

Nordic Engagement Cooperation

Annual Engagement Report, 2016



A collaborative engagement network between

Folksam

ILMARINEN

ALP

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ABOUT NORDIC ENGAGEMENT COOPERATION

Launched in 2009, the Nordic Engagement Cooperation (NEC) consists of three Nordic institutional investors: Folksam from Sweden, Ilmarinen Mutual Pension Insurance Company from Finland and KLP from Norway. 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 144 billion in assets under management as of the end of 2016.

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. The collaboration strives to cover a broad range of issues focusing on non-Nordic companies in which all three 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.

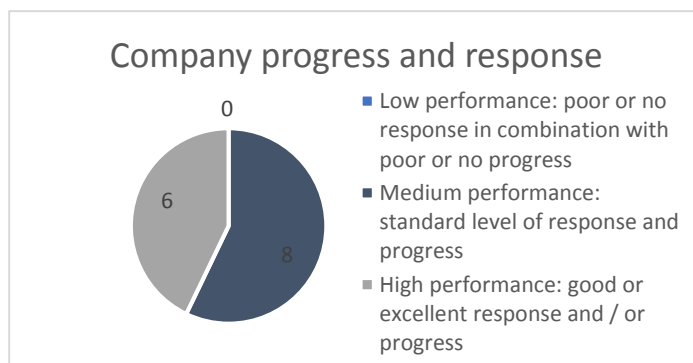
A case can be kept on the NEC Focus list of engagement for a three-year period. If deemed relevant, the dialogue can be extended beyond that period. All members of NEC invest with a long-term horizon. Hence, we have the opportunity to have a long-term dialogue with companies.

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. The NEC members are also open to adding additional investors as regular members as determined on a case-by-case basis.

ENGAGEMENT BRIEF

2016 was the eighth year of collaboration within the Nordic Engagement Cooperation (NEC). During the year, we added four new engagements cases to the NEC Focus List: BHP Billiton, ENI, Nestle and Shell. Five engagement efforts were completed during the year: AES Corp, Alstom, Barrick Gold Corp, Glencore and Total. There were in total 12 companies with 14 engagement cases on the NEC Focus List during 2016.

Different indicators are available to measure engagement activity and performance. During 2016, 27 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 14 cases on NEC's Focus List, eight had medium performance and six had high performance. There were no cases with low performance.



NORDIC ENGAGEMENT COOPERATION FOCUS LIST 2016

COMPANY	GLOBAL COMPACT PRINCIPLE	INCIDENT	ENGAGEMENT INITIATED
AES Corp		Violation of indigenous rights	2009* - 2016
Alstom		Complicity in human rights violations	2009* - 2016
Barrick Gold Corp		Complicity in human rights abuses.	2009 - 2016
Barrick Gold Corp		Environmental impact in mining project.	2009 - 2016
BHP Billiton		Deadly incident	2016 -
Deutsche Post		Violation of international labour standards	2015 -
ENI		Corruption	2016 -
Glencore		Operations in occupied territories	2015 - 2016**
Nestle		Labour rights violations	2016 -
Royal Dutch Shell		Human rights violations and environmental damage	2013 -
Royal Dutch Shell		Corruption	2016 -
Total		Illegal exploration of natural resources	2015 - 2016**
Vinci		Labour rights violation	2015 -
Volkswagen		Violations of emissions standards	2015 -

* NEC initiated our collaborative engagement in 2009 but had engaged individually before that.

** Glencore and Total were part of the collaborative Western Sahara thematic engagement program which ended 2015. NEC decided to continue engaging with the two companies until February 2016.

COMPLETED ENGAGEMENTS 2016

After seven years of engagement, NEC ended its engagement with AES Corp, Alstom and Barrick Gold Corp in 2016. Glencore and Total were part of GES' Western Sahara thematic engagement programme which ended 2015. NEC decided to continue engaging with those two companies until February 2016.

AES CORP

For several years, NEC has engaged with AES Corp in relation to its controversial Chan 75 hydroelectric dam on the Changuinola River in Panama. Free, prior and informed consent, as well as resettlement and compensation processes with the indigenous Ngöbe people were handled poorly by the company, resulting in leading the UN Special Rapporteur on the rights of indigenous people to publicly declare, in 2008, that human rights violations had occurred in connection with the project. The World Heritage Committee has also expressed concern about the project's potential impact on the World Heritage listed La Amistad National Park.

Shortly after the criticism gained traction, the company started to address critical issues related to the dam. In 2014, the Special Rapporteur on the rights of indigenous peoples concluded that most of the families affected by Chan 75 had reached agreements with the Panamanian government and with AES, the terms of which have been made public. AES has subsequently confirmed that the company has agreements in place with all families in the communities directly affected by the operation. In September 2016, the director of Chan 75 stated that the construction of the biological station for fish reproduction close to the hydropower dam was complete. In addition, the housing construction in the resettlement areas has almost been finalised. Only a few housing projects remain under construction and their completion is regulated in an agreement between

the Chan 75 management, community representatives and the Panamanian government. A 2016 field report on behalf of UNESCO noted that impacts from Chan 75 are measurable, but still limited. The report did not identify any current open conflicts, protests, strikes or claims. Due to the company's measures to address human rights and environmental concerns, NEC regards the company's response to the situation as satisfactory and has decided to end its engagement.

ALSTOM

NEC has engaged Alstom for several years with regards to its involvement in the controversial Merowe Dam project in Sudan. In August 2007, the UN Special Rapporteur of the Human Rights Council called upon companies involved in the project to halt their operations. The statement was made due to concerns over reports of human rights violations in connection with the resettlement of 50,000 people. Among the companies listed in the UN statement was Alstom, which was the supplier of ten hydro-turbines and generators to the project. None of the companies followed the recommendation from the UN Special Rapporteur and the last unit of the hydropower dam began commercial operation in April 2010.

Alstom is no longer present in Sudan. The company has also stated that it will not have any presence there until the international community is satisfied with the situation in the country. With regards to resettlement and compensation to local communities in the area, Alstom has referred to the operator of the Merowe hydropower operation, which in 2005 and 2007 informed stakeholders that the resettlement plan had been implemented and that all the affected people had been re-housed. This information is however not externally verified and the United Nations is not

allowed into the area to report on the status of human rights. Alstom has strengthened its corporate human rights due diligence processes in general and its ESG risk assessment for hydropower operations in particular. Alstom's hydropower personnel and knowledge have been transferred to the joint venture formed with General Electric in late 2015. Due to the company's improved ESG risk assessments and given a hydropower supplier's limited leverage towards the operator and owner of a hydropower project, NEC regards measures taken by the company to be satisfactory and resolved the case.

BARRICK GOLD CORP

NEC has engaged Barrick Gold Corp for several years with regards to its controversial Porgera mine in Papua New Guinea, both in relation to environmental impacts and human rights concerns.

Barrick Gold Corp operates riverine tailings disposal at Porgera, whereby process waste is discharged into the local river system.

Since commencement of our engagement in 2009, Barrick has developed a number of ESG-related initiatives. For example, since 2009 they have produced an Annual Environmental Report (AER), which is reviewed by an independent third party. The AER has in itself developed over the years and became much more risk-based since 2013, with clearly identified areas of improvement. In 2012, Barrick developed an ISO14000 Environmental Management System, formed a CSR Board and

published their first Riverine Tailings Management Policy. Barrick revised this policy in June 2016, committing to 'avoid riverine tailing disposal methods' in the future.

An assessment of the water quality data, ecological surveys and bioaccumulation studies indicates that the chemicals within the water do not appear to pose a significant risk to flora or fauna at the monitoring points. Barrick confirmed that following the cessation of mine operations, the company intends to remediate mine-derived over-bank sedimentation resulting from the riverine tailings disposal. Barrick has also committed to undertake additional bioaccumulation and bioavailability studies during 2015, due to inconsistencies in past results.

The Porgera operation has allegedly contributed to a range of human rights issues. These relate to trespassing in the mine area by ore thieves, resulting in violent (sometimes fatal) conflict with mine security guards, sexual abuse of local women by mine site security guards, and violent evictions. Over the years, the company has taken measures to strengthen its grievance mechanism at the site, has offered a compensation scheme to the victims of sexual abuses, is piloting a new resettlement approach and has taken several steps to implement the Voluntary Principles on Security and Human Rights.

Given these developments NEC has decided to end its engagement with Barrick Gold Corp.

ONGOING PROJECTS AND COMPANY DIALOGUES

NEC had ongoing dialogues with all companies on the NEC Focus List during 2016. 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 company dialogues are presented in more detail: BHP Billiton, Vinci and Volkswagen.

BHP BILLITON

NEC began engagement with BHP Billiton in the beginning of 2016, following the Fundão dam collapse in November 2015 at the Samarco Mineração project in Brazil. The Samarco Mineração project is a joint venture between BHP Billiton and Vale SA. BHP Billiton responded swiftly to the incident, implementing a number of disaster relief measures shortly after. In March 2016, BHP Billiton formalised the medium- and long-term remedial programmes in an agreement with Vale, Samarco Mineração, the state governments of Minas Gerais and Espírito Santo, the Brazilian Federal Government and the Attorney General.

In August 2016, BHP presented the technical review into the causes of the Fundão dam collapse. The review highlighted a number of design and operational changes over the years, which led to the failure.

The company has been responsive to dialogue and has also undertaken a number of actions, including centralising its tailings management expertise, bringing all non-operated JV projects under one governance system and undertaking an exhaustive risk assessment and tailings dam review which also addressed the issues highlighted in the technical review.

For 2017, NEC will continue to monitor the implementation of the remedial programmes at Samarco, as well as the outstanding actions identified as part of their internal dam review.



Fundão dam collapse

VINCI

NEC added the French construction company Vinci to its focus list during 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.

Following a Human Rights Impact Assessment (HRIA) performed by an external consultant over Vinci's operations in Qatar, the company has taken a number of actions to address the uncovered shortcomings. For example, the HRIA results showed that practices at subcontractor level, in particular in relation to employment and the illegal recruitment fees paid by migrant workers, represent the most significant area of risk of negative impacts on workers' rights faced by Vinci.

Therefore, the company has initiated a collaboration with recruitment agencies and governmental actors in the migrants' countries of origin to ensure a system free of illegal recruitment fees and a remediation process that will clear workers of their debt.

Vinci has also started working towards achieving the change objective, which states that the company should adopt a human rights policy in line with international standards that is applicable worldwide, including at subcontractor level. Vinci finished drafting its new human rights guide in June and has started working with subsidiaries and subcontractors locally on the implementation process. During 2017, the focus of NEC's engagement will be to ensure that the progress made in 2016 continues and that Vinci's new human rights policy is fully implemented globally.

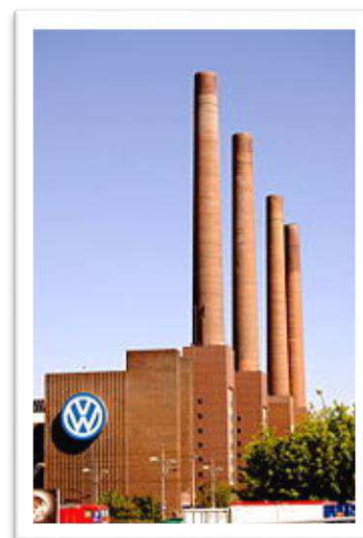
VOLKSWAGEN

NEC added Volkswagen to its focus list in 2015 following revelations by the US Environmental Protection Agency (EPA) and the California Air Resources Board, that Volkswagen used illegal software, a so-called "defeat device", in several of the company's diesel car models in order to bypass US environmental standards. Since then, the UK, Italy, France, South Korea, Canada and Germany have opened investigations.

The engagement objective is for the company to ensure that its Supervisory Board has the necessary skills, independence and proper oversight of the company's risk and its management systems. Furthermore, Volkswagen should appoint a management board executive accountable for environment and consumer protection.

GES had a meeting with Volkswagen's Chairman of the Supervisory Board, Hans Dieter Pötsch, on 1

June 2016, which NEC members attended. While GES has established an ongoing dialogue with the company, Volkswagen has not communicated how it will address the major governance issues at the company or specific actions that it plans to take to change internal controls and risk management systems. GES believes that the company may be more willing to discuss these issues going forward since Volkswagen pled guilty to three criminal felony counts in the US and agreed to pay USB 2.8 billion in criminal and civil penalties on 11 January 2017. Nonetheless, the company is still facing a number of lawsuits from shareholders, consumers and regulators and is still under investigation in the US and other jurisdictions. For 2017, the engagement will focus on encouraging the company to make changes to its internal controls, risk management and compliance systems and to address the ongoing governance issues, in particular the low level of independence of the Supervisory Board, Supervisory Board members' skills and experience and executive remuneration.



Volkswagen's headquarters in Germany

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 Bohusgatan 14
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www.folksam.se

Ilmarinen
 Porkkalankatu 1
 00018 Ilmarinen, Finland
www.ilmarinen.fi

KLP
 Dronning Eufemias Gate 10
 0191 Oslo, Norway
www.klp.no

GES
 Kungsgatan 35
 111 56 Stockholm, Sweden
www.ges-invest.com

COUNTRY

Panama

NORM AREA**RESPONSE & PROGRESS****INCIDENT**

AES Panama, a subsidiary of AES Corp., constructed and operates the Chan 75 hydroelectric dam on the Changuinola River in Panama. It was questionable if free, prior and informed consent was obtained, and resettlement and compensation processes with the indigenous Ngöbe people were handled poorly by the company. As a result, the UN Special Rapporteur on the rights of indigenous peoples publicly declared, in 2008, that human rights violations had occurred in connection with the project. The World Heritage Committee has also expressed concern over the project's potential impact on the World Heritage listed La Amistad National Park. However, in a 2016 report, it notes that impacts from Chan 75 in the local river system were measurable, but still limited. In 2014, the then Special Rapporteur on the rights of indigenous peoples concluded that most of the families affected by Chan 75 had reached agreements with the Panamanian government and with AES, the terms of which have been made public.

GOAL

Fulfillment of goal: AES has addressed critical issues related to the dam, in particular in relation to resettlements, agreements with indigenous peoples in the area and environmental impacts. International bodies have confirmed improvements. AES Panama has also strengthened its human rights due diligence processes.

THIS YEAR'S DEVELOPMENT

AES has confirmed that the company has agreements in place with all families in the communities directly affected by the operation. In September 2016, the Chan 75 director stated that the construction of the biological station for fish reproduction close to the hydropower dam was completed. In addition, the house constructions in the resettlement areas have almost been finalised. The few per cent remaining are under construction and their completion is regulated in an agreement between the Chan 75 management, community representatives and the Panamanian government. A 2016 field report on behalf of UNESCO noted that impacts from Chan 75 are measurable, but still limited. The report did not identify any current open conflicts, protests, strikes or claims, and states that although the mission, sent to the area on behalf of UNESCO, was given examples of dissatisfaction with the applied relocation scheme for affected people, no declaration of this was given by any directly affected family. AES Panama has also adopted a human rights policy as well as guidelines to respect indigenous peoples' rights.

COUNTRY

Sudan

NORM AREA**RESPONSE & PROGRESS****INCIDENT**

In August 2007, the UN Special Rapporteur of the Human Rights Council called upon companies involved in the Merowe Dam project in Sudan to halt the operations. The statement was made due to concerns over reports on human rights violations in connection with large-scale resettlements of 50,000 people. Among the companies listed in the UN statement was Alstom, which was the supplier of ten hydro-turbines and generators to the project. None of the companies followed the recommendation from the UN Special Rapporteur and the last unit of the hydropower dam began commercial operation in April 2010. The UN Human Rights Mission in Sudan has been denied access to the area. Alstom fulfilled its commitments to the project and left Sudan in 2014. The company has since stated that it does not intend to take on any new projects in Sudan until the international community is satisfied with the situation in the country.

GOAL

Fulfillment of goal: Alstom is no longer present in Sudan and has stated that it will not have any presence there until the international community is satisfied with the situation in the country. Alstom has strengthened its corporate human rights due diligence processes.

THIS YEAR'S DEVELOPMENT

Alstom is no longer present in Sudan. The company has also stated that it will not have any presence there until the international community is satisfied with the situation in the country. With regards to resettlements and compensation to local communities in the area, Alstom has referred to the operator of the Merowe hydropower operation, which in 2005 and 2007 informed stakeholders that the resettlement plan had been implemented and that all the affected people had been re-housed. This information is however not externally verified and the United Nations is not allowed into the area to report on the status of human rights. Alstom has strengthened its corporate human rights due diligence processes in general and its ESG risk assessment for hydropower operations in particular. Alstom's hydropower personnel and knowledge have been transferred to the joint venture formed with General Electric in late 2015.

COUNTRY

Papua New Guinea

NORM AREA**RESPONSE & PROGRESS****INCIDENT**

The Porgera and North Mara mines have contributed to a range of serious human rights problems in their respective communities. These relate to mine encroachment into local communities; pollution impacts; trespassing into the mine area by ore thieves resulting in violent (sometimes fatal) conflict with mine security guards; and sexual abuse of local women by mine site security guards. Barrick (Niugini) Ltd. is the 95 per cent owner of the Porgera Joint Venture and is the manager of the operation. Barrick Gold Corporation and Zijin Mining Group each own 50 per cent of Barrick (Niugini) Ltd. Barrick also has a 63,9 per cent stake in Acacia Mining Plc., which operates the North Mara mine in Tanzania. The reported practices can be associated to a violation of the UN Global Compact Principles 1 and 2 on human rights and corresponding Guideline IV of the OECD Guidelines for Multinational Enterprises, as well as Chapter II of the UN Guiding Principles on Business and Human Rights.

GOAL

Barrick should demonstrate that an effective remedy framework is in place to compensate women who were sexually abused by security personnel at Porgera. The company should also demonstrate compliance with the Voluntary Principles on Security and Human Rights. Policies and procedures should be aligned with international standards on resettlement and compensation.

THIS YEAR'S DEVELOPMENT

The company has taken measures to strengthen its grievance mechanism at the site, has reviewed its compensation scheme to the victims of sexual abuses, is piloting a new resettlement approach, has strengthened community engagement initiatives and has taken additional steps to implement the Voluntary Principles on Security and Human Rights.

COUNTRY

Papua New Guinea

NORM AREA**RESPONSE & PROGRESS****INCIDENT**

Barrick (Niugini) Ltd. is the 95 per cent owner of the Porgera Joint Venture and the operator of the Porgera mine. Barrick Gold Corporation and Zijin Mining Group each own 47.5 percent of Barrick (Niugini) Ltd. The mine is one of a few in the world that disposes of its process wastes (tailings) directly to a local river system; a practise which has an unacceptably high impact on the river environment. The discharge of tailings has lead to high levels of toxic metals and the depletion of wildlife in the Porgera River. It further poses an unnecessary risk to people dependent on the river, as well as Papua New Guinea's largest lake, Lake Murray. The Porgera mine is also linked to a suite of social problems and human rights abuses (refer GES case: Association to complicity in human rights abuses).

GOAL

Barrick should manage their tailings at Porgera responsibly and commit to remediating the impacted environment. Barrick should address the remediation required of the two erodible dumps to prevent sediment wash into the river, and address long-term potential legacy issues e.g. acid mine discharges.

THIS YEAR'S DEVELOPMENT

A review of water quality data, ecological and bioaccumulation studies indicate that there does not appear to be a significant risk of harm from contaminants to local people using the water from the river. In June 2016 Barrick revised their policy on riverine tailings disposal to "avoid riverine tailing disposal methods" on new projects in the future . In a December 2016 the company has confirmed that any mine-derived, over-bank sedimentation will be capped and vegetated but not removed, as part of the closure plan for the operation.

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 per cent, 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

BHP Billiton formalised the medium- and long-term remedial programmes in an agreement signed in March 2016. In August 2016, the Fundão dam technical review, into the causes of the dam collapse, was presented by BHP. The review highlighted a number of design and operational changes over a number of years, which led to the failure.

At a meeting in December 2016 BHP Billiton reported on a number of actions taken internally including: centralisation of its tailings management expertise; a change in governance on its non-operated JV projects bringing them under one management team and, the completion of an exhaustive risk assessment and tailings dam review, which also addressed the issues highlighted in the technical review.

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 replacing such workers to different locations, which is considered a strategy to undermine existing unions. The company was also alleged of reclassifying the employment status of some couriers into low-level management, without any change in their duties, to make them ineligible to join a union. In 2014, 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 on further anti-union practices. Additionally, in March 2016 a report was released containing allegations on 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

After being open and responsive since contact was established in 2015, dialogue with the company deteriorated during 2016 and at a conference call in April it got rather defensive, refuting all allegations and maintaining it respects freedom of association in all its operations. The company declined several invitations to a follow up call and a face-to-face meeting, but after sending a NEC-signed investor letter at the end of 2016 a meeting at the company headquarters in February 2017 was confirmed.

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 February 2014, the Nigerian House of Representatives voted that the federal government should cancel OPL 245, as the deal was contrary to the laws of Nigeria. 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.

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

According to a December 2015 press release published by Global Witness, new evidence from leaked internal emails between senior Eni and Shell 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. Eni responded to Global Witness by saying "we believe the interpretation in your letter is erroneous" while Shell did not respond to questions about the new evidence. During 2016, NEC had a call with a representative of Global Witness to gain a deeper insight into the legal investigations and proceedings relating to OPL 245. NEC also discussed various issues with Eni during a call, including the scope of its internal investigation, board oversight of anti-corruption controls, and the suspension of an independent director from the Control and Risk Committee. GES is seeking to arrange a call in early 2017 with a member of the compliance team to gather more information on the internal investigation and other topics.

COUNTRY

Western Sahara

NORM AREA



RESPONSE & PROGRESS



INCIDENT

According to Western Sahara Resource Watch (WSRW), Glencore PLC (Glencore) through its subsidiary, Glencore Exploration & Production (Morocco) Ltd, holds two oil exploration licences in Western Sahara, a non-self-governing territory occupied by Morocco. This was also confirmed by the company, publically disclosing information about its exploration activities at the Boujdour Offshore Shallow block, with a 38.25 per cent ownership since September 2013, and a participating interest of 18.75 per cent in the Fom Ognit Offshore licence since May 2014. In an opinion issued in 2002 by the UN Under-Secretary General for Legal Affairs, the exploration and exploitation of natural resources in non-self-governing territories, Western Sahara in particular, was declared illegal if conducted in disregard of the interests and wishes of the people.

GOAL

Glencore should demonstrate how its activities in Western Sahara are in line with the interests and wishes of Saharawis, in accordance with the right to self-determination stipulated in the International Covenant on Civil and Political Rights and International Covenant on Economic, Social and Cultural Rights. Should this not be possible, the company should withdraw from Western Sahara.

THIS YEAR'S DEVELOPMENT

Glencore has never demonstrated how its activities in Western Sahara align with international law and the interests and wishes of the Saharawi people. In early 2016, Glencore confirmed to GES that the company had commenced negotiations with ONHYM regarding the two licences located in Western Sahara. Due to these developments, NEC has decided to end the engagement with the company but continue to monitor the situation.

COUNTRY

Thailand

NORM AREA**RESPONSE & PROGRESS****INCIDENT**

In March 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.

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 calls in May and December 2016 Nestlé explained that, in cooperation with the Thai government and Thailand Shrimp Sustainable Supply Chain Task Force, a new management system that improves traceability 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 developed and launched a training programme for the port and boat workers. The first group 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. The Institute is now in the process of visiting the sites to implement 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.

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 February 2014, the Nigerian House of Representatives voted that the federal government should cancel OPL 245, as the deal was contrary to the laws of Nigeria. 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.

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

According to a December 2015 press release published by Global Witness, 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. Eni responded to Global Witness by saying "we believe the interpretation in your letter is erroneous" while Shell did not respond to questions about the new evidence. During 2016, NEC had a call with a representative of Global Witness to gain a deeper insight into the legal investigations and proceedings relating to OPL 245. We also had a call with Shell, during which the company disclosed that it is conducting an internal investigation (although it was reluctant to share details) and gave an insight into board oversight of projects. NEC is following up on this topic to evaluate whether board oversight needs to be strengthened.

COUNTRY

Nigeria

NORM AREA**RESPONSE & PROGRESS****INCIDENT**

Shell Petroleum Development Company of Nigeria Limited (SPDC- 30 per cent), a subsidiary of Royal Dutch Shell, operates onshore oilfields in the Niger Delta region of Nigeria on behalf of its joint venture partners; the Nigerian National Petroleum Corporation (55 per cent), Total S.A. (10 per cent) and Eni (5 per cent). 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). The 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 is regional in scale and UNEP estimates that clean-up will take 30 years and cost at least USD 1 billion. A range of recommendations have been made to oil companies and the Nigerian government.

GOAL

Shell should have a detailed program in place to address the recommendations of the UNEP's Environmental Impact 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's engagement with Shell has continued during 2016, including participation in the Annual Briefing for SRI Investors, attendance at an event on biodiversity and remediation and participation in a call with the company. One area of focus during the year was on encouraging the company to improve its disclosure on implementation of the UNEP report recommendations. To this end NEC prepared a detailed analysis of the recommendations, company reporting and any gaps in this information, and then shared it with the company. The dialogue covered a number of other topics also, including pipeline integrity, monitoring and responding to spills, as well as the company's collaborations with NGOs in the region, including Wetlands International and the International Union for the Conservation of Nature. NEC will maintain its focus on enhanced disclosure in 2017.

COUNTRY

Western Sahara

NORM AREA**RESPONSE & PROGRESS****INCIDENT**

In November 2012, Western Sahara Resource Watch (WSRW) reported that Total SA (Total) on behalf of the Moroccan state-owned oil company ONHYM (Office National des Hydrocarbures et des Mines) is engaged in exploration of a large block offshore the occupied Western Sahara. Total has confirmed that it signed a contract with ONHYM for a joint reconnaissance project in the Anzarane area in 2011, initially valid for one year but extended by a further year every December since then, until the company decided to withdraw from the block in December 2015. Total stresses that it was carrying out reconnaissance; not exploration or exploitation. By reconnaissance Total is believed to refer to the evaluation stage which sometimes precedes exploration for oil & gas but excludes drilling. In an opinion, issued in 2002, by the UN Under-Secretary General for Legal Affairs, exploration and exploitation of natural resources in non-self-governing territories, Western Sahara in particular, was declared illegal if conducted in disregard of the interests and wishes of the people.

GOAL

Total did not extend its reconnaissance contract expiring in December 2015 and has consequently entirely withdrawn from Western Sahara. The company has stated that it has no intention of returning to the territory in the foreseeable future.

THIS YEAR'S DEVELOPMENT

In January, Total confirmed to GES that it would not prolong its Anzarane authorization of reconnaissance contract. On the subsequent conference call in February, in which NEC participated, the company reassured investors that it will not return to Western Sahara in at least 5-10 years. Total also described the changes made in its risk assessment process for new projects since the contract with ONHYM was signed. In light of Total's withdrawal from the territory and its strengthened risk assessment, NEC decided to remove the company from its focus list.

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 passports of workers were reportedly confiscated. Construction workers were reportedly also threatened to stop them demanding better conditions. A preliminary investigation was launched in France following Sherpa's findings in Qatar. Vinci consistently denied the accusations and filed a defamation suit against Sherpa. Vinci asked BSR to conduct an audit at its operations in Qatar in October 2015. In February 2016, the company started working on addressing the gaps uncovered by the audit. As of September 2016, the company has drafted a new human rights guide applicable globally and has started working locally with its subsidiaries and subcontractors towards implementing the new guide.

GOAL

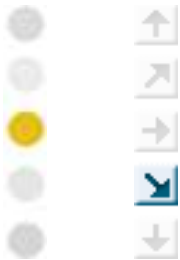
Vinci should adopt a human rights policy in line with the UN Global Compact and the basic ILO conventions on labour rights. The policy should cover the company's worldwide operations, including subsidiaries and subcontractors. In addition, the company should make sure it has the appropriate systems in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

THIS YEAR'S DEVELOPMENT

In 2016, Vinci acted upon the results of the Human Rights Impacts Assessment (HRIA) performed by BSR towards the end of 2015. Despite showing a good performance in general, the HRIA results showed that subcontractors' practices, in particular in relation to recruitment and the associated illegal recruitment fees, represent the most significant area of risk of negative impacts on workers' rights faced by Vinci. Therefore, the company has started working with recruitment agencies and the governments of migrants' countries of origin to ensure both a system free of illegal recruitment fees and a remediation process that will clear workers of their debt. Moreover, Vinci announced in September that it has drafted a new human rights guide that will be applicable to its operations worldwide, including to subcontractors. As of the end of 2016, the company was working locally with all its subcontractors on implementing the guide.

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 plead 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. The company has set aside EUR 18.4 billion to deal with costs related to the scandal. So far, the company has to pay approximately USD 21.5 billion in fines as a result of various US settlements.

GOAL

VW should ensure the Supervisory Board has the necessary skills and independence and ensure oversight of the company's risk and its management systems. Furthermore, VW needs to appoint a management board executive accountable for environment and consumer protection.

THIS YEAR'S DEVELOPMENT

GES has established an ongoing dialogue with the company, culminating in a meeting with Hans Dieter Pötsch, Chairman of Volkswagen, in June 2016. While the company is responsive to our questions, it has not communicated how it will address the major governance issues at the company or specific actions that it plans to take to change internal controls and risk management systems. GES believes that the company may be more willing to discuss these issues going forward since Volkswagen pled guilty to three criminal felony counts in the US and agreed to pay USB 2.8 billion in criminal and civil penalties on 11 January 2017.

Nonetheless, the company is still facing a number of lawsuits from shareholders, consumers and regulators and is still under investigation in the US and other jurisdictions. For 2017, the engagement will focus on encouraging the company to make changes to its internal controls, risk management and compliance systems and to address the ongoing governance issues, in particular the low level of independence of the Supervisory Board, Supervisory Board members' skills and experience and executive remuneration.