

Most



Controversial



Companies



RepRisk Special Report

# **Most Controversial Companies (MCC) 2016**

# About RepRisk

RepRisk is a leading business intelligence provider, specializing in environmental, social, and governance (ESG) risk analytics and metrics.

Harnessing a proprietary, systematic framework that leverages cutting-edge technology and hands-on human intelligence in 15 languages, RepRisk curates and delivers dynamic risk information for an unlimited universe of companies.

Since 2006, RepRisk has built and continues to grow the most comprehensive ESG risk database that serves as a due diligence, research, and monitoring tool in risk management, compliance, investment management, corporate benchmarking, and supplier risk. The RepRisk ESG Risk Platform currently includes risk profiles for over 80,000 listed and non-listed companies, 20,000 projects, as well as for every sector and country in the world.

Headquartered in Zurich, Switzerland, RepRisk serves clients worldwide, including global banks, insurance providers, investment managers, and corporates, helping them to manage ESG and reputational risks in day-to-day business.

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# Foreword CEO



I am delighted to announce the release of our seventh edition of our Most Controversial Companies Report, which analyzes the activities of those companies that were most exposed to environmental, social, and governance (ESG) risks in 2016.

The report, compiled from RepRisk's ESG risk analytics, is based on information that is screened, analyzed, and quantified daily from a wide range of publicly available stakeholder and media sources.

The aim of the report is to highlight the incidents and sequence of events that can lead a company into unexpected incidents that threaten the viability of business operations. Such unforeseen crises can quickly ruin the business reputation that a company has established over the years, with serious financial and legal consequences for the entities concerned.

By providing an insight into the events that caused these companies to face a reputational crisis in 2016, we hope to raise awareness of the ESG risks that need to be addressed by global corporations, and encourage them to ensure that adequate internal and external risk management processes are in place to mitigate such occurrences.

**Philipp Aeby CEO, RepRisk AG**



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# Overview and Ranking

MCC 2016 ranking	Company name	Peak RRI in 2016	Sector	Country of headquarters
#1	1Malaysia Development Berhad (1MDB)	<b>97</b>	Financial Services	Malaysia
#2	Mossack Fonseca & Co	<b>89</b>	Support Services	Panama
#3	Samarco Mineração SA	<b>83</b>	Mining	Brazil
#4	Jiangsu Changlong Chemicals Co Ltd	<b>81</b>	Chemicals	China
#5	Daewoo Shipbuilding & Marine Engineering (DSME)	<b>80</b>	Industrial Engineering	South Korea
#5	Unaoil	<b>80</b>	Oil and Gas	Monaco
#7	Rizal Commercial Banking Corp (RCBC)	<b>79</b>	Banks	Philippines
#8	Lotte Group	<b>78</b>	General Industrials	South Korea
#9	Volkswagen AG	<b>76</b>	Automobiles and Parts	Germany
#10	Odebrecht SA	<b>74</b>	Construction and Materials	Brazil

# Overview and Ranking

**The companies ranked in RepRisk's Most Controversial Companies 2016 (MCC 2016) Report are headquartered in different locations around the world and stem from a range of sectors, including Financial Services, Industrial Engineering, and Mining.**

It is interesting to note that eight of the companies ranked in the report faced governance-related issues involving corruption and fraud, and only two were linked to environmental and social controversies.

Malaysia's sovereign wealth fund, 1Malaysia Development Berhad (1MDB), ranks as the most controversial company of 2016, as it was rocked by a corruption scandal involving Malaysia's Prime Minister, Najib Razak. Global investigators suspect that Prime Minister Razak used 1MDB to embezzle an estimated USD 1 billion.

The Panamanian law firm Mossack Fonseca & Co ranks as the second most controversial company in 2016, due to continued investigations into the "Panama Papers," a leak of more than 11.5 million financial records related to wealthy individuals and public officials, which exposed the company's use of secretive offshore companies to help their clients launder money, avoid taxes, and evade international sanctions.

Samarco Mineração, a Brazilian mining company, which ranked third on RepRisk's MCC 2015 Report due to the collapse of its tailings dam in November 2015, is ranked again in the MCC 2016 Report, as a result of criticisms and lawsuits related to its handling of the tragedy.

The Korean companies Daewoo Shipbuilding & Marine Engineering (DSME) Co Ltd and Lotte Group, as well as Monaco-based Unaoil, and Brazil's Odebrecht were all involved in corruption scandals throughout 2016. Rizal Commercial Banking Corp in the Philippines was linked to a USD multi-million international money-laundering scheme related to a cyber theft of almost USD 1 billion from accounts owned by the Central Bank of Bangladesh.

The Chinese company Jiangsu Changlong Chemicals Co Ltd was blamed for multiple incidents of poisoning among students at a school in Changzhou, after a November 2015 discovery that the company had secretly buried toxic waste at a former production site near the town.

Finally, Volkswagen is once again included in this year's MCC Report as throughout the year the company continued to face new allegations and lawsuits related to the emissions scandal that erupted in September 2015.

# #1 1Malaysia Development Berhad (1MDB)

**Sector:** Financial Services; **Headquarters:** Malaysia; **Peak RRI:** 97

Malaysia's sovereign wealth fund, 1Malaysia Development Berhad (1MDB), ranks first in RepRisk's Most Controversial Companies 2016 Report. The wealth fund, founded by Malaysian Prime Minister Najib Razak in 2009, came under scrutiny after it was revealed that the company had accumulated USD 11 billion in debts. As a consequence, 1MDB faced investigations from the authorities in Hong Kong, Malaysia, Singapore, Switzerland, the United Arab Emirates, and the US.

In March 2015, Transparency International Malaysia called for an investigation following allegations that an estimated USD 700 million had been laundered through a network of international companies and had ended up in the personal bank accounts of Prime Minister Razak. The US Federal Bureau of Investigation also began looking into connections between the regional chairman of Goldman Sachs and Prime Minister Razak, as the bank allegedly arranged three bond sales in 2012 and 2013 to help raise capital for 1MDB.

Federal prosecutors in Switzerland estimated that USD 4 billion had been misappropriated from 1MDB between 2009 and 2013, and admitted that Swiss banks had failed in their due diligence processes. In particular, Swiss prosecutors detected dubious transactions involving BSI Bank and Falcon Private Bank.

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## Most related companies: 1Malaysia Development Berhad

1. BSI SA
  2. Goldman Sachs Group Inc
  3. Falcon Private Bank Ltd
  3. International Petroleum Investment Company (IPIC)
  4. Red Granite Pictures
  5. PetroSaudi International Ltd
  5. Aabar Investments PJS
- 

In March, Extell Development's One57 Skyscraper in New York was linked to 1MDB's money laundering scandal after it was revealed that it had been partly funded by Aabar Investments, a subsidiary of Abu Dhabi's sovereign wealth fund, International Petroleum Investment Corp (IPIC). It was claimed that IPIC had guaranteed USD 6.5 billion in bonds for 1MDB.

In February, a Malaysian businessman, Mr. Jho Low, allegedly a close friend of Mr. Riza Aziz, Prime Minister Razak's stepson, was linked to the purchase of expensive properties and art works on behalf of Mr. Aziz. US and Malaysian investigators claimed that Mr. Low had provided funds for Mr. Aziz to set up a film company known as Red Granite Pictures, and that USD 155 million originating from 1MDB had been transferred to Red Granite Pictures in



# #1 1Malaysia Development Berhad (1MDB)

2012 through offshore shell companies. It was claimed that the production of the 2013 movie “The Wolf of Wall Street” had been financed with money diverted from 1MDB.

US investigators then linked the purchase of other US luxury properties by Mr. Aziz to money diverted from 1MDB. It was also reported that Prime Minister Razak had purchased a USD 33.6 million house in the UK under the name of Qantas Holdings using money from the 1MDB fund. It was then revealed that between 2011 and 2013, more than USD 1 billion had passed through accounts owned by Prime Minister Razak at AmBank in Malaysia.

By April, it was reported that 1MDB’s debts had reached USD 12.8 billion and that an estimated USD 6 billion had been embezzled from the company, a higher amount than previous estimates.

In July, the US Justice Department (DOJ) initiated moves to confiscate more than USD 1 billion in assets allegedly purchased with money stolen from 1MDB. The DOJ also began scrutinizing a loan of USD 107 million granted by Sotheby’s to Mr. Jho Low, following allegations that he had pledged 17 artworks valued at an estimated USD 258.3 million to secure it. Mr. Low had reportedly purchased most of his art through Tanore Finance, a company that had purchased artworks worth USD 137 million from Christie’s,

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## Top ESG Issues: 1Malaysia Development Berhad

1. Corruption, bribery, extortion and money laundering
2. Fraud
3. Impacts on ecosystems and landscapes
4. Tax optimization

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## Top ESG Topic Tags: 1Malaysia Development Berhad

1. Negligence

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which then suspiciously received money from Falcon Private Bank.

In October, the authorities in Singapore charged two former bankers at BSI Singapore with forgery and failure to report suspicious banking transactions involving 1MDB. They also revoked the merchant bank license of Falcon Bank and arrested its branch manager for violating anti-money laundering rules in connection with the 1MDB scandal.

Since the beginning of December 2016, Mr. Jho Low and his family have reportedly been attempting to stop the US Justice Department from seizing USD 650 million in assets, including an interest in EMI Music Publishing, believed to have been acquired with money stolen from 1MDB.

# #2 Mossack Fonseca & Co

**Sector:** Support Services; **Headquarters:** Panama; **Peak RRI:** 89

Throughout 2016, the Panamanian law firm Mossack Fonseca (MF) faced a swathe of accusations and lawsuits as a result of the Panama Papers, which had been leaked by an anonymous whistle blower to the German daily *Süddeutsche Zeitung* (SZ) in 2015. The 11.5 million documents gave details of more than 214,488 offshore entities allegedly set up by MF to help their clients avoid taxes and evade international sanctions. The International Consortium of Investigative Journalists (ICIJ) helped the SZ to analyze the papers and began releasing them to the general public on April 3, 2016.

The papers revealed that MF's clients included 72 former and current heads of state, dictators accused of plundering their own countries, companies suspected of terrorist activities, and secret offshore companies linked to former Egyptian President Hosni Mubarak, former Libyan leader Muammar Gaddafi, and Syrian President Bashar al-Assad. The papers also showed that Ukrainian President Petro Poroshenko had concealed his substantial financial assets by setting up offshore companies in countries such as Cyprus and the British Virgin Islands. Moreover, the leaked documents contained information about financial transactions carried out by wealthy individuals and public officials around the globe.

A US senator demanded an audit of 1,000 companies allegedly established by MF in Nevada, and a further 24 in Wyoming, claim-

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## Most related companies: Mossack Fonseca & Co

1. Credit Suisse Group
  1. UBS AG
  2. Federation Internationale de Football Association (FIFA)
  2. HSBC Holdings PLC
  3. Commerzbank
  3. Petroleo Brasileiro SA (Petrobras)
- 

ing that anonymous shell companies were often used to hide assets, evade taxes, and finance terrorism.

Members of the British Conservative Party were linked to GBP millions in tax avoidance, and Prime Minister David Cameron's attempt to leave behind a legacy of combating corruption was tarnished by the revelation that his father had also been a client of MF.

In Italy, the Panama Papers showed that companies such as Alitalia, Tome Advertising, Unicredit, and Unione di Banche Italiane, may have avoided taxes by creating offshore companies in countries including the British Virgin Islands, Luxembourg, Monaco, Panama, the Seychelles, and the US state of Delaware.

# #2 Mossack Fonseca & Co

The papers also revealed that MF had helped a former French minister to evade French taxes through Panama, the Samoan Islands, and the Seychelles, and had facilitated a fraudulent scheme that had financed the election campaigns of the French National Front.

MF's clients also reportedly included FIFA and UEFA officials, international football players, and other sporting personalities who used the firm's offshore companies to hide their assets.

The papers also linked a number of financial institutions including banks in Canada, Denmark, France, Germany, Spain, Sweden, and Switzerland, to money laundering and tax optimization through over 1,200 offshore companies.

The ICIJ alleged that MF had created shell companies to enable African government officials, and corrupt businessmen and companies, especially those from Kenya, Nigeria, Sierra Leone, and Zimbabwe, to evade taxes and hide bribe payments.

The papers also linked several companies operating in Africa's oil industry, including the Nigerian National Petroleum Corporation, the National Oil Company of the Congo, Northern Belt Gas, and Midwestern Oil to corruption, and suggested that Nigeria's former Minister of Petroleum Resources was involved in a USD 115 million bribery scheme.

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## Top ESG Issues: Mossack Fonseca & Co

1. Corruption, bribery, extortion and money laundering
  2. Tax evasion
  3. Tax optimization
  4. Fraud
  5. Human rights abuses and corporate complicity
- 

In South Africa the authorities began investigating Aurora Empowerment Systems, Caprikat, and Fidentia, after it was revealed that they were clients of MF.

The papers also showed that MF had business ties to companies facing sanctions imposed by the United Nations, the US, and European Union. Approvisionnement Congo Services, an arms brokerage group, allegedly funneled profits from mines in the Democratic Republic of the Congo (DRC) to President Robert Mugabe of Zimbabwe as payment for procuring military equipment that fueled DRC's civil war. MF was also allegedly the agent for a deal to sell BAE fighter jets to South Africa, a deal that the UK's Serious Fraud Office linked to bribes.

The documents also revealed that MF had helped politicians and billionaires in South

## #2 Mossack Fonseca & Co

America and the Caribbean to create offshore companies to hide their assets, and that Brazil's Petrobras had used a fictitious company in the British Virgin Islands, named Oil & Gas Capital Corp, to sell oil to foreign companies.

MF had apparently also helped the Cuban government to create several offshore companies to avoid the US embargo. By concealing its ownership of the companies, the Cuban authorities had been able to carry out foreign trade transactions in US dollars, import and export goods, and invest abroad.

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### Top ESG Topic Tags: Mossack Fonseca & Co

1. Automatic and semi-automatic weapons
  1. Negligence
- 

**The papers also linked a number of financial institutions including banks in Canada, Denmark, France, Germany, Spain, Sweden, and Switzerland, to money laundering and tax optimization through over 1,200 offshore companies.**

# #3 Samarco Mineração SA

**Sector:** Mining; **Headquarters:** Brazil; **Peak RRI:** 83

Samarco Mineração, a Brazilian company jointly owned by Vale SA and BHP Billiton, ranked third in the MCC 2015 Report due to the rupture of its Fundao Tailings Dam in Mariana, in the Brazilian state of Minas Gerais on November 5, 2015. The company is once again ranked in third position on the MCC 2016 Report, due to criticisms concerning the company's handling of the disaster.

The rupture of the Fundao Tailings Dam, part of the Germano Mining Complex, released 50 to 60 million cubic meters of toxic mud that buried communities and contaminated the whole of the Doce River valley. The accident, described by the Brazilian government as the country's worst environmental disaster, left 17 people dead and two missing.

In January 2016, the NGO Justica Global claimed that the rupture had affected roughly 3.2 million people, as the toxic sludge had swept away crops and livestock and contaminated water sources. The report also accused Vale and BHP Billiton of trying to exploit legal loopholes to avoid responsibility for the tragedy. Following the disaster, there were fears that Samarco Mineração's Germano and Santarem dams at the same complex could also collapse.

At the end of February 2016, Brazilian police charged Samarco Mineração's CEO and six others with manslaughter and endangering public health.

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## Top related companies: Samarco Mineração

1. Vale SA
2. BHP Billiton Group
3. Vogbr Recursos Hidricos e Geotecnia Ltd
4. Companhia Energetica de Minas Gerais (CEMIG)
5. Votorantim Participacoes SA (Votorantim Group)

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Brazil's Attorney General then filed a USD 5 billion civil lawsuit against Samarco Mineração, Vale, and BHP Billiton. The Federal Police also criticized Vogbr Recursos Hidricos e Geotecnia for a 2015 report that allegedly categorized the dam as "stable".

Samarco Mineração was also accused of ignoring warnings from its ground sensors prior to the November 2015 accident, amid claims that sensor alerts had reached "emergency levels" in 2014 and 2015. The following month, a court in the Brazilian state of Minas Gerais froze BRL 500 million (USD 155 million) in assets owned by Samarco Mineração, Vale, and BHP Billiton to compensate for environmental damage and loss of infrastructure.

In April 2016, the Public Ministry in Minas Gerais claimed that five million cubic meters

## #3 Samarco Mineração

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### Top ESG Issues: Samarco Mineração

1. Impacts on ecosystems and landscapes
  2. Impacts on local on communities
  3. Local pollution
  4. Waste issues
  5. Human rights abuses and corporate complicity
- 

of liquid waste had leaked from the Germano Mining Complex between January and February 2016, and ordered Samarco to stop the leak within five days or face a daily fine of BRL 1 million (USD 315,000). Prosecutors also claimed that a further 9.7 million cubic meters of waste were still stored at the Santarem Tailings Dam, which had partially ruptured during the 2015 accident.

In June, the public prosecutors in Minas Gerais filed three charges against Samarco Mineração, accusing the company of environmental crimes and falsifying documents when it applied for the environmental permit for the Fundao Tailings Dam. The Federal Police claimed that 28 percent of the tailings in the Fundao Dam originated from the activities of Vale SA.

Nine months after the original disaster, communities located along the Rio Doce River

were still accusing Samarco Mineração of failing to take action, claiming that the polluted water was poisoning cattle and causing allergies, rashes, and stomach cramps.

At the end of August, a technical report commissioned by BHP Billiton and Vale, concluded that there had been flaws in the dam's structural design, and that raising the dam's height to over 100 meters, which had increased the weight of the tailings water, had caused the breach.

In October, Brazilian prosecutors filed criminal charges against 21 people, including the former and current executives of Vale, BHP Billiton, and Samarco Mineração. The prosecutors alleged that although Vale, and BHP Billiton had been fully aware of the structural flaws in the Fundao Dam as early as 2009, they had put pressure on Samarco Mineração to increase iron ore production. One month later, a Brazilian Federal Court ordered Vale and BHP Billiton to deposit BRL 1.2 billion (USD 372 million) for future cleanup activities linked to the rupture of the dam.

In December 2016, public prosecutors filed a public civil action against Samarco Mineração, Vale, and BHP Billiton to force the companies to remove millions of tons of mining waste that had leaked from the dam. Data compiled by IBAMA, Brazil's Environmental Institute, showed that the rupture had deposited an estimated 32.4 million

## #3 Samarco Mineração

cubic meters of tailings material over the district of Mariana, that seven million cubic meters still remained along the Gualaxo do Norte River, and 25.4 million cubic meters remained in the Santarem basin. Prosecutors called on the courts to give the companies a deadline of five days to produce an emergency spill containment plan, and a deadline of 60 days to present a nature conservation plan for the affected areas.

Vale, BHP Billiton, and Samarco Mineração have faced investor lawsuits in the US, accusing the companies of making false and misleading statements about the precarious safety situation of Samarco Mineração's facilities in Minas Gerais. US bondholders have also sued Samarco Mineração on similar charges.

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### Top ESG Hot Topics: Samarco Mineração

1. Negligence
  2. Protected areas
  3. Indigenous people
  3. Water scarcity
  4. Coral reefs
- 

**In October, Brazilian prosecutors filed criminal charges against 21 people, including the former and current executives of Vale, BHP Billiton, and Samarco Mineração.**

# #4 Jiangsu Changlong Chemicals Co Ltd

**Sector:** Chemicals; **Headquarters:** China; **Peak RRI:** 81

Jiangsu Changlong Chemicals occupies fourth position in the MCC 2016 report due to allegations that almost 500 students at Changzhou Foreign Languages School in Jiangsu province had contracted illnesses after being exposed to residual pollution from a former site of three chemical plants, one of which was operated by the company's subsidiary, Jiangsu Changlong Agrochemical. Allegedly, approximately 140 students were diagnosed with thyroid nodule calcification, a condition that causes sufferers to be susceptible to infections. Other illnesses included abnormal blood test readings, skin inflammations, and several cases of lymphoma and leukemia. An inspection conducted by the local authorities in January 2016, revealed extremely high levels of petroleum hydrocarbons and benzyl chloride in the soil under the disused factories. Groundwater samples showed chlorobenzene levels 94,000 times higher than the national standard.

Former workers of Jiangsu Changlong Chemicals alleged that between 2008 and 2010, the plant had breached environmental laws by burying unknown amounts of toxic waste at the site. They also claimed that the company had discharged chemical waste once every three days into a tributary of the Yangtze River. It was later revealed that Jiangsu Changlong Agrochemical had been one of several companies fined CNY 160 million (USD 233 million) for illegally dumping toxic

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## Top related companies:

### Jiangsu Changlong Chemicals Co Ltd

1. Changzhou Changyu Chemical Co Ltd (Chang-Yu Chemical)
2. Jiangsu Changlong Agrochemical Co Ltd
3. Sinochem Group (formerly Sinochem Corp)

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## Top ESG Issues:

### Jiangsu Changlong Chemicals Co Ltd

1. Local pollution
2. Impacts on communities
3. Waste issues
4. Impacts on ecosystems and landscapes
5. Occupational health and safety issues

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waste into the Yangtze River between 2012 and 2013.

Former employees also claimed that numerous workers had been dismissed after contracting skin disorders allegedly due to exposure to extremely toxic chemicals.



# #5 Daewoo Shipbuilding & Marine Engineering (DSME)

**Sector:** Industrial Engineering; **Headquarters:** South Korea; **Peak RRI:** 80

Daewoo Shipbuilding & Marine Engineering (DSME) ranks fifth in the MCC 2016 Report, mainly in relation to a series of investigations into a massive accounting fraud.

Apparently, South Korea's Board of Audit and Inspection (BAI) became suspicious when DSME reported massive profits during an industry-wide earnings slump, and then concluded that the company had overstated its profits in 2013 and 2014. The BAI criticized DSME's majority shareholder, the Korea Development Bank (KDB Bank), for failing to detect errors in DSME's accounts.

A BAI inspection on June 15, 2016, revealed a KRW 1.5 trillion (USD 1.2 billion) accounting fraud related to contracts for shipbuilding and offshore construction projects. However further investigations revealed that the scandal involved sums of over KRW 5.7 trillion (USD 4.8 billion), and prosecutors claimed that between 2012 and 2014, the company's CEO, Ko Jae-ho, and the company's former CEO, Nam Sang-tae, had colluded to create an accounting fraud scheme. Allegedly, DSME had used the fabricated accounts to acquire loans and advance payment guarantees totaling KRW 21 trillion (USD 17.8 billion). The former Chief Financial Officer of DSME and dozens of other DSME executives admitted their involvement in the scam. Korean prosecutors raided KDB Bank on suspicion that the bank had been involved in the fraud.

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## Top related companies: Daewoo Shipbuilding & Marine Engineering

1. Korea Development Bank (KDB Bank)
  2. Deloitte Anjin LLC
  3. News Communications
  4. Chosun Ilbo Co Ltd
  5. HUMEX Shipping & Air Freight Corporation
- 

Investigators then linked companies such as BIDC, HUMEX Shipping & Air Freight, and DSON to the fraud, after the president of HUMEX admitted that he had helped the CEO of DSME to buy shares in BIDC under an assumed name, and that both executives had profited from business contracts between DSME and BIDC.

Prosecutors in Changwon District also accused a Deputy General Manager of DSME of embezzling KRW 18 billion (USD 15.2 million) by making fraudulent transactions between DSME and its subsidiary WELLIVE from 2008 to 2016.

In July 2016, South Korea's Supreme Prosecutors charged Mr. Nam with embezzling USD 500,000 from DSME offices in London and Oslo, and of committing accounting fraud

## #5 Daewoo Shipbuilding & Marine Engineering (DSME)

in relation to the Veronica Floating Hotel in Oman, the company's office building in Dangan, and breach of trust in the acquisition of Samwoo Heavy Industry. The Government National Pension Service, the Employees' Pension Service, the Teachers' Pension, and the Korea Post sued DSME for damages related to the fraud.

The authorities then arrested the CEO of DSON, Changha Lee, in August 2016 on charges of embezzling nearly KRW 3.6 billion (USD 3 million) and causing damages valued at approximately KRW 15 billion (USD 12.7 million) when he had been an executive director of DSME. DSME had reportedly lost KRW 9.7 billion (USD 8.2 million) as Mr. Lee had arranged for the company to rent a building from DSON between 2008 and 2013 at a price almost three times higher than the actual market value.

The BAI also accused 15 senior DSME advisers of falsely taking KRW 2.2 billion (USD 1.8 million) in fees between 2008 and 2015.

In September, prosecutors charged Park Soo-hwan, the CEO of News Communications, with accepting around KRW 2.1 billion (USD 1.7 million) from Mr. Nam between 2009 and 2011 for fictitious consulting services in exchange for leveraging her close relations with the head of the KDB Bank to secure the reappointment of Mr. Nam as CEO of DSME.

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### Top ESG Issues: Daewoo Shipbuilding & Marine Engineering

1. Fraud
  2. Corruption, bribery, extortion and money laundering
  3. Anti-competitive practices
  4. Executive compensation issues
  5. Occupational health and safety issues
- 

In the same month, prosecutors issued an arrest warrant against former KDB Bank Chairman Kang Man-soo on charges of accepting bribes in exchange for ignoring the corruption associated with DSME's management.

In November, the Seoul Central District Court issued an arrest warrant for Mr. Bae, the former Executive Director of Deloitte Anjin, who had audited DSME's accounts between 2010 and 2015. Prosecutors claimed that Mr. Bae had ignored the falsified accounts and had even given advice to DSME on how to conceal the fraud.

In January 2016, Ko Jae-ho, was sentenced to ten years in prison by the Seoul Central District Court for manipulating the company's accounts in 2013 and 2014 in order to raise bank loans. The sentence has been described as one of the longest prison terms imposed for financial crime in South Korea.

# #5 Daewoo Shipbuilding & Marine Engineering (DSME)

Since September 2015, an estimated 420 shareholders have filed lawsuits against DSME claiming compensation amounting to approximately KRW 24 billion (USD 2 million).

At the beginning of the year, DSME was also involved in an accident at its Okpo Shipyard. On January 9, a fire inside a liquefied petroleum gas carrier at the site caused nearly KRW 3.1 billion (USD 2.6 million) in damage, but no injuries or deaths were reported.

In August and November 2015, two other fires had reportedly occurred at the same shipyard, killing four subcontracted workers and injuring 14 others.

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## Top ESG Topic Tags: Daewoo Shipbuilding & Marine Engineering

1. Negligence
- 

**Allegedly, DSME had used the fabricated accounts to acquire loans and advance payment guarantees totaling KRW 21 trillion (USD 17.8 billion).**

# #5 Unaoil

**Sector:** Oil and Gas; **Headquarters:** Monaco; **Peak RRI:** 80

Monaco-based Unaoil also ranked fifth in RepRisk's MCC 2016 Report mainly due to a widespread corruption and bribery scandal in the global oil and gas sector.

In March, Unaoil's offices in Monaco were raided by authorities on suspicion that the company had orchestrated a corruption and bribery scheme in the oil industry. Several major oil companies including Halliburton, Eni, and KBR were also criticized in relation to their ties with Unaoil. In particular, from 2004 to 2009 Halliburton and KBR reportedly paid Unaoil USD millions to help the firm secure oil and gas contracts in Kazakhstan. The Australian Federal Police, the FBI, the UK National Crime Agency, and the US Department of Justice, jointly investigated Unaoil's practices.

In early April, an email leak from Unaoil revealed corruption related to several Asian companies, which had allegedly paid the company to bribe government officials in order to win contracts. In Algeria Hanwha, Hyundai, and Samsung allegedly agreed to pay bribes through Unaoil to win oil refinery contracts.

An investigation commissioned by Cimic Group also linked Unaoil to a corruption case related to the WestConnex Motorway project in Australia. Allegedly, Unaoil accepted USD millions in kickbacks from Leighton Holdings, the predecessor of Cimic, for securing a USD multi-million oil pipeline contract in Iraq.

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## Top related companies: Unaoil

1. Petrofac
  2. Rolls-Royce Holdings
  3. Cimic Group Ltd
  4. Halliburton Co
  5. Eni SpA
  5. KBR Inc (formerly Kellogg Brown & Root)
- 

UK-based Petrofac was also linked to Unaoil's activities. Allegedly, Unaoil promised a middleman EUR 2.8 million (USD 2.9 million) in 2008 and 2009 on behalf of Petrofac, to help the company obtain contracts from petroleum companies close to the Syrian regime. However, an independent investigation commissioned by Petrofac reported in August that the company's directors had no knowledge of the alleged misconduct.

Banks were also accused of processing corruption-related transactions for Unaoil. In particular, Unaoil allegedly paid USD millions on behalf of KBR and Petrofac to secure contracts in Kazakhstan. Apparently, the KBR payments were processed through an HSBC Private Bank subsidiary in Monaco, while Petrofac payments were made through both HSBC, and a Citibank affiliate in Geneva, Switzerland.

In October, Rolls-Royce Holdings faced a bribery scandal in which Unaoil was also involved. Allegedly, Rolls-Royce hired Unaoil to secure USD 110 million in contracts with the Angolan state-owned company Sonangol between 2008 and 2013.

At the end of the year, Unaoil asked the London High Court to dismiss the evidence collected by the UK Serious Fraud Office during the raid at its offices in March.

RepRisk had already detected severe risk incidents involving Unaoil in 2014 and 2015. In particular, Unaoil was linked by the Australian Federal Police to alleged bribery schemes in foreign countries involving Leighton Holdings. Allegedly, Leighton had paid Unaoil USD tens of millions in kick-backs to secure a pipeline project in Iraq worth USD 750 million.

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## Top ESG Issues: Unaoil

1. Corruption, bribery, extortion and money laundering
  2. Anti-competitive practices
  3. Fraud
- 

**Allegedly, Unaoil promised a middleman EUR 2.8 million (USD 2.9 million) in 2008 and 2009 on behalf of Petrofac, to help the company obtain contracts from petroleum companies close to the Syrian regime.**

# #7 Rizal Commercial Banking Corp (RCBC)

**Sector:** Banks; **Headquarters:** Philippines; **Peak RRI:** 79

In 2016, the Philippine bank Rizal Commercial Banking Corp (RCBC), found itself at the center of a money laundering scandal, when it was linked to a February 2016 cyber theft from accounts owned by the Central Bank of Bangladesh at the Federal Reserve Bank of New York.

Computer hackers reportedly used computer malware to transfer approximately USD 1 billion from the Central Bank of Bangladesh to several accounts in the Philippines and Sri Lanka. It was alleged that around USD 81 million had been transferred via the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network to RCBC's branch in Makati City in the Philippines. The governor of the Central Bank of Bangladesh resigned following the theft.

On March 1, the Philippine Court of Appeals ordered Banco de Oro, East West Bank, the Philippine National Bank, and RCBC to place a six-month freeze on bank accounts owned by Centurytex Trading and six individuals, who were allegedly involved in laundering the stolen money.

Investigators claimed that the owner of Centurytex Trading had arranged for the money to be converted into PHP by PhilRem Remittance Corp (PhilRem), and then transferred to Eastern Hawaii Leisure, Bloomberry, and a "junket operator," an individual who lured VIPS to casinos.

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## Most related companies: Rizal Commercial Banking Corp

1. Philippine Remittances Ltd (PhilRem)
  2. Central Bank of Bangladesh
  3. Centurytex Trading
  4. Bloomberry Resorts Corp (BRC)
  5. Banco de Oro Unibank Inc (BDO)
  5. East West Banking Corp
- 

The Philippines' Anti-Money Laundering Council then filed criminal charges against the manager of RCBC's Manila branch, claiming that she had moved funds into a foreign-currency account of Centurytex Trading.

RCBC was harshly criticized for negligence and lack of internal controls, and in April the Treasurer and Executive Vice President of RCBC resigned over the money laundering allegations. One month later, the President of RCBC resigned after stating that he took full responsibility for the money laundering scandal, even though he had been cleared of any wrongdoing.

The Philippines' Anti-Money Laundering Council then filed charges against the President, Board Chair and Treasurer, and Compliance Officer of PhilRem for allegedly delivering most of the stolen funds to casino operators in the Philippines. It was reported

# #7 Rizal Commercial Banking Corp (RCBC)

that approximately USD 61 million had been converted to PHP and deposited into an account owned by PhilRem at RCBC.

The Philippine's newly elected President, Rodrigo Duterte, then gave a public commitment to return the stolen USD 81 million to Bangladesh. The Philippine Amusement and Gaming Corporation also promised to help the Central Bank of Bangladesh recover the frozen USD 2.7 million, which was allegedly laundered through Bloomberry's Solaire Resort and Casinos. Solaire admitted that as much as USD 29 million had been transferred to their casino and then moved to accounts owned by two "junket operators".

In August, RCBC was fined PHP 1 billion (USD 20 million) by the Philippine authorities for negligence and failure to block the withdrawals from the bank's Jupiter-Makati branch. The branch manager alleged that the bank's senior officials had authorized the withdrawal of USD 81 million, despite being informed days earlier that the funds might have been stolen from a New York account of the Central Bank of Bangladesh. RCBC's external counsel however claimed that insiders at the Central Bank of Bangladesh had been complicit in the hacking. In November, Bangladeshi officials asked the Philippine government to help them file criminal and civil charges against RCBC in a bid to recover up to USD 66 million that remained missing.

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## Top ESG Issues: Rizal Commercial Banking Corp

1. Corruption, bribery, extortion and money laundering
2. Fraud

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## Top ESG Topic Tags: Rizal Commercial Banking Corp

1. Negligence

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RepRisk had already detected fraudulent transactions at RCBC's subsidiary, RCBC Securities (RSEC) in 2012, which allegedly caused losses of approximately PHP 1 billion (USD 20 million) for the company's clients. In March 2012, RSEC was fined PHP 5 million (USD 100,000) by the Philippine Stock Exchange and was ordered to raise PHP 300 million (USD 6 million) to cover the claims of its clients. RSEC paid PHP 67.9 million (USD 1.3 million) to 16 of its clients in September 2012, but many other clients were excluded from the settlement.

# #8 Lotte Group

**Sector:** General Industrials; **Headquarters:** South Korea; **Peak RRI:** 78

South Korean-based Lotte Group has been included in the MCC 2016 Report due to a corruption scandal involving the company's owner. On June 10, 2016, prosecutors from Seoul Central District began raiding the headquarters of Lotte Group, and the offices of 16 Lotte subsidiaries, including Lotte Chemical, Lotte Data Communication, Lotte Hotel, and Lotte Shopping, as well as the homes of family members of Lotte Group's owner.

Prosecutors suspected that the family had created slush funds through anti-competitive transactions involving its subsidiaries, including Lotte Aluminum; and illicit real estate transactions between the family of Lotte Group's owner and other subsidiaries such as Lotte International and Lotte Chilsung Beverage. The slush funds were estimated to be worth KRW tens of billions, and there were suspicions that breach of trust and embezzlement had caused losses of nearly KRW 300 billion (USD 257 million).

Prosecutors then claimed that Lotte Chemical, formerly known as Honam Petrochemical, had illicitly transferred roughly KRW 20 billion (USD 17 million) to Japan for the use of the Lotte family. There were also allegations that the company had used a Japan-based Lotte affiliate, Lotte Corp, as an agent to import butadiene and Pygas from another Hong Kong-based affiliate, which was a suspected shell company.

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## Most related companies: Lotte Group

1. Lotte Shopping Co Ltd
  2. Lotte Corporation (Lotte Mooslan)
  3. Lotte Engineering and Construction Co Ltd (Lotte E&C)
  4. Hotel Lotte Co Ltd
  5. Lotte Chemical Corp (formerly known as Honam Petrochemical)
- 

At the end of June, prosecutors widened the probe to include Lotte Chilsung Beverage, Lotte Confectionery, and Lotte International, following suspicions that the companies had purchased land previously owned by the group's chairman, at inflated prices. The authorities also raided the offices of Deloitte Anjin, on suspicion that Lotte had asked the company to undervalue Lotte Buyeo Resort and Lotte Jeju Resort when Hotel Lotte acquired the properties in August 2013.

A new incident then struck the company at the end of June, when a worker of Ilshin Kigong, a subcontractor of Lotte Chemical, was reportedly killed when a high-pressure hose ruptured at the Lotte Chemical Yeosu Plant in the Yeosu National Industrial Complex. Allegedly, on June 9, 2016, a worker of SF, a subcontractor of Korea BASF Yeosu Plant, had also died after being exposed to phosgene at the same complex in May 2016.



# #8 Lotte Group

Lotte Group continued to face investigations, and at the beginning of July the former CFO of Lotte Chemical was arrested and charged with orchestrating a fraudulent corporate tax refund. Prosecutors claimed that the CFO and other defendants had colluded to fraudulently claim approximately KRW 25.3 billion (USD 21 million) of corporate tax refunds by submitting accounts to the Korean National Tax Service that showed fictitious assets of KRW 151.2 billion (USD 128 million) between 2006 and 2008.

The authorities then began investigating whether Ki Joon, the former CEO of Lotte Corporation, and the Chairman of Lotte Group had been involved in the alleged tax scam. Mr. Ki was also accused of creating slush funds through contracts with an aircraft parts company in 2009 and 2010, and then using the funds to lobby senior officials in the Korean Air Force to facilitate the approval of the construction of Lotte World Tower. Prosecutors also accused the CEO of Lotte Homeshopping of embezzlement, destroying evidence, and violating the Broadcast Law, and began investigating whether the company's slush funds had flowed to Korea's Science Ministry or to the Board of Audit and Inspection.

In October, the Seoul Central District Prosecutors lodged formal charges against Lotte E&C, Lotte Homeshopping, 22 individuals, including 14 of the group's employees, after

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## Top ESG Issues: Lotte Group

1. Corruption, bribery, extortion and money laundering
2. Fraud
3. Tax evasion
4. Products (health and safety issues)
5. Anti-competitive practices

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## Top ESG Topic Tags: Lotte Group

1. Privacy violations
2. Negligence

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claiming that the corruption scandal at Lotte Group had amounted to KRW 375.5 billion (USD 319 million) and that the owners' family had embezzled KRW 146.2 billion (USD 124.2 million) from the group. Prosecutors also claimed that Lotte Holdings, Lotte E&C, Lotte International, and Hotel Lotte had paid illicit salaries to family members of the Group's owner between 2005 and 2016, and linked Lotte Group, Lotte Holdings, Lotte Scholarship Foundation, Lotte Chemical, and Lotte Moolsan to tax evasion.

# #9 Volkswagen AG

**Sector:** Automobiles and Parts; **Headquarters:** Germany; **Peak RRI:** 76

Volkswagen (VW) ranks eighth in the MCC 2016 Report, the same position as in 2015, due to the legal and financial consequences of the 2015 global “emission cheating device” scandal, as well as child labor allegations related to its supply chain.

## Emission device

In early January 2016, the US Justice Department (DOJ) filed a lawsuit against VW, seeking at least 45 USD billion over the defeat device that had allegedly allowed VW and the company’s luxury brands Audi and Porsche to cheat on emission levels. Although in a statement to US environmental authorities the automaker claimed that only a few people had known about the cheat devices, it was determined that several managers had been involved since 2006 in the development of the fraudulent software.

As a result of the scandal, VW shares lost a third of their value and investors, including CalPERS pension fund, filed a EUR 3.3 billion (USD 3.5 billion) lawsuit against VW in Germany, alleging that VW had failed to promptly inform financial markets about the investigation by US authorities.

In April, VW agreed to buy back or fix a total of 500,000 VW, Audi, and Porsche cars in the US that were allegedly equipped with the illegal emissions software. The company also revealed that it was setting aside EUR 16.2

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## Most related companies: Volkswagen AG

1. Audi AG
  2. Porsche Automobil Holding SE
  3. General Motors Co (GM)
  4. Daimler Benz (Mercedes Benz)
  5. Ford Motor Co
- 

billion (USD 17.2 billion) for potential legal costs related to the scandal.

In June, shareholders at the company’s Annual General Meeting vented their anger at VW’s management of the scandal and its financial consequences, and at the end of the month VW agreed to pay a civil settlement of up to USD 14.7 billion to the roughly 500,000 US customers affected by the emission cheating software. The company was then criticized in Europe for refusing to consider compensating European owners of diesel cars equipped with the defeat device saying it would be easier to develop a technical solution for cars in Europe.

Later in June, a VW executive of the company’s South Korean division was indicted on charges of submitting false data to the authorities. In early January 2017, he was sentenced to 18 months in jail for falsifying documents in order to obtain permits for its vehicles for import.

# #9 Volkswagen AG

At the end of August 2016, VW reached an agreement to pay its 650 US dealers USD 1.2 billion to compensate for problems caused by the diesel emission scandal, which included the declining value of the VW franchises. One month later, investors sued VW in Germany, seeking approximately EUR 8.2 billion (USD 8.7 billion) in damages for losses incurred when company's shares fell.

In December, VW agreed to buy back 105,000 VW and Audi vehicles in Canada that had been equipped with the cheat device and to pay the owners CAD 2.1 million in compensation. In the same month, the Australian federal government approved the recall of 61,000 VW cars in Australia in order to fix the emissions cheating software.

In early January 2017, the FBI arrested a VW executive, who had been VW's former Head of Compliance in the US, following allegations that he had attempted to conceal the company's emission cheating practices.

On January 11, 2017, Volkswagen pleaded guilty to three criminal charges arising from the emissions-rigging scandal. The DOJ said that VW would pay USD 2.8 billion in criminal fines and USD 1.5 billion in civil penalties.

Also in January 2017, a US District Court judge allowed an investors' lawsuit to proceed against VW, its former CEO, and other top executives. The suit seeks damages for

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## Top ESG Issues: Volkswagen AG

1. Fraud
  2. Products (health and environmental issues)
  3. Local pollution
  4. Supply chain issues
  5. Human rights abuses and corporate complicity
- 

losses suffered after the company's share price plunged.

At the time of writing this report the company continues to face the legal and financial consequence of the cheating emission scandal in various countries worldwide.

### Human rights violations in supply chain

During 2016, VW and other car manufacturers were criticized for sourcing cobalt from the Chinese company Zheijang Huayou Cobalt, which allegedly bought cobalt from the Democratic Republic of the Congo where children work in mines for 12 hours in perilous conditions, earning 1-2 USD per day.

In September, VW stopped sourcing mica from several Indian suppliers after a Thompson Reuters Foundation report denounced child labor at illegal mica mines in India.

# #9 Volkswagen AG

## Vehicle recalls

Through the year, VW continued to face the consequences of the Takata air bag scandal. Although in February, VW and Audi, together with BMW, announced that they were recalling 1,7 million vehicles equipped with a Takata airbag inflator that posed serious safety risks, in June, VW, among other car producers, confirmed that it was still installing defective Takata air bags on new vehicles.

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## Top ESG Topic Tags: Volkswagen AG

1. Conflict minerals
  2. Negligence
- 

## Case Study: Fiat Chrysler

On January 12, 2017 the US Environmental Protection Agency accused Fiat Chrysler of breaking the law by failing to tell the authorities that it had installed software that regulates nitrogen oxide emissions in approximately 104,000 diesel vehicles. The EPA claimed that at least eight types of emissions-regulating software had been installed in models including the Jeep Grand Cherokee SU and Dodge Ram trucks from 2014, 2015, and 2016. The Agency warned that the company could be fined as much as USD 44,500 per vehicle, which would bring the total to approximately USD 4.6 billion.

# #10 Odebrecht SA

**Sector:** Construction and Materials; **Headquarters:** Brazil; **Peak RRI:** 74

Odebrecht SA was ranked tenth in RepRisk's MCC 2015 report and is in the same position in this year's ranking due to continued allegations about the company's involvement in the "Lava Jato" corruption scandal. Petroleo Brasileiro (Petrobras), Odebrecht, several construction companies, and the country's ruling Worker's Party, are at the center of the case, and Brazilian prosecutors have estimated that the corruption involves bribes worth about CHF 64 million (USD 63.4 million).

The scandal led to the impeachment of Brazil's former President Dilma Rouseff, and implicated members of Brazil's Democratic Movement Party and the Workers' Party.

Odebrecht's former CEO, Marcelo Odebrecht, was detained on June 19, 2015, on corruption charges, and in March 2016 was sentenced to 19 years in prison for bribing Petrobras officials with more than USD 30 million in exchange for business contracts.

Prosecutors claimed that Odebrecht and its subsidiaries had paid bribes to secure contracts at projects such as the Abreu and Lima Refinery, Arena de Sao Paulo Stadium for the 2014 FIFA World Cup, the Getulio Vargas Refinery, the Petrochemical Complex of Rio de Janeiro, and Porto Maravilha, and had siphoned off about three percent from the inflated contracts to bribe Petrobras executives and Brazilian politicians.

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## Most related companies: Odebrecht SA

1. Petroleo Brasileiro SA (Petrobras)
  2. Andrade Gutierrez SA (Andrade Gutierrez Group)
  3. OAS SA (Grupo OAS)
  4. Camargo Correa Group (Camargo Correa SA)
  5. Grupo Queiroz Galvao SA
- 

Prosecutors claimed that the company had used a close-knit network of shell companies in tax havens, as well as bank accounts in Andorra, Austria, Panama, Switzerland, and the US to deposit illicit funds, and linked Odebrecht to at least USD 132 million in suspicious transfers through approximately 42 offshore bank accounts.

Investigations by Brazil's Federal Police led to 110 judicial orders against Odebrecht executives and Brazilian politicians, including 67 search and arrest warrants, in the states of Sao Paulo, Rio de Janeiro, Santa Catarina, Rio Grande do Sul, Bahia, Piaui, Minas Gerais, Pernambuco, and the Federal District.

Prosecutors then began investigating Odebrecht's overseas projects after a former employee testified that the company had used a bank account called "Paulistinha" to transfer illicit funds related to the Baixo

# #10 Odebrecht SA

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## Top ESG Issues: Odebrecht SA

1. Corruption, bribery, extortion and money laundering
  1. Fraud
  2. Anti-competitive practices
  3. Impacts on communities
  4. Supply chain issues
- 

Sabor Hydroelectric Project in Portugal, the Callao branch of the Costa Verde Highway in Peru, as well as Brazilian ventures such as Sao Paulo Subway Line 6.

Brazil's Public Prosecutors also linked Odebrecht to corruption involving Brazil's former President Luis Inacio Lula da Silva and claimed that between 2008 and 2015, President Lula had used his position to lobby for projects for Odebrecht in Angola in exchange for BRL 7.6 million (USD 2.3 million) in kickbacks, which were paid to President Lula's company LILS Palestras Eventos e Publicidade, the Lula Institute, as well as his relatives and friends.

Odebrecht was also accused of participating in a cartel with Camargo Correa and Andrade Gutierrez, between 2009 and 2011 for the construction of the Belo Monte complex. The consortium Norte Energia won the tender for

the dam and hired the three companies to build the project.

Brazil's Federal Police then accused Fernando Pimentel, Brazil's former Ministry of Development, Industry, and Trade, of facilitating financing from the Brazilian Development Bank, BNDES, to Odebrecht projects in Argentina and Mozambique, in exchange for kickbacks worth approximately BRL 20 million (USD 6.3 million). Odebrecht was also linked to a BRL 128 million (USD 40 million) corruption scheme involving Antonio Palocci, Brazil's former Finance Minister in order to secure Petrobras contracts.

The Federal Police then began investigating companies belonging to the Odebrecht Group regarding their alleged payment of bribes to secure construction contracts for at least 38 projects, including the Suape Port and Industrial Complex, Sao Paulo Subway Line 4, the Santo Antonio Hydroelectric Dam, the Abreu e Lima Refinery, and the Polo Petroquimico Project.

In November, Odebrecht agreed a plea bargain with Brazilian prosecutors which included an estimated BRL 7 billion (USD 2.2 billion) in fines for overcharging and bribing Petrobras executives. The deal would reportedly involve Odebrecht's admission of guilt and the return of embezzled funds, but would allow the company to continue to bid for government contracts.

# #10 Odebrecht SA

In separate plea bargains, over 70 Odebrecht executives are expected to provide prosecutors with details relating to the bribes and kickbacks paid to Brazilian politicians and various companies.

The former head of Odebrecht SA, Marcelo Odebrecht, has also agreed to a plea-bargain deal to settle investigations into his role in the “Lava Jato” corruption scandal. As part of the deal, Mr. Odebrecht will turn state’s evidence, which has the potential to implicate dozens of politicians reported to have taken kickbacks from Petrobras contractors. The plea deal and testimony could lead to a significant reduction of the 19-year jail term handed down to him by the courts in 2016.

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## Top ESG Topic Tags: Odebrecht SA

1. Coal-fired power plants
  1. Diamonds
  1. Human trafficking
  1. Hydropower (dams)
  1. Involuntary resettlement
- 

**Prosecutors claimed that the company had used shell companies in tax havens as well as bank accounts in Andorra, Austria, Panama, Switzerland, and the US to deposit corrupt funds, and linked Odebrecht to at least USD 132 million in suspicious transfers through offshore bank accounts.**

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