Nordic Engagement Cooperation

Annual Engagement Report, 2015

A collaborative engagement network between

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. Together we manage assets to a value of approximately EUR 132 billion as per the end of 2015.

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.

During the reporting year, NEC assessed and developed further the principles applied to select companies to collaboratively engage with and to decide when to end an engagement. According to its principles, 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. Engagement can also be initiated with an industry leader to develop best-practice within an industry. The collaboration strives to cover a broad range of issues focusing on non-Nordic companies, where at the beginning of the engagement all three NEC members have holdings in and the issue in question is material. Companies are selected based on:

- NEC's possibility to influence
- potential for NEC to gain in-depth understanding of an issues
- 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 3-year period. Although, if deemed relevant, the dialogue could be extended beyond that period.

ENGAGEMENT BRIEF

LONG-TERM COLLABORATIVE ENGAGEMENT TO ENHANCE SHAREHOLDER VALUE

During 2015, which was the seventh year of collaboration within the Nordic Engagement Cooperation (NEC), we added four new companies to the NEC focus list. The focus list comprises a list of companies that the NEC members have agreed to engage with in collaboration to achieve progress. NEC is an integrated part of the members' regular engagement work. Over the years, NEC has developed a joint understanding and a common platform for active ownership - a structured process to identify companies to engage with, and a set of tools used to reach long-term engagement objectives. Through NEC, the members pool their resources to engage with companies based outside of the Nordic region, for which joint action is often more effective than individual engagement. The NEC structure includes quarterly meetings, a clear delegation of responsibilities, and a secretariat that is responsible for the operational work.

All members of NEC invest with a long-term horizon. Hence, we have the opportunity to have a long-term dialogue with companies.

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.

Nordic Engagement Cooperation Focus list 2015

	Company	Global Compact Principle	Incident	Engagement period
	AES Corp		Association to violation of indigenous rights	2009* -
	Alstom		Association to complicity in human rights violations	2009* -
	Barrick Gold Corp		Association to environmental impact caused by mining project and to complicity in human rights abu	2009 -
	BP Plc		Association to fatal explosion and major oil spill	2010 - 2015
	Deutsche Post		Association to violation of international labour standards	2015 -
	Glencore		Association to illegal exploration of natural resources	2015** -
	Nestlé		Association to child labour	2013 -
	Royal Dutch Shell		Association to human rights violations and environmental damage	2013 -
	Total		Association to illegal exploration of natural resources	2015** -
	Transocean Ltd		Association to fatal explosion and major oil spill	2011 - 2015
	Western Sahara Theme		Companies active in Western Sahara and associated to illegal exploration of natural resources	2010 - 2015
	Vinci		Association to labour rights violation	2015 -
	Volkswagen		Association to 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.

HIGHLIGHTS FROM 2015

During 2015, NEC concluded two long-term engagement efforts with the companies BP and Transocean, following several years of dialogue. In addition, the thematic engagement focusing on companies active in Western Sahara and associated to illegal exploration of natural resources ended in 2015. NEC continued engaging with two companies, Total and Glencore, in relation to their activities in the region.

TRANSOCEAN

Transocean Ltd (Transocean) was the operator of the Deepwater Horizon oil rig leased by BP to drill the Macondo oil exploration well in the Gulf of Mexico. Over the course of a six-year engagement, Transocean has remained reluctant to discuss the issues relating to the Macondo blowout in greater detail, citing legal concerns. Despite these obstacles, however, information shared by the company and available through official channels indicate that Transocean is implementing adequate measures. Transocean published an incident report and a presentation on lessons learned to the US oil and gas regulator, and also reached a USD 1.4 billion settlement for social and environmental restoration. Most legal claims against Transocean relating to the Macondo incident were resolved under various settlements by the end of 2015.

Transocean admitted, albeit not immediately, that the company could have done more to prevent or limit the impacts of the Macondo blowout. The company committed to improving its Health, Safety and Environmental (HSE) management systems, and oil spill prevention and preparedness. As a result, Transocean launched new training intervention programmes, participated in industry initiatives to improve well control equipment, and created a new global environmental management system for its operations. There has also been a noticeable improvement in transparency, with more updates and documentation relating to HSE and risk management initiatives available on the company website.

Since Transocean is not willing to continue the dialogue, some outstanding gaps remain, in particular, those relating to progress in implementing the improved HSE management systems globally. Nevertheless, given the overall improvement in the company's performance, NEC has decided to close the engagement to focus on other more critical issues.

BP

BP Plc (BP) was the operator of the Macondo oil prospect in the Gulf of Mexico, which experienced the worst oil spill in US history in April 2010. NEC began engaging with BP shortly after the incident due to serious deficiencies in the company's contractor management and technologies for containing deep subsea blowouts. BP has made rather consistent improvements throughout the engagement process. In March 2015, NEC recognised that BP's environmental and safety performance had improved and matched that of peer companies. NEC was also able to verify BP's comprehensive improvements across a range of sustainability areas and therefore, decided to close the engagement.

A timeline of NEC's engagement with BP is provided below:

- **First NEC conference call in June 2010** – BP was in the early stages of investigation and cautious about answering questions. Main shortfalls identified related to contractor management and technologies for containing deep subsea blowouts.

- **NEC met with BP in January 2011** to discuss progress since the Macondo incident.

- **NEC participated in an investor conference with BP in October 2011** whereby BP’s Head of Safety presented an outline of the company’s planned and ongoing safety improvement work. The main element was the creation of a Safety and Operational Risk group within BP to oversee and audit all operations. NEC asked whether this responsibility would extend to onshore oil sands operations. The response was positive.

- **Second NEC conference call in February 2012.** The main new improvements made by BP related to greater senior management involvement in health and safety (H&S) issues, greatly increased recruitment of H&S experts to the operations and an international training program on BP’s Operational Management System (OMS).

- **Third NEC conference call in November 2012** with BP to discuss legal developments, and potential fines and financial impacts relating to Macondo, as well as an update on Norwegian offshore operations. NEC increased the company dialogue scope to include carbon emissions management and renewable energy. Specifically, BP had no real quantifiable targets within these areas at the time.

- **NEC participated in a meeting in December 2013** on post-Macondo risk and safety improvements. NEC asked the company why its injury frequency rates remained higher than those of peers. NEC also asked about an ongoing issue from 2006 regarding pipeline infrastructure spills in the onshore Alaskan North Slope.

- **NEC attended and asked questions at BP’s 2014 sustainability presentation** for responsible investors. Areas of interest to NEC included a new serious spill at an Indiana refinery, how carbon emission performance is factored into capital expenditure decision making, carbon stranded assets, carbon emissions management, artic oil extraction, human rights and Macondo.

- **Fourth NEC conference call in September 2014.** NEC discussed the above-mentioned issues further, in addition to risks associated with BP’s shareholding in Russia’s Rosneft oil company.

- **NEC attended an SRI videoconference with BP in March 2015.** BP confirmed its incident report recommendations were almost 100 per cent complete. The company’s HSE performance was now aligned with peer companies.

WESTERN SAHARA THEMATIC ENGAGEMENT

NEC's three-year thematic engagement program on Western Sahara, focusing on companies involved in exploring or extracting natural resources from the non-self-governing territory occupied by Morocco, came to an end in 2015. To conclude the project, NEC participated in a seminar in which the NGO Emmaus and Polisario Front each outlined their views on the conflict and objectives for the future. Separately, Kosmos Energy and the Norwegian fishing company, Sjøvik, provided their thoughts on how companies can manage the special risks and operate responsibly in a context like Western Sahara.

The key engagement goals for the thematic engagement program included ensuring that the companies both act consistent with the interests of the people of Western Sahara as well as to utilise their influence with the Moroccan authorities to promote human rights integration in all activities in the territory. Alternatively, the companies were encouraged to develop and implement a plan to end their import or extraction of natural resources from the territory.

With few exceptions, the Western Sahara engagement did not achieve these goals by the end of 2015. Nevertheless, the engagement reports measured progress biannually on five pre-set key performance indicators (KPIs) and showed some improvement. When comparing the KPI scores at the end of the project with the initial benchmark, it is clear that many companies have taken concrete steps on due diligence and risk management. Certain companies dramatically improved their KPI scores over the course of the engagement by becoming more transparent about their operations and recognising the necessary measures required in this unique context. Conversely, there were other companies for which both the dialogue and management response were so disappointing that they made no or very little progress over three years.

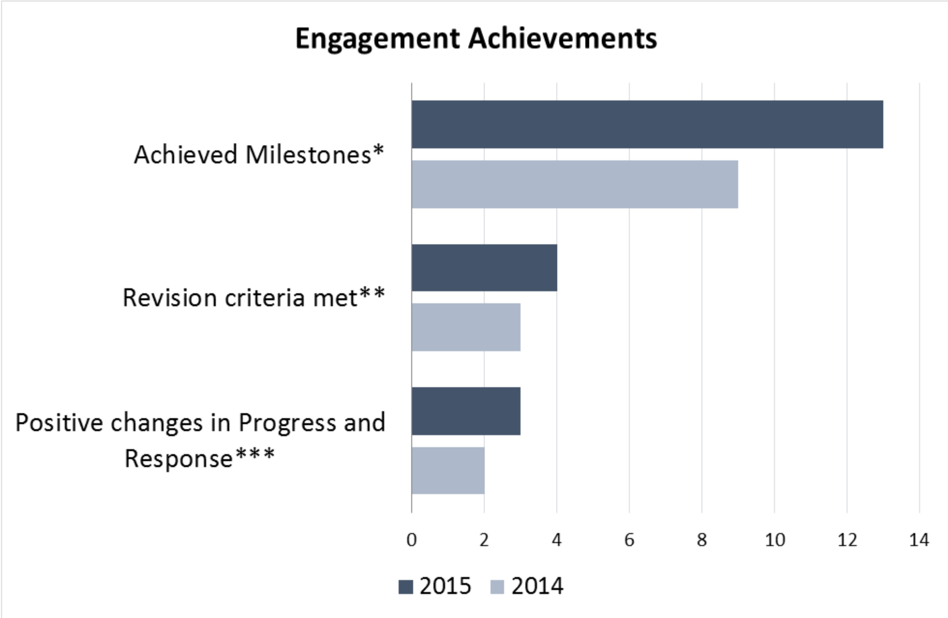
Companies were most likely to improve on the KPIs relating to internal policies and processes (human rights policy and expectations to supplier/business partners), while there was less progress on KPIs relating to Western Sahara specifically (local due diligence, stakeholder engagement, and engagement with the government). We can therefore conclude that the geo-political context of this territory makes it more difficult to implement concrete measures and/or that companies are more reluctant to push for improvements that might prove challenging for their relationship with Morocco.

TOTAL

Total is one of the companies that NEC has engaged with as part of the Western Sahara thematic engagement program following the company's contract with the Moroccan state-owned hydrocarbon company, Office National des Hydrocarbures et des Mines (ONHYM), for a joint reconnaissance project in the Anzarane area offshore from Western Sahara. When the thematic engagement program ended in June 2015, NEC decided to continue the dialogue with the company to ensure that its activities in Western Sahara would continue in line with international law as well as the interests and wishes of the Saharawi people. However, should this not be possible, NEC reiterated that the company should entirely withdraw from Western Sahara.

In December 2015, Total announced that its contract with ONYHM would not be renewed. On a subsequent conference call in February 2016, the company further underlined that it will not return to Western Sahara in the foreseeable future. Given these developments NEC has since decided to end its engagement with Total.

NEC ENGAGEMENT PROGRESS: 2015 IN NUMBERS

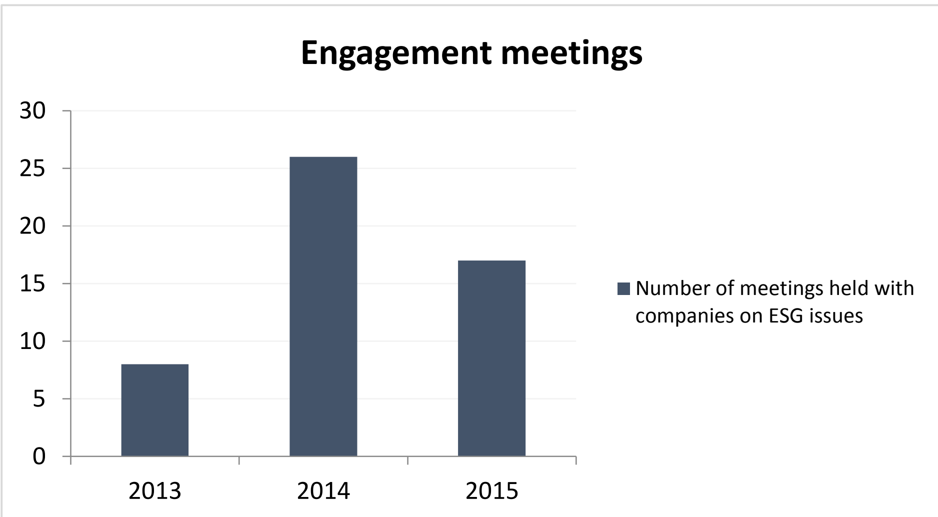


* An achievement (Milestone) by the company towards fulfilling the engagement objective.

** Predefined revision criteria a company should fulfil to satisfy the engagement process:

- The violation has ceased
- The company has adopted a responsible course of action
- The company has taken a proactive and precautionary approach to improve routines and prevent future violations.
- The company's action is verified.

*** How the company responds to engagement activities and how its work towards fulfilling the engagement objectives is progressing.



ONGOING PROJECTS AND COMPANY DIALOGUES

DEUTSCHE POST

NEC initiated a dialogue with Deutsche Post in 2015 due to various NGO allegations that the company's global subsidiaries violate freedom of association in relation to union representation. NEC has focused on the case in India, as the allegations in this case seem to be most severe. The company's subsidiary DHL has allegedly prevented the workforce from unionising by reclassifying their employees' job status.

The engagement objective is to ensure that the Deutsche Post Code of Conduct is observed throughout the company's global operations, including subsidiaries. The Code of Conduct refers specifically to freedom of association. The company should ensure compliance with the code and establish adequate processes and information channels to manage employee complaints.

During 2015, NEC participated in two conference calls with Deutsche Post. The company is open and responsive, although it refutes the allegations and maintains that Deutsche Post respects freedom of association in all of its operations. For 2016, NEC plans to establish more clarity on the nature of the job categorisation DHL uses in India and determine what specific measures Deutsche Post could take to address any deficiencies related to labour rights identified.

NESTLÉ

NEC began engaging with Nestlé in 2013 on the company's efforts to eliminate child labour from its cocoa supply chain. An estimated 70 per cent of the world's cocoa beans are produced in the countries of the Ivory Coast, Ghana, Nigeria and Cameroon. The beans are usually grown by small scale farmers, which frequently involve children, and are then passed through a complex supply chain.

NEC maintained an active dialogue with the company in 2015. Among other things, NEC signed an investor letter to the company, in collaboration with several additional institutional investors. The letter asked for further measures within three focus areas: farmer income, access to school and the rollout of child labour monitoring and remediation systems. Nestlé responded to the letter in a meeting with the investor group. Nestlé has continued to make improvements during 2015, most importantly:

- One of Nestlé's brands, KitKat, will only use sustainably sourced cocoa in all of its products as of 2016. The initiative is part of Nestlé's commitment to source 150,000 tonnes of sustainably produced cocoa by 2017 via the company's farmer livelihood programme, the Nestlé Cocoa Plan (NCP).
- By the end of 2015, Nestlé purchased 25 per cent of their total cocoa procurement from farmers involved in the NCP. Child labour monitoring and remediation systems will be in place in all cocoa communities reached by the NCP in 2016.
- Nestlé constructed 40 schools in the Ivory Coast between 2012 and 2015, to improve access to school and address child labour among cocoa farmers.
- Nestlé is an active member in two organisations working to address the issue of child labour and to improve livelihoods among cocoa farmers: the International Cocoa Initiative (ICI) and CocoaAction. Both the organisations reported progress in 2015.
- Nestlé pledged to pilot a new reporting framework on the United Nations Guiding Principles on Business and Human Rights as part of its efforts to manage human rights across its operations.

Although Nestlé reported steady progress in combating child labour in West Africa in 2015, existing initiatives on access to school and the rollout of child labour monitoring and remediation systems should be scaled up. Farmer programmes and other interventions have also not yet translated into actual increases in farmer incomes. NEC will continue to engage with Nestlé on the above mentioned issues during 2016, together with the larger investor group.

VINCI

During 2015, NEC added the French construction company Vinci to its focus list of engagements. The company is reportedly associated to several labour rights violations involving migrant workers at the company's joint venture operations in Qatar.

A dialogue was established with Vinci with the objective of ensuring that the company's policies and practices are in line with the relevant ILO conventions on labour rights, encompassing such issues as wages, working hours, health and safety, housing conditions, agency fees to obtain a contract, and passport access. Vinci should ensure that it respects these rights in all of the company's operations, including those in Qatar.

In October 2015, Vinci conducted a Human Rights Impact Assessment (HRIA) of its operations in Qatar and shared the results with NEC. During 2016, the focus of NEC's engagement will be to ensure the identified gaps, mostly related to recruitment practices and living/working conditions at subcontractors, are addressed.

VOLKSWAGEN

NEC added Volkswagen to its focus list of engagements 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.

The company is responding to the dialogue, but has so far not communicated how it will address the major governance issues. For 2016, the engagement will focus on establishing contact with the Supervisory Board to discuss the company's ongoing governance issues and ensuring that the Supervisory Board has the skills and independence to provide robust oversight of the company as a whole and in particular its risk management and compliance systems.

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AES CORP

SECTOR: Independent Power Producers...
HEAD OFFICE: United States

COUNTRY

Panama

NORM AREA

RESPONSE & PROGRESS

INCIDENT

AES Panama (AES), a subsidiary of AES Corp., constructed and operates the Chan 75 hydroelectric dam on the Changuinola River in Panama. Free and informed prior consent, resettlement and compensation processes with the indigenous Ngöbe people were handled poorly by the company, resulting in the UN Special Rapporteur on the situation of human rights and fundamental freedoms of indigenous people to publicly declare that human rights violations had occurred in connection with the project. Several of these issues remain unresolved today. The World Heritage Committee has also expressed concern over the project's potential impact on the World Heritage listed La Amistad National Park.

GOAL

AES shall demonstrate and implement a plan for how to, within its sphere of influence, ensure the respect of the rights of the indigenous communities in its operations and that mitigation measures are taken to protect biological diversity. Moreover, the company should adopt a human rights policy in line with international norms.

THIS YEAR'S DEVELOPMENT

NEC has continued to engage AES on corporate human rights due diligence during 2015. The company has generally been poor in responding and it was not until the end of the year that it agreed to a follow-up conference call with NEC and other investors. Progress was communicated by the company on social and environmental mitigation measures at its Changuinola hydropower operation in Panama. There are however still delays in the completion of such measures. In the continued engagement with the company, corporate human rights due diligence will be discussed again.

ALSTOM

SECTOR: Electrical Equipment
HEAD OFFICE: France

COUNTRY

Sudan

NORM AREA

RESPONSE & PROGRESS

INCIDENT

In August 2007, a UN Special Rapporteur from 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 resettlements. Among the companies is Alstom, which is the main supplier of electrical equipment to the project. None of the companies have followed the recommendation from the UN Special Rapporteur.

GOAL

Alstom should provide information about the resettlement of the affected communities and their compensation. The company should also describe how it has cooperated with its business partner(s) and stakeholders in the remediation of human rights impacts.

Alstom should in its policies and programmes demonstrate that human rights due diligence is applied to all aspects of its operations, including actively communicating its policy commitments to all entities with which they have contractual relationships.

THIS YEAR'S DEVELOPMENT

NEC has engaged with the company during 2015 to strengthen its human rights due diligence and to make sure the company's previous ESG-efforts relating to hydropower projects are transferred to the new joint-venture formed in 2015 with GE, where GE is the operator. Alstom has reported that a code of conduct is in place with references to the Declaration of Human Rights and ILO Core Conventions, as well as the UN Guiding Principles on Business and Human Rights. The company's suppliers are also expected to be aligned with such international norms. Alstom conducts a CSR risk mapping of its suppliers annually. Further assessments and action plans are conducted for high risk suppliers.

BARRICK GOLD CORP

SECTOR: Metals & Mining
HEAD OFFICE: Canada

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 50 per cent 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). The reported practices can be associated to a violation of the UN Global Compact Principles 7 and 9 on environment and the corresponding Guideline VI of the OECD Guidelines for Multinational Enterprises.

GOAL

Barrick Gold should implement internationally accepted standards for tailings management at Porgea and commit to remediating the rivers and catchments impacted by riverine tailings deposition. The company should strengthen policy on mine wastes.

THIS YEAR'S DEVELOPMENT

During 2015, NEC sent a letter to Barrick's CSR Advisory Board encouraging it to discuss social and environmental issues at the Porgera mine in Papua New Guinea. The Advisory Board eventually did so, but no conclusions were shared from the discussions. A call was held with the company to discuss how the new joint venture partner at Porgera, Zijin Mining Corp, would affect ESG-governance at the site. The engagement with Barrick towards the end of the year focused on the remedy system for cases of sexual abuse by security personnel at Porgera. Harvard and Columbia law schools published a critical review of the remedy system and a consultant hired by Barrick was about to complete another review on the same matter. The engagement continues with Barrick on potential improvements by the company, following the reviews.

BARRICK GOLD CORP

SECTOR: Metals & Mining
HEAD OFFICE: Canada

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.

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 aligned with international standards on resettlement and compensation, such as the IFC Performance Standards, should be introduced. Moreover, the company should also develop a stakeholder engagement strategy at Porgera with the objective to reduce violence and instead promote dialogue and local economic development. Finally, a grievance mechanism should be established, accessible for community members to post any kind of complaint in relation to the Porgera operations.’

THIS YEAR'S DEVELOPMENT

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BP PLC

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

COUNTRY

United States

NORM AREA

RESPONSE & PROGRESS

INCIDENT

BP Plc (BP) is the operator of the Macondo oil prospect in the Gulf of Mexico. In April 2010, a well blowout resulted in the loss of 11 lives and the discharge of millions of barrels of oil into the sea. The environmental and economic impacts to the Gulf coast were serious and may be ongoing for decades. As the operator, BP was responsible for the safe design and execution of the project, and for stopping the flow of oil in the event of a blowout. The cause of the blowout was attributed to the breaching of multiple barriers and human errors. BP was furthermore not in possession of sufficient technology for quickly stopping the oil flow. Since the incident BP has undertaken significant work to address its safety and risk management system deficiencies, and has implemented improved standards for drilling.

GOAL

BP should ensure remediation of the environmental and social impacts of the Gulf of Mexico spill, and achieve significant improvements in risk and safety management within the company. The company should also ensure that it has sufficient technology for bringing well blowout situations rapidly under control.

THIS YEAR'S DEVELOPMENT

In March 2015, NEC attended a SRI videoconference with BP where it was communicated that BP's incident report recommendations was almost 100 per cent complete, and the company's HSE performance now aligns with peer companies. NEC was able to verify that comprehensive improvements across a range of sustainability areas at BP have taken place, deciding to therefore resolve the case and cease the engagement dialogue. In April 2015, BP also supported a shareholder resolution on carbon emissions transparency, committing to publishing more information on: the effects of a carbon price on hydrocarbon reserves; investments in low-carbon technology; carbon dioxide emissions from operations; the linking of executive pay to carbon emissions reduction; and climate change lobbying. The company however holds firm against setting carbon emissions and renewable energy production targets. After paying additional fines in June 2015, total cost of the Macondo incident for BP is USD 52 billion.

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 replacing such workers to different locations, 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. Prior to that, between 2010 and 2012, the company was accused of international labour laws violations at its subsidiaries in countries such as 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 further anti-union practices. Additionally, there was a labour dispute between the company and the Verdi union regarding wages and outsourcing issues in Germany, which was settled in July 2015.

GOAL

The company should ensure that its Code of Conduct is observed throughout its global operations, including subsidiaries. This refers to the Code of Conduct generally and freedom of association specifically. The company should ensure it has accurate processes and information channels in place 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

NEC added Deutsche Post to its engagement focus list in 2015, due to various allegations of the company's global subsidiaries violating the freedom of association. The situation in India seems to be most severe at this point, where the company's subsidiary DHL has allegedly re-classified employees, to separate the workforce and prevent it from being unionised. Two conference calls were held with Deutsche Post during the year, and the company is open and responsive although it does not acknowledge the alleged criticism.

GLENCORE PLC

SECTOR: Metals & Mining
HEAD OFFICE: United Kingdom

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 Foum 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 it ensures that its activities in Western Sahara will continue in line with international law as well as the interests and wishes of the Saharawi people, in accordance with the right to self-determination stipulated in the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights. Should this not be possible, the company should entirely withdraw from Western Sahara. Glencore should ensure that the information about its Western Sahara operations is presented transparently through official channels such as the company's website. Glencore should demonstrate that human rights due diligence and adhering to international norms are applied to all aspects of its Western Sahara operations, in particular those regarding stakeholders engagement.

THIS YEAR'S DEVELOPMENT

Glencore retains its presence in Western Sahara through the ownership in two offshore oil exploration licences. Although the company was a poor responder to our information requests for the major part of 2015, a conference call took place in December, and Glencore shared updates on the progress of its activities in the Foum Ognit and Cap Boujdour blocks. The results of the December 2014 seismic studies were in the early stages of processing and reviewing at that time, and there were no specific plans neither to pursue other exploration undertakings nor exit the area. In terms of adhering to international norms, Glencore’s position remains unchanged and the 2002 UN General Counsel opinion is still cited as the basis of considering exploration of natural resources in Western Sahara as legal. Regarding moving from exploration to exploitation at some point in the future, such actions will then fall under Glencore’s Code of Conduct as well as its other policies, and all necessary steps and consultations will be conducted. At the current stage, Glencore states it is far too early to consider such actions relevant.

NESTLE SA

SECTOR: Food Products
HEAD OFFICE: Switzerland

COUNTRY

Ghana

NORM AREA

RESPONSE & PROGRESS

INCIDENT

The cocoa industry has been criticised for its association to child labour in its supply chain for more than ten years with a particular exposure in the Ivory Coast, Ghana, Nigeria and Cameroon. According to the Tropical Commodity Coalition, a coalition of Dutch NGOs, 70 per cent of the world’s cocoa beans are produced in these countries. The beans are usually grown on small scale farms and are then passed through a complex supply chain. Due to this very fact most of the major players claim it is difficult to properly control the supply chain. The US Department of Labor included cocoa from several countries in West Africa on a list of goods believed to be produced by forced or indentured child labour.

GOAL

Nestlé should show that its farmer programmes and other initiatives are effective in increasing income for cocoa farmers, improving access to school for children in cocoa communities and strengthening child labour remediation systems. The company should increase such efforts to reach more farmers and should be ready to discuss and disclose future plans for further scale-up.

THIS YEAR'S DEVELOPMENT

During 2015, NEC has focused its engagement with Nestlé on three main topics: farmer income, access to school and the roll-out of child labour monitoring and remediation systems in cocoa communities in West Africa. A letter was sent to Nestlé by NEC, together with a number of other investors, requesting increased efforts on the just mentioned topics. Nestlé continues to scale-up its programme for cocoa farmers in West Africa, which includes the roll-out of child labour monitoring and remediation systems and improved access to school for children in cocoa communities. Farmers are also trained in productivity raising farmer practices which to some extent might increase their income. Nestlé however lacks more targeted work on the issue. NEC will continue engaging with Nestlé together with a larger group of investors. Thus, reporting from such efforts will not be presented in this format for 2016.

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 (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

Since the release of the United Nations Environment Program's Environmental Impact of Ogoniland report in 2011, Shell has been working to address the report's recommendations and remediate oil spill sites. The environmental situation in this part of Nigeria's Niger Delta remains serious however, with a large number of highly oil contaminated areas still requiring clean-up. Intervention by state actors and other oil companies is also required for effective remediation of the entire region to take place, but Shell must also speed up its own efforts. NEC's engagement with Shell has continued during 2015, including participation in the Annual Briefing for SRI Investors in April, and conference calls in June and December. The company has made some encouraging high-level statements, but displays a reluctance to make specific commitments. Shell has expressed a general policy of responding swiftly to spills, but attributed instances of inaction to security concerns and would not speculate on specific timeframes. Similarly, the company professed a significant amount of engagement with state representatives in relation to the remediation process, but has not confirmed whether it has met directly with the new Nigerian government. In addition, Shell advised that its due diligence process relating to buyers of oil blocks takes into account sustainability considerations, but was unwilling to comment on specific contracts. NEC is preparing a detailed assessment of gaps in disclosure and will communicate the results of this analysis to the company.

TOTAL SA

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

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 should demonstrate how it ensures that its activities in Western Sahara will continue in line with international law as well as the interests and wishes of the Saharawi people, in accordance with the right to self-determination stipulated in the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights. Should this not be possible, the company should entirely withdraw from Western Sahara.

THIS YEAR'S DEVELOPMENT

On a conference call in early 2015, NEC cooperated with GES and a number of other investors to send a strong signal to Total that there was significant investor concern relating to the company’s involvement in Western Sahara. The key message was that it would be unacceptable for Total to use the year-by-year contract extension practice as an excuse for taking no ESG measures in the territory in the meantime. The Anzarane project operationally inactive throughout 2015 and in December reports surfaced that Total would not be renewing its contract on the block.

TRANSOCEAN LTD

SECTOR: Energy Equipment & Services
HEAD OFFICE: United States

COUNTRY

United States

NORM AREA

RESPONSE & PROGRESS

INCIDENT

Transocean Ltd (Transocean) was the operator of the Deepwater Horizon oil rig leased by BP to drill the Macondo oil exploration well in the Gulf of Mexico. In April 2010, a well blowout resulted in the loss of 11 lives and the discharge of large quantities of oil into the sea. The environmental and economic impacts to the Gulf coast were serious and may be ongoing for decades. The failure of critical equipment, such as the rig's blowout preventer, and drilling and completion procedures, which were the responsibility of Transocean, contributed to the incident. Since this time Transocean has initiated improvements to the company's HSE management systems and has not experienced further serious incidents.

GOAL

To ensure that Transocean takes its share of responsibility for the Macondo incident, demonstrates that it has fully integrated the relevant lessons by improving HSE standards and culture. Serious consideration should be given to commencing annual sustainability reporting and HSE due diligence on customer projects.

THIS YEAR'S DEVELOPMENT

Transocean has remained a poor responder to information requests, however, information published on the company website shows positive developments with regards to HSE and risk management. During 2015 NEC decided to remove Transocean from the engagement focus list due to the actions and improvements by the company. Following the creation of a public website dedicated to the Consent Compliance Decree, a post-Macondo legal agreement with US authorities, and publication of the performance plan, Transocean continuously update the website with documents in compliance with the agreement. Additionally, during 2015, most claims against Transocean relating to the Macondo incident have been resolved under various settlements. This includes a confidential agreement with BP which resolves all litigation and claims related to Macondo between BP and Transocean.

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 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 has asked BSR to conduct an audit at its operations in Qatar in October 2015.

GOAL

Vinci has to ensure that its policies and practices are in line with the basic ILO conventions on labour rights and that these specifically are respected at its operations in Qatar.

THIS YEAR'S DEVELOPMENT

After an initial poor level of response from Vinci in the beginning of 2015, the company agreed to join a teleconference in September 2015. The company denied the labour rights violations accusations brought by Sherpa and mentioned that it has initiated a defamation suit against the NGO. In connection with the situation in Qatar, Vinci mentioned that it has ordered BSR (Business for Social Responsibility) a HRIA (Human Rights Impact Assessment). The results of the HRIA were shared with GES and NEC in December 2015. BSR noted that Vinci has a good level of preparedness on mitigating the risks of adverse human rights impacts on employees and subcontracted workers, given the challenging Qatari context. Yet, it showed that subcontractors' practices, in particular in relation to recruitment, represent the most significant area of risk of negative impacts on workers' rights faced by Vinci. Further engagement will focus on Vinci addressing the gaps revealed by BSR's HRIA and on publishing a human rights policy to cover its worldwide operations, including subcontractors.

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 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. Volkswagen admitted to the wrongdoing and stated it is cooperating with an investigation led by the EPA. The agency ordered a recall of over 480,000 cars produced in the years 2009-2015 and the company could face up to USD 18 billion in civil penalties. The company hired Jones Day, one of the US' largest law firms, to conduct a review of how defeat devices ended up in the cars sold in the US. Volkswagen announced end September 2015 that it will refit 11 million cars. The company has set aside 6.5 billion euros to deal with costs related to the scandal. In November 2015, several engineers at Volkswagen admitted to having manipulated carbon dioxide emissions data of about 800,000 vehicles sold in Europe.

GOAL

VW needs to 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

The company has only responded through its IR department, but has not addressed the major governance issues. NEC asked the company’s IR for a meeting, to which the company has not responded to. GES has learned the company met with several of its largest shareholders in Frankfurt and London.