

2017 Engagement Report

June 2018

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This report has been co-produced with our engagement service provider GES.



Highlights 2017

In 2017, we saw progress particularly in companies' human rights due diligence and remediation, with both Vedanta Resources (Vedanta) and AES Corp (AES) removed from IPM's Exclude & Engage List following successful engagement on the related issues.

Vedanta, previously accused of breaching environmental laws and contributing to human rights abuse in connection to a mine in India, publicly stated it will not source bauxite from a disputed area without consent from the indigenous communities. In addition, after an earlier comprehensive review of Vedanta's ESG management by an external consultant, policies and procedures had substantially improved, and the implementation continued in 2017. Among the developments is Vedanta's Human Rights Policy for all its group companies whereby it has demonstrated that the policy is also enforced in the supply chain. This includes human rights training being provided to suppliers and the company conducting risk assessments of its supply chain.

AES, in turn, has addressed critical issues in relation to its Chan 75 hydropower dam in Panama. The Special Rapporteur on the rights of indigenous peoples had previously concluded that most of the families affected by the dam had reached agreements with the Panamanian government and with AES, the terms of which have been made public. AES has subsequently confirmed that it has agreements in place with all families in the communities directly affected by the operation. A 2016 field report on behalf of UNESCO noted that impacts from Chan 75 are measurable but limited. The report did not find any current open conflict, protests, strikes or claims, and stated that although the mission was given examples of dissatisfaction with the applied relocation scheme for affected people, no such testimonies were given by any directly affected family. AES Panama also has a human rights policy in place, as well as its guidelines to respect indigenous peoples' rights.

In addition, a revision of the incidents associated with L3 Technologies (L3) regarding human rights violations in several countries showed that the company is no longer connected to wrongdoing because the provision of relevant services has been sold off as a separate entity and L3 has since not returned to selling this type of services. This, combined with the time passed, the fact that there is no particular risk exposure and no reported human rights issues between 2012 and 2017, and the fact that IPM also decided to resolve the cluster munition case that the company was associated to, led IPM to re-include L3 in its investment universe.

There has been some positive momentum in the area of labour rights as well, with related cases on Lonmin and Transocean resolved during 2017.

The Lonmin engagement was concluded after a number of positive developments had occurred since the 2012 incident in South Africa. Firstly, the company's relations with the unions are much improved, evidenced by two successfully negotiated labour agreements and the downsizing of the workforce by almost 6,000 having been achieved peacefully. The relationship between Lonmin, community and police has also become better, with community forums in place and attended by all three parties as well as the local authorities, together seeking solutions in relation to improved community security. The outstanding area of concern was the provision of housing to Lonmin's employees, whereby the company in 2017 provided details of its existing plans and future intentions which should see the vast majority, if not all, of its workforce in housing by 2023.

Transocean's health and safety management system, reviewed after the Deepwater Horizon accident in 2010, has also progressively improved, which led the company to be re-included by IPM in 2017. IPM attended a collaborative investor call with Transocean in the first half of 2017, where it became clear that the company's safety policies address all relevant aspects and cover all operations, as well as include legal

compliance safeguards. Transocean's HSE management was consequently assessed to hold a high standard and the company's reporting includes lessons learned, incentive mechanisms and how corrective actions are integrated into the system.

During 2016 the IPM ESG Committee started a review of its stance towards companies that have previously been involved development, manufacturing and/or marketing of cluster munitions or components for cluster munitions. Several companies previously involved in such violations have ceased with such activities since many years. While there were good reasons to believe there would not be any further violations, the ESG Committee were not satisfied that the criteria for re-inclusion were sufficiently met to allow for investment in these companies. During the first half of 2017, the review continued, and it was finally decided to re-include a number of these companies in our investment universe.

Companies on IPM's Focus list are also moving to the right direction. BHP completed the outstanding actions from its internal dam review and brought closure to the USD 48.6 billion suit brought by the Public Prosecutors, following prolonged negotiations throughout much of 2017 between the companies and the prosecution. Furthermore, the resettlement of Bento Rodrigues moved closer in December when Mariana Municipality accepted the urban plan for the resettlement.

During the year, Glencore also confirmed that it had withdrawn from Western Sahara and no longer has any oil exploration licences in the area. The engagement on the company's overall human rights management and due diligence continues, however.

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude nuclear weapons involved companies basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states. The Treaty states that while the five nuclear weapon states (the US, the UK, France, Russia and China) can possess nuclear weapons, 1) they cannot proliferate the technology to non-nuclear weapon states and 2) they should not do so perpetually, as the ultimate goal of the treaty is nuclear disarmament. As the proliferation of nuclear weapons technology by the five nuclear weapons states have in fact not been happening, the letter of the Treaty has not been violated. However, since the ultimate goal of the treaty, the nuclear disarmament has not become any closer in half a century, the Committee believes the spirit of the Treaty has been breached. The Committee also believes that nothing can be achieved using engagement efforts in the nuclear weapon cases.

Our Responsible Investment Approach

It is an essential component of IPM's philosophy and corporate social responsibility to support the principle that companies have a duty to comply with international norms, even though they are not legally obliged to do so. Specifically, we do not want to invest in companies that violate such norms. We believe that Environmental, Social and Corporate Governance (ESG) incorporation will lead to long-term benefits for our clients as well as the financial markets and the society more broadly.

The objective of IPM's responsible investment initiative is to:

- Generate long-term benefits for our clients in terms of risk reduction and potentially higher returns;
- Positively impact the focus on environmental, social and corporate governance issues amongst the companies we invest in;
- Complement IPM's other efforts within corporate social responsibility (e.g. donations);
- Develop a sense of pride and corporate social responsibility among IPM's staff.

At IPM we integrate ESG factors into the equity investment process. A part of our active weights comes from the Governance & Quality screen that in a systematic fashion penalizes companies with aggressive accounting standards and other signs of lax corporate governance.

Additionally, we screen the equity portfolios for their compliance with international guidelines and conventions on environment, human rights and business ethics such as UN Global Compact. Non-compliance is dealt with through an engagement and exclusion process.

To mitigate the lost exposure due to exclusions, IPM has developed an optimizer that identifies and overweights companies with similar characteristics as the excluded ones but that comply with the norms, thus applying a 'best-in-class' approach.

We are active owners. IPM engages in a dialogue with all companies in our investment universe that violate UN Global Compact principles or other well-established international guidelines and conventions. We do this through joining collaborative engagement efforts, by engaging on our own and through the use of an engagement service provider.

As active owners we also exercise our right to vote by voting according to best corporate governance standards in the companies in which we hold shares.

IPM is a signatory to Principles for Responsible Investment.

Our Engagement Working Model

Background

We are active owners. IPM engages in dialogue with all companies in our investment universe that violate UN Global Compact principles or other well-established international guidelines and conventions. We do this through joining collaborative engagement efforts, by engaging on our own and through the use of an engagement service provider.

The objective of our engagement efforts is to improve the conduct and policies of the affected companies. During our engagement work we urge them to stop the violation, to adopt a responsible course of action and to take a proactive and precautionary approach to improve routines and prevent future violations. These are our requirements to keep these companies as eligible for investment in our portfolios. The companies failing to respond to our engagement efforts in a satisfactory manner are excluded from our investment universe.

GES Global Ethical Standard

The engagement process is based on results from the GES Global Ethical Standard analysis model – a systematic screening of companies regarding their compliance with well-established international conventions and guidelines on ESG issues. Among other things, these include:

- UN Global Compact
- OECD Guidelines for Multinational Enterprises
- ILO Core Labour Conventions
- Human rights conventions
- Environmental conventions
- Weapons-related conventions

Two factors are critical when deciding whether to proceed with the analysis of a reported incident: incident criteria and reporting criteria. Incident criteria include one or more of the following:

- An association on the basis of systematic actions;
- An association on the basis of isolated actions leading to severe negative consequences.

Reporting criteria includes one or more of the following:

- Examination by an official and credible body that confirms the connection between the company and the reported violation;
- Sanctions against the company issued by regional/national courts or an official body;
- The company has admitted responsibility for the incident(s);
- Several independent and credible sources confirm the connection between the company and the reported violation.

Companies that have incidents fulfilling the above-mentioned criteria need to take positive action meeting the following three criteria in order for the case to be resolved:

- The reported violation has ceased;
- The company has adopted a responsible course of action regarding the assessed violation;
- The company has taken a proactive and precautionary approach to improve routines and prevent future similar violations.

IPM ESG Committee

The IPM ESG Committee is responsible for overseeing all responsible investment efforts at IPM. The objective of the IPM ESG Committee is to provide advice and guidance on IPM's activities within the area of responsible investment, set and review targets for responsible investment activities and to decide on engagement, exclusion and re-inclusion cases at IPM.

The basis for the analysis and decisions made by the Committee is the GES Global Ethical Standard research process, provided by GES. However, the Committee will also consider other relevant information in their analysis of GES' recommendations (including results of IPM's own and collaborative engagement efforts).

IPM Focus List

Companies that have been officially documented systematically or severely breaching any of UN Global Compact's ten principles or other well-established international conventions and guidelines are put on special watch – IPM Focus List. The IPM ESG Committee carefully studies these companies in order to verify any signs of progress in improving their conduct. Lack of improvements over a period of 1 year (neither satisfying at least one GES revision criteria per year, nor presenting any documented proof that confirms significant improvements) or remaining on the GES Engage Cases List for more than 3 years is deemed a sufficient reason for the IPM ESG Committee to decide on exclusion of that company from the investment universe.

IPM Exclude & Engage List

The companies that do not respond to the engagement and continue to breach well-established international norms on ESG issues are excluded from the investment universe if so decided by the IPM ESG Committee. All companies excluded from the investment universe will remain excluded until they are recommended for re-inclusion by GES, unless the Committee decides there are extraordinary circumstances that warrant an earlier re-inclusion. Only circumstances related to an improvement in company's conduct will be taken into account. Even though IPM excludes the companies, both IPM and GES will continue with the engagement process.

All companies involved in cluster munitions, anti-personnel land mines and nuclear weapons according to GES will be directly excluded.

On the following pages, we present an overview of all IPM 2017 ESG cases and details of all resolved and excluded cases during the year together with the companies on our focus list.

IPM 2017 Cases

IPM Resolved Cases
























Company	Country of Incorporation	Violation	Status	Engagement Activities	Portfolio
AEROJET ROCKETDYNE HLDGS INC	US		Resolved	G · E · S ⁺	Re-included
AES CORP	US		Resolved	G · E · S ⁺	Re-included
GENERAL DYNAMICS CORP	US		Resolved	G · E · S ⁺	Resolved**
L3 TECHNOLOGIES INC	US		Resolved	G · E · S ⁺	Re-included
LOCKHEED MARTIN CORP	US		Resolved	G · E · S ⁺	Resolved**
LONMIN PLC	UK		Resolved	G · E · S ⁺	Resolved
ORBITAL ATK INC	US		Resolved	G · E · S ⁺	Re-included
TRANSOCEAN LTD	Switzerland		Resolved	G · E · S ⁺	Re-included
VEDANTA RESOURCES	UK		Resolved	G · E · S ⁺	Re-included

IPM Focus List

BHP BILLITON LTD / BHP BILLITON PLC	Australia / UK		Engage		G · E · S ⁺	
ENBRIDGE / ENBRIDGE ENERGY PARTNERS LP	Canada		Engage		G · E · S ⁺	New
GLENCORE PLC	UK		Engage		G · E · S ⁺	
PHILLIPS 66	US		Engage		G · E · S ⁺	New

IPM Exclude & Engage List

AECOM	US		Exclude		G · E · S ⁺	New/Excluded
AGRIUM INC*	Canada		Exclude & Engage		G · E · S ⁺	
AIRBUS SE	Netherlands		Exclude		G · E · S ⁺	New/Excluded
ANDRITZ AG	Austria		Exclude & Engage		G · E · S ⁺	
BAE SYSTEMS	UK		Exclude		G · E · S ⁺	New/Excluded
BARRICK GOLD CORP	Canada		Exclude & Engage		G · E · S ⁺	
BOEING CO	US		Exclude		G · E · S ⁺	New/Excluded
BWX TECHNOLOGIES	US		Exclude		G · E · S ⁺	New/Excluded
CHEVRON CORP	US		Exclude & Engage		G · E · S ⁺	
FLUOR CORP	US		Exclude		G · E · S ⁺	New/Excluded
FREEPORT-MCMORAN INC	US		Exclude & Engage		G · E · S ⁺	
GENERAL DYNAMICS CORP	US		Exclude		G · E · S ⁺	New/Excluded
HONEYWELL INTERNATIONAL	US		Exclude		G · E · S ⁺	New/Excluded
JACOBS ENGINEERING GROUP	US		Exclude		G · E · S ⁺	New/Excluded
LEONARDO SPA	Italy		Exclude		G · E · S ⁺	New/Excluded
LOCKHEED MARTIN CORP	US		Exclude		G · E · S ⁺	New/Excluded
MOTOROLA SOLUTIONS INC	US		Exclude & Engage		G · E · S ⁺	
NORTHROP GRUMMAN CORP	US		Exclude		G · E · S ⁺	New/Excluded
POSCO	South Korea		Exclude & Engage		G · E · S ⁺	

POTASH CORP OF SASKATCHEWAN INC*	Canada		Exclude & Engage				
RAYTHEON COMPANY	US		Exclude			New/Excluded	
RIO TINTO / RIO TINTO LTD	UK / Australia		Exclude & Engage				
SAFRAN GROUP	France		Exclude			New/Excluded	
TEXTRON INC	US		Exclude				
TOKYO ELECTRIC POWER CO INC	Japan		Exclude & Engage				
VOLKSWAGEN AG	Germany		Exclude & Engage				Excluded
WALMART INC	US		Exclude & Engage				
WESFARMERS	Australia		Exclude & Engage				

* POTASH CORP OF SASKATCHEWAN INC and AGRIMUM INC merged in January 2018 to create NUTRIEN LTD

** Association to cluster munitions case resolved but the company remains excluded due to the association to the nuclear weapons programmes case

Legend:

Problem Areas



Labour Rights



Inhumane Weapons



Environment



Human Rights

Engagement Activities



Collaborative: IPM joined a collaborative initiative with other investors in a form of a letter, a phone conference or a physical meeting.



Independent: IPM sent one or more letter(s) to the company.



Service Provider: GES engaged with the company on behalf of IPM.

Resolved: AEROJET ROCKETDYNE HLDGS INC

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

In the past, Aerojet Rocketdyne, a subsidiary of Aerojet Rocketdyne Hldgs (formerly known as Gencorp Inc.), manufactured special components for MLRS, GMLRS and ATACMS weapon systems, which were deployed with cluster munitions. Such systems fulfil the definition under the Convention on Cluster Munitions of weapons that “cause unacceptable harm to civilians”. Since 2008, these weapons systems have been used with unitary warheads only, which do not violate the Convention. The company has also stopped marketing cluster munitions.

Goal

The company has adopted a responsible course of action. Aerojet Rocketdyne has ceased its marketing and production of special components for cluster munitions that are banned by the Convention on Cluster Munitions.

This year’s development

Aerojet Rocketdyne was in the past associated with cluster munitions, but the products currently developed and manufactured by it do not violate the Convention on Cluster Munitions. Additionally, GES has not identified any reports that would link the company to this type of weapons since 2008 and has therefore decided to archive the case.

Consequently, IPM removed the company from the Exclude & Engage List in 2017.

Resolved: AES CORP

Industry: Independent Power Producers & Energy Traders

Head Office: Unites States

Country: Panama

Norm area: Human Rights

Response: Good

Progress: Good

Incident

AES Panama, a subsidiary of AES Corp., constructed and operates the Chan 75 hydroelectric dam on the Changuinola River in Panama. It was questionable if free, prior and informed consent was obtained, and resettlement and compensation processes with the indigenous Ngöbe people were handled poorly by the company. As a result, the UN Special Rapporteur on the rights of indigenous peoples publicly declared, in 2008, that human rights violations had occurred in connection with the project. The World Heritage Committee has also expressed concern over the project's potential impact on the World Heritage listed La Amistad National Park. However, in a 2016 report, it noted that impacts from Chan 75 in the local river system were measurable, but still limited. In 2014, the then Special Rapporteur on the rights of indigenous peoples concluded that most of the families affected by Chan 75 had reached agreements with the Panamanian government and with AES, the terms of which have been made public.

Goal

AES should address critical issues related to the dam, in particular in relation to resettlements, agreements with indigenous peoples in the area and environmental impacts. The company should also implement systems to ensure the respect of the rights of the indigenous communities within the company's areas of operation, achieving alignment with ILO Convention 169 and the United Nations Declaration on the rights of Indigenous Peoples.

This year's development

Chan 75 is in operation and the company has addressed critical issues related to the dam. The Special Rapporteur on the rights of indigenous peoples had previously concluded that most of the families affected by Chan 75 had reached agreements with the Panamanian government and with AES, the terms of which have been made public. AES has subsequently confirmed that it has agreements in place with all families in the communities directly affected by the operation. The construction of the biological station for fish reproduction close to the hydropower dam is completed, as are house constructions in resettlement areas. A 2016 field report on behalf of UNESCO noted that while impacts from Chan 75 are measurable, they are limited. The report did not highlight any current open conflict, protests, strikes or claims, and stated that although the mission was given examples of dissatisfaction with the applied relocation scheme for affected people, no related declarations were given by any directly affected family. AES Panama has also shared its human rights policy as well as its guidelines to respect indigenous peoples' rights. Due to the company's measures to address human rights and environmental concerns, its response to the situation is regarded to be satisfactory and the matter resolved. Accordingly, IPM removed AES from the Exclude & Engage List in 2017.

Resolved: GENERAL DYNAMICS CORP – Cluster Munitions

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

General Dynamics' business division Ordnance and Tactical Systems was manufacturing cluster munitions and their components until 2010. These weapons fulfil the definition under the Convention on Cluster Munitions of weapons that "cause unacceptable harm to civilians". In 2010, General Dynamics ceased all production and marketing of cluster munitions and related components.

Goal

The company has adopted a responsible course of action. General Dynamics has ceased its marketing and production of cluster munitions that are banned by the Convention on Cluster Munitions, and stated that it is no longer associated with cluster munitions in any way.

This year's development

General Dynamics was in the past associated with cluster munitions but the products currently developed and manufactured by the company do not violate the Convention on Cluster Munitions. In late 2016, General Dynamics confirmed that it is not involved in cluster munitions, and has published a statement that to the best of its knowledge, it is not involved in activities prohibited by the Convention on Cluster Munitions. Therefore, GES decided to archive the case and IPM consequently resolved this case but the company remains excluded due to the association to the nuclear weapons programmes case.

Resolved: L3 TECHNOLOGIES INC – Human Rights

Industry: Aerospace & Defence

Head Office: United States

Country: Iraq, Croatia

Norm area: Human Rights

Response: Poor

Progress: Poor

Incident

For several years, L3 Technologies Inc. (L3, formerly L-3 Communications) was linked to human rights violations in Iraq and Croatia. In 2005, the company acquired Titan Corp. (Titan), a major supplier of linguist and translator services to the US government, which in 2004 was accused of human rights violations at US detention facilities at the Abu Ghraib prison in Iraq. According to US military reports from 2004, private contractors employed by Titan were linked to abuses of prisoners at the Abu Ghraib prison. There were several court cases against Titan/L3 as a consequence of their Iraqi operations. L3 was also accused of being linked to genocide in Krajina, Croatia, through a subsidiary's (MPRI) actions in 1995. MPRI was acquired by L3 in 2002. L3's services units, which included the former MPRI and Titan, were spun off as Engility Holdings (Engility) in 2012. US court cases related to the 1995 events were later dismissed. In January 2013, Engility settled one of the Titan related cases and agreed to pay USD 5.28 million to 71 former inmates held at Abu Ghraib between 2003 and 2007.

Goal

L3 should adopt a human rights policy, specifically addressing relevant issues for operations in sensitive countries like Iraq. The policy should be supported by proper management mechanisms.

This year's development

The case was archived in March 2017, due to the fact that Titan and MPRI were both acquired by L3 primarily after the incidents occurred and that the provision of services was later sold off as a separate entity, meaning that L3 is not associated to these incidents any longer. As the company has since not returned to selling this type of services, indicating that the sale of the service units was a normal change in focus and not primarily a defensive action against the lawsuits, the initial request for L3 to implement changes in its human rights policy and procedures is less applicable. As such, GES decided to archive the case instead of resolving it due to the time passed in combination with no particular risk exposure and no reported human rights issues between 2012 and 2017. As the inhumane weapons case that L3 was associated to also got resolved (see the next page), IPM consequently removed the company from the Exclude & Engage List in 2017.

Resolved: L3 TECHNOLOGIES INC – Inhumane Weapons

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

L3 Technologies Inc (L3) in the past manufactured and marketed cluster munitions and their special components, primarily designing and manufacturing fuzes used in cluster munitions. These components are no longer being procured for use in cluster munitions.

Goal

The company has adopted a responsible course of action. L3 has ceased its marketing and production of cluster munitions components that are banned by the Convention on Cluster Munitions and stated that it is no longer associated with cluster munitions in any way.

This year's development

L3 was in the past associated with cluster munitions but the products currently developed and manufactured by the company do not violate the Convention on Cluster Munitions. In late 2016, L3 confirmed that it is not involved in cluster munitions. In addition, the company stated that it will not produce or sell any components for cluster munitions in the future. Therefore, GES has decided to archive the case. As the human rights case that L3 was associated to also got resolved (see the previous page), IPM consequently removed L3 from the Exclude & Engage List in 2017.

Resolved: LOCKHEED MARTIN CORP – Cluster Munitions

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Lockheed Martin was involved in the production and marketing of cluster munitions, manufacturing and marketing weapon systems for dispensing cluster munitions. It produced and marketed three weapon systems (GMLRS XM30, ATACMS Block 1 and Block 1a) that were fitted with warheads carrying cluster munitions. These systems were marketed on Lockheed Martin's website. In addition, the company also provided a special component for guidance and range-extension (Longshot) for cluster munitions.

Goal

The company has adopted a responsible course of action. Lockheed Martin has ceased its marketing and production of cluster munitions and their components that are banned by the Convention on Cluster Munitions.

This year's development

Lockheed Martin was in the past associated with cluster munitions but the products currently developed and manufactured by the company do not violate the Convention on Cluster Munitions. In 2016, Lockheed Martin confirmed that it is not involved in cluster munitions and also stated that it would not accept any new orders in the future. GES has therefore decided to archive the case and IPM consequently resolved this case but the company remains excluded due to the association to the nuclear weapons programmes case.

Resolved: LONMIN PLC

Industry: Metals & Mining

Head Office: United Kingdom

Country: South Africa

Norm area: Labour Rights

Response: Standard

Progress: Standard

Incident

Lonmin Plc (Lonmin) is the operator of the Marikana platinum mine located near Johannesburg, South Africa, where about 3,000 workers went on strike in August 2012 over pay and working conditions. Violent clashes occurred over several days between rival unions, mine security and police, resulting in 44 fatalities and over 70 people injured. In the worst incident, 34 Lonmin workers were shot dead by police in an action intended to break the strike.

The Marikana Commission of Inquiry was set up under Judge Farlam (the “Farlam Commission”) and the transcripts and e-mails it released in October 2013 indicated that Lonmin executives encouraged and assisted the police intervention.

Goal

In securing its operations, the protection of human rights should be Lonmin’s primary objective. This should be reflected by policy and top management commitment and be achieved through implementation of the Voluntary Principles on Security and Human Rights and an appropriate Social and Labour Plan (SLP).

This year’s development

The case was resolved in June 2017. The dialogue with Lonmin concentrated on what were highlighted as the main areas of discontent behind the unrest that led to the strike in 2012, primarily wages and housing conditions.

Lonmin has negotiated two wage settlements since 2012 and both were undertaken peacefully, without violence and with the agreement of the representative union and the workforce. GES therefore sought details on Lonmin’s SLP. Lonmin was able to provide details of its medium to long-term plans for housing its employees, and it had ringfenced some USD 500 million for the provision of housing for the duration of the current SLP (2014 to 2018) which will by the end of 2018 have provided housing for approximately half of its current permanent workforce. The company also stated that with its next SLP, which would run from 2019 to 2023, it was expected that the large majority, if not all, of its workforce might be housed. However, Lonmin would have to assess its finances in the still flat platinum market.

As regards police interventions, although Lonmin was unable to provide details of its Memorandum of Agreement with the South African police service, it did state that there were clauses for the preferential use of non-lethal force.

Satisfied with these developments, IPM removed the company from the Focus List.

Resolved: ORBITAL ATK INC

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Orbital ATK Inc, which was formed in February 2015 through the merger of Orbital Sciences Corporation and the aerospace and defence businesses of Alliant Techsystems, inherited the involvement in cluster munitions from Alliant Techsystems (Alliant). In the past, Alliant was a supplier of cluster munitions components, as well as one of the main contractors for whole cluster munitions. In 2008, the company ceased producing and advertising its cluster munitions projects.

Goal

The company has adopted a responsible course of action. Orbital ATK Inc has ceased its marketing and production of cluster munitions and their components that are banned by the Convention on Cluster Munitions.

This year's development

Orbital ATK Inc was in the past associated with cluster munitions but the products currently developed and manufactured by the company do not violate the Convention on Cluster Munitions. GES has therefore decided to archive the case.

Consequently, IPM removed the company from the Exclude & Engage List in 2017.

Resolved: TRANSOCEAN LTD

Industry: Energy Equipment & Services

Head Office: Switzerland

Country: US

Norm area: Labour Rights

Response: Standard

Progress: Good

Incident

Transocean Ltd (Transocean) was the operator of the Deepwater Horizon oil rig leased by BP plc to drill the Macondo oil exploration well in the Gulf of Mexico. In April 2010, a well blowout resulted in the loss of eleven lives and the discharge of large quantities of oil into the sea. The environmental and economic impacts to the Gulf coast were serious and may be ongoing for decades. The failure of critical equipment, such as the rig's blowout preventer, and drilling and completion procedures, which were the responsibility of Transocean, contributed to the incident.

Goal

Transocean should identify the key learnings from the Macondo incident, and ensure these are integrated throughout the company's operations. Transocean should also strengthen its safety policy to include commitments to prevention of ill health and compliance with legal regulations. The company should also review its safety incentive system.

In May 2017 this goal was achieved and the case resolved.

This year's development

Through written documentation and in a call with GES and investors, including IPM, in May 2017, Transocean has reported extensively on its HSE management system. The reporting includes lessons learned, incentive mechanisms and how corrective actions are integrated into the system. Safety policies address all relevant health aspects as well as legal compliance safeguards. The system covers all operations; not just the US.

GES deems the company's HSE management to be at a high level which is proven by the lack of serious incidents, long periods of no recorded injuries and good tracking and management of near misses. Transocean has settled with other participating companies and complied with US authorities' instructions such as the Consent Decree. GES believes that potential related legal process will not change its view on the company's sustainability management practises. Due to the company's measures to address HSE management, IPM regards the company's response to the situation as satisfactory and removed Transocean from the Exclude & Engage List in 2017.

Resolved: VEDANTA RESOURCES

Industry: Metals and Mining

Head Office: United Kingdom

Country: India

Norm area: Human Rights

Response: Good

Progress: Good

Incident

Vedanta Limited (Vedanta) is a subsidiary of Vedanta Resources and the operator of an aluminium production complex in Odisha state in India. The site includes an aluminium refinery and initially a bauxite mine was also to be established in the close vicinity. In establishing the project Vedanta had allegedly breached Indian environmental laws, misled authorities and caused environmental harm. Reportedly, the company had also contributed to human rights abuses, including forced relocations, violence and intimidation of local residents. In January 2014, after the local indigenous group and its village councils rejected the bauxite mine, the Indian Ministry of Environment and Forests turned down Vedanta's proposal to establish a mine in the area.

Goal

Vedanta should commit to not sourcing bauxite from the contested area and strengthen its policies and processes in relation to human rights, including requirements towards the company's suppliers.

This year's development

Vedanta has publicly stated it will not source bauxite from the disputed area without consent from the indigenous communities. After a previous comprehensive review of Vedanta's ESG management by an external consultant, policies and procedures have substantially improved. Among the most important outcomes were the development of several internal technical standards on key ESG topics, including on indigenous peoples/vulnerable tribal groups. Implementation continued in 2017. With regards to bauxite supply for the company's Odisha refinery, Vedanta will conduct environmental and social impact assessment (ESIAs) for all sites. Furthermore, Vedanta has adopted a human rights policy, operational throughout the group companies, including subsidiaries. By committing to conduct its own ESIAs when cooperating with other companies to secure its supplies, Vedanta has demonstrated that the policy is also applied to its supply chain. Human rights training is also provided to suppliers, the company conducts risk assessments of its supply chain and suppliers are encouraged to adopt Vedanta's sustainability approach. Due to a commitment not to mine in the disputed area, together with improvements in ESG management at a corporate level to prevent similar situations in the future, measures taken by the company are regarded as satisfactory and the matter resolved. Accordingly, IPM has removed Vedanta Resources from the Exclude & Engage List.

Focus: BHP BILLITON LTD / BHP BILLITON PLC

Industry: Metals and Mining

Head Office: Australia / UK

Country: Brazil

Norm area: Human Rights

Response: Good

Progress: Good

Incident

In November 2015, the Fundão tailings dam operated by Samarco Mineração (Samarco), a joint venture in which BHP Billiton (BHP) and Vale SA (Vale) in which each hold 50 percent, breached, releasing a mudflow which overtopped the Santarém dam and flooded the district of Bento Rodrigues in Minas Gerais state, Brazil. As a result, 19 people died and over 700 were displaced. The tailings dams had been used to hold the waste from iron ore processing operated by Samarco and from Vale's own mine. The tailings were a mixture of water and processed ore. The dams had all the necessary operating licences and were in compliance with regulations.

Goal

BHP needs to: identify the cause(s) of the dam failure, assess all dams within its control to prevent similar failures in the future; develop a remedial strategy for the affected communities and the environment; and ensure that dam monitoring and maintenance systems and emergency procedures are in place.

This year's development

During 2017 the Renova Foundation was formerly set up to manage the environmental and socio-economic remedial measures that were set out in the March 2016 agreement between the federal and state governments, the Attorney General and the companies (Samarco, Vale and BHP).

Negotiations were undertaken between the Public Prosecutors and the companies to settle a lawsuit brought by the Public Prosecutors for USD 48.6 billion (BRL 155 billion) in damages. The negotiations commenced in January 2017 and continued through until November 2017 at which time an agreement was reached with the Public Prosecutors to be part of the reparations process. Negotiations on the exact details of their involvement in the reparations process continued into 2018.

In relation to the resettlements, the Bento Rodrigues urban plan was finally agreed by the Major and Mariana Municipality in December 2017. Regarding the other settlements, much of the land for the resettlement of Paracatu de Baixo had been acquired by the Renova Foundation and consultation with the community members over the detailed urban plan commenced. For Gerais, progress was slowed by the land-owner renegeing on the original deal, so negotiations recommenced sometime later and were still ongoing at the end of 2017.

BHP completed the outstanding actions from its internal mine review and all its expertise was centralised to ensure consistency of approach across all its facilities. In addition, BHP brought all its joint ventures including Samarco Mineração and the Renova Foundation under a single business unit; again, to ensure consistency of approach and management.

Focus: ENBRIDGE / ENBRIDGE ENERGY PARTNERS LP

Industry: Oil, Gas & Consumable Fuels

Head Office: Canada

Country: United States

Norm area: Human Rights

Response: Good

Progress: Good

Incident

In September 2016, the UN Special Rapporteur on the rights of indigenous peoples stated that the US Dakota Access Pipeline (DAPL) project posed significant risks to the Standing Rock Sioux tribe. The DAPL, part of the wider Bakken Oil Pipeline, transports crude oil from the Bakken fields of North Dakota to a distribution centre in Patoka, Illinois. The pipeline was developed by Energy Transfer Partners LP (former Sunoco Logistics Partners), a subsidiary of Energy Transfer Equity LP. Energy Transfer Partners LP holds a 38.25 per cent ownership in the pipeline. The remaining partners with significant ownership include Enbridge Energy Partners LP, an affiliate of Enbridge, with a 27.6 per cent stake, and Phillips 66, which owns 25 per cent. The pipeline passes close to the tribe's reservation and beneath the Missouri River, the reservation's main source of drinking water. The related risks include water pollution and the destruction of burial grounds and sacred sites. The Special Rapporteur, among others, has also alleged that the tribe was not effectively consulted and did not give its consent to the current routing of the pipeline. The project has been approved by regulatory agencies in all four states where the pipeline will operate. In February 2017, the US Army Corps of Engineers, the US authority which issues permits for the part of the pipeline crossing federal land, granted the final permit needed for its completion and the pipeline became operational in June 2017.

Goal

Enbridge should enter in to a reconciliation dialogue with Standing Rock, with the objective to reach an agreement on how to improve trust and collaboration related to similar project in the future, as well as mitigation measures by the company to minimise risks and impacts on Standing Rock's territory and population, including its water resources. The company should also demonstrate that a due diligence process is established to ensure compliance with international norms on indigenous peoples' rights across its operations, as well as international standards on security and human rights.

This year's development

During 2017, Enbridge made a comprehensive review of its policies and processes to respect indigenous peoples' rights, including as regards minority investments such as DAPL. A report about the review was estimated to be released in Q2 2018.

Focus: GLENCORE PLC

Industry: Metals & Mining

Head Office: United Kingdom

Country: Western Sahara

Norm area: Human Rights

Response: Standard

Progress: Good

Incident

In 2014, Western Sahara Resource Watch reported that Glencore PLC, through its subsidiary Glencore Exploration & Production (Morocco) Ltd, had ownership in the Boujdour Offshore Shallow block with a 38.25 per cent ownership and the Foug Ognit Offshore with a participating interest of 18.75 per cent, both situated in Western Sahara. In an opinion issued in 2002 by the UN Under-Secretary General for Legal Affairs, the exploration and exploitation of natural resources in non-self-governing territories, Western Sahara in particular, was declared illegal if conducted in disregard of the interests and wishes of the people. In 2017 Glencore withdrew from both the Foug Ognit and the Boujdour Offshore block. However, the company should strengthen its approach to human rights, especially with regards to high risk locations, to prevent future violations.

Goal

Glencore should overall strengthen the company-wide approach to issues such as human rights, stakeholder engagement and due diligence, to be applied to future activities across all its operations, especially with regards to high risk locations.

This year's development

In May 2017, Glencore withdrew from Foug Ognit and informed that its former 18.75 per cent interest in the block had been taken over by the existing operator New Age. In December, Glencore informed GES that it had also fully exited the Boujdour Offshore block. As such, the company no longer has any oil exploration licences in Western Sahara.

Focus: PHILLIPS 66

Industry: Oil, Gas & Consumable Fuels

Head Office: United States

Country: United States

Norm area: Human Rights

Response: Standard

Progress: Standard

Incident

In September 2016, the UN Special Rapporteur on the rights of indigenous peoples stated that the US Dakota Access Pipeline (DAPL) project posed significant risks to the Standing Rock Sioux tribe. The DAPL, part of the wider Bakken Oil Pipeline, transports crude oil from the Bakken fields of North Dakota to a distribution centre in Patoka, Illinois. The pipeline was developed by Energy Transfer Partners LP (former Sunoco Logistics Partners), which holds a 38.25 per cent ownership in the pipeline. The remaining partners with significant ownership include Phillips 66, which owns 25 per cent of the pipeline, and Enbridge Energy Partners LP, an affiliate of Enbridge, with a 27.6 per cent stake. The pipeline passes close to the tribe's reservation and beneath the Missouri River, the reservation's main source of drinking water. The related risks include water pollution and the destruction of burial grounds and sacred sites. The Special Rapporteur, among others, has also alleged that the tribe was not effectively consulted and did not give its consent to the current routing of the pipeline. The project has been approved by regulatory agencies in all four states where the pipeline will operate. In February 2017, the US Army Corps of Engineers, the US authority which issues permits for the part of the pipeline crossing federal land, granted the final permit needed for its completion and the pipeline became operational in June 2017.

Goal

Phillips 66 should enter in to a reconciliation dialogue with Standing Rock, with the objective to reach an agreement on how to improve trust and collaboration related to similar project in the future, as well as mitigation measures by the company to minimise risks and impacts on Standing Rock's territory and population, including its water resources. The company should also demonstrate that a due diligence process is established to ensure compliance with international norms on indigenous peoples' rights across its operations, as well as international standards on security and human rights.

This year's development

In 2017, Phillips 66 adopted a new human rights policy. The company has communicated that agreements are always made when its pipelines cross indigenous territories in the United States. Consultations are undertaken when there are other impacts on indigenous peoples (other than direct territory crossings) and community councils are in place nearby company operations. These are open for any community members interested in providing input and staying updated about local operations.

Excluded: AECOM

Industry: Construction & Engineering

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Aecom Technology Corp. (Aecom), through its acquisition of the URS Corporation in October 2014, is associated with the provision of key products and services for nuclear weapons. URS Corporation is engaged in several sites connected with nuclear weapons, such as the Los Alamos National Laboratory, the Lawrence Livermore Laboratory, and the Nevada National Security Site. The company provides services at these sites, which are linked to nuclear weapon systems design and testing, as well as missile system upgrades. Aecom also provides design and engineering services to the Air Force Nuclear Weapons Center.

Goal

The company should end its involvement in nuclear weapons programmes.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: AIRBUS SE

Industry: Aerospace & Defence

Head Office: Netherlands

Country: France

Norm area: Inhumane Weapons

Incident

Airbus SE is associated with the provision of key products and services for nuclear weapons. The company's MBDA joint venture is involved in the development of the ASMPA nuclear missile, which is a part of the French nuclear deterrent programme.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: BAE SYSTEMS

Industry: Aerospace & Defence

Head Office: United Kingdom

Country: United States, France and United Kingdom

Norm area: Inhumane Weapons

Incident

BAE Systems is involved in nuclear weapons production through the MBDA joint venture and through its own contracts with the US and UK governments. The company is engaged in the development and production of missiles and missile systems, primarily for the French nuclear deterrent programme. In addition, BAE Systems was awarded with two contracts for the maintenance of the US deterrent programme in 2013, and in 2015 the company received a contract from the UK government to develop the successor to the Royal Navy's Vanguard class submarines armed with nuclear weapons. In 2016, BAE Systems further received an updated contract for the support services for the Minuteman III missile.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: BOEING CO

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Boeing is involved in a number of projects for the Minuteman III missile, which is a part of the US nuclear deterrent programme. The services provided by Boeing include repairs, design and engineering support. In 2017, Boeing received a new contract to deliver a system replacement of the Minuteman III missile by 2020.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: BWX TECHNOLOGIES

Industry: Electrical Equipment

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

BWX Technologies, Inc. (formerly Babcock & Wilcox Company) is associated with the provision of key products and services for nuclear weapons. The company has been involved in maintaining the US nuclear deterrent and development of new nuclear weapons in several nuclear sites across the US, such as the Los Alamos National Laboratory, Lawrence Livermore National Laboratory, and the Nevada National Security Site.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: FLUOR CORP

Industry: Construction & Engineering

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Fluor Corporation, through its wholly owned subsidiary Fluor Federal Services, is associated with the provision of key products and services for nuclear weapons. The company's joint venture, Savannah River Nuclear Solutions (SRNS) is involved in the production and recycling of tritium, a radioactive hydrogen gas which is an integral part of nuclear weapon design.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: GENERAL DYNAMICS CORP – Nuclear Weapons

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

General Dynamics is involved in nuclear weapons through two business units. Firstly, General Dynamics Advanced Information Systems is involved in the production of integrated circuits for the Trident II (D5) missile system, which is a part of the US nuclear deterrent programme. Secondly, a General Dynamics subsidiary Electric Boat is involved in the design and construction of the Columbia-class ballistic submarines that are designed to carry nuclear missiles.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: HONEYWELL INTERNATIONAL

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Honeywell International is involved in the provision of key non-nuclear components for the US nuclear deterrent through its management of the National Security Campus in Kansas. Honeywell is also involved in the life extension of the guidance system of the Trident II (D5) missile system, which is a part of the US nuclear deterrent programme. Furthermore, in May 2017, Honeywell took over the management of Sandia National Laboratories, which is responsible for the maintenance and modernisation of nuclear weapons.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: JACOBS ENGINEERING GROUP

Industry: Construction & Engineering

Head Office: United States

Country: United States and United Kingdom

Norm area: Inhumane Weapons

Incident

Jacobs Engineering Group's joint venture Atomic Weapons Establishment is involved in manufacturing and maintaining warheads for the Trident II missile system, which is a part of the UK nuclear deterrent programme. In December 2017, Jacobs Engineering Group also acquired CH2M, a private company that is engaged in a joint venture responsible for the management and operation of the Nevada National Security Site.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: LEONARDO SPA

Industry: Aerospace & Defence

Head Office: Italy

Country: France

Norm area: Inhumane Weapons

Incident

Leonardo Spa's MBDA joint venture is involved in the development of the ASMPA nuclear missile, which is a part of the French nuclear deterrent programme. The company has been involved in MBDA since 2001.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: LOCKHEED MARTIN CORP – Nuclear Weapons

Industry: Aerospace & Defence

Head Office: United States

Country: United States and United Kingdom

Norm area: Inhumane Weapons

Incident

Lockheed Martin's joint venture Atomic Weapons Establishment is involved in manufacturing and maintaining nuclear warheads for the Trident II missile system, which is a part of the UK nuclear deterrent programme. The company is also under contract for missile production, deployed system support and provision of engineering services for US Trident missiles.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: NORTHROP GRUMMAN CORP

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Northrop Grumman Corp. is involved in replacing and upgrading the guidance and propulsion systems for the Minuteman III missile programme, which is a part of the US nuclear deterrent programme. The company is also engaged in the development of the Advanced Launcher and the provision of engineering support for the US and UK Trident II nuclear missile. Furthermore, Northrop Grumman Corp is engaged in a joint venture responsible for the management and operation of the Nevada National Security Site. The company provides services at this site, which are connected with nuclear weapon systems design and testing, as well as missile system upgrades. In addition, in 2015, Northrop Grumman was selected by the US Air Force to develop the next generation strategic bomber that will carry nuclear weapons.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: RAYTHEON COMPANY

Industry: Aerospace & Defence

Head Office: United States

Country: United States

Norm area: Inhumane Weapons

Incident

Raytheon is involved the life extension of the guidance system of the Trident II (D5) missile system, which is a part of the US nuclear deterrent programme. In 2013, the company was also contracted for the Minuteman Minimum Essential Emergency Communications Network Program Upgrade. The Minuteman nuclear missile is another part of the US nuclear deterrent programme. In addition, in 2017, Raytheon was contracted to develop a new Long-Range Stand-Off missile which could be armed with nuclear warheads.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: SAFRAN GROUP

Industry: Aerospace & Defence

Head Office: France

Country: France

Norm area: Inhumane Weapons

Incident

Safran Group's joint venture ArianeGroup is a prime contractor of the French M51 nuclear missiles. It is responsible for research, design, development and production of the missiles, as well as all the adjacent infrastructure required for missile operations.

Goal

The company should end its involvement in nuclear weapons production.

This year's development

Due to increased attention to the nuclear weapons issue in media as well as in the investment community, the IPM ESG Committee revisited this topic in 2017. The Committee decided to exclude companies involved in nuclear weapons, basing this stance on violation of the spirit of the Non-Proliferation Treaty by the five nuclear weapon states.

Excluded: VOLKSWAGEN AG

Industry: Automobiles

Head Office: Germany

Country: United States

Norm area: Environment

Response: Standard

Progress: Standard

Incident

In September 2015, the US Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) revealed that Volkswagen AG (Volkswagen) used illegal software, a so-called "defeat device", in several diesel car models in order to bypass US environmental standards. According to the regulators, the company installed a device that boosted emissions controls during testing and turned them down during normal driving, which resulted in exceeding the pollution limits allowed under federal clean air rules by up to 40 times. As a result, the EPA ordered a recall of over 480,000 cars produced in the years 2009-2015 and Volkswagen announced at the end of September 2015 that it will refit 11 million cars. Volkswagen admitted to fitting the device in September 2015 and stated that it was cooperating with an investigation led by the Department of Justice on behalf of the EPA in April 2016. In June 2016, Volkswagen reached a civil settlement with the US authorities and agreed to pay more than USD 15.3 billion to settle the charges in relation to the 2.0 litre diesel engine vehicles that were fitted with a defeat device. In December 2016, Volkswagen reached a civil settlement with the US authorities in relation to the 3.0 litre engine vehicles and agreed to pay USD 225 million toward nitrogen oxide reduction projects.

Goal

Volkswagen should ensure that it has adequate risk management systems and internal controls and that the Supervisory Board has sufficient oversight, independence and skills in order to prevent future violations. Furthermore, Volkswagen should demonstrate that it has improved its corporate culture.

This year's development

In January 2017, Volkswagen pleaded guilty to three criminal felony counts in the US. The company agreed to pay USD 4.8 billion to settle these remaining criminal and civil penalties and was put on a three-year probationary period, with a court-appointed monitor overseeing the necessary compliance systems changes. Six Volkswagen executives and employees were also charged for their roles in the emissions scandal. In December 2017, Oliver Schmidt, a former Volkswagen executive in charge of US environmental compliance, was sentenced to seven years in prison and fined USD 400,000, after he pleaded guilty to criminal charges for his role in the diesel emissions scandal. The sentence was the maximum that could have been imposed by the courts.

In 2017, there were a series of additional recalls for Audi diesel vehicles in Europe and other markets in relation to possible discrepancies in emissions in driving and testing scenarios. The largest was in July when Audi announced a retrofit programme for up to 850,000 vehicles with a V6 and V8 TDI engine meeting the Euro 5 and Euro 6 emission standards. The company noted that this was mostly a voluntary measure. But, as reported in the company's 2017 Annual Report, the German Federal Motor Transport Authority (KBA) mandated some of the actions, as some of the vehicles involved had certain emissions management issues that were classed as an 'unlawful defeat device' by the KBA.

Throughout 2017, Volkswagen remained reluctant to discuss any topics that may impact ongoing legal proceedings and cannot yet confirm that it is no longer selling vehicles that contain a defeat device because, according to the company, the definition of such a device only exists in US law.

Due to the lack of sufficient engagement progress, IPM decided to exclude Volkswagen in 2017.