

EOS Case Study

October 2020

NetEase

NetEase published its inaugural ESG report in June 2020, covering material ESG topics including data privacy and protection, and GDPR compliance. EOS is pleased with its commitment to improve shareholder communication and continues to engage with the company on the wider ESG agenda.

Background

Since its initial public offering on NASDAQ in 2000, NetEase has not issued a separate sustainability report or attached such a report in its annual report, despite its existing ESG efforts since its launch in 1997. This was partly because there was no specific requirement from NASDAQ or the Securities and Exchange Commission on disclosures of these subjects and there was little attention paid to these matters until more recently.

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However, with increasing attention paid to ESG related issues by international investors, the company started to engage more with ESG focused stakeholders and began working on a more comprehensive ESG disclosure strategy. We are one of the first investor representatives to engage with NetEase on strategic ESG topics, providing input for the company to develop best practices and helping its preparation for ESG reporting. Given the company's exposure to numerous customer data through its gaming and e-commerce segments, as well as its increased exposure to non-Chinese users, especially from 2018 onwards, we were particularly concerned about the company's compliance with emerging data regulations. These include the General Data Protection Regulation (GDPR), which applies to any company that targets the European market or monitors European users' browsing activities.

Engagement objectives



Environmental:

Sustainability or ESG reporting



Governance: Data privacy and protection - GDPR compliance

Company overview

Founded by William Lei Ding in 1997, NetEase is a Chinese internet content provider listed on NASDAQ. It is one of the largest video game publishers in the world with more than 100 mobile games of various genres. NetEase develops and operates some of China's most popular PC-client and mobile games, online education services, music streaming business, advertising services, and e-mail services. It was secondary listed in Hong Kong in June 2020.

Sustainable Development Goals:



Our engagement

We started our engagement with the company in 2018 to discuss business strategy and ESG topics. We offered ideas to improve the company's communication on ESG to shareholders, and suggested publishing a sustainability report to describe key social and environmental impacts. We presented the company with ESG reporting practices from global technology companies. They included key topics of concern covering data privacy and security, human capital management, product governance, business ethics, and environmental performance, and best practice where available. We suggested in-house

production of the report to ensure quality, customisation that is fit for purpose and authenticity. In addition, we shared our views on various ESG frameworks and governance scoring methodology.

On data privacy and protection, we highlighted the financial materiality of the issue and the relevance of compliance with GDPR to NetEase, as breaches can result in fines up to 4% of annual global turnover or €20m, whichever is greater. We shared detailed information about GDPR and best practices related to GDPR compliance within the technology sector globally. We also discussed the GDPR checklist published by GDPR.EU. We encouraged the company to disclose its accountability and governance mechanism, including the team who is in charge for GDPR compliance, in its ESG report.

Changes at the company

Since we first raised our concern with the company in early 2018, NetEase has been enhancing internal capacity in improving the disclosure of its ESG related practices amid routine shareholder communications. NetEase has dedicated increased in-house resource to prepare for its first ESG report. In March 2020, NetEase improved shareholder communication by establishing a Twitter account, in addition to its routine communication with shareholders and ESG stakeholders. On 30 June 2020, the company published its first-ever ESG report. The report has captured material ESG topics recommended by us, investors, stakeholders, ESG professionals and some influential ESG rating agencies, such as human capital, privacy and data protection, cybersecurity, environment, and business ethics, among others.

The company acknowledges data privacy and protection as a fundamental human right within the ESG report. It details the grievance system for questions and comments about the company's privacy policy, practices, and matters regarding users' personal information. In addition, it explicitly references the applicable data protection frameworks to which it will comply in and outside of China, which include GDPR. Its preparation for GDPR compliance started prior to the law effective date in May 2018. Management and product, legal and IT teams are responsible for implementing a privacy impact assessment to identify any potential privacy or security issues with respect to new projects or services available in the EU. The company has also disclosed in the report that it has special customer service teams to respond to users' requests in relation to their data subject rights. For every product applicable, the company has a dedicated English GDPR web page.

Next steps

While its inaugural ESG report lays a good foundation for the reporting of material ESG topics including data privacy and protection, we further encourage it to disclose details about a privacy impact assessment in next year's ESG report, and how its different business units and mobile apps comply with China's new data privacy law. We will also continue to engage with the company on the wider ESG agenda. Topics include climate change, human capital management, board diversity, and board refreshment.



Janet Wong
Engagement
EOS

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Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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