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SRI: BEYOND INTEGRATION

Positive ESG ratings linked to material stocks outperformance

Yannick Ouaknine Phone: +33 (0)1 58 98 23 50
Niamh Whooley Phone: +44 (0) 20 7762 5054
Carole Crozat Phone: +33 (0)1 42 13 62 0

SOCIETE GENERALE
Cross Asset Research

FOREWORD

IN OUR OPINION, INVESTORS WILL INCREASINGLY INCORPORATE ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS INTO THEIR INVESTMENT PROCESS AND ENGAGEMENT ACTIVITIES, AS IT IS BECOMING CLEARER BY THE DAY THAT THESE THEMES HAVE A MATERIAL IMPACT (REPUTATIONAL AND/OR FINANCIAL) ON COMPANIES' PERFORMANCE. WE, AT SG CROSS ASSET RESEARCH, INVESTED IN THIS FIELD MANY YEARS AGO AND DECIDED TO INCLUDE A SPECIFIC ESG PERSPECTIVE IN OUR "MAINSTREAM" PUBLICATIONS. THIS KEY DIFFERENTIATING FACTOR AFFORDS OUR CLIENTS THE OPPORTUNITY TO SELECT THE LEVEL OF ESG INTEGRATION THAT BEST FITS THEIR NEEDS AND OBJECTIVES. WE TRUST THAT OUR PUBLICATIONS, SUCH AS THIS REPORT, WILL DEMONSTRATE THAT "SOCIALLY RESPONSIBLE INVESTMENT" IS GAINING TRACTION, MOVING FROM THE FRINGE TO THE CORE OF INVESTORS' INVESTMENT DECISIONS.

FABRICE THEVENEAU

HEAD OF EQUITY AND CREDIT RESEARCH

CONTRIBUTING EQUITY SECTOR ANALYSTS

Aerospace and Defence, slide 28
Equity analyst

Zafar Khan
(44) 20 7762 5317
zafar.khan@sgcib.com

Auto & Auto Components, slide 35
Equity analyst

Philippe Barrier
(33) 1 42 13 84 42
philippe.barrier@sgcib.com

Bank & Financials, slide 46
Equity analyst

Philip Richards
(44) 20 7762 5893
philip.richards@sgcib.com

Building & Construction materials, slide 53
Equity analyst

Muriel Fellous
(33) 1 42 13 60 51
muriel.fellous@sgcib.com

Capital goods, slide 60
Equity analyst

Sébastien Gruter
(33) 1 42 13 47 22
sebastien.gruter@sgcib.com

Chemicals, slide 67
Equity analyst

Peter Clark
(44) 20 7762 5084
peter.clark@sgcib.com

Hotels, Leisure & Catering, slide 74
Equity analyst

Sabrina Blanc
(33) 1 42 13 47 32
sabrina.blanc@sgcib.com

Luxury goods, slide 74
Equity analyst

Thierry Cota
(33) 1 42 13 84 45
thierry.cota@sgcib.com

Food, slide 81
Equity analyst

Alex Sloane
(44) 20 7762 4271
alex.sloane@sgcib.com

Beverages, slide 81
Equity analyst

Nicolas Ceron
(44) 20 7762 5631
nicolas.ceron@sgcib.com

Food retail, slide 88
Equity analyst

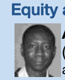
Arnaud Joly
(33) 1 58 98 99 37
arnaud.joly-grs@sgcib.com

Insurance, slide 102
Equity analysts

Nick Holmes
(44) 207 762 4124
nick.holmes@sgcib.com

Media, slide 109
Equity Analyst

Christophe Cherblanc
(33) 1 42 13 84 44
christophe.cherblanc@sgcib.com

Metals & Mining + Steel, slide s 119 and 179
Equity analyst

Alain William
(33) 1 58 98 12 61
alain.william@sgcib.com

Oil & Gas, slide 132
Equity analysts

Irene Himona
(44) 20 7762 53 53
irene.himona@sgcib.com

Oil services, slide 132
Equity analyst

Guillaume Delaby
(33) 1 42 13 62 29
guillaume.delaby@sgcib.com

Pharmaceuticals, slide 142
Equity analyst

Stephen McGarry
(44) 20 7762 5079
stephen.mcgarry@sgcib.com

Med Tech, slide 142
Equity analyst

Justin Smith
(44) 20 7762 5899
justin.smith@sgcib.com

Real Estate, slide 150
Equity analysts

Henri Quadrelli
(33) 1 42 13 37 33
henri.quadrelli@sgcib.com

Retailing, slide 157
Equity analyst

Anne Critchlow
(44) 20 7762 5232
anne.critchlow@sgcib.com

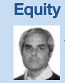
Semiconductors & Telecom Equipment slide 165
Equity analyst

Peter Knox
(44) 20 7762 4142
peter.knox@sgcib.com

Software & IT Services, slide 172
Equity analyst

Derric Marcon
(33) 1 58 98 06 30
derric.marcon@sgcib.com

Telecom services, slide 193
Equity analyst
Romain G ourvil
(44) 207 762 5127
romain.gourvil@sgcib.com

Utilities, slide 212
Equity Analyst

Alberto Ponti
(44) 20 7762 5440
alberto.ponti@sgcib.com

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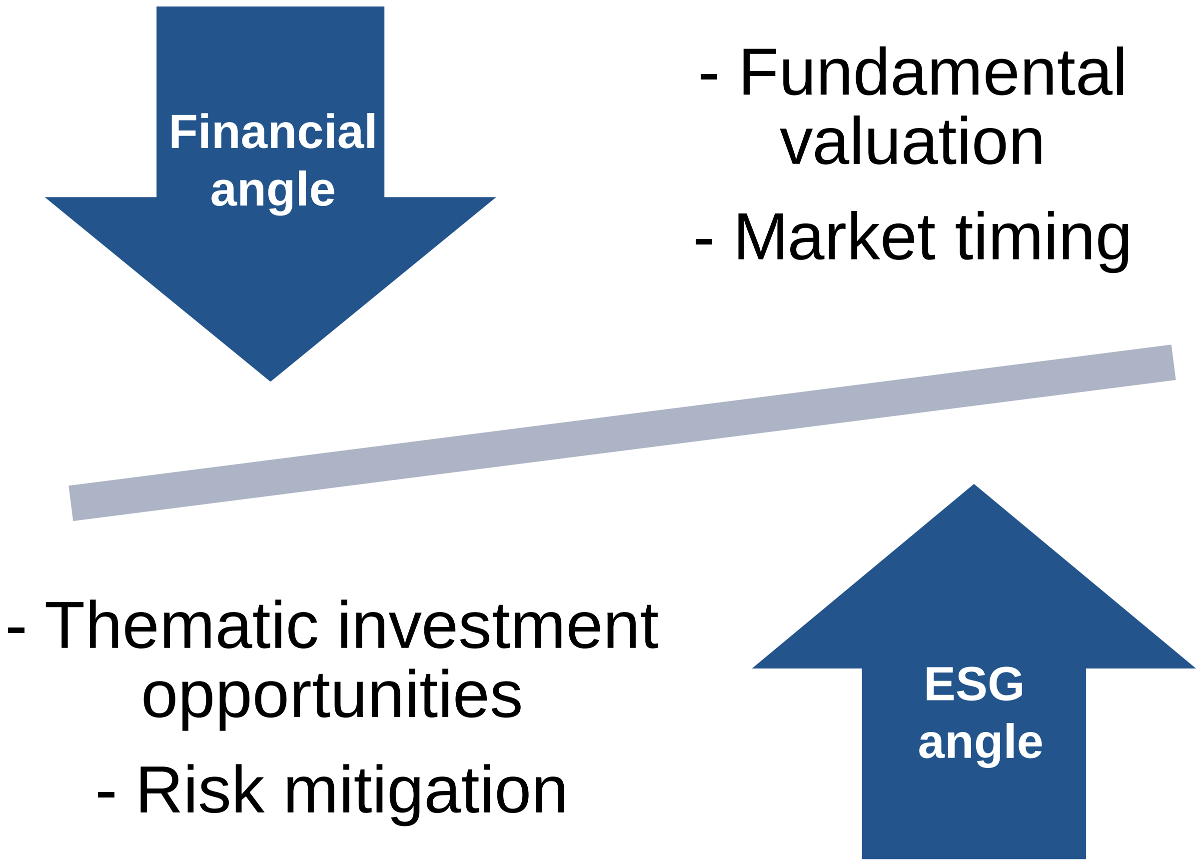
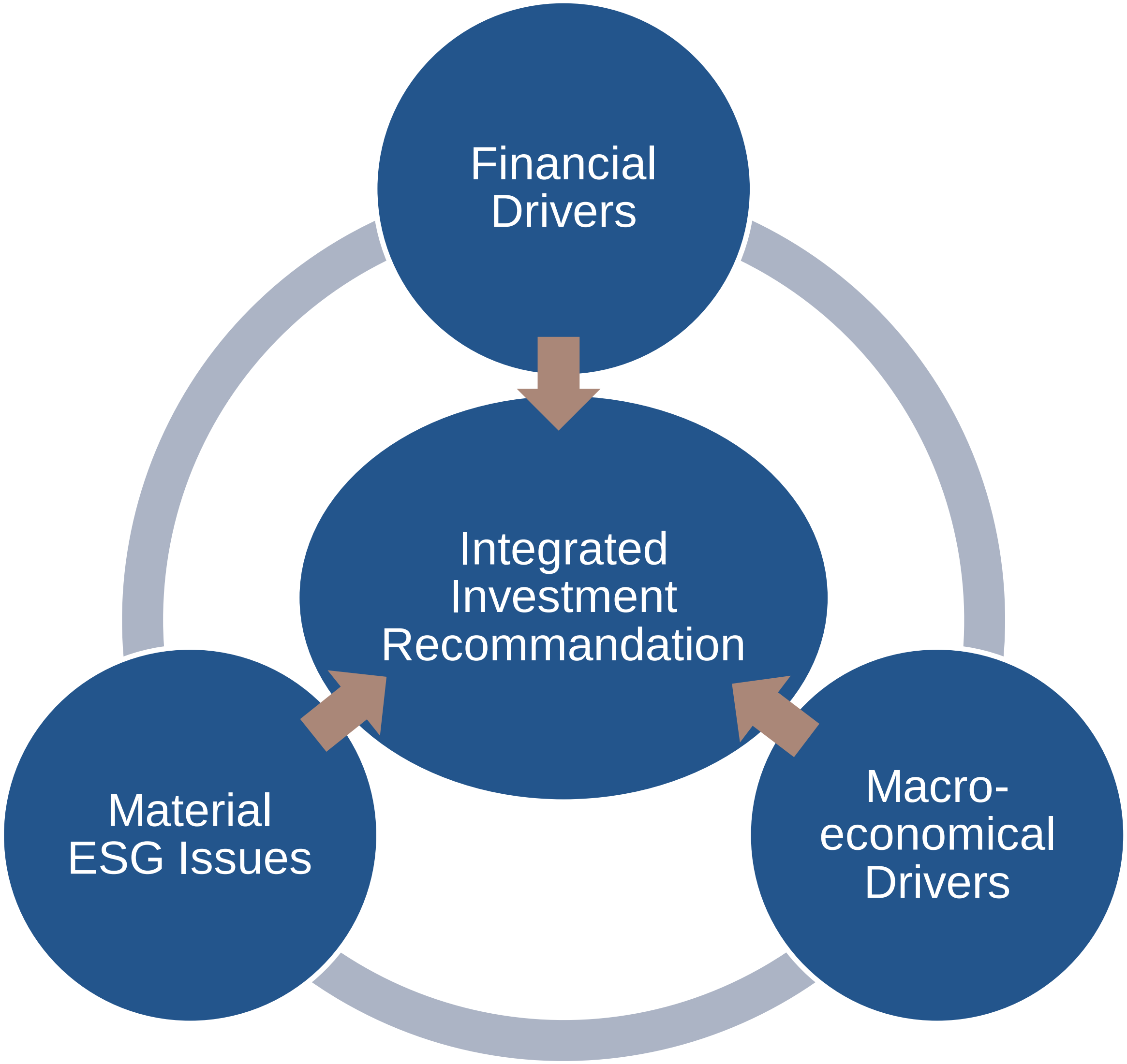
With thanks to Antoine Helouin, Research Associate – SG Cross Asset Research, for his contribution to this report

OBJECTIVE: COMBINING FUNDAMENTAL & ESG EVALUATION



OUR APPROACH

IT'S ABOUT INTEGRATION …



… AND MATERIALITY (OF ESG ISSUES)

Sector-specific material ESG issues

Food Producers

- ✓ Demographic growth is putting an ever-growing strain on earth resources (land)
- ✓ Water scarcity impacting commodity prices (70% of the freshwater used globally is for agriculture)

Airlines

- ✓ Management’s ability to convince labour unions to adapt to new business realities (low costs)
- ✓ Environmental issues on pollutants & emissions (noise, air quality, EU ETS)

Steel Companies

- ✓ Greater production costs as this sector is both energy- and emissions-intensive
- ✓ Innovation with alternative light-weight steel (CO2 emissions)

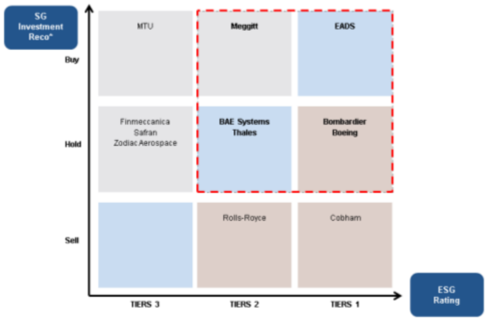
Oil & Gas

- ✓Operational Health & Safety (contractors, supply chain)
- ✓Access to resources with the underlying “social licence to operate” (human rights, communities)

Pharmaceuticals

- ✓ Responsible marketing practices (reputation, litigation costs)
- ✓ Product manufacturing safety (product recalls)

A FOUR-STEP RATING METHODOLOGY



1) Identifying material ESG factors and associated weightings by sector

2) Providing key performance indicators for company evaluation

i.e. Corporate Governance
Disclosure of Directors' remuneration
Board independence
Board diversity
Non-audit fees relative to audit fees
Governance-related controversies or incidents

3) Calculating quantitative ESG rating (based on Sustainalytics raw data)

Company	Country	ESG Rating	Score Gov.	Score Social	Score Env.
Bombardier	Canada	**82.68**	83.22	99.50	68.75
Boeing	US	**75.56**	89.88	50.00	75.00
EADS	France	**74.37**	70.55	90.00	93.75
…	…	…			

4) Combining SG reco' & ESG ratings to identify top picks

Source: SG Cross Asset Research, Sustainalytics, Company

ESG EVALUATION - HOW DOES IT WORK? (e.g. AEROSPACE & DEFENCE)

Material ESG themes

Related Key Performance Indicators (KPIs)

Corporate Governance	Business Ethics	"Climate Change" / Fuel Efficiency	Human Resources Management
Disclosure of Directors' remuneration	Policy on "Bribery and Corruption"	Programmes and targets to reduce direct GHG emissions	Programmes to increase workforce diversity
Board independence	Programmes to combat "Bribery and Corruption"	Scope of corporate reporting on GHG emissions	Employee-related controversies or incidents
Board diversity	whistleblower programmes	Carbon intensity	
Non-audit fees relative to audit fees	Business-ethics related controversies or incidents	Revenue from "clean technology" or "climate-friendly" products	
Governance-related controversies or incidents	"Controversial" weapons		

Governance score* [0-100]	Environmental score* [0-100]	Social score* [0-100]

Sector-specific ESG weights to calculate quantitative ESG ratings [0-100]

Company	Country	Market Cap.	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Bombardier	Canada	CAD7202.2m	46.0	CAD4.99	CAD5.30	Hold	82.68	83.22	99.50	68.75	82.81	75.71
Boeing	US	$83992.3m	65.0	$111.33	$111.00	Hold	75.56	89.88	50.00	75.00	75.62	65.95
EADS	France	€35274.7m	72.4	€44.80	€53.00	Buy	74.37	70.55	90.00	93.75	71.25	67.14
...	...	...										

Low
High

SG coverage

Source: SG Cross Asset Research, Sustainalytics, Company

** Raw data provided by Sustainalytics*

RATING MATRIX - SELECTING THE RIGHT STOCKS (e.g. AEROSPACE & DEFENCE)

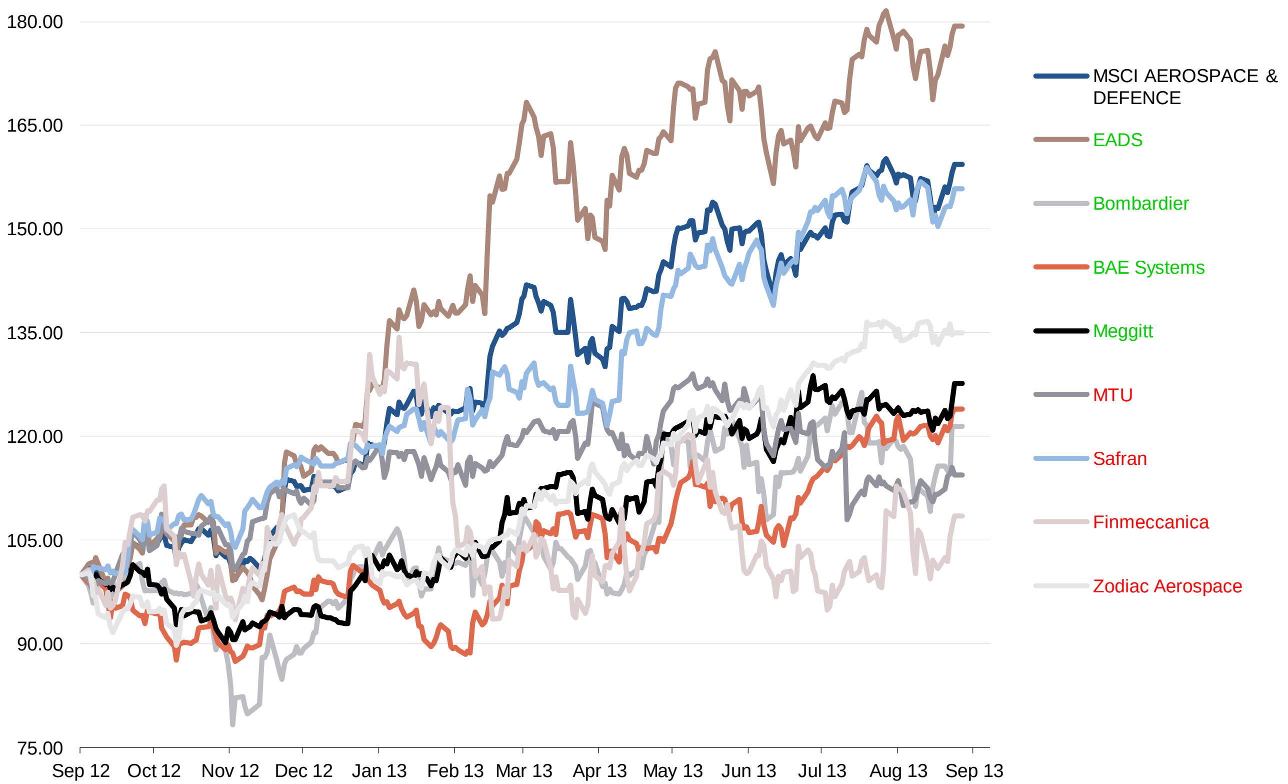
SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	MTU	**Meggitt**	**EADS**
Hold	Finmeccanica Safran Zodiac Aerospace	**BAE Systems** **Thales**	**Bombardier** **Boeing**
Sell		Rolls-Royce	Cobham

ESG Rating

Top picks mixing positive ESG evaluation & positive financial prospects

** As of 14/09/2013 ~ Source: SG Cross Asset Research, Sustainalytics, Company*

SECTOR PERFORMANCE - SEE THE CHANGES… (e.g. AEROSPACE & DEFENCE)



Tier-1 ESG rating AND "Buy" / "Hold" reco.
(as of 15/09/2012)

Tier-3 ESG rating AND "Sell " / "Hold " reco.
(as of 15/09/2012)

Source: SG Cross Asset Research, DataStream

STATISTICS

A BROAD RESEARCH UNIVERSE

**As of 14/09/2013*
***Source: SG Cross Asset Research, Sustainalytics, Company*

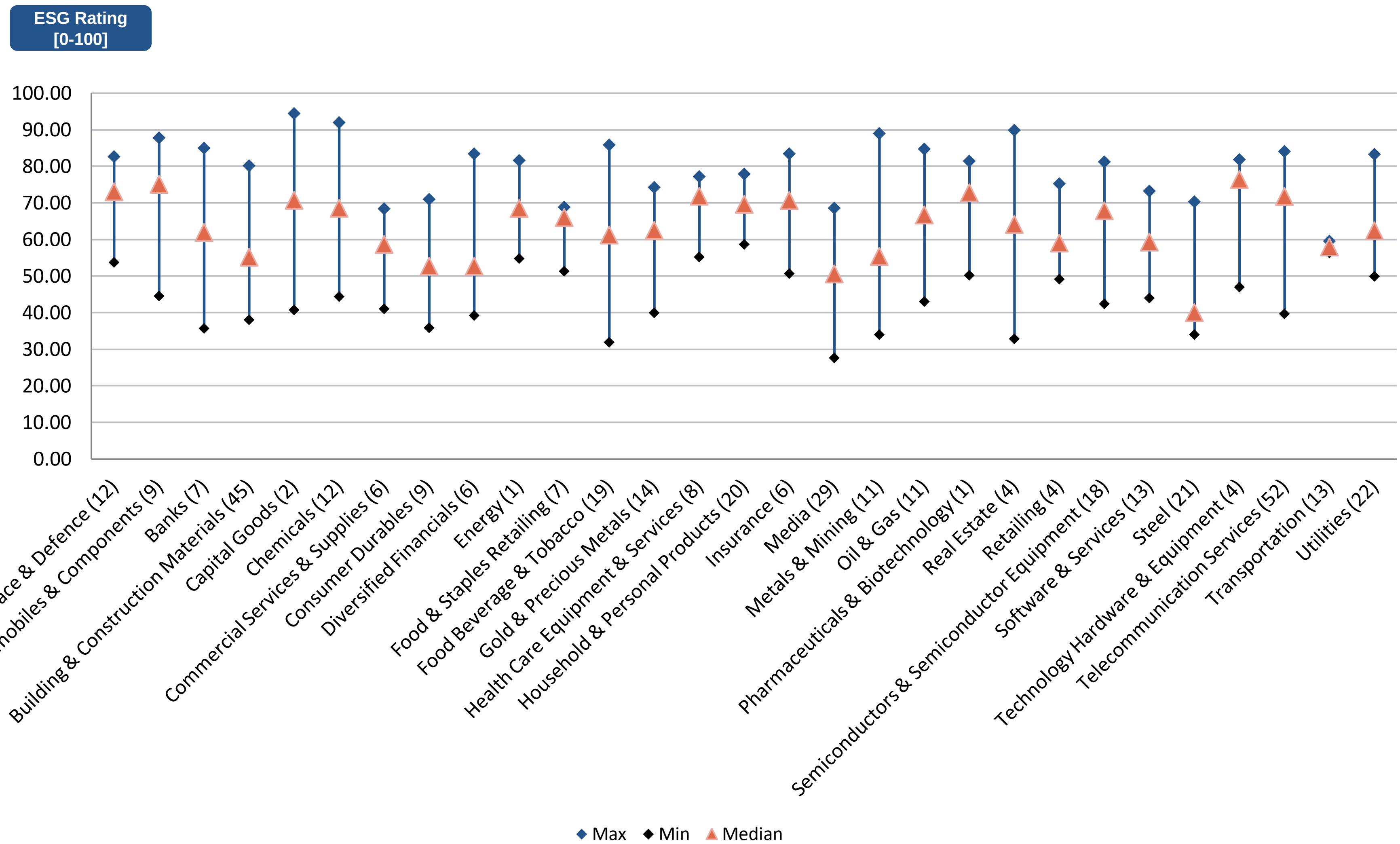
ESG WEIGHTS BY SECTORS (RESULTING FROM OUR KPIS SELECTION)

Sectors	Corporate Governance & Business Ethics Issues	Social Issues	Environmental Issues	# KPIs
Aerospace & Defence	62%	10%	24%	16
Automobiles & Auto Components	48%	19%	33%	16
Banks & Financial Services	73%	20%	7%	13
Building Products & Construction Materials	36%	23%	41%	19
Capital Goods (Machinery/Elect. Equip./Ind. Conglo.)	40%	20%	40%	22
Chemicals	30%	30%	40%	17
Consumer Durables & Services	25%	40%	35%	18
Food, Beverages & Tobacco	30%	9%	52%	19
Food & Staples Retailing	40%	26%	34%	15
Household & Personal Products	37%	11%	53%	19
Insurance	71%	14%	14%	13
Media	30%	45%	25%	19
Metals & Mining (incl. Gold & Precious Metals)	35%	40%	25%	23
Oil & Gas (incl. Energy Equip. & Services)	36%	44%	20%	24
Pharmaceuticals & Healthcare (incl. Biotech & Equip.)	50%	45%	5%	13
Real Estate	39%	22%	39%	17
Retailing	38%	43%	19%	18
Semiconductors & Semiconductor Equipment	46%	8%	46%	12
Software & Services	35%	35%	29%	15
Steel	35%	29%	35%	15
Technology Hardware & Equipment	47%	40%	13%	15
Telecommunication Services	44%	28%	28%	19
Transportation	29%	46%	25%	14
Transportation Infrastructure	33%	42%	25%	14
Utilities	27%	32%	36%	16

Average: 17

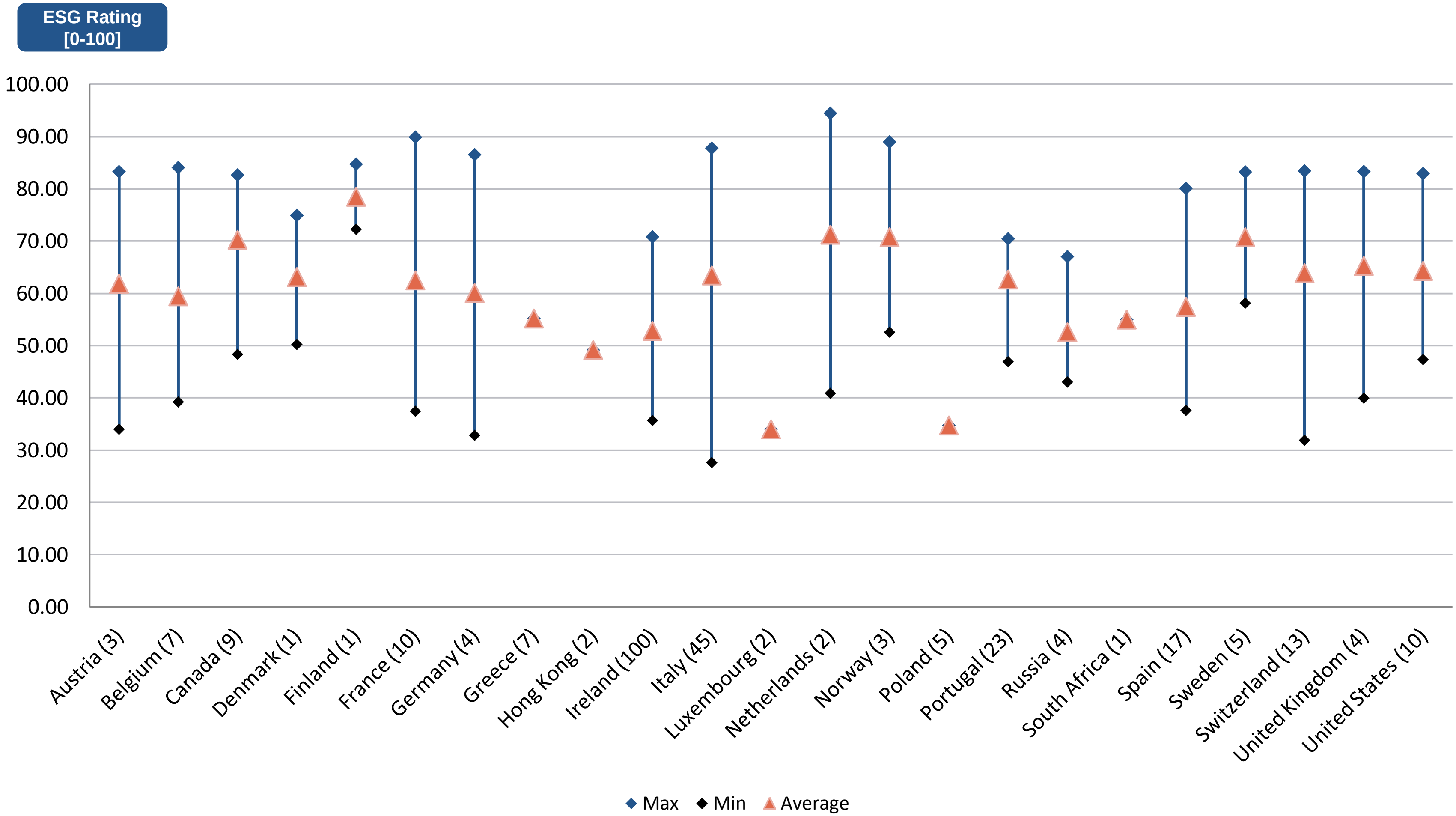
Source: SG Cross Asset Research

OVERVIEW OF ESG RATINGS BY SECTOR



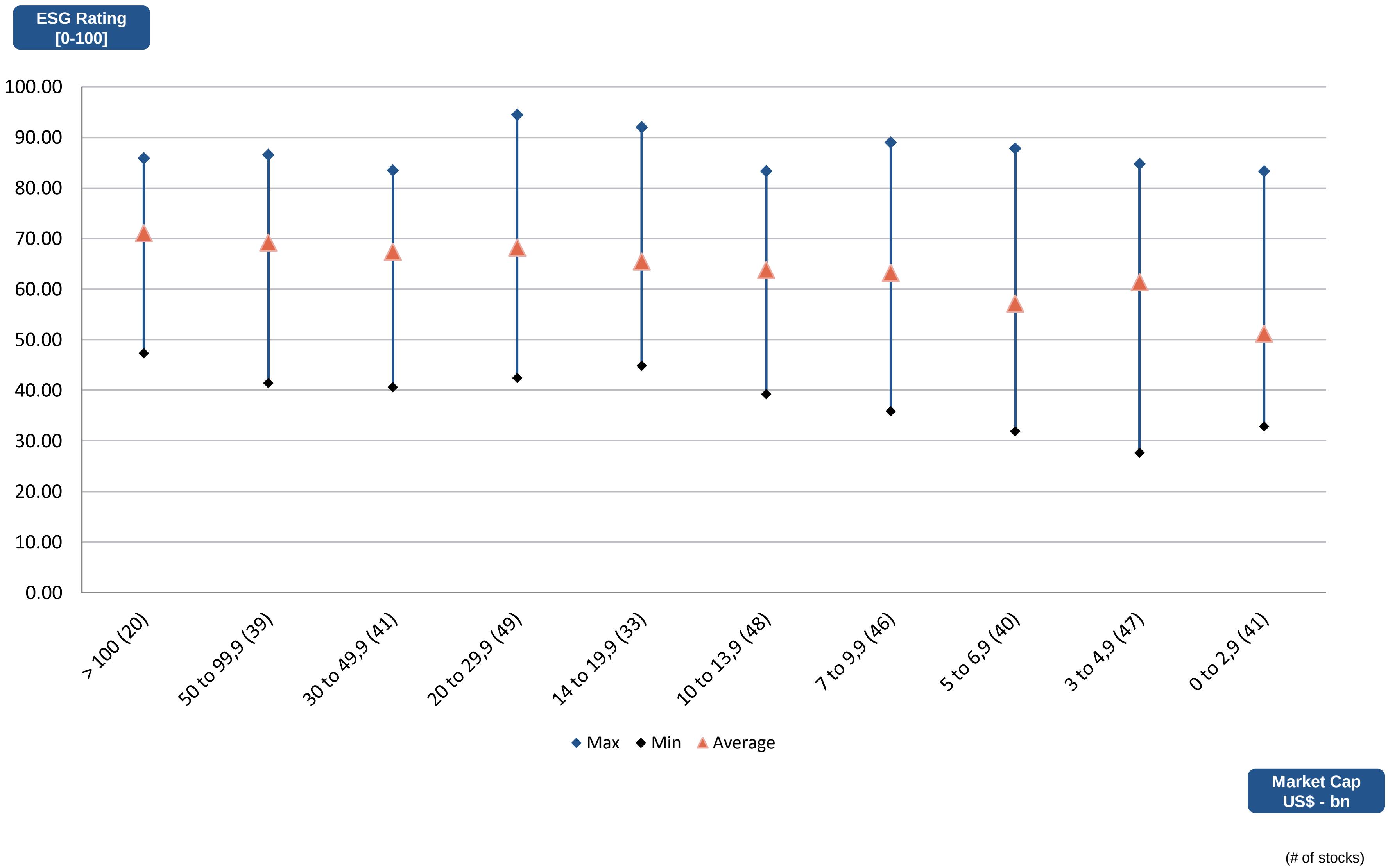
(# of stocks)

OVERVIEW OF ESG RATINGS BY COUNTRY



(# of stocks)

OVERVIEW OF ESG RATINGS BY MARKET CAP



BREAKDOWN OF RATINGS - BUY-HOLD-SELL vs. TIER 1-2-3

SG Investment Reco*

	TIER 3	TIER 2	TIER 1
Buy	44 companies (24 companies)	**55 companies** (9 companies)	**71 companies** (4 companies)
Hold	58 companies (11 companies)	**62 companies** (5 companies)	**48 companies** (4 companies)
Sell	25 companies (7 companies)	24 companies (7 companies)	14 companies (3 companies)

ESG Rating

SG Investment Reco*
- Buy – 42%
- Hold – 42%
- Sell – 16%

ESG Ratings
- Tier 1 – 33%
- Tier 2 – 33%
- Tier 3 – 33%

(# of stocks with less than 60% disclosure rate / Not included in Tier1-2-3 calculation)

** As of 14/09/2013 ~ Source: SG Cross Asset Research, Sustainalytics, Company*

PERFORMANCE ANALYSIS

OVERALL PERFORMANCE ANALYSIS (SEPT-12 TO SEPT-13)

SG Investment Reco*	TIER 3	TIER 2	TIER 1
Buy	+15.1% (60)	**+12.8% (58)**	**+13.6% (56)**
Hold	+11.1% (56)	**+14% (43)**	**+17.9% (53)**
Sell	+4.1% (17)	+11.2% (29)	+11.4% (20)

ESG Rating**

Average perf.

Buy +13.8%

Hold +14.3%

Sell +9.4%

Average perf.

Tier 1 +15%

Tier 2 +12.8%

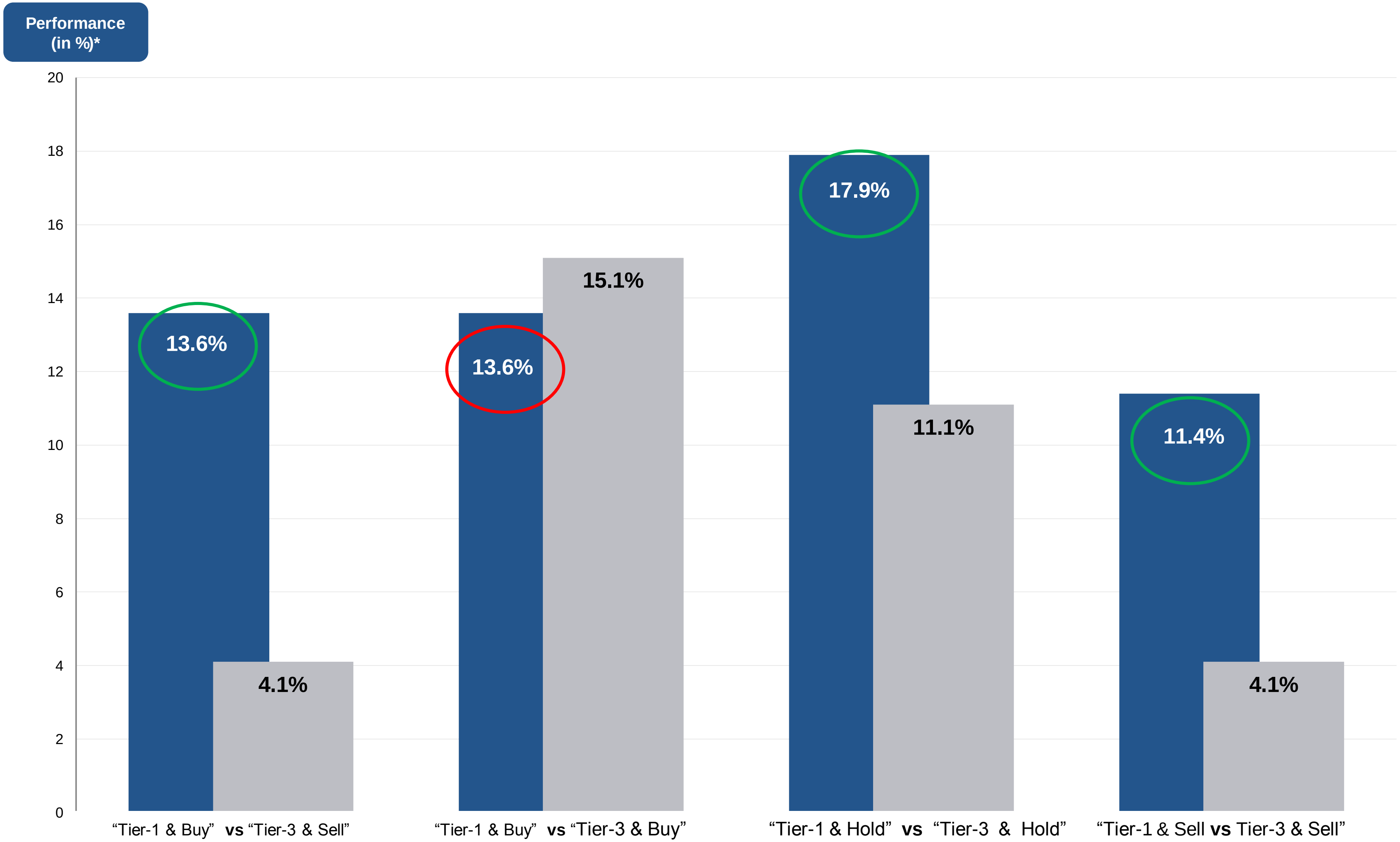
Tier 3 +11.9%

(# of stocks)

** As of 15/09/12*

*** Source: SG Cross Asset Research, Datastream, Sustainalytics, Company*

PERFORMANCE ANALYSIS - A RISK/OPPORTUNITY INDICATOR?



** From 15 Sept 2012 to 14 Sept 2013*
Source: SG Cross Asset Research, Datastream, Sustainalytics, Company

SECTOR ANALYSIS

AEROSPACE & DEFENCE - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	"Climate Change" / Fuel Efficiency	Human Resources Management
Disclosure of Directors' remuneration	Policy on "Bribery and Corruption"	Programmes and targets to reduce direct GHG emissions	Programmes to increase workforce diversity
Board independence	Programmes to combat "Bribery and Corruption"	Scope of corporate reporting on GHG emissions	Employee-related controversies or incidents
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Non-audit fees relative to audit fees	Business-ethics related controversies or incidents	Revenue from "clean technology" or "climate-friendly" products	
Governance-related controversies or incidents	"Controversial" weapons		

Source: SG Cross Asset Research, Sustainalytics

AEROSPACE & DEFENCE - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Bombardier	Canada	CAD7,202.2m	46.0	CAD4.99	CAD5.30	Hold	**82.68**	83.22	99.50	68.75	*82.81*	*75.71*
Boeing	US	$83,992.3m	65.0	$111.33	$111.00	Hold	**75.56**	89.88	50.00	75.00	*75.62*	*65.95*
EADS	France	€35,274.7m	72.4	€44.80	€53.00	Buy	**74.37**	70.55	90.00	93.75	*71.25*	*67.14*
Cobham	UK	£3,249.7m	100.0	£3.01	£2.30	Sell	**74.00**	81.66	49.50	62.49	*70.93*	*65.95*
BAE Systems	UK	£14,320.4m	100.0	£4.44	£4.80	Hold	**73.68**	94.33	65.00	50.00	*73.75*	*70.47*
Thales	France	€8,312.3m	41.7	€40.80	€38.00	Hold	**73.37**	72.22	99.50	81.25	*71.87*	*60.00*
Rolls-Royce	UK	£21,152.9m	79.2	£11.25	£11.50	Sell	**72.75**	79.44	74.50	75.00	*71.25*	*65.00*
Meggitt	UK	£4,390.8m	100.0	£5.56	£5.50	Buy	**72.37**	76.00	62.00	62.49	*69.37*	*68.33*
Finmeccanica	Italy	€2,515m	57.2	€4.35	€4.30	Hold	**66.18**	59.44	62.00	75.00	*63.12*	*47.85*
Safran	France	€18,240.9m	57.8	€43.74	€45.00	Hold	**56.50**	64.44	62.00	50.00	*50.31*	*53.8*

Source: SG Cross Asset Research, Sustainalytics, Company

Low

High

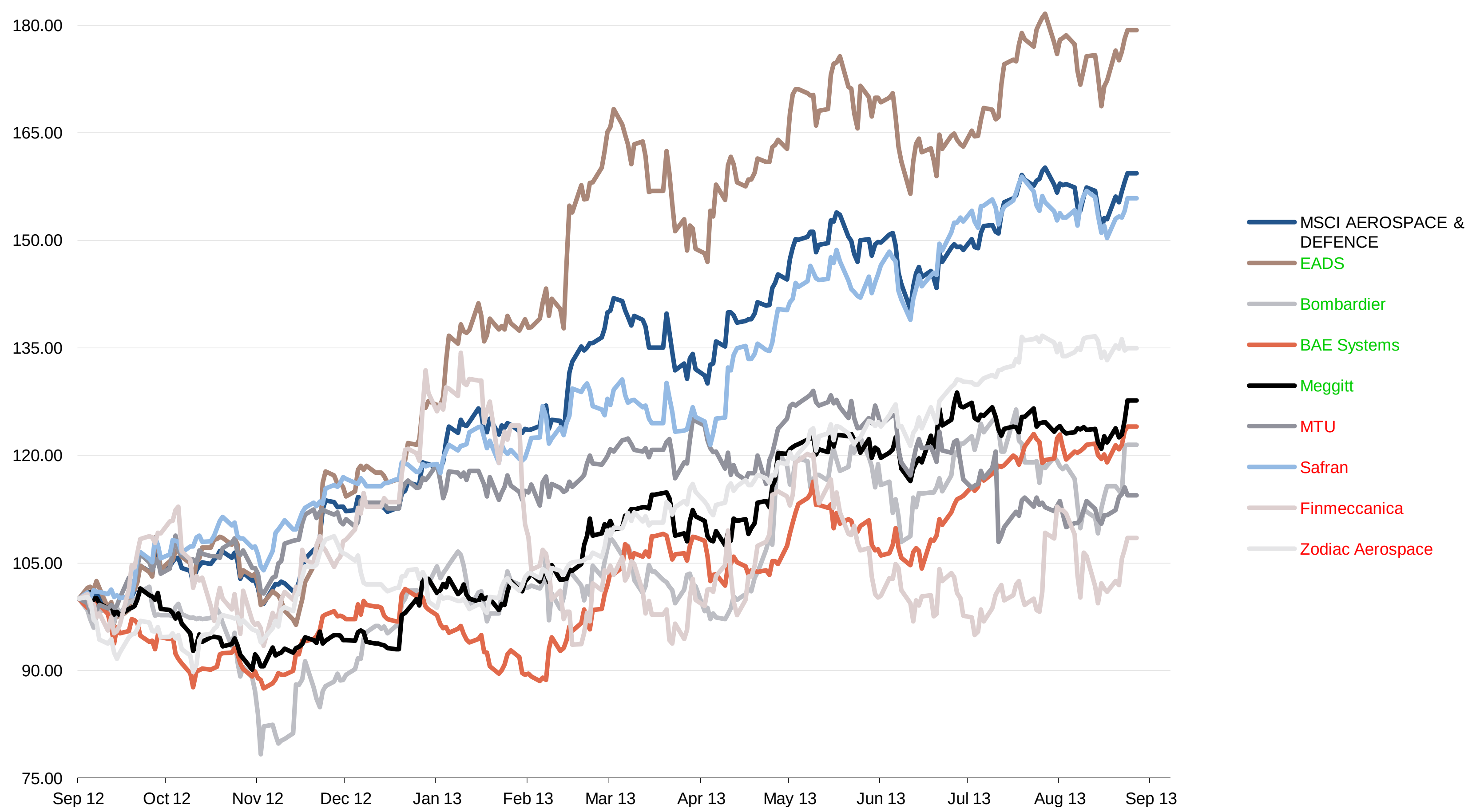
AEROSPACE & DEFENCE - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	MTU	**Meggitt**	**EADS**
Hold	Finmeccanica Safran Zodiac Aerospace	**BAE Systems** **Thales**	**Bombardier** **Boeing**
Sell		Rolls-Royce	Cobham

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

AEROSPACE & DEFENCE - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

AEROSPACE & DEFENCE - SECTOR COMMENTS (1/2)

Sector outlook

- Both commercial aerospace and defence stocks have enjoyed strong share-price performances this year, with each of the sub-sectors up some 25%-30% year-to-date. The strong commercial aerospace performance follows three years of outperformance against the broader market and reflects investor enthusiasm over the eight-year order backlogs for the industry – with crude oil at $100/barrel, airlines are desperate for new fuel efficient aircraft. The sub-sector has seen a significant rerating and it is now valued on a 'growth' valuation as opposed to its historical 'cyclical' valuation. Looking ahead, we still like civil-exposed stocks but note the high valuations. Consequently, we favour stocks with a 'self-help' angle, where results can be influenced by management actions to reduce costs or eliminate losses in poorly performing divisions. **EADS** fits the bill, with the group's strong outlook to be augmented by loss elimination on the A380 programme and margin improvement across most of the divisions. We also like **MTU** owing to its recent underperformance which reflects short-term issues in the spares business. The longer term outlook for the group remains very strong. Most of us are somewhat surprised by the strong outperformance of the defence stocks year-to-date. The outlook for defence expenditures in the developed economies remains subdued but the feared defence cuts have yet to materialise. With the defence companies implementing restructuring programmes in anticipation of the cuts, H1 2013 results were robust with strong margin and cash flow performances and many of the defence companies raised guidance for 2013 arguing that sales had held up better than expected. With defence cuts likely to impact from next year we believe that current valuations leave little scope for disappointment and so would advocate a cautious stance.

Major ESG trends

- Business Ethics: An additional layer of regulatory enforcement is focused on bribery and corruption. The A&D sector is considered highly opaque and as potentially subject to bribery and fraud incidents, related in part to its heavy dependence on governments as both customers and regulators. In Europe, a major regulation against corruption and fraud was added to the United Kingdom Bribery Act. Similarly in the United States the enforcement of the US Foreign Corrupt Practices Act (FCPA) has increased in recent years, with a particular focus on corruption between aerospace companies and state-owned airlines.
- Climate Change: In January 2012, the European Union (EU) Emission Trading Scheme introduced a cap-and-trade scheme for aviation that requires all flights arriving or departing from EU airports, regardless of nationality or operator, to pay for their carbon emissions. Such regulations present a strong driver for the use of more efficient planes and components. On 27 November 2012 the United States rejected the EU Emissions Trading Scheme Prohibition Act, arguing that the EU did not have jurisdiction to regulate flights outside Europe. However, the EU insisted the regulation should be applied equally to all carriers and that it did not contravene international regulations. In the absence of a global agreement on airline emissions, the EU argued it was forced to go ahead with its own scheme which included an exemption clause for countries with "equivalent measures".

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Climate Change/Fuel Efficiency: With respect to its Aerospace division, **Bombardier** reports that, in 2012, it worked to introduce the first-ever Environmental Product Declaration (EPD) in the aerospace industry by entry into service for the C-Series family of aircraft by 2014. The C-Series commercial aircraft, scheduled for its first flight in 2013, promises to deliver 20% less CO2 emissions than all in-production aircraft in its segment. Similarly, Bombardier's Learjet 85 business aircraft, scheduled to enter service in 2014, claimed to set a new standard in environmental performance in the mid-size category. The company states that its long-term goal for its products is to be 100% recyclable after their service is complete.
- Climate Change/Fuel Efficiency: In April 2013, it was reported that Ethiopian Airlines became the world's first carrier to resume flying **Boeing's** 787 Dreamliner passenger jets, landing the first commercial flight since the global fleet was grounded following incidents of overheating in the batteries providing auxiliary power. The flight was subsequent to the United States regulators' approval of a new battery design during the previous week, clearing the way for installation of the batteries and a resumption of Dreamliner flights by airlines around the world. According to the report, the grounding of the Dreamliner fleet had cost Boeing an estimated US$600m, halted deliveries of the aircraft and forced some airlines to lease alternative planes.

Company controversies

- Human Resource management: In March 2013, the German **Deutsche Bahn** brought a suit against the **Bombardier**, seeking €350m (US$468m) in compensation. According to the lawsuit, Deutsche Bahn alleged that its S-Bahn Berlin 481 commuter trains supplied by Bombardier have suffered "serious defects" over a number of years - defective wheels, wheels and axles, braking systems and traction motors. In its response, Bombardier Transportation stated that the issue was not connected to the manufacturer and was, instead, the result of systematic maintenance issues.
- Business Ethics: **Finmeccanica** is involved in national and international cases of bribery and corruption allegations, directed at the company, its subsidiaries and its officers. In February 2013, the Italian police arrested Finmeccanica's chief executive officer, Giuseppe Orsi, as part of the investigation into alleged payment of bribes for the sale of 12 helicopters to the Indian government. Additionally, authorities were said to have ordered the house arrest of the chief executive of Finmeccanica's helicopter division, AgustaWestland. The involvement of top executives in alleged bribery, the severity of the corruption allegations, the recurrence of these allegations, the exceptionally high exposure of Finmeccanica to corruption issues, and the impact of the bribes on the Italian state finances are ranked to be outstanding.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Business Ethics: Does your company have formal policy commitments to eliminate conflict minerals from its products and its supply chain? Do you conduct supply chain due diligence to assess risk exposure?
- ✓ Climate Change: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused/recycled materials in new products?
- ✓ Climate Change: Did your company invest in programmes dedicated to the commercialisation of lighter, more efficient and cleaner aircrafts?
- ✓ Business Ethics: Is there any evidence of your company or subsidiaries being involved in controversial weapons? Are you providing tailor-made products or services to the army or the defence industry that can be used for the production of controversial weapons?
- ✓ Business Ethics Does your company have programmes to detect and fight corruption and do you provide training sessions for employees concerning “code of conduct” and whistle-blowing? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?

AUTOMOBILES & AUTO COMPONENTS - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	Sustainable Mobility	Human Resources Management
Disclosure of Directors' remuneration	Policy on "Bribery and Corruption"	Formal environmental policy	Percentage of employees covered by collective bargaining agreements
Board independence	Business-ethics related controversies or incidents	Sustainability-related products & services	Employee turnover rate
Board diversity	whistleblower programmes	Products to improve sustainability of transport vehicles	Employee-related controversies or incidents
Non-audit fees relative to audit fees	Customer-related controversies or incidents	Formal policy or programme on green procurement	
Governance-related controversies or incidents			

Source: SG Cross Asset Research, Sustainalytics

AUTOMOBILES & AUTO COMPONENTS - ESG EVALUATION

Company	Country	Market cap.	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Pirelli	Italy	€4,510m	48.6	€9.48	€10.00	Hold	**87.81**	88.12	75.00	100.00	*80.31*	*74.04*
BMW	Germany	€50,140.9m	51.8	€79.90	€83.00	Buy	**86.56**	93.75	95.00	63.75	*86.56*	*78.33*
Michelin	France	€14,753.9m	87.9	€78.82	€86.00	Buy	**80.87**	81.12	90.00	71.25	*80.93*	*69.76*
Volkswagen (Pref.)	Germany	€30,941.4m	37.2	€181.85	€220.00	Buy	**77.12**	72.37	95.00	68.75	*77.18*	*71.19*
Valeo	France	€4,937.8m	86.0	€62.14	€67.00	Buy	**75.93**	84.37	63.75	71.25	*77.50*	*67.61*
Fiat SpA	Italy	€8,215.3m	69.5	€6.15	€4.00	Sell	**75.31**	85.00	50.00	81.25	*70.93*	*63.19*
Peugeot Citroen PSA	France	€4,423.2m	64.2	€12.46	€10.00	Hold	**75.25**	78.75	82.25	61.25	*73.75*	*78.92*
Renault	France	€17,619.1m	63.6	€59.58	€67.00	Buy	**74.93**	78.12	82.25	61.25	*75.00*	*69.04*
Continental	Germany	€25,000.8m	36.6	€125.00	€119.00	Hold	**74.25**	75.50	81.00	65.00	*74.37*	*62.61*
Autoliv	US	$8,158.6m	72.0	$85.21	$82.00	Hold	**71.81**	85.50	51.25	65.00	*71.87*	*58.80*
Faurecia	France	€2,438.5m	29.2	€22.00	€20.00	Hold	**71.75**	87.50	55.75	56.25	*59.37*	*53.57*
Daimler	Germany	€61,161m	81.0	€57.19	€60.00	Buy	**69.31**	68.75	88.50	51.25	*69.37*	*61.66*
Plastic Omnium	France	€3,006.6m	37.7	€19.40	€18.00	Buy	67.40	80.00	99.50	25.00	67.50	62.55
Magna International	Canada	$18,716.9m	70.9	$82.05	$85.00	Hold	**62.50**	80.00	56.25	33.75	*62.50*	*61.90*
Porsche	Germany	€10,550.3m	50.0	€68.90	€70.00	Buy	**44.56**	31.12	74.75	41.25	*44.68*	*41.90*

Source: SG Cross Asset Research, Sustainalytics, Company

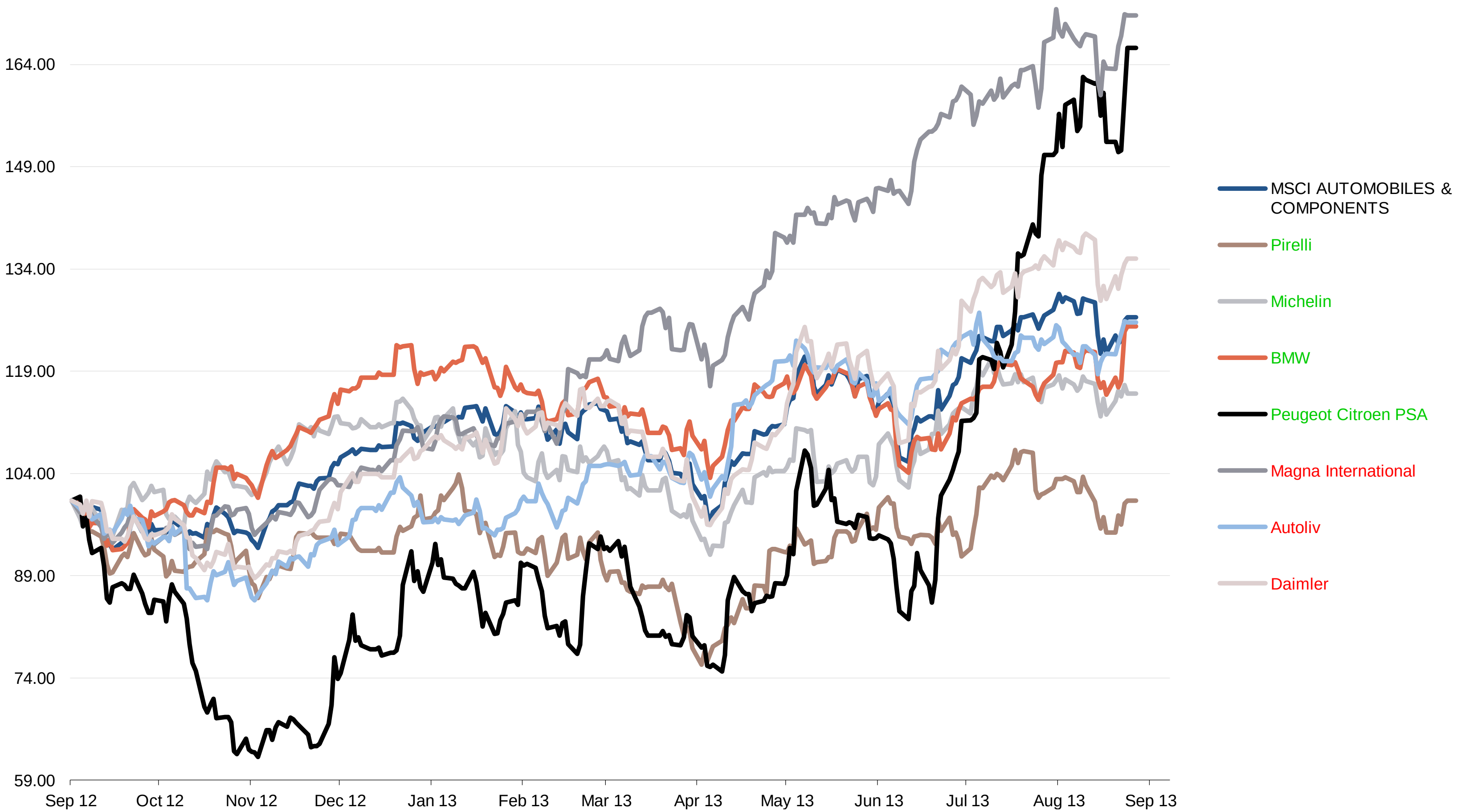
Low
High

AUTOMOBILES & AUTO COMPONENTS - RATING MATRIX

SG Investment Reco* / ESG Rating	TIERS 3	TIERS 2	TIERS 1
Buy	Daimler Porsche *(Plastic Omnium)*	**Valeo** **Renault**	**BMW** **Michelin** **Volkswagen (Pref.)**
Hold	Autoliv Faurecia Magna International	**Peugeot Citroen PSA** **Continental**	**Pirelli**
Sell		Fiat SpA	

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

AUTOMOBILES & AUTO COMPONENTS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector outlook

- The European car market slumped by 7% in H1 2013, but the consensual view from both auto manufacturers and suppliers is that the market has now bottomed, with the FY decline moderating towards -4% year-on-year. No one is expecting a marked recovery anytime soon, but we should start seeing both yoy and sequential improvements from 2014. US sales (up almost 10% ytd) are exceeding expectations from earlier in the year, and make our FY forecast (+6%e) seem rather conservative. 2014 volumes should be close to pre-crisis highs. The much-feared slowdown In China failed to materialise, and the market's ytd growth of +13% (against high previous-year comps) is almost 2x the estimated normalised growth rate of around 7%. Other growth markets are faring less well, especially Brazil, Russia and India, which are being hit by negative macro-factors in the short term.
- The European auto manufacturers' results were naturally dragged down by the low sales and hard trading conditions in their domestic markets, but benefit to varying degrees from growing volumes in the rest of the word. Margins are also being impacted by the sector transformation: continuing expansion of the product range, new platforms / new production systems to lower costs and increase flexibility, costly technologies to reduce CO_2 emissions. The overall performance of the sector has been good (>20%ytd) as investors recognise the underlying quality of companies trading on un-stretched multiples and see them as a good way to play the nascent recovery in Europe. 2013 winners are essentially those car manufacturers achieving the highest earnings momentum, and those component suppliers whose product portfolios and client-mix underpin decent margins. Continued delivery on this score should drive the sector rerating.

Major ESG trends

- Climate Change In 2010, the European Commission set emission targets for new passenger cars at 130g/km by 2015, with a long-term target of 95g CO_2/km by 2020. Manufacturers who miss their average CO_2 targets are subject to penalties amounting to €5 per vehicle for the first g/km of CO_2 and €25 for the third gram for the period 2012 to 2018. From 2019 onward, the fees will be higher.
- Product Innovation The development of electric and hybrid cars marks a turning point for the industry. Several factors supporting this trend include rising fuel costs, decreased costs for battery technology used in electric vehicles, regulation on fleet CO_2 emissions, policy shifts, and increased environmental awareness among customers. Every major carmaker has increased its investment in sustainability with the aim to catch up with emerging trends and benefit as an early adopter. Governments worldwide have initiated programs to subsidize and support this development. With the electric car market growing less quickly than expected, carmakers are focusing more on hybrid solutions.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Sustainable Mobility: In 2009, **BMW** launched its first series of vehicles with electric drivetrains - the BMW ActiveHybrid X6 and the BMW ActiveHybrid 7. Since 2012, BMW has also offered the models BMW ActiveHybrid 3, BMW ActiveHybrid 5. The company states that they use up to 20% less fuel than their combustion-powered equivalents. From 2013, BMW has also launched electrically powered cars (BMW i3) and plug-in hybrid models (BMW i8). BMW aims to purchase a 100% renewable energy supply at all its locations by 2015. In 2012, the percentage of renewable energy purchased amounted to 36.1% (2011: 27.5%).
- Sustainable Mobility: **Pirelli** makes products that improve the sustainability of transport vehicles, such as green tyres (Pirelli Cinturato) which have innovative compounds, structure and tread patterns that ensure lower consumption and CO2 emissions, better durability and improved safety characteristics in both wet and dry conditions. In the truck sector, Pirelli has developed Cyber Fleet, a system that allows fleets to maximise the benefits offered by the energy efficiency and wet grip classes. At end-2010, revenues from green performance products amounted to 37% of total group revenues, and Pirelli expects the percentage to rise to 45% by end-2013.

Company controversies

- Business Ethics: In June 2013, **Porsche** executive director Holger Härter was fined €630,000 (US$824,000) for credit fraud. In March 2012, Holger Härter and two other senior executives were charged over their statements made to banks when the company refinanced its EUR10bn loan when it was making its abortive takeover attempt of the Volkswagen. The three men are accused of understating Porsche's liquidity requirements to the tune of €1.4bn if all the options held in VW shares had been exercised. Härter announced to fight the charges.
- Business Ethics: **Volkswagen** is involved in several customer related controversies. The company had to recall several vehicles due to quality and safety issues. In China, Volkswagen had to recall more than 387,000 vehicles in total in March and June 2013. In October 2011, Volkswagen had to recall more than 168,000 Golf, Jetta and Audi A3 cars in the United States for possible fuel leaks that could lead to an engine fire.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- Sustainable Mobility: Do you have programmes dedicated to the reduction of vehicle carbon emissions and do you research and / or produce parts which are crucial for increasing fuel efficiency? Do you have specific targets for improving sustainability of transport vehicles?
- Climate Change: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused / recycled materials in new products?
- Climate Change / Energy Efficiency: Does your company assess its energy footprint and how do you plan to reduce it? Does your company have specific targets for the use of green energy?
- Business Ethics: Do you have monitoring systems and audits for your supply chain and / or for sub-contractors' operations? Do you refrain from working with sub-contractors that are subject to controversial operational practices?
- Business Ethics: Does your company have programmes to detect and fight corruption and do you provide training sessions for employees? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers.

BANKS & FINANCIAL SERVICES - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	"Impact Investing"	Human Resources Management
Disclosure of Directors' remuneration	Customer-related controversies or incidents	Policy on Responsible Investment	Employee turnover rate
Board independence		In-house team dedicated to "Responsible Investment/Finance"	Executive compensation Tied to ESG performance
Board diversity		Environmental & Social standards in credit and loan business	Employee-related controversies or incidents
Non-audit fees relative to audit fees		"Equator Principles" and related reporting	
Governance-related controversies or incidents			

Source: SG Cross Asset Research, Sustainalytics

BANKS - ESG EVALUATION (1/2)

Company	Country	Market cap.	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
BNP Paribas	France	€62,297.8m	77.2	€50.06	€58.00	Buy	85.00	97.22	43.33	100.00	*75.76*	*69.00*
ING Group	Netherlands	€33,343.9m	100.0	€8.69	€10.00	Buy	81.46	86.66	59.66	100.00	*84.23*	*92.85*
DNB	Norway	NOK156,364.7m	56.0	NOK96	NOK106	Buy	78.46	83.33	76.66	40.00	*76.53*	*74.33*
BBVA	Spain	€45,491.2m	97.1	€7.95	€8.40	Buy	74.61	71.11	76.66	100.00	*74.61*	*67.66*
Nordea	Sweden	SEK322,173.7m	65.5	SEK79.55	SEK88	Buy	74.61	70.00	86.66	80.00	*77.30*	*75.00*
HSBC	UK	£130,964.3m	100.0	£7.02	£8.10	Buy	73.84	81.11	43.33	100.00	*73.84*	*74.00*
Intesa Sanpaolo	Italy	€25,019.4m	64.4	€1.61	€1.40	Hold	73.76	71.11	93.00	40.00	*73.84*	*65.33*
Standard Chartered	UK	£36,601.7m	82.1	£15.10	£18.00	Buy	73.38	75.00	59.66	100.00	*66.53*	*57.66*
Crédit Agricole SA	France	€20,408.8m	39.5	€8.17	€7.80	Hold	72.69	78.33	53.33	80.00	*71.15*	*74.66*
SEB	Sweden	SEK154,288.4m	79.0	SEK71.10	SEK67	Hold	72.30	70.00	76.66	80.00	*57.30*	*55.66*
Erste Group	Austria	€10,022.9m	61.9	€23.32	€27.20	Buy	71.15	67.22	93.33	40.00	*63.46*	*56.83*
Swedbank	Sweden	SEK176,253.3m	88.1	SEK155.7	SEK145	Hold	68.84	75.00	60.00	40.00	*64.23*	*58.66*
Caixabank	Spain	€15,080.4m	27.0	€3.13	€2.75	Hold	68.76	57.22	93.00	100.00	*68.84*	*49.66*
Natixis	France	€11,173.5m	27.5	€3.60	€3.90	Buy	65.30	70.00	59.66	40.00	*65.38*	*44.66*
UniCredit SpA	Italy	€27,035.6m	75.9	€4.67	€4.20	Hold	65.23	55.44	83.00	100.00	*65.38*	*60.00*
Danske Bank	Denmark	DKK117,403.4m	72.2	DKK116.4	DKK100	Hold	63.00	54.44	83.00	80.00	*65.38*	*69.33*
UBI Banca	Italy	€3,354.5m	83.2	€3.72	€3.20	Hold	62.30	45.55	100.00	100.00	*62.30*	*36.66*
KBC	Belgium	€14,898.2m	41.0	€35.73	€36.5	Hold	61.92	65.00	60.00	40.00	*61.92*	*60.33*
Banco de Sabadell	Spain	€6,224.6m	82.2	€1.87	€1.40	Sell	61.15	50.55	100.00	40.00	*61.15*	*No data*
RBS	UK	£22,280m	32.2	£3.61	£3.05	Sell	60.76	64.44	43.33	80.00	*72.30*	*71.00*
Sv. Handelsbanken	Sweden	SEK177,634.3m	78.9	SEK284.8	SEK270	Hold	60.76	55.55	83.33	40.00	*60.76*	*49.33*
Barclays	UK	£38,831.8m	93.3	£3.02	£3.25	Hold	60.00	67.77	43.33	40.00	*60.00*	*62.00*
Santander	Spain	€63,957.1m	98.7	€5.77	€5.20	Hold	59.61	67.22	43.33	40.00	*42.69*	*35.33*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

BANKS - ESG EVALUATION (2/2)

Company	Country	Market cap.	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Garanti Bank	Turkey	TRY31,668m	50.8	TRY7.54	TRY8.60	Buy	56.87	35.00	90.00	100.00	*40.00*	*55.53*
Aareal Bank	Germany	€1,348m	71.1	€22.52	€20.00	Hold	56.15	47.77	100.00	0.00	*58.46*	*No data*
Banca MPS	Italy	€2,435.6m	44.7	€0.21	€0.14	Sell	56.15	38.88	100.00	80.00	*60.76*	*52.00*
Bank Pekao SA	Poland	PLN44,882.4m	44.9	PLN171	PLN141	Sell	56.12	29.99	99.50	100.00	*56.25*	*65.63*
Commerzbank	Germany	€10,722.5m	73.0	€9.42	€6.70	Sell	55.38	42.22	86.66	80.00	*No data*	*No data*
Raiffeisen Bank	Austria	€5,005.9m	21.5	€25.60	€27.50	Hold	54.53	45.55	66.33	100.00	*54.61*	*36.00*
Lloyds Banking Grp	UK	£54,674.4m	61.0	£0.77	£0.86	Buy	53.84	58.88	43.33	40.00	*53.84*	*55.00*
Banco Popolare	Italy	€1,971.9m	100.0	€1.12	€0.95	Sell	49.61	33.88	100.00	40.00	*49.61*	*43.00*
Banco Popular	Spain	€7,232.7m	79.3	€4.22	€3.60	Sell	48.07	36.11	100.00	0.00	*No data*	*No data*
Halkbank	Turkey	TRY17,875m	48.9	TRY14.3	TRY17.4	Buy	47.50	20.00	90.00	100.00	*50.00*	*53.05*
Banco Espirito Santo	Portugal	€3,423.3m	47.0	€0.85	€0.94	Hold	46.92	47.77	60.00	0.00	*43.07*	*No data*
Banca Pop. di Milano	Italy	€1,365.5m	73.3	€0.42	€0.37	Hold	44.15	25.99	100.00	40.00	*No data*	*No data*
Akbank	Turkey	TRY29,200m	41.2	TRY7.30	TRY6.90	Sell	43.12	24.99	90.00	40.00	*43.12*	*60.77*
Bankia	Spain	€91,10.2m	35.0	€0.79	€0.77	Hold	40.76	38.88	60.00	0.00	*No data*	*No data*
Sberbank	Russia	RUB2,067,813.9m	41.0	RUB95.79	RUB134	Buy	39.87	20.00	89.50	40.00	*45.00*	*54.35*
Isbank	Turkey	TRY22,769.7m	31.8	TRY5.06	TRY4.70	Sell	38.12	24.99	90.00	0.00	*38.12*	*45.63*
Bankinter	Spain	€3,354.3m	50.8	€3.82	€3.12	Sell	37.61	28.77	76.66	0.00	*37.69*	*No data*
Bank of Ireland	Ireland	€6,478.5m	85.0	€0.22	€0.18	Sell	35.69	31.66	59.66	0.00	*No data*	*No data*
PKO Bank Polski	Poland	PLN47,312.5m	56.7	PLN37.85	PLN42.50	Buy	35.00	20.00	90.00	0.00	*37.50*	*45.25*
Vakifbank	Turkey	TRY11,125m	25.2	TRY4.45	TRY4.40	Hold	35.00	20.00	90.00	0.00	*35.00*	*46.05*
VTB Bank	Russia	$17,386.6m	24.5	$2.68	$3.40	Buy	35.00	16.00	100.00	0.00	*35.00*	*52.45*
YapiKredi Bank	Turkey	TRY19,040.1m	18.2	TRY4.38	TRY4.30	Hold	35.00	20.00	90.00	0.00	*37.50*	*49.96*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

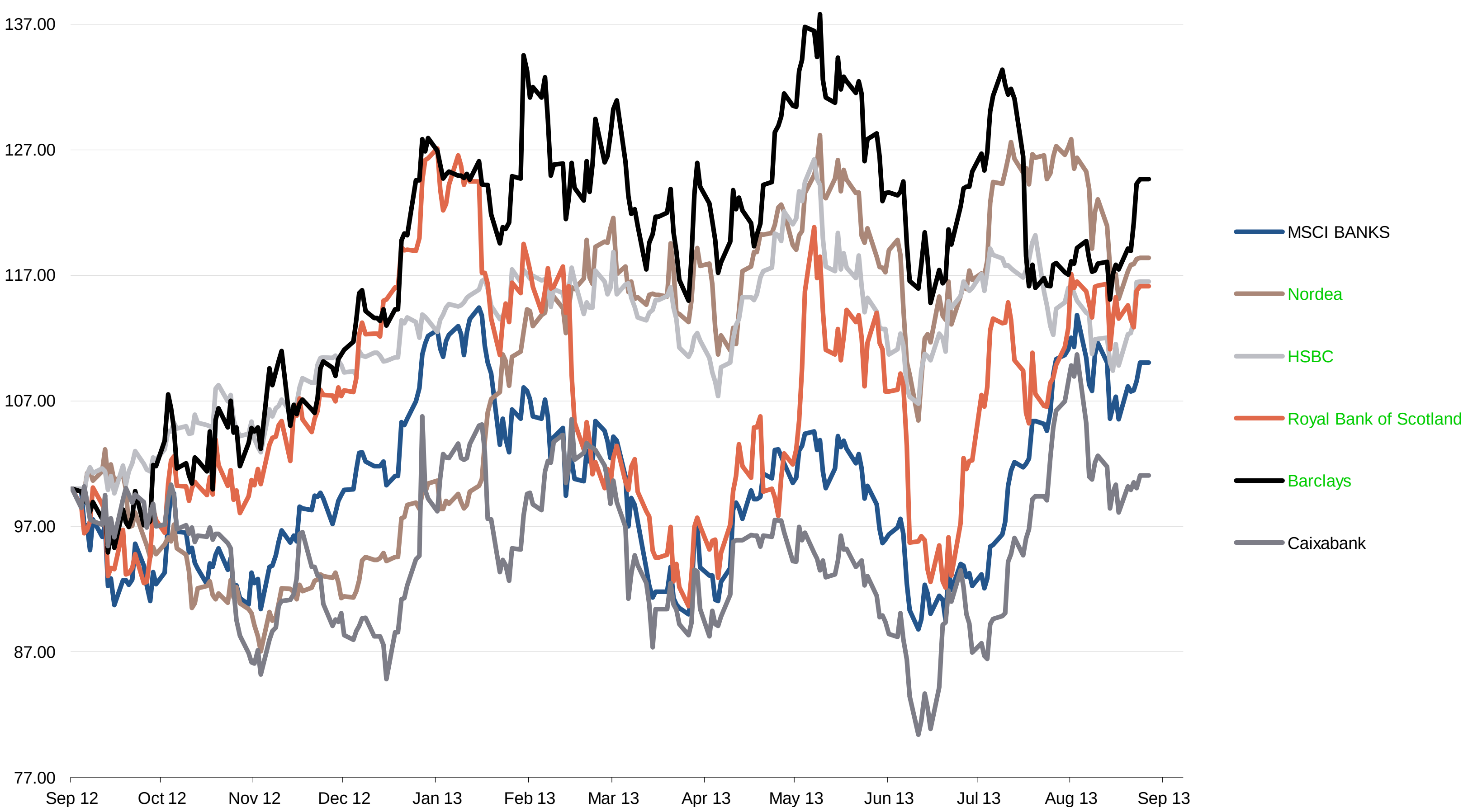
BANKS - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Lloyds Banking Group *(Garanti Bank)* *(Halkbank)* *(Sberbank)* *(PKO Bank Polski)* *(VTB Bank)*	**Natixis**	**BNP Paribas** **ING Group** **DNB** **BBVA** **Nordea** **HSBC** **Standard Chartered** **Erste Group**
Hold	Aareal Bank Banco Espirito Santo Banca Pop. di Milano Bankia Raiffeisen Bank *(Vakifbank)* *(YapiKredi Bank)*	**Swedbank** **Caixabank** **UniCredit SpA** **Danske Bank** **UBI Banca** **KBC** **Handelsbanken** **Barclays; Santander**	**Intesa Sanpaolo** **Crédit Agricole SA** **SEB**
Sell	Banca MPS Commerzbank Banco Popolare Banco Popular Bankinter Bank of Ireland *(Bank Pekao SA)* *(Akbank); (Isbank)*	Banco de Sabadell Royal Bank of Scotland	

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

BANKS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

FINANCIAL SERVICES - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Henderson Group	UK	£2,051.4m	64.6	£1.83	£1.45	Sell	**87.5**	100.00	100.00	0.00	*87.50*	*76.06*
Credit Suisse	Switzerland	CHF44,888.2m	62.2	CHF28.45	CHF36	Buy	**83.46**	87.22	66.66	100.00	*78.07*	*81.42*
Ashmore	UK	£2,687.3m	28.0	£3.80	£4.60	Buy	**75.00**	80.00	100.00	0.00	*75.00*	*60.55*
Jupiter Fund Management	UK	£1,639m	50.0	£3.58	£3.50	Hold	**73.12**	77.00	100.00	0.00	*73.12*	*71.07*
3i	UK	£3,559m	75.3	£3.66	£3.70	Buy	**73.07**	83.33	66.66	0.00	*73.07*	*60.71*
Aberdeen AM	UK	£4,530.6m	57.5	£3.78	£4.65	Buy	**73.07**	77.77	83.33	0.00	*75.00*	*64.76*
F&C Asset Management	UK	£572.3m	44.8	£0.98	£1.20	Buy	**73.00**	77.00	99.50	0.00	*73.12*	*47.55*
UBS	Switzerland	CHF74,672.3m	72.1	CHF19.45	CHF15	Sell	**63.07**	72.22	43.33	40.00	*63.07*	*77.50*
Deutsche Bank	Germany	€35,570.4m	71.5	€34.89	€43.00	Buy	**59.23**	61.11	60.00	40.00	*63.07*	*68.92*
Schroders PLC	UK	£5,594m	42.0	£24.75	£24.60	Hold	**58.00**	61.66	66.33	0.00	*47.30*	*63.21*
Eurazeo	France	€3,318.4m	60.6	€48.50	€48.50	Hold	**54.53**	56.66	66.33	0.00	*54.61*	*59.28*
Man Group	UK	£1,600.3m	74.0	£0.88	£0.93	Hold	**50.76**	51.11	66.66	0.00	*50.76*	*61.42*
Provident Financial	UK	£2,423.6m	48.2	£17.40	£15.60	Hold	**50.62**	24.99	100.00	80.00	*50.62*	*No data*
Wendel	France	€4,945.6m	N/A	€99.73	€114.00	Buy	**46.38**	61.12	54.00	26.87	*46.19*	*40.59*
ICAP	UK	£2,627.5m	52.7	£4.06	£3.75	Hold	**43.00**	39.88	66.66	0.00	*38.46*	*42.85*
Intermediate Capital	UK	£1,835.9m	63.7	£4.56	£5.00	Buy	**40.62**	24.99	100.00	0.00	*40.62*	*No data*
Tullett Prebon	UK	£827.4m	0.0	£3.80	£3.10	Buy	**40.62**	24.99	100.00	0.00	*40.62*	*No data*
Grpe Bruxelles Lambert	Belgium	€10,163.9m	N/A	€62.99	€67.00	Buy	**39.23**	34.44	66.66	0.00	*39.23*	*31.42*

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

FINANCIAL SERVICES - RATING MATRIX

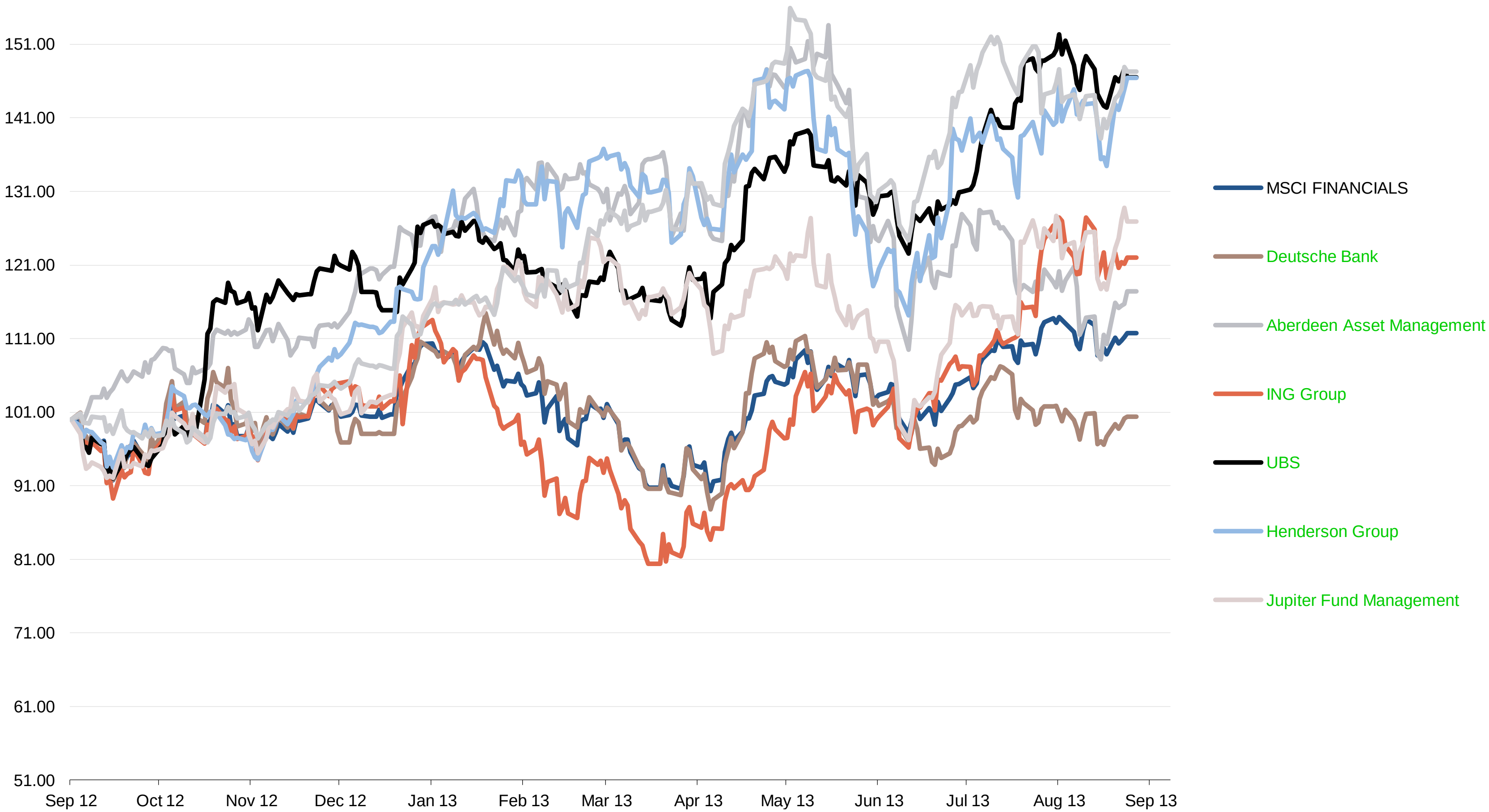
SG Investment Reco*

	TIERS 3	TIERS 2	TIERS 1
Buy	Wendel Grpe Bruxelles Lambert *(Intermediate Capital)* *(Tullett Prebon)*	**Deutsche Bank**	**Credit Suisse** **3i** **Aberdeen** ***(Ashmore)*** ***(F&C)***
Hold	Man Group ICAP *(Provident Financial)*	**Schroders PLC** **Eurazeo**	***(Jupiter)***
Sell		UBS	*(Henderson Group)*

ESG Rating

* *As of 15/02/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

FINANCIAL SERVICES - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

BANKS & FINANCIALS SERVICES - SECTOR COMMENTS (1/2)

Sector outlook

- The European banking sector has spent the last five-years dealing with the prolonged hangover from the previous credit boom, including the subsequent economic contraction and a eurozone debt crisis. Banks have been repairing balance sheets, selling or running-down non-core assets and gradually retracting to home markets. Under tight regulatory scrutiny, the quality and quantity of bank capital has been significantly enhanced, leverage reduced and liquidity profiles strengthened. The outlook for European banks is closely linked to their geographic footprint: Nordic and UK economies appear to be finally emerging from recession, thanks to improving fundamental banking conditions. Conversely, banks in southern European economies including Spain, Italy, Portugal and Greece continue to face the challenge of sluggish economic conditions and asset quality concerns. As conditions stabilise, EPS momentum is finally beginning to replace eurozone political considerations as the principal driver of share-price performance, with a strong regional flavour to earning performance evident (upgrades in UK and core Europe, downgrades in southern Europe). Funding conditions and asset quality swings will be the primary drivers of EPS momentum in our view, for which core European names appear the best positioned and periphery-domiciled banks the worst.

Major ESG trends

- Impact Investing: Often eclipsed by concerns over capital adequacy and exposure to financial risks is the growing portfolio of sustainable financial services in the industry. Evidence suggests financial companies are increasingly expanding their suite of “green” products and services to meet growing consumer demand and interest. Parallel to the growth in renewable energy finance is the continued growth in trading of carbon emissions. Trading is facilitated by global stock exchanges, which have introduced sustainability indices and new requirements to promote sustainability reporting. Sustainable innovations are also apparent in product delivery. Banks have devoted extensive resources to improving Internet and mobile banking, as well as enhancing the security of such services. Consulting firm Tower Group Inc. predicts continued customer migration from branch and automated teller machine (ATM) banking to online and mobile transactions, thus reducing paper use and the need for travel.
- Corporate Governance: The Basel III capital requirements, which raise the minimum common equity ratio to 7 percent and the total capital requirement to 10.5 percent, remain a key source of contention. Banks warn that increased capital requirements will stifle the industry, and hence, the recovery of developed markets. The Basel III provisions are anticipated to have the most significant impact on the industry. The study noted that new regulations in Europe and the US are likely to drive down post-crisis average return on equity from 20 percent among the largest firms to approximately 7 percent, with banks’ capital markets businesses likely to be most affected. Furthermore, European banks are selling off international assets in order to obtain capital. In general, the industry is becoming smaller and some European banks are still under state control.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

.Company highlights

- Impact Investing: In 2012, **Nordea** decided to divest from all its holdings in companies related to the development of illegal and nuclear weapon systems or technologies. Through internal as well as external ESG tools, Nordea continued its approach towards including environmental, social and governance factors in their credit process.
- Human Resources Management: By 2015, **DNB** aims to certify all its operations in accordance with the international standard ISO 14001, with the first Norwegian operations to be certified during 2013. As of the end of the year 2012, 26 of DNB’s buildings were environmentally certified based on the Eco-lighthouse standard in Norway and Sweden.

Company controversies

- Business Ethics: In March 2013, Turkey's Competition Board imposed a cumulative fine of TRY1.116bn (US$618m) on 12 banks, including **HSBC**, for breaching competition rules. This investigation, which focused on deposit rates, loan rates, credit card fees and bank charges, started in late 2011.
- *Business Ethics*: In June 2013, 20 of the banks submitting data for Singapore-dollar interest-rate benchmarks were censured by the Monetary Authority of Singapore (MAS) for deficiencies in their governance, risk management, internal controls, and surveillance systems. Nineteen of the banks were required to post additional statutory reserves ranging from SG$100m (US$80m) to SG$1.2bn (US$960m) with the MAS at zero interest for a period of one year. ING, **Royal Bank of Scotland**, and UBS each have to deposit between SG$1bn (US$800m) and SG$1.2bn (US$960m). Other banks censured are Bank of America, **BNP Paribas**, Oversea-Chinese Banking Corporation, **Barclays Bank**, **Credit Agricole**, Credit Suisse, DBS Bank, Deutsche Bank, **Standard Chartered Bank**, United Overseas Bank, Australia and New Zealand Banking Group, Citibank, JPMorgan Chase Bank, Macquarie Bank, The Bank of Tokyo-Mitsubishi UFJ, and **HSBC**.
- Business Ethics: Following a probe by the British Financial Services Authority (FSA), **Barclays**, **Royal Bank of Scotland Group** (RBS), **Lloyds Banking Group** and **HSBC Holdings** may have to pay as much as £5bn (US$7.92bn) to compensate small businesses they improperly sold interest-rate derivatives to. The four banks have reserved about £740m (US$1.2bn) to cover the claims.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Operations: How does your company ensure compliance with Basel III? Have you set enough funds aside to deal with new emerging regulations?
- ✓ Impact Investing: Does your company have an explicit policy on responsible investments? Did your investment management divisions sign the UN Principles for Responsible Investment?
- ✓ Impact Investing: Does your company take "ESG" issues into account when making investment or credit decisions? Does your company have explicit policies on how to integrate "ESG" factors into your investment models?
- ✓ Business Ethics: Does your company have programmes to detect and fight corruption and are training sessions provided? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?
- ✓ Human Resource Management: Is the compensation of executives tied to ESG performance? Is the remuneration policy rather short-term oriented? Have claw-back provisions been set? Is total compensation capped?

BUILDING & CONSTRUCTION MATERIALS - ESG THEMES & INDICATORS

Corporate Governance	"Green Building"	Energy Efficiency / GHG Emissions	Operational Health & Safety
Disclosure of Directors' remuneration	Membership in initiatives promoting "sustainable buildings"	Carbon Intensity	Health & Safety certifications
Board independence	Revenue from clean technology or "climate-friendly" products	Programmes and targets to reduce direct GHG Emissions	Trend in "lost-time incident rate"
Board diversity	Systematic integration of environmental considerations at R&D stage (Eco-design)	% primary energy use from renewables	Number of fatalities
Non-audit fees relative to audit fees	Programmes and targets for "end-of-life" product management	Participation in Carbon Disclosure Project (Investor CDP)	"Supply chain" monitoring system
Governance-related controversies or incidents	Sustainability-related products & services		Employee-related controversies or incidents

Source: SG Cross Asset Research, Sustainalytics

BUILDING & CONSTRUCTION MATERIALS - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Saint-Gobain	France	€20,388.3m	65.7	€36.86	€39.00	Buy	80.21	83.33	79.80	78.12	*80.26*	*69.54*
CRH PLC	Ireland	£10,722.7m	65.4	£14.70	£12.00	Sell	70.83	96.66	54.00	60.71	*70.83*	*67.27*
Atlantia	Italy	€9,927.4m	43.2	€15.00	€16.30	Buy	61.78	80.00	70.00	28.75	*55.35*	*65.00*
Imerys	France	€3,944.1m	31.5	€52.33	€52.00	Hold	61.05	63.33	72.80	50.71	*60.83*	*60.00*
Holcim	Switzerland	CHF21,751.2m	59.0	CHF66.5	CHF94.0	Buy	60.00	93.33	49.00	39.28	*61.38*	*67.50*
Vinci	France	€25,163m	75.0	€42.01	€48.00	Buy	56.57	80.00	39.00	50.00	*60.78*	*59.77*
Ferrovial	Spain	€9,792.4m	55.4	€13.35	€15.20	Buy	55.78	72.50	60.00	40.62	*54.47*	*47.27*
HeidelbergCement	Germany	€10,303.1m	74.9	€54.95	€64.00	Buy	55.27	75.83	45.00	45.00	*No data*	*No data*
Hochtief	Germany	€4,871.8m	35.7	€63.27	€63.10	Buy	55.15	54.00	54.80	56.25	*56.57*	*62.04*
OHL	Spain	€2,804.2m	35.5	€28.12	€33.10	Buy	53.68	71.66	53.00	40.62	*53.68*	*59.54*
ACS	Spain	€7,456.6m	48.2	€23.12	€25.30	Buy	51.84	60.00	55.00	43.75	*50.52*	*52.72*
Lafarge	France	€14,733.3m	63.3	€51.29	€52.00	Hold	49.72	79.16	33.00	36.42	*50.83*	*49.54*
Abertis	Spain	€12,467m	41.7	€14.27	€14.60	Hold	48.21	50.00	54.00	38.75	*52.50*	*67.50*
Eiffage	France	€3,652.7m	33.0	€40.84	€34.00	Hold	48.15	80.00	37.00	31.25	*48.15*	*38.40*
FCC	Spain	€1,841.4m	35.3	€14.46	€12.40	Sell	43.15	58.33	59.00	21.87	*43.15*	*49.77*
Sacyr Vallehermoso	Spain	€1,560.8m	48.7	€3.35	€3.40	Buy	41.84	60.00	57.00	18.75	*44.47*	*47.72*
Vicat	France	€2,267.5m	32.5	€50.50	€46.00	Hold	38.05	64.16	45.00	10.71	*38.05*	*39.09*

Low

High

Source: SG Cross Asset Research, Sustainalytics, Company

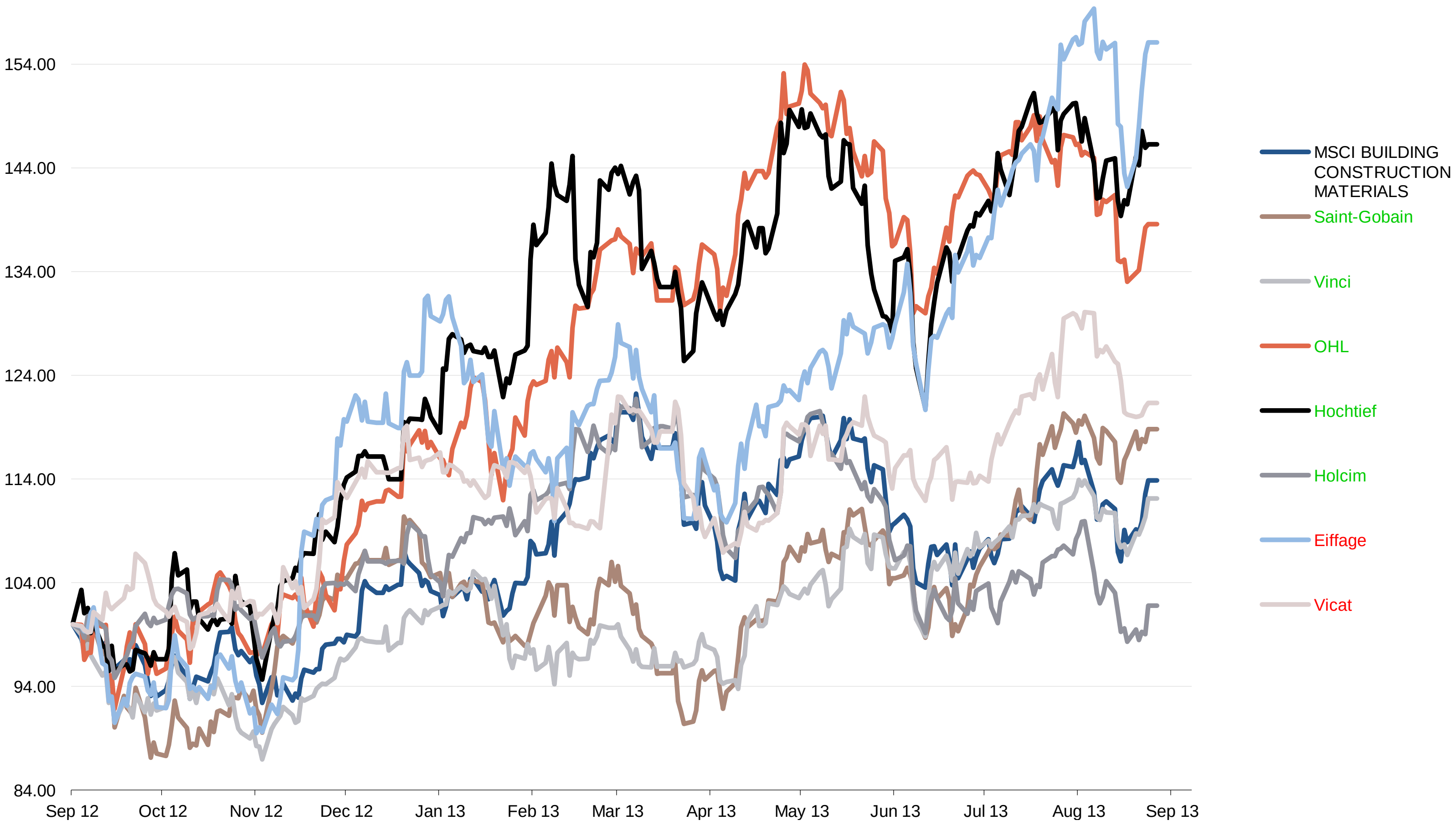
BUILDING & CONSTRUCTION MATERIALS - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Sacyr Vallehermoso	**Vinci** **Ferrovial** **HeidelbergCement** **Hochtief** **OHL** **ACS**	**Saint-Gobain** **Atlantia** **Holcim**
Hold	Lafarge Abertis Eiffage Vicat		**Imerys**
Sell	FCC		CRH PLC

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

BUILDING & CONSTRUCTION MATERIALS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

BUILDING & CONSTRUCTION MATERIALS - SECTOR COMMENTS (1/2)

Sector outlook

- The building and construction materials sector's experience in the crisis has been mixed. The building subsector has been hard hit by the crisis and is struggling to come out it, despite the recovery of US housing. European construction is just bottoming out but presents limited growth potential at this stage. Emerging markets are now showing some signs of weakness in the short term but remained the drivers of construction sector's long-term growth. Construction concessions have shown good resilience thanks to their businesses and geographical diversifications. For numerous companies, it has also been a period of intense deleveraging. Long-term trends remain positive, with energy cost reduction and environmental drivers being key factors in the current context. Increasingly stringent regulations on building energy efficiency should spur capital investments in the long term, although European recovery, asset disposals and expansion strategies should be the key themes for investors in 2013/14 for construction concessions. For building materials the short-term drivers should be price coverage of inflationary costs, recovery in US and emerging markets.

Major ESG trends

- Energy Efficiency: The European Union Emissions Trading Scheme (EU-ETS) has set a target to reduce EU emissions by between 60% and 80% by 2050. According to the International Energy Agency (IEA), cement production accounts for nearly 5% of the world's annual GHG emissions. As a result, cement companies are under pressure to implement initiatives to reduce these emissions.
- Operational Health & Safety: In addition to carbon cap regulations, companies in the sector, in particular building products manufacturers, are facing stronger regulations based on the impact of chemicals and certain products on the environment and human health. Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the European Union regulation on chemicals and their safe use, has set stringent standards for the use of hazardous chemicals.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Green Building: **Geberit** states that it regards eco-design as the key to environmentally friendly products, and that it strives to ensure that each new product has a lower environmental footprint than the one it replaces. The company organises eco-design workshops, which include a systematic product analysis across all life phases and the verification of statutory requirements. The results of the Eco-design workshop are documented systematically and serve as the basis for developing solutions that are being included in the specifications and documents enclosed with the products.
- Green Building: **Saint-Gobain** designs, manufactures and distributes solutions to build and renovate buildings that are energy efficient, comfortable and healthy, while at the same time protecting natural resources. The company conducts a full life cycle assessment of its products based on ISO 14040 and ISO 14044.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Green Building: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused / recycled materials in new products? Do you have any initiatives on clean technology and climate-friendly products?
- ✓ Energy Efficiency / GHG Emissions: Does your company assess its energy footprint and how do you plan to reduce it? Does your company have specific targets for the use of green energy?
- ✓ Green Buildings: Are you a member or initiator of initiatives promoting sustainable buildings? Do you obtain green certifications for your new as well as for your existing buildings?
- ✓ Green Building: Do you have any specific policies concerning hazardous substances and did you set specific targets for reducing hazardous waste? Do you have action plans concerning incidents involving hazardous substances?
- ✓ Corporate Governance: Does your company have programmes to detect and fight corruption and do you provide training sessions for employees? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?

CAPITAL GOODS - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	"Climate Change"/ Energy efficiency	Environmental Impacts	Operational Health & Safety
Disclosure of Directors' remuneration	Policy on on "Bribery and Corruption"	Formal environmental policy	External certification of EMS	Health and safety certifications
Board independence	Whistleblower programmes	Systematic integration of environmental considerations at R&D stage (Eco-design)	Carbon intensity	Trend in "lost-time incident rate"
Board diversity	Business-ethics related controversies or incidents	Programmes and targets for end-of-life product management	Programmes and targets to reduce direct GHG emissions	Number of fatalities
Non-audit fees relative to audit fees		Sustainability-related products & services	Programmes & targets to reduce water use	Employee-related controversies or incidents
Governance-related controversies or incidents		Revenue from clean technology or climate-friendly products		Supply chain monitoring system

Source: SG Cross Asset Research, Sustainalytics

CAPITAL GOODS - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Philips	Netherlands	€24,244.3m	95.0	€24.85	€23.50	Hold	**94.47**	95.00	89.80	96.87	*93.57*	*93.80*
Atlas Copco	Sweden	SEK224,758.1m	73.5	SEK188.5	SEK170	Hold	**83.25**	85.00	87.00	78.57	*82.75*	*78.19*
Fiat Industrial	Italy	€11,377m	66.0	€9.28	€10.00	Hold	**83.20**	78.75	81.80	89.28	*79.00*	*73.19*
Siemens	Germany	€76,594.1m	94.0	€86.94	€100.00	Buy	**79.47**	84.87	48.00	93.75	*73.33*	*69.60*
Invensys	UK	£3,258.9m	100.0	£4.97	£5.00	Hold	**79.00**	91.25	85.00	60.71	*No data*	*No data*
ABB	Switzerland	CHF49,234.6m	92.1	CHF21.27	CHF24.00	Buy	**77.76**	91.75	79.80	62.50	*70.47*	*70.83*
Alstom	France	€8,346.1m	70.0	€27.06	€34.00	Buy	**77.38**	78.12	71.00	80.62	*74.04*	*68.95*
Volvo	Sweden	SEK210,715.5m	83.1	SEK99.05	SEK100	Hold	**76.44**	78.75	64.80	82.14	*74.75*	*69.80*
SKF	Sweden	SEK82,186.9m	78.9	SEK180.5	SEK180.0	Hold	**75.69**	59.37	97.80	78.57	*76.25*	*74.00*
Sandvik	Sweden	SEK116,344.3m	63.2	SEK92.75	SEK75.00	Sell	**75.45**	76.25	84.80	67.85	*74.25*	*68.40*
Schneider	France	€35,139.2m	80.6	€62.71	€67.00	Buy	**75.42**	71.12	78.00	78.12	*75.95*	*75.00*
Smiths Group	UK	£5,369.4m	70.7	£13.63	£12.00	Sell	**70.71**	82.50	55.00	68.75	*70.71*	*No data*
IMI	UK	£4,698.5m	100.0	£14.90	£14.40	Hold	**68.25**	83.12	75.00	46.42	*67.00*	*No data*
GKN	UK	£5,794.5m	80.0	£3.53	£3.45	Hold	**68.12**	79.37	62.50	51.25	*70.00*	*No data*
Vallourec	France	€6,205m	85.6	€49.14	€38.00	Hold	**67.44**	81.25	59.80	57.14	*65.00*	*46.80*
Weir Group	UK	£5,039.1m	6.8	£23.64	£18.70	Sell	**65.50**	76.25	70.00	50.00	*61.75*	*No data*
Scania AB	Sweden	SEK55,080m	37.7	SEK137.7	SEK140.0	Hold	**62.25**	75.62	48.00	57.14	*57.50*	*55.80*
Legrand	France	€11,032.4m	94.2	€41.73	€41.00	Buy	**61.90**	81.25	50.00	50.00	*61.90*	*51.45*
Rexel	France	€5,262m	65.0	€18.59	€18.50	Hold	**58.25**	73.75	30.00	60.71	*57.00*	*63.12*
Assa Abloy	Sweden	SEK106,384.1m	73.9	SEK302.5	SEK230.0	Sell	**58.15**	50.83	70.00	56.25	*56.84*	*57.04*
Areva	France	€440.4m	4.0	€12.42	€12.50	Hold	**57.76**	71.62	48.00	50.00	*57.85*	*61.04*
Saft	France	€506.8m	66.9	€19.67	€26.00	Buy	**52.80**	76.12	45.00	34.37	*52.85*	*56.66*
Vossloh	Germany	€854.7m	41.0	€64.14	€65.00	Hold	**40.75**	59.37	43.00	17.85	*43.25*	*42.60*
Nexans	France	€1,380.8m	71.0	€46.98	€50.00	Buy	**36.53**	50.00	33.33	25.00	*36.53*	*54.46*
Faiveley	France	€783.3m	38.1	€53.60	€59.00	Buy	**27.08**	45.00	33.33	0.00	*27.08*	*46.38*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

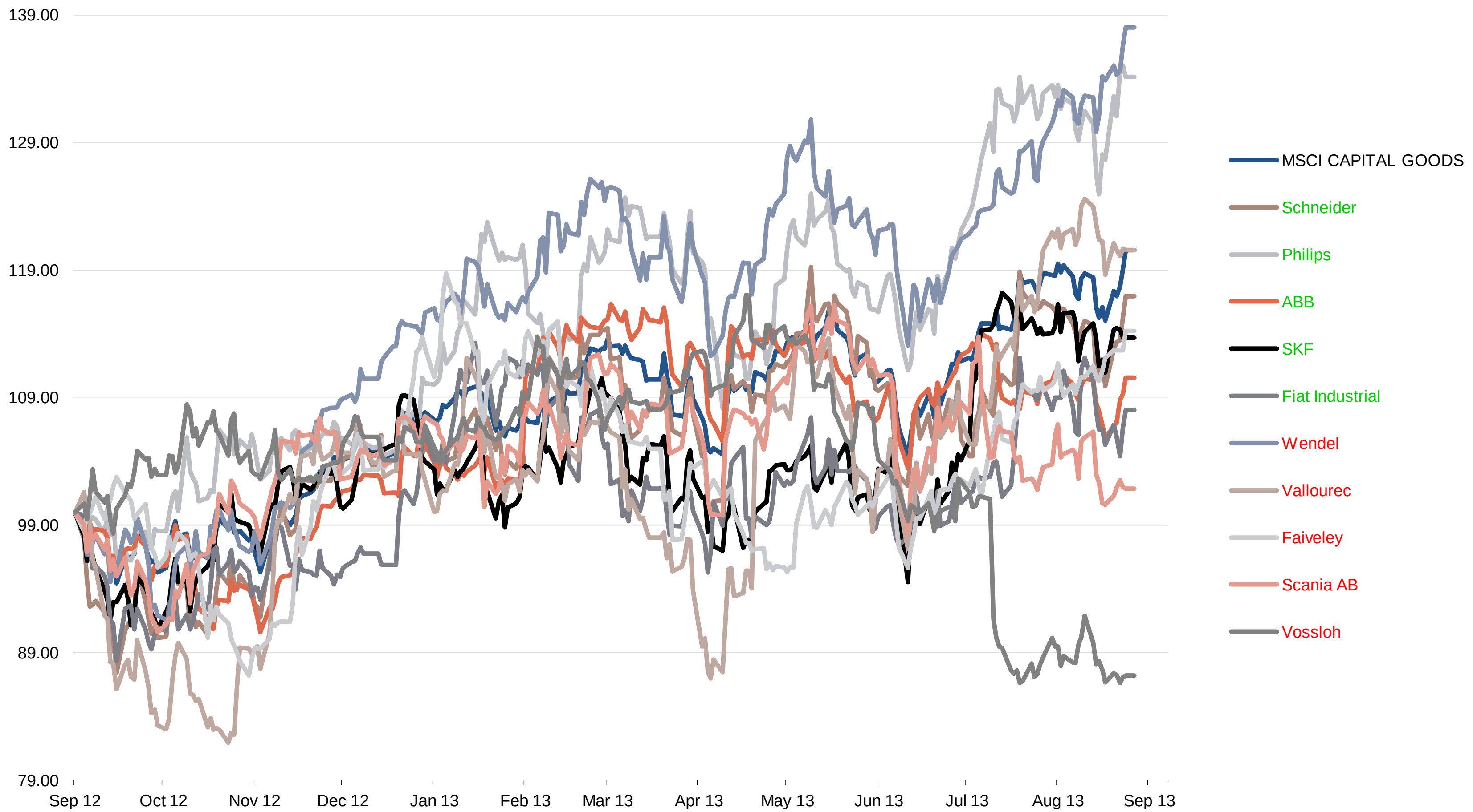
CAPITAL GOODS - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Legrand Saft *(Nexans)* *(Faiveley)*	**Schneider**	**Siemens** **ABB** **Alstom**
Hold	Scania AB Rexel Areva Vossloh	**SKF** **IMI** **GKN** **Vallourec**	**Philips** **Atlas Copco** **Fiat Industrial** **Invensys** **Volvo**
Sell	Assa Abloy	Sandvik Smiths Group Weir Group	

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

CAPITAL GOODS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

CAPITAL GOODS - SECTOR COMMENTS (1/2)

Sector outlook

- The capital goods sector has enjoyed a steep re-rating against the broader market over the past ten years, driven by improved growth prospects (exposure to emerging markets and 'green' solutions) and higher profitability (more flexible cost base and more disciplined pricing behavior). This re-rating has been challenged over the last 12 months as China and other emerging countries show lower growth potential for capital goods companies. In addition, European capital goods stock already discount significant earnings recovery (>20% EPS CAGR 2013-2015e) while the sector's current valuation of 10.5x 2014e EV/EBITA exceeds the historical average by 10%. In this environment, we see little scope for further outperformance and favour stocks that combine attractive valuations, low expectations and self-help potential.

Major ESG trends

- Energy efficiency: Two specific trends dominate the innovation agenda: the first is a need for commercial-scale, clean energy technologies such as heat metering, wind turbines and solar photovoltaic; the second is the adoption of a smart grid, whereby electricity is delivered using two-way digital technology to control appliances at consumers' homes, enabling energy savings, reduced costs, and increased reliability and transparency. As utility, automotive, construction and transportation companies become increasingly involved in energy-efficiency initiatives, new technological innovations will be critical. The capital goods sector will play a key role in the design and implementation of renewable energy systems; smart grid set-up and distribution equipment; fuel cells and other alternative energy components, and also of tools to improve the life cycle and energy efficiency of electrical equipment and appliances.
- Human Resources Management: The recruitment and retention of qualified workers is essential to develop and implement new infrastructure. Engineering and scientific knowhow as trade, craft and specialty skills are of particular importance. Whereas historically, the sector has recruited employees with a traditional manufacturing background, there is a growing demand for computer skills and data analysis. As the sector evolves, employees with a diverse set of cross disciplinary skills (physical, technical and social) will be needed. With the rise in clean, efficient technologies, roles will emerge for people with a background and understanding of environmental engineering. Companies that attract the greatest talent will be best positioned to compete, and those demonstrating the most innovation will attract the strongest candidates. Given the globalization of the electrical equipment market, companies with a global approach to recruitment stand to benefit.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Business Ethics: In March 2013, **Atlas Copco** was ranked as one of the world's most ethical companies by Ethisphere Institute. Atlas Copco runs an annual corruption awareness training programme, is a signatory to the UN Global Compact principles and has clear policies as well as educational programmes on business practices.
- Environmental Impacts: For **AB Volvo**, the basic principle in product development is that each new product should have a smaller environmental impact than that which it replaces. The company applies "environmentally optimised product development" throughout a product's development phase, from pre-studies to follow-up. As the company states, life-cycle analysis (LCA) has been applied to a number of models and is conducted during the development of new models. Due to the results of its LCAs, AB Volvo focuses on reducing the environmental impacts when the products are in use. Each development stage is followed by different environmental objectives that must be met to proceed to the next development stage.

Company controversies

- Business Ethics: In May 2013, two suicide bombers damaged **Areva s** uranium mine in in Arlit, Niger, killing one staff member and wounding 14 others. It is assumed that it will take two to nine months to get the facility up and running again. According to African risk analysis firm Strategic, the attacks could "further push back the opening of an even larger Areva mine in Niger, in Imouraren, that was supposed to open at the end of 2012 but has already been delayed to 2015."
- Business Ethics: In May 2013, Mexico's state oil company Petroleos Mexicanos (Pemex) filed a lawsuit in US federal court against **Siemens** claiming alleged damages caused by Siemens' corrupt practices. The complaint alleges that Siemens bribed Pemex officials in order to obtain unfair advantages. Pemex claims from Siemens and SK Engineering US$160m in damages.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Climate Change / Energy Efficiency: Do you have programmes dedicated to the development of renewable energy systems? Do you have plans for being involved in the smart grid set-up?
- ✓ Climate Change / Energy Efficiency: Does your company assess its energy footprint and how do you plan to reduce it? Does your company have specific targets for the use of green energy?
- ✓ Environmental Impacts: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused / recycled materials in new products? Do you have any initiatives on clean technology and climate-friendly products?
- ✓ Business Ethics: Does your company have formal policy commitments to eliminate conflict minerals from its products and its supply chain? Do you conduct supply chain due diligence to assess risk exposure?
- ✓ Business Ethics: Does your company have programmes to detect and fight corruption and do you provide training sessions for employees? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?

CHEMICALS - ESG THEMES & INDICATORS

Corporate Governance	Innovation / Product Stewardship	"Climate Change" / Energy Efficiency	Operational Health & Safety
Disclosure of Directors' remuneration	Sustainability-related products & services	Programmes and targets to reduce direct GHG emissions	Programmes and targets to reduce health and safety incidents
Board independence	Products with important environmental/human health concerns	Programmes and targets to improve the environmental performance	Health & safety certifications
Board diversity	Products & services related controversies or incidents	Carbon intensity	Trend in "lost-time incident rate"
Non-audit fees relative to audit fees		% primary energy use from renewables	Number of fatalities
Governance-related controversies or incidents			Scope of social supply chain standards

Source: SG Cross Asset Research, Sustainalytics

CHEMICALS - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
AkzoNobel	Netherlands	€11,937.6m	100.0	€49.30	€52.00	Buy	**92.00**	100.00	78.00	96.28	*90.88*	*84.75*
Praxair Inc	US	$35,519.9m	100.0	$120.47	$135.00	Buy	**82.94**	96.00	83.00	73.57	*82.05*	*77.25*
BASF SE	Germany	€64,100.6m	100.0	€69.79	€70.00	Hold	**74.94**	96.00	70.00	63.42	*63.52*	*57.75*
Linde AG	Germany	€27,422.6m	100.0	€148.05	€165.00	Buy	**70.29**	82.00	68.00	63.57	*66.17*	*67.50*
Air Products & Chem.	US	$22,253.9m	100.0	$106.15	$108.00	Hold	**69.94**	99.80	68.00	49.99	*64.11*	*60.75*
Air Liquide	France	€31,855.9m	100.0	€102.15	€105.00	Hold	**68.52**	85.00	78.00	50.00	*68.52*	*65.75*
Syngenta	Switzerland	CHF34,186.6m	77.2	CHF367.1	CHF450.0	Buy	**66.47**	76.00	78.00	51.42	*65.58*	*64.50*
Clariant	Switzerland	CHF5,387.4m	100.0	CHF16.23	CHF13.00	Sell	**66.17**	70.00	75.00	57.14	*67.64*	*67.50*
AZ Electronic Materials	UK	£1,184.6m	78.0	£3.11	£3.50	Buy	**65.62**	100.00	66.66	41.66	*65.62*	*61.87*
Yara International	Norway	NOK68,232.7m	63.8	NOK245	NOK370	Buy	**52.58**	79.80	54.00	32.14	*54.11*	*59.75*
K+S	Germany	€4,323.7m	85.0	€22.59	€41.00	Hold	**48.52**	77.00	38.00	35.71	*50.00*	*56.25*
Arkema	France	€5,314.6m	72.7	€84.39	€86.00	Buy	**44.41**	76.00	40.00	25.00	*48.82*	*50.25*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

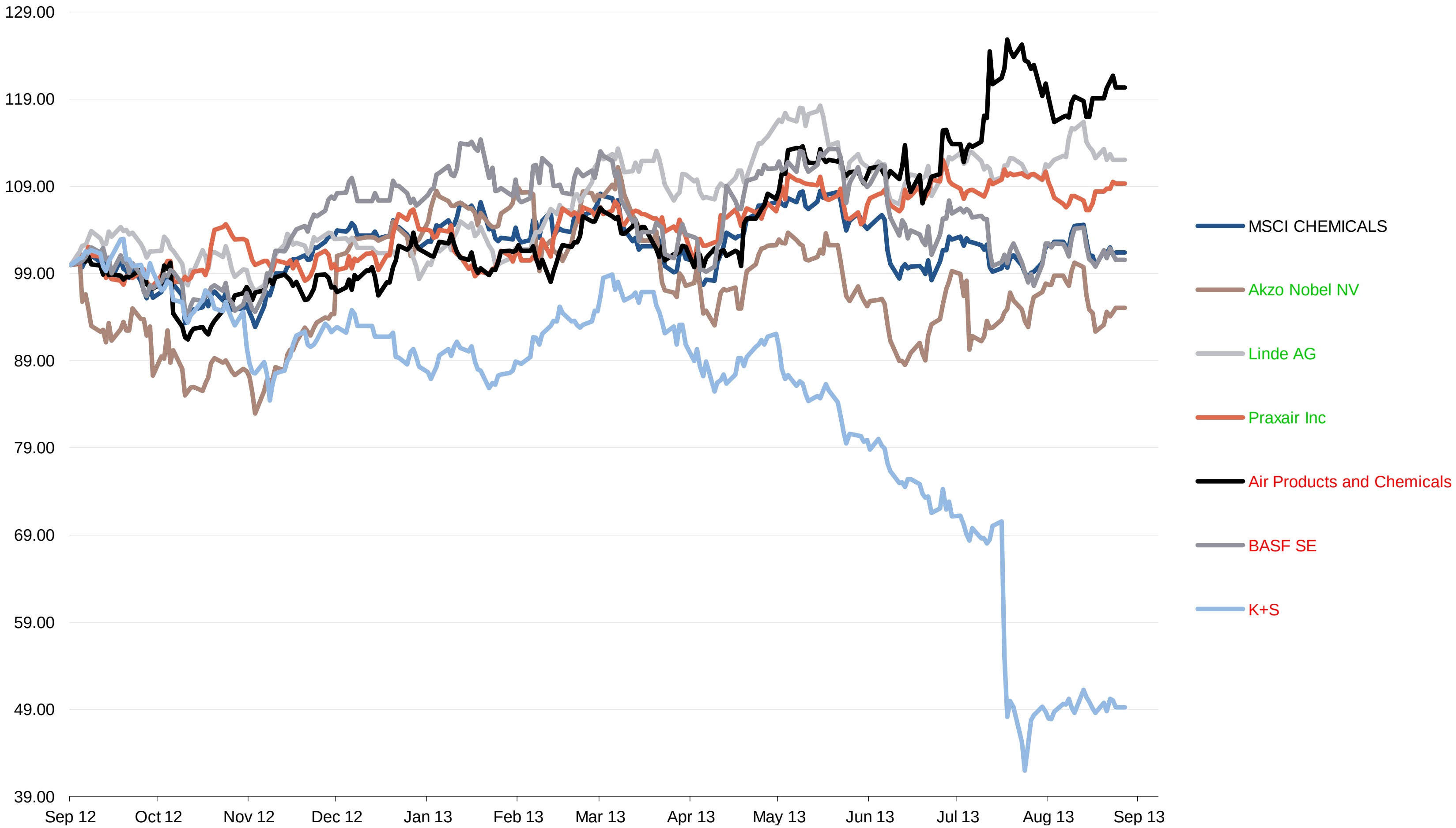
CHEMICALS - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Yara International Arkema *(AZ Electronic Materials)*	**Linde AG** **Syngenta**	**AkzoNobel** **Praxair Inc**
Hold	K+S	**Air Products** **Air Liquide**	**BASF SE**
Sell	Clariant		

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

CHEMICALS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

CHEMICALS - SECTOR COMMENTS (1/2)

Sector outlook

- Chemicals saw a textbook recession and recovery into 2011, with demand recovery led by emerging markets but western markets remaining more subdued. However, this situation was accentuated by de-stocking and restocking trends, and in tight markets with cost cuts this helped drive margins to new peaks, well above normalised levels for the more cyclical diversified and specialty chemicals stocks which make up much of the sector. This, in turn, led to share prices recovering to new highs and significantly outperforming the market. From early 2011, however, demand growth notably in emerging markets has slowed and at times stagnated; in western markets it has remained subdued and in Europe it has fallen. This has been compounded for downstream/specialty chemicals companies by input costs firming through 2011, putting additional pressure on margins. While the rise in costs abated in 2012, demand generally has remained weak, and both upstream and downstream profitability has faltered. The quoted sector - helped by a more buoyant agrochemicals sub-sector, and the industrial gas stocks, but also by positive restructuring moves and industry consolidation - continued to perform well through 2012, but has subsequently faltered. Based on current forecasts, valuations still remain around mid-cycle levels and are now based on more sustainable margin assumptions; however, while the outlook in North America seems to have improved (helped by the shale gas story – with lower costs and strengthening demand drivers), there remains more uncertainty about Europe and Asia, especially with increased supply and competition. This suggests more cyclical chemicals stocks will continue to tread water, helped by ongoing industry restructuring, with industrial gases supported by their predictability.

Major ESG trends

- Operational Health & Safety: The chemical industry is highly regulated; companies that operate in North America or Europe are subject to stringent regulations surrounding product safety, anti-competitive behaviour, hazardous waste generation and animal testing. In 2006, the United Nations launched the Strategic Approach to International Chemicals Management (SAICM) to ensure that chemicals are produced and used in ways that minimise significant adverse effects on the environment or human health by 2020. In 2007, the European Union (EU) adopted the Registration, Evaluation and Authorization of Chemicals (REACH) legislation to address the potential impacts of chemicals on human health and the environment, representing one of the world's strictest laws on chemical substances.
- Climate Change / Energy Efficiency: Product and service innovation are key drivers for chemical companies today, many of which are involved in nanotechnology, biotechnology and the development of new technologies in the fields of energy efficiency, health care and water purification. Product innovation in the chemicals industry is largely fuelled by climate change, water scarcity, and regulatory and demographic changes. Water scarcity is expected to escalate in the coming decades; by developing water purification systems chemical companies can provide solutions in order to alleviate this problem. Due to increased regulations and customer awareness, companies in this sectors strive to reduce their air emissions and hazardous waste output. Companies have to react to new regulations concerning pesticides.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Innovation / Product Stewardship: **Air Liquide** has developed innovative capture technologies that concentrate and then liquefy the CO2 released from the hydrogen production. One of those technologies, the CryoCaptm h2 cryogenic capture (cold capture) technology is being introduced at a French Air Liquide hydrogen plant. Through innovation, the company strives to lower its carbon capture costs by 40% compared with traditional technology.
- Innovation / Product Stewardship: Yearly production of jeans amounts to 2 billion pairs, which uses approximately 10% of the world s annual cotton harvest. Indigo colouring, which has traditionally been used in the manufacturing of jeans, has a considerable negative impact on the environment. **Clariant** has developed the "innovative Advanced Denim concept", a new dyeing process that requires no indigo at all. Furthermore, this process utilises less water and energy. Cotton waste is also significantly reduced and, according to the Clariant, no wastewater is produced.

Company controversies

- Climate Change / Energy Efficiency: Co-plaintiffs the United States and the State of Texas have recently sought redress from defendant **Arkema** for damages to natural resources that resulted from the discharge of hazardous substances at a Texas facility, which produced agricultural chemicals. Under the proposed settlement, Arkema has to pay the federal and state natural resource trustees a total of US$1.4m, of which US$1.1m will be jointly administered and used to restore, replace, or acquire the equivalent of the damaged natural resources. Also under this settlement, the US and the State of Texas agreed not to sue Arkema for natural resource damages under the provisions of the Clean Water Act and the Comprehensive Environmental Response Compensation and Liability Act.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Climate Change / Energy Efficiency: Does your company assess its water footprint and how do you address the issue of water treatment and purification? Are you aware of potential risks relating to water scarcity and how do you address this issue?
- ✓ Innovation / Product Stewardship: Do you have specific targets for reducing hazardous waste? Do you have action plans concerning incidents involving hazardous substances?
- ✓ Innovation / Product Stewardship: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused / recycled materials in new products?
- ✓ Operational Health & Safety: Do you assess risks within the operations of your suppliers? Do you perform or monitor supply chain audits and do you refrain from procuring products from suppliers that use controversial operational practices?
- ✓ Innovation / Product Stewardship: Do you have specific product stewardship and product safety programmes? How does your company ensure that the detrimental effects of operations on employees are limited, especially for operations in countries with lower health & safety standards.

CONSUMER DURABLES & SERVICES - ESG THEMES & INDICATORS

Corporate Governance	Reputational Risks & Opportunities	"Climate change" / Environmental Impacts	Communities	Human Resources Management
Disclosure of Directors' remuneration	Sustainability-related products & services	Programmes and targets to reduce direct GHG emissions	Society & community-related controversies or incidents	Formal policy on working conditions
Board independence	Customer-related controversies or incidents	Carbon intensity	Guidelines for philanthropic activities	Percentage of employees covered by collective bargaining agreements
Board diversity		Programmes & targets to reduce water use		Percentage of temporary workers
Non-audit fees relative to audit fees		External certification of EMS		Employee turnover rate
Governance-related controversies or incidents				Employee-related controversies or incidents

Source: SG Cross Asset Research, Sustainalytics

CONSUMER DURABLES & SERVICES - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Accor	France	€7,088.3m	69.8	€31.16	€29.60	Hold	71.00	84.80	65.50	66.00	*75.00*	*No data*
Groupe Seb	France	€3,144.1m	45.2	€62.67	€60.00	Hold	67.22	72.00	71.87	55.00	*53.05*	*48.00*
Kering	France	€21,470m	58.2	€170.15	€200.00	Buy	65.77	84.16	47.37	75.00	*No data*	*No data*
Sodexo	France	€10,535.7m	53.5	€67.05	€66.00	Hold	60.27	80.00	54.37	50.00	*No data*	*No data*
Compass Group	UK	£15,257.6m	84.0	£8.44	£9.70	Buy	50.83	92.00	44.37	20.00	*No data*	*No data*
Richemont (Cie Fin)	Switzerland	CHF48,337.2m	50.0	CHF92.6	CHF100.0	Buy	42.43	76.00	39.80	16.66	*No data*	*No data*
Swatch Group	Switzerland	CHF17,517.1m	51.6	CHF568	CHF650	Buy	42.43	66.00	44.80	20.83	*No data*	*No data*
Burberry Group	UK	£7,130.2m	100.0	£16.09	£14.15	Hold	42.12	75.00	44.80	12.50	*No data*	*No data*
LVMH Moet Hennessy	France	€71,937.4m	53.6	€141.65	€140.00	Hold	41.43	40.00	59.60	27.49	*No data*	*No data*
Hermes Intl	France	€27,342.4m	6.9	€259.00	€230.00	Sell	40.62	70.00	55.00	4.16	*No data*	*No data*
Hugo Boss	Germany	€6,652.8m	42.0	€94.50	€101.90	Buy	35.87	50.00	59.80	4.16	*No data*	*No data*

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

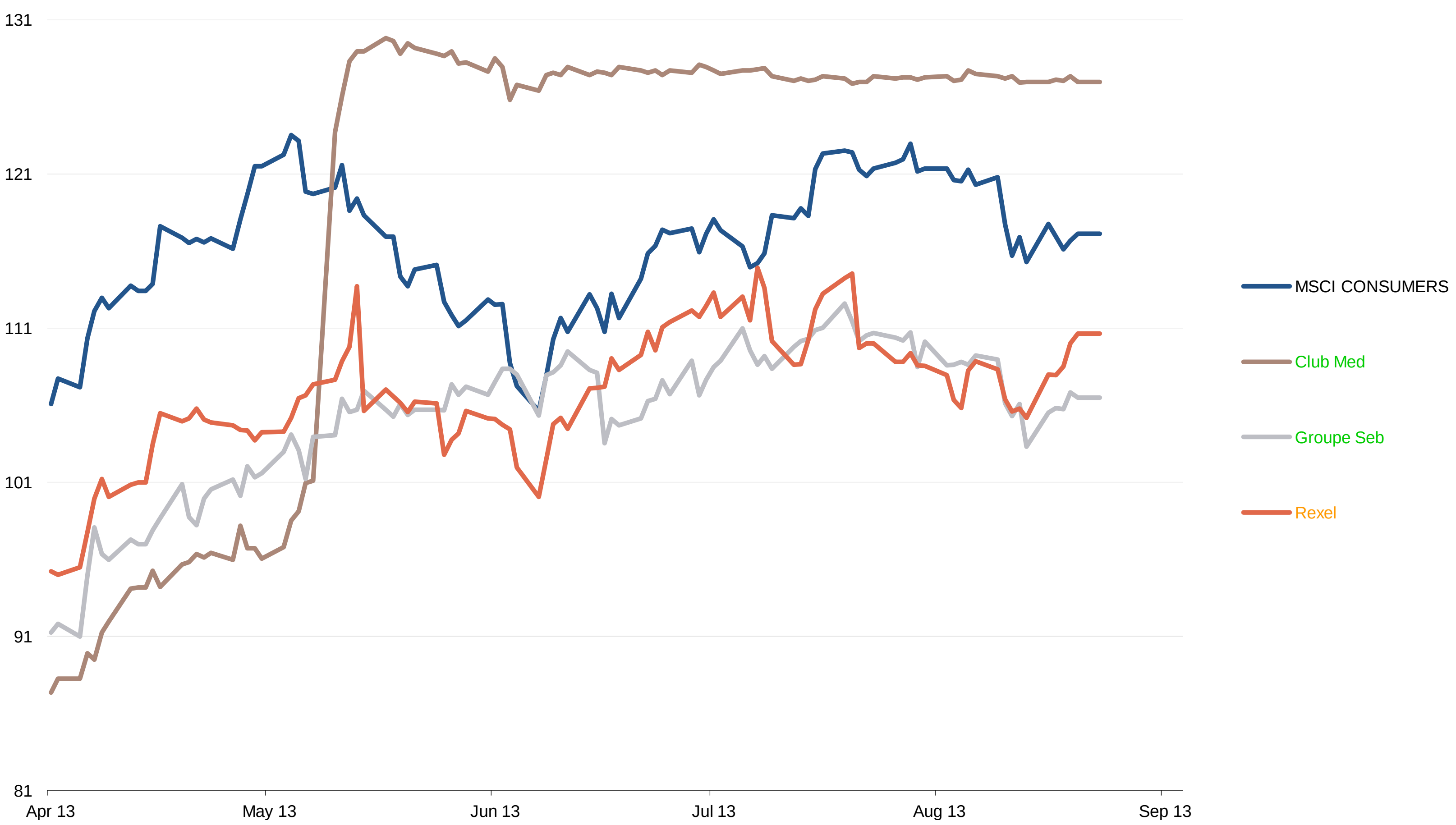
CONSUMER DURABLES & SERVICES - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Hugo Boss	**Compass Group** **Richemont** **Swatch Group**	**Kering**
Hold	LVMH Moet Hennessy	**Burberry Group**	**Accor** **Groupe Seb** **Sodexo**
Sell	Hermes Intl		

ESG Rating

* *As of 15/02/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

CONSUMER DURABLES & SERVICES - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

CONSUMER DURABLES & SERVICES - SECTOR COMMENTS (1/2)

Sector outlook

- Hotels, Leisure & Catering: For the Hotels industry, we expect the key sector drivers in the medium term to be the business model and pipeline development. The business model (asset light or fully owned hotels) is a key differentiating factor for ROCE and margins. Any disposal of assets (like some Sofitels at **Accor** or the three flagships at IHG) may have a positive impact on groups' profitability. For example, by switching to an asset-light model, Accor could see its ROCE improve 10% by 2016. A solid pipeline of room openings is a key element in the group's strategies. Effective execution of the development pipeline is a prerequisite for achieving steady revenue growth. Globally, the hotels industry and the catering industry are closely correlated to GDP growth. In the hotels segment, the key driver is the trend in RevPAR (Revenue per Room) which is closely correlated to GDP growth. In the catering industry, the evolution of sales and margins are closely dependent on the economic environment. We continue to prefer the US market even though the US hotel industry had already recovered by mid-2010. The European markets are lagging; while they have recently shown some positive signs in the hotels segment, the catering segment remains a key concern. Emerging markets globally remain the most promising ones on a long-term view, even though recently RevPAR has decreased in China and emerging markets sales have slowed down in the catering segment.

- Luxury goods: The main driver for the sector remains top-line trends, in a context where the sector's capital intensity has not come down, despite the rapid rise in sector revenues over recent years, and where the sector has seen a rise in fixed costs with the shift from away from wholesale to retail. The sector's H1 performance (c.7-9% yoy average organic growth rate) confirms the slowdown, but is in line with estimates. Although concerns about the top line remain prevalent, the EBIT margin outlook has recently become clearer. While the brands have maintained advertising and promotion spending as a proportion of revenues, and are raising selling costs (with the expansion of store networks), slower top-line growth, including at best slowly rising volumes, has resulted in yoy margin stability in H1 2013 vs H1 2012, despite support from FX hedging. Moreover, the maturity of advantageous hedging contracts should mechanically hit margins starting in H2, and more visibly next year. Thus, it will be interesting to monitor the actions taken by the brands on their cost structure. The last topic of investor interest is the sector's balance sheet where net debt is currently entirely paid back. Henceforth, we are likely to see concerns emerging about M&A risk, as well as hopes for shareholder returns(not been a priority up to now).

Major ESG trends

- Environmental Impacts: The industry has significant environmental impacts through operations and the supply chain. Restaurants and hotels, in particular, use a lot of water and energy (i.e. cleaning, maintenance tasks, kitchens and toilets). Many companies have started to adopt ISO 14001 standard and Leadership in Energy and Environmental Design (LEED) certification for their buildings to help mitigate these environmental impacts. The industry leaders are embracing "eco-building" strategies. By increasing the amount of recycled and reused content in packaging and incorporating biodegradable materials, companies seek to decrease their environmental impact.

- Reputational Risks & Opportunities: The consumer durables & services industry, in particular the hotel and tourism sector, is exposed to serious human rights risks, specifically human trafficking and child prostitution. The United Nations estimates that 2.5 million people are in forced labour, including sexual exploitation, at any given time due to human trafficking. Hotels are often cited as locations of sex trafficking and companies have been called on to address this issue by ensuring they are not complicit. Leading companies have signed up to international codes of conduct and conventions, such as the Guiding Principles outlined in the United Nation's "Protect, Respect and Remedy" Framework for Business and Human Rights and the Tourism Child-Protection Code of Conduct developed by ECPAT (End Child Prostitution, Child Pornography and the Trafficking of Children for Sexual Purposes). The sector shows a huge disparity between leaders and laggards. Human Rights controversies can also be observed within other fields such as anti-union movements.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Environmental Impacts: **Richemont** was one of 13 founding members of the Responsible Jewellery Council, which aims to promote responsible ethical, human rights, social and environmental practices in the gold and diamond supply chains. The RJC has developed a code of practices which sets out requirements against which members will have to be certified by December 2011. The RJC certification system will apply to all members' businesses that contribute to the diamond and gold jewellery supply chain. Moreover, Richemont has six of its business units, representing 75% of all sales, certified to standards outlined in the Responsible Jewellery Council's Code of Practices.
- Climate Change / Environmental Impacts: **Electrolux** has a goal to reduce its environmental footprint with regard to carbon-reduction, energy-reduction as well as water-related improvements. Its 2012, one-year, 3.5% energy-reduction target has been integrated into a new 2015 target to shrink energy consumption by 15% compared to 2011 production volume levels. Electrolux aims to reduce transport emissions by 15% by 2014. Reportedly, the company is on track to exceed its 2014 20% water-reduction target.

Company controversies

- Reputational Risks & Opportunities: Following the class action lawsuit in 2007 against Toshiba, **LG Electronics**, Samsung and Hitachi at the U.S District Court, Northern District of California (San Francisco), in February 2013 it was ruled that LGE had to pay US$25m. There was no proof on how the money was distributed to the class members. The charges brought were related to the cartel on picture tubes used in televisions and computers that these companies operated between March 1995 and November 2007.
- Human Resource Management: In April 2013, Swedwatch, a Swedish-based NGO which monitors activities of Swedish corporations in developing countries, filed a complaint to the Swedish National Contact Point for the OECD Guidelines for Multinational Enterprises against **Electrolux,** with respect to anti-union activities at its Rayong factory in Thailand. The complaint stated that the company removed and suspended a local trade union leader, encircled protesting employees preventing them from leaving the demonstration site, filed lawsuits against some of its unionised employees and fired all workers who participated in the demonstration. Earlier, in February 2013, Electrolux was criticised for dismissing 129 employees at its Electrolux Thailand Rayong Plant, including union representatives. This move followed requests by union representatives to increase wages for workers from the minimum legal level, pay bonuses and accept long-term subcontractors as permanent employees.

Issues for engagement

- ✓ Climate Change / Environmental Impacts: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused / recycled materials in new products?
- ✓ Climate Change / Environmental Impacts: Do you have specific targets for reducing hazardous waste and do you have action plans concerning incidents involving hazardous substances? Do you assess the environmental impact of substances utilised during production processes?
- ✓ Reputational Risk & Opportunities: Does your company have a formal policy on working conditions, child labour and health & safety issues for its employees as well as for its sub-contractors?
- ✓ Reputational Risks & Opportunities: Does your company have formal policy commitments to eliminate conflict minerals from its products and its supply chain? Do you conduct supply chain due diligence to assess risk exposure?
- ✓ Human Resource Management: Do you assess risks within the operations of your suppliers? Do you perform or monitor supply chain audits and do you refrain from procuring products from suppliers that use controversial operational practices?

FOOD, BEVERAGES & TOBACCO - ESG THEMES & INDICATORS

Corporate Governance	"Healthy", "Safe" & "Affordable" Food	Sustainable Agriculture	Environmental Impacts	Human Resources Management
Disclosure of Directors' remuneration	Public position statement on health consequences of products	Programmes and targets to stimulate "Sustainable Agriculture / Aquaculture / Fisheries"	Water intensity	Employee-related controversies or incidents
Board independence	Policy on use of genetically modified organisms (GMO) in products	Contractors & supply chain related controversies or incidents	Carbon intensity	
Board diversity	"Organic" products	Policy on animal welfare	Formal policy or programme on green procurement	
Non-audit fees relative to audit fees	Customer-related controversies or incidents	Food, Beverages & Tobacco industry initiatives	External Certification of EMS	
Governance-related controversies or incidents			Environmental fines and non-monetary sanctions	

Source: SG Cross Asset Research, Sustainalytics

FOOD, BEVERAGES & TOBACCO - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Unilever NV	Netherlands	€49,418.5m	100.0	€28.82	€36.00	Buy	85.88	99.83	76.66	80.79	*No data*	*No data*
Nestlé SA	Switzerland	CHF200,743.8m	100.0	CHF62.25	CHF71.00	Buy	79.75	100.00	56.66	75.00	*81.00*	*82.60*
Diageo	UK	£50,238.9m	100.0	£20.01	£21.50	Hold	72.76	87.50	69.66	65.56	*76.31*	*72.66*
Pernod Ricard	France	€23,962.3m	85.7	€90.28	€94.00	Hold	71.95	70.83	99.66	65.00	*65.37*	*62.28*
Swedish Match	Sweden	SEK47,328.6m	100.0	SEK234.3	SEK190.0	Sell	71.25	83.33	66.66	65.90	*66.81*	*67.88*
British American Tobacco	UK	£62,843.6m	96.1	£33.06	£35.50	Hold	68.94	74.83	76.66	63.63	*65.25*	*67.39*
Coca-Cola Enterprises	US	$10,616.1m	100.0	$39.71	$42.50	Buy	68.88	83.16	70.00	60.79	*68.93*	*67.33*
Danone	France	€35,369.1m	100.0	€56.05	€59.00	Hold	67.62	74.16	70.00	63.40	*67.87*	*67.71*
Carlsberg	Denmark	DKK89,038.2m	70.0	DKK579	DKK550	Hold	66.93	54.16	93.33	66.70	*64.93*	*57.11*
Imperial Tobacco	UK	£22,219.9m	100.0	£22.92	£27.00	Buy	65.19	80.00	76.33	54.09	*77.37*	*77.06*
Dairy Crest Group plc	UK	£660.4m	100.0	£4.83	£4.90	Hold	61.90	50.00	99.50	54.00	*62.00*	*No data*
Coca-Cola Hellenic	UK	£7,049.3m	54.0	£19.38	£15.20	Sell	57.25	36.66	100.00	56.81	*No data*	*No data*
Heineken	Netherlands	€29,514.4m	37.5	€51.24	€61.00	Buy	55.50	54.16	86.66	47.72	*56.75*	*56.73*
Barry Callebaut AG	Switzerland	CHF4,915.4m	32.0	CHF895.5	CHF875.0	Hold	54.50	50.00	66.66	53.63	*57.00*	*46.30*
Rémy Cointreau	France	€4,000.5m	42.6	€78.58	€85.00	Hold	53.43	58.33	66.66	47.15	*57.25*	*54.13*
Sabmiller	UK	£50,280.1m	58.7	£31.36	£36.20	Buy	52.68	54.16	86.66	42.61	*52.68*	*55.38*
Kerry	Ireland	€7,863.5m	82.8	€44.75	€48.00	Hold	52.02	68.33	76.00	36.59	*52.12*	*51.84*
Devro plc	UK	£563.7m	100.0	£3.38	£3.65.00	Buy	50.00	66.66	100.00	20.00	*50.00*	*58.58*
Vilmorin	France	€1,724.1m	27.6	€91.03	€96.00	Hold	50.00	33.33	100.00	40.00	*No data*	*No data*
Viscofan SA	Spain	€1,902.4m	100.0	€40.82	€41.50	Hold	50.00	66.66	100.00	20.00	*No data*	*No data*
Anheuser-Busch InBev	Belgium	€118,936.1m	46.7	€74.00	€71.00	Hold	49.56	50.00	86.66	39.20	*50.81*	*50.48*
Tate & Lyle plc	UK	£3,698.4m	100.0	£7.93	£9.00	Hold	48.63	83.33	59.66	26.70	*42.62*	*45.76*
Britvic plc	UK	£1,411.7m	95.0	£5.76	£5.90	Buy	47.90	41.66	99.50	31.00	*48.00*	*68.06*
Associated British Foods	UK	£14,321.4m	45.0	£18.09	£19.50	Hold	47.38	55.83	76.33	34.88	*47.43*	*51.03*
AG Barr plc	UK	£628.2m	75.0	£5.38	£5.00	Sell	40.00	33.33	100.00	20.00	*40.00*	*55.30*
Aryzta	Switzerland	CHF5,522.4m	100.0	CHF60.15	CHF57.00	Hold	31.90	33.16	66.33	21.81	*33.75*	*39.13*

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

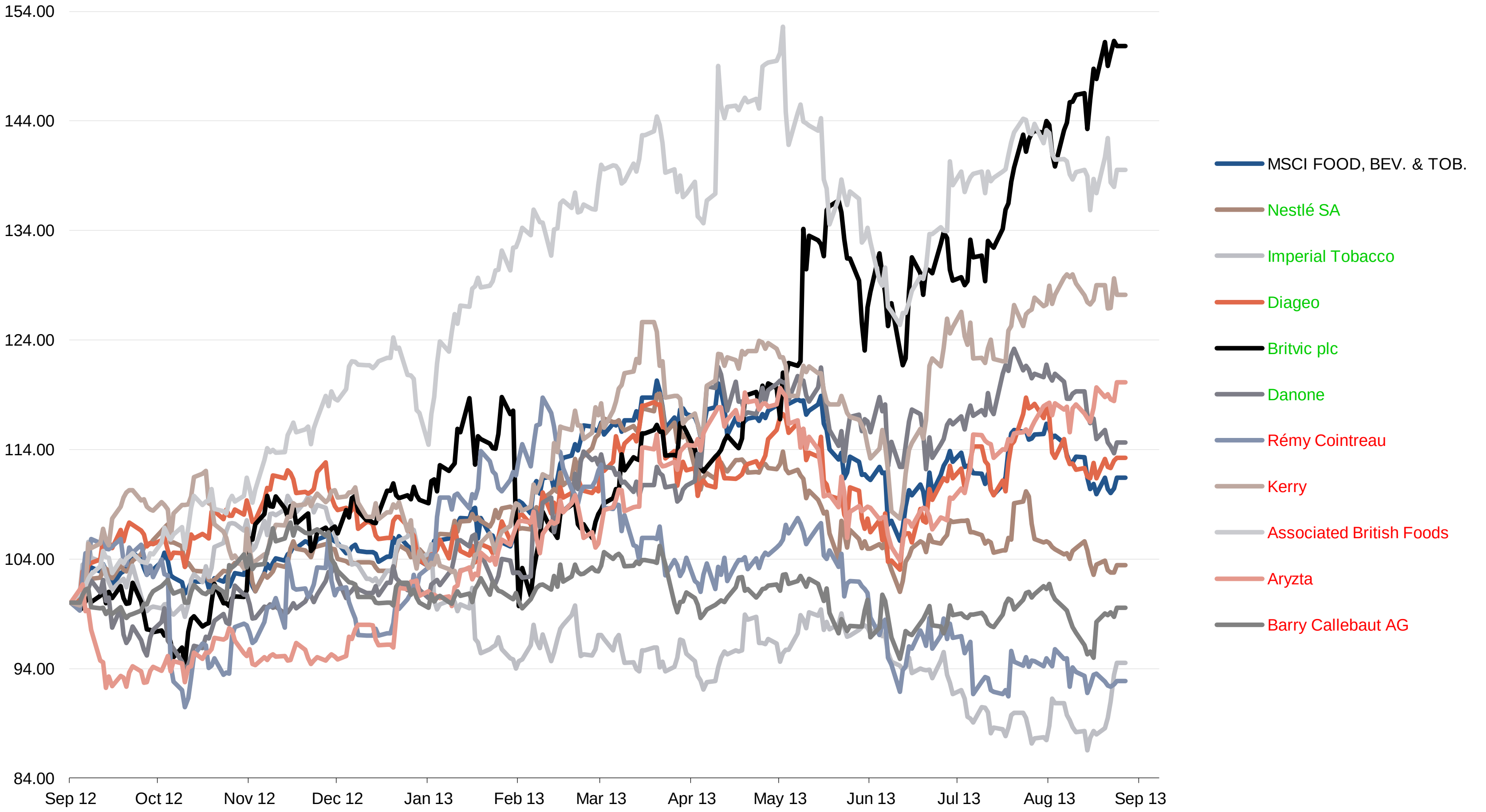
FOOD, BEVERAGES & TOBACCO - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Sabmiller *(Devro plc)* *(Britvic plc)*	**Imperial Tobacco** **Heineken**	**Unilever NV** **Nestlé SA** **Coca-Cola Enterprises**
Hold	Kerry Anheuser-Busch InBev Tate & Lyle plc Associated British Foods Aryzta *(Vilmorin)* *(Viscofan SA)*	**Danone** **Carlsberg** **Barry Callebaut AG** **Rémy Cointreau** ***(Dairy Crest Group)***	**Diageo** **Pernod Ricard** **British American Tob.**
Sell	*(AG Barr plc)*	Coca-Cola Hellenic	Swedish Match

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

FOOD, BEVERAGES & TOBACCO - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector outlook

- Food - Macroeconomic conditions look more challenging in many emerging markets but the structural trends of increasing urbanization, westernization of diets and population growth are likely to continue to provide growth opportunities for packaged food companies in 2014. However offsetting the impact of emerging market currency deflation with local price increases could result in a relatively higher proportion of Food companies organic top line growth in EMs coming from price vs. volume next year. In developed markets we think consumption is unlikely to materially accelerate until consumer disposable income growth returns. There have however been some early signals in H1 13 of potential stabilization in demand in Southern Europe (e.g. Danone dairy in Spain) which if sustained could result in slightly higher relative contribution from developed markets vs. emerging markets in Food companies' top line growth in 2014. In general Food companies input costs have eased in 2013 (with the notable exception of dairy) which could benefit gross margins in 2014. We would expect any potential gross margin benefits to be reinvested in A&P to drive top line. With the outlook for organic profit growth remaining relatively subdued we expect M&A to remain an ongoing feature in the Food industry in 2014 given relatively low funding costs and gearing of most of the major Food companies.
- Beverages - In 2014 we believe a potential stabilisation in Europe is likely to be key for Beverage companies as they have suffered pronounced declines in this region. Pernod and Brown have recently hinted at potential better times, a message which has so far not been echoed by brewers, maybe due to the structurally challenged consumption of beer in Europe. Input costs should turn a tailwind in 2014 following a good barley crop which should benefit brewer margins (especially Carlsberg). We also expect European sugar prices to fall after years of abnormally high prices, a clear positive for soft drinks producers which have suffered in recent years. After a year spent deleveraging following deals in 2012 we expect brewers to return to large scale acquisitions in the next 24 months. Large scale M&A in spirits might take a bit longer to reappear as Diageo seem focused on bolt-ons and Pernod have further deleveraging to do.

Major ESG trends

- Healthy, Safe & Affordable Food: Increased consumer demand for food and beverage products is fuelled by the continuous growth of the world population. The world population is estimated to reach 9.1 billion people by 2050 according to the OECD. At the same time, per capita daily caloric intake is increasing. According to the State of Food and Agriculture report from the United Nations' Food and Agriculture Organization (FAO), average caloric intake has risen from 2,280 kcal in the 1960s to 2,800 kcal, and is expected to rise further. Increasing agricultural production in order to feed 9.1 billion people by 2050 while decreasing the environmental impact, will be a major challenge for this sector.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Major ESG trends (cont'd)

- Human Resources Management: Investment in labour accounts for the largest percentage of food and beverage companies' operating expenses. Labour costs are considerable at each level of the food supply chain, from processing to packaging to distribution to the sale of final products. Yet, as food manufacturers face increasing pressure from retailers to reduce product prices, some companies have begun outsourcing labour as a way to cut costs in the face of global competition. By hiring subcontractors and temporary workers instead of permanent employees, companies are able to cut wages, benefits and insurance and, if necessary, can easily restructure without implementing redundancy plans.

Company highlights

- Sustainable Agriculture: **Danone** is a founding member of the Sustainable Agriculture Initiative (SAI). It established a partnership with Nestlé and Unilever in 2002 to promote sustainable agriculture through this platform. The company focuses on validating and developing sustainable agricultural practices, communicating with decision makers and consumers, and involving other players belonging to the agri-food sector. Danone states that it is committed to having 100% of its palm oil supply certified by the Roundtable of Sustainable Palm Oil (RSPO) by 2014. In addition, it operates a Farmers Relationship Management (FaRMS) programme that supports producers to implement best practices for environmental preservation and ensures systematic monitoring of farms with respect to ten environmental criteria including waste management, the use of phyto-sanitary products, and energy and water consumption.
- Environmental Impact: **Nestlé** has made water a priority of its sustainability strategy, and has undertaken regular water consumption footprinting since 2000. The company reports its Water Resources Review programme focuses on five areas: water quantity, water quality, regulatory compliance, site protection, and relationships with other stakeholders. Nestlé reports that it has set the goal to reduce its relative water consumption by 10% by 2015. To meet this target, Nestlé has committed to ensuring water efficiency across its operations, treatment of discharged water, engagement with suppliers (especially with those delivering agricultural products) and raised awareness of water access and conservation. Since 2002, Nestlé reduced water withdrawals by 53% per tonne of production, decreased water discharges by 64% per tonne of production, recycled 6.9 million m^3 water in 2012, run around 489 water-saving projects in their factories saving 6.5 million m^3 and launched 217 clean drinking water projects in the South Asian region. Nestlé is a founding signatory of the CEO Water Mandate, works with the International Finance Corporation of the World Bank Group and McKinsey, produces Charting Our Water Future and works with the 2030 Water Resources Group (WEF-WRG).

Source: SG Cross Asset Research, Sustainalytics, Company, Media

FOOD, BEVERAGES & TOBACCO - SECTOR COMMENTS (3/3)

Company controversies

- Business Ethics: As a subsidiary of **Associated British Foods**, the retailer Primark, accounts for around 20% of the total revenues of the ABF group. In the last few years, Primark has been confronted with controversies related to unethical buying practices in developing countries where child labour has also been reported. In April 2013, a collapse of a building that hosted Primark's garment supplier in Bangladesh caused more than 1,100 fatalities. The company's response was strong. It took responsibility, agreed to compensate victims and was amongst the brands that signed a legally binding agreement on worker safety and building regulations in Bangladesh.
- Business Ethics: In February 2013, an international anti-poverty charity Action Aid published a report alleging that **ABF**, through its Illovo subsidiary, had avoided making tax payments to the Zambian government over a five-year period. News articles reported that Illovo which owns Zambia Sugar paid less than 0.5% of its US$123m pre-tax profits in corporation tax between 2007 and 2012. The NGO's report further states that the company benefitted from capital allowance and tax-relief schemes in Zambia for construction of the biggest sugar mill in Africa, which cost the company US$150m.
- Human Resource Management: In February 2013, Oxfam released a report "Labour Rights in **Unilever's** Supply Chain: From compliance to good practice" which revealed poor labour practices at one of Unilever's factories as well as at the company's suppliers in Vietnam. Oxfam found that wages paid by the company were not sufficient to secure decent living for workers, including adequate diet and schooling for their children. Furthermore, the company's workers as well as its suppliers were not educated about Unilever's global code of conduct. Besides, workers were afraid to express their grievances and engage in collective action.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Healthy, Safe & Affordable Food: Do you have programmes on hand, in order to prevent food-related scandals and did you establish action plans in order to alleviate the impact of possible food-related scandals? Do you have means and the measures in place to trace the ingredients of your products?
- ✓ Sustainable Agriculture: How do you control the risks of using GMOs in your products? In the case that your products contain GMOs, do you have practices concerning the labelling of these products?
- ✓ Environmental Impacts: Does your company assess its water footprint and how do you address the issue of water treatment and purification? Are you aware of potential risks related to water scarcity and how do you address this issues?
- ✓ Sustainable Agriculture: Do you have sourcing practices at your disposal which ensure fair prices for crops suppliers in developing countries? Do you collaborate with suppliers in order to improve working conditions and safety standards for their employees?
- ✓ Environmental Impacts: Do you have operations in countries that are subject to higher risks and did you understand that there was a risk in this region before you went there? Does your company have a process to identify countries which will be high risk in the future and do you provide training to employees in high risk positions?

FOOD & STAPLES RETAILING - ESG THEMES & INDICATORS

Corporate Governance	Reputational Risks & Opportunities	Human Resources Management	Communities
Disclosure of Directors' remuneration	Public position statement on responsible marketing	Programmes to increase workforce diversity	Society & community-related controversies or incidents
Board independence	Policy on use of genetically modified organisms (GMO) in products	Percentage of employees covered by collective bargaining agreements	
Board diversity	Programmes and targets to promote sustainable food products	Employee turnover rate	
Non-audit fees relative to audit fees	"Fair Trade" products	Employee-related controversies or incidents	
Governance-related controversies or incidents	"Organic" products		

Source: SG Cross Asset Research, Sustainalytics

FOOD & STAPLES RETAILING - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Ahold	Netherlands	€13,137.1m	79.5	€12.85	€10.30	Sell	**68.86**	95.80	55.57	55.00	*No data*	*No data*
Carrefour	France	€18,512.3m	82.3	€25.57	€25.00	Hold	**68.60**	85.00	55.57	71.66	*No data*	*No data*
Tesco	UK	£30,063.2m	81.0	£3.72	£2.90	Sell	**66.00**	85.00	50.00	71.66	*No data*	*No data*
Casino	France	€8,615m	49.1	€76.30	€90.00	Buy	**61.60**	79.80	55.71	45.00	*No data*	*No data*
Dia	Spain	€4,307.7m	87.6	€6.34	€7.40	Buy	**51.33**	81.00	42.85	21.66	*No data*	*No data*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

FOOD & STAPLES RETAILING - RATING MATRIX

SG Investment Reco* / ESG Rating	TIERS 3	TIERS 2	TIERS 1
Buy	Dia	**Casino**	
Hold			**Carrefour**
Sell		Tesco	Ahold

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

FOOD & STAPLES RETAILING - SECTOR COMMENTS (1/2)

Sector outlook

- We are confident on the Food retail sector (Overweight); its valuation appears attractive (15% premium to the market in terms of 12-month P/E ratio, below the historical average of 22%). We have identified three positive trends: 1/ Although market conditions remain tough in all regions (stiff price competition and pressure on volumes), the first two quarters of 2013 showed a stabilisation in sales trends (no more deterioration in volume and price trends), i.e. which means that the worst is probably over; 2/ Food retailers show stronger capital discipline and stronger focus on execution, which is key to improve margins and returns; 3/ We have noticed more pragmatism on the part of the management team to clean portfolios and dispose of non-core, low-profitable or loss-making assets (positive implications for the sector: strengthened balance sheet, better visibility on earnings and stronger focus). This positive strategic move is clearly underestimated by the market and investors, in our view.

Major ESG trends

- Communities: The food and staples retailing peer group has witnessed an increase in big-box retailers selling a wide array of products alongside traditional grocery items. These supercentres are common in North America and are also making their way into cities in developing countries. While supercentres provide jobs, one-stop shopping and low prices, there is widespread concern over their adverse economic impact on smaller merchants, environmental damage (from building construction to traffic), low wages for workers, and contribution to cultural homogenization. In response to such concerns, a more recent countertrend among large supermarket chains has been to open mini-retail outlets or "community stores" targeting the "on-the-go" shopper while taking local neighbourhood characteristics into consideration. Examples of small-format stores include **Tesco** and **Marks & Spencer** in Europe, and **Sobey's** in Canada.
- Reputational Risks & Opportunities: Consumers are becoming increasingly concerned with what they eat. As a result of numerous NGO campaigns, documentaries on food production, food recalls, and high profile cases of food contamination, consumers are more aware than ever of the environmental and health impacts of food and the way it is produced, stored, distributed and consumed. This awareness has translated into increased demand for products with notable health benefits and environmental attributes, such as organic and locally produced food, or fair trade certified products. Retailers can respond to this increased awareness by differentiating their product offerings, which can even create competitive advantages. Many companies in the food and staples retailing peer group are offering healthy food products as well as engaging in environmental initiatives. Supermarkets are offering more fair trade and organic products to meet the growing demand for products with direct environmental and social benefits. Furthermore, supply chain management becomes increasingly important since consumers demand transparency concerning food origins, ingredients and handling.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Reputational Risks & Opportunities: In February 2013, **Sainsbury's** was found to have sold mislabelled beef products which contained undeclared pork. While it denied any link to the earlier horse-meat scandal, it explained that a "filling error" at a supplier was to blame. Sainsbury's own regular tests found out about the issue and recalled all related products. Mid-February 2013, Sainsbury’s was amongst various European food retailers recalling food products as part of a food scare on mislabelled products. Products sold as beef potentially contained horsemeat. Sainsbury’s removed own-labelled frozen burgers as a precautionary measure. Tests did not show up horse contamination (unlike at Tesco) and this was confirmed by the company in a public statement on 21 February. In contrast to some other food retailers, Sainsbury’s is transparent on the case and its involvement.
- Reputational & Operational Risks: In May 2013, **Wal-mart** announced that it was investing RMB100m (US$16.3m) in food safety improvements in China. China has experienced numerous food safety incidents and Wal-mart has been involved in some of these. In May 2013, a report released by China's state-run Xinhua news agency claimed that Wal-mart was using expired eggs in baked goods being sold to customers. The company stated that it was investigating the claim.

Company controversies

- Reputational Risk and Opportunities: Between January and March 2013, **Tesco** issued several product recalls linked to undeclared horse-meat in its products that attracted wide-spread public attention. Irish authorities discovered horsemeat in products sold as beef at several retailers. Tesco immediately issued an apology, removed the implicated products from its shelves and committed to a thorough investigation. As of mid-February 2013, **Ahold** recalled its Euro Shopper frozen lasagne bolognaise from the shelves after it confirmed that these products contained non-declared horse meat. **Sainsbury’s, Carrefour, Metro AG, Wm. Morrison Supermarkets, Casino Guichard Perrachon & Cie, Etablissements Delhaize Freres et Cie "Le Lion“** and **Groupe Auchan,** were amongst various European food retailers recalling food products as part of a food scare on mislabelled products.
- Reputational Risk and Opportunities: In February 2013, **Koninklijke Ahold** was ordered to pay US$124m to settle litigation between its chain Stop & Shop Supermarket and Vornado Realty Trust (VNO), arising from a rental agreement.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Sustainable Agriculture: How do you control the risks of using GMOs in your products? In the case that your products contain GMOs, do you have practices concerning the labelling of these products?
- ✓ Reputational Risk & Opportunities: Do you have regular controls of your products as well as formal action plans concerning the recall of products? Do you have explicit programmes on how to limit harm from media attention in case of food-related “scandals”?
- ✓ Reputational Risk & Opportunities: Does your company assess its water footprint and how do you address the issue of water treatment and purification? Are you aware of potential risks related to water scarcity and how do you address this issue?
- ✓ Human Resource Management: Do you perform employee satisfactory surveys and do you report on employee-related controversies and incidents? How do you ensure that employees are covered by collective bargaining agreements?
- ✓ Reputational Risk & Opportunities: Does your company have a formal policy on working conditions, child labour and health & safety issues for its employees as well as for its sub-contractors? Do you perform or monitor supply chain audits and do you refrain from procuring products from suppliers that use controversial operational practices?

HOUSEHOLD & PERSONAL PRODUCTS - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	Product Stewardship	Environmental Impacts	Customer
Disclosure of Directors' remuneration	Business-ethics related controversies or incidents	Sustainability -related products & services	Water intensity	Public position statement on responsible marketing
Board independence		Products & services related controversies or incidents	Data on percentage of FSC certified wood/pulp as raw material	Programmes & targets to stimulate "Sustainable Agriculture"
Board diversity		Environmental fines and non-monetary sanctions	Programmes and targets to reduce direct GHG emissions	Policy on genetic engineering
Non-audit fees relative to audit fees			Carbon intensity	Policy on animal testing
Governance-related controversies or incidents			External environmental certification of suppliers	Data on percentage of recycled/re-used raw material used

Source: SG Cross Asset Research, Sustainalytics

HOUSEHOLD & PERSONAL PRODUCTS - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Ahold	Netherlands	€13,137.1m	79.5	€12.85	€10.30	Sell	**68.86**	95.80	55.57	55.00	*No data*	*No data*
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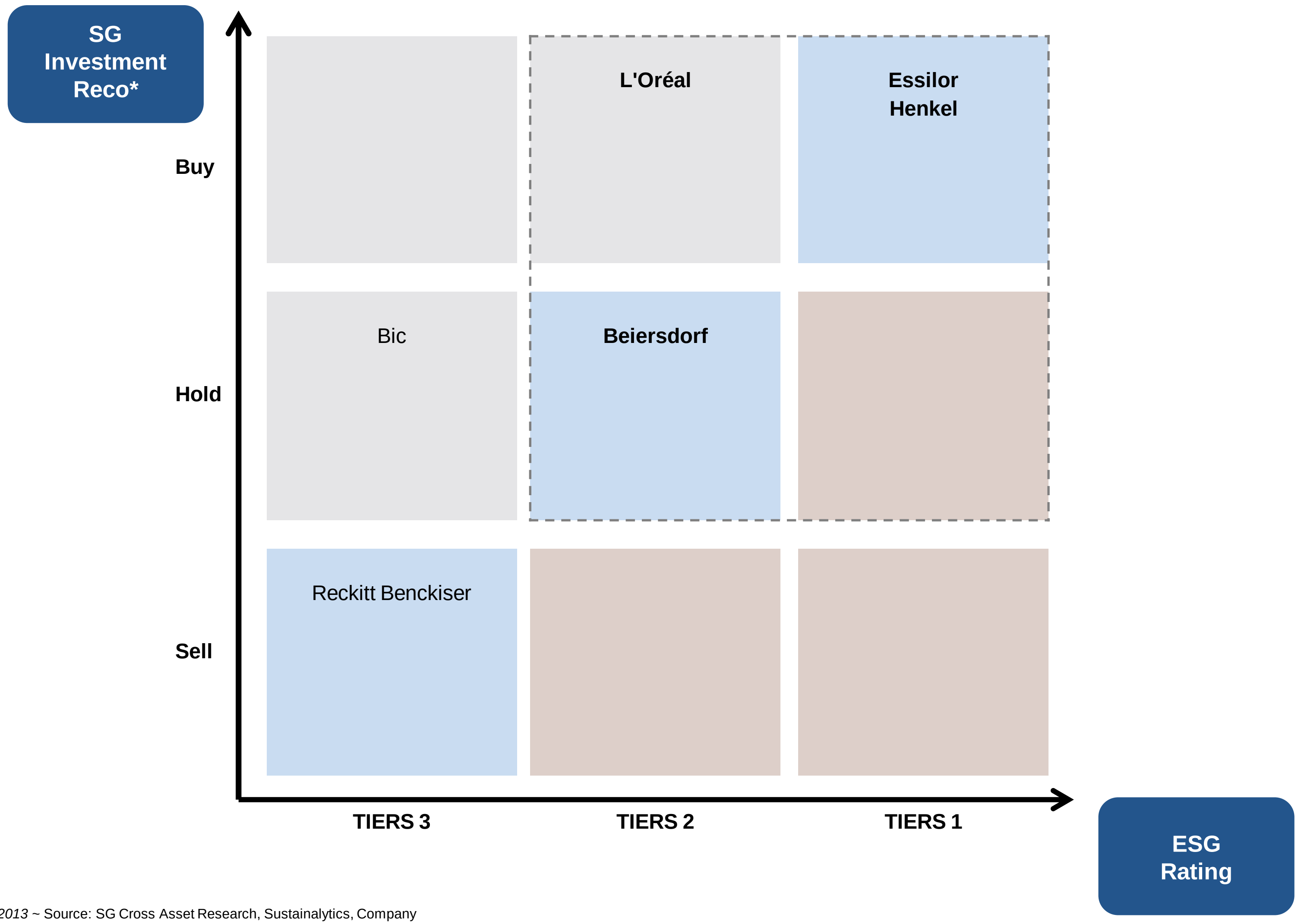
Casino	France	€8,615m	49.1	€76.30	€90.00	Buy	**61.60**	79.80	55.71	45.00	*No data*	*No data*
Dia	Spain	€4,307.7m	87.6	€6.34	€7.40	Buy	**51.33**	81.00	42.85	21.66	*No data*	*No data*

Low
High

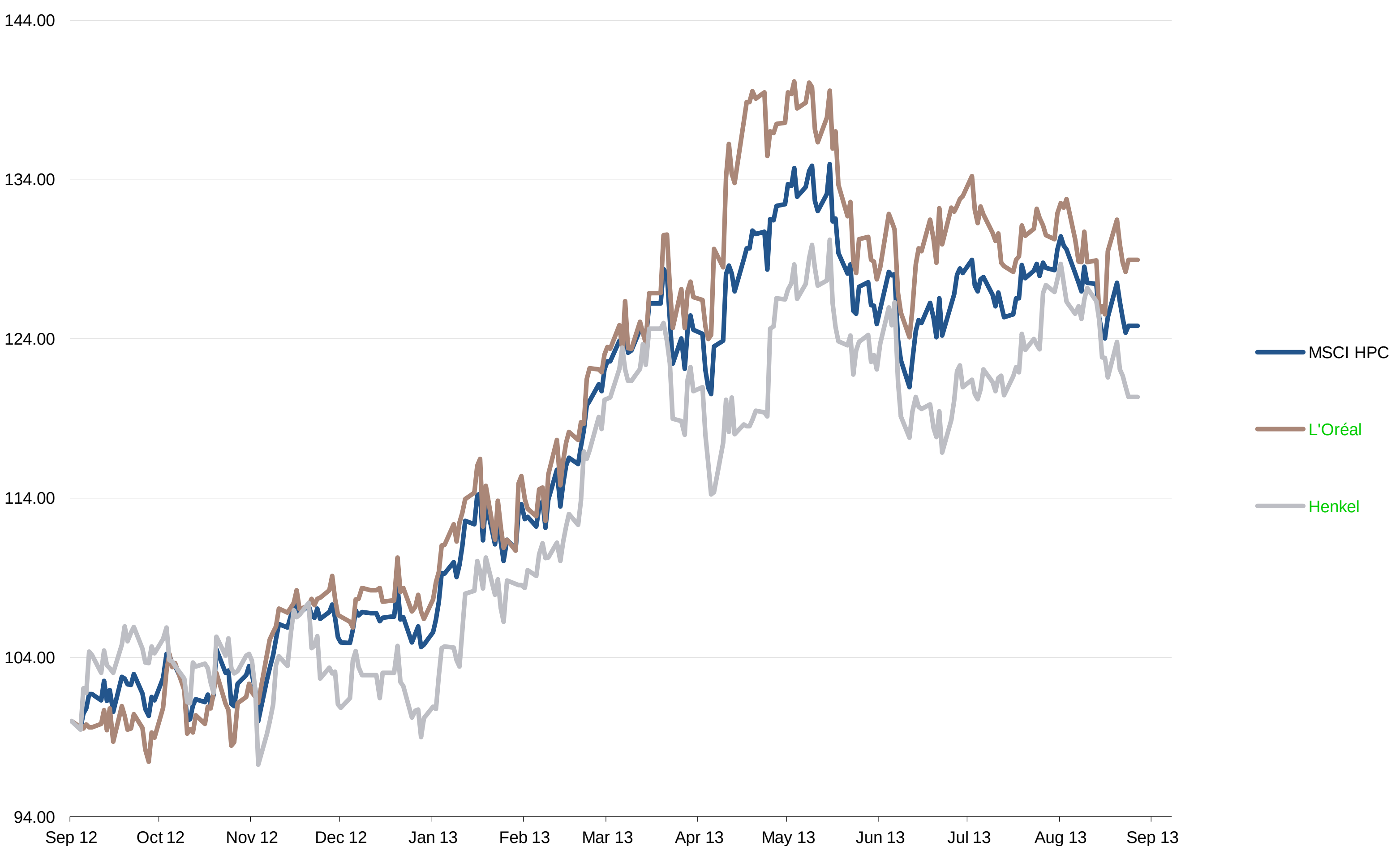
Source: SG Cross Asset Research, Sustainalytics, Company

HOUSEHOLD & PERSONAL PRODUCTS - RATING MATRIX



* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

HOUSEHOLD & PERSONAL PRODUCTS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

HOUSEHOLD & PERSONAL PRODUCTS - SECTOR COMMENTS (1/2)

Major ESG trends

- Product Stewardship: Product innovation is a key competitive advantage for companies in this sector. Companies that release alternatives to currently available products have the opportunity to increase their revenue stream. Consumer demand for sustainability related products, such as organic plant-based and natural products, has spurred many companies to offer such products to gain a competitive edge. Another trend in the sector is the increasing popularity of “cosmeceuticals” - cosmetics with biologically active ingredients claiming to have medical or drug-like benefits. As consumers become more conscious about what they buy, companies have to emphasise product safety. Input of hazardous ingredients will have to be managed and public opinion concerning animal testing is becoming more and more evident.

Company highlights

- Environmental Impacts: **Henkel** is committed to using 100%-recyclable packaging materials by 2015 for markets with regional collection and recycling systems, and to using 100%-recycled paper and board materials "where possible and where recycled paper is available". Concerning paper packaging, which accounts for about 42% of Henkel's total packaging footprint, the company says it uses around 50% of recycled paper and cardboard. With regard to plastic packaging, which accounts for about 47% of Henkel's total packaging footprint, Henkel states that it intends to steadily increase the proportion of recycled plastic materials used. The PET bottles used for laundry detergents and household cleaners contain 25% recyclable material on average, while the bottles used for dishwashing liquid, glass and bathroom cleaners in the company's Terra line contain 100% recyclable PET material. The company has used ingredients based on renewable raw materials for many years to optimise the overall characteristics of its products, wherever this is compatible with environmental, economic and social considerations. Renewable raw materials are already key ingredients in many of Henkel s products, such as soaps, shampoos, glue sticks and wallpapering adhesives. More than 30% of the ingredients used in the surfactants (washing active substances) in their laundry detergents are derived from renewable raw materials.
- Environmental Impacts: **Unilever** Indonesia has a strong and detailed programme targeting its suppliers of raw materials called “Good Agricultural Practice Guidelines”. The guidelines include 11 relevant indicators for the consumption of water, energy, and pesticides as well as for preserving biodiversity and reinforcing human and animal welfare. Unilever Indonesia works with its suppliers to improve their agricultural practices and includes relevant requirements in its procurement contracts which "define soil preparation, fertilisation regimes, harvesting and other activities" for the key crops namely palm oil, peas, spinach, tea and tomatoes. Furthermore, the company has established a Sustainable Agriculture Code which provides guidelines and best practices for the most important spheres of agriculture.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

HOUSEHOLD & PERSONAL PRODUCTS - SECTOR COMMENTS (2/2)

Company controversies

- Business Ethics: In March 2013, **Beiersdorf** and four other companies, including Procter & Gamble, GlaxoSmithKline, **L'Oreal**, and Erdal-Rex were fined a total of €39m (US$51m) by the German competition authorities for taking part in anti-competitive sharing of information between 2004 and 2006, including exchanges on upcoming price increases, discounts demanded by retailers and negotiations with retailers.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Environmental Impacts: Do you have any policies concerning hazardous substances and have you set specific targets for reducing hazardous waste? Do you have action plans concerning incidents involving hazardous substances?
- ✓ Customers: Do you assess risks within the operations of your suppliers? Do you perform or monitor supply chain audits and do you refrain from procuring products from suppliers that use controversial operational practices?
- ✓ Product Stewardship: How do you address the issue of product safety and do you have regular controls of your products? Do you have explicit programmes on how to limit the impact of hazardous ingredients?
- ✓ Product Stewardship: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused / recycled materials in new products?
- ✓ Environmental Impacts: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?

INSURANCE - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	“Impact Investing”	Human Resources Management
Disclosure of Directors’ remuneration	Customer-related controversies or incidents	Sustainability-related financial services	Executive compensation tied to ESG performance
Board independence	Business-ethics related controversies or incidents	In-house team dedicated to responsible investment/finance	Employee turnover rate
Board diversity		Participation in sector initiatives (CDP, UNPRI)	Employee-related controversies or incidents
Non-audit fees relative to audit fees			
Governance-related controversies or incidents			

Source: SG Cross Asset Research, Sustainalytics

INSURANCE - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
AXA	France	€42,498.7m	85.6	€17.76	€23.00	Buy	**83.46**	100.00	53.33	25.00	*No data*	*No data*
Munich RE	Germany	€26,004.4m	100.0	€145.00	€142.00	Hold	**79.53**	92.11	60.00	25.00	*78.07*	*83.21*
Allianz SE	Germany	€51,408.4m	100.0	€112.75	€125.00	Hold	**77.69**	86.66	60.00	50.00	*78.07*	*72.50*
Swiss RE	Switzerland	CHF27,636.2m	0.0	CHF74.55	CHF95.00	Buy	**74.84**	80.44	66.33	50.00	*68.46*	*83.92*
Aviva	UK	£12,105.7m	99.9	£4.11	£4.00	Buy	**74.07**	79.44	66.00	50.00	*78.07*	*88.21*
Zurich Insurance Group	Switzerland	CHF34,969.1m	85.2	CHF235.8	CHF252.0	Hold	**73.30**	80.44	59.66	50.00	*70.00*	*77.85*
Assic Generali spa	Italy	€23,244.1m	77.1	€14.93	€15.50	Hold	**71.76**	78.11	60.00	50.00	*70.38*	*81.42*
Legal & General	UK	£11,707.3m	99.9	£1.98	£1.75	Hold	**69.53**	67.11	83.33	50.00	*69.61*	*68.92*
Standard Life	UK	£8,144m	47.4	£3.43	£3.20	Sell	**63.84**	72.22	60.00	0.00	*63.84*	*84.64*
Scor	France	€4,717m	100.0	€24.53	€26.40	Buy	**61.84**	64.33	66.66	25.00	*61.92*	*50.35*
Hannover RE	Germany	€6,669m	45.7	€55.30	€58.00	Hold	**58.38**	51.00	100.00	0.00	*58.46*	*54.28*
Ageas	Belgium	€7,270.2m	89.1	€31.08	€36.50	Buy	**56.53**	56.66	66.66	25.00	*56.53*	*No data*
PZU	Poland	PLN36,466.4m	65.0	PLN422.3	PLN442.0	Buy	**54.14**	39.80	90.00	0.00	*57.14*	*49.77*
Resolution	UK	£4,580.5m	99.3	£3.23	£2.60	Hold	**52.69**	53.88	66.66	0.00	*52.69*	*69.28*
Prudential	UK	£29,867.1m	95.7	£11.67	£13.00	Buy	**50.69**	51.00	66.66	0.00	*50.76*	*64.28*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

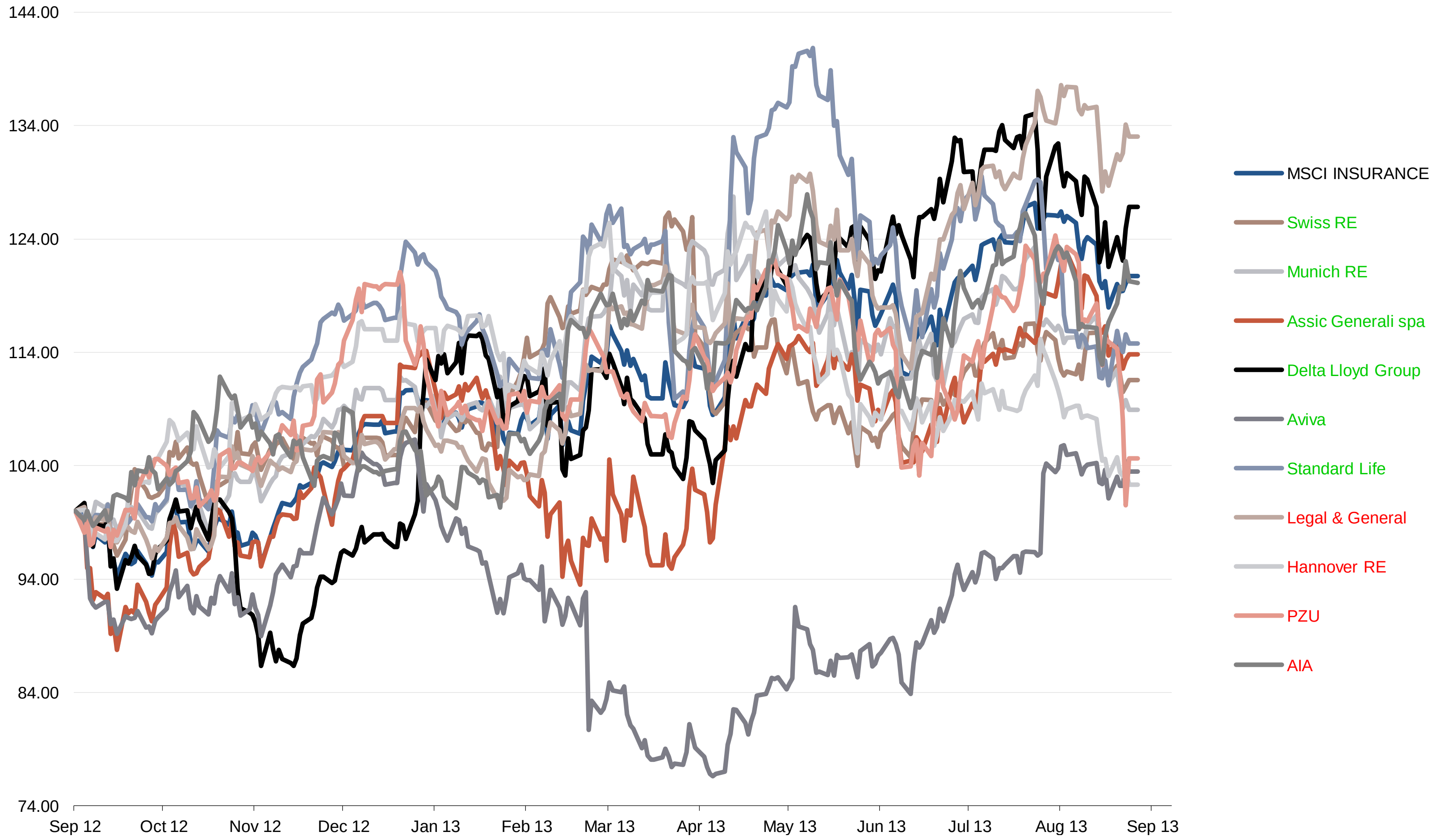
INSURANCE - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Ageas Prudential *(PZU)*	**Scor**	**AXA** **Swiss RE** **Aviva**
Hold	Hannover RE Resolution	**Zurich Insurance** **Assic Generali spa** **Legal & General**	**Munich RE** **Allianz SE**
Sell		Standard Life	

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

INSURANCE - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

INSURANCE - SECTOR COMMENTS (1/2)

Sector outlook

- We have an Overweight stance on the sector for five main reasons: 1) the sector's solvency is strong at 228% of the minimum capital requirements at YE 2012, which is considerably higher than the 173% in 2007 on the eve of the credit crisis (which the sector endured with few stocks having to raise capital). 2) The pricing outlook for P&C remains reasonably robust with commercial lines starting to harden in Europe, offsetting rate softening in personal motor lines. The outlook for reinsurance pricing is less positive but reinsurance is a smaller part of the sector. 3) The threat of low interest rates has been significantly mitigated in Europe due to the existence of policyholder capital in life insurance policy capital structures. Some €50bn of policyholder capital exists in the European listed sector which serves as a cushion against low interest rates. 4) The sector's valuation is still attractive, trading on a P/book of 1.2x with a sustainable ROE of some 14%, implying a cost of equity of 12% which seems too high to us. 5) Interest rates have risen in the US, relieving the serious spread compression risk in the US life sector, and benefiting the US operations of several major European stocks, including Axa, Aegon and Prudential.

Major ESG trends

- Impact Investing: In recent years, significant changes in weather patterns have been observed throughout the globe, including abnormal heat and cold waves, storms and floods, severe droughts and landslides, snowstorms and hurricanes. Extreme weather events affect property and casualty insurers most directly, these insurers being confronted with increasing losses and claims that impact their profitability. The worldwide trend towards urbanisation and densification of populations in coastal areas add to the potential severity and complexity of weather catastrophes. On the other hand, climate change can be seen as an opportunity to develop new products, reach out to new customers and gain a competitive edge. ClimateWise, an international insurance initiative, has set up a list of principles designed to help insurers embrace the challenges and opportunities of climate change.
- Corporate Governance: The European Commission's Solvency II directive, expected to come into effect in January 2014, will introduce a common approach to prudential regulation, based on economic principles for the measurement of assets and liabilities. Insurers' capital requirements will be aligned with their underlying risks. The directive targets insurers operating within the European Economic Area, but companies headquartered outside the EU are affected through their subsidiaries and US regulators are redrafting their capital adequacy requirements accordingly.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

INSURANCE - SECTOR COMMENTS (2/2)

Company highlights

- Impact Investing: **Munich Re** stands out among its peers and the corporate sector at large for its sustainability performance. The company's NatCatSERVICE is used by the insurance industry, the United Nations, the World Bank, public authorities and environmental associations to assess the extent and intensity of natural hazard events in different parts of the world. NatCatSERVICE offers clients global and national statistics and analyses, loss lists, maps, individual event reports and surveys. As a strong supporter of geothermal energy, Munich Re was the first insurer to offer customers exploration risk insurance in 2003, from the planning stage to project completion. The product "covers the costs of drilling in the event of unsuccessful exploration." Furthermore, the company has partnered with the German Federal Ministry of the Environment and KfW to promote deep geothermal drilling ventures.
- Impact Investing: **Delta Lloyd** states that responsible investment is "structurally embedded" in its investment policy. The publicly available policy covers all asset classes managed by Delta Lloyd Asset Management, the Delta Lloyd Group asset manager (it is not applicable to banking units Delta Lloyd Bank and Delta Lloyd Bankengroep). The policy outlines approaches for ESG exclusions, integration, engagement, best in class, sustainability theme funds and proxy voting. Exclusion criteria are in place for investments that violate the UN Global Compact principles or are involved in the production or trade of controversial weapons. Delta Lloyd engages with companies on responsible entrepreneurship and focuses its proxy voting efforts on companies where holdings exceed 5% or €25m (US$33m). For its theme funds and funds specifically focused on sustainable development, Delta Lloyd applies a best-in-class approach. The asset manager integrates ESG criteria in investment decisions across asset classes.

Company controversies

- Business Ethics: In March 2013, the British Financial Services Authority (FSA) fined **Prudential Plc** and its subsidiary Prudential Assurance Co. Ltd. a combined £30m (US$45m) for violation of the FSA Principles and UKLA Listing Principles. Prudential allegedly failed to inform the regulator about its intentions to acquire AIA Group Ltd from American International Group Inc. in 2010. The FSA found out about Prudential's plans from the media, which limited its "regulatory responsibility to conduct an intensive, detailed and thorough scrutiny of the proposed transaction". Moreover, the FSA officially reprimanded Prudential's chief executive officer Tidjane Thiam for an "error of judgement" in the matter.
- Business Ethics: In March 2013, the Florida Department of Financial Services filed a lawsuit with the Leon County court against **Allianz** and its US subsidiary Allianz Risk Transfer for alleged involvement in "fraudulent transactions", which led to the insolvency of Magnolia Insurance Company. The Department of Financial Services is seeking approximately US$20m in damages from Allianz for offering Magnolia Insurance a "questionable loan", charging excessive fees afterwards and participating in a "scheme to misreport its customers' financial status". Allianz has denied all allegations.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Impact Investing: To what extent does your company take “Responsible Investment“ into account? Does your company have an in-house team dedicated to responsible investment / finance?
- ✓ Impact Investing: Do you take “ESG” issues into account when making investment decisions? Do you have explicit policies on how to integrate “ESG” factors into your investment models?
- ✓ Regulations: What kind of measures has your company taken in order to comply with the European Commission’s Solvency II? Did your company set enough funds aside to make the investments necessary to comply with the EU regulations?
- ✓ Impact Investing: Does your company have a risk assessment tool to deal with increasingly extreme weather conditions and do you manage risks stemming from claim payments due to catastrophes? How does your company deal with risks resulting from the European credit crises?
- ✓ Business Ethics: Does your company have programmes to detect and fight corruption and do you provide training sessions for employees? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?

MEDIA - ESG THEMES & INDICATORS

Corporate Governance	Editorial "Quality and Integrity"	Data Privacy	Human Resources Management	Environmental Impacts
Disclosure of Directors' remuneration	Outsourcing of core editorial tasks	Policy statement on data privacy	Employee turnover rate	Formal policy or programme on green procurement
Board independence	Corporate wide editorial guidelines	Customer-related controversies or incidents	Percentage of temporary workers	Programmes and targets to reduce direct GHG emissions
Board diversity	Policy on conflicts of interest		Percentage of employees covered by collective bargaining agreements	External environmental certification of suppliers
Non-audit fees relative to audit fees	Customer-related controversies or incidents			Data on percentage of recycled/re-used raw material used
Governance-related controversies or incidents				Data on percentage of FSC certified wood/pulp as raw material

Source: SG Cross Asset Research, Sustainalytics

MEDIA - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
WPP GROUP	UK	£17,249.1m	81.8	£12.92	£13.40	Buy	68.59	96.00	69.25	40.00	*68.68*	*70.25*
Vivendi	France	€23,124.9m	69.5	€17.27	€19.00	Buy	67.10	89.16	81.25	18.00	*67.10*	*51.38*
Lagardère	France	€3,082.1m	76.4	€23.50	€24.00	Buy	66.31	100.00	58.88	46.00	*59.73*	*62.00*
Reed Elsevier NV	Netherlands	€10,576.6m	81.7	€14.44	€16.80	Buy	66.31	100.00	50.55	61.00	*No data*	*No data*
Reed Elsevier PLC	UK	£9,530m	58.8	£8.11	£9.40	Buy	66.31	100.00	50.55	61.00	*58.15*	*66.00*
Havas	France	€2,296m	62.7	€5.90	€6.20	Buy	63.75	50.00	62.50	80.00	*51.25*	*68.81*
Mediaset Espana	Spain	€3,254.9m	41.4	€8.00	€4.20	Sell	55.94	61.80	74.33	17.00	*46.57*	*49.25*
TF1	France	€2,618.5m	51.2	€12.42	€11.10	Hold	55.68	60.00	66.44	32.00	*55.78*	*53.25*
Pearson	UK	£10,500.4m	92.8	£12.83	£11.00	Sell	55.26	75.00	36.66	69.00	*56.57*	*57.50*
Axel Springer AG	Germany	€3,796.3m	40.0	€38.37	€39.00	Hold	52.52	56.00	60.88	34.00	*52.63*	*56.00*
Wolters Kluwer	Netherlands	€5,604.7m	80.6	€18.56	€18.50	Hold	48.68	80.00	44.44	25.00	*48.68*	*60.00*
Solocal Group	France	€488.9m	43.6	€1.74	€2.80	Buy	46.49	72.00	49.81	15.00	*46.57*	*52.25*
Publicis Groupe	France	€12,944.7m	80.9	€60.77	€66.50	Buy	44.85	85.00	36.92	19.00	*44.91*	*53.41*
Prosiebensat1 Media	Germany	€6,647.1m	47.4	€30.38	€31.50	Hold	42.36	40.00	64.44	5.00	*No data*	*No data*
M6	France	€1,951.2m	43.6	€15.50	€15.00	Buy	42.31	76.00	44.33	5.00	*42.36*	*45.25*
JCDecaux	France	€5,961.3m	27.8	€26.83	€19.00	Sell	40.87	61.00	37.96	26.00	*40.87*	*37.83*
Cyfrowy Polsat	Poland	PLN3696.3m	48.5	PLN21.88	PLN20.70	Hold	37.50	50.00	50.00	0.00	*37.50*	*47.60*
Ipsos	France	€1,342.4m	63.2	€29.62	€30.00	Hold	37.45	76.00	32.40	8.00	*34.73*	*33.00*
TVN	Poland	PLN4,507.6m	46.0	PLN13.1	PLN12.0	Sell	34.73	82.00	27.77	0.00	*34.73*	*38.00*
Mediaset	Italy	€4,006.7m	54.9	€3.39	€2.10	Sell	27.63	40.00	36.11	0.00	*27.63*	*29.00*

Low

High

Source: SG Cross Asset Research, Sustainalytics, Company

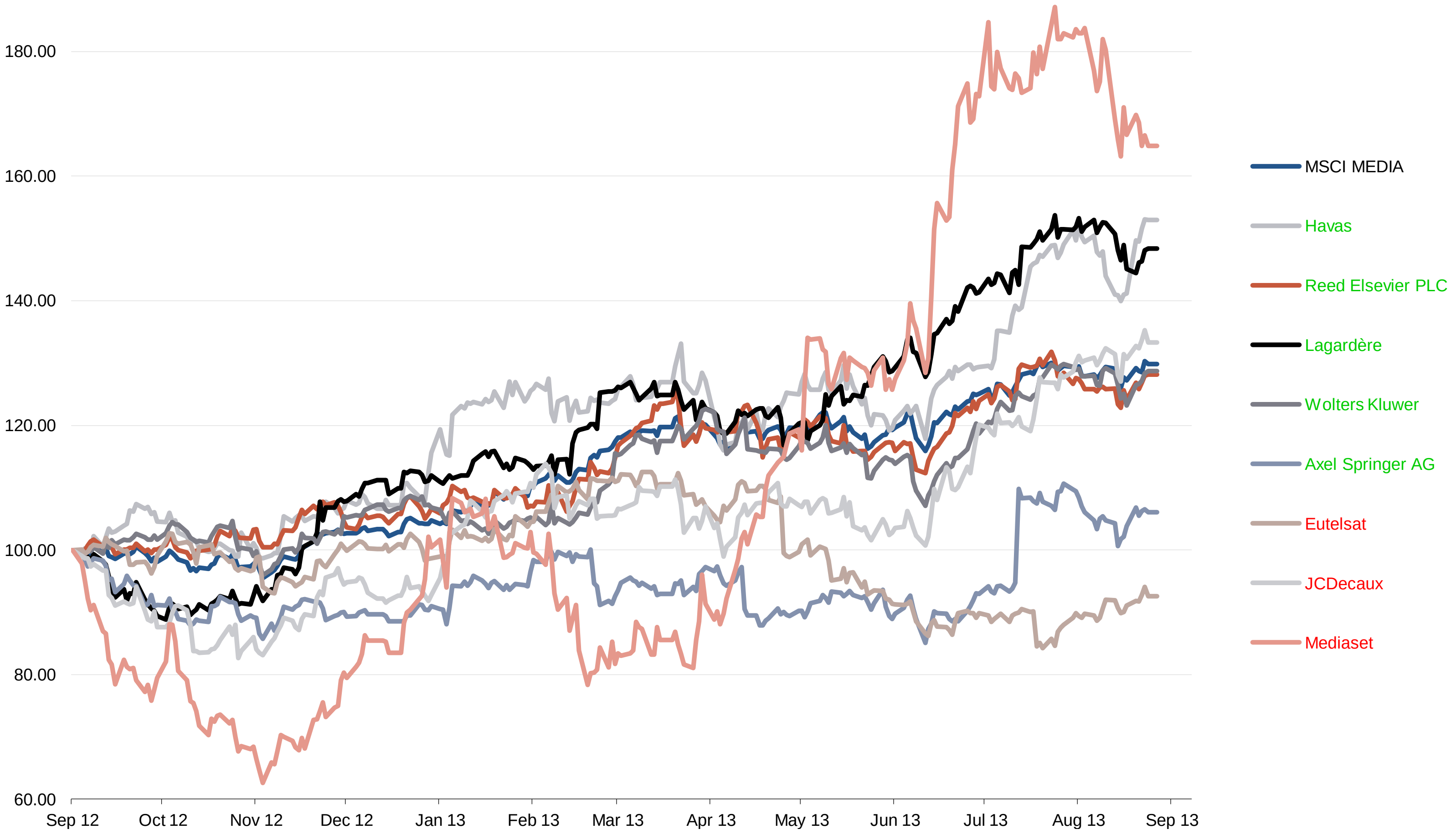
MEDIA - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	M6	**Solocal Group** **Publicis Groupe**	**WPP GROUP** **Vivendi** **Lagardère** **Reed Elsevier NV** **Reed Elsevier PLC** ***(Havas)***
Hold	Prosiebensat1 Media Ipsos *(Cyfrowy Polsat)*	**TF1** **Axel Springer AG** **Wolters Kluwer**	
Sell	JCDecaux TVN Mediaset	Pearson	Mediaset Espana

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

MEDIA - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector outlook

- While structural headwinds (excess supply of media inventory, online lower pricing impacting other media) will continue to weigh on the long-term growth potential of ad-financed models, evidence of macroeconomic stabilisation in Europe suggests a more benign ad market 2014 outlook. After two years in which multiples expansion have played a key role in European media shares' performance (often reflecting an overdue rerating in SG Media team's view), there is still room for earnings upgrades on the most operationally leveraged companies (TV, outdoor). In this context, European TV broadcasters offer an attractive combination of European domestic focus, high operating leverage and sound balance sheets. We, however, believe Broadcasters' current valuations already imply aggressive embedded 2014-15 top-line recovery assumptions. We continue to like the Agencies (WPP, Publicis pending its merger with Omnicom) subsector: its fundamentals are strong, and the stabilisation /slight improvement of Europe (typically 35-40% of revenues) should offset the softening of Emerging (25-30% of revs) to deliver organic growth nearing 4%, i.e. a level consistent with high single-digit EPS growth. Professional Publishers lack earnings momentum and in some specific cases are penalised by a counter-cyclical positioning (Pearson), but we expect multiples for our preferred stock, Reed Elsevier, to extend their dramatic rerating to levels more consistent with the patient and systematic reshaping of its portfolio on higher quality scalable businesses, with US Legal or Exhibitions. We finally expect "conglomerates" to complete their portfolio rationalisation (Vivendi through its mooted demerger project, Lagardere through its Canal+ France stake disposal), thereby eliminating their long-standing discounts.

Major ESG trends

- <u>Human Resources Management</u>: As revenues decline or remain flat, many newspapers and publishers have implemented cost-cutting measures such as layoffs and the outsourcing of editorial tasks. The US Department of Labor's Bureau of Labor Statistics projects that employment in the newspaper and publishing sectors will decline 62% by 2020, while employment in the motion picture, video and sound recording industries is projected to decline 25% by 2020. While layoffs will reduce the staff size of many media companies, they will not necessarily reduce the bargaining power of the various writers unions, or diminish the relevance of strong employee relations. Future hiring in the sector is expected to involve highly skilled and specialised employees.
- <u>Editorial Quality & Integrity</u>: New distribution platforms and increased competition for consumers have spurred product innovation in the sector. Most newspapers, including the New York Times and News Corp.'s Wall Street Journal, now offer web and tablet versions of their paper, while broadcast and cable companies such as CBS and NBC offer online and tablet video-on-demand options.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Environmental Impacts: **Reed Elsevier** is a founding member of the Publishers' database for Responsible Environmental Paper Sourcing (PREPS), is a database that assesses paper suppliers by a range of sustainability criteria. According to PREPS criteria, papers graded 3 or above out of a scale of 5 are considered to be derived from legal and known sources, in line with forest certification standards such as FSC. In FY2012, Reed Elsevier reported that 96% of papers purchased by the company were graded on PREPS.
- Environmental Impacts: In FY2012, **Pearson** reported that 100% of its electricity was derived from renewable sources (218,410 MhW/year). In regards to goals, the company reports that it achieved its target to "purchase green electricity to cover all our global operations.“

Company controversies

- Corporate Governance: In February 2013, Lagardere sued **Vivendi** for US$2.2bn in a dispute over the management of their Canal+ joint venture. Vivendi appealed the lawsuit. In June 2012, a US federal jury ruled that Vivendi should pay US$954.6m (€765m) in damages to Liberty Media Corp for breach of contract and fraud when it sold its stake in the company in order to purchase USA Networks. The company has appealed against the decision.
- Corporate Governance: In February 2013, the Spanish competition watchdog CNC imposed a €15.6m (US$21m) fine on **Mediaset Espana** for failing to carry out the obligations connected with the merger between Spanish TV broadcasters Telecinco and Cuatro. CNC opened formal proceedings against Mediaset in June 2012 for breaching the CNC Council's resolution dated 28 October 2010 authorising the merger, by failing to honour certain commitments. CNC alleged that Mediaset Espana, owner of Telecinco, did not separate the sale of advertising spots between the two channels and did not act to facilitate the acquisition of audiovisual rights by rival channels. Mediaset reported that it would appeal against the fine. In addition to this, the company has to pay a €3.6m (US$4.7m) fine for failing to meet a deadline to provide the competition watchdog with a detailed report about the merger operation with Cuatro.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Data Privacy: What kind of steps have you taken to secure user data? How do you prevent potential financial as well as reputational damage from incidents concerning data security?
- ✓ Environmental Impacts: Are you a signatory of certification standards such as FSC? Do you have sourcing practices at your disposal which ensure fair prices for paper suppliers especially with regard to sourcing from developing countries?
- ✓ Editorial Quality and Integrity: Does your company have corporate-wide editorial guidelines and do your employees receive training on editorial guidelines and potential conflicts of interest? Do you have guidelines on the protection of sources at hand?
- ✓ Environmental Impacts: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?
- ✓ Business Ethics: Does your company have programmes to detect and fight corruption and do you provide training sessions for employees concerning “code of conduct” and whistleblowing? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?

METALS & MINING - ESG THEMES & INDICATORS

Corporate Governance	"Climate change" / Environmental Impacts	Platinum and Emissions Reduction	"Access to Resources" / Social Licence to Operate	Operational Health & Safety
Disclosure of Directors' remuneration	Programmes and targets to reduce direct GHG emissions	Reporting quality Environmental data	Policy on human rights	Programmes to address HIV/AIDS among its workforce
Board independence	Environmental and social impact assessments	Guidelines and reporting on closure and rehabilitation of sites	Transparency on payments to host governments	Trend in "lost-time incident rate"
Board diversity	Carbon intensity	Other programmes to reduce key environmental impacts	Local community development programmes	Number of fatalities
Non-audit fees relative to audit fees	Operations-related controversies or incidents	Operations-related controversies or incidents	Community engagement programmes	Employee-related controversies or incidents
Governance-related controversies or incidents	Guidelines and reporting on closure and rehabilitation of sites		Society & community-related controversies or incidents	

Source: SG Cross Asset Research, Sustainalytics

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
LONMIN	UK	£1,908.2m	75.5	£3.35	£3.20	Buy	**74.28**	80.83	71.87	71.42	*72.38*	*75.71*
Randgold Resources	UK	£4,152.3m	100.0	£45.04	£48.00	Hold	**73.57**	66.66	90.00	60.71	*73.57*	*53.92*
Iamgold Corp	Canada	CAD2,093.7m	100.0	CAD5.56	CAD4.90	Sell	**70.00**	66.66	74.37	67.85	*70.00*	*53.92*
African Barrick Gold Plc	UK	£673.4m	26.1	£1.64	£0.85	Sell	**68.18**	41.66	84.00	68.33	*68.18*	*40.34*
Hochschild Mining plc	UK	£933.2m	46.0	£2.76	£1.50	Sell	**64.09**	66.66	71.00	50.00	*No data*	*No data*
Semafo	Canada	CAD527.4m	100.0	CAD1.93	CAD2.00	Hold	**62.27**	66.66	67.00	50.00	*63.18*	*57.77*
AngloGold Ashanti	South Africa	$4,832m	98.3	$12.58	$10.50	Sell	**55.00**	93.33	39.37	40.00	*55.00*	*65.35*
Centamin Plc	UK	£490.1m	100.0	£0.44	£0.38	Hold	**53.54**	66.66	57.80	33.33	*No data*	*No data*
Fresnillo	UK	£8,828m	25.0	£11.98	£11.20	Hold	**52.80**	47.50	65.50	42.85	*No data*	*No data*
Petropavlovsk	Russia	£157.1m	100.0	£0.80	£0.90	Sell	**50.45**	41.66	61.00	41.66	*50.45*	*No data*
Polymetal International	UK	£2,763.3m	51.1	£7.10	£6.45	Sell	**39.95**	47.33	50.62	21.42	*40.47*	*No data*

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

METALS & MINING - GOLD & PRECIOUS METALS - RATING MATRIX

SG Investment Reco* / ESG Rating	TIERS 3	TIERS 2	TIERS 1
Buy			**LONMIN**
Hold	Fresnillo *(Centamin Plc)*	***(Semafo)***	**Randgold Resources**
Sell	Polymetal International *(Petropavlovsk)*	Iamgold Corp AngloGold Ashanti *(African Barrick Gold)* *(Hochschild Mining plc)*	

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

GOLD / PRECIOUS METALS - SECTOR PERFORMANCE

Source: SG Cross Asset Research, DataStream

METALS & MINING - OTHER - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Norsk Hydro	Norway	NOK51,621.5m	44.1	NOK24.95	NOK23.00	Sell	**89.00**	91.66	86.12	90.00	*No data*	*No data*
Anglo American	UK	£21,867m	86.0	£15.68	£15.00	Hold	**81.19**	93.33	70.62	82.85	*83.09*	*84.75*
BHP Billiton plc	UK	£39,812.6m	88.2	£18.85	£16.54	Sell	**80.66**	96.50	73.75	75.00	*No data*	*No data*
Rio Tinto	UK	£44,399.1m	91.0	£31.43	£36.98	Buy	**80.66**	96.50	76.87	71.42	*No data*	*No data*
Boliden	Sweden	SEK28,007.5m	100.0	SEK102.4	SEK72.0	Sell	**70.42**	80.00	61.75	72.14	*No data*	*No data*
Antofagasta	UK	£8,374.9m	35.0	£8.50	£8.66	Sell	**57.80**	45.83	56.25	69.85	*57.85*	*55.25*
Eramet	France	€2,074.6m	16.0	€78.16	€82.00	Buy	**55.38**	70.83	58.00	39.14	*51.90*	*47.00*
Aurubis	Germany	€1,966.9m	75.0	€43.75	€51.00	Buy	**54.28**	58.33	39.37	67.85	*No data*	*No data*
GlencoreXstrata	Switzerland	£45,294.5m	57.1	£3.42	£3.45	Buy	**49.28**	50.83	53.75	42.85	*45.47*	*42.50*
Vedanta Resources Plc	UK	£3,091.1m	35.0	£11.60	£12.56	Hold	**48.52**	37.33	58.75	46.42	*No data*	*No data*
KGHM	Poland	PLN24,800m	68.2	PLN124	PLN113	Hold	**42.18**	33.33	47.80	41.66	*42.27*	*45.40*
JSW	Poland	PLN9,023.1m	30.3	PLN76.85	PLN67.00	Sell	**40.00**	33.33	48.00	33.33	*40.00*	*45.15*
Voestalpine AG	Austria	€5,910.7m	67.0	€34.28	€35.10	Buy	**34.00**	50.00	35.00	17.00	*49.33*	*No data*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

METALS & MINING - OTHER - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	GlencoreXstrata Voestalpine AG	**Eramet** **Aurubis**	**Rio Tinto**
Hold	Vedanta Resources Plc *(KGHM)*		**Anglo American**
Sell	*(JSW)*	Boliden Antofagasta	Norsk Hydro BHP Billiton plc

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

METALS & MINING - SECTOR PERFORMANCE

Source: SG Cross Asset Research, DataStream

Sector outlook

- For many commodities, the 'supply shortage' that prevailed during the past decade has now largely been filled. The steel intensity per unit of GDP in China may already have peaked, but per capita consumption of steel should continue to grow, albeit at a slower rate. The resulting rebalancing of supply and demand alongside a gradual reversion of prices back to long-term sustainable pricing levels will provide much less support for returns over the next 10 years. In this context and given pressure from investors to exercise greater capital discipline, the world's largest mining companies have put the brakes on their expansion plans and delayed projects. We expect this more cautious approach to investment to remain in place in 2013/14. Short term, improved prospects for global growth after a flurry of positive surprises from China, the US and even Europe manufacturing activity have brightened the outlook for metals demand for end 2013 and early 2014. The sustainability of this recovery will certainly be tested at some point. The picture for steelmakers remains fundamentally less attractive as they struggle to maintain their margins in an environment of subdued (albeit improving) demand in the developed world and higher input costs.

Major ESG trends

- Access to Resources/Social Licence to Operate: As a result of consolidation in the industry and persistently low metal prices, the last three decades were characterised by reductions in overall investment in exploration. The industry faces a decline in mineral reserves, as well as lower grades of existing mineral projects. More stringent environmental legislation in some countries has also affected the efficiency of exploration efforts. Resource scarcity is exacerbated by a nationalisation wave in developing countries such as Bolivia, Venezuela and Zimbabwe. In other countries such as Peru and Australia, governments have sought to seize the benefits of rising metal prices by imposing higher taxes.
- Operational Health & Safety: The ability to attract skilled labour is a major challenge facing the mining industry worldwide. The number of graduates joining the industry has declined in the last 30 years, exacerbated by the lack of gender diversity, while the demand is still increasing. Furthermore, according to a study published in 2010 in the *American Journal of Public Health,* African countries with the greatest intensity of mining activity also have the greatest rates of tuberculosis and HIV/AIDS.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Corporate Governance: In May 2013, **Glencore** merged with **Xstrata**, thereby rising to become the world's fourth-biggest mining company and the world's biggest commodities trader. The company was renamed to **Glencore Xstrata PLC** after the entire issued share capital of Xstrata was acquired by Glencore International PLC. As a result of this merger, the total ESG rating of Glencore increased slightly (Xstrata being one of the ESG industry leaders).
- Climate Change / Environmental Impacts: Over 70% of **Anglo American s** mines are located in water-stressed areas. Aware of this. the company has implemented several initiatives to reduce water consumption. In 2012, over 70% of the company's water requirements were met by recycling / re-using water. Anglo American reports that it intends to achieve ‘water neutrality’ at its new mines by 2030.

Company controversies

- Access to Resources / Social Licence to Operate: As of June 2013, **Lonmin's** labour relations and alleged complicity in human rights violations at the Marikana mine in South Africa were under probe by a Judicial Commission of Inquiry. The commission was set up to investigate an August 2012 clash between striking workers and police at the site which resulted in 34 workers being killed and 78 being injured. Ten other people were also killed during the wildcat strike, which was launched by approximately 3,000 workers to demand a wage increase. After the August 2012 violence, Lonmin further angered striking workers by threatening to dismiss them if they continued to participate in the strike. The strike lasted six weeks, cost the company US$159m and triggered wildcat strikes at other mining operations in South Africa. Lonmin had experienced previous labour unrest at Marikana in the last three years as South Africa’s political situation remains tense and labour unrest fuels violent union rivalry between Nation Union of Mine workers (NUM) and Association of Mineworkers and Construction Union (ACUM). Most recently, in June 2013, a shooting left one NUM member dead and another in critical condition.
- Access to Resources/Social Licence to Operate: **African Barrick Gold** faces significant human rights risks at its North Mara operation in Tanzania, where the company has to rely extensively on private and Tanzanian public security forces to prevent trespassing by illegal artisanal miners. In March 2013, two people were killed and some security guards were injured when approximately 4,000 people invaded the North Mara Gold mine. At least four people were killed in similar invasions in 2012. In May 2011, at least seven people were killed and 12 others were injured in a clash with the police when approximately 800 people tried to enter the North Mara mine. There were allegations of excessive use of force by the Tanzanian police in this incident.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company controversies (cont d)

- Access to Resources/Social Licence to Operate: Between 2010 and 2013, **Anglo American** faced labour conflicts at its South African operations over poor safety performance, as well as strikes over wage increases, and conflicts between competing unions. In February 2013, members from the National Union of Mining Workers (NUM) and the Association of Mineworkers and Construction Union (AMCU) fought over the occupation of union offices at the Rustenberg mine in South Africa. The event resulted in security guard involvement. All in all, 13 individuals were injured with rubber bullets and machetes. No fatalities were reported. In November 2012, striking workers at the Rustenberg mine returned to work after a two-month violent, wildcat strike. The strike occurred amid widespread labour conflict in the South African mining sector. During the strike, the company dismissed 12,000 workers for refusing to return to work, despite reports that workers who did not join the strike were assaulted. Workers eventually accepted the company's offer, which included wage increases, rehiring of dismissed workers and reopening wage negotiations. The strike cost the company 191,359 ounces of platinum production or ZAR3.4bn in lost revenue (approximately US$386m).

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Climate Change/Environmental Impacts: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?
- ✓ Business Ethics: Does your company have formal policy commitments to eliminate sourcing of conflict minerals? Does your company have guidelines concerning land grabbing?
- ✓ Access to Resources/Social Licence to Operate: Does your company have operations in countries where armed conflicts are currently occurring and how do you address the issue of employee security in these regions? Has your company had recent training programmes for employees that work in high risk positions?
- ✓ Operational Health & Safety: Do you collaborate with suppliers and/or sub-contractors in order to improve working conditions and safety standards for their employees? Do you have monitoring system and audits for your supply chain and / or for sub-contractors' operations?
- ✓ Climate Change/Environmental Impacts: How do you ensure that hazardous substances are not polluting water sources and the air? Do you have programmes aimed at reducing hazardous substances within your operations?

OIL & GAS - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	Environmental Impacts	"Access to Resources" / Social Licence to Operate	Operational Health & Safety
Disclosure of Directors' remuneration	Transparency on payments to host governments	Revenue from clean technology or climate-friendly products	Activities in sensitive countries	Scope of social supply chain standards
Board independence	Customer-related controversies or incidents	Carbon intensity	Policy on human rights	Trend in lost-time incident rate
Board diversity	Business-ethics related controversies or incidents	Oil spill reporting and performance	Community involvement programmes	Number of fatalities
Non-audit fees relative to audit fees	Total value of political contributions	Operations-related controversies or incidents	Society & community-related controversies or incidents	Employee-related controversies or incidents
Governance-related controversies or incidents		Contractors & supply chain related controversies or incidents	Policy on indigenous people and land rights	Contractors & supply chain related controversies or incidents

Source: SG Cross Asset Research, Sustainalytics

OIL & GAS - ESG EVALUATION (1/2)

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Neste Oil	Finland	€4,389.6m	40.9	€17.12	€17.70	Hold	84.75	100.00	98.75	55.50	82.08	79.77
Statoil	Norway	NOK431,105.1m	33.0	NOK135.2	NOK143.0	Hold	82.95	77.25	85.72	86.00	83.12	83.80
Hess Corporation	US	$26,689.1m	91.2	$77.72	$80.00	Buy	81.54	88.62	81.18	71.00	81.04	77.80
Cenovus	Canada	CAD23,085.9m	99.8	CAD30.55	CAD37.00	Buy	80.62	76.25	88.18	71.00	80.83	82.60
Repsol	Spain	€24,115.3m	64.1	€18.52	€17.90	Hold	80.12	75.37	88.18	70.00	80.41	77.19
Talisman Energy	Canada	CAD11,732.6m	100.0	CAD11.34	CAD12.50	Hold	78.91	84.87	85.00	56.00	78.95	79.80
BG Group	UK	£40,991.9m	100.0	£12.04	£13.00	Hold	78.66	79.37	79.90	74.80	78.75	No data
Cairn Energy Plc	UK	£1,666.2m	76.3	£2.76	£3.00	Hold	76.41	75.50	86.36	56.00	68.12	71.60
Royal Dutch Shell	UK	£54,314.6m	100.0	£21.66	£25.00	Buy	76.20	80.00	76.72	69.00	76.25	77.19
Tullow Oil	UK	£9,668.3m	100.0	£10.63	£11.25	Hold	75.91	81.75	74.45	69.80	74.16	78.20
PKN ORLEN	Poland	PLN18,434.3m	72.5	PLN43.1	PLN41.0	Sell	75.31	81.25	82.85	60.00	75.31	66.50
OMV	Austria	€11,889.8m	43.6	€36.33	€38.00	Hold	75.08	78.62	77.18	64.80	75.20	76.20
ConocoPhillips	US	$84,619.9m	99.5	$69.19	$68.00	Buy	72.83	70.62	80.72	59.00	73.12	70.20
ENI	Italy	€65,297m	69.7	€17.52	€17.50	Hold	72.29	77.50	76.36	55.00	72.29	73.40
Total	France	€101,831.2m	91.0	€42.84	€47.00	Buy	72.04	81.12	66.81	69.00	72.08	69.20
Marathon	US	$25,243m	99.7	$35.57	$43.00	Buy	71.91	76.25	72.00	64.79	75.41	72.40
BP	UK	£96,708.4m	79.0	£4.42	£4.9.00	Hold	71.58	65.50	79.09	64.80	69.16	70.40
Galp Energia	Portugal	€10,693.2m	25.3	€12.90	€14.40	Buy	70.45	73.00	80.27	44.80	67.7	66.39
Occidental Petrol. Corp	US	$72,107.8m	98.6	$89.49	$115.00	Buy	69.50	69.87	82.63	40.00	68.75	70.00
Lundin Petroleum	Sweden	SEK45,079.8m	63.4	SEK141.8	SEK162.0	Hold	68.33	73.12	66.36	65.00	68.33	73.39
Newfield Exploration	US	$3,473.6m	98.3	$25.60	$35.00	Buy	68.04	85.00	59.45	59.79	68.12	65.40
ExxonMobil	US	$389,104.3m	99.8	$88.40	$103.00	Buy	68.00	73.62	68.00	59.00	68.12	65.40
Novatek	Russia	$39,502.4m	25.8	$130.10	$109.00	Sell	67.04	65.00	69.45	65.0	66.04	No data
Grupa Lotos	Poland	PLN4,740.4m	47.0	PLN36.5	PLN33.6	Sell	66.5	75.00	77.00	45.00	66.56	62.75
Encana Corporation	Canada	CAD13,735.9m	99.9	CAD18.62	CAD23.00	Buy	66.41	68.75	67.63	60.00	65.41	66.80
EQT Corporation	US	$13,270.3m	98.7	$88.12	$85.00	Hold	65.95	78.62	66.36	44.80	61.25	No data
Canadian Natural Res.	Canada	CAD35,647.2m	95.4	CAD32.78	CAD37.00	Buy	64.95	66.87	67.63	56.00	66.04	65.60
PGNIG	Poland	PLN3,6285m	27.5	PLN6.15	PLN6.30	Hold	59.16	50.00	56.50	75.00	59.16	56.34

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

OIL & GAS - ESG EVALUATION (2/2)

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Chevron	US	$239,841.5m	99.5	$124.14	$126.00	Hold	59.12	66.87	53.09	60.00	55.62	55.40
Murphy Oil	US	$11,504.9m	0.0	$61.56	$70.00	Hold	58.66	76.00	54.09	41.00	58.75	60.40
Cabot Oil & Gas	US	$15,815.8m	98.6	$37.52	$36.50	Hold	58.33	750.0	59.09	30.00	52.91	52.40
Premier Oil	UK	£1,889.8m	82.9	£3.57	£4.50	Buy	58.05	51.25	59.00	62.50	59.72	65.12
Whiting Petroleum	US	$6,329m	99.0	$53.34	$57.00	Buy	57.87	75.00	53.63	39.80	57.91	55.60
Ophir Energy	UK	£1,985.2m	67.7	£3.37	£5.00	Buy	57.77	75.00	54.00	50.00	57.77	50.10
Noble Energy	US	$23,878.8m	99.0	$66.52	$61.00	Hold	57.66	70.62	51.81	49.80	55.20	53.40
Devon Energy	US	$23,706.3m	88.5	$58.39	$65.00	Buy	57.20	69.87	53.63	44.80	58.54	60.20
Range Resources	US	$12,849.5m	98.7	$78.64	$92.00	Buy	57.00	74.87	53.54	36.00	57.08	54.80
EOG Resources Inc	US	$45,341.4m	99.5	$166.44	$144.00	Hold	56.75	74.87	55.72	30.00	56.87	54.60
SM Energy	US	$4,961.4m	99.2	$74.13	$67.00	Hold	56.61	74.75	54.00	45.00	56.66	47.70
Tatneft	Russia	$14,691m	66.4	$40.45	$38.00	Hold	56.61	50.00	62.00	49.75	57.22	No data
Cimarex Energy	US	$7,841.5m	97.2	$90.65	$82.00	Buy	56.25	75.00	50.00	40.00	55.41	54.80
Forest Oil	US	$745.7m	93.5	$6.21	$9.00	Buy	55.55	70.00	54.00	45.00	55.55	46.95
Apache Corp	US	$33,805.8m	99.5	$86.81	$100.00	Buy	55.37	62.50	54.45	46.00	57.29	55.00
Pioneer Natural Res.	US	$25,607.6m	83.6	$184.83	$123.00	Sell	55.37	68.75	52.72	39.80	55.41	54.80
Hellenic Petroleum	Greece	€2,292.3m	22.7	€7.50	€7.80	Hold	55.2	56.25	68.75	40.62	No data	No data
Continental Resources	US	$18,690.1m	22.7	$100.68	$112.00	Buy	54.16	68.75	50.00	40.00	54.16	53.60
Lukoil	Russia	$52,394.7m	34.1	$61.60	$72.00	Buy	54.05	69.75	51.40	45.00	54.16	No data
Southwestern Energy	US	$13,332.9m	98.0	$37.93	$47.00	Buy	53.87	70.50	49.90	36.00	52.91	No data
Concho Resources	US	$10,827.1m	97.8	$103.13	$110.00	Buy	53.12	59.37	54.54	40.00	55.20	56.60
Surgutneftegas	Russia	$29,366.8m	15.6	$8.22	$11.10	Buy	52.77	50.00	55.00	50.00	55.00	49.77
MAUREL ET PROM	France	€1,500.2m	64.6	€12.34	€13.60	Hold	52.66	56.25	52.30	50.00	52.77	No data
QEP Resources	US	$5,041.6m	99.2	$28.12	$36.00	Buy	52.45	66.25	49.90	36.00	52.50	53.60
Anadarko Petrol. Corp	US	$47,606.3m	99.7	$94.70	$103.00	Buy	50.41	63.75	50.00	30.00	52.50	52.00
Rosneft	Russia	$83,884.6m	10.8	$7.92	$10.00	Buy	47.66	35.00	64.90	30.00	50.62	60.92
Gazprom	Russia	$103,098.2m	48.1	$8.71	$13.80	Buy	43.04	42.50	49.45	29.80	43.12	45.40

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

ENERGY EQUIPMENT & SERVICES - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
CGG	France	€3,392.2m	100.0	€19.18	€29.00	Buy	**81.62**	99.87	81.66	60.71	*86.04*	*80.20*
Technip	France	€10,062.9m	100.0	€89.02	€102.00	Buy	**81.54**	93.75	75.88	74.85	*80.62*	*75.20*
Amec	UK	£3,197.4m	100.0	£10.75	£13.20	Buy	**80.41**	76.25	96.66	64.28	*80.62*	*78.33*
Baker Hughes Inc	US	$22,019.2m	99.6	$49.70	$59.00	Buy	**75.95**	88.00	79.88	57.14	*77.29*	*75.41*
Petrofac	UK	£4,808.2m	64.4	£13.90	£15.80	Buy	**75.58**	79.37	75.44	71.42	*77.29*	*No data*
FMC Technologies	US	$12,887.9m	98.5	$54.40	$65.00	Buy	**72.91**	97.50	77.22	39.28	*72.08*	*68.75*
Bourbon	France	€1,464m	57.4	€19.64	€28.00	Buy	**71.87**	75.00	78.12	56.25	*71.87*	*59.17*
Schlumberger	US	$114,746.4m	99.8	$86.72	$94.00	Buy	**71.20**	91.25	66.55	54.28	*70.20*	*82.60*
Noble Corp	US	$9,830.7m	99.6	$38.80	$48.00	Buy	**69.91**	85.00	66.55	57.00	*71.25*	*No data*
Oceaneering Intl	US	$8,899.2m	98.8	$82.25	$90.00	Hold	**68.70**	87.50	74.88	39.28	*78.12*	*62.57*
SBM Offshore	Netherlands	€3,220.8m	100.0	€15.48	€18.00	Buy	**68.50**	92.50	58.77	53.57	*69.37*	*80.00*
Ensco plc	US	$12,956.3m	99.6	$55.48	$70.00	Buy	**67.62**	91.12	68.77	39.28	*67.18*	*No data*
Rowan Companies plc	US	$4,703.9m	99.6	$37.87	$40.00	Hold	**64.95**	82.50	72.22	35.57	*65.00*	*No data*
Cameron Intl Corp	US	$14,257.6m	98.7	$57.93	$83.00	Buy	**64.5**	87.37	63.77	39.28	*64.58*	*55.62*
Saipem	Italy	€7,175.5m	57.1	€16.26	€18.00	Hold	**63.54**	52.50	83.88	49.99	*62.70*	*57.18*
Subsea 7	Norway	NOK44,115m	100.0	NOK125.4	NOK117.0	Hold	**63.54**	65.62	61.11	64.28	*66.25*	*68.75*
Halliburton	US	$45,395.8m	99.6	$49.69	$58.00	Buy	**60.83**	72.50	70.00	35.71	*60.62*	*62.50*
Weatherford Intl Ltd	US	$11,454.2m	98.8	$14.92	$16.00	Hold	**60.37**	78.62	60.00	40.00	*62.08*	*65.83*
National Oilwell Varco	US	$33,449m	99.8	$78.24	$77.00	Hold	**59.91**	81.12	57.11	39.28	*59.16*	*56.25*
Seadrill	Norway	NOK130,451.8m	58.2	NOK278	NOK245	Hold	**54.79**	75.00	54.44	32.14	*54.79*	*59.06*

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

OIL & GAS - RATING MATRIX (1/2)

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Devon Energy Range Resources Cimarex Energy Apache Corp Continental Resources Southwestern Energy Concho; QEP; Anadarko Rosneft; Gazprom	**Galp Energia Occidental Petroleum Newfield Exploration ExxonMobil Encana Corporation Canadian Natural Res. Whiting Petroleum**	**Hess Corporation Cenovus Royal Dutch Shell ConocoPhillips Total Marathon**
Hold	EOG Resources Inc Hellenic Petroleum	**BP Lundin Petroleum EQT Corporation Chevron Murphy Oil Cabot Oil & Gas Noble Energy**	**Neste Oil Statoil Repsol Talisman Energy BG Group Cairn Energy Plc Tullow Oil OMV; ENI**
Sell	Pioneer Natural Res.	Novatek	

ESG Rating

** As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

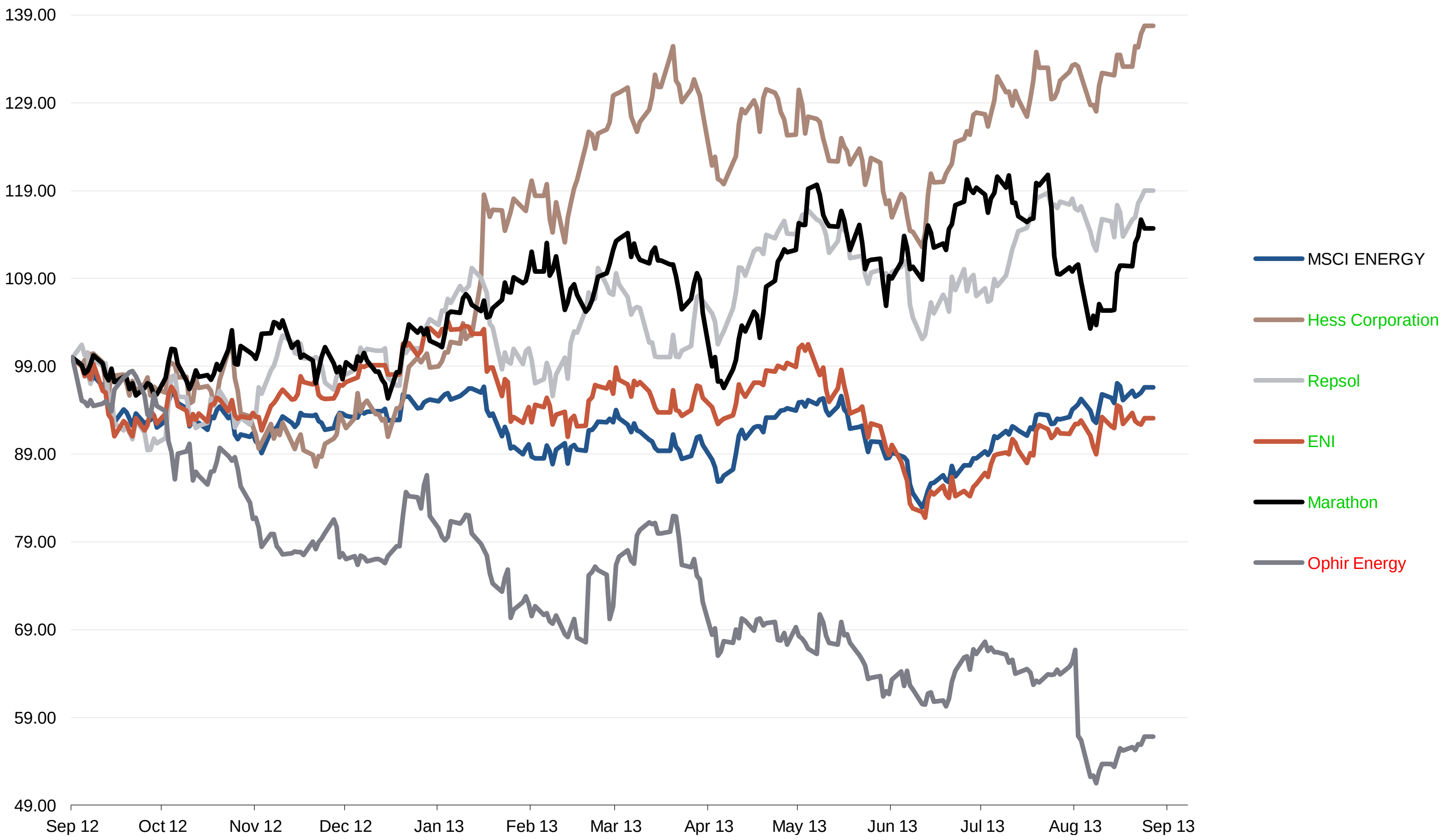
OIL & GAS - RATING MATRIX (2/2)

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	*(Forest Oil)* *(Lukoil)* *(Surgutneftegas)*	***(Premier Oil)*** ***(Ophir)***	
Hold	*(SM Energy)* *(Tatneft)* *(MAUREL ET PROM)*	***(PGNIG)***	
Sell		*(Grupa Lotos)*	*(PKN ORLEN)*

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

OIL & GAS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

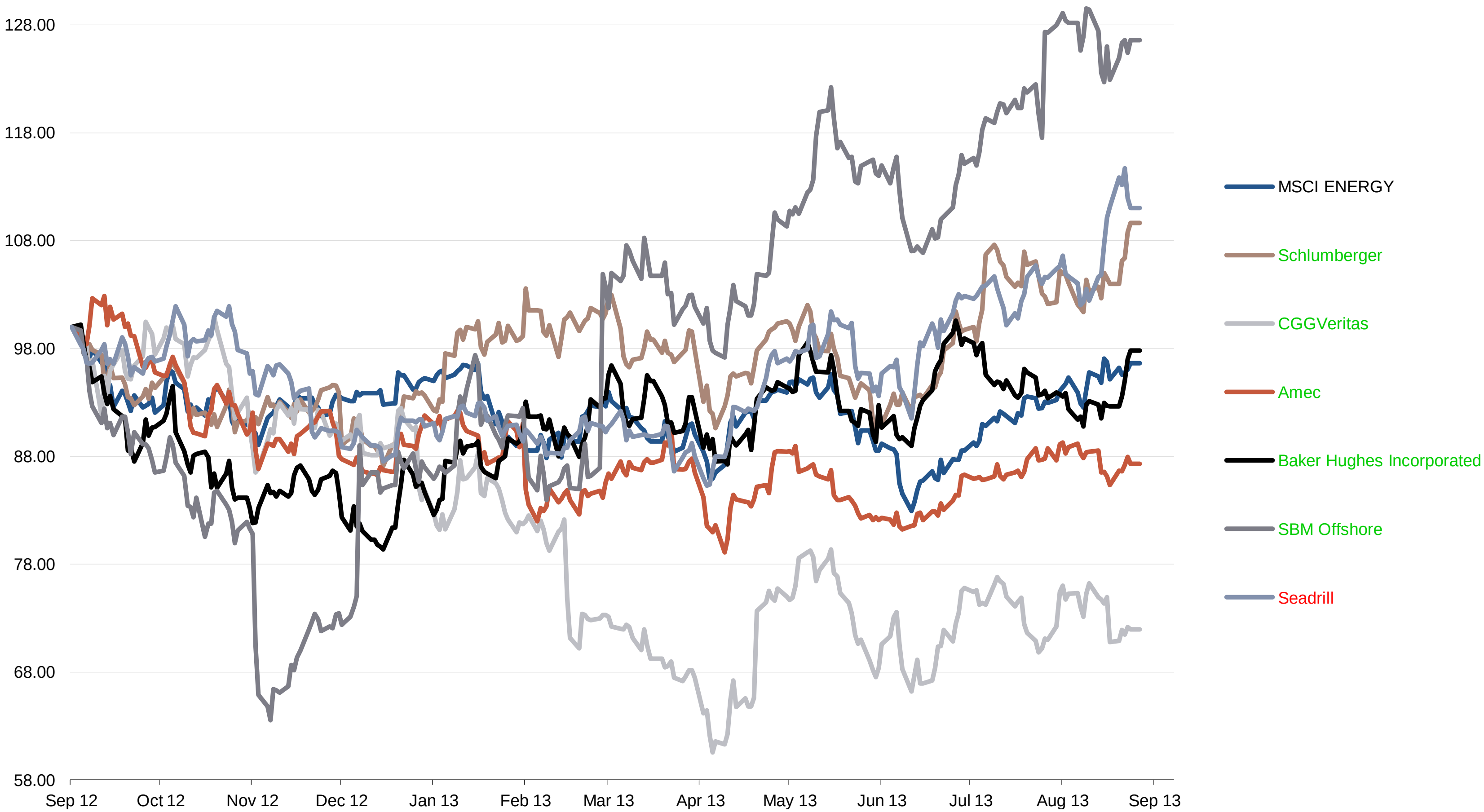
ENERGY EQUIPMENT & SERVICES - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Halliburton	**Schlumberger** **Noble Corp** **SBM Offshore** **Ensco plc** **Cameron Intl Corp** ***(Bourbon)***	**CGG** **Technip** **Amec** **Baker Hughes Inc.** **Petrofac** **FMC Technologies**
Hold	Saipem Subsea 7 Weatherford Intl Ltd National Oilwell Varco Seadrill	**Oceaneering Intl** **Rowan Companies plc**	
Sell			

ESG Rating

* *As of 15/09/13* ~ Source: SG Cross Asset Research, Sustainalytics, Company

ENERGY EQUIPMENT & SERVICES - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

OIL & GAS - SECTOR COMMENTS (1/2)

Sector outlook

- Oil & Gas: We are overweight on European Oil & Gas - we view the key valuation multiples as understating the sector's potential versus the rest of the European market. We have an above-consensus view of oil prices at US$110/bbl in 2014, leading to our above-consensus EPS estimates; we see the sector as being at an "inflection" point in terms of both production growth and free cash flow – which is key for what is an income sector. Following the usual long time lags involved in large project development/construction, we are looking for some production growth ahead, and – in an assumed flat oil price environment – we also look for capex to approach plateau (in some cases such as BG and Total, companies are explicitly guiding to peaking and then declining spending). Sector dividend yield is superior to the market's and we view that as sustainable in a world of $110/bbl oil.
- Equipment services: We have a neutral stance on oil services, a sector whose economics is currently experiencing a dramatic change. Oil spare capacities - a leading indicator for the future demand for oil services - which have been in the 3-5mbd range over the last ten years are expected to jump to 7mbd by 2015, a bearish indicator. With oil price above $100, EP capex may continue to rise in 2014-2015, but at a slower rate (probably by 2-4%). At the same time, a new oil investment landscape is emerging: the focus between 2015-2020 may be less on huge onshore infrastructures in the Middle East and more about EOR (enhance oil recoveries), LTO (light tight oil) and Deepwater in the US, Canada or Brazil. In this context, Amec, given its strong position in the US and Canada, is a natural buy. Bourbon may benefit from the yet unrecognised tightening of the supply vessel market (likely to be short-term trend, in our view).

Major sector trends

- Environmental Impacts: The energy sector is the largest contributor to climate change. It produces nearly 60% of greenhouse gas emissions and was responsible for the largest growth in global emissions between 1970 and 2004. The oil and gas sector has been implicated in environmental degradation alongside its customers and is exposed to related reputational risks. A low carbon future requires a significant global shift in the fuel mix from high carbon sources, such as coal and oil, towards renewable energy alternatives, such as wind and solar power. The shift in the energy mix is inhibited by massive infrastructure and social barriers. The speed of change will be dictated by rising energy costs and stronger mechanisms for the pricing of carbon emissions. Currently, a shift towards unconventional sources of oil and gas, such as shale gas and oil sands, can be observed. In this regards, companies' operations are exposed to higher social and environmental risks. Therefore, process safety and contractor management attain particular importance.
- Access to Resources: Due to the current demand for skilled technical labour and an ageing workforce, the European and North American energy labour market is competitive in its recruitment and retention of employees. The average oil and gas industry worker is in his/her mid-40s and around 50% of the workforce is due to retire in 2018. Companies in mature markets will be hit especially hard by this loss of experienced workers.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Environmental Impacts: In 2012, **Royal Dutch Shell** took the final investment decision to built a facility to capture and store underground CO_2 emissions which result from the company s oil-sands projects near Edmonton, Alberta. Eventually, the project s goal is to capture and store more than 1 mtpa of CO_2, which is produced in bitumen processing, deep underground. In addition, direct air emissions from the Scotford Upgrader are supposed to be reduced by 35%.
- Business Ethics: In 2013, **BP** published a new human rights policy, that applies to every BP employee. The company s human rights policy includes seven key principals relating to the International Bill of Human Rights, the International Labour Organisation's declaration on Fundamental Principles, Rights at Work and the UN Guiding Principles on Business and Human Rights. In addition, BP s policy addresses human rights in the supply chain.

Company controversies

- Access to Resources: In February 2013, a US$219m payment by **Halliburton** brought to an end a long-running dispute between the group's former subsidiary KBR and Petrobras. According to Halliburton, the payment was made to the Barracuda & Caratinga Leasing Company (BCLC), a subsidiary of Petrobras, in January 2013. KBR was awarded a US$2.5bn contract in June 2000 for the development of the Barracuda and Caratinga deepwater fields operated by Petrobras in Brazil's offshore Campos Basin. BCLC initiated arbitration proceedings against KBR in 2006 to demand damages to cover the cost of monitoring and replacing allegedly defective bolts. In 2011 an arbitration panel issued an award against KBR for around US$201m plus interest and in December 2012 BCLC sent Halliburton a demand for payment of the award.
- Environmental Impacts: In March 2013, at a Parliamentary hearing, the Nigerian Maritime Administration and Safety Agency stated that it was seeking US$6.5bn as compensation for 100 communities, which it said were affected onshore by the oil spill. If both claims proceed, **Royal Dutch Shell** will face payments of up to US$11.5bn dollar.
- Environmental Impacts: In April 2013, the jury ordered **ExxonMobil** to pay US$236m to New Hampshire to clean up the MTBE pollution. The damages are more than twice the US$105m jurors awarded the New York City Water District in 2009 in its case against Exxon Mobil over MTBE contamination and represent the largest sum from an MBTE lawsuit to date.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Environmental Impacts: Does your company have specific guidelines on shale gas and how do you plan to minimise the risks associated with shale gas? Does your company have preventive programmes concerning ground water contamination?
- ✓ Environmental Impacts: How do you minimise the likelihood and impact of oil spills and do you have plans addressing spill response options that minimise damage? Is your staff adequately trained for emergency situations; do you have group-wide standards for spill control; do you participate in collaboration with international organisations for spill clean-up and do you have a contingency plan for oil spills?
- ✓ Access to Resources/Social Licence to Operate: Does your company have operations in countries where armed conflicts are currently occurring? How do you address the issue of employee security in these regions?
- ✓ Operational Health & Safety: Do you collaborate with suppliers and/or sub-contractors in order to improve working conditions and safety standards for their employees? Do you have monitoring system and audits for your supply chain and/or for sub-contractors' operations?
- ✓ Environmental Impacts: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?

PHARMA & HEALTHCARE - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics / Ethical Trials	Product Safety	Responsible Marketing Practices	"Access to Medicine"
Disclosure of Directors' remuneration	Clinical trial protocols	External QMS certifications	Customer-related controversies or incidents	Society & community-related controversies or incidents
Board independence	Business-ethics related controversies or incidents	Contractors & supply chain related controversies or incidents		Policies on access to health care
Board diversity				Percent cash donations of NEBT
Non-audit fees relative to audit fees				
Governance-related controversies or incidents				

Source: SG Cross Asset Research, Sustainalytics

PHARMA & BIOTECH - ESG EVALUATION

Company	Country	Market capitalization	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
AstraZeneca	UK	£39,761.8m	100.0	£31.74	£27.00	Sell	**81.46**	85.57	76.66	100.00	81.53	74.00
Shire plc	UK	£13,702.2m	100.0	£24.77	£27.86	Buy	**77.23**	93.42	58.33	100.00	77.30	60.25
Sanofi	France	€95,828.7m	91.0	€72.22	€91.00	Buy	**76.84**	82.00	70.83	100.00	71.15	81.50
Novartis AG	Switzerland	CHF192,004.4m	100.0	CHF70.95	CHF82.00	Buy	**75.38**	82.85	66.66	100.00	80.00	75.75
GlaxoSmithKline	UK	£79,418.6m	100.0	£16.22	£20.00	Buy	**74.53**	85.71	61.49	100.00	80.76	85.00
UCB	Belgium	€7,988.2m	39.4	€43.55	€55.00	Buy	**73.00**	85.71	58.16	100.00	73.07	65.25
Merck KGAA	Germany	€21,338.1m	30.0	€112.25	€103.00	Sell	**72.53**	79.71	64.16	100.00	72.30	68.75
Roche	Switzerland	CHF204,126.9m	85.0	CHF236.8	CHF312.0	Buy	**72.30**	90.71	50.83	100.00	72.30	70.75
Novo Nordisk	Denmark	DKK411,094.6m	70.4	DKK929	DKK801	Sell	**68.46**	76.42	59.16	100.00	70.76	73.50
Bayer AG	Germany	€69,199m	97.0	€83.68	€79.00	Sell	**66.07**	76.28	54.16	100.00	68.46	57.00
Ipsen	France	€2,228.5m	30.6	€26.46	€29.60	Hold	**60.30**	69.14	50.00	100.00	60.38	45.50
AB Science	France	€568.5m	45.0	€17.59	€21.80	Buy	**60.00**	62.50	58.33	0.00	No data	No data
Lundbeck	Denmark	DKK22,930.9m	30.0	DKK116.9	DKK88.0	Sell	**50.23**	53.42	46.50	100.00	50.38	44.00

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

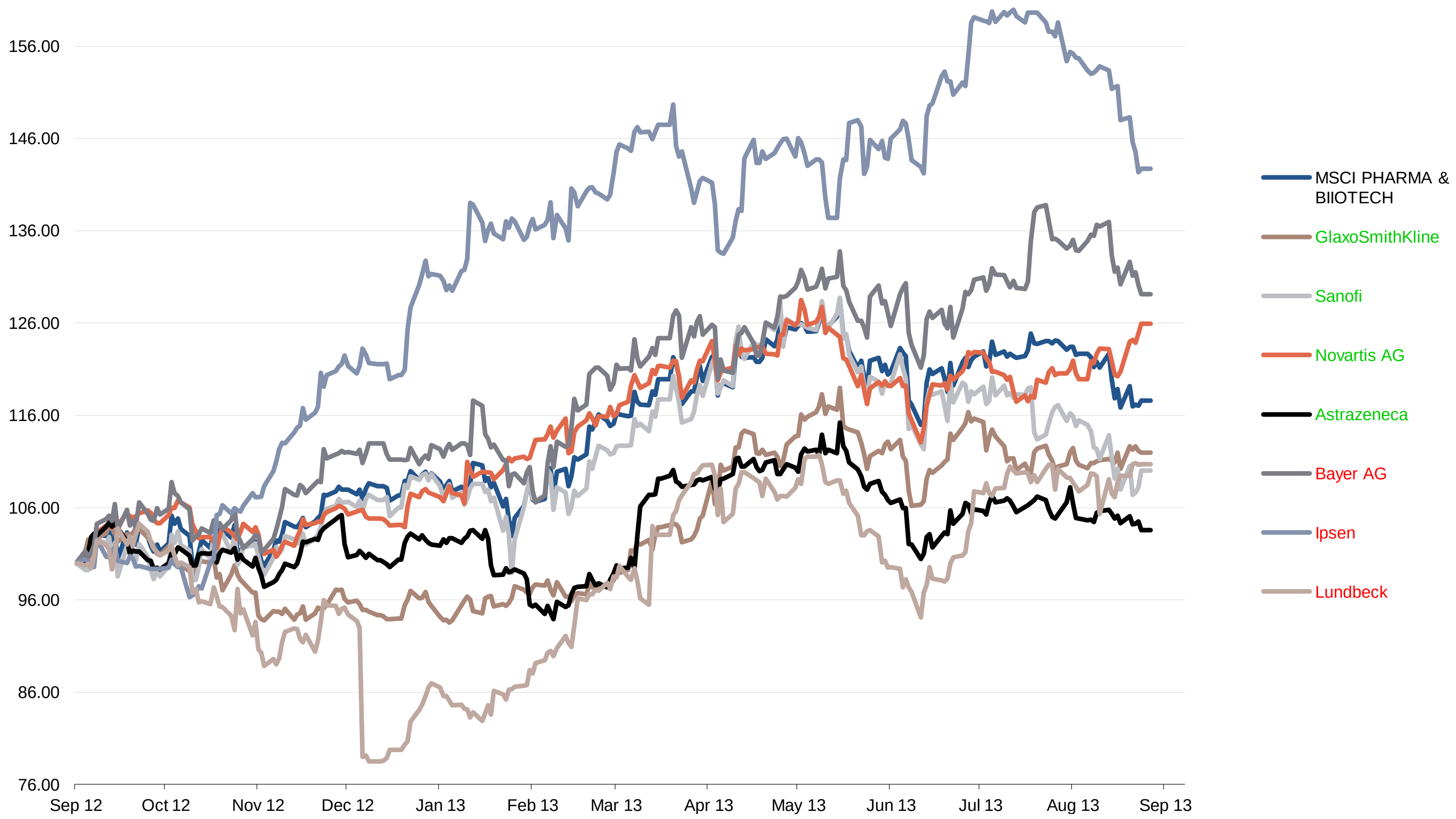
PHARMA & BIOTECH - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	*(AB Science)*	**GlaxoSmithKline** **UCB** **Roche**	**Shire plc** **Sanofi** **Novartis AG**
Hold	Ipsen		
Sell	Novo Nordisk Bayer AG Lundbeck	Merck KGAA	AstraZeneca

ESG Rating

** As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

PHARMA & BIOTECH - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

HEALTHCARE & EQUIPMENT SERVICES - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Elekta	Sweden	SEK38,847.7m	70.6	SEK105.4	SEK140.0	Buy	**77.90**	74.75	80.00	25.00	*78.00*	*No data*
Smith & Nephew	UK	£7,009.3m	69.5	£7.80	£6.60	Sell	**77.23**	85.57	67.50	100.00	*78.84*	*77.14*
Coloplast	Denmark	DKK64,801.6m	55.1	DKK320.8	DKK330.0	Hold	**74.92**	64.28	87.33	100.00	*No data*	*No data*
Sonova	Switzerland	CHF7,715.8m	52.3	CHF114.9	CHF111.0	Hold	**72.30**	76.42	67.50	100.00	*No data*	*No data*
BioMérieux	France	€2,881.7m	33.5	€73.04	€71.00	Hold	**71.84**	65.71	79.00	100.00	*71.92*	*78.57*
Fresenius Medical Care AG & Co KGAA	Germany	€14,937.7m	68.6	€48.57	€53.00	Hold	**71.46**	78.42	63.33	100.00	*66.15*	*72.14*
Orpea	France	€2,010.5m	61.7	€37.94	€43.50	Buy	**66.00**	75.00	60.00	20.00	*66.00*	*47.69*
Fresenius SE & Co. KGaA	Germany	€16,240.5m	73.0	€91.10	€126.00	Buy	**63.23**	67.71	58.00	100.00	*61.53*	*67.85*
William Demant	Denmark	DKK28,784.3m	27.2	DKK508	DKK420	Sell	**55.23**	56.14	54.16	100.00	*No data*	*No data*

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

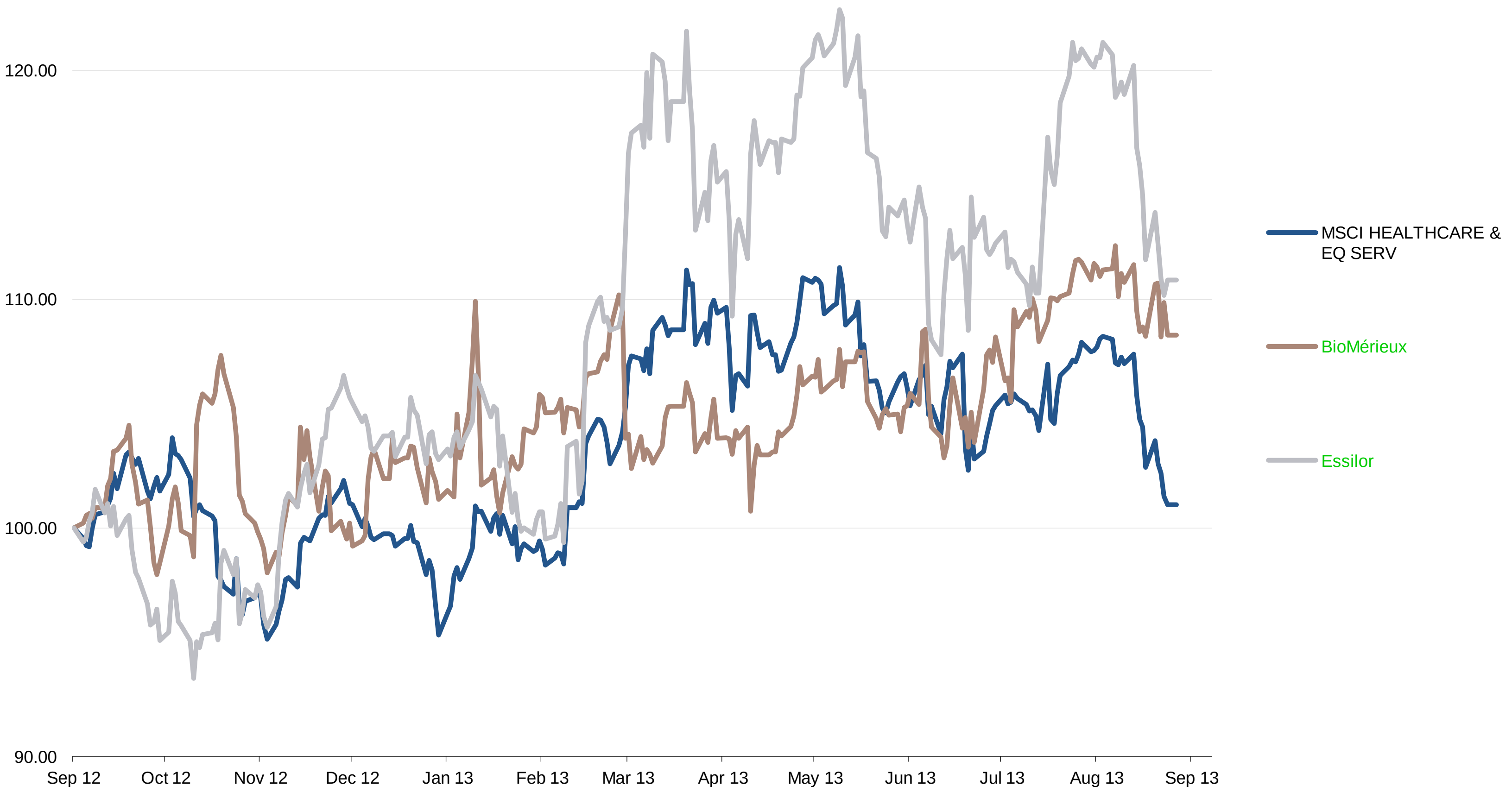
HEALTHCARE & EQUIPMENT SERVICES - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Fresenius SE *(Orpea)*		***(Elekta)***
Hold		**Sonova** **BioMérieux** **Fresenius Med. Care**	**Coloplast**
Sell	William Demant		Smith & Nephew

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

HEALTHCARE & EQUIPMENT SERVICES - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector outlook

- Pharma: the fundamental outlook for many of the large cap pharma companies has continued to improve. European price cuts have stabilised, although Europe remains difficult (slower time to reimbursement and reimbursement levels at low levels). The US market remains buoyant and price increases on the majority of drugs continue to be pushed through and are accepted by healthcare providers. Pharma R&D pipelines have also improved significantly with several of the large cap pharma companies gaining multiple product approvals in 2012, with this trend continuing in 2013 and into 2014. With – on the whole – low exposure to patent expiries going forward, with R&D pipelines delivering new products, costs bases re-aligned lower and with greater diversification at several companies, we forecast that the sector is entering a period of sustained revenues and EPS growth over the next 5-8 years.

- Medtech: differing geographic exposures mean that 2014 is likely to be another year where stock selection in European Medtech will be key. Despite what appear to be softening macro trends in China, we continue to prefer those companies that combine life-saving products with strong exposure to emerging markets. This is why **Elekta** and **Fresenius SE** are two of our top picks. Although BRICs aren't a major driver for GN Store Nord we still like the stock because we believe that the consensus EPS forecasts underestimate the impact of the share gains which the company's proprietary technology should drive. Although developed market macro headwinds appear to be easing, we suspect that payers' desire for better value is unlikely to abate. We thus remain cautious on companies that appear unable to fully harness R&D to stem price pressure (e.g. **Smith & Nephew**).

Major ESG trends

- <u>Access to Medicine</u>: Pharmaceutical companies are increasingly evaluated on the mechanisms they have in place to provide access to vital medicines. Companies are expected to either partner with third parties (e.g. research institutes) or actively develop drugs that meet the needs of the underprivileged. The markets most in need are not deemed economically attractive. However, industry leaders are beginning to recognise that establishing strong and strategic access programmes is a means to diversify risk and create opportunities.

- <u>Responsible Marketing Practices</u>: One of the factors affecting the profitability of new drugs is the World Trade Organisation's (WTO) TRIPs (Trade-Related Aspects of Intellectual Property Rights) agreement. Prior to the agreement, many generic manufacturers in India were producing generic anti-retroviral drugs and other medicines since the country's health patent law did not recognise patents on drugs. Although the TRIPs agreement was established to better protect intellectual property rights, nations are permitted to provide compulsory licences to third parties in case of national emergencies or to request voluntary licences from companies. These pressures have forced companies to reassess their competitive landscape and adopt strategies that result in the lowest impact to profitability.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Access to Medicine: **Novartis** has an access to medicines policy that commits the company to: “support patient assistance programs, consider differential pricing possibilities for essential drugs, donate treatments, conduct research against neglected diseases, develop and implement innovative strategies and programs to deliver health services to impoverished people and invest in new business models.” One of the company's leading initiatives is a long-term programme to combat malaria. From 2009 to 2012, more than 500 million treatments of the pediatric antimalarial medicine Coartem were provided without profit to public healthcare systems in over 60 malaria-endemic countries. A pilot programme in the private sector was launched in Malawi in 2012, and eight additional countries were selected for rollout. Novartis provides free leprosy treatment globally to people with the disease in collaboration with the WHO, with a view to eliminating the disease. Furthermore, the Novartis Foundation for Sustainable Development (NFSD) works to improve the health and quality of life of poor people in developing countries through think tank, policy and project work. In total, the company reports having reached over 100 million patients through its AtM programmes in 2012 through contributions valued at over US$2bn.
- Business Ethics/Ethical Trials: **Bayer** initiated measures to improve its anti-corruption policies and programmes. Within the framework of its corporate compliance programme, employees receive mandatory compliance training as well as corruption prevention training. Bayer provides employees with access to all necessary information resources and counsel to prevent violations of the law or company regulations. The company s corporate auditing reviews the effectiveness of the Corporate Compliance Policy at regular intervals.

Company controversies

- Business Ethics/Ethical Trials: In July 2013, the Chinese Ministry of Public Security accused **GlaxoSmithKline** of bribery, amounting to roughly US$490m in illegal deals since 2007. The Chinese police detained four GSK senior executives who confessed to serious corruption and tax-related offences. GSK's head of finance for China has been banned from leaving the country. Chinese authorities alleged that GSK used a network of over 700 middlemen and travel agencies to bribe doctors, hospitals, lawyers, medical associations and government officials with cash and sexual favours in return for higher volumes of GSK medicine prescriptions and inflated drug prices. The company admitted to Chinese authorities that certain senior executives of GSK China appear to have acted outside of their processes and controls. GSK has strong anti-bribery policies and programmes applied globally, however, enforcement appears to be weak.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company controversies (cont d)

- Responsible Marketing Practices: Over the past three years, critics of the company have associated **Bayer's** pesticides and GMO plants and seeds with threats to biodiversity and human health in various parts of the world, which in some cases has led to governments banning Bayer's products. In April 2013, The European Commission (EC) decided to restrict the use of neonicotinoids, following a critical report by the European Food Safety Authority (EFSA) in January 2013, which stated that the use of neonicotinoid insecticides, of which Bayer is the inventor and main producer, poses an unacceptably high risk to bees. France, Germany, Slovenia and Italy have already introduced their own bans on (some types of) neonicotinoids. According to four prominent studies published in Nature, Science and the Bulletin of Insectology in 2012, the widespread use of neonicotinoids since 2005 can be linked to the mass bee declines after 2006.
- Business Ethics/Ethical Trials: In June 2013, **Teva Pharmaceuticals** agreed to pay US$1.6bn to Pfizer and Takeda for infringing on their Protonix patent, and admitted, as part of the settlement, that its sales of generic pantoprazole infringed on Pfizer and Takeda's patent. Although patent infringement lawsuits are very common in the industry, the amount of this settlement far exceeds the industry average, and will have a significant financial effect on Teva; the amount constitutes 73% of Teva's 2012 earnings.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Business Ethics/Ethical Trials: Do you have specific guidelines on genetic research? Do you provide training sessions for employees who are involved in genetic research?
- ✓ Product Safety: Do you have any specific policies concerning hazardous substances and did you set specific targets for reducing hazardous waste? Do you have action plans concerning incidents involving hazardous substances and do you have guidelines for the disposal of hazardous waste?
- ✓ Product Safety: Do you have any specific product stewardship and product safety programmes? Do you study the effects of drugs on eco-systems and do you develop guidelines on how to mitigate these possible effects?
- ✓ Business Ethics/Ethical Trials: What kind of measures has your company taken in order to comply with regulations such as the Declaration of Helsinki and the recommendations of the International Conference on Harmonisation (ICH), particularly regarding Good Clinical Practices ? Does the company have a formal strategy to cope with new EU regulations?
- ✓ Business Ethics/Ethical Trials: Do you have explicit guidelines and a code of conduct for the clinical trial process and do you provide training sessions for employees who are involved in clinical trials? How do you monitor whether ethical standards are upheld if you outsource clinical trials to developing countries, especially in some countries are subject to poor regulatory standards?

REAL ESTATE - ESG THEMES & INDICATORS

Corporate Governance	"Green Building" / "Green Renovation"	Environmental Impacts	Operational Health & Safety
Disclosure of Directors' remuneration	Programmes and targets to increase investments in sustainable buildings	External certification of EMS	Supply chain monitoring system
Board independence	Use of life-cycle analysis (LCA) for new real estate projects	Programmes and targets to reduce direct GHG emissions	Contractors & supply chain related controversies or incidents
Board diversity	Share of property portfolio invested in sustainable buildings	Programmes and targets for environmental improvement of suppliers	Customer-related controversies or incidents
Non-audit fees relative to audit fees	Membership in initiatives promoting sustainable buildings	Sustainability-related products & services	
Governance-related controversies or incidents	Periodic occupier satisfaction surveys		

Source: SG Cross Asset Research, Sustainalytics

REAL ESTATE - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Unibail Rodamco	France	€17,063.8m	100.0	€175.55	€235.00	Buy	**89.90**	100.00	100.00	75.47	*91.66*	*88.24*
Land Securities	UK	£7,240.4m	76.0	£9.22	£10.00	Hold	**83.33**	96.66	87.50	69.52	*82.45*	*83.42*
Gecina	France	€5,681.5m	34.0	€90.44	€103.00	Buy	**82.78**	83.16	87.50	79.76	*75.00*	*73.61*
British Land Co	UK	£5,816.7m	84.4	£5.82	£6.70	Buy	**80.58**	75.83	100.00	73.57	*79.41*	*78.24*
Hammerson	UK	£3,575m	70.0	£5.02	£6.70	Buy	**78.03**	88.33	75.00	70.95	*80.88*	*81.94*
Corio	Netherlands	€2,983.3m	67.7	€30.35	€41.00	Buy	**69.50**	66.66	100.00	54.52	*43.52*	*63.88*
Segro PLC	UK	£2,259.3m	100.0	£3.04	£3.40	Buy	**68.82**	93.33	87.50	37.14	*62.94*	*62.68*
Great Portland Estates	UK	£1,850.3m	100.0	£5.38	£6.00	Hold	**66.66**	58.33	100.00	56.25	*66.66*	*70.85*
Intu Properties	UK	£3,055.7m	45.2	£3.16	£3.40	Hold	**66.17**	64.16	62.50	70.00	*65.00*	*65.55*
Foncière des Régions	France	€3,686m	45.3	€58.51	€79.00	Buy	**65.78**	76.66	75.00	51.19	*65.78*	*55.64*
Derwent London PLC	UK	£2,424.4m	73.7	£23.68	£26.10	Buy	**65.55**	33.33	100.00	72.50	*65.55*	*65.69*
Klepierre	France	€6,156.6m	48.6	€30.86	€38.00	Buy	**62.45**	66.66	62.50	58.80	*58.13*	*54.90*
Mercialys	France	€1,309.5m	51.8	€14.23	€19.00	Buy	**54.41**	64.16	50.00	48.57	*54.41*	*47.22*
Icade	France	€4,633.3m	48.0	€63.94	€70.00	Hold	**52.84**	53.33	50.00	54.04	*52.84*	*37.59*
Eurocommercial Properties	Netherlands	€1,231.6m	79.9	€29.51	€39.00	Buy	**50.00**	66.66	100.00	12.50	*54.44*	*No data*
Cofinimmo	Belgium	€1,409.8m	93.6	€83.16	€105.00	Buy	**45.78**	51.66	50.00	38.33	*32.35*	*36.11*
Wereldhave	Netherlands	€1,127.6m	93.9	€52.01	€64.00	Buy	**40.88**	58.33	50.00	20.71	*40.88*	*41.38*
Immofinanz	Austria	€3,473.8m	90.0	€3.08	€3.10	Hold	**40.68**	63.33	50.00	15.95	*29.11*	*33.05*
Nexity	France	€1,492.3m	37.4	€28.00	€32.30	Hold	**40.00**	63.33	50.00	8.33	*40.00*	*40.71*
IGD	Italy	€278.2m	45.0	€0.80	€1.25	Buy	**38.88**	41.66	100.00	6.25	*38.88*	*55.47*
GSW Immobilien AG	Germany	€1,621.9m	74.9	€32.10	€36.00	Buy	**34.54**	51.66	49.75	11.19	*No data*	*No data*
Deutsche EuroShop	Germany	€1,652.9m	84.1	€30.64	€39.00	Buy	**32.84**	50.00	50.00	8.33	*32.84*	*36.57*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

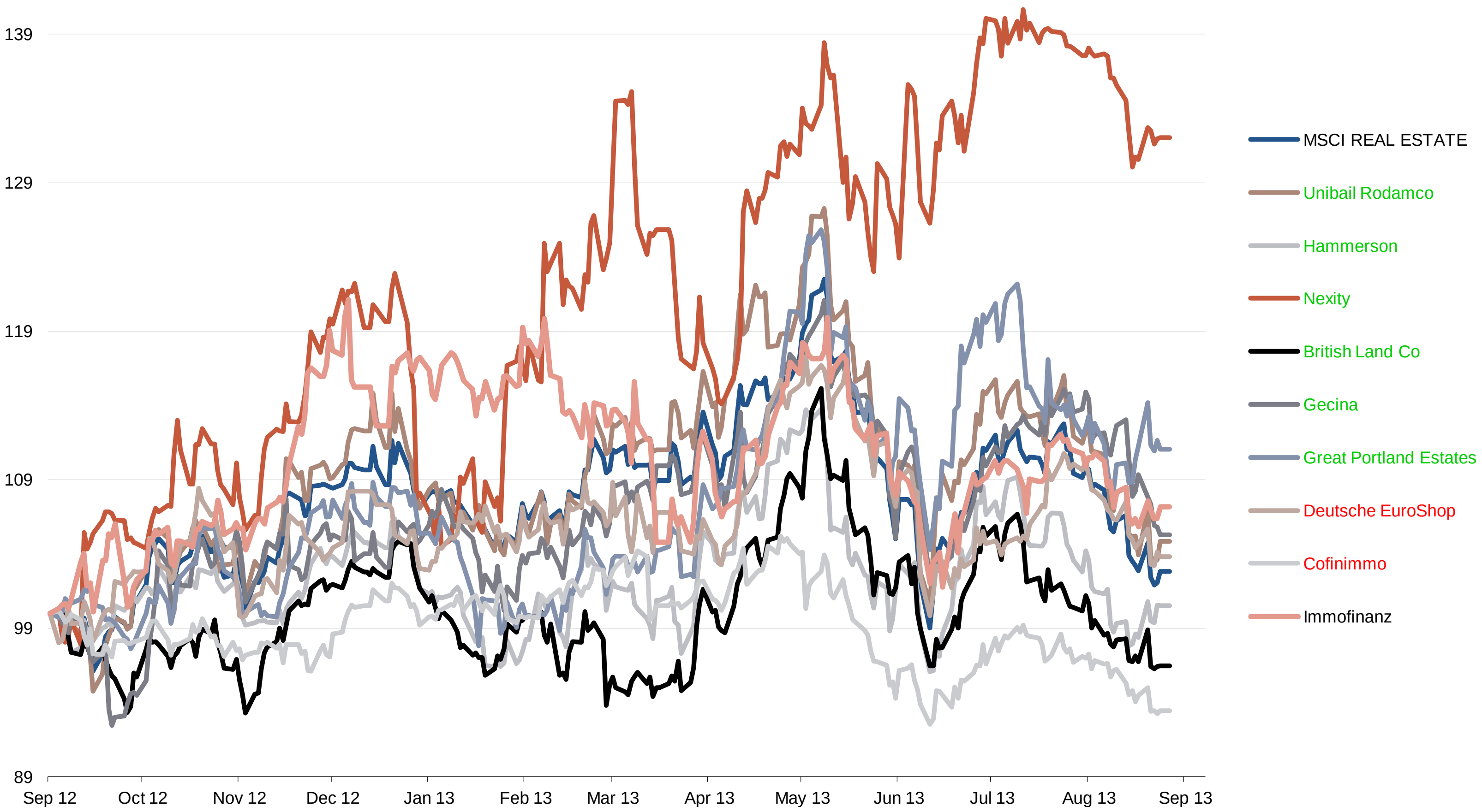
REAL ESTATE - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Cofinimmo Wereldhave GSW Immobilien AG Deutsche EuroShop *(IGD)*	**Segro PLC** **Foncière des Régions** **Klepierre** **Mercialys** ***(Derwent London)*** ***(Eurocommercial)***	**Unibail Rodamco** **Gecina** **British Land Co** **Hammerson** **Corio**
Hold	Immofinanz Nexity	**Intu Properties** **Icade** ***(Great Portland)***	**Land Securities**
Sell			

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

REAL ESTATE - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

REAL ESTATE - SECTOR COMMENTS (1/2)

Sector outlook

- Having a global view of the real estate sector is a misleading exercise as it is essentially a local and domestic sector. That aside, the European real estate sector has gone nowhere relative to the general equity index over the past five years, since it troughed in mid-2009. The UK has, however, been able to catch up since 2012, driven by the UK's monetary policy activism (calls for two additional rounds of QE for £100bn), while such activism has remained subdued in the continent since the peak of the euro-crisis in mid-2011. Over the past two years, the UK's quantitative easing has revived the UK sector which has progressed by 32% and outperformed the Footsie 100 by 3%, while the Eurozone recovered 15% and underperformed the Stoxx 600 by 27%. Over the past five years, the UK real estate sector has declined by 20%, and underperformed the Footsie 100 by 42%. In the continent, the sector has fallen 10% over the period, underperforming the Stoxx 600 by 20%. From now on, the normalisation of the economy implies higher yields. A material shift in rates will increase the cost of funding, which in turn may hurt property prices in the long run. As a late cyclical industry the real estate sector should then lag the equity market recovery. However, real estate's recent addiction to low yields could cause it to be hit hard by rates normalisation.

Major ESG trends

- <u>Green Building/Green Renovation</u>: Real estate companies around the world are focusing more and more on building environmentally friendly buildings and existing buildings are being upgraded to meet these standards. Achieving specific green building certification standards, such as the Leadership in Energy and Environmental Design (LEED) green building rating system, has become essential for the industry. Given the increase in extreme weather events in the last few years, there is a growing awareness of the issue of flooding and stormwater control, which can be addressed by green roofs and rainwater recovery systems.
- <u>Environmental Impacts</u>: Natural gas may currently be significantly less expensive than fuel oil or even coal in several regions. Switching to natural gas from these fuels would therefore reduce greenhouse gas emissions significantly and provide a reasonable return on investment. Furthermore, building owners are beginning to consider more seriously alternative energy, not just wind turbines and solar cells, but also geothermal and aquifer air temperature control systems.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Environmental Impacts: **Unibail-Rodamco SE** has adopted a "green" electricity purchasing policy, which it expanded to 100% of its Nordic properties in FY2012. The company reports that four out of its six operational regions have switched to either a full or partial green electricity supply. In addition to sourcing renewable energy, the company has also begun generating renewable energy onsite. Unibail-Rodamco SE has installed solar panels at nine properties in Spain and two Spanish shopping centres have been outfitted with tri-generation systems. The company's new Aéroville development in France will have an onsite geothermal plant to meet heating and cooling needs.
- Green Building/Green Renovation: **British Land Co. Plc s** corporate responsibility policy addresses responsible property investment from the development and acquisition stages through the property management and resale stages. The policy commits to developing sustainable buildings, considering sustainability risks and opportunities during the acquisition process, operating properties in a sustainable manner and communicating sustainability benefits to prospective buyers. These commitments are expanded upon and communicated to its project teams and suppliers through a 32 page Sustainability Brief for New Developments, which provides specific guidance and performance metrics to be applied to all new developments.

Company controversies

- Corporate Governance: As of June 2013, **Equity Residential** was facing two separate class action lawsuits over violations of a Massachusetts state law which prohibits landlords from requiring tenants to pay for anything other than first and last month's rent, a security deposit and the cost of a new lock and key as part of their lease. In the first case, the plaintiffs, residents of Equity Residential's West End apartment complex, are seeking a refund not just for themselves, but all tenants of the complex, of an upfront non-refundable US$500 "amenities fee" charged by the company. They accuse the company of illegally collecting more than US$5m from tenants in this manner since 2008. This case moved into the discovery phase in February 2013 following the November 2012 decision by a US District Court to grant the plaintiffs class action status and quash the company's motion to dismiss. The case was initially filled in June 2012 following the consolidation of two personal suits over the same issue.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Green Building/Green Renovation: Does your company have programmes and targets to increase investments in sustainable buildings? Are you a member or initiator of initiatives promoting sustainable buildings and do you obtain green certifications for your new as well as for your existing buildings?
- ✓ Environmental Impacts: Does your company assess the energy footprint of its buildings? Do you have plans to switch the heating systems of your buildings to natural gas or alternative energy sources?
- ✓ Green Building/Green Renovation: Do you make use of life-cycle analysis for new real estate projects? Does your company have specific targets for the use of green energy?
- ✓ Corporate Governance: Do you conduct periodic occupier satisfaction surveys? Do you have transparent and accurate reporting concerning new property developments and do you report accurately, fairly and transparently concerning rent developments?
- ✓ Corporate Governance: To what extent does your company take “Responsible Investment” into account and do you have an explicit policy on responsible investment? Do you take “ESG” issues into account when making investment decisions and how do you integrate these factors into your investment models?

RETAILING - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	Environmental Impacts	Supply Chain Management	Human Resources Management
Disclosure of Directors' remuneration	Business-ethics related controversies or incidents	Sustainability-related products & services	Scope of social supply chain standards	Percentage of employees covered by collective bargaining agreements
Board independence		Formal environmental policy	Reporting on supply chain monitoring and enforcement	Employee turnover rate
Board diversity		Programmes and targets to reduce GHG emissions from outsourced logistics services	External social certification of suppliers	Percentage of temporary workers
Non-audit fees relative to audit fees			Formal policy or programme on green procurement	Employee-related controversies or incidents
Governance-related controversies or incidents			Contractors & supply chain related controversies or incidents	

Source: SG Cross Asset Research, Sustainalytics

RETAILING - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Hennes & Mauritz	Sweden	SEK364,145.5m	57.0	SEK249.3	SEK221.0	Hold	**75.27**	91.66	63.12	75.00	*75.27*	*58.80*
Inditex	Spain	€68,566.3m	35.7	€110.0	€139.0	Buy	**74.72**	88.33	63.12	77.50	*74.72*	*68.80*
Debenhams	UK	£1,261.1m	92.5	£1.02	£1.08	Buy	**66.55**	100.00	99.66	0.00	*66.66*	*No data*
Rubis	France	€1,598.6m	78.1	€46.14	€73.00	Buy	**65.62**	100.00	75.00	0.00	*65.62*	*51.09*
Kingfisher	UK	£9,491.5m	100.0	£4.00	£4.14	Hold	**64.44**	87.50	40.62	77.50	*60.55*	*59.04*
Marks & Spencer	UK	£8,265.1m	100.0	£5.12	£5.81	Buy	**62.72**	79.16	41.12	81.25	*66.94*	*68.57*
Darty	UK	£390.5m	43.0	£0.74	£0.64	Hold	**58.33**	100.00	75.00	0.00	*58.33*	*No data*
Metro AG	Germany	€9,438.1m	44.2	€29.12	€26.00	Hold	**55.33**	66.00	52.14	45.00	*No data*	*No data*
Home Retail Group	UK	£1,418.6m	100.0	£1.74	£1.28	Hold	**55**	80.00	40.62	46.25	*60.83*	*62.85*
Next	UK	£8,157.8m	100.0	£51.85	£55.00	Hold	**54.72**	84.16	41.25	37.50	*39.72*	*45.23*
Esprit Holdings	Hong Kong	HKD23,433.1m	95.5	HKD12.08	HKD11.00	Hold	**49.16**	62.50	56.87	13.75	*49.16*	*51.66*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

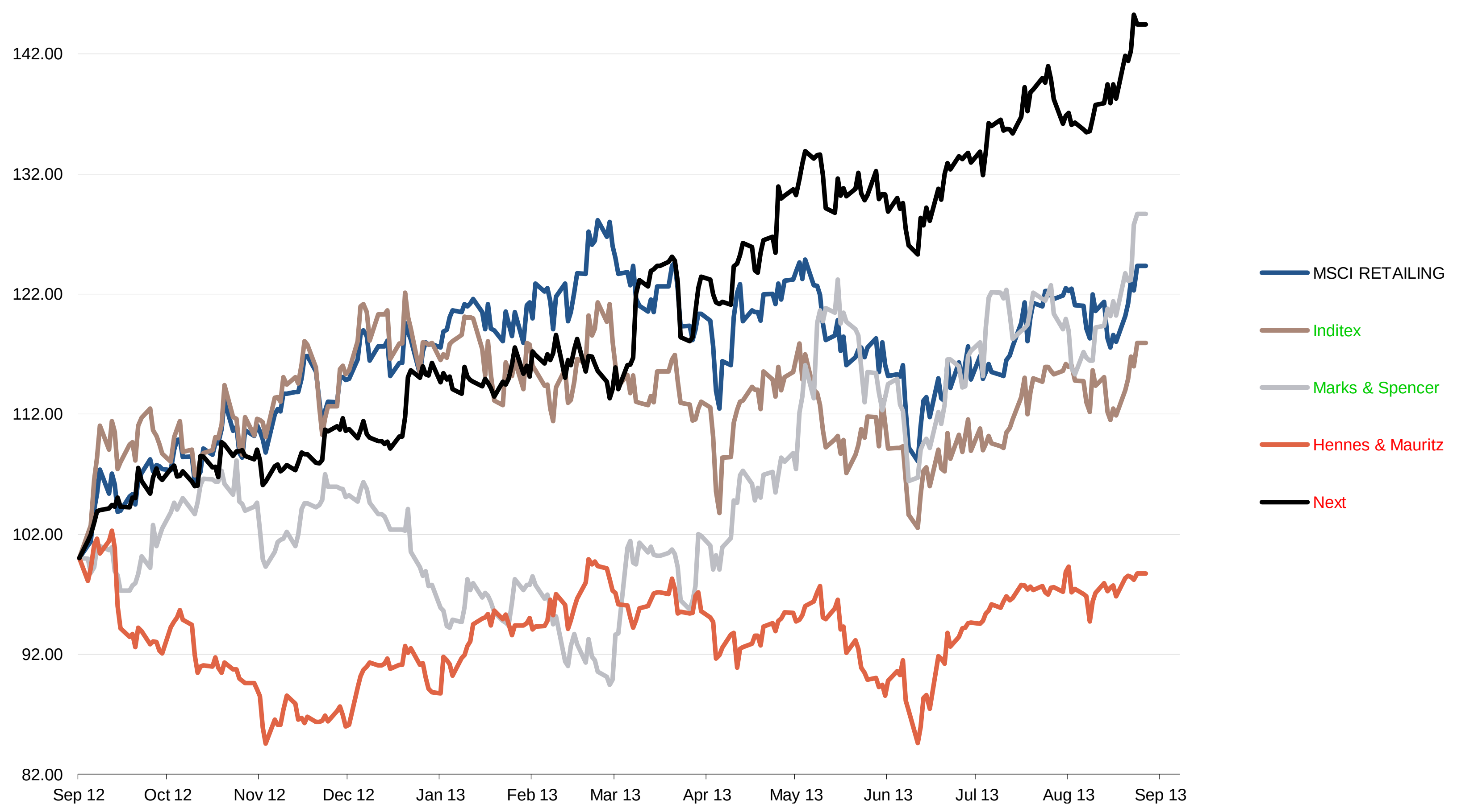
RETAILING - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy		**Marks & Spencer** ***(Debenhams)*** ***(Rubis)***	**Inditex**
Hold	Home Retail Group Next Esprit Holdings	**Kingfisher** **Metro AG** ***(Darty)***	**Hennes & Mauritz**
Sell			

ESG Rating

* *As of 15/02/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

RETAILING - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector outlook

- The UK non-food retail sector has now outperformed the UK market since the beginning of 2012. Over the past six months, sector stocks have made particularly marked progress, with investors inspired by the improving outlook for the UK consumer. This leaves the UK non-food sector trading on a very full forward (2014e) P/E of 14x, compared to the pre-credit crunch peak in this measure of 16x. The sector's P/E low point of 8x, seen in 2008, is now far behind us. The outperformance of the sector and the increase in the P/E looks justified, but company newsflow now needs to reflect market optimism. We see limited further outperformance potential for the sector – rather we expect a period where EPS forecasts need to "catch up" with recent share-price action. For this reason, in the UK, we are only interested in backing internal change, or "self-help" stories, with Marks & Spencer being a prime example. As for the European non-food retail sector, the megacaps, Inditex and H&M, have underperformed for much of 2013. Both of these stocks have recently started to make up some ground and we think this could continue, provided eurozone consumption trends can provide some support.

Major ESG trends

- Corporate Governance: Over the past decade the use of a multi-channel approach to retailing has increased in popularity. In conjunction with traditional storefronts, many retailers offer additional channels through which consumers may purchase products, such as mail order catalogues and online retailing. Technology has changed how products are brought to market and advertised to consumers. The rise of e-commerce has given birth to companies such as **Amazon.com** and **Expedia**, which are challenging the traditional business model. Online retailing enables companies to bring a wide array of products directly to the consumer while leveraging another avenue for marketing. This method of retailing is convenient for consumers, available 24 hours a day.
- Environmental Impacts: Several companies promote environmentally friendly products and strive to eliminate hazardous waste and harmful chemicals from operations. Initiatives have been started which aim for zero discharge of hazardous chemicals (ZDHC). In order to provide current fashion to mainstream customers, companies exhibit increasingly fast product cycles.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

RETAILING - SECTOR COMMENTS (2/3)

Company highlights

- Supply Chain Management: **M&S** has a “shwopping initiative” that encourages customers to donate through its shops used clothing to Oxfam to be resold, reused or recycle. Through its “shwopping initiative” M&S has raised £2.3m for Oxfam and avoided waste by putting the 3.8 million “shwopped” items of clothing back into use or into recycling.
- Environmental Impacts: **Kingfisher**, through its Net Positive strategy, commits itself to make a positive contribution in four areas, namely timber, energy, innovation and communities. The programme strives to enforce net reforestation, to help create homes that are carbon neutral or generators of their own energy, to design out waste from its products and services and to work in communities so as to connect people and equip them with practical skills. The company obtains 89% of its timber products from responsible sources, achieved a 5TWH reduction in customer energy use through sales of energy-saving products, attains 20% of retail sales from products with eco credentials and 25% of its stores are supporting local community projects.

Company controversies

- Supply Chain Management: In May 2013, a factory in Cambodia, operated by Hong Kong's Top World Garment (Cambodia) Ltd, that was manufacturing **H&M’s** garments collapsed injuring 23 people. H&M responded promptly, stating that the factory was not authorised to manufacture its products. The company also stated that such practices were against its policy. To ensure prevention of such malpractices in the future, H&M announced that it would conduct training for all suppliers in Cambodia, focusing on subcontracting. Additionally, H&M emphasised that the management of a collapsed factory would take the full responsibility over the incident, including compensating the victims.
- Business Ethics: In May 2013, **Amazon** was highly criticised by the UK media for paying taxes in the U.K. that constituted less than 0.1% of its sales in that country. While there are no lawsuits pending in this regard, tax avoidance falls short of best practices. In November 2012, both France and a group of US States demanded that the company pay US$252m and US$234m, respectively, in taxes owed to the countries. The amount demanded from France is considered large, and other European countries, such as Germany and the UK announced they would push multinational companies to pay owed taxes, and look to close tax loopholes. The amount demanded from the US is also considered large; however, the company has challenged the US tax bill and consequently settled with the State of Texas out of court. Additionally, Amazon has been involved in a number of cases where multiple states, including State of Texas, New York, and Illinois, are demanding that the company collect sales taxes. According to a 1992 US Supreme Court decision (Quill Corporation v. North Dakota), vendors do not have to collect sales taxes in states where they do not have a physical presence. The states assert that Amazon has a physical presence through distribution centres and through affiliate organisations that partner with the company. They argue that online retailers that do not collect taxes are depriving states of revenue and have an unfair competitive advantage over local retailers that must collect taxes.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company controversies (cont d)

- Supply Chain Management: A number of retailers are involved in a major controversy related to the April 2013 collapse of a manufacturing facility in Bangladesh from which they source garments. The building collapse, which killed over 1,100 people, triggered violent mass demonstrations and factory closures and highlighted a key challenge facing the retailing industry: contractor health and safety. Examples of companies that sourced their products from this facility include **Loblaw Companies** (Joe Fresh), **Associated British Foods** (Primark) and **Wal-Mart**.
- Operational, Health & Safety: In May 2013, part of a factory owned by Wing Star Shoes, collapsed in the Kampong Speu province, Cambodia. At least two people died and six more were injured. Wing Star Shoes is a joint venture between Asics Trading, a subsidiary of **Asics** and a Taiwanese company. The company said that it would investigate whether safety measures have been implemented and respected.

Issues for engagement

- ✓ Business Ethics: Do you have programmes or guidelines for stakeholder involvement? Do you educate customers about ESG issues?
- ✓ Environmental Impacts: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused/recycled materials in new products? Do you have policies for environmental friendly products that comply with regulations, for example ensuring that the chemical composition of products is in line with specific limits? Do you have programmes aiming at the reduction of hazardous substances within your operations and do you have action plans concerning incidents involving hazardous substances?
- ✓ Supply Chain Management: Does your company have a formal policy on working conditions, child labour and health & safety issues for its employees as well as for its sub-contractors? Do you collaborate with suppliers in order to improve working conditions and safety standards for their employees and do you refrain from procuring products of suppliers which are subject to controversial operational practices?
- ✓ Supply Chain Management: Do you publish information on tier 2 and tier 3 suppliers? Does your company perform or report on auditing of tier 2 and tier 3 suppliers?
- ✓ Environmental Impacts: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?

SEMICONDUCTORS - ESG THEMES & INDICATORS

Corporate Governance	Energy Efficiency	Environmental Impacts	Human Resources Management
Disclosure of Directors' remuneration	Programmes and targets to increase renewable energy use	Systematic integration of environmental considerations at R&D stage (Eco-design)	Employee-related controversies or incidents
Board independence	Carbon intensity	Programmes and targets for end-of-life product management	
Board diversity	% primary energy use from renewables	External QMS certifications	
Non-audit fees relative to audit fees			
Governance-related controversies or incidents			

Source: SG Cross Asset Research, Sustainalytics

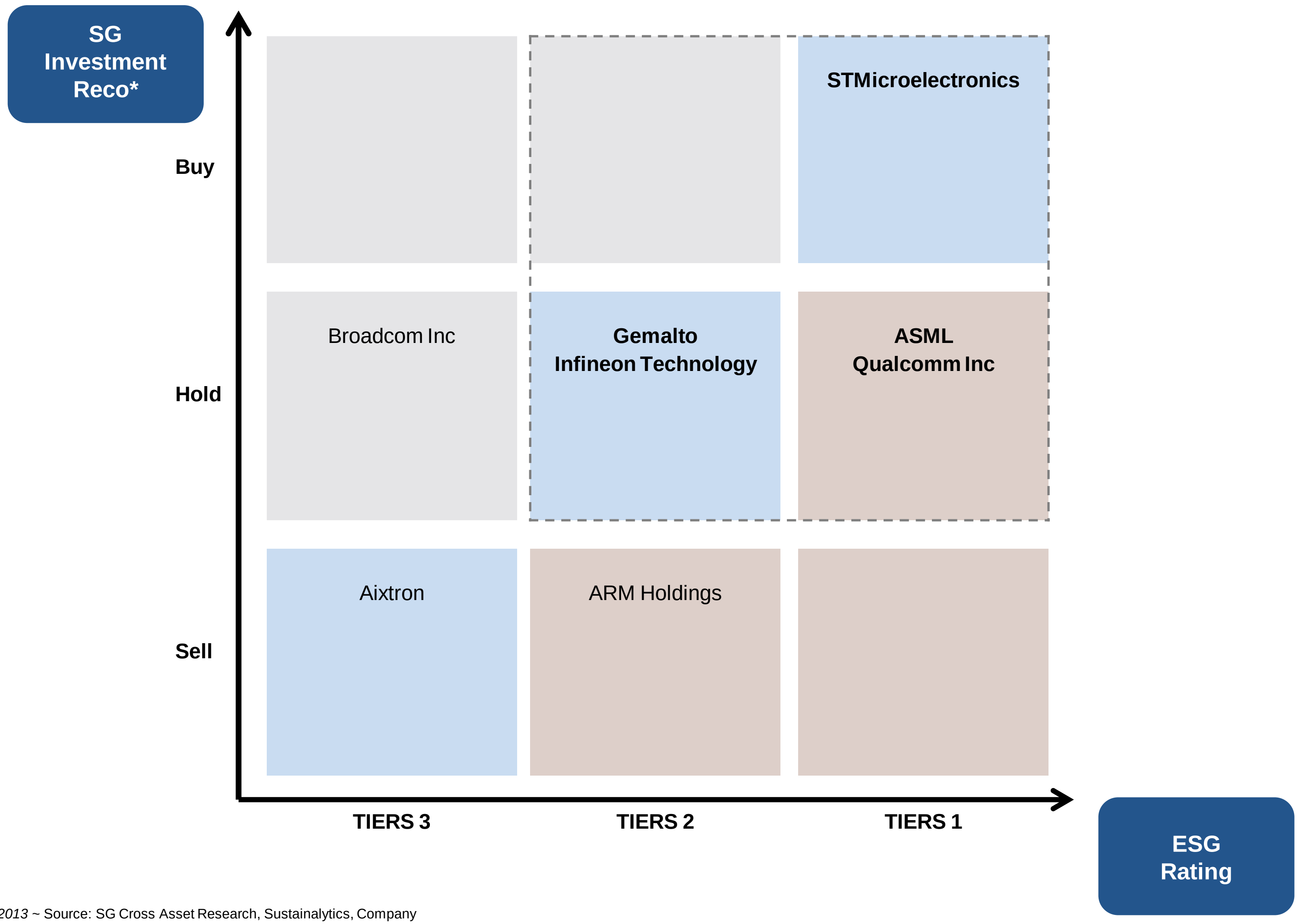
SEMICONDUCTORS - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
ASML	Netherlands	€31,053.2m	80.0	€69.50	€66.00	Hold	**81.25**	100.00	100.00	55.00	*79.58*	*73.46*
STMicroelectronics	France	$8,332.2m	69.0	$9.15	$11.00	Buy	**75.83**	92.00	100.00	50.00	*77.91*	*76.92*
Qualcomm Inc	US	$117,643.9m	100.0	$68.58	$67.00	Hold	**73.19**	99.66	41.66	83.33	*65.33*	*58.66*
Gemalto	Netherlands	€7,082.6m	100.0	€80.47	€85.00	Hold	**68.66**	96.66	37.50	75.00	*68.66*	*55.00*
ARM Holdings	UK	£13,600.6m	73.3	£9.72	£6.40	Sell	**67.08**	81.00	100.00	40.00	*62.91*	*71.53*
Infineon Technology	Germany	€8,014.6m	76.0	€7.41	€7.00	Hold	**67.00**	90.80	100.00	30.00	*62.91*	*58.07*
Broadcom Inc	US	$13,806.9m	78.0	$26.10	$32.00	Hold	**65.41**	92.00	62.50	40.00	*67.08*	*54.23*
Aixtron	Germany	€1,342.1m	76.4	€13.13	€9.00	Sell	**42.41**	76.80	62.50	0.00	*42.50*	*39.23*

Source: SG Cross Asset Research, Sustainalytics, Company

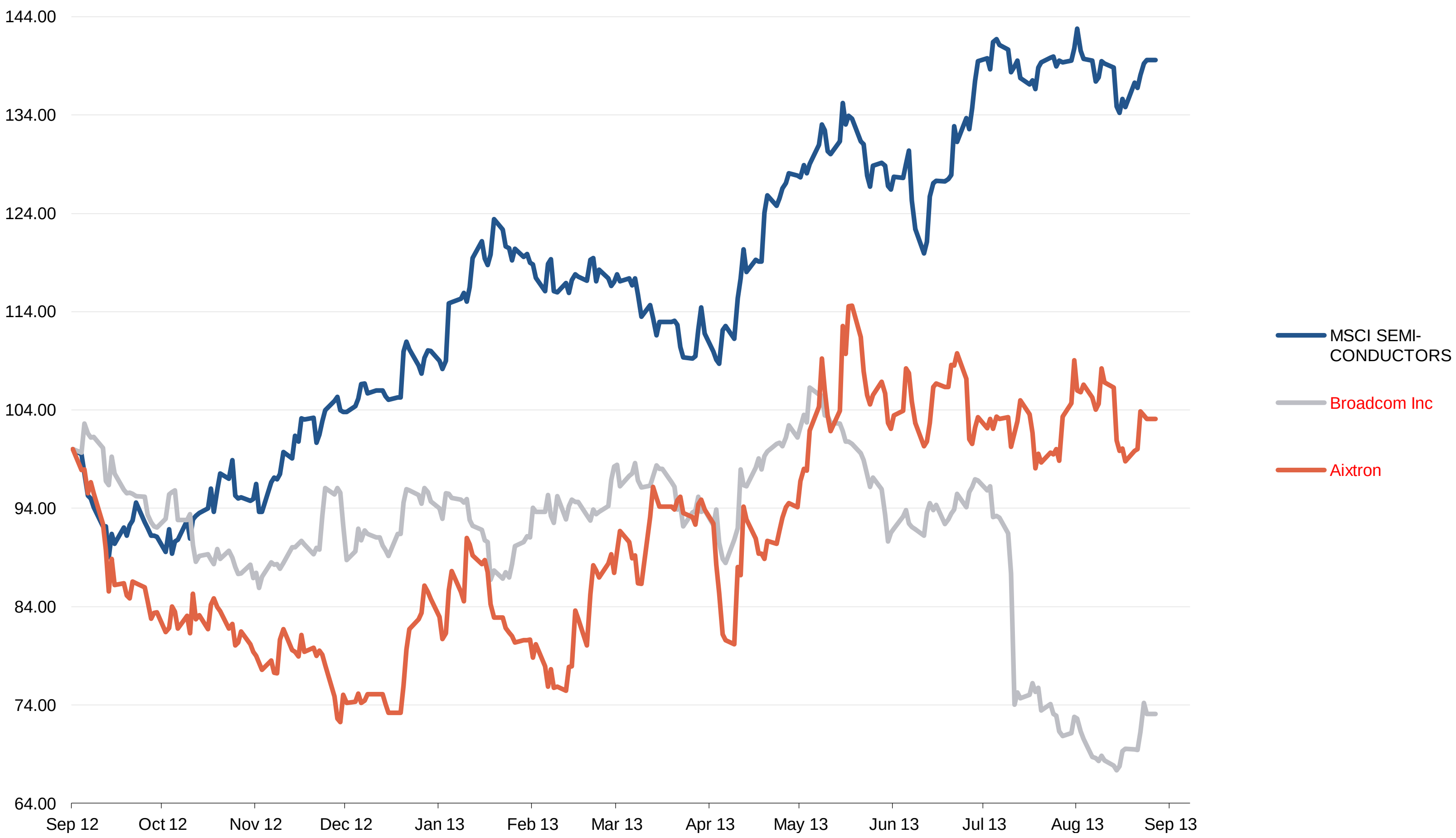
Low
High

SEMICONDUCTORS - RATING MATRIX



* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

SEMICONDUCTORS - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector Outlook

- The outlook for the technology sector is broadly positive with historically a strong correlation with world GDP growth. Recoveries look to be gathering pace with chip sales advancing yoy and now with above-normal sequential progressions as well. However, US telecoms equipment spending is already at a high level, PC demand remains slow and high-end smartphone markets look to be maturing. Growth is being driven by lower-end smartphone market segments and emerging market penetration. The sector has become increasingly concentrated, leading potentially to more stable evolutions. Technology manufacturers tend to have strong cash conversion ratios and most of the larger companies already have significant net cash balances which should enable them to exploit any demand uptrend.

Major ESG trends

- Innovation: The semiconductor equipment industry is driven by the advancement in circuit-board technology such as smaller and faster chips. Industry wide the biggest drivers are demands from mobile devices (wireless and miniaturisation); automotive electronics to improve safety, power trains and fuel efficiency; and medical electronics to become smarter and easier to use. As technology reaches its physical limit, the next leap of innovation will have a much higher hurdle than previous ones. On the production side, this exponential cost growth has sidelined most semiconductor manufacturers to mature technology and concentrated leading technology production to a few companies. As a consequence, the dynamic change in partnerships will become even more critical in the future.
- Human Resources Management: An increasingly global and mobile workforce, particularly the highly educated engineers, means there is more competition for these talents. More informed and trained workers means companies have to meet and exceed OHS standards and employee benefits to retain their workforce. One of the main challenges is that as the populations of many developed countries age, it will be increasingly difficult to find necessary talents to fill vacant positions and sustain a company's competitiveness.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Environmental Impacts: **STMicroelectronics** applies life-cycle assessment (LCA) on selected products/processes with the purpose of minimising environmental and social impacts from raw materials, manufacturing, use, and disposal. STMicroelectronics has developed programmes to reduce environmental impacts related to products, based on an eco-design approach. The company states that it is on the path towards reaching the objective of 100% of new products being eco-designed by 2015. Additionally, STM states that it selects materials based on environmental criteria, as part of the Life Cycle Analysis procedures.
- Human Resource Management: **ASML** supports the EICC code of conduct and has a review and monitoring system to assess suppliers' implementation of the code. It also has a qualification audit methodology for social supply chain auditing, and reported that 100% of its 62 major suppliers have met the criteria. ASML manages a "supplier profile" and the supplier account team supports suppliers with training for improvement. **STMicroelectronics** requires its suppliers to comply with the EICC code of conduct, evaluates suppliers' corporate responsibility risks using EICC risk assessment tool, conducts audits on selected suppliers, and discloses suppliers' self-assessment. **Broadcom** requires all its suppliers to comply with EICC code of conduct and receive ISO 14001 certification, and only purchases goods and services from suppliers with less environmental and health impact.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Environmental Impacts: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused/recycled materials in new products?
- ✓ Operational Health & Safety: Do you assess risks within the operations of your sub-contractors and/or suppliers and do you have monitoring systems and audits for your supply chain and/or for sub-contractors' operations? Do you collaborate with suppliers and/or sub-contractors in order to improve working conditions and safety standards for their employees?
- ✓ Environmental Impacts: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?
- ✓ Business Ethics: Does your company have formal policy commitments to eliminate conflict minerals from its products and its supply chain? Do you source raw materials from the Democratic Republic of Congo?
- ✓ Environmental Impacts: Do you have operations or suppliers in countries that are subject to higher risks and did you understand that there was a risk in this region before you went there? Does your company have a process to identify countries which will be high risk in the future and did you have recent training programmes for employees that work in high-risk positions?

SOFTWARE & SERVICES - ESG THEMES & INDICATORS

Corporate Governance	Energy Efficiency	“Green” Products	Human Resources Management
Disclosure of Directors’ remuneration	Programmes and targets to increase renewable energy use	Sustainability-related products & services	Percentage of employees covered by collective bargaining agreements
Board independence	Carbon intensity	Programmes to address “Digital Divide”	Employee turnover rate
Board diversity	% primary energy use from renewables	Society & community-related controversies or incidents	Percentage of temporary workers
Non-audit fees relative to audit fees			Employee-related controversies or incidents
Governance-related controversies or incidents			

Source: SG Cross Asset Research, Sustainalytics

SOFTWARE & SERVICES - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Tata Cons. Serv. Ltd	India	INR3,823,920.5m	26.0	INR1,953.75	INR1,390.00	Sell	78.57	62.50	100.00	62.50	*No data*	*No data*
Steria	France	€396.7m	78.0	€12.30	€11.80	Hold	75.00	50.00	100.00	62.50	*67.85*	*62.18*
SAP	Germany	€67,248.3m	70.0	€54.74	€68.00	Buy	73.26	99.80	70.83	43.75	*73.33*	*67.64*
Infosys	India	INR1,738,815.3m	83.5	INR3,028.05	INR2,615.00	Hold	71.42	62.50	83.33	62.50	*No data*	*No data*
IBM	US	$2105,08m	100.0	$192.17	$199.00	Hold	67.00	100.00	55.00	43.75	*67.00*	*60.88*
Cognizant Tech. Sol.	US	$24,016.1m	100.0	$79.69	$85.00	Buy	65.66	92.00	66.66	31.25	*No data*	*No data*
Accenture	US	$48,041.3m	71.0	$74.50	$70.00	Sell	65.00	100.00	54.16	37.50	*70.00*	*69.11*
Altran Technologies	France	€1,035.9m	67.7	€5.93	€7.70	Buy	60.71	50.00	66.66	62.50	*60.71*	*56.43*
Dassault Systèmes	France	€12,327.9m	49.5	€97.74	€99.00	Hold	60.00	85.00	58.33	31.25	*60.00*	*51.47*
Indra	Spain	€1,871.1m	50.0	€11.40	€10.30	Hold	60.00	80.00	75.00	12.50	*65.00*	*57.35*
Atos	France	€4,834.5m	62.4	€56.18	€75.00	Buy	58.60	96.00	45.66	31.25	*62.00*	*45.88*
Alten	France	€982.2m	60.3	€30.00	€36.00	Buy	57.14	50.00	66.66	50.00	*57.14*	*61.78*
Software AG	Germany	€2,207.7m	69.9	€25.40	€34.00	Buy	55.33	96.00	50.00	12.50	*55.33*	*54.70*
CGI Group	Canada	CAD9,267.9m	55.7	CAD33.52	CAD31.60	Hold	48.33	100.00	33.33	6.25	*47.00*	*47.35*
Oracle	US	$150316m	78.0	$32.46	$36.50	Hold	47.33	81.00	42.50	12.50	*52.33*	*52.05*
Sage Group	UK	£3878.8m	81.3	£3.51	£2.90	Sell	47.00	96.00	33.33	6.25	*No data*	*No data*
Capgemini	France	€6906.2m	95.8	€43.40	€48.00	Buy	44.00	82.00	37.50	6.25	*49.00*	*41.47*

Low
High

Source: SG Cross Asset Research, Sustainalytics, Company

SOFTWARE & SERVICES - RATING MATRIX

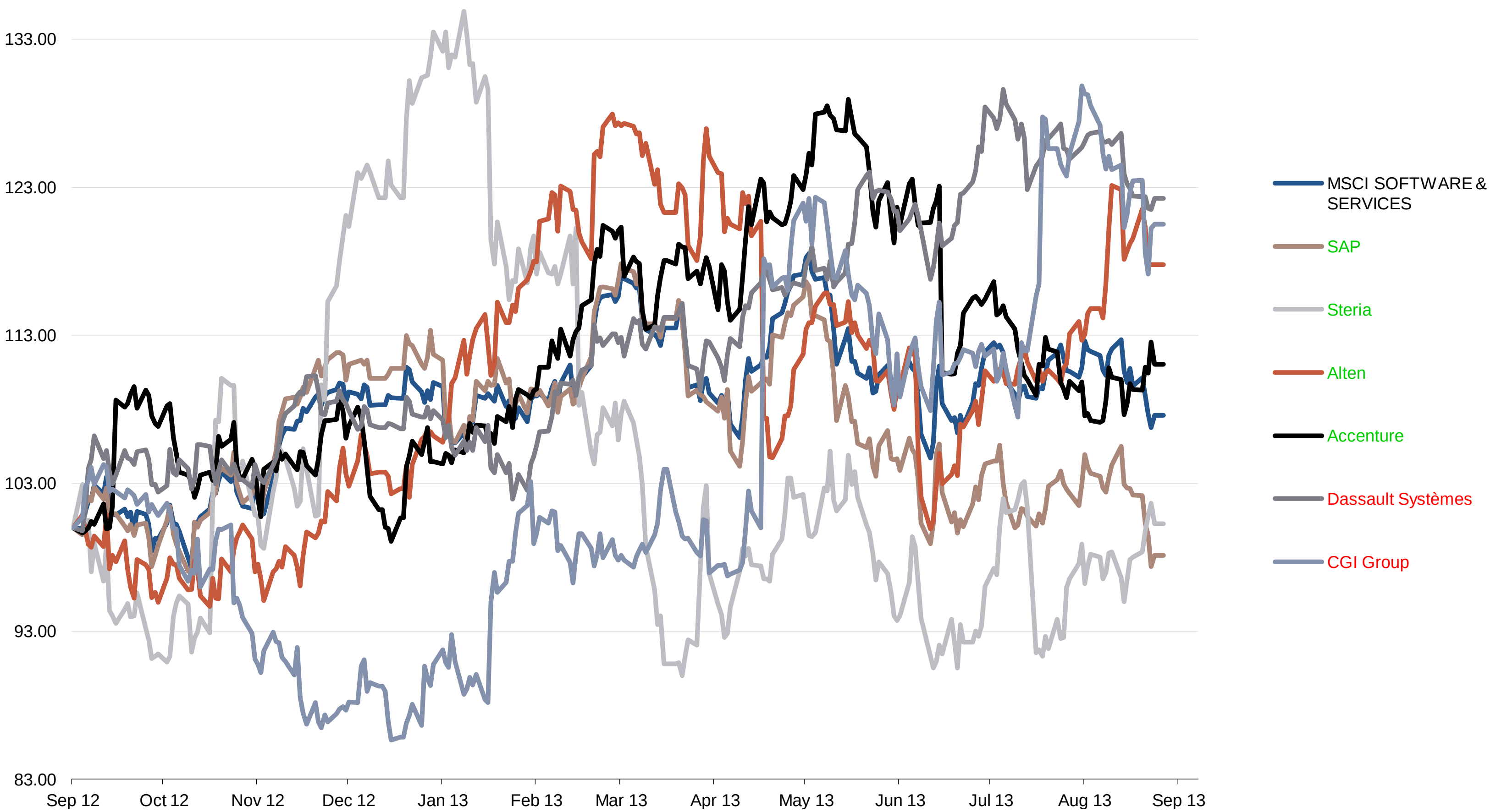
SG Investment Reco*

	TIERS 3	TIERS 2	TIERS 1
Buy	Capgemini	**Atos** **Software AG** ***(Altran Technologies)*** ***(Alten)***	**SAP** **Cognizant Tech. Sol.**
Hold	CGI Group Oracle	**Dassault Systèmes** **Indra**	**IBM** ***(Steria)*** ***(Infosys)***
Sell	Sage Group		Accenture *(Tata Consultancy)*

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

SOFTWARE & SERVICES - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

SOFTWARE & SERVICES - SECTOR COMMENTS (1/2)

Sector outlook

- IT spending is likely to increase at a pace similar to last year, i.e. c.3.5% overall, though growth rate by geography and by market segment could differ materially: demand in US and Asia is firmer than in Europe, while the software industry is growing at 3-4ppt above the IT Services segment. The emerging markets continue to boost the Software & IT Services industry as a whole, even if the growth engine is less powerful than a few years ago. The technological cycle has mitigated the economic cycle in certain areas (SaaS, in-memory) or has created new niche markets showing buoyant growth (API Server, Enterprise Social Network). The four mega trends underlying this breakthrough (cloud computing, big data, mobility, social) are the same as two years ago but their adoption by corporates has sharply increased. In the IT Services industry, though the market is still highly fragmented, consolidation should accelerate amongst the midsize players because customer behavior is evolving (continuing consolidation of their preferred suppliers lists, growing presence of their purchase departments in the referencing process), the industry is maturing (delivery centers nearshore/offshore, process optimisation), and the new entrants such as the Indian IT Services vendors change the rules of the game by pushing competition a step further. In software, we expect large vendors to actively pursue their acquisition strategy. This M&A strategy enables them to develop their footprint in specific verticals, complete the features of their existing stack, or diversify their product portfolio. The success of Software-as-a-Service (SaaS) application has been proven as the pace of adoption by SMBs and large corporate has now accelerated significantly. At this stage, SaaS looks like an additional sales growth opportunity for established software vendors but it also makes their future more uncertain if corporates switch their legacy systems to these new platforms.

Major ESG trends

- Green Products: The demand for immediate, clear, and uninterrupted information delivered securely is pushing innovation in the sector. Major sector trends include mobility; large, complex, and rapidly growing data sets (“Big Data”); cloud computing; and virtualisation of data centres. The Climate Group and the Global e-Sustainability Initiative (GeSI) predict that ICT applications have the potential to reduce global greenhouse gas (GHG) emissions by 15% by 2020 through products and services seeking to optimise productivity and efficiency.
- Human Resources Management: Skilled labour is at a premium and employee attraction and retention is an ongoing challenge for the sector. The OECD reported that ICT specialists can be considered as making up between 3% to 4% of total employment in OECD countries and that demand for data analytics, Internet and mobile software applications, and data security services was expected to keep the employment outlook for technology engineers and managers strong well into the future. At the same time the total number of graduates in computer sciences in OECD countries has declined since 2006.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Energy Efficiency: In 2012, 60% of **SAP**'s total electricity usage consisted of renewable energy, a 13% improvement compared to 2011 figures. Renewable energy was acquired from local utilities. In addition, SAP produced solar energy itself through solar panels at its facilities.
- Green Products: **Indra** states that as a global company it has operations in markets where the digital divide varies in size and significance and hence its main objective is to minimise the gap. The company also states its other objective is to promote greater equality in terms of the use of technology and enhance the quality of life. Indra Sistemas sponsors Accessible Technology Chairs to help narrow the digital divide affecting the disabled and works with universities to develop such technologies. It partnered up with the Toledo Paraplegic Hospital and the Rafael del Pino Foundation to develop innovative solutions and services for disabled people. It works with APNIB and FEAPS to develop a website and an employment portal dedicated to disabled people. Disadvantaged communities were donated IT equipment.

Company controversies

- Operations: In March 2013, **Oracle America, Inc.** and Montclair State University (MSU) settled a dispute out of court pertaining to a failed enterprise research planning (ERP) system deployment. In 2011, after MSU refused to pay an additional US$8m with regard to software deployment that had already cost US$20m, **Oracle America** walked away, prompting the school's accusations of breach of contract, gross negligence, wilful misconduct, and fraud. **Oracle America** filed a countersuit in May 2011, denying the charges and labelling the suit as a "misguided ruse" costing New Jersey's taxpayers millions of dollars. A judge subsequently dismissed MSU's claims of fraud and negligence, leaving the breach of contract claim, which was presumably resolved in the out-of-court settlement (undisclosed).

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Operations: What kind of programmes have you adopted in order to ensure data privacy and data protection compliance? How do you prevent potential financial as well as reputational damage from pirated software and do you provide software in a cloud in order to prevent piracy?
- ✓ Energy Efficiency: Do you assess the environmental footprint of your data centres and do you have specific targets for reducing their environmental footprint? Does your company have specific targets for the use of green energy?
- ✓ Green products: Do you offer any products or services with a clear sustainability dimension that enable you or your customers to be more competitive? Do you have programmes to address the "Digital Divide" and do you have sustainability initiatives with regard to cloud computing?
- ✓ Human Resource Management: What kind of initiatives have you taken to engage with employees, encourage diversity and provide skill development opportunities?
- ✓ Human Resource Management: Does your company have programmes to detect and fight corruption and do you provide training sessions for employees concerning "code of conduct" and whistleblowing? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?

STEEL - ESG THEMES & INDICATORS

Corporate Governance	Innovation / Energy Efficiency	Human Resources Management
Disclosure of Directors’ remuneration	Policy or programmes on green procurement	Percentage of employees covered by collective bargaining agreements
Board independence	Programmes and targets to reduce direct GHG emissions	Trend in lost-time incident rate
Board diversity	Carbon intensity	Number of fatalities
Non-audit fees relative to audit fees	% primary energy use from renewables	Health and Safety certifications
Governance-related controversies or incidents	Participation in sector initiatives (CDP, UNPRI)	Employee-related controversies or incidents

Source: SG Cross Asset Research, Sustainalytics

STEEL - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
ArcelorMittal	France	€17,528.3m	55.0	€10.52	€11.50	Buy	**70.33**	92.00	67.00	52.00	*70.33*	*65.00*
ThyssenKrupp	Germany	€8,676.9m	51.7	€16.86	€18.50	Hold	**61.66**	82.00	51.00	52.00	*63.33*	*57.05*
Evraz PLC	Russia	£2,049.8m	22.3	£1.39	£0.83	Sell	**47.14**	75.00	12.50	51.66	*47.14*	*44.02*
Novolipetsk Steel	Russia	$10,200.5m	14.5	$17.02	$12.90	Sell	**47.14**	50.00	90.00	16.66	*47.14*	*No data*
Acerinox	Spain	€2,091.9m	45.9	€8.14	€8.00	Hold	**40.00**	46.00	29.00	45.00	*33.33*	*36.76*
Salzgitter	Germany	€1,888.2m	73.5	€31.42	€24.40	Sell	**40.00**	60.00	55.00	5.00	*36.00*	*47.94*
Aperam	Luxembourg	€897.6m	56.7	€11.50	€12.00	Buy	**34.00**	55.00	47.00	0.00	*38.33*	*39.70*

Source: SG Cross Asset Research, Sustainalytics, Company

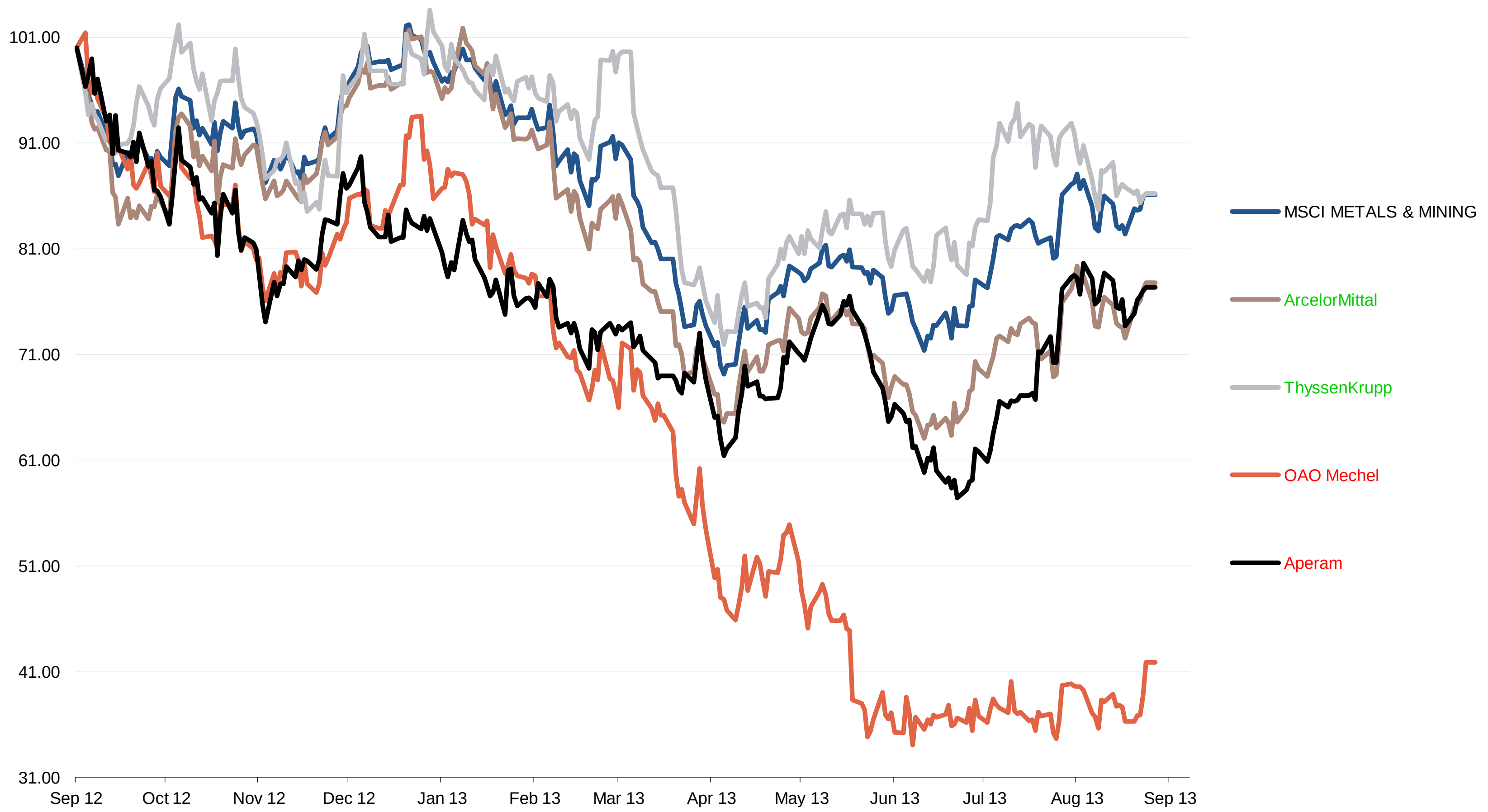
Low
High

STEEL - RATING MATRIX

SG Investment Reco* / ESG Rating	TIERS 3	TIERS 2	TIERS 1
Buy	Aperam		**ArcelorMittal**
Hold		**Acerinox**	**ThyssenKrupp**
Sell		Salzgitter *(Evraz PLC)* *(Novolipetsk Steel)*	

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

STEEL - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

STEEL - SECTOR COMMENTS (1/2)

Sector Outlook

- For many commodities, the 'supply shortage' that prevailed during the past decade has now largely been filled. The steel intensity per unit of GDP in China may already have peaked, but per capita consumption of steel should continue to grow, albeit at a slower rate. Given the resulting rebalancing of supply and demand alongside a gradual reversion of prices back to long-term sustainable pricing levels, there will be much less support for returns over the next ten years. In this context and given pressure from investors to exercise greater capital discipline, the world's largest mining companies have put the brakes on their expansion plans and delayed projects. We expect this more cautious approach to investment to remain in place in 2013/14. Short term, improved prospects for global growth after a flurry of positive surprises from China, the US and even Europe manufacturing activity have brightened the outlook for metals demand for end-2013 and early 2014. The sustainability of this recovery will certainly be tested at some point. The picture for steelmakers remains fundamentally less attractive as they struggle to maintain their margins in an environment of subdued (albeit improving) demand in the developed world and higher input costs.

Major ESG trends

- Human Resources Management: Traditionally, the steel industry's workforce has been organised hierarchically, from unskilled labourers to professional qualified engineering and technical staff. Over the last two decades, however, the structure of labour demand has changed due to technological advancements and innovation. Although overcapacity has led to layoffs in developed countries, a shortage of skilled labour remains a significant medium-term challenge for companies in this sector, in particular those involved in mining. In 2008, Australia's National Institute of Labour Studies estimated that an additional 86,000 workers would be needed in the mining industry by 2020 to ensure that the country maintains its global market share. Vale S.A., the largest company in this peer group, has identified the lack of skilled labour as one of the biggest challenges for developing its portfolio in 2012. In addition, the cost of skilled labour in the steel industry has increased, leading to a major impact on companies' operational efficiency.
- Energy Efficiency: With climate change at the forefront of the political agenda, steel companies are exposed to stringent national and international environmental regulations, protocols and trading schemes. As a significant CO2 emitter, the sector faces significant regulatory risk. Extreme weather events related to climate change can also disrupt operations or the supply of raw materials. Furthermore, climate change is expected to exacerbate water scarcity, posing additional challenges to the sector and, in particular, to those companies involved in mining. By 2025, the United Nations predicts that two-thirds of the world population could be living under water-stressed conditions. The risks and commercial opportunities related to climate change and water scarcity are becoming a growing area of interest for investors, as evidenced by their support of the Carbon Disclosure Project (CDP) and the launch of the Water Disclosure Project.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Innovation/Energy Efficiency: 98 % of **ArcelorMittal**'s steel production and finishing facilities are certified to ISO 14001 environmental management standards. Annually, 30 million tonnes of scrap steel are used at **ArcelorMittal**'s plants, which saves around 36 million tonnes of CO2. The company set up a 'WaterLab' at its Asturias research centre in Spain which does research with regard to recovery of organic pollutants from waste water. At **ArcelorMittal Sabara**, Brazil, inlet water use was cut by 50% since implementation of guidelines for assessing water use were used to improve understanding of the water flows.
- Human Resources Management: **Aperam** has a adequate programme to develop and train its employees. In 2012, 84% of employees followed a training plan. **Aperam** strives to provide training to 90% of its employees by 2014. Furthermore, the company launched programmes addressing employee development and engagement as well as succession planning to fully cover its management.

Company controversies

- Operations: In the last two years, **U.S. Steel** has faced controversial labour relations at its Canadian operations, including three lockouts, two of which were relatively long. In April 2013, U.S. Steel locked out approximately 1,000 unionised workers at its Lake Erie Works in Nanticoke, Ontario, after workers rejected the company's proposed new labour contract. The company and the union had been negotiating for five weeks and the contract had expired on 15 April 2013. The Nanticoke plant was under lockout from August 2009 to April 2010. The company also had a lockout at its Hamilton plant in Ontario from November 2010 to October 2011.
- Operations: In February 2013, a blast at **Severstal s** Vorkutinskaya mine in the Komi Republic in Russia killed 19 workers. A total of about 250 workers were in other areas of the mine at the time of the explosion and were evacuated safely. The explosion was triggered by high levels of methane. Severstal announced that it would provide full support to the families of those injured and killed in the accident.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Business Ethics: Does your company have guidelines concerning the procurement of minerals from mining companies that are involved in controversial activities? Do you consider the local environmental impact of mining operations in your decisions on where to source coal and iron ore from?
- ✓ Innovation/Energy Efficiency: Do you have targets for increasing the use of scrap steel as raw materials and is recycled or reused material used for new products or for other purposes? Does your company sell or plan to sell steel slag as by-product?
- ✓ Human Resource Management: Does your company have any kind of health and safety certifications? How does your company make sure, that number of fatalities is minimised?
- ✓ Innovation/Energy Efficiency: How do you ensure that hazardous substances are not polluting water sources and the air? Do you have programmes aiming at reducing hazardous substances within your operations?
- ✓ Innovation/Energy Efficiency: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?

TECHNOLOGY HARDWARE & EQUIPMENT - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	Innovation / Energy Efficiency	Supply Chain Management
Disclosure of Directors' remuneration	Business-ethics related controversies or incidents	Systematic integration of environmental considerations at R&D stage (Eco-design)	Supply chain audits
Board independence	Customer-related controversies or incidents	Programmes and targets for end-of-life product management	Contractors & supply chain related controversies or incidents
Board diversity		Products & services related controversies or incidents	Membership in the EICC
Non-audit fees relative to audit fees			External social certification of suppliers
Governance-related controversies or incidents			Reporting on supply chain monitoring and enforcement

Source: SG Cross Asset Research, Sustainalytics

TECHNOLOGY HARDWARE & EQUIPMENT - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Alcatel-Lucent	France	€6,037.9m	77.2	€2.59	€0.65	Sell	**81.86**	96.66	66.33	83.33	*74.00*	*72.33*
Research in Motion	Canada	$5,388.4m	100.0	$10.28	$11.50	Hold	**78.00**	90.00	67.50	75.00	*No data*	*No data*
Apple	US	$422,360.3m	100.0	$464.9	$500.0	Buy	**77.60**	89.83	62.50	83.33	*77.66*	*77.66*
Ericsson	Sweden	SEK271,157.7m	59.3	SEK89.1	SEK70.0	Sell	**75.19**	79.00	59.00	100.00	*75.33*	*75.33*
Nokia	Finland	€17,788.7m	89.8	€4.75	€5.30	Buy	**72.26**	93.33	45.66	83.33	*72.33*	*72.33*
Ingenico	France	€3,036.1m	77.4	€57.21	€45.00	Sell	**69.22**	66.66	66.00	75.00	*69.44*	*57.00*
Oerlikon	Switzerland	CHF4,090.8m	52.1	CHF12.55	CHF12.40	Hold	**47.00**	75.00	43.00	17.85	*49.50*	*No data*

Source: SG Cross Asset Research, Sustainalytics, Company

Low
High

TECHNOLOGY HARDWARE & EQUIPMENT - RATING MATRIX

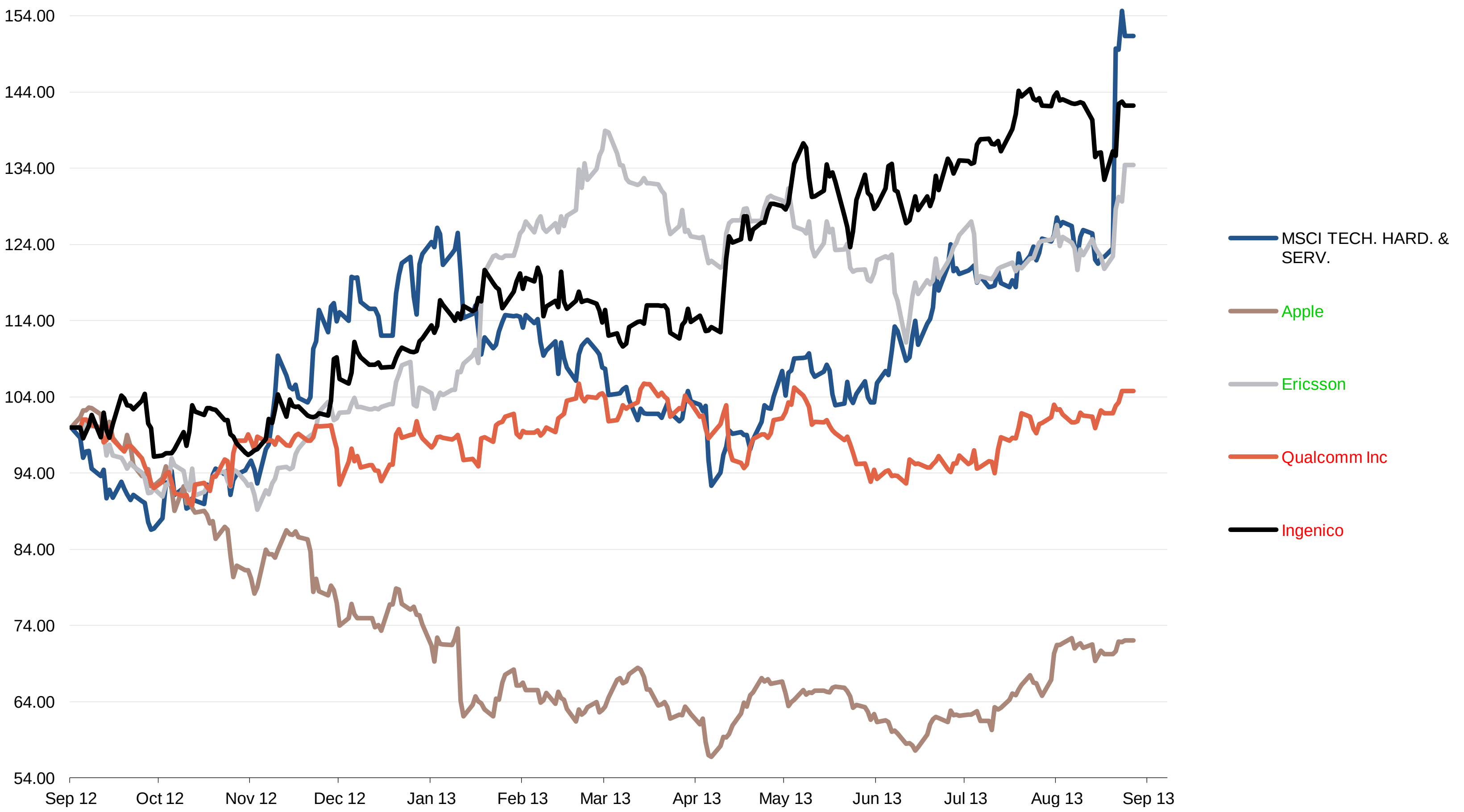
SG Investment Reco*

	TIERS 3	TIERS 2	TIERS 1
Buy	Nokia	**Apple**	
Hold	Oerlikon		**Research in Motion**
Sell	*(Ingenico)*	Ericsson	Alcatel-Lucent

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

TECHNOLOGY HARDWARE & EQUIPMENT - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector outlook

- The outlook for the technology sector is broadly positive with historically a strong correlation with world GDP growth. Recoveries look to be gathering pace with chip sales advancing both y-y and now with above normal sequential progressions. However, US telecoms equipment spending is already at a high level, PC demand remains slow and high-end smartphone markets look to be maturing. Growth is being driven by lower-end smartphone market segments and emerging market penetration. The sector has become increasingly concentrated, leading potentially to more stable evolutions. Technology manufacturers tend to have strong cash conversion ratios and most of the larger companies already have significant net cash balances which should enable them to exploit any demand uptrend.

Major ESG trends

- Innovation: There is a clear industry trend towards environmental innovation. Advanced product standards aligned with ecological design principles and techniques, such as life cycle assessment, are being developed to drive green IT products in accordance with such standards as the Green Electronics Council's Electronic Product Environmental Assessment Tool (EPEAT) and EnergyStar. Technology hardware companies can make an important contribution in terms of clean technology, especially in the area of energy efficiency and smart grid technology. Although greenhouse gas (GHG) emissions from the use of ICT are estimated to make up approximately two percent of global emissions, the Climate Group and the Global e-Sustainability Initiative (GeSI) reports that ICT applications have the potential to reduce global emissions by 15 percent by 2020, through product and service offerings that allow for optimised management of productivity and efficiency via networked and embedded systems.
- Supply Chain Management: In August 2012 the Securities and Exchange Commission (SEC) released its final ruling on the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). This ruling will require approximately 6,000 US and foreign firms to investigate and disclose the origins of any conflict minerals sourced. Preparedness for regulatory compliance varies widely among companies and sectors, with major IT companies taking the lead, while automobile and medical device manufacturers, among others, lag behind. Although the SEC ruling only directly applies to U.S.-listed companies, the requirements will affect companies globally throughout their value chains. Further, there is a possibility that Europe and other jurisdictions will follow the SEC's lead and establish their own rules.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights

- Energy Efficiency: **Neopost** applies eco-design standards to all new projects in all its research and development entities. In the IS mailing systems business, the company reduced by 10% the materials used in production, 40% the machine weight and 50% the power consumption in standby mode. All of the company's franking machines comply with the most recent Energy Star standards. Neopost is also seeking to improve the recyclability of end-of-life electrical and electronic equipment and has put in place a number of initiatives to collect used equipment across Europe.
- Employee Safety: **Apple** strives towards supplying its facilities with energy from renewable sources - solar, wind, hydro, and geothermal. In 2012 the company received 75 % of its energy worldwide from renewable sources. Apple achieved 100 percent renewable energy use at all of its data centres, at its facilities in Austin, Elk Grove, Cork, and Munich, and at its Infinite Loop campus in Cupertino.

Company controversies

- Business Ethics: In February 2013, **Apple** made an agreement to settle a lawsuit alleging that the iPhone and iPad manufacturers improperly enticed children to play games on mobile platforms. Apple would give more than US$100m in iTunes store credits. The company was accused that it did not create adequate parental controls to prevent children from purchasing features from free games on iPhones and iPad. Apple agreed to award US$5 iTunes credit to its 23 million account holders. If the charges exceeded US$30, cash refund would be available.
- Business Ethics: In February 2013, an executive of **Alcatel Malaysia** was sentenced to two years in prison for bribing a procurement official at government-owned Telekom Malaysia. Radziah Ani, employed at Alcatel Network Systems Sdn Bhd, faces a prison sentence. The illicit conduct started in the late 1990s and continued to 2006.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Supply Chain Management: Does your company have formal policy commitments to eliminate conflict minerals from its products and its supply chain? Do you source raw materials from the Democratic Republic of Congo and do you have specific guidelines on how to deal with suppliers from Democratic Republic of Congo?
- ✓ Supply Chain Management: Do you assess risks within the operations of your sub-contractors and/or suppliers? Do you collaborate with suppliers and/or sub-contractors to improve working conditions and safety standards for their employees?
- ✓ Innovation/Energy Efficiency: Does your company assess its water and energy footprint and how does it plan to reduce it? Does your company have specific targets for the use of green energy?
- ✓ Business Ethics: Does your company have programmes to detect and fight corruption and do you provide training sessions for employees? Do you have an explicit whistleblower programme and have you established clear reporting channels for employees, such as Compliance Officers?
- ✓ Innovation & Energy Efficiency: Do you have specific programmes dedicated to sustainable products such as eco-design, End-of-Life product management and utilisation of reused/recycled materials in new products?

TELECOMMUNICATION SERVICES - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	Data Privacy	Environmental Impacts	EMFR / Public Health	Human Resources Management
Disclosure of Directors' remuneration	Business-ethics related controversies or incidents	Policy statement on data privacy	Programmes & targets to reduce hazardous waste generation	Programmes to minimise health impact of electronic and magnetic fields	Percentage of employees covered by collective bargaining agreements
Board independence	Society & community-related controversies or incidents	Customer-related controversies or incidents	Programmes and targets to reduce direct GHG emissions		Employee turnover rate
Board diversity			Systematic integration of environmental considerations at R&D stage (Eco-design)		Employee training
Non-audit fees relative to audit fees			Programmes and targets for end-of-life product management		Employee-related controversies or incidents
Governance-related controversies or incidents			% primary energy use from renewables		

Source: SG Cross Asset Research, Sustainalytics

TELECOMMUNICATION SERVICES - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Belgacom	Belgium	€6,415.7m	40.7	€18.98	€15.00	Sell	**84.10**	87.33	96.75	60.00	*72.36*	*79.16*
Deutsche Telekom	Germany	€44,034.9m	63.9	€9.89	€10.50	Buy	**81.26**	89.00	79.37	75.00	*73.42*	*76.11*
Swisscom	Switzerland	CHF22,585.7m	43.1	CHF436	CHF440	Buy	**76.78**	93.33	68.62	70.00	*76.84*	*83.88*
BT Group	UK	£27,310.4m	100.0	£3.45	£2.45	Hold	**76.42**	99.83	56.62	80.00	*77.89*	*80.83*
Orange SA	France	€23,249.3m	68.0	€8.78	€8.70	Buy	**76.31**	84.16	80.62	60.0	*76.31*	*72.50*
KPN	Netherlands	€9,919.8m	72.0	€2.32	€2.10	Hold	**75.42**	88.00	63.12	80.00	*79.21*	*90.55*
Telekom Austria	Austria	€2,378m	71.6	€5.37	€8.60	Hold	**74.21**	93.33	78.12	45.00	*74.21*	*70.00*
Telenor AS	Norway	NOK198,677.7m	46.6	NOK131	NOK115	Buy	**74.15**	96.66	63.00	65.00	*67.10*	*73.61*
Vodafone	UK	£102,714.9m	100.0	£2.12	£1.30	Sell	**71.84**	93.33	56.87	70.00	*71.84*	*84.44*
Telecom Italia Spa	Italy	€11,059.6m	76.4	€0.61	€0.57	Hold	**71.73**	73.16	78.00	60.00	*70.78*	*77.50*
TPSA	Poland	PLN10,236.4m	50.2	PLN7.80	PLN6.80	Sell	**69.09**	60.00	95.00	50.00	*69.09*	*65.55*
Telenet	Belgium	€4,105.1m	39.7	€35.75	€34.00	Sell	**68.09**	66.66	99.75	37.50	*No data*	*No data*
Portugal Telecom	Portugal	€2,877.8m	100.0	€3.21	€3.20	Hold	**67.84**	76.50	72.50	50.00	*59.21*	*69.44*
Mobistar	Belgium	€746m	40.0	€12.43	€19.00	Sell	**65.52**	83.33	55.62	60.00	*65.52*	*69.44*
TeliaSonera	Sweden	SEK208,363.7m	49.0	SEK48.12	SEK41.50	Sell	**64.10**	91.66	55.37	45.00	*64.21*	*76.11*
Bouygues	France	€8,684.3m	61.0	€27.21	€20.00	Sell	**57.89**	66.66	75.00	40.62	*55.26*	*52.27*
Ziggo	Netherlands	€6,212m	72.0	€31.06	€36.00	Buy	**50.00**	66.66	81.25	6.25	*50.00*	*47.50*
SES	France	€12,567.1m	73.5	€21.46	€26.50	Buy	**49.21**	65.00	55.55	22.00	*49.21*	*49.75*
Iliad	France	€9,998.8m	37.8	€173.05	€190.00	Hold	**43.68**	83.33	41.25	0.00	*43.68*	*55.83*
Eutelsat	France	€5,294.8m	59.0	€24.06	€23.60	Hold	**42.71**	61.00	56.29	0.00	*39.64*	*42.66*
Kabel Deutschland	Germany	€8,128.2m	100.0	€91.82	€84.50	Hold	**39.68**	75.80	41.66	0.00	*No data*	*No data*

Source: SG Cross Asset Research, Sustainalytics, Company

Low

High

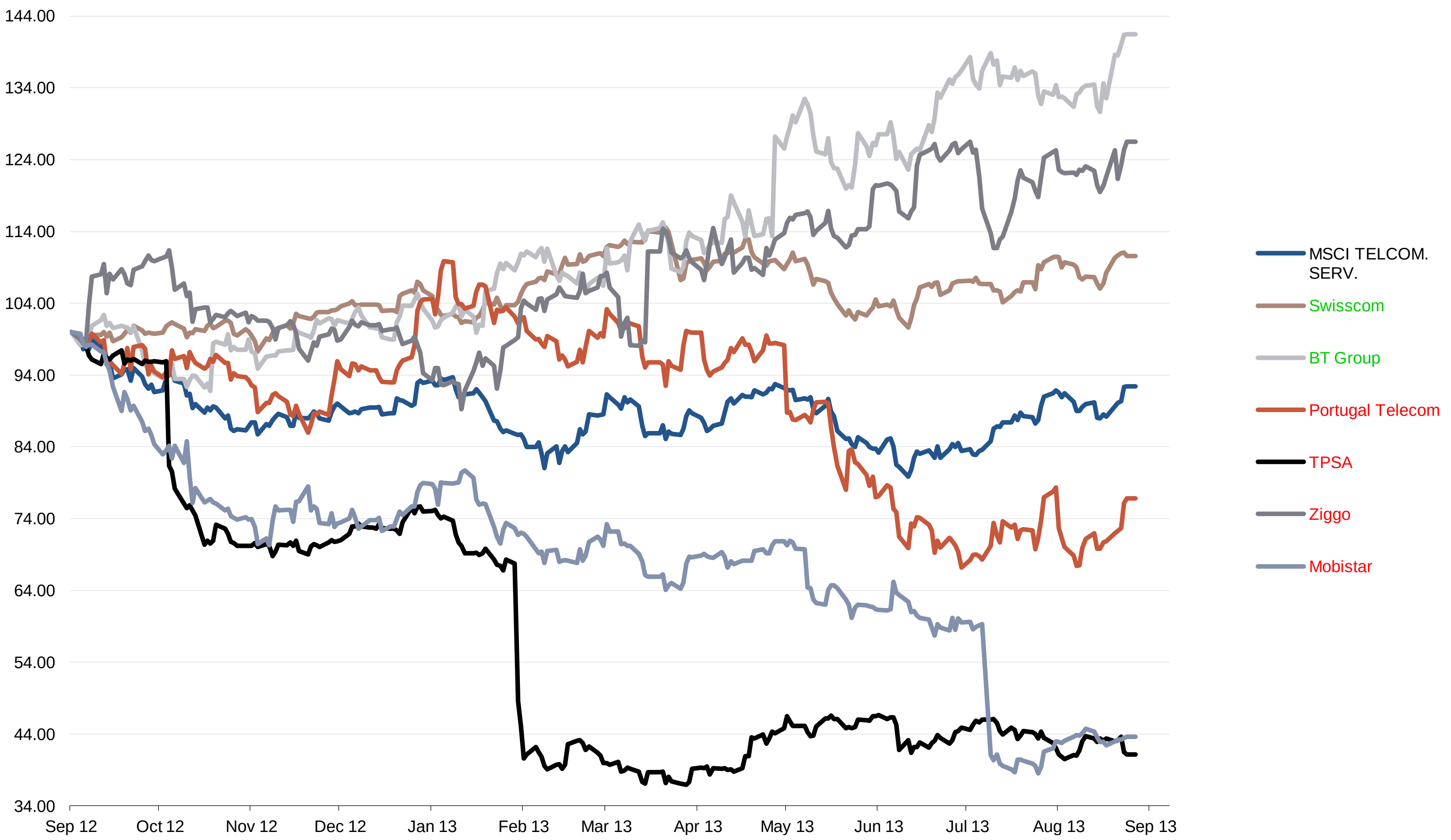
TELECOMMUNICATION SERVICES - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	SES *(Ziggo)*	**Telenor AS**	**Deutsche Telekom** **Swisscom** **Orange SA**
Hold	Iliad Eutelsat Kabel Deutschland	**Telekom Austria** **Telecom Italia Spa** **Portugal Telecom**	**BT Group** **KPN**
Sell	TeliaSonera Bouygues	Vodafone Mobistar *(TPSA)* *(Telenet)*	Belgacom

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

TELECOMMUNICATION SERVICES - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

Sector outlook

- We expect M&A and the impact of the new fibre access regulation (and the associated impact on the pricing of bundled offers) to be key themes driving the sector outlook in 2014. **M&A:** For pure mobile operators, the recent shift in European regulations aiming at fostering fixed-line investments by shielding fibre networks from cost-based regulation (until 2020) and protecting returns on legacy networks (i.e. copper network) is bad news. Indeed access to proprietary access infrastructure (in both mobile and fixed) grants integrated operators a degree of pricing flexibility, unlikely to be matched by single-play operators (i.e. either mobile or fixed). As a result, unable to replicate fixed-mobile bundled offerings “on the cheap” (i.e. by paying low wholesale rates to access fixed-line networks), pure mobile operators would be forced to significantly discount their current mobile offerings. The only alternative would be to up their capital spending (organically or via M&A). **Integrated operators are set to enjoy a second life**: Deeper fibre networks, more robust “last yard” connections and a bus network topology (based on “communal bandwidth”) have given cable groups the lead. However, a growing customer base and changing usage patterns could jeopardise that lead. Current efforts are helping with the first problem but not with the second one, which is poised to significantly alter cable network capacity. New usage patterns may suit ILECs’ network topology better (based on dedicated access lines rather than cables’ shared access lines), while investments in FTTN/FTTH and vectoring may boost speed. If Docsis 3.1 does not live up to its hype, a new capex cycle could create havoc for cable firms. Consequently the need to earn a return on ongoing investments may impede cable groups’ future ability to price their products aggressively, while rising wholesale costs are turning unbundlers from price-setters into price-takers. This is poised to grant incumbent (integrated operators) significant pricing power.

Major ESG trends

- Environmental Impacts: Telecom companies are subject to an increasingly stringent regulatory environment that varies according to the jurisdiction in which they operate. In the U.S., telecom companies must meet various state and local regulations that require both manufacturers and retailers to collect, recycle and properly dispose of e-waste. At the federal level, pending legislation restricting the export of e-waste to developing countries could have a long-term impact on US carriers. Similarly, European Union (EU) carriers must comply with recent updates to the Waste Electrical and Electronic Equipment Directive (WEEE).
- Data Privacy: As wireless penetration rates meet or exceed 100 percent in North America and Europe, telecom carriers are diversifying their portfolio offering to include the latest, most advanced smartphones, capable of internet access, capturing photos and playing music, in order to remain competitive. Additionally, consumers are evaluating carriers on the quality of their customer service–namely, their reputation for implementing fair and transparent billing practices and contract terms. Security regarding access to wireless is also an issue in some countries as consumers can be the victims of hackers.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

TELECOMMUNICATION SERVICES - SECTOR COMMENTS (2/2)

Company highlights

- Environmental Impacts: **KPN** states that it aims to reduce all CO2 emissions to zero by 2020 and aims to reduce 2013 CO2 emissions by 9 kTon as compared to 2012. Of note, the company exceeded its target for CO2 emissions reduction in 2012, achieving 42 kTon emissions reduction as compared to a planned 35 kTon (2011 baseline). In 2012, 100% of KPN's electricity was "green electricity" in the Netherlands and Belgium. In Germany, 76% of its electricity was "green electricity" and 56.5% of green electricity was purchased from certificates. Therefore, the total green electricity procurement by the group was 73%. The company aims to reach 95% of green electricity by 2013 and 100% by 2014.
- Business Ethics: **BT** has several programmes to promote digital inclusion and increase communication and Information Communications Technology (ICT) skills, which are primarily focused in the UK. BT provides support to other organisations working to encourage the use of ICT. For example, the company has partnered with an NGO in order to provide free, simple-to-build websites for UK schools, charities and community groups. BT also provides support to several other organisations that help disadvantaged communities specifically (i.e., low-income, older people, and disabled people) gain access to ICT. Internationally, in 2013 BT is launching its Connecting Africa programme through which it is targeting the provision of internet access to 700,000 people in 12 countries across East, West, Central and Southern Africa. Internet services will be provided via satellite for 20 locations to start.

Company controversies

- Business Ethics: **Telecom Italia** has been involved in controversies regarding anti-competitive practices. In May 2013, it received a €103.8m fine for abuse of its dominant market position in Italy. The authority ruled that in two separate cases Telecom Italia abused its position by adjusting its wholesale access services in such a way that it "obstructed expansion plans into the market for competitors" on both voice and broadband services. First, the company was expected to provide access at an agreed rate, but was found to have denied "multiple requests" for wholesale services. Second, it was found to have discounted its services for corporate clients to such a level that it undercut competitors'. The company immediately defended its practices and stated its intention to appeal the fine.
- Business Ethics: **TeliaSonera** is under investigation for paying US$300m in bribes in Uzbekistan. In May 2013, Radio Free Europe/Radio Liberty reported that it reviewed documents that implicated TeliaSonera in directly bribing Uzbekistan's president's daughter, Gulnara Karimova. The alleged bribes were believed to have been paid to receive protection from Uzbek government agencies as well as to gain new clients. The documents included personal edits purportedly done by Ms. Karimova. TeliaSonera's acting chief executive officer was interviewed for the programme and the company published the full interview on its website, but otherwise did not release a statement on the bribery allegations.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Environmental Impacts: Does your company have programmes with regard to collecting, recycling and properly disposing e-waste? Do you have targets for restricting the export of e-waste to developing countries?
- ✓ EMFR/Public Health: Are you aware of potential risks, resulting from community opposition towards the construction of new cell sites and towers and does your company have programmes or guidelines in order to manage this risks? Do you assess health-related risks stemming from the construction of new cell sites and towers?
- ✓ Environmental Impacts: Does your company assess its energy footprint and how do you plan to reduce it? Does your company have specific targets for the use of green energy?
- ✓ Data Privacy: How do you prevent potential financial as well as reputational damage from data security issues? Do you have programmes or guidelines in order to alleviate customer-related controversies or incidents?
- ✓ Business Ethics: Did you company set enough funds aside in order to make necessary investments into network expansions? Are there any new requirements which affect your operations?

TRANSPORTATION - ESG THEMES & INDICATORS

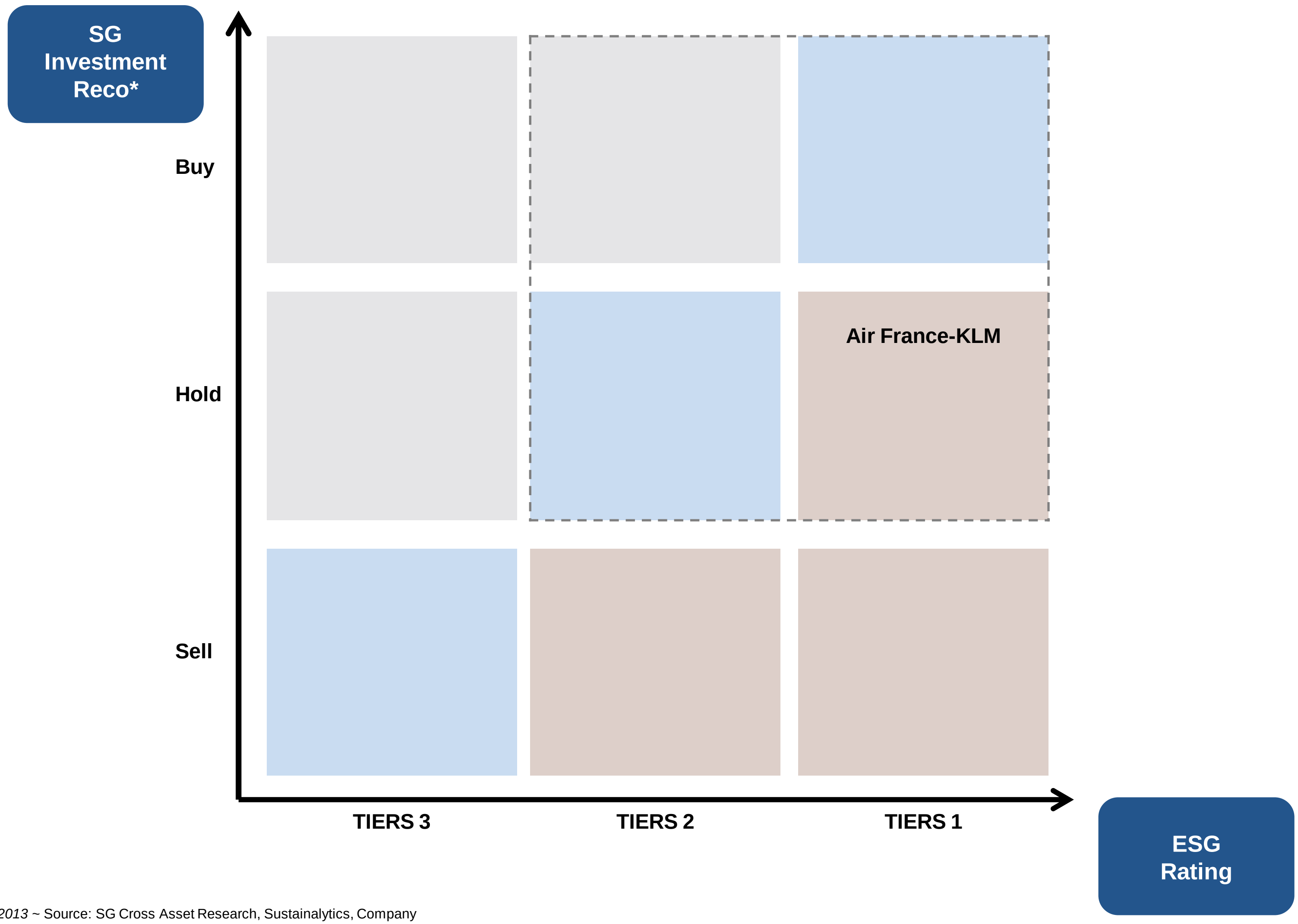
Corporate Governance	"Climate Change"/ Emissions Reduction	Innovation	Human Resources Management
Disclosure of Directors' remuneration	Programmes and targets to improve the environmental performance of own logistics and vehicle fleets	Sustainability-related products & services	Health and safety certifications
Board independence	Carbon intensity	Formal policy or programme on green procurement	Employee-related controversies or incidents
Board diversity	Programmes and targets to reduce GHG emissions from outsourced logistics services		Society & community-related controversies or incidents
Non-audit fees relative to audit fees			External QMS Certifications
Governance-related controversies or incidents			

Source: SG Cross Asset Research, Sustainalytics

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Air France-KLM	France	€2036.1m	73.1	€6.78	€6.25	Hold	59.57	63.80	70.00	47.00	*61.07*	*55.62*

Source: SG Cross Asset Research, Sustainalytics, Company

TRANSPORTATION - RATING MATRIX



* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

TRANSPORTATION - SECTOR PERFORMANCE

Source: SG Cross Asset Research, DataStream

Major ESG trends

- Innovation: In order to offset rising fuel prices and comply with increasingly stringent environmental regulations, transportation companies have begun investing in technologies which improve environmental performance. Fleet upgrades and fuel conservation programs remain the most effective means of curbing emissions. Rail companies have invested in electro-motive diesel (EMD) locomotives which are up to 20 percent more fuel efficient than previous locomotives. Airlines are considering installing winglets, developing green taxiing systems and using alternative fuels. Trucking and logistics companies have implemented proprietary information technology (IT) systems which reduce truck idling time and make use of vehicles that use alternative fuels or electricity.
- Human Resources Management: The airlines industry has always been a heavily unionized industry. National flag carriers such as Lufthansa, BA and Air France-KLM have a large majority of their workforce unionized and strive to work together with unions. However, the situation has changed with the emergence of low-cost carriers (which represent 38% of total share of traffic in Europe). Low-cost carriers differ from national flag carriers as they aim to achieve cost minimisation through a strategy focusing on either employee or aircraft productivity. The former strategy is controversial as it implies cost minimization through wages minimisation and union avoidance. Companies like SouthWest Airlines and easyJet chose to adopt only the strategy focusing on aircraft productivity whereas Ryanair chose to adopt both, which makes the business model of Ryanair controversial in some ways.

Company highlights

- Innovation: In June 2013, **Air France KLM** announced that it would be partnering with Safran and Honeywell regarding the development of an Electric Green Taxiing System. The company aims to target emissions released when aircraft are on the ground (prior to take-off and after landing). This new system will allow aircraft not to use the main engine but rather an Auxiliary Power Unit to power the electric engines housed in the wheels. In addition to significant economic savings, this system will help further reduce air and noise emissions. Air France's new aircraft will be equipped with these new technologies as of 2016.
- Corporate Governance: In April 2013 a New York-based shareholder of **Southwest Airlines** as well as four other large companies announced it had reached an agreement to have these companies disclose political spending made with corporate funds. New York State Common Retirement Fund stated that these companies deserve credit for embracing transparency and reducing potential risk to shareholder value by improving transparency. Southwest Airlines was the second transportation company to reach an agreement with the New York-based fund after **CSX** in 2012. Lobbying is an issue in the transportation industry as active lobbying practices can help transportation companies open new routes or facilities.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company Controversies

- Human Resources Management: In the past months, Japanese shipping company **Mitsui OSK Lines** faced a series of major accidents, some of them resulting in several fatalities. In July 2013, the vessel MOL Comfort sank in the Indian Ocean after the ship's hull cracked. While all crew members were rescued and no oil leakage was reported, approximately 3,100 containers sank. In December 2012, one of the company's vessels, Baltic Ace, collided with another vessel, Corvus J, and sank in the North Sea. Five crew members were reported dead and six others missing with no chance of being rescued or recovered. Some experts said the accident could have been caused by violations of the Rules of the Road by the crew of one of the vessels.
- Human Resources Management: **Ryanair**'s labour practices have attracted investigations, legal action, as well as boycotts from trade unions and politicians in some European countries. Most recently, in May 2013, Ryanair's trial opened in the city of Aix-en-Provence, with French state prosecutors alleging that the airline engaged in several illegal practices, including registering workers employed in France as Irish employees, preventing workplace councils from functioning and preventing access to unions. Ryanair faced a fine of up to €225,000 (US$293,000), as well as possible damages to be paid to a pilots' union and a pensions fund, amounting to €9.8m. In April 2013, it was reported that two former Ryanair employees in Norway planned to sue the company in connection with that they referred to as "slave-like" contractual conditions, under Irish labour law. This case has gained significant attention in Norway, with the government announcing its decision to boycott the company until it has changed its working conditions. A similar call to boycott was also recorded in Sweden, in connection with the same issue.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Climate Change/Emissions reduction: What is the average age of your company's fleet?
- ✓ Climate Change/Emissions reduction: Does your company report clearly on the fleet renewal programme (number of new aircrafts/vehicles/ships/trains ordered, expected delivery date and expected emissions reduction per passenger km)?
- ✓ Climate Change/Emissions reduction: Has your company set quantitative targets to reduce CO2, Sox and Nox emissions? If so, does your company publicly disclose them?
- ✓ Climate Change/Emissions reduction: Has your company started partnerships with suppliers of alternative fuels? If so, what are the company's expectations and what fuel/technologies are tested (algae-based fuel, biomass-based fuel, hybrid motors, full electric motors etc)?
- ✓ Human Resources Management: Does your company have externally-certified quality and safety management systems?
- ✓ Human Resources Management: Does your company have a strong whistleblower programme in place? Can all employees report malpractice regarding freedom of association, unionisation and working conditions?

TRANSPORTATION INFRASTRUCTURE - ESG THEMES & INDICATORS

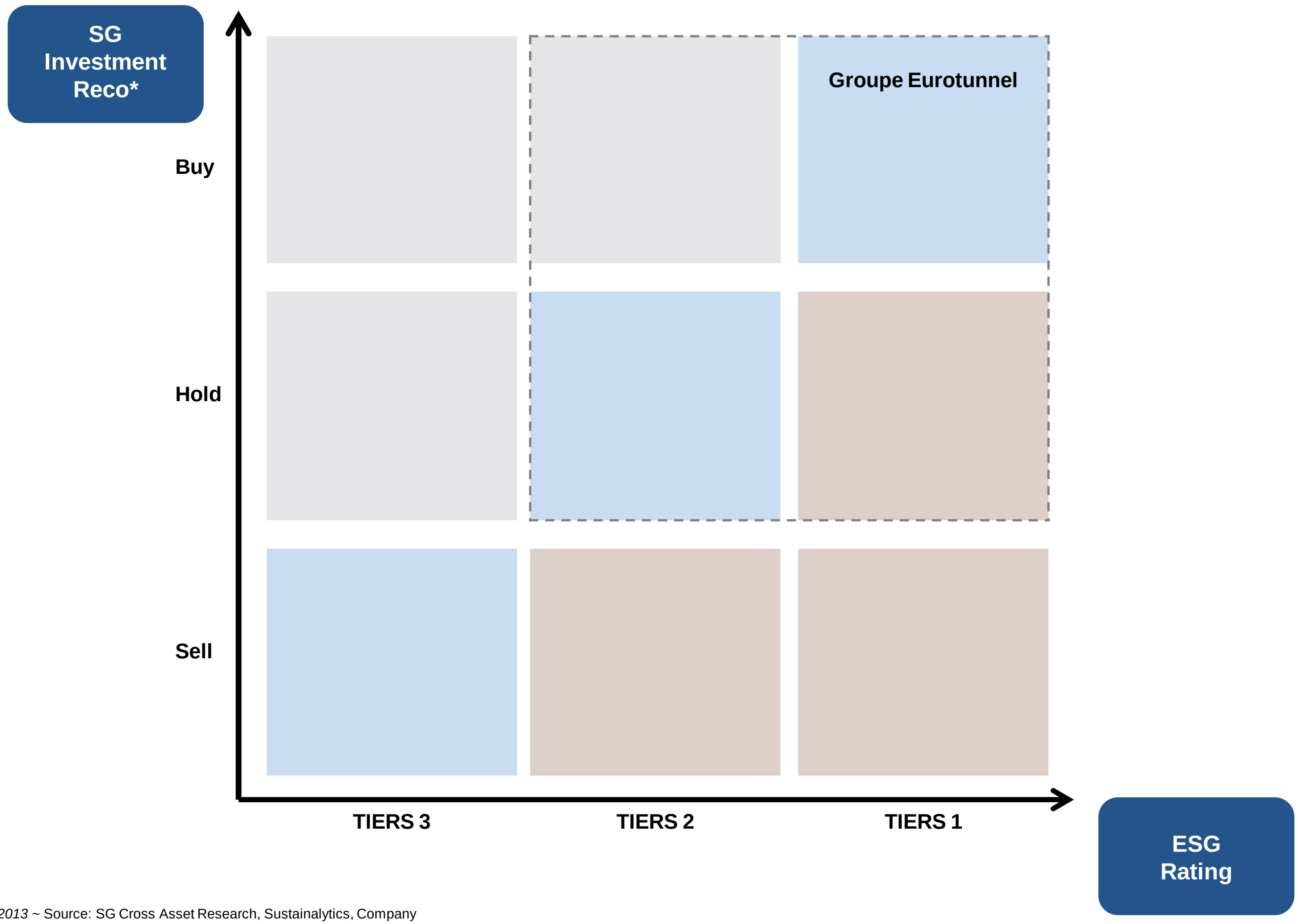
Corporate Governance	"Climate Change"/ Emissions Reduction	Operational Health & Safety	Human Resources Management
Disclosure of Directors' remuneration	Programmes and targets to improve the environmental performance of own logistics and vehicle fleets	Programmes and targets to reduce health and safety incidents	Formal policy on working conditions
Board independence	Carbon intensity	Employee-related controversies or incidents	Employee turnover rate
Board diversity	Programmes and targets to reduce GHG emissions from outsourced logistics services		Percentage of Temporary Workers
Non-audit fees relative to audit fees	Sustainability-related products & services		
Governance-related controversies or incidents			

Source: SG Cross Asset Research, Sustainalytics

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
Groupe Eurotunnel	France	€3328.1m	82.8	€6.05	€9.00	Buy	**56.35**	85.00	59.80	16.25	*58.57*	*77.91*

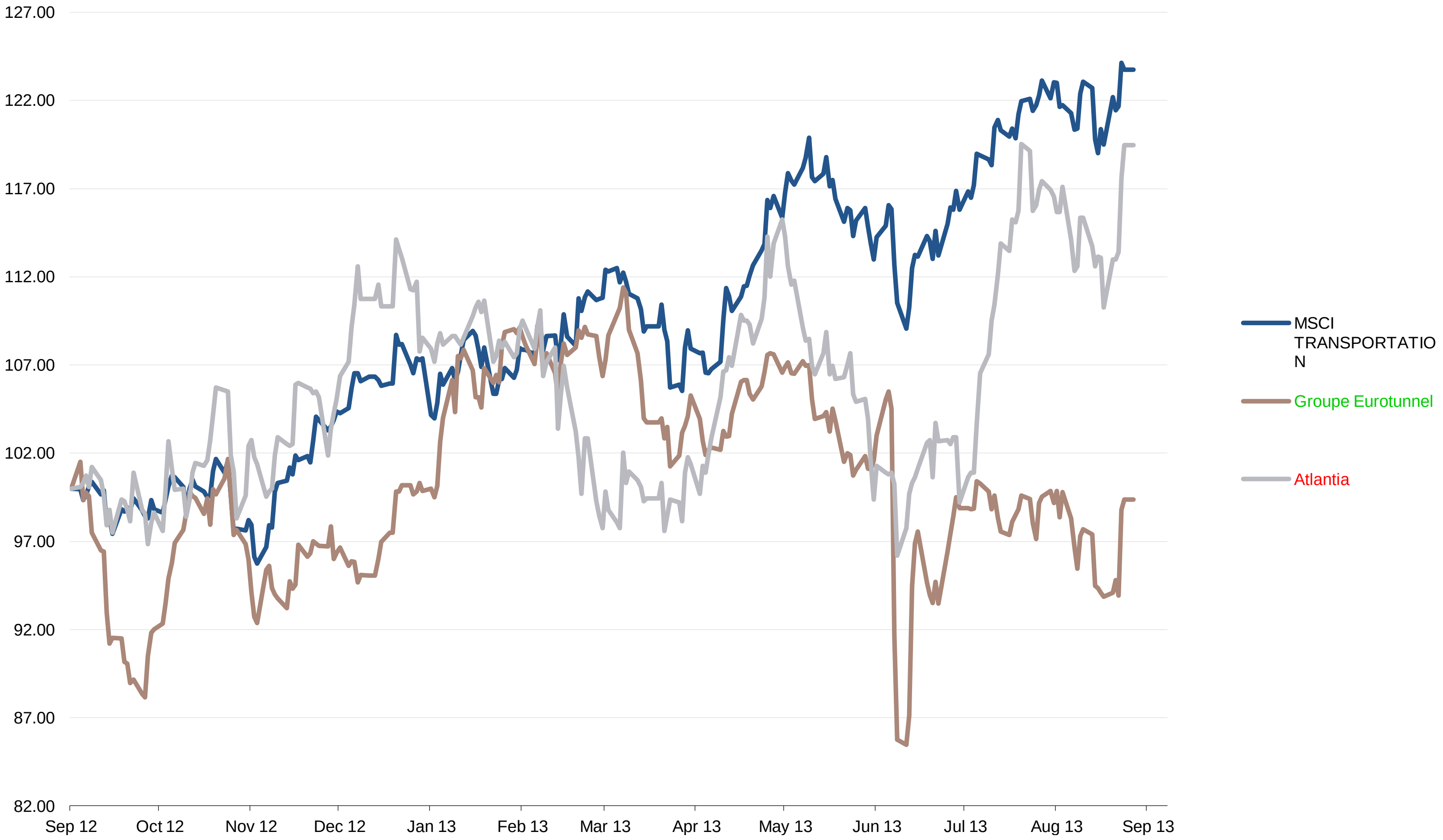
Source: SG Cross Asset Research, Sustainalytics, Company

TRANSPORTATION INFRASTRUCTURE - RATING MATRIX



* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

TRANSPORTATION INFRASTRUCTURE - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

TRANSPORTATION INFRASTRUCTURE - SECTOR COMMENTS (1/2)

Major ESG Trends

- Human Resources Management: Access to labour is becoming an issue in the infrastructure sector owing to a shortage of skilled workers, especially in the port infrastructure industry. In many developing countries education is falling behind economic growth, while in developed countries labour availability will be affected by an aging population. In Europe the percentage of employees reaching retirement age in the road transportation sector is higher than the average for other industry sectors. According to the National Skill Development Organization of India, transportation and logistics companies in that country will need an additional 17 million workers in the next 10 years. Collaborating with relevant authorities and universities is critical for infrastructure companies in order to train and attract future employees. Similarly, having a strong brand and/or reputation as a quality employer will also give companies a competitive edge.
- Climate Change – Emissions Reduction: Climate change and the regulation of greenhouse gas (GHG) emissions, as well as energy security concerns among some of the largest Asian economies, are driving changes among the industry's major customers. The transportation sector as a whole (from the manufacturer to the operator and infrastructure owner) is the second-largest producer of CO2, after energy and heat generation. According to the International Energy Association, the sector represented 25 percent of global CO2 emissions in 2009. Although their direct GHG emissions beyond the construction phase are relatively low for infrastructure companies, transportation infrastructure companies will still need to anticipate market developments resulting from existing and upcoming carbon cap or tax regulations. In general, these developments are expected to favour shipping for freight transport and rail, buses and two-wheelers (i.e. scooters and motorcycles) for personal transport. Infrastructure companies may also need to offer facilities to allow customers to use alternative fuels or recharge their electric batteries as per local market conditions.

Company highlights

- Climate Change – Emissions Reduction: **Eurotunnel** has recently joined the Global Union for Sustainability, a union of companies, organizations and individuals who have publicly committed themselves to conduct basic, practical and measurable actions, complete with a set of relevant indicators. The company is committed to an annual 3% reduction of its overall carbon footprint. It has an eco-driving assistance system for locomotives and uses sulfur-free diesel to power the diesel locomotives (Eurotunnel currently has 60 main line electric and diesel locomotives).

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company Highlights (cont'd)

- Climate Change – Emissions Reduction: **ADP** has embedded the French Grenelle Act 1 objectives in its 2011-2015 plan. The company plans to increase renewable energy production by 15% by 2015 compared to 2009 levels. Several types of renewable energy are being studied or implemented including energy from geothermal, wind, solar and biomass sources. The company is building the first photovoltaic power plant at Paris-Charles de Gaulle, which is 4,000 m2 in size

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Climate Change/Emissions reduction: Does your company offer alternative fuels facilities, such as stations, to charge electric batteries or biofuel tanks?
- ✓ Climate Change/Emissions reduction: Has your company started partnerships with suppliers of alternative fuels? If so, what are the company's expectations and what fuel/technologies are tested (algae-based fuel, biomass-based fuel, hybrid motors, full electric motors etc)?
- ✓ Human Resources Management: Does your company have externally certified quality and safety management systems?
- ✓ Human Resources Management: Does your company have a strong whistleblower programme in place? Can all employees report malpractice regarding freedom of association, unionisation and working conditions?
- ✓ Human Resources Management: What is your company's employee turnover rate? How do you explain an increase (if relevant)?
- ✓ Human Resources Management: How many training hours per year does your company provide? Is training provided on diversity management?

UTILITIES - ESG THEMES & INDICATORS

Corporate Governance	Business Ethics	"Climate Change"/ Emissions Reduction	Human Resources Management
Disclosure of Directors' remuneration	Business-ethics related controversies or incidents	Carbon intensity of energy mix	Percentage of employees covered by collective bargaining agreements
Board independence	Customer-related controversies or incidents	Programmes and targets to reduce energy/water use by customers	Trend in lost-time incident rate
Board diversity		Programmes and targets to increase renewable energy use	Number of fatalities
Non-audit fees relative to audit fees		% primary energy use from renewables	Employee-related controversies or incidents
Governance-related controversies or incidents		Sustainability-related products & services	

Source: SG Cross Asset Research, Sustainalytics

UTILITIES - ESG EVALUATION

Company	Country	Market capitalisation	Free float (%)	Price at 14/09	Target at 14/09	Reco at 14/09	ESG Rating	Score Governance	Score Social	Score Environment	Past ESG Rating at Febr-13	Past ESG Rating at Sept-12
EVN	Austria	€2,000.2m	16.5	€11.12	€12.00	Buy	**83.31**	84.83	87.33	75.00	*64.37*	*61.36*
Veolia Environnement	France	€7,058.5m	64.7	€12.86	€9.80	Buy	**81.81**	99.83	51.66	100.00	*76.87*	*No data*
Red Electrica	Spain	€5,519m	80.0	€40.80	€37.00	Sell	**71.18**	87.50	77.33	37.50	*80.62*	*65.45*
Iberdrola	Spain	€26,445m	75.3	€4.24	€4.35	Buy	**69.31**	87.33	93.33	6.25	*69.37*	*59.77*
Energias de Portugal	Portugal	€9,905.6m	54.1	€2.71	€2.36	Hold	**68.12**	80.83	80.00	31.25	*73.12*	*65.90*
EDF	France	€39,750.6m	13.6	€21.50	€25.00	Buy	**66.25**	90.00	65.83	31.25	*66.25*	*52.27*
Pennon Group	UK	£2,558.4m	63.5	£7.00	£6.95	Hold	**65.62**	75.00	83.33	25.00	*65.62*	*No data*
Endesa SA	Spain	€19,491.6m	8.0	€18.41	€17.50	Hold	**64.68**	66.66	86.66	28.75	*63.12*	*59.54*
National Grid	UK	£27,657.4m	76.5	£7.42	£7.30	Sell	**64.31**	87.50	75.66	12.50	*58.75*	*60.68*
Enagas	Spain	€4,156.4m	85.0	€17.41	€18.80	Hold	**64.00**	87.50	79.00	6.25	*59.68*	*61.59*
United Utilities	UK	£4,640.2m	81.0	£6.80	£7.73	Hold	**63.75**	84.16	65.00	31.25	*60.62*	*No data*
Drax	UK	£2,781.5m	100.0	£6.91	£6.15	Buy	**63.06**	80.83	83.16	6.25	*63.12*	*60.22*
RWE	Germany	€14,733.3m	73.9	€25.59	€22.00	Sell	**62.43**	75.66	82.50	12.50	*62.50*	*51.59*
Enel	Italy	€26,084.9m	68.8	€2.77	€2.90	Buy	**62.37**	70.66	74.83	31.25	*62.50*	*No data*
Gas Natural SDG	Spain	€14,995.3m	29.7	€14.98	€17.50	Buy	**62.12**	66.66	86.50	18.75	*62.18*	*62.27*
Centrica	UK	£20,364.2m	100.0	£3.96	£4.10	Buy	**61.18**	79.00	80.00	6.25	*61.25*	*57.27*
EDP Renovaveis SA	Portugal	€3,489.2m	22.0	€4.00	€4.32	Hold	**60.00**	67.50	59.16	50.00	*60.00*	*56.13*
Severn Trent	UK	£4,140.3m	80.0	£17.33	£21.00	Hold	**59.87**	68.33	58.00	50.00	*64.68*	*No data*
Terna	Italy	€6,484.2m	70.1	€3.23	€3.30	Hold	**59.37**	83.33	66.66	12.50	*65.62*	*76.81*
E.ON	Germany	€27,493.7m	84.7	€13.74	€12.00	Hold	**58.06**	83.16	67.50	6.25	*58.12*	*57.50*
Enel Green Power	Italy	€8,295m	40.0	€1.66	€1.77	Buy	**57.81**	55.83	65.00	50.00	*57.81*	*52.27*
Suez Environnement	France	€6,360.1m	51.3	€12.46	€9.10	Buy	**57.43**	83.33	57.33	18.75	*57.50*	*No data*
SSE	UK	£14,957.2m	91.0	£15.51	£13.85	Sell	**56.87**	84.16	63.33	6.25	*56.87*	*55.90*
Snam	Italy	€11,937.2m	49.8	€3.53	€3.90	Buy	**56.81**	67.33	80.00	6.25	*58.12*	*55.90*
Tauron	Poland	PLN8,166.9m	59.5	PLN4.66	PLN5.00	Buy	**53.00**	66.66	66.33	12.50	*No data*	*No data*
Polska Grupa Energ.	Poland	PLN31,860.7m	38.1	PLN17.04	PLN18.50	Buy	**50.50**	60.00	66.33	12.50	*50.62*	*54.55*

Source: SG Cross Asset Research, Sustainalytics, Company

Low	
High	

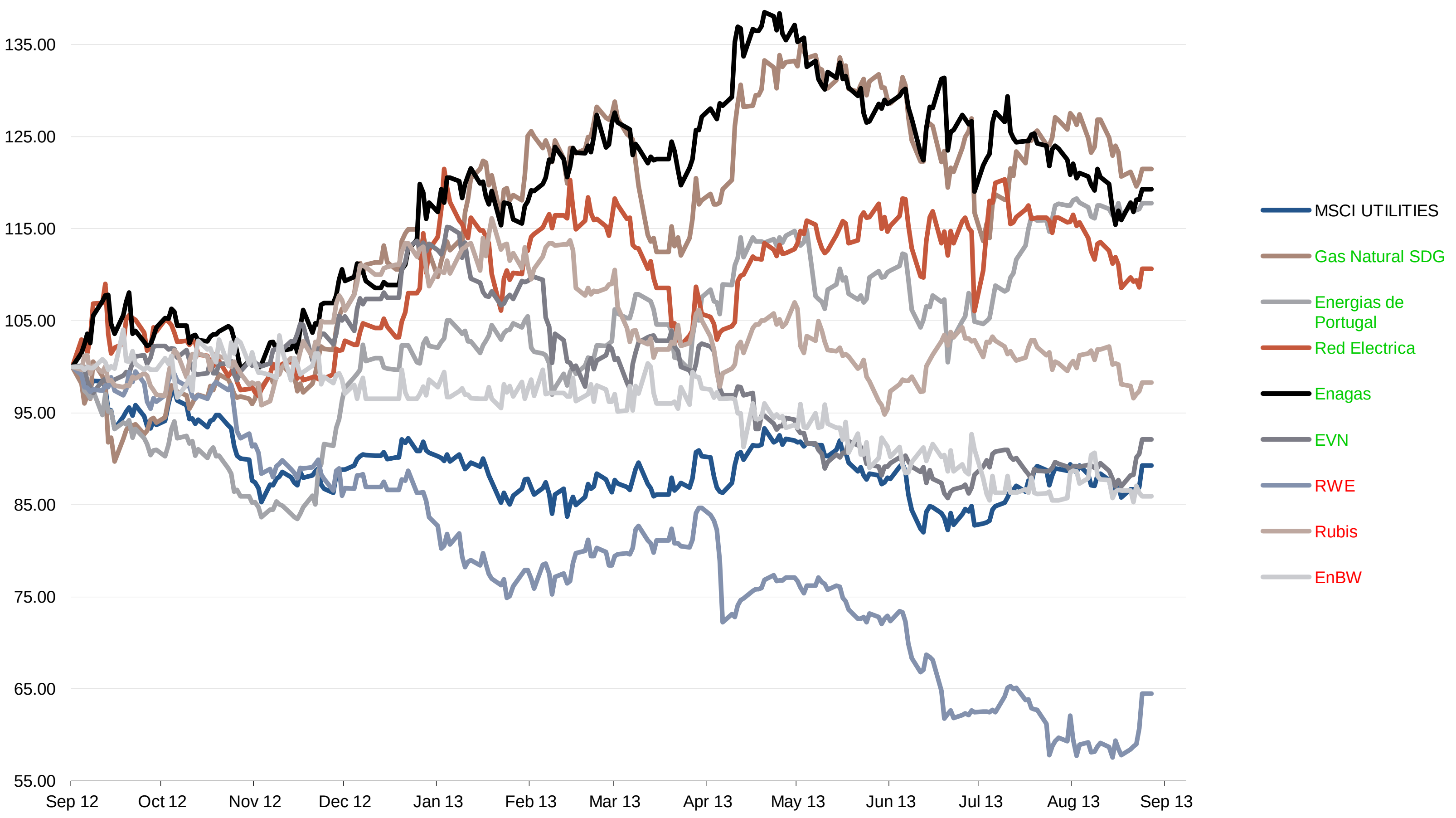
UTILITIES - RATING MATRIX

SG Investment Reco*	TIERS 3	TIERS 2	TIERS 1
Buy	Enel Green Power Suez Environnement Snam *(Tauron)* *(Polska Grupa Energ.)*	**Drax** **Enel** **Gas Natural SDG** **Centrica**	**EVN** **Veolia Environnement** **Iberdrola** **EDF**
Hold	Severn Trent Terna E.ON	**Enagas** **United Utilities** **EDP Renovaveis SA**	**Energias de Portugal** **Endesa SA** ***(Pennon Group)***
Sell	SSE	RWE	Red Electrica National Grid

ESG Rating

* *As of 15/09/2013* ~ Source: SG Cross Asset Research, Sustainalytics, Company

UTILITIES - SECTOR PERFORMANCE



Source: SG Cross Asset Research, DataStream

UTILITIES - SECTOR COMMENTS (1/3)

Sector outlook

- Power generation/Water: For more than 10 years the sector has been, and still is, a top-down call on commodity prices. Since electricity and then the gas markets were liberalized in the late 1990s in Europe, revenues and margins became more uncertain as a consequence of the volatility of commodity prices. Old monopolies were gradually broken up; vertically-integrated companies were unbundled, separating natural monopolies (i.e. the grids) from the generation and supply that were opened up to competition. With the increasing liberalization utilities have lost their defensive qualities that so much appealed to investors in the past to become almost a pure exposure to commodity prices (primarily oil and coal). Today c.85% of the sector's market cap is represented by generators and only 15% are the grids, i.e. the fully-regulated utilities that still offer secure dividends and cash flows to shareholders. Their stability and predictability stems from a clear and consistent regulatory framework that in some cases, as in the UK and Italy, are based on the concept of the Regulated Assets Base/Value, a strong anchor for the valuation of these stocks. Over the past five years a continued fall in power prices and a deterioration in generation margins have eroded the generators' profits. The recent bounce in power prices has revived investor interest in a sector that has been widely under owned. However, we think this rally will be short lived. Demand for electricity is unlikely to rise even though Europe manages to grow GDP, given that efficiency measures should reduce consumption. At best, demand for electricity is expected to remain flat over the next year, as in the case of Germany. However, the issue is not just power prices. Over the past three years the sector's profits and performance have been plagued by a raft of regulatory intervention in the form of taxes on generation, subsidies to renewable and capacity payments, to name just a few. It is understandable therefore that investors will continue to demand a discount on valuation relative to the market.
- Renewable energy: Utilities turned in a particularly disappointing relative performance in 2010, underperforming the market (DS Europe ex. Emerging markets) by around 20%. Overall, alternative electricity producers performed in line with the rest of the utilities sector. However, we note that at the height of the sovereign debt crisis, renewable energy stocks substantially underperformed, no doubt due to concerns that government support for renewable energies might be weakened. Leaving aside macro economic considerations, we believe the operating visibility of the alternative electricity producers offers scope for improved performance versus the sector. In 2013, we see no significant improvement in the operating conditions for the utilities sector in general. For the alternative producers, the operating environment should be the same as in 2012 and stocks could slightly outperform the traditional utilities which remain adversely impacted by low electricity prices.

UTILITIES - SECTOR COMMENTS (2/3)

Major ESG trends

- Business Ethics/Energy Demand: Although the recent global economic recession has had a profound impact on world energy use (with an estimated 2.2 percent decline in 2009), it is estimated that by 2015, most nations will have resumed their expected rates of long-term growth before the recession. As world GDP rises by an average of 3.2 percent per year from 2007 to 2035, the US Energy Information Administration (EIA) estimates that world energy consumption will increase simultaneously by 49 percent, or 1.4 percent per year, until 2035. OECD member countries have accounted for the largest share of energy consumption; however, in 2007 energy use among non-OECD nations exceeded that of their OECD counterparts for the first time. The discrepancy between OECD and non-OECD energy consumption will continue to grow in the future. The Middle East, for example, is expected to become the most energy-intensive region in the world, due to fast-paced population growth and access to rich resources. Worldwide there is a trend of increased coal utilisation by utilities. In Europe, the prospects for nuclear power plants differs on a per country base. Whereas Germany wants to achieve complete nuclear phase-out, the UK is promoting investments to increase nuclear safety.
- Emissions Reduction: In the power and utilities sector, two specific trends dominate the innovation agenda. The first is a need for commercial-scale carbon capture and storage (CCS) technology, which involves capturing CO2 from industrial plants and injecting it underground for permanent storage in deep geological formations. The second trend is the adoption of smart grids, whereby electricity is delivered using two-way digital technology to control appliances in consumers' homes to save energy, reduce costs, and increase reliability and transparency. Better technologies aim to ensure, among other things, cleaner factories, improved residential and commercial efficiency, and better access to alternative energies. While adaptation costs remain high, they will be supported by government subsidies and incentives. Electricity suppliers that deliver low-carbon power efficiently will be well positioned to increase market share, uphold security and reliability, and maintain a competitive advantage.

Company highlights

- Emissions Reduction: **Endesa**, Spain's largest electric utility company initiated a programme that provides customers with discounts on their electricity bills, in exchange for delivering waste to recycling collection points. Discounts are equivalent to the market value of the material collected for recycling. The Ecoelce programme simultaneously improves access to electricity and promotes recycling in regions where official waste recycling systems are not in place. The project has created a new segment of employment in waste management and has reduced disease caused by the inappropriate disposal of waste. Although the project was originally conceived with the lower income segment of the population in mind, it is currently available to all customers, ensuring widespread savings and recycling. Today, with over 60 waste collection points, more than 220,000 customers benefit from this programme. Ecoelce is now being used as a pilot scheme that will gradually be implemented across the company's Latin American subsidiaries.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Company highlights (cont'd)

- Business Ethics: **Centrica** shows a strong performance with regard to business ethics. In its group-wide anti-bribery and corruption policy, the company prohibits any conduct that may be understood as bribery. A practical guideline protocol provides the thresholds for acceptable hospitality (£100) or gifts (£50), beyond which manager approval is required. The policy discusses international accords such as the OECD Convention on Combating Bribery, OECD Guidelines, UN Global Compact, and the Extractive Industry Transparency Initiative. In accordance with International Accounting Standards, Centrica reports its corporate income tax, petroleum revenue tax, and foreign tax liabilities.

Company controversies

- Business Ethics: In November 2012, **Centrica's** gas branch, **British Gas**, **Electricite de France**, **E.ON AG**, **RWE s** full British subsidiary **nPower** and **Iberdrola s** full U.K. branch **Scottish Power** became subject to a large-scale investigation on alleged price-fixing practices in the U.K. wholesale gas market. The investigation involved the financial and energy regulators Financial Services Authority (FSA) and Ofgem, as well as the European Commission. The claim was made by a whistleblower from a price reporting agency who observed extremely large fluctuations in the price of gas trading in September 2012. According to the whistleblower, there were sustained and orchestrated orders by traders that placed low bids to drive down prices, whilst continuing to charge customers high prices ostensibly due to higher fuel prices.
- Business Ethics: Since September 2012, **Korea Electric Power Corp. s** wholly-owned subsidiaries, Korea Hydro and Nuclear Power (KHNP) and **KEPCO** Engineering & Construction Co. have faced significant scrutiny from the Korean government. The investigations have revealed multiple cases where parts used in nuclear power reactors were supplied with fake warranty certificates. In June 2013, the Supreme Prosecutors' Office launched a task force to investigate corruption allegations, while the state auditor has conducted a separate investigation into the supplier relationships. The findings have caused at least one shutdown lasting several months for most of the 23 nuclear power reactors operated by KHNP in order to replace substandard parts in the period September 2012 to July 2013. With KEPCO supplying approximately one-third of South Korea's power, these issues have raised serious concerns in the Korean government, which has pledged to take severe measures against the guilty company officials. As of June 2013, KEPCO and KHNP were also facing severe corruption allegations which escalated in July 2012 with several convictions and imprisonments. In April 2013, the Busan Prosecutors' Office arrested the manager of KHPN's Busan nuclear power plant for accepting bribes from one of its suppliers. Numerous employees have been accused of bribery, bid-rigging, and giving and receiving kickbacks. The investigation has implicated over a hundred employees of KHNP and KEPCO as well as several supplier relationships that reportedly provided more than US$1.9m in kickbacks.

Source: SG Cross Asset Research, Sustainalytics, Company, Media

Issues for engagement

- ✓ Climate change/Emission Reduction: Have you identified risks associated with the use of nuclear power plants and have you made a country-specific analysis of your nuclear power plants? How did you react to the outcomes of the nuclear stress test and what is your long-term strategy concerning nuclear power plants?
- ✓ Climate Change/Emission Reduction: Does your company monitor efficiently weather conditions that can influence production of renewable energies? Do you have programmes targeted towards including more renewable energy in your energy mix?
- ✓ Human Resource Management: Do you have monitoring system and audits for your supply chain and/or for sub-contractors' operations? Has your company considered OHSAS 18001 certification?
- ✓ Climate change/Emission Reduction: Do you have programmes targeted at reducing customers' water and energy usage? Are you aware of potential risks related to water scarcity and how do you address this issues?
- ✓ Climate change/Emission Reduction: Does your company have a clear investment plan in place with regard to smart grids? Do you have guidelines concerning the safety of user data which will be created by smart grids?

ADDENDUM 1

ESG in context

ESG: A MARKET UNDERGOING MAJOR TRANSFORMATION

Beyond the fast-paced growth of SRI funds, ESG integration directly applies to 20%* of all AUMs

(*measured by the "Global Sustainable Investment Alliance" (GSIA) – 01/'13)

Integrating ESG aspects is increasingly a part of asset managers' fiduciary responsibility

Materiality of ESG issues has increased, and their integration into financial analysis has become an important performance driver

Material ESG drivers should be identified in conjunction with macroeconomic and financial drivers

ESG/SRI INVESTMENT: A MATTER OF DEFINITION?

Definition	• Environmental, Social, Governance (ESG) themes are becoming well known and increasingly material to the value of companies; however, there is still no "clear" definition of what is encompassed by "Socially Responsible Investment" (SRI), meaning wide scope for interpretation on the part of investors...
Approach	• The approach may seem "simple", "attractive" or "blurred". To become actionable, it needs to be clearly defined in terms of criteria and objectives as one methodology might not fit all investors' needs
SG view	• ESG integration refers to the concept that all types of investors should examine, à minima, a limited number of companies' environmental, social and governance practices that have a material impact on their financial performance

ADDENDUM 2

SUSTAINALYTICS

- SG partnered with Sustainalytics, an independent provider of ESG data, research and support services, for gathering ESG data used in this publication.
- Sustainalytics is an independent provider of ESG research, analysis and support services. Sustainalytics' mission is to help clients turn vast quantities of environmental, social and governance information into insightful, value-added analysis to enable more informed investment and business decisions. The company has a staff of more than 120 globally, including 70 analysts, and operations in Amsterdam, Boston, Frankfurt, Paris, Timisoara, Toronto and representatives in Copenhagen, Bogotá, Brussels, London, San Francisco and Bucharest.
- Sustainalytics is not affiliated with SG.
- SG uses data and analysis from Sustainalytics in relation to ESG generally for this report. SG does not warrant the completeness or accuracy of Sustainalytics' analysis and data.

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APPENDIX

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SG EQUITY RESEARCH RATINGS on a 12 months period (in effect as of March 14, 2012)

BUY: absolute total shareholder return forecast of 15% or more over a 12 month period.

HOLD: absolute total shareholder return forecast between 0% and +15% over a 12 month period.

SELL: absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

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Sector Weighting Definition on a 12 months period:

The sector weightings are assigned by the SG Equity Research Strategist and are distinct and separate from SG equity research analyst ratings. They are based on the relevant MSCI.

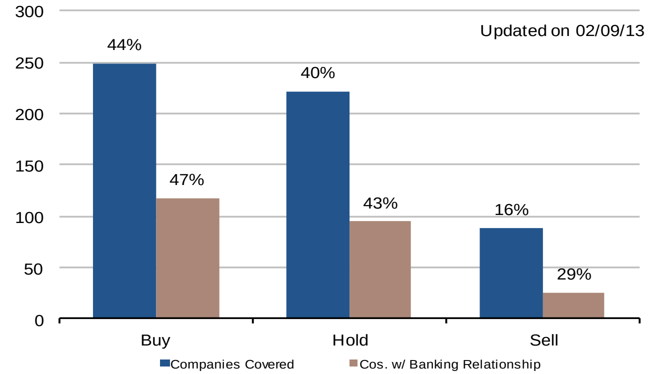
OVERWEIGHT: sector expected to outperform the relevant broad market benchmark over the next 12 months.

NEUTRAL: sector expected to perform in-line with the relevant broad market benchmark over the next 12 months.

UNDERWEIGHT: sector expected to underperform the relevant broad market benchmark over the next 12 months.

The Preferred and Least preferred stocks are selected by the covering analyst based on the individual analyst's coverage universe and not by the SG Equity Research Strategist.

Equity rating and dispersion relationship



Source: SG Cross Asset Research

APPENDIX

All pricing information included in this report is as of market close, unless otherwise stated.

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SG SECTOR RESEARCH

Patrick Legland (Global Head of Research)
Fabrice Theveneau (Head of Equity and Credit Research)
Simon Surtees (Head of Credit Research)

FINANCIALS

CREDIT ANALYSTS

Hank Calenti (Banks)
(44) 20 7676 7262

Jean-Luc Lepreux (Banks)
(33) 1 42 14 88 17

Brajesh Kumar (Banks)
+91 80 2809 5034

Rötger Franz (Insurance)
(44) 20 7676 7167

EQUITY ANALYSTS

Banks

Geoff Dawes
(44) 20 7762 5244

Carlos Garcia-Gonzalez
(34) 9 1589 3920

Murali Gopal
+91 80 2809 7319

James Invine
(44) 20 7762 5558

Philip Richards
(44) 20 7762 5893

Carlo Tommaselli
(39) 02 85 49 437

Alan Webborn
(44) 20 7762 5575

Insurance

Nick Holmes
(44) 20 7762 4124

Abid Hussain
(44) 20 7676 6134

Jason Kalamboussis
(44) 207 762 4076

Real Estate

Henri Quadrelli
(33) 1 42 13 37 33

Marc Mozzi
(44) 20 7762 5090

Michel Varaldo
(33) 1 42 13 73 02

Diversified Financials

Michael Sanderson
(44) 20 7762 4976

INDUSTRIALS

CREDIT ANALYSTS

Bob Buhr (Industrials)
(44) 20 7676 6454

Philippe Landroit (Industrials)
(44) 207 676 7136

Paul Vickars (Industrials)
(44) 20 7762 4180

Pierre Bergeron (Autos)
(33) 1 42 13 89 15

EQUITY ANALYSTS

Aerospace & Defence

Zafar Khan
(44) 20 7762 5317

Automobiles

Philippe Barrier
(33) 1 42 13 84 42

Erwann Dagorne
(44) 20 7762 5279

Stephen Reitman
(44) 20 7762 5535

Construction

Victor Acitores
(34) 9 1598 3901

Muriel Fellous
(33) 1 42 13 60 51

Electrical & Engineering

Gaël de Bray
(33) 1 42 13 84 14

Sébastien Gruter
(33) 1 42 13 47 22

Alok Katre
(91) 80 2803 7996

Alasdair Leslie
(44) 20 7762 4952

CONSUMERS

CREDIT ANALYSTS

Simon Cowie
(44) 20 7676 7152

EQUITY ANALYSTS

General Retailers

Anne Critchlow
(44) 20 7762 5232

Food Retailers

Arnaud Joly
(33) 1 58 98 99 37

Food producers

Warren Ackerman
(44) 20 7762 4164

Alex Sloane
(44) 20 7762 4271

Beverages

Nicolas Ceron
(44) 20 7762 5631

Andrew Holland
(44) 20 7762 4344

HPC/Tobacco

Chas Manso de Zuniga
(44) 20 7 762 4334

Hotels, Restaurants & Leisure

Sabrina Blanc
(33) 1 42 13 47 32

Luxury goods

Thierry Cota
(33) 1 42 13 84 45

Vishnu Reddy
+91 80 2808 6915

ENERGY

CREDIT ANALYSTS

Hervé Gay (Utilities)
(33) 1 42 13 87 50

EQUITY ANALYSTS

Oil & Gas

Nathan Churchill
(1) 212 278 6624

Guillaume Delaby
(33) 1 42 13 62 29

Mehdi Ennebati
(33) 1 42 13 84 57

John Herrlin
(1) 212 278 6851

Irene Himona
(44) 20 7762 5353

Russell Koch
(1) 212 278 6484

David Mirzai
(44) 20 7762 4408

Edward Mutztafago
(1) 212 278 7327

Bob Parija
(1) 212 278 6625

Evgeny Solovyov
(44) 20 7762 5546

Metals & Mining

Bruce Alway
(44) 20 7762 5085

Sergey Donskoy
(7) 495 956 3535

Abhishek Shukla CFA
(91) 80 2808 6935

Alain William
(33) 1 58 98 12 61

Amit Pansari
(91) 80 6758 7784

Utilities

Jorge Alonso
(34) 9 1589 3913

Vincent Ayral
(44) 207 762 5494

Alberto Ponti
(44) 20 7762 5440

Ashley Thomas
(44) 20 7762 4050

ENVIRONMENT

SRI

Carole Crozat
(33) 1 42 13 62 04

Yannick Ouaknine
(33) 1 58 98 23 50

Niamh Whooley
(44) 20 7762 5054

TMT

CREDIT ANALYSTS

Robert Jaeger
(44) 207 676 7023

Priya Viswanathan
+91 80 2803 7458

EQUITY ANALYSTS

Media

Christophe Cherblanc
(33) 1 42 13 84 44

Laurent Picard
(33) 1 42 13 44 59

Software & IT services

Derric Marcon
(33) 1 58 98 06 30

Richard Nguyen
(33) 1 42 13 54 22

Mukul Garg
(91) 80 6645 5608

Telecom Equipment & Semis

Peter Knox
(44) 20 7762 4142

Andy Perkins
(44) 20 7762 5413

Telecom services

Ottavio Adorisio
(44) 20 7762 5761

Romain Gourvil
(44) 20 7762 5127

Stephane Schlatter
(44) 020 676 6350

PHARMA. & CHEMICALS

EQUITY ANALYSTS

Pharmaceuticals

Stephen McGarry
(44) 20 7762 5079

Healthcare /Med Tech

Justin Smith
(44) 20 7762 5899

Chemicals

Peter Clark
(44) 20 7762 5084

SMALL & MID CAPS

EQUITY ANALYSTS

Patrick Jousseaume
(33) 1 42 13 66 62

Marie-Line Fort
(33) 1 42 13 85 21

Jean-Baptiste Roussille
(33) 1 42 13 99 78

COUNTRY ANALYST

EQUITY ANALYST

Poland

Leszek Iwaszko
(48) 22 528 4332

EQUITY STRATEGY

Paul Jackson
(44) 20 7762 592

Alain Kayayan
(44) 20 7676 6933

Vivek Misra
+91 80 2802 4615

SG LEADER IN GLOBAL CROSS ASSET RESEARCH

Macro & Strategy

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12 sector teams in the Top 10

** Euromoney - Primary Debt Poll*