RepRisk

Most

Controversial

Companies

RepRisk Special Report

Most Controversial Companies (MCC) 2017

January 2018

About RepRisk

RepRisk is a leading research and business intelligence provider, specializing in ESG and business conduct risks.

As a premium due diligence solution, RepRisk helps clients prevent and mitigate ESG and business conduct risks related to their operations, business relationships, and investments.

Since 2006, RepRisk has been leveraging artificial intelligence and human analysis to translate big data into actionable analytics and metrics. With daily updates, universal coverage, and curated adverse data on companies, projects, sectors, and countries, RepRisk offers a suite of powerful risk management and compliance services.

Headquartered in Zurich, Switzerland, RepRisk serves clients worldwide, enabling them to reduce blind spots and shed light on risks that can have reputational, compliance, and financial impacts on a company.

For more information, please visit www.reprisk.com.

Foreword CEO

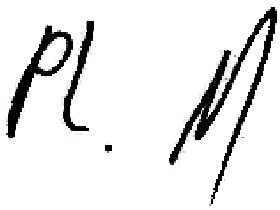
I am delighted to announce the release of the eighth edition of our flagship publication, the Most Controversial Companies (MCC) Report, which highlights companies that were most exposed to environmental, social, and governance (ESG) and business conduct risks in 2017.

The report, compiled using RepRisk’s proprietary methodology, is based on information that is systematically, and on a daily basis, screened, analyzed, and quantified from a wide range of publicly available stakeholders and media sources.

The aim of the report is to highlight the major ESG and business conduct incidents that exposed companies to serious reputational, compliance, and financial risks in 2017. From Rolls-Royce's record-breaking corruption settlement in January, through to the leak of the Paradise Papers in November, the MCC 2017 Report shows how a company can suffer severe reputational damage, or face mounting legal and financial challenges due to ESG and business conduct incidents.

This year's report also draws attention to the advances in cross-border cooperation in an increasingly complex and globalized regulatory environment.

By providing an analysis of the risk incidents that were faced by these companies in 2017, we hope to encourage companies to implement robust due diligence practices that take into account a company’s on-the-ground business conduct, not just its sustainability policies.



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1 The most controversial companies are primarily selected based on their Peak RRI. Should companies have the same Peak RRI, the companies will be ranked based on the number of severe and very severe risk incidents in the given year. RepRisk may have chosen to exclude companies if they were extensively covered in previous reports and no new developments were reported in the previous two years.

2 As some of the companies ranked had completely untarnished reputations prior to the issues they experienced during 2017, the impact on their RepRisk Index (RRI) was greater due to the novelty of such incidents (the RRI emphasizes companies that are newly exposed, while companies with a history of risk exposure are less affected by new incidents). For more information on the RRI, please refer to the methodology on page 28.

Overview and Ranking

RepRisk's Most Controversial Companies (MCC) 2017 Report identifies and assesses the companies that had the highest exposure to ESG and business conduct risks in 2017.

This year's MCC Report shows that 2017 may come to be considered as a year when the tide started to turn against corporate corruption. Eight of ten companies included in the report were involved in governance issues, especially bribery and corruption, which in some cases even implicated heads of state.

One such case is J&F Investimentos, whose alleged bribery payments to the current Brazilian President have thrown Brazil into political turmoil. The prosecution of companies whose corrupt activities spread across the globe, as in the cases of Rolls-Royce and Odebrecht, shows that global anti-corruption enforcement and cooperation are gaining momentum. The US Foreign Corrupt Practices Act, the UK Bribery Act, and other similar legislations are encouraging multinational corporations to adopt strong anti-corruption compliance programs in order to mitigate risks.

It is interesting to note that The Weinstein Company, ranked as the most controversial company of 2017 due to sexual abuse allegations made against its co-founder, had to offer its assets up for sale and face the possibility of bankruptcy the week after the scandal erupted. The escalation of the scandal in such a short time highlights how easily a company can succumb to negative publicity.

The admission of data tampering by Kobe Steel, ranked number two in the report, also shows how a company's actions can have a ripple effect on the overall reputation of the entire industry, as shown by the subsequent admission by other Japanese manufacturers to similar lapses in their operations.

Meanwhile, the leaked Paradise Papers have once again revealed the continuing use of tax avoidance schemes by corporates and high-net-worth individuals, even though such schemes often deprive poor countries of much-needed revenue.

Lastly, the case of Equifax, which suffered a massive data breach in 2017, shows a growing public sentiment that companies should be held accountable for the loss of personal data.

#1 The Weinstein Company

Sector: Media; **Headquarters:** United States of America; **Peak RRI:** 92

The Hollywood-based film producer The Weinstein Company ranks first in RepRisk's MCC 2017 Report due to sexual abuse allegations. At the beginning of October 2017, it was claimed that over a period of nearly three decades, Mr. Harvey Weinstein, the company's co-owner, had reached at least eight settlements, most of which were non-disclosure agreements, with women who had accused him of sexual misconduct. These allegations were reportedly confirmed by dozens of Mr. Weinstein's former and current employees, who have since claimed that they were aware of his inappropriate conduct and that he had enforced "a code of silence" within the company by including a clause in their contracts that prohibited them from criticizing him in a way that could harm the company's business reputation.

On October 5, 2017, a New York Times article gave details of previously undisclosed sexual harassment allegations against Mr. Weinstein that revealed a "toxic environment for women" at the company.

The scandal escalated when several A-list actors, including Gwyneth Paltrow and Angelina Jolie, and some of the company's former employees, accused Mr. Weinstein of similar conduct.

The UK Metropolitan Police launched an investigation into Mr. Weinstein when three women alleged that he had attacked them in Westminster, Camden, and West London, respectively, between 1980 and 2015. The police in Los Angeles and New York also opened criminal investigations into Mr. Weinstein, who was accused of sexual misconduct, including rape, by more than 50 women.

A few days later, on October 8, 2017, Mr. Weinstein was fired from the company as a result of the investigations.

On October 16, it was reported that The Weinstein Company was seeking a buyer for "all or a significant portion" of its assets in order to secure a capital injection to help it face the ensuing crisis.

On November 15, 2017, The Weinstein Company was named as a defendant, alongside Harvey Weinstein, in a class-action lawsuit filed in a US District Court by an actress who claimed she was sexually harassed by Mr. Weinstein while

Most related companies: The Weinstein Company

- CBS Corp
- Miramax Film Corp
- Public Broadcasting System
- The Walt Disney Co

#1 The Weinstein Company

she was auditioning for a role in a film to be produced by Miramax Film, a company previously owned by Mr. Weinstein and his brother. The lawsuit accused the company of negligent management and of covering up Mr. Weinstein's sexual misconduct. Reportedly, hundreds of victims could join the class-action lawsuit, which seeks damages for alleged assault and emotional distress.

On December 6, 2017, six women who were allegedly sexually assaulted by Mr. Weinstein, also filed a class action lawsuit in a US federal court under the Racketeer Influenced and Corrupt Organizations Act (RICO) against The Weinstein Company and Miramax Film, alleging that the companies conspired with each other to conceal the defendant's misdeeds. The women further alleged that Mr. Weinstein had been able to continue the widespread sexual exploitation, as the women risked being blacklisted by the film industry if they rejected or revealed sexual advances. Aside from the RICO violation, the lawsuit also included claims for mail and wire fraud, negligence, and witness tampering.

Also in December, seven women claimed that the former Asia vice-president of The Weinstein Company had engaged in various sexual misconduct practices in Hong Kong from 2005 to 2009.

Top ESG Issues:
The Weinstein Company

- Poor employment conditions
- Human rights abuses and corporate complicity
- Corruption, bribery, extortion and money laundering
- Discrimination in employment
- Fraud

Top ESG Topic Tags:
The Weinstein Company

- Negligence

In January 2018, it was reported that the company would be sold for less than USD 500 million, meaning that the current owners would receive no cash from the deal and the shareholders might lose all of their equity.

#2 Kobe Steel Ltd (Kobelco)

Sector: Industrial Metals; **Headquarters:** Japan; **Peak RRI:** 87

The Japanese company Kobe Steel Limited, which operates under the brand name of Kobelco, is ranked second in the MCC 2017 Report due to allegations that it had falsified the quality data of its products. The company began facing problems in June 2017, when the company admitted that its subsidiary, Shinko Wire Stainless, had falsified data about its products for nine years.

However, Kobe Steel's problems began in earnest at the beginning of October 2017, when it admitted that it had falsified the inspection data on more than 20,000 tons of metals shipped from four of its Japan-based factories to customers in the automobile and aircraft industry, and confirmed that data falsification related to manufacturing specifications such as tensile strength requested by clients.

By mid-October, it was revealed that Kobe Steel had also falsified data on aluminum and copper products that were reportedly made by the company's plants in China, Malaysia, and Thailand. The metals were allegedly shipped with false certificates between April 2007 and August 2017 to around 500 customers including automotive companies such as Denso, Fujitsu, Subaru, and Tesla; aircraft companies such as Airbus, Boeing, and Korean Airlines; electronic companies such as Daikin Industries, Hitachi, and Panasonic; and railway companies such as Hankyu Corporation, JR East, and Tokyo Metro.

Most related companies:
Kobe Steel Ltd

- Kobelco & Materials Copper Tube Ltd
- Shinko Wire Stainless Co Ltd
- Jiangyin Sugita Fasten Spring Wire Co Ltd (JYSF)
- Kobelco Spring Wire Foshan Co Ltd
- Suzhou Kobe Copper Technology Co Ltd

The admission alarmed hundreds of companies that had sourced metals from Kobe Steel and prompted Boeing, Ford Motor, General Motors, Mitsubishi Heavy Industries, and Toyota Motor to begin investigating whether the falsely certified materials had been used in their products and whether they posed a safety risk.

On October 26, Kobe Steel announced that it had set up an Independent Investigation Committee to probe the causes of the misconduct. The Committee uncovered more than 70 cases of altered data in aluminum, copper, iron powder products, and liquid crystal display (LCD) materials at its Kobelco Research Institute. The company also disclosed that it had discovered four cases of falsification dating back to 2007.

The investigations revealed that Shinko Metal Products, a Kobe Steel subsidiary

#2 Kobe Steel Ltd (Kobelco)

which supplies industrial facilities, including the Fukushima Daini Nuclear Power Plant owned by Tokyo Electric Power, had sold approximately 700 tons of copper alloy piping with manipulated quality information. It was also revealed that Kobe Steel's Bangkok-based unit, Kobelco & Materials Copper Tube, had allegedly shipped about 1,000 tons of copper pipe without conducting proper tests. The Chinese subsidiaries that reportedly participated in the data falsification included Suzhou Kobe Copper Technology, Jiangyin Sugita Fasten Spring Wire, and Kobelco Spring Wire Foshan.

On October 17, the US Department of Justice ordered Kobe Steel's US subsidiary to provide documents related to metal products that the company had sold to US customers. At the end of October, the Japanese government ordered an inspection of all certified Kobe Steel plants, which included the Hatano Plant owned by Kobelco & Materials Copper Tube, the Moka Plant in Tochigi, and the Chofu Works Plant in Yamaguchi. The Ministry of Land, Infrastructure, Transport, and Tourism also began an inspection of Kobe Steel's Daian Plant after it was discovered that the plant had falsified data on products used in Mitsubishi passenger aircraft, an admission that prompted the European Aviation Safety Agency to advise against buying materials from Kobe Steel.

Top ESG Issues:
Kobe Steel Ltd

- Fraud
- Products (health and environmental issues)
- Global pollution (including climate change and GHG emissions)
- Tax evasion

In December 2017, Kobe Steel admitted that senior officials in the company's copper and aluminum business had been aware of the data falsification.

It is interesting to note that RepRisk identified data falsification by Kobe Steel as early as July 2016, when a Chinese newspaper revealed that its subsidiary, Shinko Wire Stainless had been misrepresenting the strength of its steel wires for nine years.

In his New Year's message to employees, the President of Kobe Steel announced that the Independent Investigative Committee would submit its final report by February 2018.

#3 J&F Investimentos SA

Sector: Food and Beverage, Personal and Household Goods;
Headquarters: Brazil; **Peak RRI:** 83

The Brazilian private investment company J&F Investimentos (J&F) has also been included in the MCC 2017 Report due to allegations of widespread corruption, and a meat scandal that was identified by both Brazil's Inland Revenue Agency and Brazilian Federal Police (FP).

At the beginning of March, Brazilian prosecutors linked the company to the illegal sale of adulterated meat products and claimed that around 30 companies, including JBS and Seara Alimentos, both subsidiaries of J&F, had bribed officials from Brazil's Ministry of Agriculture, Livestock, and Supply in the states of Goias, Minas Gerais, and Parana, to issue sanitary certificates for unchecked meat products. The scheme apparently allowed the sale of sub-standard, adulterated, contaminated, and expired meat products to domestic and foreign buyers. According to the FP, processors used acid and other potentially carcinogenic chemicals to mask the quality of their products, and padded chicken meat with potato and cardboard paper to increase profits.

On March 17, 2017, the FP raided 194 locations, issued 38 arrest warrants, and arrested two senior executives of JBS. As a result of the scandal, countries such as Canada, Chile, China, Egypt, Hong Kong, Japan, the US, as well as the European Union announced full or partial suspensions on the importation of Brazilian meat.

Most related companies:
J&F Investimentos SA

- JBS SA
- Caixa Economica Federal (CEF)
- Brazilian National Bank for Economic and Social Development (BNDES)
- Eldorado Brasil Celulose SA (Eldorado Celulose e Papel)
- Petroleo Brasileiro SA (Petrobras)

J&F was also linked to corruption in 2017 when the FP accused the company of systematically paying bribes to a former vice president of Caixa Economica Federal (CEF) in exchange for receiving loans from the bank. It was alleged that the loans had enabled J&F to purchase Big Frango, and the footwear company Alpargatas.

The FP also investigated loans received by J&F from BNDESPar, the investment division of the Brazilian National Bank for Economic and Social Development, amid suspicions that the money had been used for purposes other than those declared by J&F. The FP estimated that the dubious loans may have caused losses of over BRL 1.6 billion (USD 500 million) to the Brazilian treasury.

Also in 2017, J&F and JBS were linked to the investigation known as Operation Car

#3 J&F Investimentos SA

Wash[1] involving a widespread corruption scheme allegedly orchestrated by Petroleo Brasileiro SA (Petrobras). JBS testified to Brazil's Supreme Court that its executives had paid Brazilian President Michel Temer USD 4.6 million in bribes, and a total of USD 80 million to his predecessors, in exchange for state-backed funding and other favors. The Brazilian media reported that JBS had paid USD 183.8 million in kickbacks to more than 1,800 politicians.

Throughout 2017, J&F was also linked to various other cases of bribery and corruption, including bribes of BRL 150 million (USD 46 million) to secure tax discounts in the state of Mato Grosso do Sul. Prosecutors also found evidence of bid rigging to secure tenders, overcharging on public works, and falsification of documents.

J&F was also linked to a BRL 190 million (USD 59 million) payment made by its subsidiary Eldorado Brasil Celulose (Eldorado) to Eucalipto Brasil, a company belonging to Mario Celso Lopes, the former partner of Eldorado. The Federal Public Ministry (MPF) claimed that the payment had been made to "buy the silence" of Mr. Celso Lopez during investigations into nearly BRL 1.7 billion (USD 529 million) in losses caused to pension funds, and further alleged that Viscaya Holding and Araguaia Projetos e Servicos had been involved in the scheme.

Top ESG Issues: J&F Investimentos SA

- Corruption, bribery, extortion and money laundering
- Fraud
- Anti-competitive practices
- Tax evasion
- Products (health and environmental issues)

Throughout the year, JBS was also repeatedly accused of purchasing livestock from agribusinesses accused of illegal deforestation, land grabbing, poisoning indigenous communities, and employing workers under slave-like conditions. The Brazilian Institute of Environment and Renewable Natural Resources (IBAMA) claimed that the company bought cattle through a series of opaque transactions designed to disguise the original source. In March 2017, IBAMA suspended operations at two JBS meat-packing plants and 13 others in state of Para for allegedly buying cattle from illegally deforested land, and fined the company USD 7.7 million.

1 For further details on the "Car Wash" investigation, please refer to the Case Study on Odebrecht on page 22.

#4 Appleby Global Group Services Ltd (Paradise Papers)

Sector: Support Services (Industrial Goods and Services);
Headquarters: Bermuda Islands (UK); **Peak RRI:** 82

In October 2017, Appleby Global Group Services (Appleby), a Bermuda-based legal firm also operating in the British Virgin Islands, the Cayman Islands, Guernsey, Hong Kong, the Isle of Man, Jersey, Mauritius, Seychelles, Shanghai, and the UK admitted that its computer systems in six different locations had been hacked. The news sparked concern among many corporates and high-net-worth individuals who had allegedly used Appleby, and its corporate services provider Estera, to create offshore entities for tax avoidance purposes, and illegal activities such as money laundering.

On November 5, 2017, the International Consortium of Investigative Journalists (ICIJ) released details of documents from Appleby consisting of 6.8 million loan agreements, financial statements, emails, trust deeds, and other paperwork spanning nearly 50 years. The leak was dubbed the Paradise Papers due to the idyllic locations of some of the tax havens used by Appleby. The hackers had leaked the data to reporters working for the German daily Suddeutsche Zeitung, who subsequently shared them with the ICIJ. The data breach, included records from other offshore firms offering similar corporate services.

The papers revealed Appleby's alleged role in helping to facilitate a USD 70 million loan from the Standard Bank of South Africa to refinance Zambia Sugar, a subsidiary of Illovo Sugar, which was then 51 percent owned by British Foods. Following a report by the NGO ActionAid, the loan was linked to a tax avoidance scheme that reportedly allowed Illovo to lower corporate tax rates in Zambia to 0.5 percent, depriving the Zambian government of up to USD 3 million in taxes.

Most related companies:
Appleby Global Group Services Ltd

- Apple Inc
- NIKE Inc
- Trafigura Beheer BV (Trafigura)
- Standard Bank of South Africa

The documents leaked from Appleby also revealed that Trafigura had founded and managed shell companies in tax havens on behalf of a former Angolan general who was a trustee of a former president of Angola. The NGO Public Eye described the activities as acts of corruption, and linked the practices to the securing of a USD 3.3 billion contract in 2009, which was granted by the Angolan government.

The Paradise Papers also linked the Dig Vu Industrial Zone in Vietnam, partly owned by InfraAsia Development (Vietnam) and InfraAsia Investment (Vietnam), to

#4 Appleby Global Group Services Ltd (Paradise Papers)

tax optimization through the routing of payments and taxes through Hong Kong and the British Virgin Islands. The Belgian Corporation for International Development was criticized for investing in the project. The papers also showed that other major companies including Apple, Diageo, Deutsche Post, ExxonMobil, Nike, and Sixt car hire had used the services of Appleby.

In 2017, Appleby also agreed to pay USD 12.7 million to settle a Canadian lawsuit connected to an alleged tax-avoidance scheme.

At the time of writing, ongoing scrutiny of the Paradise Papers continues to reveal more companies and high-profile individuals that used Appleby's tax avoidance schemes.

Top ESG Issues:
Appleby Global Group Services Ltd

- Tax optimization
- Corruption, bribery, extortion and money laundering
- Human rights abuses and corporate complicity
- Tax evasion

Top ESG Topic Tags:
Appleby Global Group Services Ltd

- Privacy violations
- Diamonds
- Indigenous people

On November 5, 2017, the International Consortium of Investigative Journalists (ICIJ) released details of documents from Appleby consisting of 6.8 million loan agreements, financial statements, emails, trust deeds, and other paperwork spanning nearly 50 years.

#5 Stalreiniging Barneveld (Chickfriend)

Sector: Support Services (Industrial Goods and Services);
Headquarters: Netherlands; **Peak RRI:** 82

The Dutch poultry farm cleaning company Stalreiniging Barneveld, also known as Chickfriend, ranks fifth in the MCC 2017 Report due to accusations that it manufactured lice sprays that contained fipronil, an insecticide that is banned by the European Union for use on animals destined for human consumption. In July 2017, the Dutch Food and Consumer Product Safety Authority (NVWA) estimated that Chickfriend-manufactured lice sprays had been used by 100 to 200 Dutch poultry companies, and subsequently ordered the companies to destroy their eggs after investigations revealed that they exceeded the legal limits of fipronil and could pose health risks. People who ingest the substance can reportedly suffer from cold sweats, nausea, dizzy spells, headaches, or stomach pains.

In August 2017, a number of Dutch companies began seeking damages from Chickfriend for supplying them with the harmful anti-lice product. Belgian authorities raided Agro Remijsen (Poultry-Vision), the Belgian supplier of Chickfriend, following suspicions that the pesticide had been illegally used in Belgium and the Netherlands.

Belgian and Dutch authorities then launched fraud investigations and carried out various searches at properties belonging to two executives of Chickfriend. The Italian authorities also seized egg-based products made with eggs supplied by the company.

Most related companies: Stalreiniging Barneveld

- Agro Remijsen (Poultry-Vision BVBA)
- Pro-Farma

Contaminated eggs were found in approximately ten countries, with the British Food Authority Food Standards Agency (FSA) claiming that about 700,000 eggs had been destroyed in the UK alone. In Germany, authorities called the contamination of possibly tens of millions of eggs a "criminal act," and in Demark, affected companies included Waden Group's Nordic Egg, which reportedly imported two tons of scrambled eggs that contained the pesticide.

Other countries that reportedly received contaminated eggs included Belgium, China, France, Romania, Slovakia, and Switzerland. It was estimated that losses in Europe could reach EUR 300 million (USD 364 million).

On August 10, 2017, two managers at Chickfriend were arrested on charges of endangering public health. The NVWA admitted that it had been aware of the use of fipronil in barns as early as November 2016, but had not realized that the chemical could be absorbed by chicken eggs.

The Dutch Public Prosecution Service then opened an investigation into Chickfriend and Pro-Farma over accusations that both

#5 Stalreiniging Barneveld (Chickfriend)

companies worked closely together with Poultry-Vision, to sell the harmful insecticide. The authorities in Belgium also began investigating the three companies on charges of forming a criminal organization, fraud, and illegal trading of animal medication.

At the time of writing, two directors of Chickfriend were facing proceedings in the Netherlands for allegedly endangering public health.

Top ESG Issues: Stalreiniging Barneveld

- Products (health and environmental issues)
- Fraud
- Corruption, bribery, extortion and money laundering
- Impacts on communities

In August 2017, a number of Dutch companies began seeking damages from Chickfriend for supplying them with the harmful anti-lice product. Belgian authorities raided Agro Remijsen (Poultry-Vision), the Belgian supplier of Chickfriend, following suspicions that the pesticide had been illegally used in Belgium and the Netherlands.

#6 Equifax Inc

Sector: Financial Services, Support Services (Industrial Goods and Services); **Headquarters:** United States of America; **Peak RRI:** 79

The consumer credit reporting agency Equifax began facing problems in January 2017 when the US Consumer Financial Protection Bureau announced that the company had agreed to pay USD 6.3 million in civil penalties and consumer restitution for falsely advertising the usefulness of its credit score services and misleadingly charging consumers recurring fees.

However, the real difficulties for the company began on September 7, 2017, when it announced that a cyber-attack on its computer systems between May and July 2017 had allowed hackers to access the personal data of about 143 million people in the US. Equifax shares lost 13 percent of their value the day after the announcement, following reports that the cyber criminals had been able to access full names, Social Security numbers, birth dates, and addresses, allegedly leaving consumers vulnerable to identity theft.

Although the attack reportedly began in mid-May, the CEO of Equifax claimed that the company had only discovered the breach on July 29, 2017.

A week after Equifax announced the data breach in the US, a security vulnerability was found in the internal portal of Veraz, the company's Argentinian operation. It was claimed that the weakness could lead to a breach of the personal data of more than 100 employees and 14,000 customers from Argentina.

Most related companies: Equifax Inc

- Altaba Inc
- British Gas Trading Ltd
- BT Group PLC
- Capital One Financial Corp
- TransUnion LLC
- Verizon Communications Inc

On October 2, 2017, Equifax admitted that 145.5 million Americans had been affected by the US data breach, 2.5 million more than previously thought. One week later, Equifax announced that the breach had targeted 15.2 million customers in the UK, and there were also reports of the breach affecting people in Canada.

New York's Attorney General, the US Federal Trade Commission, the UK Financial Conduct Authority, and other agencies launched investigations into the data breach. The Massachusetts Attorney General also filed a suit against the company on charges that it had illegally failed to report the breach in a timely manner, and had failed to safeguard the data of roughly three million residents of Massachusetts. The company faced over 300 consumer lawsuits related to the incident.

#6 Equifax Inc

The company's troubles worsened when it came to light that the Chief Financial Officer of Equifax and two other senior executives had sold shares in the company worth USD 1.8 million in July, just days after Equifax discovered the cyber-attack, and over a month before the breach was made public. The discovery prompted the US Department of Justice to launch an investigation into the possible violation of insider trading regulations.

Equifax has offered a free lifetime "credit lock" service to victims of its data breach, and has announced that this feature will be available by January 31, 2018. However, some financial analysts doubt the company's ability to provide a reliable service so quickly.

Top ESG Issues:
Equifax Inc

- Human rights abuses and corporate complicity
- Fraud
- Local participation issues

Top ESG Topic Tags:
Equifax Inc

- Privacy violations
- Negligence

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#7 Rolls-Royce Holdings PLC

Sector: Aerospace and Defense, Industrial Engineering; **Headquarters:** United Kingdom of Great Britain and Northern Ireland; **Peak RRI:** 75

In 2017, the British aerospace and industrial engineering giant Rolls-Royce Holdings (Rolls-Royce) continued to face the consequences of allegations that it had systematically paid bribes to secure contracts abroad in its aerospace and former energy businesses. In January, the UK's Queen's Bench superior court approved a deferred prosecution agreement between Rolls-Royce, and the Serious Fraud Office (SFO), which allowed Rolls-Royce and Rolls-Royce Energy Systems to pay GBP 497 million (USD 677.5 million) to settle 12 counts of conspiracy to corrupt, or failure to prevent bribery, in foreign countries. Rolls-Royce also agreed to pay USD 170 million to the Department of Justice in the US, and USD 26 million to Brazil to settle similar charges. The total fine of USD 832.6 million followed a four-year investigation by authorities in Brazil, the UK, and the US, and was the largest penalty recorded for criminal conduct by a UK-based company.

Rolls-Royce reportedly admitted that it had falsified accounts to hide the illegal use of middlemen, had attempted to divert corruption investigations, and had paid more than USD 35 million in bribes between 1989 and 2013 in twelve countries, including Angola, Azerbaijan, Brazil, China, Indonesia, Iraq, Kazakhstan, Malaysia, Nigeria, Russia, and Thailand. The company allegedly made profits of more than GBP 250 million (USD 340.5 million) from its illegal operations, and its management failed to notify the authorities despite being aware of its questionable practices since 2010.

Most related companies: Rolls-Royce Holdings PLC

- Thai Airways International PCL
- Airbus Group SE
- Garuda Indonesia
- PTT Public Co Ltd
- The Boeing Co
- China Eastern Air Holding Co

Investigations conducted by the SFO identified payments of USD 2.2 million to AirAsia executives between 2011 and 2013 to win contracts, a payment of USD 36.3 million to agents working with Thai Airways International, and the use of intermediaries in India, despite the practice being banned by the Indian government.

Rolls-Royce also reportedly admitted to paying bribes to Petroleo Brasileiro SA (Petrobras), paying USD 5 million to China Eastern Airlines, and paying GBP 8 million (USD 11 million) in bribes to Gazprom between 2008 and 2009. Moreover, prior to the sale of its energy business to Siemens

#7 Rolls-Royce Holdings PLC

in 2014, corruption was also identified in its operations in Brazil, Nigeria, and Russia.

The SFO probe into the company's misconduct, reportedly the biggest investigation the office had ever undertaken, led to disciplinary proceedings against 38 Rolls-Royce employees, and the suspension of 88 intermediary relationships.

In January 2017, the Corruption Eradication Commission of Indonesia named a former top executive of the state-owned company Garuda Indonesia as a suspect in a bribery case involving the airline's purchase of Rolls-Royce aircraft engines. Singapore's Corrupt Practices Investigations Bureau also investigated Rolls-Royce's dealing with AirAsia. Thailand's National Anti-Corruption Commission is pursuing a full investigation into bribery allegations involving Rolls-Royce, the country's former transport minister, the board of Thai Airways Intenational, and the former executives of PTT Public Company Limited and PTT Exploration and Production (PTTEP).

In February 2017, the British export credit agency UK Export Finance (UKEF) launched an internal inquiry to determine whether Rolls-Royce fraudulently obtained GBP hundreds of millions in financial support from the credit agency to secure contracts worldwide between 1991 and 2008.
In March 2017, the company faced further criticism following the announcement that the chief executive of Rolls-Royce would receive a pay increase despite the company's falling profits in 2016.

At the time of writing, individuals linked to the civil, defense, marine, and former energy divisions of Rolls-Royce are still being investigated by the SFO.

Top ESG Issues:
Rolls-Royce Holdings PLC

- Corruption, bribery, extortion and money laundering
- Fraud
- Products (health and environmental issues)

#8 Odebrecht SA

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

The Brazilian conglomerate Odebrecht, which was included in both RepRisk's MCC 2016 and 2015 Reports, is ranked eighth in this year's report due to persistent corruption allegations and accusations of human rights abuses and negative impacts on communities and the environment.

The corruption scandal involving Odebrecht, a group that spans the engineering, construction, chemical, and petrochemical sectors, only came to light in 2014 when Brazil's Federal Police launched "Operation Car Wash," a criminal investigation into suspected corruption involving the state-owned company Petroleo Brasileiro SA (Petrobras). The investigation revealed that Petrobras executives had accepted bribes for awarding construction contracts at inflated prices, and then paid part of the money to senior Brazilian politicians.

The accusations linked Odebrecht to corruption in connection with several projects in Brazil, including the Abreu e Lima Refinery, the Angra 3 Nuclear Reactor, the Enseada Industrial Naval Project, the Madeira River Complex, the Maracana Stadium, the Petrochemical Complex of Rio de Janeiro, and the Trans-Oceanic Highway, as well as other contracts in Switzerland and the US. Odebrecht admitted that it had netted USD 3.3 billion in illicit profits by giving out nearly USD 800 million in bribes in 12 countries.

Most related companies: Odebrecht SA

- Petroleo Brasileiro SA (Petrobras)
- Andrade Gutierrez Engenharia SA (Andrade Gutierrez Group)
- Camargo Correa Group (Camargo Correa SA)
- OAS SA (Grupo OAS)
- Grupo Queiroz Galvao SA

On June 26, 2017, a Brazilian Federal Court reduced the 19-year prison sentence handed down in 2016 to Marcelo Odebrecht, the former president of Odebrecht Group, to ten years after Mr. Odebrecht reached a plea bargain following charges of participating in the Car Wash corruption and money laundering scheme. It was claimed that Odebrecht had participated in a cartel between 2004 and 2014, with companies such as Andrade Gutierrez Engenharia, Camargo Correa, Galvao Engenharia, Grupo Queiroz Galvao, OAS, and UTC Participacoes to defraud public bidding procedures. Bribes totaling USD 90 million paid by the companies reportedly financed the electoral campaigns of the Progressive Party.

In December 2017, the Ecuadorian National Court sentenced the Ecuadorian Vice President Jorge Glas to six years in prison for allegedly receiving kickbacks from Odebrecht, both during his period as a cabinet minister and later as Vice President, in exchange for granting the company public contracts.

In the same month, the Peruvian Attorney General's Office also accused Odebrecht of paying USD 780,000 in bribes to the current Peruvian President Pedro Pablo Kuczynski between 2004 and 2007 and USD 4 million to a company owned by a friend of Mr. Kuczynski. They also alleged that Odebrecht had paid USD 20 million to the former Peruvian President Alejandro Toledo in exchange for highway contracts.

Also in 2017, the company, together with Andrade Gutierrez Engenharia Camargo Correa, Eletrobras, and Norte Energia, faced several lawsuits in Brazil for the social and environmental impact of the Belo Monte Hydroelectric Complex on indigenous communities in the Brazilian state of Para.

In March, Odebrecht agreed to pay BRL 30 million (USD 9.5 million) to settle a civil case accusing its subsidiary Odebrecht Agroindustrial of subjecting workers to slave-like conditions in Angola, and was also accused of paying the Colombian guerrilla group, FARC, since the 1990s to safeguard its operations in Colombia.

Top ESG Issues: Odebrecht SA

- Corruption, bribery, extortion and money laundering
- Anti-competitive practices
- Fraud
- Impacts on communities
- Impacts on ecosystems and landscapes

Top ESG Topic Tags: Odebrecht SA

- Involuntary resettlement
- Indigenous people
- Protected areas
- Hydropower (dams)

Emilio Odebrecht, the chairman of the Odebrecht Group, announced in December that he would resign in 2018, and that the position of chief executive would no longer be held by a family member.

The Car Wash investigations are ongoing, and to date have linked Odebrecht to corrupt business dealings across Latin American countries including Argentina, Colombia, the Dominican Republic, Ecuador, Guatemala, Mexico, Peru, Panama, and Venezuela.

#9 Petroleos de Venezuela SA

Sector: Oil and Gas; **Headquarters:** Venezuela; **Peak RRI:** 73

Throughout 2017, Petroleos de Venezuela (PdVSA) faced numerous investigations by the authorities in Brazil, Portugal, Spain, the US, and Venezuela, following suspicions that USD hundreds of millions had been embezzled from the state-owned oil company between 2010 and 2016.

In March, the US Department of Justice claimed that PdVSA had awarded contracts that were overcharged by up to 1,000 percent, to companies based in locations such as Barbados, China, Colombia, Curacao, Panama, and Singapore in exchange for kickbacks that were paid through the US company 911 Equipment Inc.

The Venezuelan authorities then began to investigate five current and former executives of PdVSA for suspected embezzlement, after claims that in 2010 PdVSA had leased the PetroSaudi Saturn Oil Rig from PetroSaudi International at inflated fees and without a public tender at a cost of nearly USD 1.3 billion. The oil rig was deployed for Venezuela's Mariscal Sucre Offshore Project. There were also allegations that Castillo Max Oil and Gas SA and Guevara Training had overbilled for sales of equipment at Venezuela's Jose Gas Terminal.

In April, PdVSA was linked to the Brazilian Operation Car Wash corruption probe[1] involving Petroleo Brasileiro SA (Petrobras), following allegations that executives of Odebrecht had transferred illegal payments to the company. The Brazilian police also began investigating a money laundering scheme allegedly set up by PdVSA involving exports of agricultural equipment from Brazil to Venezuela. Police suspected that between 2010 and 2014 PdVSA had overpaid BRL 200 million (USD 62 million) for equipment purchased from the Venezuelan company Tracto America CA, which in turn had purchased it from America Trading Ltd in Brazil. The extra money was allegedly transferred to various accounts in countries such as Panama, Switzerland, and the US.

Two months later, at the request of the Portuguese authorities, Spain's Fiscal and Economic Crime Unit launched an investigation into the alleged diversion of up to USD 4 million from PdVSA through bank accounts in Andorra and also through the

Most related companies: Petroleos de Venezuela SA

- CITGO Holding Inc
- CITGO Petroleum Corp
- Rosneft Oil Co; OAO (NK Rosneft)
- Gazprom; PAO

1 For further details on the "Car Wash" investigation, please refer to the Case Study on Odebrecht on page 22.

#9 Petroleos de Venezuela SA

former Portuguese bank Banco Espirito Santo. In August, Venezuela's Attorney General launched an investigation into PdVSA's management of concessions for the Orinoco Oil Belt following suspicions that USD 200 million had been embezzled through the contracts between 2010 and 2016.

One month later, Venezuela's military intelligence services arrested nine senior executives of PdVSA on corruption charges for allegedly diverting crude oil exports and awarding contracts without putting them out to tender. Gazprombank, which holds a 40 percent stake in the joint Venezuela-Russia oil company PetroZamora, also accused PdVSA of intentionally causing damage to PetroZamora by lowering the quality of the company's crude oil, which they claimed had caused the company to lose USD hundreds of millions between 2010 and 2017. In the same month, Chinese authorities linked PdVSA to the Chinese mafia.

In November, Venezuelan authorities detained ten PdVSA managers and issued arrest warrants for a further two in connection with a scheme to inflate oil production figures in order to receive more royalties from the Venezuelan State, which had allegedly paid USD 266 million for oil production that had been reported, but not actually generated. The Venezuelan authorities then arrested Nestor Martinez, the former chairman of PdVSA, on charges of embezzlement, conspiracy, and money laundering, and a further 15 PdVSA managers, including six officials of the company's American subsidiary Citgo Petroleum Corp. A further ten individuals were arrested in the US, and two former PdVSA employees were arrested in Spain.

Top ESG Issues:
Petroleos de Venezuela SA

- Corruption, bribery, extortion and money laundering
- Fraud
- Impacts on communities
- Impacts on ecosystems and landscapes
- Occupational health and safety issues

Top ESG Topic Tags:
Petroleos de Venezuela SA

- Negligence

On December 29, 2017, the Venezuelan State Prosecutors Office accused former PdVSA executives of taking part in a USD 4.8 million corruption scheme by selling crude oil at below market prices out of PdVSA's subsidiary in Vienna between 2009 and 2015.

By the end of December 2017, a total of 69 PdVSA officials had been arrested, and prosecutors prosecutors said they expected further detentions.

#10 Transnet SOC Ltd

Sector: Industrial Transportation; **Headquarters:** South Africa; **Peak RRI:** 73

In 2017, Transnet SOC Ltd (Transnet), a transport company majority-owned by the government of South Africa, found itself at the center of a corruption scandal involving the Gupta family, who had immigrated to South Africa from India in 1993 and developed a business empire across the country.

RepRisk first detected corruption involving the Gupta family and Transnet at the beginning of November 2016, when South Africa's former Public Protector, Thuli Madonsela, published a report entitled, "State of Capture," which linked President Jacob Zuma and other South African government officials to corrupt deals that allowed the Gupta family to have special treatment for mining, arms, and transport contracts. The affair hit the mainstream news at the end of June 2017, when a series of around 200,000 leaked emails and documents provided further evidence of corruption involving the Gupta family and South African companies. The leak prompted South Africa's Public Protector to launch an investigation into the allegations of influence peddling at Eskom, the Passenger Rail Agency of South Africa, and Transnet.

The leaked documents showed that Gupta-owned Tequesta Group Ltd had siphoned off ZAR 5.25 billion (USD 423 million) from Transnet's ZAR 25 billion (USD 2 billion) deal to buy 554 electric locomotives from China South Locomotive & Rolling Stock Corporation in 2015, a company that then merged with China CNR Corporation to form CRRC Corporation.

Top related companies: Transnet SOC Ltd

- SAP SE
- Eskom Holdings SOC Ltd
- CAD House (Pty) Ltd
- McKinsey & Co Inc
- China South Locomotive & Rolling Stock Corporation Ltd (CSR Corp Ltd; China South Rail)

At the end of June, Trillian Capital Partners Pty Ltd, the South African Broadcasting Corp, and South African Airways Pty Ltd, were linked to the Gupta scandal.

In mid-July, investigative journalists claimed that in August 2015, the German software company SAP had signed a contract allowing Gupta-owned CAD House (Pty) Ltd to receive a ten percent commission on a contract with Transnet worth at least ZAR 100 million (USD 8 million). By 2016, SAP had reportedly paid CAD House ZAR 99.9 million (USD 8 million). The money was reportedly transferred to companies in the Sahara Group network including Cutting Edge SA, and Future TeQ (Pty) Ltd, Sahara Computers Pty Ltd, and Sahara Systems Pty Ltd.

#10 Transnet SOC Ltd

Liebherr International AG (Liebherr) and Shanghai Zhenhua Heavy Industries Co Ltd, a subsidiary of the China Communications Construction Co Ltd (CCCC), a company founded by the state-owned China Communications Construction Group, was then linked to kickbacks to the Gupta family in exchange for contracts to supply ship-to-shore cranes to Transnet for use in South African ports. Allegedly, Shanghai Zhenhua, which had a USD 92 million contract for seven cranes, paid at least USD 4.2 million in several tranches over a 14-month period to UAE-registered Gupta owned, JJ Trading FZE. Liebherr reportedly paid about ZAR 100 million (USD 8 million) to Accurate Investments Ltd, a shell company owned by Gupta in the UAE, between 2013 and 2014 to secure contracts to deliver cranes to Transnet.

In September 2017, South Africa's National Treasury commissioned an investigation into Anoj Singh, the former CFO of Transnet and Eskom Holdings, following accusations that while serving as the CFO of Transnet, ZAR 30 billion (USD 2.4 billion) in contracts had been awarded to companies who paid kickbacks amounting to ZAR 5.6 billion (USD 450 million) to companies owned by the Gupta family in Hong Kong, South Africa, and the UAE. McKinsey & Co Inc., Neotel Pty Ltd, Regiments Fund Managers, and Transnet Freight Rail, were also linked to the scandal.

Top ESG Issues: Petroleos de Venezuela SA

- Corruption, bribery, extortion and money laundering
- Fraud

At the end of September, the British public relations company Bell Pottinger Group, collapsed when it was revealed that it had organized a racially divisive campaign to portray the Gupta family as victims in the ongoing corruption scandal.

At the beginning of January 2018, the South African police began investigating the chief executive of Transnet and two other senior executives following allegations that they were spying on employees whom they suspected of being the whistle blowers behind the corruption allegations.

Methodology

RepRisk Special Reports are compiled using information from the RepRisk ESG Risk Platform, the world's largest due diligence database on environmental, social, and governance (ESG) and business conduct risks, used to conduct in-depth risk research on listed and non-listed companies as well as projects of all sizes, from all sectors and countries, including emerging and frontier markets.

RepRisk believes it is important to look at performance, not just policies. Therefore, we take an outside-in approach to assessing a company: Our research captures and analyzes information from media, stakeholders, and other public sources external to a company. This perspective helps assess whether a company's policies and processes are translating into actual performance on the ground. RepRisk combines artificial intelligence with human analysis in 16 languages to translate big data into curated and actionable research and metrics, using a proprietary, rules-based methodology.

On a daily basis, RepRisk screens over 80,000 media, stakeholder, and third-party sources including print and online media, NGOs, government bodies, regulators, think tanks, newsletters, social media, and other online sources at the international, national and local level. RepRisk's methodology is issues-driven, rather than company-driven – i.e. RepRisk's daily screening is driven by RepRisk's research scope. The scope is comprised of 28 ESG Issues, which were selected and defined in accordance with the key international standards and of 45 Topic Tags, ESG "hot topics" that are specific and thematic.

For more information on our research approach and the ESG Risk Platform, please visit our website or email us at contact@reprisk.com.

The RepRisk Index (RRI)

The RRI is a proprietary risk metric developed by RepRisk that dynamically captures and quantifies a company's or project's reputational risk exposure related to ESG issues. The RRI is not a measure of reputation, but is rather an indicator of ESG-related reputational risk of a company. It facilitates an initial assessment of the ESG and reputational risks associated with financing, investing, or conducting business with a particular company. The RRI ranges from zero (lowest) to 100 (highest). The higher the value, the higher the risk exposure. A value between 75 and 100 denotes extremely high risk exposure. The Peak RRI equals to the highest level of the RRI over the last two years – a proxy for overall ESG-related reputational risk exposure.

Find out more about RepRisk's suite of risk metrics and how they can support your business here or email us at contact@reprisk.com.

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