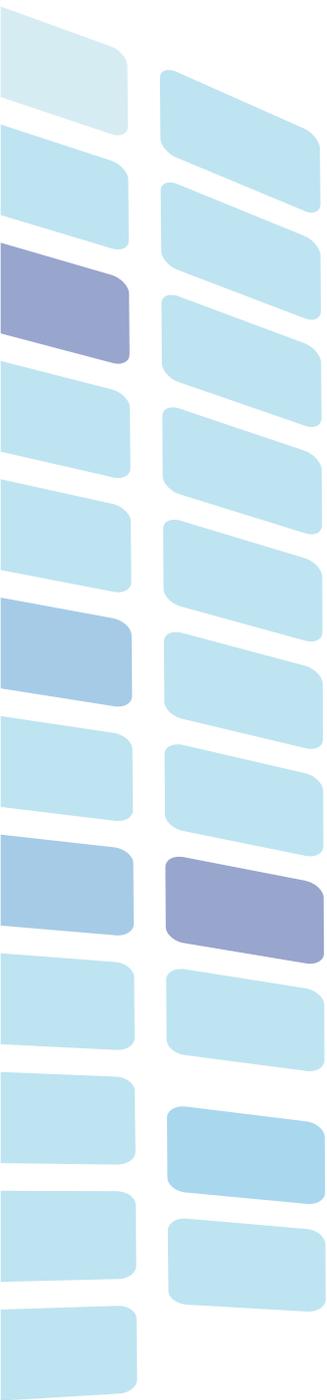


NORDIC ENGAGEMENT COOPERATION

Annual Engagement Report, 2017



A collaborative engagement network between



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ABOUT THE NORDIC ENGAGEMENT COOPERATION

Launched in 2009, the Nordic Engagement Cooperation (NEC) consists of four Nordic institutional investors: Folksam from Sweden, Ilmarinen Mutual Pension Insurance Company from Finland, KLP from Norway and PFA Asset Management from Denmark. To complement our own engagement, we have made the strategic decision to coordinate some of our engagement activities with companies on environmental, social and governance issues. Collectively we have approximately EUR 226 billion in assets under management as of the end of 2017.

OUR APPROACH

The common denominator for NEC is a belief in dialogue as the most efficient tool to achieve change. However, other tools are also available if the engagement goals are not achieved. We engage with companies in collaboration with our service provider, GES. The engagement process is based on the analysis model GES Global Ethical Standard® - a systematic screening of companies regarding their compliance with well-established international conventions and guidelines on environmental, social and governance (ESG) issues within the framework of the UN Global Compact.

NEC is an integrated part of the members' regular engagement work. NEC engages with companies that are, or have been, involved in systematic incidents or an isolated incident that has severe consequences for the environment or humans. NEC can also initiate engagement with an industry leader to support the development of best-practice within an industry such as the textile industry which was specific focus in 2017. The collaboration strives to cover a broad range of issues focusing on non-Nordic companies in which all four NEC members have holdings. Companies that the NEC collaboration has agreed to engage with to achieve progress are put on **NEC Focus List**. Companies are selected based on:

- NEC's ability to influence;
- potential for NEC to gain in-depth understanding of an issue; and
- material issues where monitoring of developments, including company's response and progress, are essential to NEC.

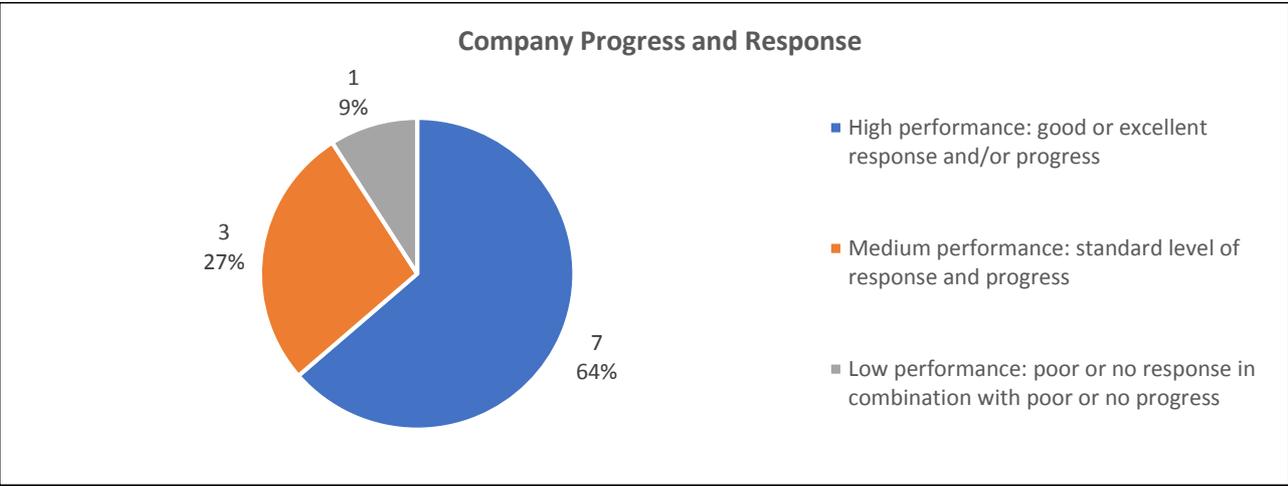
A case can be kept on the NEC Focus list of engagement for a three-year period. If deemed relevant, the dialogue can be extended beyond that period. All members of NEC invest with a long-term horizon. Hence, we have the opportunity to have a long-term dialogue with companies.

The NEC structure includes quarterly meetings, a clear delegation of responsibilities and a secretariat that is responsible for the operational work. NEC is not a closed cooperation – it has from time to time collaborated with other investors. As determined on a case-by-case basis, the NEC members welcome the addition of other investors as regular members.

ENGAGEMENT BRIEF

2017 was the ninth year of collaboration within the Nordic Engagement Cooperation (NEC). During the year, we added three new engagements cases to the NEC Focus List: L-brands, Novartis and Enbridge. One engagement case was completed during the year: Vinci. There were in total 10 companies with 11 engagement cases on the NEC Focus List during 2017.

Different indicators are used to measure engagement activity and performance. During 2017, 15 meetings and conference calls on ESG issues were held with companies on the NEC Focus List. Response and progress on the engage cases are measured and combined to create a performance score. Of the 11 cases on NEC's Focus List, three had medium performance seven had high performance and one had low performance.



NORDIC ENGAGEMENT COOPERATION FOCUS LIST 2017

COMPANY	GLOBAL COMPACT PRINCIPLE	INCIDENT	ENGAGEMENT INITIATED
BHP Billiton		Deadly incident	2016 -
Deutsche Post		Violation of international labour standards	2015 -
Enbridge		Violations of indigenous peoples' rights	2017-
ENI		Corruption	2016 -
L-brands		Sustainable cotton - bespoke engagement for NEC	2017 -
Nestle		Labour rights violations	2016 -
Novartis		Corrupt practices	2017 -
Royal Dutch Shell		Human rights violations and environmental damage	2013 -
Royal Dutch Shell		Corruption	2016 -
Vinci		Labour rights violation	2015 -2017
Volkswagen		Violations of emissions standards	2015 -

COMPLETED ENGAGEMENT 2017

After two years of engagement, NEC ended its engagement with Vinci in 2017.

VINCI

NEC added French construction company Vinci to its focus list in 2015. During 2016, NEC continued the dialogue with Vinci, by participating in two conference calls with the company in February and September. NEC also joined conference calls with third parties such as Amnesty International and Sherpa, the French NGO that accused Vinci in the beginning of 2015 of labour and human rights violations at its sites in Qatar.

Vinci appointed BSR in October 2015 to audit its operations in Qatar and shared the outcome of the audit results with GES in December 2015.

GES was in dialogue with Vinci between September 2015 until June 2017 via conference calls and meetings both in London and Paris. GES' discussions with Vinci mostly related to: (i) labour issues (ii) and results of BSR's audit for its operations in Qatar. BSR's audit outcome showed that, despite a challenging context, QDVC had good systems in place. However, BSR also identified gaps in the company's systems relating to workers' payment of illegal recruitment fees and a number of subcontractors' practices. The company remedied the gaps. In addition, following Vinci's collaboration with NGOs and the Bangladeshi government, the company was able to recruit 900 Bangladeshi workers without the workers having to incur unnecessary recruitment fees. Vinci then started working on ensuring that similar rules would from then on apply in Nepal and other migrants' countries of origin. More importantly, Vinci developed a human rights policy applicable to its operations worldwide and throughout its supply chain, including subcontractors. The policy was published at the end of June 2017. The policy was split into five main themes that reflect both the reality of the company's businesses as well as the main issues that it needs to deal with. The main themes are:

1. labour migration and recruitment practices;
2. working conditions;
3. living conditions;
4. human rights practices in the value chain; and
5. local communities.

Vinci has adopted a human rights policy in line with the UN Global Compact and the basic ILO conventions on labour rights that is also applicable to subcontractors. In addition, the company has put in place appropriate systems to ensure that the policy is implemented at all its operations. As a result of the company's initiatives, GES decided in July 2017 to resolve this case.

Vinci has demonstrated its commitment to address labour issues in Qatar. However, as the country and the sector are considered high-risk in relation to labour violations, GES will continue to monitor further developments in relation to this specific issue. In doing so, GES is promoting UN Sustainable Development Goal number 8 that aims to protect labour rights and ensure safe and secure working environments for all workers.

ONGOING PROJECTS AND COMPANY DIALOGUES

In 2017, NEC welcomed Danish pension fund PFA as its newest member. PFA was founded in 1917 as an independent company by a number of labour organisations, with the sole purpose of ensuring a financially secure future for the employees and their organisations. PFA has approximately 1,2 million clients and manage assets totalling 605 billion DKK. PFA manages the majority of its assets in-house including and the responsible investment approach is integrated as a part of the in-house investment team.

With the exception of L Brands, NEC had ongoing dialogues with all companies on the NEC Focus List during 2017. Specific actions within NEC include company meetings, conference calls, investor letters, contacts with NGOs and labour unions. Through quarterly meetings, the NEC members determine the strategic direction for their joint engagements.

All companies on the NEC Focus List have engagement case profiles (see appendix). Three issues are presented in more detail: Shell, L-Brands (as part of the Textile Engagement) and Deutsche Post.

Textile engagement/L Brands

During 2017, NEC decided to start a new engagement theme focusing on sustainable cotton usage within the textile industry. Cotton is key raw material for the textile industry, although conventional cotton cultivation often comes with serious environmental impacts and poor labour conditions. Widespread issues include forced labour and child labour, excessive water usage, water pollution, pesticides, soil depletion, biodiversity loss, debt among farmers.

The issue has gained more attention over the past few years, and there is now a significant amount of more sustainable cotton available. However, most cotton is sold as conventional cotton and without demand from the buying companies, sustainable cotton will remain a niche product and the industry's social and environmental problems will persist. Therefore, international clothing companies can play a crucial role in securing the future of a sustainable cotton market, by supporting farmers to switch to more sustainable forms of production and thereby reducing its impacts. Various sustainability initiatives have been created over the past years, although many problems and challenges remain.

Sustainable cotton sees a momentum at this point, with industry leading companies starting to disclose information such as percentage of sustainable cotton used and making long term target for the use of 100 % cotton publicly available. Most of companies however are lagging far behind, which on the other hand indicates good engagement potential.

The textile engagement started off with L Brands as the first selected company. L Brands is far from transparent on sourcing of cotton, which gives room for improvement. The company's public reporting does not contain any information on where it sources cotton from, if it has any target to achieve 100 per cent sustainable cotton, or the percentage of sustainable vs. conventional cotton at this point. L Brands has recently implemented a policy on not sourcing cotton from Uzbekistan or Turkmenistan, which is positive. However, it does not publicly share any information on how the policy is implemented or how compliance is ensured. To learn more about this, GES and NEC have tried to establish a dialogue with L Brands since summer 2017. The company has so far declined all invitations to conference calls and answering detailed questions, only referring to public reporting which as stated above does not address these issues. Late 2017, the company stated in the dialogue that it plans on sharing more information on its website in the coming months. If this does not address these topics more thoroughly, a next step will be sending a NEC co-signed investor letter asking for this.

Relating to the engagement goal, L Brands should be fully transparent on its policies and on the sourcing and manufacturers of its cotton. After adopting a policy for more sustainable cotton, the company should adopt a time-bound and public target to source more sustainable cotton. Part of this is mapping its supply chain by using clear traceability tools. It is also recommendable to join international initiatives like Better Cotton Initiative, and send market signals by increasing purchase of cotton from credible sustainability programs and report transparently on its cotton sourcing.

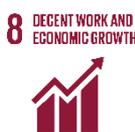
Another part of the textile engagement is to look at the industry's best-in-class companies' risk preparedness and performance, and benchmark the companies within the engagement against this. In April 2017, some of the NEC members attended H&M's *Changemakers Lab* in Stockholm, a multi-stakeholder forum bringing together a variety of different perspectives and sectors and aimed at pushing the agenda towards a more sustainable fashion industry. During the day, speakers and breakout sessions explored topics such as accelerating a circular approach to fashion through new materials, processes and ways of thinking; achieving a climate positive fashion industry; rewarding and understanding the potential of

technology to advance the agenda around transparency; and promoting the power of social impact and human rights for all along the fashion value chain.

In August 2017, GES presented to NEC an overview of industry best-in-class performers and examples of what they do. Leading companies often have clear and time-bound targets, traceability tools, transparency in public reporting and are part of international initiatives. However, the main take away is that best-in-class does not necessarily mean doing good, and sustainable cotton rankings shows that top performers still have a long way to go in terms of full risk management.

In Q1 2018, the textile engagement will be expanded to include three new companies.

Contributes to UN Sustainable Development Goal(s):



Scope of textile engagement

The textile engagement focuses on how companies ensure the use of sustainable cotton throughout its supply chain. All parts of the process are covered (see below the ‘Ten steps of the t-shirt’), from farming to the final product.

With regards to the concept of ‘sustainable cotton’, there is no internationally accepted definition. In this context, sustainable sourcing of cotton refers to the companies mitigating the most material ESG risks in the cotton supply chain;

- Forced and child labour
- Poor working conditions
- Operating in water-stressed countries
- Risk for severe pollution through discharge of toxic waste into the environment

Other materials used in the textile supply chain, like leather, are not included in the scope of this engagement.

The engagement goal addresses policy, traceability and transparency:

1. Policy
 - Implementation of policy for sourcing more sustainable cotton (including setting clear and time-bound targets for increased sustainable cotton)
 - Develop company-wide plan to meet targets
2. Traceability of the cotton supply chain
 - Map cotton supply chain, calculate and report on the volume of cotton sourced, develop traceability tool
 - Control and risk mitigation
 - Cotton sourcing
3. Transparency
 - Report transparently on cotton sourcing and sustainability (also conventional cotton)
 - Measurable sustainability goals
 - Publicly disclosed supplier list
 - Information about supply chain relations at final stage of production (fabric and yarn)



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③ **SPINNING** 🌀

④ **KNITTING** 🏠

⑤ **FINISHING** ⚙️

⑥ **CUTTING** ✂️

⑦ **SEWING** 🪡

⑧ **PRINTING** 🖨️

⑨ **DYEING** 🧴

⑩ **FINAL TEE** 👕

THE PRODUCTION OF A COTTON T-SHIRT CAN BE SUMMARISED IN 10 PROCESSES



ROYAL DUTCH SHELL

Shell Petroleum Development Company of Nigeria Limited (SPDC), a subsidiary of Royal Dutch Shell, operates onshore oilfields in the Niger Delta region of Nigeria on behalf of its JV partners the Nigerian National Petroleum Corporation (55 percent), Total S.A. (10 percent) and Eni (5 percent). The consortium produces about 20 percent of Nigeria's annual oil output.

In 2011, the extensive oil pollution attributable to SPDC's operations in the Ogoniland part of the Niger Delta was scientifically documented for the first time by the United Nations Environment Programme (UNEP). UNEP scientists examined 69 sites and found that at more than ten locations a severe risk to public health was posed. The report further said that the impact on mangrove habitat has been "disastrous". The extent of the pollution was regional in scale and UNEP estimated that clean-up would take 30 years and cost at least USD 1 billion. A range of recommendations were made to oil companies and the Nigerian government.

NEC has been engaging with Shell for a number of years with the goal of encouraging the company to have a detailed programme in place to address the recommendations of the UNEP's Environmental Assessment of Ogoniland (EAO), and demonstrate that regular progress is being made towards achieving the objectives. We would also like to see the company communicate the plan and progress transparently to shareholders and exert its influence on all stakeholders to counter oil theft activity and its related social and environmental impacts.

A key part of this dialogue has been to evaluate the company's own disclosure of the progress that it has made against the recommendations of the EAO. To this end we conducted a detailed gap analysis in 2016, considering all of the UNEP recommendations, which stakeholder was responsible for it and the information that Shell had provided about the recommendation publicly.

NEC was represented at the company's annual sustainability day in London in April 2017, which helped to shed light on the ongoing security situation in Ogoniland. NEC held a call with Shell in July 2017, which used the gap analysis as a framework and sought answers from the company about those areas where disclosure was lacking. The call covered a wide range of issues including governance arrangements, operational recommendations and engagement with local communities. UNEP (and Shell) have always stressed that resolving the ongoing issue of environmental contamination in Ogoniland will require a multi-stakeholder effort, and, accordingly, we have been following wider developments there.

One of the most significant recommendations of the EAO has been that the government of Nigeria, SPDC and the Nigerian National Petroleum Corporation should set up an Environmental Restoration Fund for Ogoniland, which should in turn form the basis for an Ogoniland Restoration Authority. Last year, SPDC welcomed the announcement by the Minister of Environment of governance arrangements for implementation of the UNEP recommendations. In August 2017, the company announced that the SPDC joint venture would be represented on both the Governing Council and the Board of Trustees of the Ogoni Restoration Fund. Furthermore, SPDC has contributed USD 10 million into a 'take-off' fund for the Ogoniland Restoration Fund and is expected to contribute USD 900 million over 5 years (90% of the recommended budget).

Subsequent to the June call, we have updated our gap analysis and found that of the 38 recommendations in the EAO linked to SPDC, 9 are considered fulfilled, such as the establishment of an Integrated Contaminated Soil Management Centre, 13 partly fulfilled, such as developing an Asset Integrity

Management Plan and a comprehensive decommissioning plan (related to SPDC assets) and 15 not fulfilled, such as discontinuing remediation of contaminated sites by a process called enhanced natural attenuation (RENA) at contaminated sites.

In the first of half of 2018, NEC aims to elicit answers from the company to questions created by the gaps in its disclosure and will push for commitments from the company by the end of 2018 to implement any outstanding recommendations.

Contributes to UN Sustainable Development Goal(s):



Deutsche Post

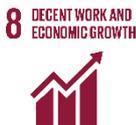
NEC added Deutsche Post (DP) to its focus list in 2015, following allegations of anti-union practices in several of the company's global operations including India and Latin America. During 2017, NEC continued the dialogue with Deutsche Post. In February, a face-to-face meeting was held at company headquarters. Whereas the company had earlier adopted a rather defensive approach in the dialogue, the meeting was constructive, and NEC emphasised the importance of transparency and disclosure from an investor perspective. This created hope for an improved dialogue from here on, but DP shortly after the meeting again became defensive and declined sharing any more detailed information on how it ensures compliance with its Code of Conduct in global operations. The company seems to have strong policies addressing freedom of association in place in its home market, but it is problematic that it is not more transparent about compliance and monitoring on a global level.

One positive take-away from the meeting though was DP asking for input to its annual sustainability reporting, and what perspectives and topics that are important to include from an investor perspective. Feedback on the report was given; DP stated to be very grateful for this, and to include it in the coming year's reporting.

Another positive development during the year was that in September 2017, DP together with union counterparts ITF and UNI jointly asked the German National Contact Point for the OECD Guidelines for Multinational companies to extend the protocol of regular dialogue on industrial topics. The protocol was first signed in June 2016, and now formally extended until December 2019, when it will be reviewed again. All parties together publicly stated that the constructive atmosphere and solution-oriented approach provided effective mutual benefit. In a conference call in November 2017, ITF confirmed that there were no major outstanding issues in relation to the company.

With these positive developments, a final assessment of the case will be made in Q1 2018. DP seems to have strong implementation mechanisms in place, which was also confirmed in a conference call with subsidiary DP DHL Sweden in May 2017 (as DP itself was not willing to share more detailed information). However, DP should be more transparent about how its Code of Conduct is observed throughout global operations, how it ensures having accurate processes to manage employee complaints, and the number of complaints and the measures taken to ensure compliance with the code, which is also stated in the engagement goal. Should no more related issues arise, and the company has increased transparency in upcoming public reporting (to be published early March 2018), the case will be closed.

Contributes to UN Sustainable Development Goal(s):



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