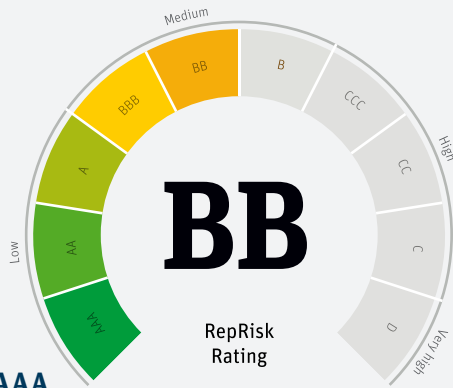


# ESG risk exposure of DAX companies

The average RepRisk Rating for DAX companies:



Highest rating: AAA

Lowest rating: CC

The average RepRisk Rating for CAC 40: BB  
Range: AAA to CC

The average RepRisk Rating for FTSE MIB: BB  
Range: AA to CC

The RepRisk Rating is a proprietary risk metric, ranging from AAA to D, that captures and quantifies a company’s risk exposure related to environmental, social, and governance (ESG) issues.

Throughout 2016, several companies listed on the German Stock Exchange (DAX) found themselves facing a reputational crisis related to ESG issues. The report below highlights the sectors that have been mostly affected, and illustrates how ESG issues can have serious reputational, financial, and legal consequences for the entities concerned.

## Financial sector

Over the last twelve months, the banking industry has been Germany’s most controversial sector, according to RepRisk, mainly due to allegations of money laundering, fraud, and anti-competitive practices.

In April, several German banks were named in documents leaked from Panama-based Mossack Fonseca in relation to potential money laundering and tax optimization through over 1,200 offshore companies. NGOs also criticized major German banks for committing to sustainable investments, while indirectly financing armaments companies, and investing in controversial sectors that cause environmental damage and violate human rights.

There were also concerns about a potential merger between the London Stock Exchange Group (LSE) and Deutsche Boerse, amid fears that it would stifle competition. Furthermore, in early 2017, there were allegations of insider trading in connection with the merger.

## Automobile sector

The automobile industry was the second most controversial sector in Germany in 2016. Volkswagen continued to deal with the fallout from its emissions scandal that erupted in September 2015. In February 2017, German prosecutors added the company’s former CEO, Mr. Martin Winterkorn, to an expanded list of 37 people involved in their ongoing investigation.

However, during 2016, NGOs also linked other car manufacturers including Mercedes Benz and BMW to fuel consumption fraud. Tests carried out by German Environmental Relief, allegedly showed a discrepancy of more than 50 percent between the real fuel consumption of some Mercedes models and data provided by the manufacturer. On BMW models, the discrepancy was apparently higher than 45 percent.

The industry also continued to suffer the fallout from faulty Takata-made airbags that have so far been linked to 11 deaths and 184 injuries in the US. In December, the US National Highway Traffic Safety Administration ordered around 19 car companies including Daimler and Volkswagen to recall more than 42 million vehicles fitted with the faulty airbags.

The industry was also linked to child labor when Amnesty International reported that car manufacturers including Daimler, Volkswagen, and BMW sourced batteries from firms that buy cobalt from mines in the Democratic Republic of Congo, where tens of thousands of young children are employed in deplorable conditions for around USD 1 a day.

The Thomson Reuters Foundation also linked BMW, Audi, Mercedes Benz, and Volkswagen to child labor at mica mines in India. The Foundation reported that mica, a mineral used in car paint, is often sourced from illegal, small-scale mines in India that employ children in hazardous conditions.

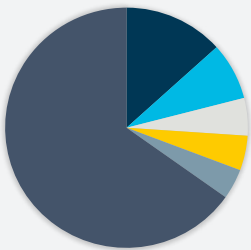
## Chemical sector

Germany's chemical sector was also criticized in 2016. In particular, concerns were raised about Bayer's EUR 55 billion acquisition of Monsanto, as both companies produce controversial GMO seeds and the new company would control 29 percent of the global seed market and 24 percent of the pesticide market. The controversies also focused on Monsanto's use of the herbicide Roundup that has been linked to malformation during pregnancy, miscarriages, tumors, and respiratory diseases.

Bayer Healthcare also faced thousands of claims that the company had withheld warnings about the health risks associated with its blood thinner Xarelto and received multiple complaints that its contraceptive implant Essure produced dangerous side effects, including depression, dizziness, and uterine perforation.

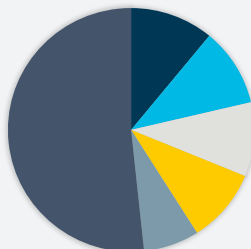
BASF, was badly affected by an explosion and subsequent fire at its chemical plant in Ludwigshafen, which killed four people on October 17. Seven people were also critically injured, while 22 others received slight injuries.

### Top ESG Issues



1. Fraud
2. Products (health and environmental issues)
3. Impacts on communities
4. Corruption, bribery, extortion and money laundering
5. Local pollution
6. Other Issues (22 out of 28)\*

### Top ESG Topic Tags



1. Coal-fired power plants
2. Genetically modified organisms (GMOs)
3. Indigenous people
3. Negligence
5. Hydropower (dams)
6. Other Topic Tags (23 out of 45)\*

NB. Not all risk incidents are linked to Topic Tags.

\*The charts display the top five environmental, social, and governance (ESG) Issues and Topic Tags (ESG "hot topics"), related to the DAX companies, based upon the number of risk incidents in the last two years. For a full list of the ESG Issues and Topic Tags covered by RepRisk, as well as more information on the RepRisk methodology, please visit our website: <https://www.reprisk.com/our-approach>

## Industrial sector

In the course of 2016, industrial giant Siemens was linked to human rights violations, environmental destruction, and land grabbing through its involvement in energy projects such as the Belo Monte and the Jirau hydroelectric plants in Brazil.

Siemens and Voith were also accused of being indirectly complicit in human rights violations, as the companies planned to supply turbines for the Agua Zarca Hydroelectric Project in Honduras. Both companies suspended delivery of materials for the project following the murder of an activist in March 2016.

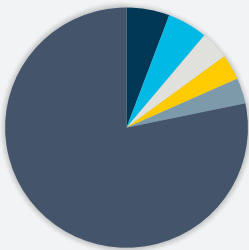
NGOs criticized Thyssenkrupp for buying coal from Vale and Rio Tinto's operations in Mozambique, claiming that the companies had displaced whole communities to make way for mines, leaving them with no access to water.

## Utilities sector

The utilities sector also faced controversies. In February, four workers engaged in the demolition of RWE Npower's decommissioned Didcot A Power Station in Oxfordshire, England, died when part of the site caved in.

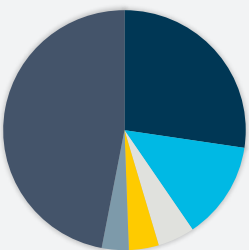
RWE was also criticized for holding shares in Blackhawk Mining, a company whose mountaintop removal activities have allegedly destroyed over 500 mountains, 3,000 kilometers of rivers, and 7,000 square kilometers of forest in the Appalachian Mountains. NGOs also urged EnBW, RWE, and Uniper, to stop sourcing coal from Drummond and Prodeco/Glencore, as the companies have been accused of financially supporting Colombian paramilitary forces linked to murders and human rights violations.

### Top Projects



- 1. Hambach Open-Pit Mine
- 2. Agua Zarca Hydroelectric Project
- 3. Belo Monte Hydroelectric Complex
- 4. ThyssenKrupp Companhia Siderurgica do Atlantico Steel Factory (TKCSA)
- 4. Ludwigshafen Plant (BASF)
- 6. Other Projects (110)\*

### Top Countries and Territories



- 1. USA
- 2. Germany
- 3. UK
- 4. China
- 5. Brazil
- 6. Other Countries and Territories (103 out of 258)\*

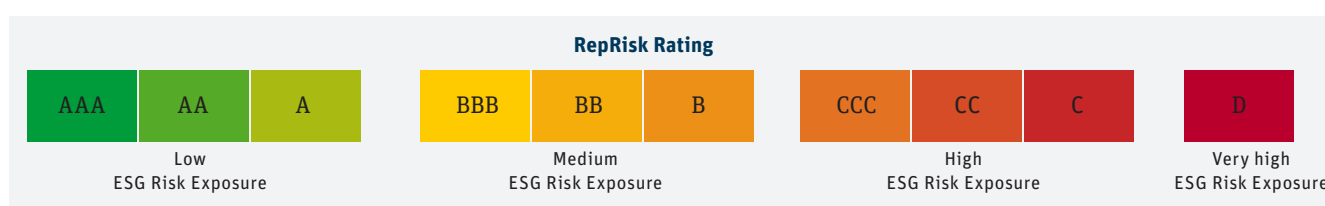
\*The charts display the top five projects and countries related to the DAX companies, based upon the number of risk incidents in the last two years. For a full list of projects and countries and territories covered by RepRisk, as well as more information on the RepRisk methodology, please visit our website: <https://www.reprisk.com/our-approach>

## The RepRisk Rating

The RepRisk Rating is a proprietary risk metric that facilitates corporate benchmarking and ESG integration into a variety of functions, including risk management, compliance, and procurement. The RepRisk Rating ranges from AAA to D, and captures and quantifies a company's risk exposure related to environmental, social, and governance (ESG) issues. It combines a company's own ESG risk exposure with the ESG risk exposure of the countries and sectors in which the company has been exposed to risks. Based on RepRisk's strict, rules-based methodology, the Rating is updated daily for all companies in the RepRisk ESG Risk Platform.

## The RepRisk Director's Brief

The RepRisk Rating is the cornerstone of the RepRisk Director's Brief, a corporate benchmarking report that assesses your company's exposure to ESG risks, and benchmarks it with a customizable peer list. The Director's Brief is a data-driven strategy and decision-making tool used by board members, executives, investor relations and corporate affairs professionals, as well as CSR and sustainability teams.



## About RepRisk

RepRisk is a global research and business intelligence provider, specializing in ESG risks. For over ten years, our focus has been risk management and transparency – delivering data and analytics that help reduce blind spots and shed light on ESG issues that may, in turn, translate into reputational, compliance, or financial risks.

On a daily basis, RepRisk screens over 80,000 media, stakeholder, and third-party sources. These include 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 searches for news in 15 languages: English, Chinese, Danish, Dutch, Finnish, French, German, Italian, Japanese, Korean, Norwegian, Portuguese, Russian, Spanish, and Swedish. Harnessing a proprietary framework that leverages artificial intelligence and hands-on human analysis, RepRisk curates dynamic risk information related to companies, projects, sectors, and countries.

RepRisk's methodology is issues-driven, rather than company-driven – i.e. RepRisk's daily screening is driven by RepRisk's research scope, not a finite list of companies. This approach allows RepRisk to capture ESG risks for any company, regardless of size, sector, country, or whether the company is listed or non-listed. The RepRisk 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.

Since 2006, RepRisk has built the world's most comprehensive ESG risk database and a suite of solutions to help manage ESG and reputational risks in day-to-day business. Today, RepRisk works with more than 150 of the world's leading corporates and financial institutions to deliver the transparency that drives better decisions.

## Order your Director's Brief today

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