

FLSmidth & Co. A/S  
Vigerslev Allé 77  
2500 Valby  
Att. Chairman Tom Knutzen

14 February 2023  
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# Shareholder Proposal

## Human rights due diligence and risk disclosures

### Proposal

The board of directors shall communicate:

- 1) the company's efforts to respect human rights and labour rights in accordance with the United Nations Guiding Principles on Business and Human Rights (UNGPs), and
- 2) which, if any, human rights related financial risks the company has identified, and how it seeks to address these.

The disclosed information shall be updated and published at least once a year at reasonable cost, omitting proprietary information. The disclosed information shall be made public before the Annual General Meeting notice starting in 2024 and may be included in the current reporting suite.

### Motivation

The pressure on companies to demonstrate respect for human rights is increasing as the link between long-term value creation and a prudent approach to human rights risks is becoming more and more established.

It is, therefore, increasingly important for companies and investors alike that companies demonstrate that they understand and navigate the business opportunities and risks related to the corporate duty to respect human rights and labour rights throughout the entire value chain. Failure to do so may leave the company vulnerable to operational disruptions, litigation risk and increased scrutiny by supervisory authorities as well as reputational risk and loss of license to operate in the eyes of customers, employees, investors, and business partners.

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The corporate duty to respect human rights is derived from the United Nations Guiding Principles on Business and Human Rights (UNGPs)<sup>1</sup>, adopted in 2011. The UNGPs have set out the international standard of practice for companies to respect international human rights (including labour rights) by identifying, preventing, mitigating, remedying, and accounting for human rights impacts associated with their business activities – commonly known as human rights due diligence<sup>2</sup>. Companies that are operating (directly or through the value chain) in conflict-affected areas are, furthermore, expected to perform heightened human rights due diligence in light of the increased risk of human rights violations in these areas.

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Though a soft law requirement under international law, the corporate duty to respect human rights has been an expectation of companies since the UNGPs was adopted in 2011. This is particularly the case for companies that publicly subscribe to these international norms.

This expectation has in recent years been underlined by the European Union's introduction of a range of regulatory initiatives which, in different ways, seek to address the impacts that businesses have on human rights and labour rights. Two of the main developments in this area are the Corporate Sustainability Due Diligence Directive (CSDDD)<sup>3</sup>, which includes a mandatory due diligence obligation with respect to human rights, and the Corporate Sustainability Reporting Directive (CSRD)<sup>4</sup>, which concerns disclosures on a range of sustainability matters including human rights from a double materiality perspective. The EU regulatory initiatives are largely based on the corporate duty to respect human rights as described in the UNGPs, though the human rights due diligence requirement under the UNGPs will likely be more comprehensive than the national implementation of the EU directives.

Though the corporate duty to respect human rights has been long-established, studies<sup>5</sup> show that companies have not taken the necessary steps to demonstrate sufficient implementation of human rights due diligence processes in their operations. The Danish Institute for Human Rights (DIHR) has examined the public reporting of a number of large Danish companies and provided an analysis of the human

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<sup>1</sup> Link: [United Nations Guiding Principles on Business and Human Rights](#) (2011)

<sup>2</sup> The expectation for companies to perform human rights due diligence has furthermore been incorporated in the [OECD Guidelines for Multinational Enterprises](#) (2011) and detailed in the [OECD Due Diligence Guidance for Responsible Business Conduct](#) (2018).

<sup>3</sup> Link: [CSDDD \(DIRECTIVE on Corporate Sustainability Due Diligence and amending Directive \(EU\) 2019/1937\)](#)

<sup>4</sup> Link: [CSRD \(DIRECTIVE \(EU\) 2022/2464 of 14 December 2022 on amending Regulation \(EU\) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting\)](#)

<sup>5</sup> [2022 Corporate Human Rights Benchmark](#) (2022, World Benchmarking Alliance), [Documenting Respect for Human Rights](#) (2022, The Danish Institute for Human Rights), and [Study on due diligence requirements through the supply chain](#) (2020, European Commission)

rights policies and disclosed human rights due diligence practices of these companies in 2020<sup>6</sup> and again in 2022<sup>7</sup>. The analyses indicate that more progress needs to be made in this area. This is also the case for FLSmidth.

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FLSmidth is a signatory to the UN Global Compact and has committed to respecting human rights in line with the UNGPs. This includes identifying, mitigating, and remedying adverse impacts in the entire value chain, both on the supply side and on the customer side. Given that FLSmidth through its business partners operate in conflict-affected geographic territories and depend on sectors with a high risk of adverse impacts on human rights, it is important that the company can account for the necessary due diligence processes applied to handle these risks.

Furthermore, FLSmidth already employs and discloses a well-developed risk management process and identifies several risk topics that are potentially related to human rights risks, such as supply chain, compliance, geo-political, safety, sustainability, and attracting and retaining employees, but currently with no or limited connection to this in its human rights disclosures and sustainability report.

By strengthening its ability to document its human rights due diligence and risk management processes, FLSmidth would stand to benefit. Not by preempting the regulatory requirements in the EU legislation, but by staying ahead of the curve in order to gain a competitive advantage.

We therefore encourage the board and fellow shareholders to consider their support for this proposal.

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<sup>6</sup> [Documenting Business Respect for Human Rights](#) (2020, The Danish Institute for Human Rights)

<sup>7</sup> [Documenting Respect for Human Rights](#) (2022, The Danish Institute for Human Rights)