative environmental and health impacts arising from the company's historical production, marketing and use of the pesticide chlorpyrifos.

Dow was to take measures to prevent similar incidents from occurring. The company dialogue also focused on how Dow was to improve its research and development protocols in order to detect and reduce potential adverse effects of future products.

Outcome

The dialogue with Dow was constructive and the objectives were achieved. Dow no longer produces or purchases chlorpyrifos. This also means that Dow is no longer exposed to future risks associated with the production, use or disposal of chlorpyrifos.

Dow monitors its wastewater and the concentration of chemicals discharged from the company's production facilities is below the levels approved by the regulatory authority.

Dow is committed to producing chemicals that are "sustainable for people and our planet". This means that the company focuses on the production of benign



chemicals. Such chemicals may still represent a risk, but the company's statement indicates a higher degree of awareness of and responsibility for the handling of hazardous chemicals.

Dow's development process for new chemicals includes a number of checks that the new products must pass, with sustainability being a key factor. Dow monitors how end users are affected by exposure to its products

and the company trains its suppliers in safe product handling and use. The company has imposed restrictions on the sale to the public of the most hazardous chemicals.

Resolved dialogue

The Council considers that Dow has fulfilled the objectives and therefore closed the dialogue.

Resolved dialogue

Dialogue with DuPont on environmental pollution

Background facts

Status of dialogue: Closed

Company: DuPont de Nemours

Country: USA

Area: Social issues

Dialogue on: Product-related incidents

Progress this year: ▲

Stages achieved in the dialogue:



Background

According to US authorities and media reports, the US chemical company The Chemours Company (Chemours) and its former parent company DuPont du Nemours Inc. (DuPont) systematically underreported several incidents of long-term harmful emissions and environmental pollution from their production facilities. These emissions and pollution may have caused adverse health effects in the local population.

In April 2018, Chemours and DuPont were sued for illegal releases of harmful chemical substances, both directly and in their value chain, and of residues from their manufacturing processes. The lawsuit

included PFOA and PFAS, highly persistent chemicals that accumulate in the human body and in the environment, creating a range of health risks, including weakened immune systems, liver function impairment and birth defects. The emissions are deemed to have contaminated both ground-water and surface water.

DuPont and Chemours agreed to pay approximately USD 330 million each to settle more than 3,500 personal injury claims in connection with a leak of PFOA, also known as C-8, from a factory in West Virginia, USA. Similar contamination problems were reported at the Chamber Works factory in New Jersey, USA, and also in the Netherlands, where three local authorities are claiming compensation from Chemours and DowDuPont for contaminating both soil and water sources with PFOA.

Objective for dialogue

The Council's objective for the dialogue was for DuPont to address the environmental and health incidents caused by the harmful emissions from the company's facilities. The company was to reinforce the actions taken by DuPont to ensure responsible production and take steps to prevent harmful emissions and pollution from occurring in the future.



Outcome

The dialogue has been successful and the objectives achieved. DuPont confirms that Chemours is responsible for all legacy harmful emissions and contamination. DuPont has stopped producing PFAS. The company has established an internal system for responsible production, which is externally audited. DuPont has adopted an internal risk screening process to evaluate and screen out products that are considered

to have unacceptable negative impact on the environment and human health.

Resolved dialogue

On the basis of these actions, the Council is of the view that DuPont has fulfilled the objectives and the Council has therefore closed the dialogue.

Resolved dialogue

Dialogue with ING on business ethics and money laundering

Background facts

Status of dialogue: Closed

Company: ING Groep NV*

Country: The Netherlands

Area: Corporate governance

Dialogue on: Business ethics and anti-money laundering measures

Progress this year: ▲

Stages achieved in the dialogue:



*Associated companies: ING Bank Slaski SA, ING Bank (Australia) Ltd and ING-DiBa AG

Background

In 2018, ING paid EUR 775 million in settlements with the Dutch Public Prosecution Service regarding money laundering and corruption between 2010 and 2016. The settlement was confirmed by the Hague Court of Appeal in December 2020.

In March 2019, it was revealed that ING's Moscow branch had been part of a criminal money laundering scheme, which became known as the “Troika Laundromat” controversy, and that hundreds of millions of euros had been channelled through the Moscow branch's offices between 2006 and 2013.

In March 2019, Italian regulators banned ING from accepting new Italian customers, citing weaknesses in ING's Anti-Money Laundering (AML) processes. The Italian ban was lifted in September 2020.

Objective for dialogue

The objective for the Council's dialogue was to ensure that ING implemented robust risk management systems and internal controls to prevent the bank from being used for financial crime and money laundering.

ING was expected to take steps to improve its corporate culture, as well as the transparency of its AML risk management framework.

Outcome

The company dialogue, initiated in May 2019, was comprehensive and constructive. The objectives for the dialogue are deemed to have been achieved.

In 2017, ING launched a global programme for improved knowledge of customers, which was expected to be completed by the end of 2022. The multi-year Know Your Customer (KYC) programme included improved customer due diligence, policies, governance, transaction monitoring and training. ING expanded its compliance staff

to 4,000 and invested heavily in AML/KYC. The company has been proactive in building a more risk-aware corporate culture.

In addition, ING established a new behavioural risk unit consisting of more than 30 psychologists and other disciplines actively studying group behaviour, working on creating key indicators to measure culture and other “soft” behaviours. The unit

proactively engages with the groups of ING employees deemed to be at risk of violations of business ethics.

Resolved dialogue

Based on these initiatives, the Council considers that ING has fulfilled the objectives and the dialogue has therefore been closed.



Resolved dialogue

Dialogue with Olympus on prevention of outbreaks of multi-drug resistant bacteria

Background facts

Status of dialogue: Closed

Company: Olympus Corporation

Country: USA

Area: Social issues

Dialogue on: Product-related incidents

Progress this year: ▲

Stages achieved in the dialogue:

**Background**

In 2016, leaked emails from Olympus revealed that senior company executives decided in 2013 not to warn the USA that the company's duodenoscope (endoscope used for examination of the small intestine) was suspected of being linked to outbreaks of antibiotic-resistant bacteria.

Between 2010 and 2015, at least 35 people died in the USA after use of the Olympus duodenoscope, and at least 350 more patients worldwide were affected.

Once it was discovered what had happened, Olympus improved training programmes for healthcare professionals

on the correct sterilisation method for the duodenoscope. In 2016, the number of deaths and complications arising from the use of duodenoscopes decreased.

Objective for dialogue

The objective for the dialogue was for Olympus to improve the safety of fixed end-cap duodenoscopes by enabling healthcare professionals to clean them effectively. Olympus was also to endeavour to transition to single-use end-caps.

Outcome

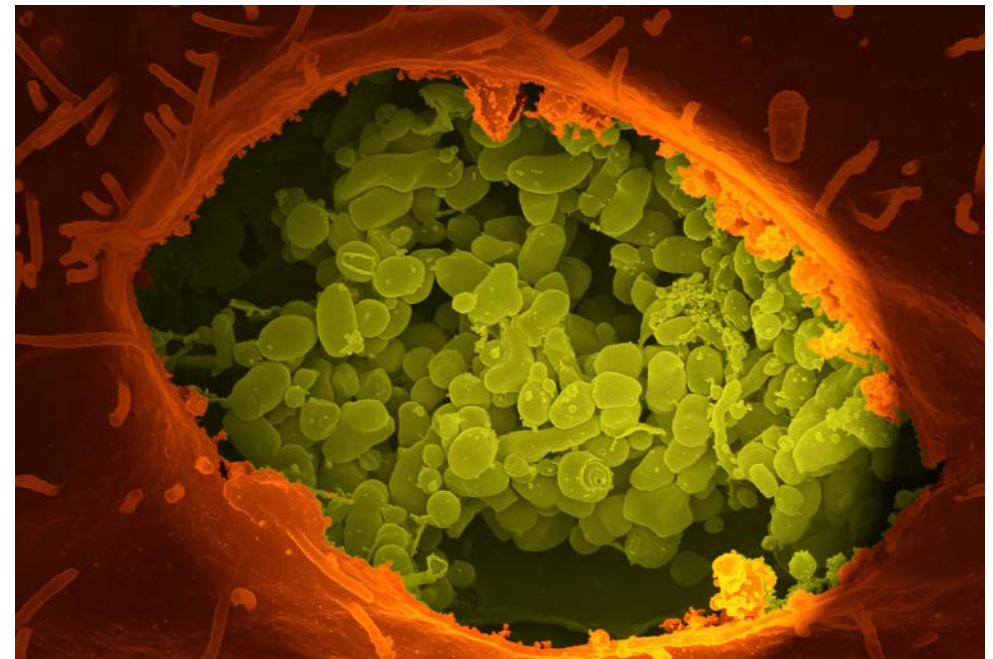
The dialogue with Olympus was constructive and the objectives were fulfilled. From 2016, and throughout the engagement, Olympus worked to bolster its education programmes. The company sent staff to client sites to train healthcare professionals in person, and created videos and other materials for online training.

Olympus' training initiatives were highly effective, and patient deaths and illnesses associated with the use of the Olympus duodenoscope decreased to nearly zero. Olympus developed a new duodenoscope design with a disposable end-cap that

could be thrown away after use. Olympus launched a buy-back programme of the older fixed end-cap models to replace them with the new safer duodenoscope. The company has announced that it has replaced 10–20 percent of the older models of duodenoscopes worldwide.

Resolved dialogue

The Council considers that Olympus has fulfilled the engagement objectives and therefore closed the dialogue.



Ongoing dialogue

Dialogue with Adani Ports and Special Enterprise Zone (APSEZ) on links to entities acting in breach of human rights.

Background facts

Status of dialogue: Ongoing

Company: Adani Ports and Special Enterprise Zone (APSEZ)

Country: Myanmar

Area: Social issues

Dialogue on: Links with entities acting in breach of human rights

Progress this year: ▶

Stages achieved in the dialogue:



Background

In May 2019, Adani Ports and Special Economic Zone's (APSEZ) wholly-owned subsidiary, Adani Yangon International Terminal Co., signed an agreement with the Myanmar Economic Corporation (MEC) to build a container terminal in Yangon and to maintain it for 50 years.

MEC has been accused of being complicit in gross human rights abuses in Myanmar through its relationship with the ruling military junta and APSEZ allegedly, through its business relationship with MEC, indirectly finances these abuses.

Objective for dialogue

The objective for the dialogue is for APSEZ to conduct human rights due diligence regarding its operations in Myanmar.

APSEZ is to engage with the stakeholders concerned and ensure that its relationship with MEC does not implicate the company in human rights abuses. If the company cannot ensure the above, it should terminate the cooperation.

Outcome

In October 2021, APSEZ announced that, based on the recommendation of its risk committee, it had decided to sell its Myanmar operations within one year to an unnamed third party and then exit Myanmar once the sale is complete.

At year-end 2022, negotiations on the terms of sale were still in progress with a prospective buyer of the container terminal concession.

Regarding the company's approach to human rights, APSEZ has said that it is working to strengthen its internal governance, as well as measures relating to human rights. For example, the company is committed to engaging third-party



consultants for human rights due diligence and establishing training programmes for its employees.

This is work in progress and more information is needed to ensure that the commitments mentioned in the dialogue are implemented.

APSEZ is committed to a responsible exit and has indicated that it is preparing

an internal report on its lessons from Myanmar to draw on if similar situations arise in the future.

Next steps

The Council will continue its dialogue with APSEZ in 2023 to monitor completion of the sale and implementation of the company's undertakings.

Ongoing dialogue

Dialogue with Amazon on workplace accidents

Background facts

Status of dialogue: Ongoing

Company: Amazon

Country: USA

Area: Social issues

Dialogue on: Accidents at work

Progress this year: ▶

Stages achieved in the dialogue:



Background

For several years, Amazon has been accused of recurring health and safety problems in its operations. There have also been allegations of poor working conditions for many of its warehouse workers. In the USA, thousands of injured workers have sued the company, alleging that their compensation benefits have been refused or delayed despite reported injuries.

Amazon has been criticised by organisations such as the Strategic Organizing Center, a coalition of trade unions, which published a report in April 2022 stating that 34,000 serious injuries had been recorded in Amazon's US warehouses in 2021.

Amazon is under investigation in the USA for safety hazards in its warehouses.

Objective for dialogue

The objective for the dialogue is for Amazon to minimise health and safety risks for its employees. The company is to improve its health and safety policies and procedures in order to proactively reduce the risks and create a better working environment. Amazon is also to develop its public reporting on the issue and consider engaging a third party to evaluate the company's management system.

Outcome

The dialogue had limited success in 2022. Amazon has not shown any interest in taking part in dialogue and maintains that its management of health and safety risks is good.

One focus of dialogue is to persuade the company to continue increasing transparency on its strategy. The level of detail in Amazon's health and safety reporting improved in 2022, as it did in 2021. A standalone report focusing on the company's health, safety and wellbeing work was published. Amazon continues to invest in materials, technology and programming.

In 2021, the company set a new target to reduce the number of accidents by 50 percent by 2025. The most recent health

and safety report indicated, for example, a reduction in the number of recordable injuries and lost working hours attributable to occupational injuries between 2019 and 2020. Amazon also reports on the development of new tools, such as the company's Safety Leadership Index and a new reporting system for workers on potential risks, faults and other issues observed during the working day. Amazon has introduced a new leadership principle – “Strive to be Earth's

Best Employer” – which explicitly includes worker safety.

Next steps

Going forward, the dialogue will focus on Amazon's performance on key indicators, priorities and goals. Another aim is to obtain an understanding of how effective the company's policies and guidelines are, and to identify possible areas for improvement.



Ongoing dialogue

Dialogue with Bunge on deforestation

Background facts

Status of dialogue: Ongoing

Company: Bunge Ltd

Country: Brazil

Area: Environment

Dialogue on: Land use and biodiversity

Progress this year: ▶

Stages achieved in the dialogue:



Background

Bunge operates in agricultural products and has for several years been criticised for its links to deforestation, including in Bolivia and Brazil. Bunge is committed to making its supply chain completely deforestation-free by 2025.

In 2021, the Mighty Earth advocacy organisation reported that Bunge had been assessed as showing the highest deforestation risk among its peers when the deforestation impact of its indirect suppliers was included. The report referred to operations in the Cerrado region of Brazil.

Objective for dialogue

The objective for the dialogue is for Bunge to stop buying soy from suppliers that are directly or indirectly involved in deforestation activities.

Bunge is to implement measures to identify suppliers not complying with the company's requirements, to use the best available processes for fulfilling its deforestation commitments and to report regularly on this work.

Outcome

The focus has been on Bunge's progress towards objectives established, how it can increase traceability and monitoring of indirect suppliers, and on the financial incentives offered to the supply chain to encourage solutions to the deforestation problem.

Bunge monitors 100 percent of the output from its direct suppliers and is working to increase monitoring and traceability of its indirect suppliers – a challenge that is common throughout the industry.

In 2022, Bunge published few details about its monitoring and traceability of indirect suppliers, except to note that the company now monitors 64 percent of its indirect volumes “in the priority regions”, exceeding the company's 2022 target of 50 percent. This compares to Bunge's previous statements that by the end of 2021, it was tracking and monitoring 50 percent of its subcontractors in the Cerrado region, which exceeded the sub-objective of 35 percent. However, as the reported number of mon-

itored indirect suppliers is relatively high, the Council would like to better understand and verify how Bunge reaches this figure.

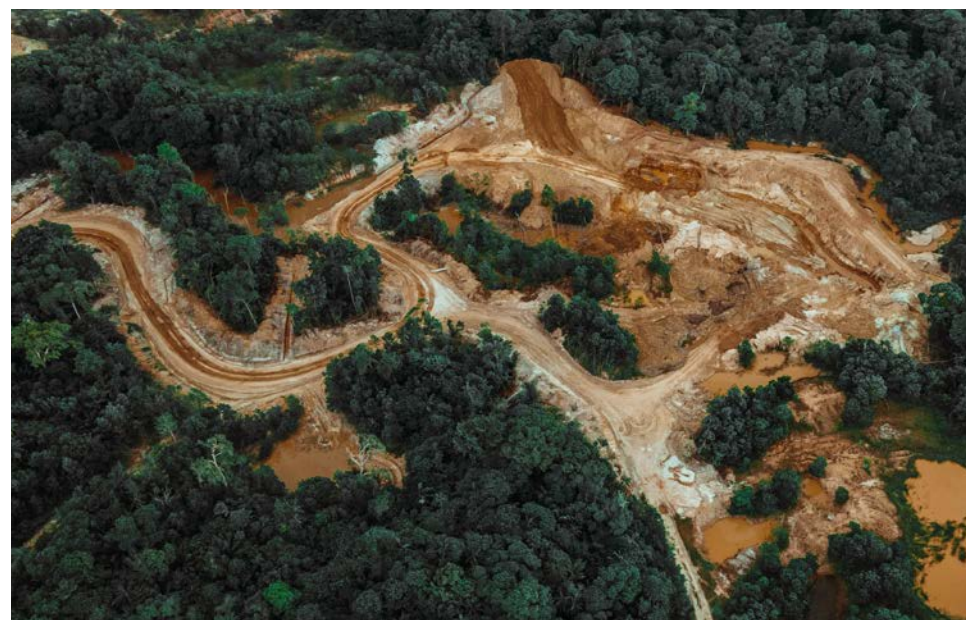
Next steps

The engagement focuses on Bunge's efforts to track and monitor its many indirect suppliers through the Bunge Sustainable Partnership.

The company should improve its collaboration with peers, regulators and other

actors and work towards an industry agreement, with deforestation freeze dates for all high-risk areas.

Bunge has expressed confidence that it will be able to monitor both direct and indirect suppliers by 2025. However, it is noted that monitoring and preventing illegal deforestation is an industry-wide systemic issue with challenges such as having the capacity to engage with many smaller farms and break entrenched behaviour.



Ongoing dialogue

Dialogue with Credit Suisse on business ethics

Background facts

Status of dialogue: Ongoing

Company: Credit Suisse Group AG

Country: Switzerland

Area: Corporate governance

Dialogue on: Business ethics

Progress this year: ▶

Stages achieved in the dialogue:



Background

Credit Suisse has repeatedly come under public and regulatory scrutiny for inadequate policies, programmes, controls, due diligence and risk management processes for addressing money laundering, tax evasion, market manipulation, bribery and fraud. The company's latest incidents relate to money laundering and inadequate risk management and control regarding two clients.

Objective for dialogue

The objective for the dialogue is for Credit Suisse to conduct a complete review of its anti-money laundering activities.

The company is to implement robust policies, programmes, compliance processes and risk management systems that prevent business ethics-related incidents.

Where appropriate, the company is to report transparently on the policies.

Outcome

Credit Suisse has shown a willingness to engage and provided a good level of transparency.

In 2022, the dialogue was very active. Discussions focused on corporate culture and the importance of a bank's corporate

culture emphasising good business ethics, as the absence of this can risk undermining the policies and programmes that the company has in place for maintaining good conduct. An unhealthy corporate culture can make it possible to circumvent compliance controls and risk management processes, resulting in inappropriate risk-taking and potentially major losses for a bank and its customers.

Against that background, Credit Suisse has been recommended, for example, to conduct a full assessment of corporate culture, develop a comprehensive culture

transformation plan and communicate it publicly, establish KPIs to measure changes in corporate culture and reinforce the message from the board and management about the bank's mission and values. Credit Suisse is now in the process of implementing or completing most of these measures.

Next steps

The Council will maintain its dialogue with Credit Suisse and stress the importance of the company further developing its corporate culture and strengthening its internal risk management and control.

Ongoing dialogue

Dialogue with Danske Bank on business ethics

Background facts

Status of dialogue: Ongoing

Company: Danske Bank A/S

Country: Denmark

Area: Corporate governance

Dialogue on: Business ethics and money laundering

Progress this year: ▲

Stages achieved in the dialogue:



Background

The Danish Financial Supervisory Authority announced in September 2018 that it was to reopen its investigation into Danske Bank's anti-money laundering (AML) management and controls in its Estonian branch. This was a contributory factor in decisions on official investigations from several countries, along with significant fines and the replacement of the CEO and chairman of the bank.

In February 2019, the Estonian Financial Supervisory Authority ordered Danske Bank to terminate all banking activities in Estonia. The Norwegian, Swedish and Danish authorities are actively monitoring Danske Bank and have, for example, issued injunctions to Danske Bank in relation to anti-money laundering-related deficiencies.

Objective for dialogue

The objective is for Danske Bank to ensure that it has implemented risk management systems and internal controls aimed at preventing financial crime and money laundering and can demonstrate that these are robust and applied across the board.

Danske Bank must also ensure that its board of directors is able to exercise adequate, effective supervision over its activities.

To the extent possible, Danske Bank must disclose all changes related to its AML programme.

Outcome

Over the past four years, Danske Bank has invested major resources in strengthening its AML systems, compliance and risk management, together with associated policies, programmes and initiatives.

Governance of the bank has been reinforced and a comprehensive Financial Crime Plan has been launched to address the challenges faced.

In 2022, the dialogue focused on the bank developing its corporate culture to ensure the desired business ethics in its activities.

Danske Bank states that its Financial Crime Plan is more than 60 percent complete and that the aim is to have the plan implemented by year-end 2023.

The bank's main focus in 2022 was transaction monitoring, its system for customer risk classification and data management.

In December 2022, Danske Bank reached a settlement with the US Department of Justice, the US Financial Intelligence Unit and the Danish Special Crime Unit. The bank is to pay fines of around USD 2 billion.

Next steps

The Council will monitor the implementation of Danske Bank's Financial Crime Plan. The focus will also remain on the company's actions in developing and strengthening its corporate culture to prioritise good business ethics.



Ongoing dialogue

Dialogue with FirstEnergy on bribery and corruption

Background facts

Status of dialogue: Ongoing

Company: FirstEnergy

Country: USA

Area: Corporate governance

Dialogue on: Bribery and corruption

Progress this year: ▶

Stages achieved in the dialogue:



Background

FirstEnergy is an electric utility company headquartered in Ohio, USA. The company has been fined for its role in a bribery and corruption scandal. According to US federal prosecutors, between 2017 and 2020, FirstEnergy bribed Ohio House Speaker Larry Householder with more than USD 60 million to ensure the passage of a bill called “House Bill 6” (HB6). The bill was passed and became law in 2019. Under the law, taxpayers were to fund a USD 103 billion bailout of Ohio’s nuclear power plant. At the time, the plant was owned by a subsidiary of FirstEnergy, FirstEnergy Solutions. In July 2020, the House Speaker Householder and four of his aides were arrested and charged with bribery. The incident is described as “probably the largest bribery and money



laundering scheme ever perpetrated against the citizens of the State of Ohio”. FirstEnergy admitted its involvement in the plan to make taxpayers pay for the rescue of the company’s nuclear power plant. The company reached a settlement with the US Department of Justice (DOJ) to avoid possible criminal charges related to the HB6 bribery scandal. FirstEnergy was fined USD 230 million.

Objective for dialogue

FirstEnergy is to cooperate with all related investigations and implement their recommendations. The company is to

ensure a robust anti-bribery and anti-corruption system and provide training for its employees. FirstEnergy is to adopt an appropriate complaint management and whistleblowing system. The company is to demonstrate transparency and integrity in its lobbying activities.

Outcome

In dialogue, FirstEnergy has shown an openness about the internal deficiencies that led to the incident and its intention to address the problems. The company is well aware that it will take time to restore confidence from both the public and investors. Staff

training including on bribery and corruption is underway. The dialogue advocates that the company’s whistleblowing system should be more robust and operated by third parties.

Next steps

With FirstEnergy, the Council will monitor the improvements introduced to the company’s whistleblowing system. The monitoring process will also cover the company’s various initiatives, including training of its staff to create a healthy corporate culture to combat bribery and corruption.

Ongoing dialogue

Dialogue with JBS on deforestation

Background facts

Status of dialogue: Ongoing

Company: JBS SA

Country: Brazil

Area: Environment

Dialogue on: Land use and biodiversity

Progress this year: ▶

Stages achieved in the dialogue:



Background

JBS, one of the world's largest meat producers, has on several occasions been linked via its suppliers to deforestation.

To prevent deforestation, Brazil has, in some geographical areas, regulated the expansion of cattle ranching and soybean cultivation.

JBS has tightened its processes and controls and now excludes direct suppliers that can be linked to illegal deforestation in these areas. The company is also working on expanding its processes and controls to include indirect suppliers, which is a major challenge in a complex supply chain of more than 300,000 farmers.

Objective for dialogue

The Council's objective for the dialogue is for JBS to stop buying cattle, meat and/or animal feed from suppliers that are either directly or indirectly involved in illegal deforestation.

The company should develop and implement wide-ranging measures to identify non-compliant suppliers.

In order to reduce deforestation, JBS should step up cooperation with other significant stakeholders.

A traceability system for the entire Brazilian livestock sector is considered crucial to a long-term solution to the problem of illegal deforestation.

Outcome

JBS is committed to eliminating illegal deforestation of Amazon from its supply chain by the end of 2025. As advocated in the dialogue, JBS has brought forward its zero target for illegal deforestation, for suppliers in the Cerrado, Pantanal, Atlantic Forest and Caatinga regions, from 2030 to 2025.

JBS has a responsible sourcing policy for raw materials and is committed to not buying beef linked to deforestation.

JBS has excluded more than 11,000 farms from its supply chain and is prepared to exclude even more if necessary.



In the supplier review process, JBS relies in part on data from the Brazilian Institute of Environment and Renewable Natural Resources (IBAMA). JBS is also participating in the "Beef on Track" initiative.

During 2022, JBS continued to connect its direct suppliers to its Transparent Livestock Farming Platform, which uses blockchain technology to allow direct suppliers to share information with JBS about which subcontractors they in turn use. JBS states that 15 percent of its direct suppliers are connected to the platform, and that the suppliers that are not connected to the system by 2025 will be excluded.

The Council is advocating new tools to manage, for example, triangulation risks (risks of mismeasurement of distances in

the wild) and JBS has confirmed that it is in the process of implementing such tools.

JBS has also indicated that it supports the introduction of a date-bound deforestation freeze that applies to areas other than the Amazon, something that other companies linked to deforestation in Brazil have so far not done.

Next steps

The Council is endeavouring to get JBS to implement tougher measures to accelerate its suppliers enrollment to the company's Transparent Livestock Farming Platform. Greater industry collaboration is encouraged, for example on an agreement to introduce a date-bound deforestation freeze for all high-risk regions.

Ongoing dialogue

Dialogue with Korea Electric Power Corp. following the collapse of a dam

Background facts

Status of dialogue: Ongoing

Company: Korea Electric Power Corp (KEPCO)

Country: Lao People's Democratic Republic

Area: Social issues

Dialogue on: A major dam collapse

Progress this year: ▲

Stages achieved in the dialogue:



Background

Korea Electric Power Corp's (KEPCO) subsidiary Korea Western Power Co. (KOWEPO) owns 25 percent of Xe-Pian Xe-Namnoy Power Co. (PNPC) and is represented on PNPC's board of directors.

PNPC has been involved in a major dam collapse that resulted in loss of life and displacement of local communities.

In July 2018, a backup dam for the Xe-Pian Xe-Namnoy hydropower project in Laos collapsed, flooding 19 villages. According to the Lao government, more than 600,000 people were affected, at least 71 people died and the homes of more than 7,000 people were destroyed. In May 2019, the Lao government announced that an independent expert assessment had concluded that the collapse was the result of a sub-

standard technical design showing serious flaws. The collapse of the dam was therefore judged to be preventable.

Objective for dialogue

The objective for the dialogue is for KEPCO to influence its subsidiary, KOWEPO, to use its influence as a shareholder in PNPC to ensure that the communities affected are consulted and receive adequate compensation.

In addition, PNPC is to commit to improving its preparedness and risk management by having a Dam Safety Plan.

Outcome

Significant results have been achieved in terms of clean-up, compensation and livelihood support to the affected people.

The PNPC established a project website where it has provided information on developments related to settlement, infrastructure and livelihood support.

A new permanent community is under construction, and at year-end 2022, 600 out of 700 houses had been completed. Water, electricity and road infrastructure were completed in 2021. KEPCO, via its subsidiary KOWEPO, is pressing the Lao government to ensure that the pace of construction of the permanent village is increased.

Following the collapse of the Laos dam, PNPC developed an Incident Management Contingency Plan and this plan has been fully implemented.

Following the collapse of the Laos dam, KEPCO has improved its corporate governance by establishing a board-level ESG committee and making improvements in project risk management and decision-making.

Next steps

The Council will continue its dialogue with KEPCO in 2023. Once the permanent housing is completed and all those affected have been able to move in, the communities may be considered to have been adequately compensated. Engagement will continue with this as a goal as well as to ensure that dam safety plans are implemented and that KEPCO has implemented a UNGP-aligned human rights system.



Ongoing dialogue

Dialogue with Sanofi on product safety and human rights

Background facts

Status of dialogue: ongoing

Company: Sanofi

Country: The Philippines and France

Area: Social issues

Dialogue on: Product safety and human rights

Progress this year: ▶

Stages achieved in the dialogue:



Background

Sanofi is a pharmaceutical company that develops and sells a wide range of medicines globally. In February 2020, the Philippine authorities charged Sanofi with manslaughter. The company's Dengvaxia vaccine against dengue fever may have resulted in the deaths of ten children. Dengvaxia was given to children in the mass immunisation programme that took place between 2016 and 2017, when more than 800,000 school children were vaccinated against dengue fever.

Separately, also in February 2020, French authorities prosecuted Sanofi for failing to adequately warn its customers that its epilepsy drug Depakine carried a risk of birth defects if taken by the mother during pregnancy.

Objective for dialogue

The Council's objective for the dialogue is for Sanofi to maintain robust governance, compliance and risk management systems for the research and development of new products. Sanofi is to ensure good communication regarding the risks and side effects of its products.

Outcome

Over the past two years, Sanofi has provided detailed information as to how it manages product quality and safety and how it has refined its processes. The company has a safety management team and a global pharmacovigilance team, both of which are involved in designing and ensuring that product safety aspects are part of the clinical trial and product development process. Product safety is overseen by an independent data monitoring committee.

Sanofi has established a multidisciplinary product safety committee consisting of senior members of Sanofi's global business unit, regulatory and clinical members, and medical and legal representatives. The committee meets monthly or within 24 hours if the company receives a "safety signal". Sanofi has a Global Safety Officer and a Chief Quality Officer, and has a quality



manual on its quality management system.

Sanofi has communicated the reporting structure for its product quality organisation. In 2021, the company conducted and published, in accordance with the French law "Loi de Vigilance", a mapping of its due diligence process for identifying, managing and disclosing the company's risks and negative impacts on human rights and the environment.

A risk management plan is in place for all Sanofi products, describing both known and potential risks. The plan is continuously updated while the product is in use. The company operates vaccine-specific safety

rules for both regulatory information and labelling and has a vaccine safety committee. Sanofi has addressed the labelling issues for both Depakine and Dengvaxia and has processes in place to ensure good future information provision and labelling for the products.

Next steps

The Council will continue engagement to ensure that Sanofi increases its public transparency on potential risks from its products, commits to applying higher safety standards, such as longer-term follow-up with trial participants, and is active in improving co-operation within the sector.

Ongoing dialogue

Dialogue with Tesla on labour law

Background facts

Status of dialogue: Ongoing

Company: Tesla

Country: USA

Area: Social issues

Dialogue on: Discrimination and harassment

Progress this year: ▶

Stages achieved in the dialogue:



Background

Employees at Tesla's Fremont factory in California (USA) have reported being repeatedly subjected to racial discrimination and harassment. In August 2021, Tesla was ordered to pay more than USD 1 million in damages to a former worker at the factory. The damages concerned racist verbal harassment by the employee's superiors.

In October 2021, Tesla was ordered to pay USD 137 million to a contractor who claimed that he suffered racial harassment while working at the factory between 2015 and 2016 and that his superiors did not act on his complaints about the harassment. Tesla has filed a request for the judgment to be reviewed.

In February 2022, after a three-year investigation, the California Department

of Fair Employment and Housing (DFEH) announced that it had received complaints from hundreds of workers and found evidence that Tesla's Fremont factory is a "racially segregated workplace". Against this background, DFEH filed a lawsuit against Tesla for systematic racial discrimination and harassment.

Objective for dialogue

Tesla is to allow an independent third party to investigate these incidents and to fully participate in the investigation.

Tesla is to reinforce its anti-discrimination policies, including thorough training to create a culture of diversity, equality and inclusion, and ensure an effective complaints management mechanism.

Tesla should appoint anti-discrimination and HR experts at senior management level with sufficient resources and a strong mandate from the management team and the board. The company is to regularly report on the related work and have it audited by a third party.

Outcome

The dialogue with Tesla started in 2022. Initially, it focused mainly on how Tesla proactively addresses issues relating to discrimination and other labour rights.

The initial dialogue with Tesla has been constructive and the company has communicated its intention to address employee and discrimination issues.

Next steps

Tesla has stated that it takes diversity, equality and inclusion seriously and the Council expects Tesla to provide detailed

information on how these values will be integrated into its corporate culture. The company has made some changes to procedures and personnel to improve the situation. The dialogue will explore how these changes are working and what further steps Tesla is taking to address the challenges and criticisms.



Ongoing dialogue

Dialogue with Teva Pharmaceutical Industries on business ethics

Background facts

Status of dialogue: Ongoing

Company: Teva Pharmaceuticals Industries

Country: USA

Area: Corporate governance

Dialogue on: Price-fixing and bribery

Progress this year: ▶

Stages achieved in the dialogue:



Background

In recent years, Teva Pharmaceutical Industries (Teva) and its subsidiaries have been accused of anti-competitive and corrupt practices in various countries since 2007. Between 2007 and 2015, Teva has been accused of illegally influencing patients to buy its products.

In 2015, the company settled with the US Federal Trade Commission and paid USD 1.2 billion following allegations that Teva paid competitors to reduce generic competition for Teva's products.

In late 2016, Teva settled with the US Department of Justice (DOJ) regarding bribery allegations, paying USD 519 million. In 2018, the company settled with the

Israeli regulator over allegations of bribery in Russia, Mexico and Ukraine, paying USD 22 million.

Since then, Teva has been prosecuted, mainly in the USA, for example for engaging in cartels and paying competitors bribes to keep competing medicines off the market so that doctors would continue to prescribe Teva's medicines. The charges include allegations that Teva had played a central role in illegal sector collusion to maintain market share, avoid price erosion and keep prices high for more than 100 different generic medicines in the USA.

Objective for dialogue

The objective of the dialogue is for Teva to complete an internal investigation into the root cause of the alleged misconduct.

In parallel, the company is expected to review its pricing model for medicines and ensure that changes are made to secure fair access to Teva's products.

Outcome

Teva has made major progress over the past two years in its sustainability reporting. This is important because transparent public reporting reinforces the need for good internal reporting.

Teva has identified “ethical behaviour” as a material sustainability risk. It is clear from the company's reporting in 2021 that improvements have been made to encourage and guide employees towards desired ethical behaviours. Such improvements include employee training and aligning executive pay with the aims, and are confirmed by a third-party assessment.

Next steps

The Council will maintain its dialogue with Teva in 2023 to obtain a better understanding of how the ethical framework is being implemented and embedded into the company.



Ongoing dialogue

Dialogue with Tiger Brands on food and product safety

Background facts

Status of dialogue: Ongoing

Company: Tiger Brands Ltd

Country: South Africa

Area: Social issues

Dialogue on: Product safety

Progress this year: ▶

Stages achieved in the dialogue:



Background

In 2018, a major listeria outbreak in South Africa was traced to a facility where Tiger Brands' subsidiary Enterprise Foods manufactures finished meat products. In total, more than 1,000 cases of illness and more than 200 deaths were confirmed.

In March 2018, Tiger Brands issued a national recall of all its finished meat products made at the Enterprise Foods factory. In December 2018, the victims of the listeria outbreak filed a class action lawsuit against Tiger Brands.

Objective for dialogue

The aim of the dialogue is for Tiger Brands to take appropriate measures to responsibly compensate those affected. Tiger Brands is to demonstrate that it has taken meas-



ures to improve operational processes and procedures for product safety across the entire group.

Outcome

In 2022, Tiger Brands focused on training its employees, implementing policies and securing external food safety certifications.

Tiger Brands organised regular staff training on food safety, including a “training for trainers” programme.

A multidisciplinary team including technical consultants and professors from academic institutions was established to support the risk assessment strategy.

Tiger Brands has said that it underwent a cultural shift after the listeria outbreak. Based on the lessons learned, the company developed a product recall procedure. Two precautionary recalls have taken place in the past two years. The recalls demonstrate Tiger Brands' efforts to implement its product incident management procedure and to become more transparent to the public.

All Tiger Brands facilities have been certified under the Hazard Analysis and Critical Control Points (HACCP) system. Most facilities have obtained Food Safety System Certification (FSSC 22000).

The trial regarding the 2018 listeria outbreak is ongoing. As part of the legal process, in early 2022, the Supreme Court overturned an earlier judgment, ruling that listeria test data from other companies, as requested by Tiger Brands, had no bearing on the legal process.

Next steps

The Council is maintaining its dialogue with Tiger Brands and monitoring the company's implementation of strategies to ensure product safety, its cooperation with the court and the developments regarding the class action.

Ongoing dialogue

Dialogue with Top Glove on labour rights for migrant workers

Background facts

Status of dialogue: Ongoing

Company: Top Gloves Corp. Bhd

Country: Malaysia

Area: Social issues

Dialogue on: Employee rights

Progress this year: ▲

Stages achieved in the dialogue:



Background

In June 2020, Top Glove was accused of insufficient protection for staff working in the company's factories in Malaysia during Covid-19. The allegations include inadequate accommodation for the migrant workers, illegal wage deductions, unfair overtime demands and the use of forced labour through recruitment fees.

In July 2020, the US Customs and Border Protection (CBP) agency issued an order to impound imported disposable gloves manufactured by Top Glove's two subsidiaries, on the basis of suspected forced labour.

Objective for dialogue

The objective for the dialogue is for Top Glove to take proactive measures to ensure



that forced labour does not occur and that employee rights are observed, including protecting its employees from Covid-19.

Top Glove is to further align its policies, guidelines and procedures with internationally recognised labour standards.

Outcome

Top Glove has taken a range of measures to improve conditions in its Malaysian operations. Extensive measures have been implemented to prevent forced labour. The company implemented ISO 45001 health

and safety standards to prepare for certification in 2024.

Top Glove compensated the 13,000 migrant workers who had been forced to pay recruitment fees. The company paid approximately EUR 32 million in compensation.

Top Glove trains all workers in health and safety. The company invested more than EUR 300 million in workforce housing. It also subsidises vegetarian meals and organises social activities for workers.

Top Glove has made various grievance helplines available for workers, including

internal helplines and one operated by an external consultancy. The helplines are showing signs of being functional.

The company has also taken measures to make hotlines available to foreign workers who are going through the recruitment process.

Next steps

The Council is continuing the dialogue with Top Glove, with a focus on transparency and clarity regarding the implementation and preventive work.

Ongoing dialogue

Dialogue with UPL on the environmental impact of chemical emissions

Background facts

Status of dialogue: Ongoing

Company: UPL Ltd

Country: South Africa

Area: Environment

Dialogue on: Emissions and waste management

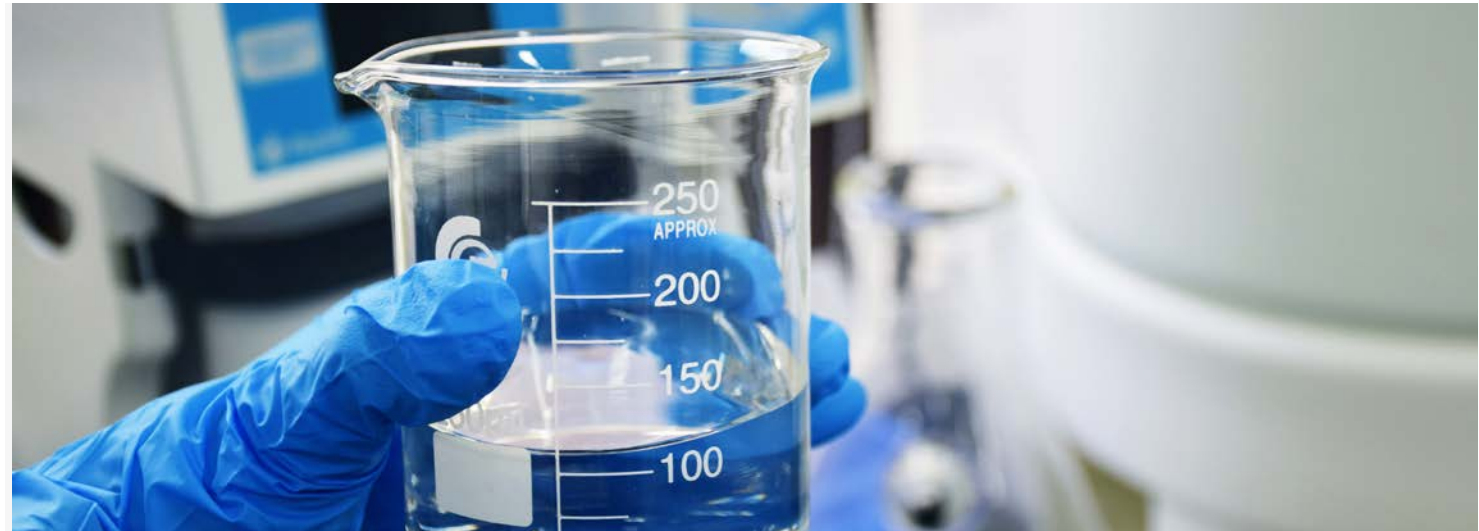
Progress this year: ▲

Stages achieved in the dialogue:



Background

During civil unrest in South Africa in July 2021, a warehouse recently rented by UPL for the storage of agrochemicals was set on fire. The fire was adjudged by the authorities as being caused by arson. It took six days for the emergency services to extinguish the fire, which resulted in the complete destruction of the building and its contents. Stocks consisted of 1,600 different chemicals, consisting of 2.5 million litres of liquid pesticides and a further 3.8 million kilos in solid form, with varying degrees of toxicity and potential impact on the environment. The validity of the official permit for storage of hazardous materials in the warehouse has not yet been clarified.



As a result of the fire, chemical emissions contaminated local waterways and the Umhlanga Lagoon nature reserve. There are also concerns that the release of the chemicals has had negative health effects on local residents.

Objective for dialogue

The Council's objective for the dialogue is for UPL to remedy the effects of the chemical emissions in the environment. The company is to offer health checks for those who lived in the vicinity of the burnt-out warehouse and pay compensation to those

whose livelihoods have been affected.

UPL is to provide evidence and assurances that none of its other facilities worldwide pose a similar risk to local communities and surroundings.

Outcome

UPL has largely completed the clean-up during about a year. By engaging expert consultants, the company is monitoring the restoration of the environment.

UPL has established a grievance mechanism and engaged with the local community on monitoring potential health impacts.

At global level, the company is finalising a gap analysis of its crisis management plan and has put resources into improving training and risk awareness among employees.

Next steps

The Council will continue its dialogue with UPL in 2023 with a focus on following up on the clean-up of the pollution and restoration of the habitats, including the effects on local communities and their livelihoods.

Ongoing dialogue

Dialogue with Weibo on freedom of expression

Background facts

Status of dialogue: Ongoing

Company: Weibo

Country: China

Area: Social issues

Dialogue on: Freedom of expression, surveillance, content management

Progress this year: ▼

Stages achieved in the dialogue:



Background

In recent years, Weibo has increased censorship of user posts on its Sina Weibo platform. The company's action is seen as a response to the Chinese government's call for heightened censorship. In its report *Freedom of the Net 2021*, Freedom House placed China top of the list of nations violating Internet freedom, for the seventh consecutive year. The report notes that China's authoritarian regime has become increasingly repressive and tightened its control over social media.

Weibo is regarded as following the instructions of the Chinese authorities on content management, and censors its users' material by, for example, monitoring the use of sensitive words. This has resulted in

the deletion of posts and user accounts. During politically sensitive periods, such as Covid-19 lockdowns and the war in Ukraine, the list of sensitive words has been adapted and expanded. Chinese authorities may require Internet service providers to temporarily shut down certain functions of their Internet platforms.

Given Weibo's important role in terms of access to information and public discussion in China, its actions have serious impact on freedom of expression in the country. In addition, individuals risk being subject to legal and extrajudicial actions by state actors after publishing or sharing information and/or opinions on Sina Weibo.

The issue also involves **Baidu** and **Tencent**, the two other major Chinese Internet platforms. The Council engages all three companies on freedom of expression.

Objective for dialogue

Weibo should have processes in place to manage the risk of human rights abuses and, where possible, to reduce its users' exposure to such risks.

The company should demonstrate that it carries out human rights due diligence, define policies relevant to digital rights and report on external data requests and content management requirements.

The dialogue objectives are basically the same for the three Chinese companies Weibo, Baidu and Tencent.

Outcome

To date, the dialogue has focused on explaining to the company why investors want to have a dialogue with Weibo and building a relationship with the company. Weibo has appeared to be genuinely interested in the opportunity to present its policies, guidelines and procedures, and to receive feedback on them. The Council welcomes this as the company currently provides

very limited insight into how it manages content on its platform, and how it does or does not comply with the Chinese government's Internet restrictions. The lack of human rights due diligence processes and procedures is a weakness in Weibo's operations.

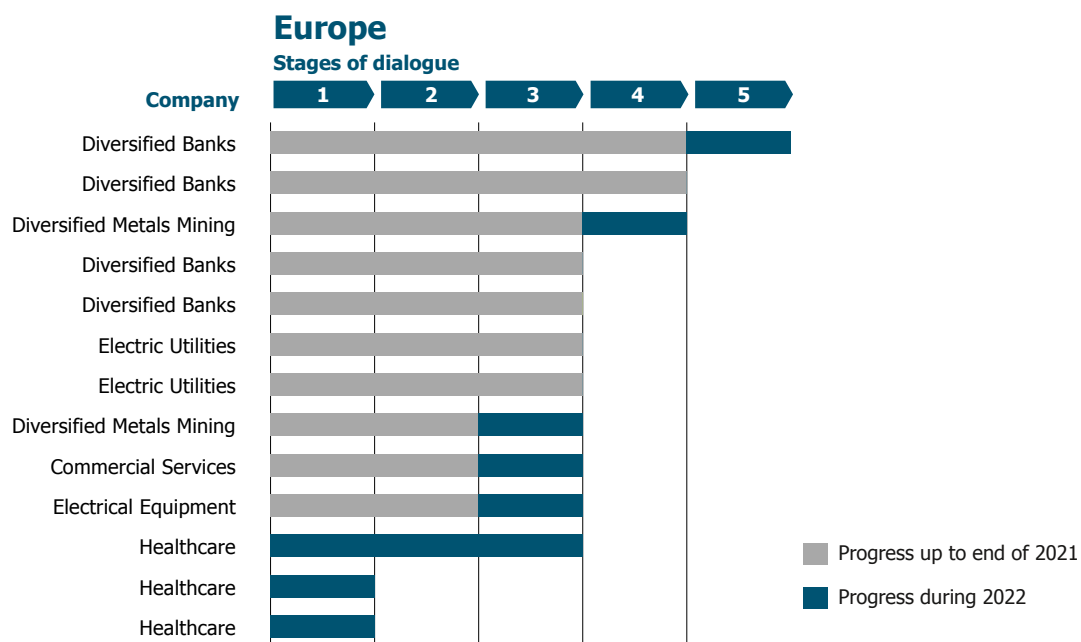
Next steps

How nations manage Internet platforms is a politicised and sensitive issue. The dialogue aims to give Weibo an opportunity to explain its challenges and actions, while identifying opportunities for improvement.



Progress in a five-stage process for reactive dialogues – Europe

The Council was engaged in 86 reactive company dialogues at year-end. Illustrated below is a summary of the progress judged to have been made in each of the dialogues, based on the five steps of a reactive dialogue. A factor in the success of an dialogue is that it is based on trust. The Council has therefore chosen not to include company names below and reports each company dialogue according to the sector in which the company operates.



The progress in a dialogue is monitored in a five-stage process

1. Address the issue
2. Establish a strategy
3. Start implementation of the strategy
4. Demonstrate appropriate development of policy and transparency
5. Strategy implemented and objectives of dialogue resolved

A new dialogue begins with an analysis of the company and the violation in question. The objectives and strategy of the dialogue are based on the analysis. These companies have not yet reached stage 1, but they are included in the statistics on the following pages.

Stage 1 is achieved when the initial contact with the company is made and a dialogue can begin.

The new dialogues for the year, listed in the table on page 6, may either be in the start-up phase or have reached stage 1.

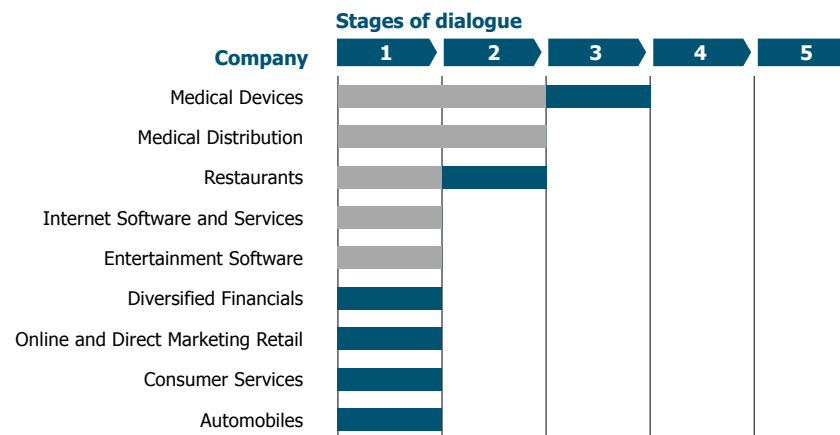
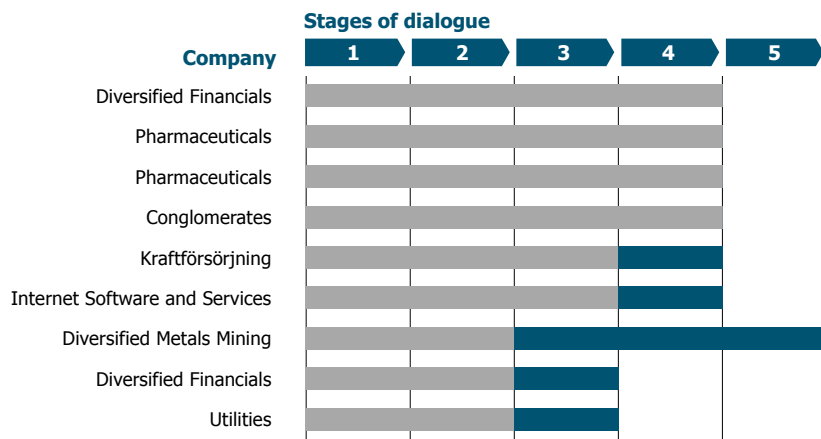
Progress in a five-stage process for reactive dialogues – USA and Canada



USA and Canada

■ Progress up to end of 2021

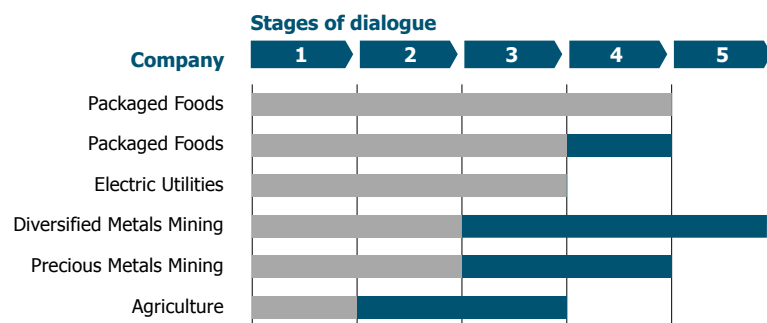
■ Progress during 2022



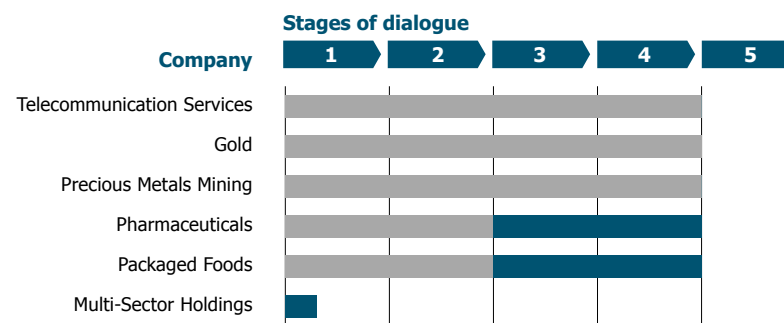
Progress in a five-stage process for reactive dialogues – Latin/South America and Africa/Middle East



Latin/South America



Africa/Middle East



■ Progress up to end of 2021

■ Progress during 2022

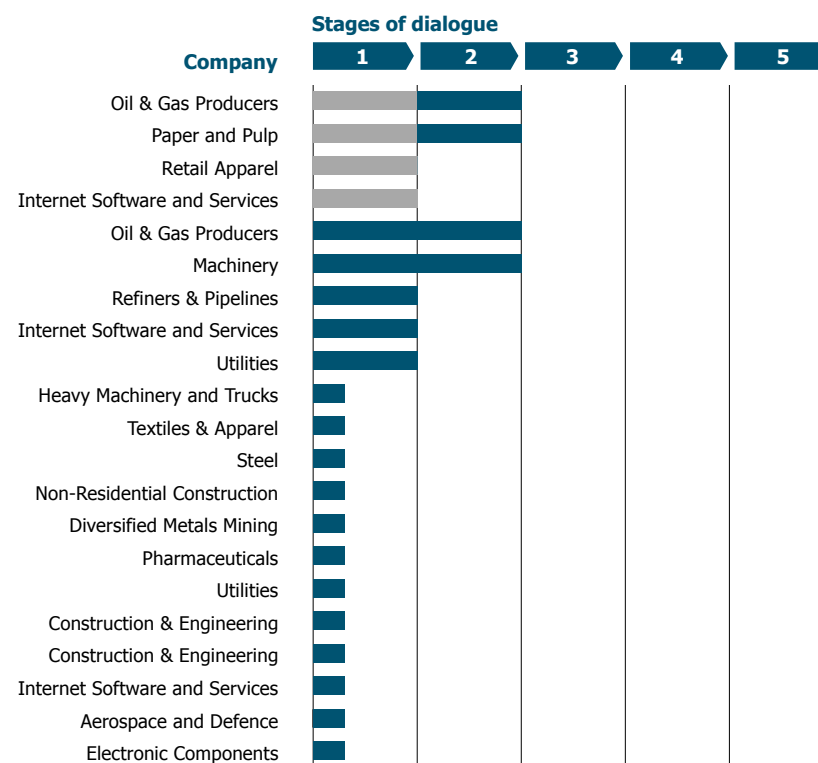
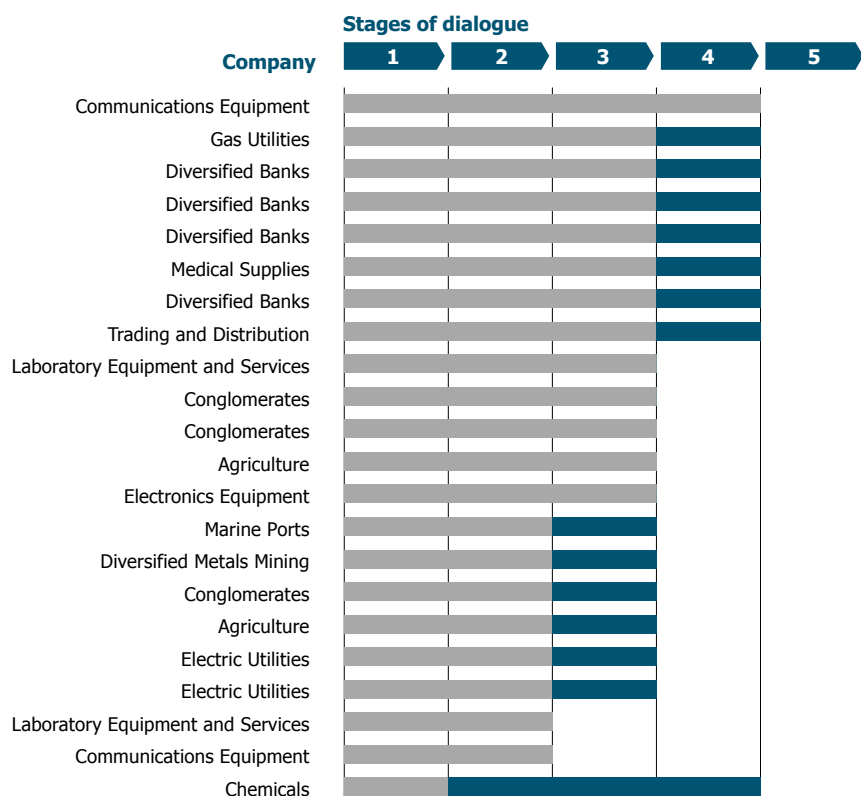
Progress in a five-stage process for reactive dialogues – Asia/Pacific region



Asia Pacific

■ Progress up to end of 2021

■ Progress during 2022



Council on Ethics of the AP Funds 2023

Council on Ethics Board of Directors 2023



Magdalena Håkansson

Chair 2023 and
Member since 2019.
Sustainability Manager AP1.



Åsa Mossberg

Member since 2021.
Senior Sustainability
Strategist AP2.



Fredric Nyström

Member since 2023.
Head of Sustainability and
Stewardship AP3.



Pia Axelsson

Member since 2012.
Senior Sustainability
Analyst AP4.



Tytti Kaasinen

Engagement Director

Council on Ethics Board of Directors 2022



Pia Axelsson

Chair in 2022 and
Member since 2012.
Senior Sustainability
Analyst AP4.



Ossian Ekdahl

Member since 2007.
Head of Corporate
Responsibility AP1.



**Magdalena
Håkansson**

Member since 2019.
Sustainability Manager
AP1.



Lil Larås Lindgren

Member since 2014.
Head of Communica-
tions AP3.



Peter Lundkvist

Member since 2014.
Head of Corporate
Stewardship AP3.



Åsa Mossberg

Member since 2021.
Senior Sustainability
Strategist AP2.



Jan Peterson

Member since 2021.
Senior Portfolio Man-
ager AP4.



Lina Sandström

Member since 2022.
Sustainability Analyst
AP2.

Fredric Nyström was a co-opted member from 31 May to 31 December 2022.

Part of the income pension system

The AP Funds Council on Ethics was founded in 2007 at the initiative of the Swedish National Pension Funds (AP Funds AP1, AP2, AP3 and AP4). The role of the Council is to use dialogue aimed at encouraging non-Swedish listed companies to make improvements in sustainability. The mandate of the four AP Funds is to manage the buffer capital of the State income pension system. Since 2001, when the current pension system was launched, the AP Funds have made a positive contribution to stability of the national pension system and have managed the buffer capital to develop good value growth.

The contribution of the AP Funds to a strong Swedish income pension system is through managing the buffer capital of the national pension system. Withdrawals are made from this capital to cover any deficits in pension payments. Deficits may arise, for example, if demographic generational differences arise, or if there is weak socio-economic growth. The pension system is planned to handle such occurrences; it is why the system of buffer capital exists. Through long-term asset management, the AP Funds are charged with ensuring positive growth in value of the buffer capital. This helps to assure a stable pension system and secure pension payments over time for current and future generations.

Mandate from Riksdagen (the Swedish parliament)

The AP Funds' mandate from Riksdagen is to generate high returns at low risk for current and future pensioners and at the same time help assure the stability of the income pension system.

On 1 January 2019, the rules in the Swedish National Pension Insurance Funds (AP Funds) Act were amended. A new goal was introduced, to the effect that the AP Funds must contribute to sustainable development by managing their assets in an exemplary way. This requires responsible investment and responsible stewardship. The goal has to be achieved without the AP Funds compromising the objective of attaining a high return in the long run. The pension system's buffer capital has over time been well managed by the AP funds. The capital has shown good value growth and has increased to currently account for more than 16 per cent of the pension system's assets. Four AP Funds with the same mandate, to manage their share of the buffer capital, serves for example to spread the risks in the pension system ("not to put all your eggs in the same basket") and incentivises the AP Funds to positive competition and development. Partly through the latter, asset management and stewardship at the AP Funds

are viewed as leading the way internationally. The managements of the AP Funds are evaluated annually by external auditors and via a government audit. An audit report is published annually and presented to Riksdagen.

The mandate of the AP Funds' Council on Ethics

The Council seeks to exert influence on companies globally to improve their work on sustainability. This includes environmental, social and corporate governance aspects that are important to people, society and value creation by the companies themselves. Through dialogue, the Council engages both proactively and reactively. The fact that the companies' operations are conducted in a sustainable manner underpins both long-term earnings capacity and long-term financial returns for the companies, benefiting both the pension system and pensioners over time.

Pensioners

The income retirement scheme is a defined benefit system where the year's paid-in pension contributions from the employed are used to pay out the current year's pensions to current pensioners. Those who work and pay taxes make an automatic provision of 18.5 per cent in pension contribution. 16 per cent goes to the income pension system and 2.5 per cent to the premium pension.

The pension system

Today's pension system has worked as intended since its launch in 2001. Deficits occur in times of high numbers of retirements, as has been the case since 2009, and forecasts indicate deficits until 2040. Low unemployment, high nativity, labour migration and Sweden's socio-economic development are important factors in terms of whether pensions are to show good growth over time. Read more about the system Pension Authority's website www.pensionsmyndigheten.se.



History of the Council on Ethics

In 2007 the AP Funds' launched the Council on Ethics – an stewardship collaboration focused on pursuing positive sustainability change through dialogue and engagement with listed, non-Swedish companies.

2007

The Council on Ethics is established. The Council's first report is published. Dialogue is conducted with 14 companies. One company can already be removed from the dialogue list in the first year because the objectives of the dialogue have been achieved. The Council travels to China to learn more about companies' approach to social responsibility and sends a clear message: that there are foreign investors willing to take their responsibility as owners.

2008

The objectives for three dialogues are achieved; for example, the French company Sodexo adopts and implements a human rights policy in response to inhumane conditions found at refugee accommodation centres in England. The UN adopts the Convention on Cluster Munitions, and the Council recommends exclusion of nine companies, all based in nations that have failed to ratify the convention.



2010

Together with a group of Canadian investors, the Council prompts the mining company Goldcorp to carry out an independent assessment of the extent to which human rights are taken into account

at the Marlin Mine in Guatemala. This leads to the company adopting a wide range of measures to improve the situation – a process that has a ripple effect with a number of other mining companies turning to Goldcorp to learn from its experiences. John Howchin is appointed Secretary General.

2011

The Council expands its operations. During the year, the Council completes its first proactive project, focused on the mining industry. The general aim is to expand the Council's proactive work by persuading companies to strive for the best working methods practices in each area of the industry. When the project is reviewed in 2014, the Council notes general improvement in all of the areas of sustainability discussed with the companies.

2012

The cocoa industry, tobacco industry and anti-corruption activities are the themes of several proactive projects the Council is conducting or involved in. Highlighting both the strengths and weaknesses in companies' sustainability strategies has led to positive action.

2013

The Council on Ethics arranges a seminar about financing for the transition to a low fossil-fuel society. Politicians, along with representatives of

stakeholder organisations and investors take part. The telecoms industry is the focus of one of the Council's proactive initiatives. The Council elects to adopt a four-year time limitation for reactive dialogues, as from 2014.

2015

The AP Funds' Council on Ethics hosts a Nordic seminar based on the UN Guiding Principles on Business and Human Rights (UNGP), also known as the Ruggie Principles. The aim is to inspire Nordic companies to implement the principles and report according to them.

2017

The Council celebrated its ten-year anniversary. On the occasion, two seminars on responsible and sustainable investment were organised on climate change, responsible investment, human rights and the environment. Al Gore and Johan Rockström participated in one of the seminars.



2018

The Council recommends the exclusion of three cannabis companies. In the Council's view, the companies are in breach of the UN conventions on narcotics, since they manufacture and/or market cannabis-based products for non-medical use. The Council decides to focus its proactive work on three sustainability areas: climate and environment, human rights and business ethics. The Council and its company dialogue consultant work with the human rights organisation Shift in a project aiming to further develop the processes for taking human rights into account.

2019

The mining company Vale's tailings dam, at Brumadinho, Brazil, collapsed with catastrophic consequences. The Council was already engaged in

an ongoing dialogue with the company following a similar accident two years previously. The Council recommended the AP Funds to exclude Vale. Shortly thereafter, the Church of England Pensions Board and the AP Funds' Council on Ethics initiated a major joint project to ensure that mining companies globally take responsibility for their tailings dams.

2020

In January, one year after the tailing dam accident in Brumadinho, a public global database had been established, with information on more than 1,800 tailing dams. In August, a Global Industry Standard on Tailings Management was presented. The Mining and Tailing Dam Safety Initiative won the PRI Stewardship Project of the Year Award. The year ended with the Council publishing an expectations document on human rights and the tech sector, produced in collaboration with the Danish Institute for Human Rights.

2021

In 2021, the Council closed a successful three-year project focusing on safety in mine tailings dams. The expectations document "Tech Giants and Human Rights – Investor Expectations" is used in dialogues and plays a part in improvements at tech companies. In 2021, the Swedish National Audit Office audited the sustainability work of the AP Funds and the Council on Ethics, and found it to be effective.

2022

The AP Funds' review and development of the Council's mandate, strategy and organisation, and as a collaborative body, was completed. The Council is considered to remain an important collaborative body and an essential part of the AP Funds' joint sustainability work. The Council's resources will be expanded and the office upgraded. The Council launched a new proactive international collaboration project to positively influence the human rights practices of major tech companies. Two proactive projects, which are considered to have achieved their objectives with good effect, were fulfilled and closed during the year.

An stewardship collaboration for sustainability through dialogue and engagement

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