

GLENCORE

17 December 2020

Dear user of MSCI assessments and rating reports

Our commitment to operating in a transparent and responsible manner reflects our ambition to integrate sustainability throughout our business. Our sustainability strategy establishes and progresses good and consistent business practices and standards with supporting policies and procedures. Through an approach of continuous improvement, we strive to become a better operator with a reputation for doing things the right way.

We are committed to reporting on our performance, and to engaging with our stakeholders to understand their concerns. We recognise the value of objective benchmarking of our performance against peers, and support efforts by ESG rating agencies to do so. We do this by providing detailed, thoughtful responses to queries by the rating agencies, and by reviewing their assessments when made available to us.

Building on this philosophy, we have made numerous attempts to engage with the MSCI analyst team to understand their methodology, and to provide relevant information so it can be accurately reflected in the assessment. We have not been successful in our attempts, and are writing to you to alert you to our concerns.

Glencore commitment to transparency

In 2010, Glencore published its first sustainability report. Since then, we have provided detailed updates on our approach, progress and performance across the broad range of environmental, social and governance (ESG) topics. In 2020, we published:

- Annual sustainability report
- ESG data book reporting on indicators relevant to the Global Reporting Initiative, the International Council on Metals and Mining's Principles and the United Nations Global Compact's Principles
- Standalone climate change, human rights and water reports
- Payments to government report that aligns with Chapter 10 of the EU Accounting Directive
- Modern Slavery Statement
- Review on our industry organisations' positions on climate change
- Communication on our progress against the United Nations Global Compact's Principles

Engaging with MSCI

A large number of our investors, analysts and banks use MSCI, one of the leading ESG rating agencies. We recognise the value of a third party assessment on a company's ESG issues, and the reliance placed on such assessments by many of our stakeholders.

Glencore has engaged with MSCI for a number of years, reviewing and providing feedback on their assessment of our activities and performance. As very few of our comments are

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included in MSCI's final assessment, which in turn leads to some of our stakeholders raising questions, we initiated a detailed review of MSCI's rating analysis on Glencore.

MSCI states that it applies a rules-based methodology. However, the nature of ESG analysis means that it applies this with a significant degree of subjectivity. This leads to substantial variations in its application and, as a consequence, inconsistencies in the ratings outcomes for different companies.

Our close engagement with MSCI over the past year, has led us to conclude that it is difficult to change the conclusions of an analyst team who take a 'guilty-first' approach and prioritise unfounded NGO allegations reported in media articles over the data and information that we provide.

We have set out below some of the areas where we have provided MSCI with substantial information, and in return received little if any feedback and no movement on their conclusions:

- **Concern 1: lack of transparency in application of methodology**

MSCI's methodology identifies relevant ESG risks for each metals and mining sector, known as "Key Issues". MSCI calculates a "Key Issue Score" from combining an "Exposure Score", which reflects a company's exposure to a risk and a "Management Score" that is based on the company's strategy, programmes, policies and initiatives to mitigate and manage the risk.

To score well on a Key Issue, management needs to be commensurate with the level of exposure: a company with high exposure must also have very strong management, whereas a company with limited exposure can have a more modest approach.

In company's profiles, MSCI details the elements it has considered for the both the Exposure and Management Scores and provides companies with the opportunity to review and comment. Companies can provide MSCI with additional information via its Issuer Communications Portal to correct outdated or incorrect information and to support MSCI's analysis.

Glencore has provided significant additional information across all MSCI's Key Issues. In the areas of health & safety and biodiversity & land use, MSCI accepted a lot of the information we submitted, but did not improve our management score, or provide an explanation as to how they had reached their conclusion. For other risks, we note that we also receive low scores, despite MSCI recognising Glencore as adopting industry-leading practices.

- **Concern 2: use of media articles rather than company provided evidence to assess impact of 'controversies'**

MSCI defines 'controversies' as "an instance or ongoing situation in which company operations and/or products allegedly have a negative environmental, social, and/or governance impact." Within Glencore's assessment, there are a number of controversies where MSCI's assessment reflects media articles based on unfounded NGO allegations and ignores data and information we provided.

For example, Glencore's assessment includes an allegation made against the Cerrejón coal mine in Colombia, an independently-operated asset that is jointly owned by Anglo

American, BHP and Glencore. MSCI concludes that Cerrejón's water use is a "Severe" controversy, due to NGO's claiming local communities were unable to access drinking water as a result of mining activities.

Glencore has contested this assessment for a number of years. A severe drought affected the region for a number of years, ending in 2017. Throughout the drought and beyond, Cerrejón provided drinking water infrastructure for the local communities. Of the water used in Cerrejón's operational processes, 89% comes from its own mining water, that is runoff water collected in the mine during rainfall and water from coal seam dewatering. The remaining 11% is freshwater withdrawn from the Ranchería River and used for consumption by workers, their families, and for delivery to the communities neighbouring Cerrejón's operations.

Cerrejón withdraws water from the Ranchería River, in compliance with permits granted by the regional authority. Of the total water withdrawn from the Ranchería River, Cerrejón accounts for less than 2%, with nearly 6% extracted for use by community households and over 90% for agricultural activities.

Despite repeated requests, MSCI has failed to explain why it considers water use at Cerrejón to be a 'severe' controversy.

- **Concern 3: historical controversies continuing to impact rating despite being concluded**
When calculating a final Management Score for a particular risk, MSCI deducts 'points' for controversies occurring within the previous three years. If a controversy is deemed "concluded", that is absent of any fresh allegations, it lessens in severity over time, moving each year down a grade from their originally assessed severity (either very severe, severe, moderate or minor) until it has no impact on the management score. However, non-concluded scores, continue at their original assessed severity for years.

During 2020, Glencore provided MSCI with detailed explanations on 33 such cases classified as "ongoing". In a number of cases, either the initial controversy was an unsubstantiated allegation subsequently disproved, or the nature of the case meant it had concluded, for example an isolated industrial dispute.

In several cases, the events occurred a number of years ago. An example is a controversy relating to our McArthur River Mine in Australia, where in 2014 Glencore directly responded to environmental allegations. However, details remain categorised as 'ongoing' in MSCI's assessment and, as such, continue to sit on Glencore's report.

Another example is an alleged non-compliance of environmental regulations at our Tweefontein and Goedgevonden mines in South Africa in 2018. Despite Glencore providing information to show the lack of substantiation of these claims, MSCI continues to note them as being an 'ongoing' case.

- **Concern 4: methodology used for the Accounting & Governance Risk report**
Within the Key Issue Corporate Governance, there are four sub-scores, Board, Pay, Ownership and Control, and Accounting. For Accounting, the sub-score starts with a "perfect 10", with scoring deductions applied by assessing key metrics. These metrics are determined via an Accounting & Governance Risk (AGR) report. The AGR report seeks to identify companies that exhibit extreme values in their accounting and

governance metrics (top or bottom 20% of all values), that represent a heightened risk of aggressive accounting.

Glencore's AGR report contains a number of serious flaws, including the obvious one of not including the company within its appropriate comparator group (MSCI currently lists Glencore as "Oil/Gas Exploration/Production")! It also relies on an overly simplistic metric analysis, seemingly incapable of allowing and accounting for the hybrid nature of Glencore's business, and not recognising our material marketing operations.

This results in the incorrect identification of four "red flags" within the report, which leads to a significantly lower aggregate score.

- **Concern 5: 2020 change to methodology with no notification or explanation**

In November of each year, MSCI reviews the Key Issues assigned to each industry sector, as well as the weighting applied to each Key Issue. During its latest review, in the Governance pillar, MSCI replaced 'Corruption & Instability' with 'Corporate Behaviour', essentially broadening the scope of this Key Issue.

For the previous key issue, Corruption & Instability, MSCI assessed a company's risk exposure and management strategies for managing and mitigating the risk. It has taken a new and different approach. MSCI now assigns Corporate Behaviour with a "perfect 10", from which it deducts points for related controversies. Due to this change in methodology, and with no change in underlying circumstances, Glencore's score for this Key Issue went from 3.4 to 0.2 – with no explanation provided either to Glencore or to the reader of the assessment.

In conclusion

We are supportive of third party assessments of our ESG performance and approach to mitigating risk. We recognise the valuable independent perspectives they provide for interested stakeholders. However, we are concerned by the apparent inconsistent approach MSCI takes to applying its methodology, lack of appropriate flexibility in the accounting analysis, the lack of transparency in its conclusions and its dependency on unsubstantiated allegations. Its clients should question whether MSCI presents a balanced assessment of the facts.

Without greater transparency in areas such as management scores and controversy classification, it is difficult to see how these reports provide an objective assessment.

In particular, the lack of analytical rigour in the Governance section of the report should not be an excuse for incorrect identification of risk metrics and changes in methodology that materially alter underlying scores. This simply further undermines its usefulness.

Please contact us if you would like to discuss any of the issues we raise.

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