NORDIC ENGAGEMENT COOPERATION

Annual Engagement Report, 2017

A collaborative engagement network between

PFA Mere til dig · Folksam · ILMARINEN · KLP

CONTENTS

ABOUT THE NORDIC ENGAGEMENT COOPERATION

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

OUR APPROACH

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

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

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

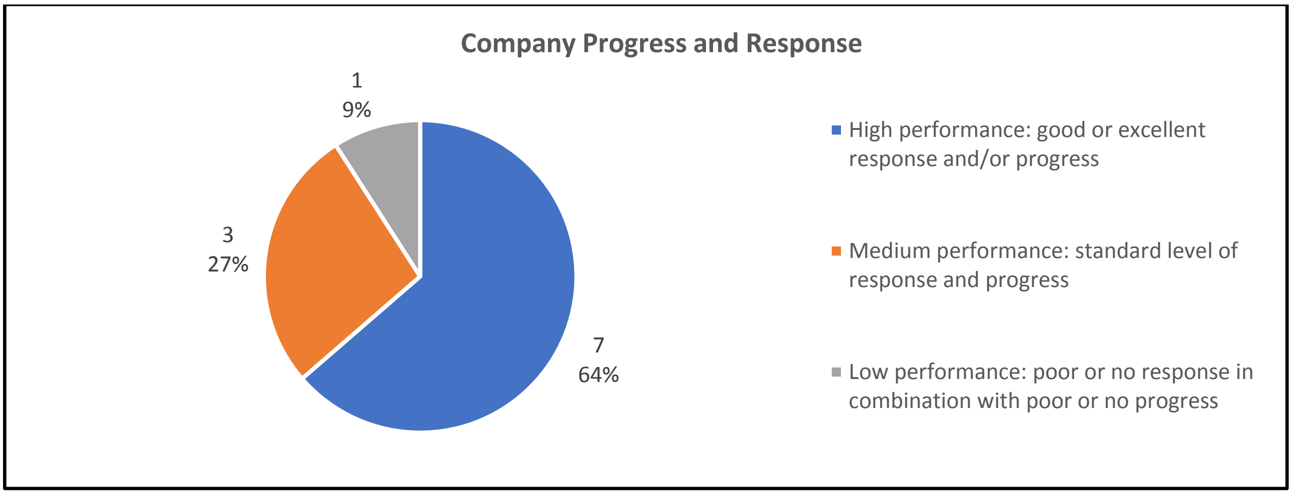
A case can be kept on the NEC Focus list of engagement for a three-year period. If deemed relevant, the dialogue can be extended beyond that period. All members of NEC invest with a long-term horizon. Hence, we have the opportunity to have a long-term dialogue with companies.

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

ENGAGEMENT BRIEF

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

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



NORDIC ENGAGEMENT COOPERATION FOCUS LIST 2017

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

KEY - Human rights - Labour rights - Corruption - Environment

COMPLETED ENGAGEMENT 2017

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

VINCI

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

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

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

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

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

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

ONGOING PROJECTS AND COMPANY DIALOGUES

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

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

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

Textile engagement/L Brands

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

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

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

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

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

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

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

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

Contributes to UN Sustainable Development Goal(s):

6 CLEAN WATER AND SANITATION

8 DECENT WORK AND ECONOMIC GROWTH

Scope of textile engagement

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

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

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

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

The engagement goal addresses policy, traceability and transparency:

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


HOW IS YOUR T-SHIRT MADE ?
FROM SEED TO TEE
www.impressestudio.com
T-SHIRTS ARE MADE OF DIFFERENT FABRIC MATERIALS, COTTON IS PRE-DOMINANTLY THE MOST & BEST USED FABRIC AROUND THE WORLD.
COTTON IS EASY TO DYE AND HAS A GOOD COLOUR RETENTION. IT BLENDS WELL WITH OTHER FIBRES SUCH AS ELASTANE.
1 FARMING
2 GINNING
3 SPINNING
4 KNITTING
5 FINISHING
6 CUTTING
7 SEWING
8 PRINTING
9 DYEING
10 FINAL TEE
THE PRODUCTION OF A COTTON T-SHIRT CAN BE SUMMARISED IN 10 PROCESSES

ROYAL DUTCH SHELL

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

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

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

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

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

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

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

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

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

Contributes to UN Sustainable Development Goal(s):

Deutsche Post

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

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

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

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

Contributes to UN Sustainable Development Goal(s):

8 DECENT WORK AND ECONOMIC GROWTH

Folksam Bohusgatan 14 106 60 Stockholm, Sweden www.folksam.se	Ilmarinen Porkkalankatu 1 00018 Ilmarinen, Finland www.Ilmarinen.fi	PFA Sundkrogsgade 4 2100 Copenhagen, Denmark www.pfa.dk
KLP Dronning Eufemias Gate 10 0191 Oslo, Norway www.klp.no	GES Vasagatan 7 111 20 Stockholm, Sweden www.gesinternational.com	

BHP

SECTOR: Metals & Mining
HEAD OFFICE: Australia

COUNTRY

Brazil

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In November 2015, a tailings dam operated by Samarco Mineração (Samarco), a joint venture in which BHP Billiton (BHP) and Vale SA (Vale) each hold 50 percent, breached, releasing a mudflow which overtopped the Santarém dam and flooded the district of Bento Rodrigues in Minas Gerais state, Brazil. As a result, 19 people died and over 700 have been displaced. The tailings dams had been used to hold the waste from iron ore processing operated by Samarco and also from Vale's own mine; the tailings were a mixture of water and discarded rock. The cause of the accident has been subject to Brazilian federal and state investigations as well as the companies' internal investigations and could be summarised as being due to poor design and operational control. The dams had all the necessary operating licences and were in compliance with regulations. In March 2016, an agreement was reached between Samarco, Vale, BHP and the Brazilian authorities in which the companies would pay BRL 20 billion (USD 5.1 billion) over the next 15 years to cover the costs of social and environmental remediation measures.

GOAL

BHP needs to: identify the cause(s) of the dam failure, assess all dams within its control to prevent similar failures in the future; develop a remedial strategy for the affected communities and the environment; ensure dam monitoring and maintenance systems and emergency procedures are in place.

THIS YEAR'S DEVELOPMENT

In January 2017, BHP reported that it was in negotiation with the Brazillian Public Prosecutors Office (PPO) in order to settle a claim for BRL 155 billion (USD 48.6 billion) by the Prosecutors. The talks were originally scheduled for completion by 30 June 2017. Problems with agreeing on a suitable social consultant, to assess the socio-economic remedial requirements, meant the talks were to continue until 16 October and were then extended until 16 November. Finally, a deal was struck by all parties which meant the Prosecutors were now to be involved in the reparations process.

BHP has completed it's internal dam review resulting in a re-organisation and centralisation of its tailings management expertise. BHP's three South American joint ventures are also grouped and managed collectively in a new division based in BHP's Santiago office in Chile.

BHP sponsored an investor visit in June 2017, which provided updates on the environmental and socio-economic remedial programmes. One of which was the relocation of the impacted population into new settlements.

It was hoped that groundwork, on the new settlement of Bento Rodrigues, would commence in August, or September 2017, however, this has been delayed due to the local municipality requesting changes in the settlement plan. A new community vote was required before the proposed changes could be improvised. The affected community members of Gesterias have voted on its community plan and that is now being assessed by the local authority. Whilst The Renova Foundation is negotiating with the landowner on the behalf of the eight families at Paracatu, having had one deal reneged on by the same land-owner.

DEUTSCHE POST

SECTOR: Air Freight & Logistics
HEAD OFFICE: Germany

COUNTRY

India

NORM AREA

RESPONSE & PROGRESS

INCIDENT

According to a March 2015 report commissioned by the International Transport Workers' Federation (ITF), workers at DHL India, a subsidiary of Deutsche Post, experienced various practices aimed at suppressing unionisation at the company. The allegations included local and national DHL India managers threatening and discriminating against pro-union workers, as well as relocating such workers, which is considered a strategy to undermine existing unions. The company also allegedly reclassified the employment status of some couriers into low-level management, without any change in their duties, to make them ineligible to join a union. The company released a report with its review of the allegations, but the publication was criticised by ITF. Additionally, between 2010 and 2012, the company was accused of international labour laws violations at its subsidiaries, including Turkey and Colombia, but it managed to reach a settlement with the ITF and UNI Global (UNI) through the mediation of the National Contact Point for the OECD in Germany (NCP) in January 2014. However, the situation in Colombia has allegedly not improved and there are allegations of further anti-union practices. Additionally, in March 2016 a report was released containing allegations of labour rights violations also in Chile and Paraguay.

GOAL

Deutsche Post should ensure its Code of Conduct is observed throughout its global operations, including subsidiaries. This refers to the CoC generally and freedom of association specifically. DP should ensure it has accurate processes to manage employee complaints, and report more transparently on the number of complaints and the measures taken to ensure compliance with the code.

THIS YEAR'S DEVELOPMENT

A face-to-face meeting was held with Deutsche Post at its Bonn headquarters in February 2017, after NEC members sending a co-signed investor letter. The aim of the meeting was to re-boot dialogue and create a better understanding of the importance of transparency and disclosure from an investor perspective, after the company previously being rather defensive. The meeting was positive and constructive, but afterwards Deutsche Post again declined sharing more information on how it ensures compliance with its Code of Conduct in global operations, which is problematic. One positive development however is that in September 2017, the company together with union counterparts agreed to extend the protocol of regular dialogue on industrial topics through the German OECD NCP, as all parties considered this constructive atmosphere and solution-oriented approach providing effective mutual benefit.

ENBRIDGE

SECTOR: Oil, Gas & Consumable Fuels
HEAD OFFICE: Canada

COUNTRY

United States

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In September 2016, the UN Special Rapporteur on the rights of indigenous peoples stated that the US Dakota Access Pipeline (DAPL) project posed significant risks to the Standing Rock Sioux tribe. The DAPL, part of the wider Bakken Oil Pipeline, is designed to transport crude oil from the Bakken fields of North Dakota to a distribution centre in Patoka, Illinois. The pipeline is being developed by Energy Transfer Partners LP (former Sunoco Logistics Partners), a subsidiary of Energy Transfer Equity LP. Energy Transfer Partners LP holds a 38.25 per cent ownership in the project. The remaining partners with significant ownership include Phillips 66, which owns 25 per cent of the project, and Enbridge Energy Partners LP, an affiliate of Enbridge, with a 27.6 per cent stake. The pipeline is planned to pass close to the tribe's reservation and beneath the Missouri River, the reservation's main source of drinking water. The pipeline's risks include water pollution and the destruction of burial grounds and sacred sites. The Special Rapporteur, among others, has also alleged that the tribe was not effectively consulted and did not give its consent to the current routing of the pipeline. The project has been approved by regulatory agencies in all four states where the pipeline will operate. In February 2017, the US Army Corps of Engineers, the US authority which issues permits for the part of the pipeline crossing federal land, granted the final permit needed for its completion.

GOAL

Enbridge should enter in to a reconciliation dialogue with Standing Rock, with the objective to reach an agreement on how to improve trust and collaboration related to similar project in the future, as well as mitigation measures by the company to minimise risks and impacts on Standing Rock's territory and population, including its water resources.

THIS YEAR'S DEVELOPMENT

Since early 2016, Enbridge Energy Partners LP, an affiliate of Enbridge, holds a 27.6 per cent stake in Dakota Access Pipeline (DAPL). The relationship continues to be tense between Standing Rock Sioux tribe and companies involved in DAPL a reconciliation dialogue has not been possible so far. Although all permits are in place and the pipeline is operational, criticism by Standing Rock Sioux and others remains unresolved and is subject to a litigation process in the US. On the other hand, Enbridge has made improvements in its human rights due diligence process, in particular in relation to indigenous peoples' rights. A new policy on indigenous peoples was last updated in October this year. The company has a quite robust due diligence structure for indigenous peoples' rights for their own projects, but much less so for minority investments, such as DAPL. This is the main focus point of our current engagement and progress is expected.

ENI

SECTOR: Oil, Gas & Consumable Fuels
HEAD OFFICE: Italy

COUNTRY

Nigeria

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In 2011, Eni and Royal Dutch Shell (Shell) paid the Nigerian government USD 1.1 billion for the shared oil block deal OPL 245. According to a May 2012 report by the NGO Global Witness, UK High Court case proceedings revealed the companies had known that the money would be transferred to Malabu Oil&Gas (Malabu), a company allegedly controlled by a former Petroleum Minister of the country. The case was fought between Malabu and an agency that said it had brokered the deal. According to the NGO, court documents indicate that both Shell and Eni dealt with the ex-minister before the payment to the government, which included secret meetings and negotiating the block's price. The companies denied the allegations. In October 2014 it was reported that, according to Italian prosecutors investigating Eni's involvement in the deal, at least half of the USD 1.1 billion was used to bribe local politicians, intermediaries and others. In December 2015 Global Witness reported that new evidence from leaked internal emails between senior Shell and Eni managers showed that the companies were fully aware and actively arranged for their USD 1.1 billion payment for OPL 245 to be sent Malabu Oil and Gas. The issue of corruption in another area of operation, Algeria, resurfaced in 2016 when it was reported that the Italian Court in Milan indicted the former Eni CEO Paolo Scaroni and eight others in connection with bribery allegations in Algeria. In December 2017, media reported that an Italian judge had ordered Shell, Eni and the CEO of Eni, among past and present managers, to stand trial for corruption in Nigeria. The trial was due to start on 5 March 2018.

GOAL

Eni should demonstrate that its code of conduct, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied.

THIS YEAR'S DEVELOPMENT

In February 2017 the Italian prosecutor laid charges of international corruption in relation to teh OPL 245 affair against CEO Claudio Descalzi, Chief Development Operations & Technology Officer Roberto Casula, several other individuals and Eni and Shell as companies. The proceedings continued through the year and a decision is expected as to whether the parties will stand trial just before the new year.

NEC participated in a call with investor relations at Eni in July which considered the Italian proceedings, the company's contingency planning and the internal investigation, its scope and the mandate of the law firm commissioned to carry it out. NEC was also represented at a meeting with the company in October , which focused on the company's compliance system. In November NEC members co-signed a letter to the Chair which suggested that the company reassess the position of the CEO as head of the anti-corruption framework reporting chain and ensure proper succession planning for the CEO's role in view of the Italian proceedings. Throughout the year NEC has maintained dialogue with NGO Global Witness to stay up-to-date on their research concerning OPL 245. In 2018 NEC will seek to continue dialogue with the company on the basis of the November letter and continue to monitor the legal proceedings.

NESTLE SA

SECTOR: Food Products
HEAD OFFICE: Switzerland

COUNTRY

Thailand

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In 2015, it was reported that a company supplying fish to Thai Union Frozen Products, a supplier to Nestlé SA, was abusing its workers. Allegedly, fishermen reported numerous labour violations, including payment issues, beatings and forced overtime shifts. Involuntary detention and fatalities caused by slave-like conditions reportedly also took place. Nestlé stated that such practices were unacceptable and launched an internal investigation in its supply chain to identify any potential wrongdoings. The key findings were presented in an action plan. Since January 2016, Nestle has been implementing the action plan, which aims at improving labour conditions and eliminating human rights abuses in its supply chain.

GOAL

Nestlé should ensure an effective implementation of its Supplier Code of Conduct and a verifiable supply chain traceability system. Progress from the strengthened systems should be reported publicly, together with challenges and failures identified during the independent third party assessments.

THIS YEAR'S DEVELOPMENT

During the call in June 2017, Nestlé presented the work done around traceability, limiting the number of second-tier suppliers and auditing. Nestlé explained that, in cooperation with the Thai government and Thailand Shrimp Sustainable Supply Chain Task Force, a new traceability system had been implemented. Currently, 99 per cent of the seafood ingredients that Nestlé sources from its seafood supply chain in Thailand are traceable back to the fishing vessels and farms. Nestlé's partner Verité has been conducting a training programme for the port and boat workers. The workers that underwent training was instructed on how to use grievance mechanisms and given the details of an emergency response process, both administered by another partner, Issara Institute. Nestlé's suppliers are working with the Issara Institute to provide information on the locations that form part of the supply chain for Nestlé's products. Over the last year, the Institute was in the process of implementing its Labour Monitoring Programme. Nestlé, Thai Union, and Verité continue to work with the Royal Thai Government and Thailand's Department of Fisheries to develop a practical training programme to educate vessel owners, boat captains, and crew members.

NOVARTIS AG

SECTOR: Pharmaceuticals
HEAD OFFICE: Switzerland

COUNTRY

Turkey

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In recent years, Novartis has been investigated over alleged corrupt practices in several countries. In January 2017, the media reported that Greek prosecutors raided the company's offices in the country as part of a probe into bribery allegations. The company stated that is was cooperating with authorities. Prior to that, in April 2016, the Turkish chief prosecutor launched an investigation into the Turkish unit of Novartis following accusations by an anonymous whistleblower about alleged bribes paid to increase sales of Novartis medicines. Allegedly, between 2013 and 2014, the company paid the equivalent of USD 290,000 to secure a USD 85 million profit. As reported, these payments were made to a consulting firm which helped to include the company's products in lists of medicines approved by government-run hospitals. The firm also aided Novartis to avoid price cuts by gaining the government's approval to change the names of two medicines. Additionally, as reported in April 2016, the South Korean prosecutors launched an investigation into alleged kickbacks that were paid to doctors in exchange for prescribing the company's medicines. In August 2016, six former and current Novartis Korea officials, including a former CEO, were indicted without detention. Novartis Korea rejected the allegations but admitted that the internal investigation discovered some unfair trade practices which were conducted without the executives' knowledge. In March 2016, the Securities and Exchange Commission reported that Novartis agreed to resolve allegations that its subsidiaries in China had violated the US Foreign Practices Corrupt Act. Prior to that, in November 2015, the news media reported that the company reached a settlement with the US Department of Justice over alleged kickbacks paid to speciality pharmacies to increase sales of Novartis' products in the United States.

GOAL

Novartis should ensure that the revised and updated anti-bribery policy is followed worldwide and at subsidiary level, and reflects the company's corruption risk exposure. Allocated resources, implementation, corrective actions, monitoring and external verification in relation to the policy should be communicated.

THIS YEAR'S DEVELOPMENT

Novartis has been investigated over alleged corrupt practices in several countries, which shows that this is a systematic problem. GES has discussed the concerns with the company and held a conference call most recently in July 2017 and participated in an investor call in September. The company has taken a number of initiatives to address the issue, such as strengthened policies, including an update of the anti-bribery policy last year. The company has also recently communicated that it is strengthening its culture of integrity and reinforcing its compliance function. The company has further extended reporting on payments to healthcare professionals. The company acknowledges that third parties present a significant risk to the company and updated its anti-bribery third-party guidelines in 2017 and GES will follow up on its implementation. It remains to be seen whether the company's remedial steps to eliminate deficiencies in its compliance system have been effective. GES has requested a meeting with Novartis' Chief Ethics and Compliance Officer, which will take place late February 2018.

ROYAL DUTCH SHELL

SECTOR: Oil, Gas & Consumable Fuels
HEAD OFFICE: United Kingdom

COUNTRY

Nigeria

NORM AREA

RESPONSE & PROGRESS

INCIDENT

Shell Petroleum Development Company of Nigeria Limited, a subsidiary of Royal Dutch Shell, operates onshore oilfields in the Niger Delta region of Nigeria on behalf of its JV partners the Nigerian National Petroleum Corporation (55 percent), Total S.A. (10 percent) and Eni (5 percent). The consortium produces about 20 percent of Nigeria's annual oil output. In 2011, the extensive oil pollution attributable to SPDC's operations in the Ogoniland part of the Niger Delta was scientifically documented for the first time by the United Nations Environment Programme (UNEP). UNEP scientists examined 69 sites and found that at more than ten locations a severe risk to public health was posed. The report further said that the impact on mangrove habitat has been "disastrous". The extent of the pollution was regional in scale and UNEP estimated that clean-up would take 30 years and cost at least USD 1 billion. A range of recommendations were made to oil companies and the Nigerian government.

GOAL

Shell should have a detailed programme in place to address the recommendations of the UNEP's Environmental Assessment of Ogoniland, and demonstrate that regular progress is being made towards achieving the objectives. The company should communicate the plan and progress transparently to shareholders. Shell should also exert its influence on all stakeholders to counter oil theft activity and its related social and environmental impacts.

THIS YEAR'S DEVELOPMENT

NEC was represented at the company's annual sustainability day in London in April 2017, which helped to shed light on the ongoing security situation in Ogoniland. NEC held a call with Shell in July 2017, which used our gap analysis as a framework and sought answers from the company about those areas where disclosure was lacking. The call covered a wide range of issues including governance arrangements, operational recommendations and engagement with local communities. In August 2017 the company announced that the SPDC joint venture would be represented on both the Governing Council and the Board of Trustees of the Ogoni Restoration Fund. Furthermore, SPDC has contributed USD 10 million into a 'take-off' fund for the Ogoniland Restoration Fund and is expected to contribute USD 900 million over 5 years (90% of the recommended budget).

Subsequent to the June call, we have updated our gap analysis and found that of the 38 recommendations in the Environmental Assessment of Ogoniland linked to SPDC, 9 are considered fulfilled, 13 partly fulfilled and 15 not fulfilled. In 2018 NEC aims to elicit answers from the company to questions created by the gaps in its disclosure and will push for commitments from the company to implement outstanding recommendations.

ROYAL DUTCH SHELL

SECTOR: Oil, Gas & Consumable Fuels
HEAD OFFICE: United Kingdom

COUNTRY

Nigeria

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In 2011, Eni and Royal Dutch Shell (Shell) paid the Nigerian government USD 1.1 billion for the shared oil block deal OPL 245. According to a May 2012 report by the NGO Global Witness, UK High Court case proceedings revealed the companies had known that the money would be transferred to Malabu Oil&Gas (Malabu), a company allegedly controlled by a former Petroleum Minister of the country. The case was fought between Malabu and an agency that said it had brokered the deal. According to the NGO, court documents indicate that both Shell and Eni dealt with the ex-minister before the payment to the government, which included secret meetings and negotiating the block's price. The companies denied the allegations. In October 2014 it was reported that, according to Italian prosecutors investigating Eni's involvement in the deal, at least half of the USD 1.1 billion was used to bribe local politicians, intermediaries and others. In December 2015 Global Witness reported that new evidence from leaked internal emails between senior Shell and Eni managers showed that the companies were fully aware and actively arranged for their USD 1.1 billion payment for OPL 245 to be sent Malabu Oil and Gas. In December 2017, media reported that an Italian judge had ordered Shell, Eni and the CEO of Eni, among past and present managers, to stand trial for corruption in Nigeria. The trial was due to start on 5 March 2018.

GOAL

Shell should demonstrate that its code of conduct, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied.

THIS YEAR'S DEVELOPMENT

In February the Italian prosecutor laid international corruption charges against Shell and Eni as companies as well as several individuals. The proceedings continued through the year and a decision is expected as to whether the parties will stand trial just before the new year. Meanwhile former executive director Malcolm Brinded was obliged to stand down from the board of BHP Billiton over his connection to the OPL 245 affair and may also be obliged to stand trial as part of the Italian proceedings.

In April NEC was represented at the Shell annual sustainability day where OPL 245 was top of the agenda and the company's legal director made a presentation on the various phases of the affair. In June, NEC participated in a call with Shell where the company stated that it has made no changes to its compliance system in response to OPL 245 as it considered that it had done nothing wrong. However, it had commissioned an investigation by an external law firm (which would also cover the compliance programme.) The company was, however, unwilling to publish the internal investigation report as long as the investigation was ongoing, and was also unwilling to share the mandate of the law firm. In addition, the company disclosed that it had a crisis process in place, which it would draw on in the event of an adverse result in the legal proceedings. Throughout the year NEC has maintained dialogue with NGO Global Witness to stay up-to-date on their research concerning OPL 245. NEC will continue to monitor the legal proceedings and will put additional questions to the company on the basis of an assessment of its anti-corruption system against the Transparency International Framework.

VINCI

SECTOR: Construction & Engineering
HEAD OFFICE: France

COUNTRY

Qatar

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In March 2015, Sherpa, a French association that aims to guide and support victims of economic crimes, accused QDVC, a Qatari joint venture 49 per cent owned by Vinci, of committing several labour rights violations in Qatar. The violations included poor working conditions and bonded labour, as workers' passports were confiscated. Construction workers were reportedly also threatened to stop demanding better working conditions. Following Sherpa's initial findings in Qatar, a preliminary investigation was launched in France in April 2015. Vinci denied the accusations and filed a defamation suit against Sherpa, which was subsequently dismissed by the Paris Court of Appeal in July 2017. As of July 2017, the Sherpa complaint is still being reviewed by the court and ongoing. In October 2015, Vinci asked BSR (a global non-profit focusing on sustainability) to conduct an audit of its Qatari operations. Then in February 2016, Vinci started working on addressing/remedying the gaps uncovered by the audit. The main outcome was the draft by the company in June 2017 of a new human rights guide that is applicable globally. In addition, Vinci has started working locally with its subsidiaries and subcontractors towards ensuring the full implementation of the guide.

GOAL

Vinci has adopted a human rights policy in line with the UN Global Compact and the basic ILO conventions on labour rights. The policy covers the company's worldwide operations, including subsidiaries and subcontractors. In addition, the company has the appropriate systems in place to make sure the policy is followed at all its operations.

THIS YEAR'S DEVELOPMENT

NEC and GES were in dialogue with Vinci between September 2015 until June 2017 via conferences calls and meetings both in London and Paris. The discussions with Vinci mostly related to (i) labour issues (ii) and results of BSR's audit for its operations in Qatar. BSR's audit outcome showed that despite a challenging context, QDVC had good systems in place. However, BSR also identified gaps in the company's systems relating to workers' payment of illegal recruitment fees and a number of subcontractors' practices. The company remedied the gaps. In addition, following Vinci's collaboration with NGOs and the Bangladeshi government, the company was able to recruit 900 Bangladeshi workers without the workers having to incur unnecessary recruitment fees. Vinci then started working on ensuring that similar rules would be going forward apply in Nepal and other migrants' countries of origin. More importantly, Vinci developed a human rights policy applicable to its operations worldwide and throughout its supply chain, including subcontractors. The policy was published at the end of June 2017 and is in line with the UN Global Compact and the basic ILO conventions on labour rights that is also applicable to subcontractors. In addition, the company has put in place the appropriate systems in place to ensure that the policy is implemented at all its operations. As a result of the company's initiatives, GES and NEC decided in July 2017 to resolve this case.

VOLKSWAGEN AG

SECTOR: Automobiles
HEAD OFFICE: Germany

COUNTRY

United States

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In September 2015, the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) revealed that Volkswagen AG (Volkswagen) used illegal software, a so-called "defeat device", in several diesel car models in order to bypass US environmental standards. According to the regulators, the company installed a device that boosted emissions controls during testing and turned them down during normal driving, which resulted in exceeding the pollution limits allowed under federal clean air rules by up to 40 times. As a result, the EPA ordered a recall of over 480,000 cars produced in the years 2009-2015 and Volkswagen announced at the end of September 2015 that it will refit 11 million cars. Volkswagen admitted to fitting the device in September 2015 and stated that it is cooperating with an investigation led by the Department of Justice on behalf of the EPA in April 2016. In June 2016, Volkswagen reached a civil settlement with the US authorities and agreed to pay more than USD 15.3 billion to settle the charges in relation to the 2.0 litre diesel engine vehicles that were fitted with a defeat device. In December 2016, Volkswagen reached a civil settlement with the US authorities in relation to the 3.0 litre engine vehicles and agreed to pay USD 225 million toward nitrogen oxide reduction projects. In January 2017, Volkswagen pleaded guilty to three criminal felony counts in the US. The company agreed to pay USD 4.8 billion to settle these remaining criminal and civil penalties and was put on a three-year probationary period, with a court-appointed monitor overseeing the necessary compliance systems changes. Six Volkswagen executives and employees were also charged for their roles in the emissions scandal. In 2016, the company set aside EUR 18.4 billion to deal with costs related to the scandal. So far, the company has had to pay approximately USD 21.5 billion as a result of various US settlements and fines.

GOAL

VW should ensure that it has adequate risk management systems and internal controls and that the Supervisory Board has sufficient oversight, independence and skills in order to prevent future violations. Furthermore, VW should demonstrate that it has improved its corporate culture.

THIS YEAR'S DEVELOPMENT

In 2017, GES focused its engagement primarily on what actions Volkswagen was taking to address cultural issues at the company in light of the 2017 Plea Agreement and the conclusion of the Jones Day review. Ahead of the company's 2017 AGM, GES met with the Head of Investor Relations to get an update on what the company is doing regarding changes to risk management, internal controls and corporate culture, as the company had not provided comprehensive disclosure on this in its 2016 Annual Report. We also focused a great deal on the company's changes to its executive remuneration policy. While the remuneration changes were largely positive, the company's disclosure on certain aspects of the new policy was vague. Overall, the company remains reluctant to discuss any topics that may impact ongoing legal proceedings and cannot yet confirm that they are no longer selling vehicles that contain a defeat device because, according to the company, the definition of such a device only exists in US law. Volkswagen also has not shared a significant amount of information about how it is addressing cultural problems throughout the company, nor has it progressed in strengthening its governance systems at supervisory board level. However, the company has made some progress in that it has appointed a management board member responsible for legal and integrity (something which is rare in German companies); developed a Sustainability Council to assist on sustainability and social responsibility issues, and revised its executive compensation policy. In 2018, the engagement will focus on encouraging the company to be more open about actions that it is taking to remedy the situation.