We create returns with responsibility
Megatrends & business implications
Global outreach
We create returns with responsibility

The pace of global change is faster than ever and the challenges in terms of our future development and economic growth are becoming increasingly clear. During 2010, Nordea¹ published a “White Paper” on Global Megatrends impacting both the present and the future. Demographic changes, water scarcity, urbanisation and climate change are long-term material trends impacting millions of people and entire generations. Sometimes the future is not about the opportunities we anticipate or the risks we ought to manage with regard to this, it’s more about the active choices we make.

And we, still, have a choice. We have a choice in the way we invest and can have an impact on how companies we invest in manage their environmental, social and governance (ESG) risks and opportunities. We have a choice to invest in companies that are doing a better job of managing relevant ESG issues, on for example safety management issues and, in the aftermath of the BP debacle, we need no reminder that the externalities can be significant.

During 2010, we have engaged with companies on the ground in India, Africa, Asia, Russia, North America, and in the Nordic countries in order to improve their performance regarding management of ESG issues. And we can see changes. We can see gradual integration of key ESG issues into traditional business operations as well as great uncertainty as to future development. For companies operating globally management of ESG issues has become a business driver, improving risk management and enveloping business opportunities.

We have also engaged with many institutional clients in order to understand their growing interest in responsible investment. The messages from company meetings as well as client interactions are clear. ESG issues are more material than before and given future challenges they will become more integrated into day-to-day business.

Products and services of the future, including our own, will be developed and produced with far more integrated ESG responsibility than ever before. Why? Because we have a choice. During 2010, we have continued our journey, we have mobilised our knowledge, experience and influence as investors to make a difference – to push and cajole, induce and incentivise companies and ultimately markets, to produce better outcomes, more long term oriented strategies. Or, in other words, to price in Responsibility, to internalise future in the way we manage assets today.

Our vision is clear. Returns with Responsibility.

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¹ Throughout the report Nordea is used as a reference to Nordea’s fund companies and Nordea Investment Management. Processes and practices described in this report cover our role and responsibility as an asset manager.

Sasja Beslik
Head of Responsible Investment & Governance
Our Responsibility

Since the first Responsible Investment (RI) policy was launched in 2007, all funds and portfolios managed by Nordea are screened for companies verified for violation of international norms regarding environmental protection, human rights, labour standards and business ethics. The results of the screening, conducted twice a year, are reviewed and assessed by Nordea’s RI committee. The committee decides on the level of engagement with companies verified for violations. Aside of this Nordea does not invest in companies involved in the production of illegal weapons.

Analysis & engagement
In February 2010 a further step was taken by implementing a new RI strategy. The new strategy is based on an increased focus on in-depth ESG analysis and engagement activities. Throughout our ESG analysis companies’ overall management practices regarding key ESG issues are assessed together with their governance structure for these issues. Based on the analysis, companies are selected for proactive engagements dialogues. The focus is on transferring knowledge and active participation in the development process.

Products & services
During 2010, we have initiated the development of RI funds where ESG is part of the product’s DNA. These funds are scheduled to be launched in 2011 and are in the forefront of RI developments and have both global and local focus. We have also tested and started the implementation of an “ESG compass” tool for our institutional portfolios and selected clients. ESG Compass is a tool enabling client’s full insight in the ESG status of their portfolios. ESG Compass also consists of opportunities for improvements and changes in line with clients’ policies and expectations.

Knowledge & competence
In line with the new strategy a dedicated Responsible Investment and Governance team has been formed. The team has long experience within the area and was in 2010 awarded by Financial Hearings as Best team within the ESG sector in Sweden.

Our approach to external funds
In our process of selecting external funds and managers, we place emphasis on managers having investment processes addressing RI in an adequate manner.

As a signatory to the UNPRI, we encourage our selected funds and managers to actively support these principles. We report on our screening and active ownership activities regularly and ask for feedback using a “comply or explain” approach.

In 2007 we signed the United Nations Principles for Responsible Investments (UNPRI). In February 2010 we took a step further by implementing a new strategy on Responsible Investment.

2. Illegal weapons comprise biological weapons, chemical weapons, non-detectable fragments, blinding laser weapons, anti-personnel mines and cluster munitions.
Megatrends & business implications

**Changing demographics**
From a business viewpoint, the changing demographic patterns are expected to have various consequences. For example, concerning production centres, the proximity to customers will be important. Also, low-cost production leads to innovation and re-location strategies. This will require companies to properly manage their social and environmental challenges. Another consequence will be a change in consumer base and profile: new market opportunities will emerge and existing products will be redesigned to satisfy the demands of new consumers. Finally, due to rapid urbanisation, major infrastructure investments in developing economies will be needed.

**Water scarcity**
From a business viewpoint, the water challenges provide enormous business opportunities for companies active in water purification and water management services (utilities). Builders of water infrastructure (sewage plants, pumps, valves) will stand to benefit as well. On the process side, water-intensive sectors such as Metals and Mining, Chemicals and Forest Products will need to adapt their business models, as will ultra-pure water consumers such as the Semiconductors sector. Companies that acknowledge water scarcity in their processes will have a competitive edge.

**Climate change**
Climate change has obvious business implications. Energy providers need to rethink the relative attractiveness of their product mix (coal, oil, gas, alternative energy). Energy users, such as real estate, transport and energy-intensive manufacturing sectors, will need to mitigate their energy use and make it less CO²-intensive by introducing a carbon-neutral energy policy. 70% of all CO² emissions in the industrial sector come from three sectors: steel, cement and chemistry.

**Shortage of human capital**
The European workforce is ageing very rapidly. By 2050, more than one-third of Europe’s population will be over 60. The struggle for competent professionals will grow more intense. This means that companies will need to look beyond their own borders to find these people, pushing up wages and benefits. Attention to intercultural sensibilities will need to rise correspondingly. Finally, companies and employees will need to deal with restructurings, relocations and increased offshore operations. These topics will clearly impact human resources departments, as well as client relation management.

**More attention to corporate governance**
Regarding these business challenges, all sectors are clearly impacted by the justifiable demand of long-term investors for better corporate governance. It is in their own interest, since it enables optimal company strategic decisions and will facilitate access to capital in the markets.
“Climate change confronts investors with significant long-term challenges and the ability to address such risks and opportunities will be a critical competitive factor as we go forward – for companies as well as for investors. Private investors and companies play a critical role in efforts to combat climate change and the lion’s share of the investments necessary to tackle this challenge must come from private sources.”

Ole Beier Sørensen, Chairman of IIGCC and Chief of Research at ATP, Nordic Partner to the CDP along with Nordea

Institutional Investors Group on Climate Change (IIGCC) is forum for collaboration on climate change for European investors

“Climate change is not just an environmental challenge, but also one that affects the health and livelihood of millions of people because of the links to issues such as poverty, economic development and population growth. We believe that the most effective response to the challenges associated with climate change can only be achieved through a united global effort that takes account of the wider context of sustainable development.”

Chris Lewis, Head of Environment, AstraZeneca
Identifying companies performing well

In line with the new RI strategy we have during the year initiated our in–house environmental, social and governance (ESG) analysis and developed our own criteria and methodology. Our analysis is based on a positive approach. Throughout the analysis companies’ overall management practices regarding key ESG issues are assessed together with their governance structure for these issues. The analysis aims to identify best company practice and companies that manage their risks, opportunities and/or develop sustainable products. Our in–house analysis mainly focuses on Nordic companies, since the Nordic region is our local market. For global companies we process and assess ESG analysis conducted by our external service provider MSCI Inc.

During 2010, the focus on ESG analysis has been our largest holdings, mainly in the Nordic countries but also globally. In line with our objectives for 2010 we have finalised ESG analysis for a majority of our 50 largest holdings. We have also met about 40 of our largest holdings and discussed how they manage relevant ESG risks and capitalise on ESG opportunities.

**Thematic analysis of high risk sector**

In June Nordea decided to suspend further investments in BP. In relation to this we conducted an in–depth analysis of 25 companies in the integrated oil and gas sector. The entire industry, from mature super majors to smaller companies, is now investigating at how environmental protection should be conducted – with stricter safety regulations and higher costs on the cards for producers and consumers for years to come. We anticipate a wide range of new safety challenges arising from shale oil, oil sands, pre–salt and the Arctic, in particular. We assess that regulators are likely to seek to strike a balance between producing economically with greater scrutiny on safety. Boom and bust investments and the drive towards cost efficiencies have left the sector dealing with the safety risks of ageing physical and human assets and loss of control via subcontracting.

**Nordic companies: Best Practice**

**Governance structure**

SKF introduced BeyondZero in 2005, with the aim to realise business objectives in such a way that negative environmental impact is minimised while positive impact is enhanced. The BeyondZero target continuously influences SKF’s product and solution development.

Yara International’s approach on CSR is to contribute to solving global challenges while at the same time seek business opportunities. The company is committed to inspire innovation and to identify solutions that create value for the company as well as for society at large.

**Management of key issues**

Møller Mærsk has aligned its core business strategy with innovation, development of sustainable business practices and environmental care. The company has identified its key issues and all business units have a governance, management and reporting structure in place.
Sandvik has identified relevant key issues and has developed policies, processes and tools to address environmental pollution, violation of human rights, corruption and health and safety. Agents and distributors have been identified as groups with risks related to business ethics.

**Transparency**

Outokumpu’s has included comments from its auditors (Price Waterhouse Coopers) in its Sustainability report. The report covers relevant ESG areas and includes quantitative data together with long and short-term targets.

Fortum’s emission intensity has almost tripled in the last three years; the main reason is the acquisition of the Russian energy company TGC-10 (OAO Fortum today), which has 5% of its capacity from coal fire. An extensive investment programme was previously established in OAO Fortum in order to improve performance not only in electricity production capacity but also to bring the sustainability level up to Fortum standard. The company presents targets for how to improve the Russian operations by 2012, 2015 and henceforth.

**Conclusions from the Nordic analysis**

A general conclusion from the analysis is that fatalities reported by the companies often are related to contractors. We have therefore paid extra attention in our analysis as to whether or not contractors are monitored from a safety perspective. Almost all companies state that they have responsibility for all contractors operating at their sites, but few can describe how safety is assessed when evaluating a new contractor.

Water issues and biodiversity are areas of increasing concern to companies. Changed weather patterns and water scarcity is a reality for many global companies. Companies are still foremost focusing on their own operations but should, in line with carbon management, also address water within the supply chain and from a product development perspective. Best practice identified is to develop water footprints and to disclose number of operations related to water scares and bio sensitive areas.

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**A company’s view**

During 2010 we met with company representatives from Lassila & Tikanoja, a company specialised in environmental management and property and plant support services. Topics for discussion were management of key ESG issues, such as supply chain management, health and safety for the company’s employees as well as how the company through their products contributes to sustainable development. Keijo Keränen, Head of Investor Relations, commented the following about the dialogue:

“We appreciate that we got honest feedback and ideas on how to improve our sustainability reporting and practices. Our dialogue with Nordea gave an initial boost for an internal discuss about how to become more transparent about our work with corporate responsibility.”

**Analysis dialogues 2010**

- Addtech
- Anglo Platinum
- A.P. Møller Mærsk
- Atlas Copco
- Astra Zeneca
- Banco Santande
- BP
- Carlsberg
- Danske Bank
- DnB Nor
- DSV
- DS-Norden
- FLSmith & Co
- Fortum
- Hennes & Mauritz
- Konecranes
- Lassila & Tikanoja
- Megafon
- Monsanto
- Nestle
- Neste Oil
- Nokia
- Nordea Bank
- Oriflame
- Orkla
- Outokumpu
- Outotec
- Rautaruukki
- Renewable Energy Corporation
- Sampo
- Sandvik
- SCA
- Scania
- Schibsted
- SEB
- SSAB
- SSAB
- Statoil Hydro
- Telenor
- Tel 2
- TeliaSonera
- Tomra Systems
- UPM-Kymmene
- Vestas Wind Systems
- Volvo
- Wal-mart
- Yara International
Dialogues are initiated with companies violating international norms and companies with poor ESG management practice.

We also conduct research to find companies that are verified to violate international norms.

When analyzing companies we assess their management and performance regarding key ESG risks and opportunities.

There are several ways to identify companies for ESG research and analysis. The drivers are among other; sector, country and risk aspects.

Creating returns with responsibility

If the company improves we continue to invest. If the company is not able to change in a first stage we continue our dialogue.

Divestment is used as a last resort when there is no other option.
Our engagements & dialogues

Nordea prioritises engagement with companies identified as being involved in verified breaches of international environmental, human rights, labour rights and business ethics–related norms. As of December 2010, Nordea is engaged in 16 norm-breaching companies worldwide. We also prioritise proactive engagement dialogues with our largest holdings. This is carried out by in–house expertise, our external engagement service provider Hermes Equity Ownership Services or through cooperation with other stakeholders.

During 2010 we have met about 50 Nordic and global companies. It is our practice to engage in direct face–to–face dialogues with companies.

Selected engagements are reviewed by Nordea’s RI committee. The committee decides on the level of engagement and also whether a company should be excluded from the investment universe due to lack of progress. When a company is no longer involved in breaches of international norms, it will re–enter the investment universe.

Focus area – Environment

Environmental norms establish a commitment aimed at upholding the world’s ecosystems and biodiversity in the face of economic development. The business reference guide states that companies in sectors facing great environmental risk should be sure to have enhanced policies and practices in place to handle this.

Lack of transparency a problem
Nordea is engaged with norm-breaching companies that are failing in their environmental responsibilities by lacking in their remediation work. Some companies are not willing to disclose information and lack transparency as to how operations are managed from an environmental perspective. We have encouraged these companies to improve their disclosure on environmental policies and practices. One company has been provided with best practice examples for its own sustainability reporting and concerning the company’s participation in the Carbon Disclosure Project (CDP) survey.

Our engagement with one of the companies took a significant step forward when they published their first Corporate Social Responsibility (CSR) report specifically addressing its approach to overseas operations. Following our discussion concerning

Active ownership
Nordea is exercising active ownership through engagements & dialogues. As of December 2010, Nordea was engaged in 16 norm-breaching companies worldwide.
the CDP survey, the company also notably improved their answers in this year’s survey. Another company has during the year appointed a Chief Sustainability Officer and is now drawing up a CSR action plan for the company.

Focus area – Human rights

International human rights norms aim to protect people from political, legal and social abuse. The business reference states that companies should support and respect the protection of these norms and ensure that they are not complicit in activities characterised by human rights abuses.

Western Sahara

Western Sahara has been on the UN’s list of Non–Self–Governing Territories since the 1960s. Western Sahara was invaded by Morocco in 1975 and the area has been occupied ever since. Sourcing natural resources from this occupied area contravenes the right to self-determination unless it is carried out with full respect of the interests and needs of the people. The business reference requires companies to adopt a human rights policy and ensure that they take into account the right to self-determination. Companies should also require all business partners to adhere to this.

Controversial sourcing of phosphate rock

In recent years several companies have been criticised and alleged to have acted in breach of international norms by exploiting natural resources in Western Sahara. Nordea has been engaged in several companies within this area; all of them have been involved in sourcing of phosphate rock. However, we are also investigating companies involved in sectors such as shipping, fisheries and oil and gas.

Positive results – Controversial sourcing

Nordea’s engagement with the Mosaic Company (US) was successfully ended in June 2010. Mosaic has now disclosed that they have discontinued their purchase of phosphate from Western Sahara, which has also been independently confirmed. The company has acknowledged the human rights issues involved with importing phosphate from Western Sahara.

Ongoing engagements

Potash Corporation of Saskatchewan

Completed engagements

The Mosaic Company

Occupied Arab Territories

Following the 1967 Palestinian–Israeli War, the Israeli army occupied a number of Palestinian territories and the Israeli settlements began shortly thereafter. The Israeli settlement has, according to the UN, no legal validity and the companies that we are engaged in on this issue are acting in contravention of a UN resolution calling upon states not to provide Israel with any assistance to be used specifically in connection with settlements in the occupied territories.

Reputational risk as a financial parameter

In our dialogues we have expressed concerns about the companies’ involvement in the occupied territories. We have informed them that we believe that these activities can expose the companies to reputational risks which might have a financial impact on their business. As a consequence, we have urged the companies to adopt a more systematic approach to building in extra financial risks throughout their business processes. It has been estimated that one of the engagement companies lost USD 7 billion in
contracts due to the reputational impact of involvement in this activity. The companies have taken our views into account but have yet not committed to enhancing their transparency.

Positive results – human rights
Nordea has been engaged in a dialogue with ICICI Bank since the beginning of 2008. The company has been employing recovery agents that made use of illegal coercive methods to recover loans. ICICI Bank has now improved procedures to audit its recovery agents and its training of them. It has also significantly increased the board’s supervision of this issue. Actions taken by the company have been effective in curbing violent behaviour among the bank’s recovery agents and we therefore successfully completed our dialogue with the company in the end of 2010.

Completed engagements:
ICICI Bank

Focus area – Labour rights
Work is part of people’s daily life and is vital for a person’s dignity, well-being and personal development. International norms set standards which encompass freedom of association, the right to collective bargaining, forced labour, child labour and discrimination. The business references guides states that companies should ensure that their labour policy is based on ILO conventions and actively inform their employees of labour rights.

Violation of trade union rights
Most of Nordea’s engagements in this area are with companies which are reported to be violating trade union rights. In our dialogues we have expressed the importance of developing coherent policies regarding organised labour which should also apply to all subsidiaries. In one dialogue, we conducted a two-day on-site visit to investigate how the company in practice is managing staff-related issues. We have also addressed how overall ESG issues are managed across global operations, particularly in developing markets. As a result, a company has increased its local management at their troubled factory. Furthermore, it has published its first Corporate Social Responsibility report. The report specifically addressed the company’s issue in relation to the troubled factory and how it has addressed it.

Ongoing engagements
The AES, Hankook Tire, Wal-Mart Stores and Deutsche Telekom

Exclusion
Nordea believes in positive means of engagement where we actively contribute to improvement of company’s management of key environmental, social and governance practices. We also believe that exclusion seldom is constructive and long-term oriented. Direct divesting from companies with poor management practices is used as a last resort.

We exclude companies when violations are severe and when companies are unwilling to change or improve their behaviour. Nordea does not invest in companies which are involved in the development, production and maintenance of illegal weapons*.

* Illegal weapons comprise biological weapons, chemical weapons, non-detectable fragments, blinding laser weapons, anti-personnel mines and cluster munitions
Corruption is considered to be one of the greatest obstacles to economic and social development. It also distorts competition and impedes the development of fair market structures. For companies to be able to handle these issues they need to develop effective anti-corruption policies and management systems.

Corruption – institutionalised phenomenon
In some countries the lack of good business ethics practices is institutionalised. We have therefore addressed the issue on a policy and industry level in addition to engagement with specific companies. This has been conducted by participating in local industry forums to promote increased transparency regarding bribery and corruption. A company engaged has been provided with best practices examples on anti-corruption policies and structures. Since we started our engagement the company has established a set of relevant guidelines on ethics and anti-bribery and developed a website to encourage employees as well as suppliers to engage in whistle-blowing.

Ongoing engagements
Hyundai Motor

Positive results from dialogue with BP

After a thorough assessment Nordea in June decided to suspend investments in BP. The decision was taken after the tragic environmental disaster in the Gulf of Mexico and based on lack of information available regarding systematic risk management of safety measures by the company. The decision has been followed up by a close and intensive engagement with the company in order to improve its disclosure of key information as well as management of key health and safety risks in other BP operations.

“Nordea has managed to achieve positive outcomes in the engagement with BP and in December we decided to re-evaluate our investment decision and approved new investments in the company.”

During the autumn, the company announced that it would create a new safety division with sweeping powers to oversee and audit the company’s operations around the world. The division will have authority to intervene in all aspects of BP’s technical activities. It will also have its own expert staff embedded in BP’s operating units and be responsible for ensuring that all operations are carried out to meet common standards and to monitor compliance with these standards.

The new division is designed to strengthen safety and risk management across the company and will report directly to the chief executive. The company will furthermore conduct a fundamental review of how it incentivises business performance, including reward strategy, with the aim of encouraging excellence in safety and risk management.
Global outreach

India

In the beginning of May Helena Hagberg and Sasja Beslik took part in a field visit to India. The purpose was to meet the planting seed manufacturer Monsanto and investigate the working conditions for cotton farmers.

Monsanto is one of the world’s largest manufacturers of planting seeds. The company has, through its operations in the agricultural sector, for several years been accused of contributing to an increased number of suicides among cotton farmers.

We met Monsanto’s representatives as well as the representatives of different trade unions and other interested parties. The input we received confirmed that the frequency of suicides has declined in recent years. The fundamental problem in rural India does not involve Monsanto; it is rather the absence of a functional financial system. There are no banks and no reliable ways of borrowing money. Concerning Monsanto we draw the conclusion that the company lacks an overall strategy for handling a series of social and environmental aspects of their operations in India. However, it is difficult to detect signs of the company contributing in a conscious way to worsening the farmers’ prospects for a better life.

South Africa

In August Sasja Beslik went to South Africa to meet representatives of the world’s biggest mining company, Anglo Platinum. The company has been accused of forcing hundreds of thousands of people to leave their homes in order to extract precious metals.

Anglo Platinum is prospecting for the installation of new mines in a very densely populated area. In the last five years Anglo Platinum has moved close to 200,000 people in order to gain access to platinum, a precious metal for which there is growing demand worldwide.

As a part of our visit in South Africa we have urged Anglo Platinum to invite an independent reviewer with representatives from local and international academia, experts and business leaders. We have also recommended that Anglo Platinum should revisit potential miss leaps in the compensation and re-establish direct contact with people living in the villages on issues related to resettlement and consultation.

Sweden

In October Helena Hagberg visited SSAB and their steel plant in Oxelösund. The overall theme of the visit was corporate responsibility and working conditions.

During the visit presentations by SSAB representatives were followed by a tour around the manufactory plant. Issues such as health and safety, diversity, supply chain management and recycling of production waste were discussed.
During the year we have conducted pro-active engagement dialogues with companies on the ground in India, Africa, Asia, Russia, North America and the Nordic countries.

The steel industry is a high-risk sector with a significant environmental impact and high risks related to safety. Safety in general, and in relation to contractors has been an area of discussion with several of the Nordic companies that we have analysed during the year. Best practice identified is to measure and include contractors’ safety performance in group targets, as they say “what gets measured gets managed”. Companies need to evaluate their contractors not only in operations but also before signing new contracts.

**Russia**

In December Helena Hagberg went on a field visit to Russia. The visit was triggered by research made on Russian companies combined with the fact that many European companies operate in Russia.

Russia is identified by Non Governmental Organisations (NGOs) as a country with many challenges
when it comes to corruption and bribery, human rights, environmental aspects etc. International as well as Russian companies are limited in their disclosure as to how they manage and address these risks. During our visit we met with NGOs, companies and investors. The challenge of doing business in Russia from an ESG perspective was not understated by any of the companies or organisations we met. It is obvious that companies need to be on top of things and that a strong risk management system needs to be adopted. As one organisations stated, “companies can’t do business in Russia without bribes but they can limit the risk”. Focused risk-mapping, a solid risk management system, a strong internal commitment to anti-corruption and good lawyers are, according to both NGOs and the companies, the recipe to limit the risk.

**Sweden**
- ESG analysis conducted on SSAB and the wish to see how the company in practice works with employee’s working conditions triggered the visit.
- We recommended that SSAB should improve reporting, regarding supply chain management, especially concerning safety performance related to contractors.

**Russia**
- ESG analysis conducted on Russian and European companies triggered the visit.
- Companies operating in this high risk market need a solid risk management system and a strong internal commitment to anti-corruption in order to limit the risk.
Corporate governance is about safeguarding shareholders’ interests in the best way possible. Good long-term development benefits shareholders, employees as well as other stakeholders.

Corporate Governance

Corporate governance deals with the relationship between shareholders and the companies’ boards and executive management. From the standpoint of Nordea, corporate governance shall be exercised on the basis of the shareholders’ common interest in good investment returns.

A long tradition of active ownership
Nordea is an active owner and has a long tradition of handling corporate governance matters such as voting and engagement in companies. Nordea generally considers that exercising good corporate governance is crucial to the creation of value in companies, and plays a key role in promoting companies’ development towards better results through active ownership. We have voted regularly at general meetings since the 1980s and have participated in nomination committees in a large number of listed companies since the 1990s. Engagements in companies began in the early 1990s and have since increased successively over the years with the main focus on listed companies and stock markets in the Nordic region.

Corporate governance guidelines
Nordea’s first guidelines on corporate governance were adopted in 1996. The last revision, the seventh, was adopted in 2009. Long-term value creation through engagement and voting is the overall aim with our corporate governance activities.

To reach our goals we aim to
• Maintain a dialogue with companies
• Cooperate with other shareholders
• Participate in nomination committees
• Handle issues regarding takeovers, incentive programmes, capital structure
• Follow-up of regulatory issues
• Voting at general meetings

In line with our guidelines we believe that the following issues are of importance:
• Composition and function of the board of directors
• Shareholder rights
• Disclosure and transparency
• Compensation
• Range of takeover defences

Progress made in Sweden
Nomination committees are well established and the Swedish nomination committee model helps to:
• Create a structured and transparent process governed by the owners
• Separate and clarify the roles between shareholders and board
• Enable shareholders to create value in the long term when they have more influence on the composition of boards

Active ownership
Nordea is exercising active ownership through participating in general meetings. During 2010 we attended 158 general meetings.
• Balance the risks for so-called non-controlling shareholders if also involved in a nomination process when a so-called controlling shareholder is represented in the board.

Dialogue with companies have increased and information to shareholders is progressing successively. Furthermore, almost all incentive programmes include some form of performance criteria and institutional investors are to a great extent involved in the follow up of different regulatory issues.

**Actions and results 2010**

*Dialogue with the European Commission*

Institutionella Ägares Förening för regleringsfrågor på aktiemarknaden (IAF), an association of Swedish institutional investors for regulatory matters on the stock market in which Nordea is one of fourteen members, wrote in August a letter to European Commission regarding its Green paper on corporate governance in financial institutions and remuneration policies. The purpose was to present our view on the questions in the Green Paper and furthermore share our views and experiences as to what we believe could be worth considering for the European Commission when making an overview of the corporate governance field.

*Dialogue with the Finnish Securities Market Ass.*

During the first half of the year we initiated a dialogue with the Finnish Securities Market Association, which is the organisation responsible for the Finnish Corporate Governance Code. In our opinion the code did not facilitate efficient nomination committees with shareholder representation and we suggested an amendment to the code which would incorporate nomination committees including shareholders in the code. A revised code was presented in June and among others the recommendations regarding nomination committees was amended in line with our views. The code entered into effect on October 1st 2010.

*Dialogues concerning incentive programmes*

Prior to the shareholder meeting season Nordea had meetings with several companies, among others MTG, SEB and TeliaSonera, concerning planned incentive programmes. Many programmes are complex in design and in several cases we gave support firstly after changes were made in

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**Special company events - some examples**

*At Alpgot Agro’s annual general meeting* Nordea voted in favour of a changed, and in our opinion, more advantageous compensation agreement with the management company Alpgot Capital Management (“ACM”). The proposal was based on an agreement reached between Alpgot Agro and ACM. However, the proposal was not accepted because the required majority could not be reached due to ACM who is a shareholder, voted against the proposal.

*Prior to Kungsleden’s annual general meeting* Nordea had to evaluate a resolution from a shareholder. The resolution concerned an examination of an action taken by two previous board members, who may have started competitive business operations while concurrently serving as board members of the company. However, both the auditors and the current board of directors judged that no financial damage was done and there were no grounds for any legal action. Based on this, Nordea did not support the appointment of a special examiner, but expressed criticism at the meeting.

*At Cloettas annual general meeting* Nordea voted against the board’s proposal to amend the article of association of the company. The proposal, which was passed by the general meeting, will make it more difficult to convert A-shares to B-shares. No proper motivation was presented to justify the proposal and we regarded the proposal as not being in the interest of all shareholders.
response to viewpoints presented. We voted no to the incentive programme at Lundin Petroleum’s meeting since the proposal lacked performance requirements for allocations to the management.

**Dialogues concerning share buybacks**

At the annual general meeting of Atlas Copco Nordea voted no to the proposal concerning the repurchase of A and/or B shares since it was not clarified that it was the lowest-priced shares available, irrespective of the class of share, that would be acquired. Nordea initiated a dialogue with the companies MTG, SKF and Sweco since the proposal was presented in these companies, with two classes of shares quoted, indicating that the mandate would be given for repurchase of shares. Nordea has in these cases supported the mandate, however firstly after the board of directors expressed the intention to purchase the lowest-priced shares available. During the year Nordea has also participated in the public debate concerning the risk for minority shareholders at share buybacks, especially in markets where a dual class system exists, and has had articles published on this issue in the Nordics as well as internationally.

**Dialogues concerning share issues without pre-emptive rights**

When companies applied for mandates to issue shares, for cash payment and with a deviation from the current shareholders’ rights of priority, we voted no in the cases of Lundin Petroleum and Sectra. At the annual general meetings in CTT, New Wave Group, Orc Software and Ratos we appealed to the boards not to use their authorisation for rights issues against cash payment. After dialogues with Biotage and Proffice the boards decided to restrict the mandate to make it no longer possible to issue shares for cash payment, after which Nordea gave support to the proposal. At Meda’s meeting we requested that the board, in cases where mandates concerning issuance of convertibles would be utilised, this should occur firstly with right of priority for the current shareholders, and otherwise be limited to a dilution of a maximum of 5 percent instead of the proposed limit of 10 percent.

**Takeover situations**

As one of the largest owners in Munters we had to handle the situation when two different companies presented competing public offers to Munters’ shareholders. After evaluating four different bids during the autumn we finally decided to accept the last offer at SEK 77 per share, a premium of more than 50 percent compared to how the share was traded before the offer and an increase of 13 percent compared to the first offer. We accepted the public offer on Biolin Scientific. At the end of 2010 public offers were also presented to the shareholders of Q-Med and Cardo, which we are currently evaluating.
As one of the first major banks in the Nordic countries, Nordea on 1 November 2007 signed the UN’s Principles for Responsible Investment (UNPRI). In connection with this our policy for responsible investment was launched. This policy shows how we adhere to the six principles. We report on our activities and progress towards implementing the UNPRI. This report is public and available on the UNPRI website.

Nordea actively participates in local sustainable investment forums, so-called SIFs which are independent national forums that promote responsible investment. Nordea became a member of SWESIF in 2008, in DANSIF 2010 and was founding member of FINSIF when the association was launched in June 2010. Nordea is represented on the boards of SWESIF and FINSIF.

As the largest asset manager in the Nordic region we seek to encourage best practice through active participation in international initiatives.

**International initiatives & participation**

**UNPRI**

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**Water Disclosure Project**

Nordea is a signatory to Water Disclosure Project. The project is an initiative run by the Carbon Disclosure Project and is supported by institutional investors. The aim of the project is to collect and spread information concerning water-related risks and possibilities and addresses 300 global companies with water-intensive production and water-related challenges. The first CDP Water Disclosure report was published in 2010.

**Sustainable Investment Forums**

Nordea actively participates in local sustainable investment forums, so-called SIFs which are independent national forums that promote responsible investment. Nordea became a member of SWESIF in 2008, in DANSIF 2010 and was founding member of FINSIF when the association was launched in June 2010. Nordea is represented on the boards of SWESIF and FINSIF.

**Carbon Disclosure Project**

Nordea is a signatory to Carbon Disclosure Project (CDP). The aim of the project is to collect and spread information concerning greenhouse gas emissions and climate change strategies. Nordea uses the information in the database in its ESG analysis. CDP is a cooperation arrangement between 534 institutional investors who together account for over a third of the world’s investments. Nordea Bank is Nordic partner to the CDP and hosted in October the launch of the report in Sweden and in Finland.

**Sustainable value creation**

Sustainable value creation (SVC) is a cooperation project involving some of Sweden and Norway’s biggest investors. The aim of the project is to influence listed Swedish and Norwegian companies in sustainable development and long-term value creation. Nordea considers it essential for companies to work actively with environmental and social aspects in its business; we therefore take part in the working team that drives the project in Sweden. In December, SVC hosted a seminar and workshop for companies addressed in the project.
By the end of 2010 we have achieved several positive outcomes and taken further steps forward on our journey. During the year, we have developed our own ESG analysis criteria and methodology and met many of our largest holdings in face-to-face meetings. We have also conducted pro-active engagement dialogues with companies on the ground in India, Africa, Asia, Russia, North America and the Nordic countries in order to improve their performance regarding management of ESG issues. We have also seen positive outcomes from our dialogues with norm-breaching companies and successfully completed two of these engagements during the year.

**Our commitment is to deliver Returns with Responsibility and our strategy for the coming year is to focus on: knowledge, proactiveness and innovation.**

**Knowledge:** we will continue to focus on in-depth ESG analysis and the development of an “ESG Compass” tool that will support the communication of the analysis. We will also develop sector key issue papers and, among other things, thereby increase our transparency. In line with our “White Paper” on Global Megatrends we will continue to closely follow macro and micro trends and their implications as well as corporate governance developments and implications for our investments.

**Proactiveness:** we will increase our transparency and continue to develop our reporting to our key stakeholders. Engagement dialogues are central to our RI policy, we will continue to seek to make a difference and conduct more dialogues and field visits. We also consider cooperation with other stakeholders important in the pursuit to move the market forward and will therefore continue to actively participate in international initiatives contributing to sustainable development, for example CDP, UNEP, UNPRI and local sustainable investment forums.

**Innovation:** when we signed UNPRI in 2007 we, among other things, committed to integrate ESG issues into investment decisions. During 2011, one main focus will therefore be to seek even more effective ways to integrate our ESG analysis into our mainstream investment processes. New modern RI funds, which are in the forefront of RI developments, are also scheduled to be launched in 2011.
Sasja Beslik is Head of Responsible Investment & Governance at Nordea. Mr Beslik previously served as Head of Responsible Investments at Banco/ABN AMRO and as a consultant for the World Bank on several projects in Africa and Asia. Mr Beslik is also chairman of UNEP Finance Initiative’s Water Work Group.

Helena Hagberg is Director of Responsible Investment & Governance at Nordea. Ms Hagberg has previously worked with ESG research and corporate engagements at SwedbankRobur and Banco/ABN AMRO. Ms Hagberg is chairman of the Swedish Sustainable Investment Forum, SWESIF.

Antti Savilaakso is Director of Responsible Investment & Governance at Nordea. Mr Savilaakso has previously worked with ESG analysis and corporate engagement at Responsible Research in Singapore, Dexia Asset Management in Brussels and ABN AMRO Asset Management in Amsterdam.

Ylva Hannestad is Responsible Investment & Governance analyst at Nordea. Ms Hannestad is deputy board member of the Swedish Sustainable Investment Forum, SWESIF.

Thomas Ehlin is Director of Responsible Investment & Governance at Nordea. Mr Ehlin is a board member of the Swedish Securities Council (Aktiemarknadsnämnden) and has also served as a member and chairman of several nomination committees of listed companies.
Nordea has been working with governance issues since the 1980's.

2002
Nordea launches first ethical funds.

2007
Initiates engagement in new companies.
Becomes partner to CDP.

2008
Nordea launches fast track for new companies.

2009
Signs UNPRI and launch policy on Responsible Investment.

2010
Establishes internal ESG methodology.

An ongoing process

2007
Initiates engagement in new companies.

2008
Excludes companies involved in cluster munitions.

2009
Signs Carbon Disclosure Project.

2010
Nordea has been working with governance issues since the 1980’s.