



“ To act in accordance with our principles on engagement, action and change with a view to making a difference.”

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About the Ethical Council

The First, Second, Third and Fourth AP Funds are buffer Funds in Sweden's national pension system, managing the pension capital accrued by everyone who has ever worked in Sweden.

In 2001, the four competing funds were given a common mission:

to invest Sweden's pension capital so as to achieve the greatest possible benefit for the pension system and generate high long-term returns at a low level of risk. In so doing, the Funds must exercise ethical and environmental consideration without compromising the overall objective of attaining a high return¹.

Together we are stronger

Since 2007, the First, Second, Third and Fourth AP Funds have been coordinating their work on environmental and ethical issues through the joint Ethical Council.

The Ethical Council sees its mission as encouraging companies, on the basis of the business they conduct, to address relevant sustainability issues, to have in place fit-for-purpose guidelines and to apply control and follow-up systems to enable the business to be operated in as responsible a way as possible. The Council does this both by driving forward and participating in preventive initiatives and by acting to bring about positive change in a number of companies associated with violations of international conventions on the environment and human rights.



Key advantages of the Ethical Council

GREATER SCOPE FOR INFLUENCE

The combined assets of the four Funds, at over SEK 850 billion², create greater scope for influence over a company, compared to individual action.

ATTRACTIVE PARTNER

The Ethical Council is an attractive partner for other international investors with a similar environmental and ethical agenda, which further increases the scope to exert an influence.

TIME- AND COST-EFFICIENCY

The nature of the Ethical Council's cooperation enables the Funds to work in a more time- and cost-efficient manner. This greater efficiency finds expression in more company dialogues and more international investor initiatives, together with more consultations, workshops and conferences in which the Council is represented.

¹ See the preamble to the Swedish National Pension Insurance Funds (AP Funds) Act 2000:192, which governs the operations of the Funds.

² As on 31 December 2011.

The year in brief

2011

126 COMPANIES

✧ The Ethical Council engaged in dialogue with 126 companies throughout the world. In many cases, the dialogue addressed more than one area of sustainability.



GOALS WERE ACHIEVED

✧ Two companies linked to violations of conventions, US-based Duke Energy and Japanese Bridgestone, took actions in accordance with the Ethical Council's demands. Because the Council's goals had been achieved, the dialogues were concluded.



FOCUS ON THE MINING INDUSTRY

✧ Proactive initiatives are becoming increasingly important in the Ethical Council's efforts to persuade companies to become more socially responsible. A proactive initiative of this kind focusing on the mining industry was initiated.

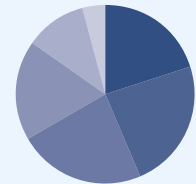


PROACTIVE INITIATIVES

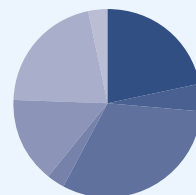
✧ Anti-corruption, climate issues, working conditions in the electronics industry and the environmental impact of the oil industry are other areas of sustainability in which the Ethical Council has taken part in proactive initiatives.



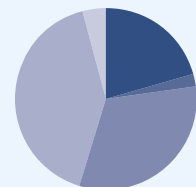
Engagement per area



Engagement per sector



Engagement per region – legal domicile of companies





Nadine Viel Lamare
First AP Fund
Chairwoman, 2011

Preventive initiatives growing in importance

Five years have passed since the Ethical Council was established, and now after my second period as Chairwoman I can observe that a great deal has happened during these years, but also that the pace of developments in sustainability is not slackening. The demands for acting responsibly have increased, both for us as investors and for the companies in which we invest, and the Ethical Council's engagement is now extending over a much broader field.

Difficult challenges – reasonable expectations

High expectations on us as investors and on the companies in which we invest are a good thing. The greater transparency that this has created is to be welcomed, and it is bringing a clearer focus on the work that both we and the companies perform on sustainability issues in our respective activities.

At the same time, we can see that the challenges are growing even greater, to both investors and companies, now that several billion world citizens have begun their journey to a higher standard of living. Institutional investors such as the AP Funds have an important part to play in this process. Traditionally, our role has been to serve in a standard-setting capacity vis-à-vis the companies in which we invest, a responsibility that we accept. We are also increasingly discerning a trend towards discussions between investors, companies and other stakeholders on finding a pragmatic way to navigate a course in a complex world. Simple, black-and-white solutions rarely present themselves for many of the problems we are confronted with.



Simple, black-and-white solutions rarely present themselves for many of the problems we are confronted with.

Proactive initiatives more and more important

Several of the problems that we discuss with the companies arise from weak regulation, often in combination with sector-wide shortcomings. This is also reflected in the way the Ethical Council has continued to develop and broaden its work, one

clear example being the mining industry project we started during the year (see page 8). The project analyses a number of important areas and looks at the standard applied in the industry at a large number of mining companies. The aim is to raise the quality of preventive measures generally at the companies and to persuade them to strive for the best working practices practised in the particular sector of the industry.

The overall playing field on which the companies operate is not controlled by investors but by governments and other political institutions and regulatory authorities. Deep-sea drilling for oil sand extraction and exploitation of ore deposits follow from political decisions in the country concerned. And the requirements and regulatory measures imposed on the companies for the conduct of these types of activity are also framed by the same political bodies.

Tougher demands on regulatory authorities

In recent years, investors have started looking at how they can reasonably engage in dialogue with regulatory authorities. This is because many of the problems that crop up at company level are symptomatic of major systemic shortcomings. Trying to influence regulatory authorities is generally not the job of an investor. At the same time, it is much more effective than individual stakes in companies and, long term, creates a level playing field for all competing companies. In the long run, no-one's interests are served by a situation where responsible companies, under pressure from investors, avoid projects that are then nevertheless taken up by other companies that are not exposed to the same pressures and that may not carry out the project in a responsible way. Furthermore, our actions must not result in making the situation worse,

given that our purpose is to do good. As we have observed earlier, it is in the end a political decision whether a project is given permission to go ahead or not.

For example, the Ethical Council participated in two initiatives in 2011 to influence decision-makers. In one, a large group of investors put forward their demands to world leaders at the Durban Climate Change Conference. In the second, a letter was written to the government of the Province of Alberta, Canada, detailing the requirements applying to companies involved in the extraction of oil from oil sand. Read more about this on page 10.

Ripples on the water

The portfolios of the funds, with holdings in several thousand companies, are a reflection of the world economy as a whole, and the Ethical Council's field of operations is the entire world. We expect corporate social responsibility and the observance of international conventions to which Sweden is a signatory. This is the purpose of our engagement. In 2011, as a result of our systematic efforts to persuade companies to act in a socially responsible way two of the companies with which we have conducted a dialogue have now taken measures in line with the requirements we set. US-based Duke Energy introduced modern purification technology at its coal-fired power plants in South and North Carolina, and Japanese Bridgestone adopted a global policy distancing the company from child labour and forced labour. It has also now designated a member of personnel to be responsible for ensuring that human rights are respected. Several other dialogues also made important strides forward, although a number remain before we can be wholly satisfied with the company's actions relative to the goals we have established for the dialogue.

In the five years that the Ethical Council has been working to influence companies associated with violations of conventions, we can see that many companies have started to get to grips with sustainability issues in their operations. This means as a rule that the changes that we at the Ethical Council bring about are more evolutionary than revolutionary. But there are other cases – for example the one of Canadian mining corporation Goldcorp, interviewed in this report, where the Ethical Council's engagement has resulted in far-reaching changes in how the company conducts its business. It is also encouraging that changes are not just restricted to Goldcorp's operations; indeed other companies in the mining industry have also contacted Goldcorp in order to learn from its experiences. Read more on page 16. The Ethical Council was also interviewed by the UN Global Compact as part of a field study of its work on HRIA (Human Right Impact Assessment). One of the objectives of the work of the Global Compact is to encourage companies to improve their work on human rights. This is not the first time that the funds' engagement in a particular company has made ripples on the water; in some cases other companies have followed suit, in others investors have continued to work to the same end.

Engagement – to make a difference

In our globalised world, the challenges are huge and the only way forward is an economy with an even greater element of corporate social responsibility. This is the course that we at the Ethical Council want to take, and to influence. We will never be able to satisfy everyone's wishes and demands, but within our mandate we will always strive actively and with commitment for improvement. One important part of this work is the annual report that you are holding in your hand – by being transparent in what we do, which is still unusual among investors, we increase the pressure both on companies and on other investors.

In conclusion, I would like to thank not only my colleagues at the Ethical Council but also several other major pension fund managers in our network for their highly effective and constructive collaboration. Together, we are getting stronger and can engage in even more areas. I look forward to remaining part of the Ethical Council's important mission and with my colleagues to continue to develop our work in order to make an even bigger difference.

Stockholm, March 2012
Nadine Viel Lamare, First AP Fund
Chairwoman, Ethical Council, 2011

Ripples on the water



In 2011, as a result of our systematic efforts to persuade companies to act in a socially responsible way two of the companies with which we have conducted a dialogue have now taken measures in line with the requirements we set.

➤ US-based Duke Energy introduced modern purification technology at its coal-fired power plants in South and North Carolina.

➤ Japanese Bridgestone adopted a global policy distancing the company from child labour and forced labour.

➤ It is also encouraging that changes are not just restricted to Goldcorp's operations; indeed other companies in the mining industry have also contacted Goldcorp in order to learn from its experiences.

The First, Second, Third and Fourth AP Funds...

... manage assets on behalf of the pensioners of today and tomorrow. The funds have been given the same assignment by the Swedish parliament:

- to achieve high returns at a low level of risk.
- In so doing, the Funds must exercise ethical and environmental consideration without compromising the overall objective of attaining a high return.



AP3 Tredje AP-fonden



The work of the Ethical Council

The guiding principle for the work of the Ethical Council is to make a difference. The funds do this by acting as strategically accountable and committed owners who exert influence on companies worldwide to improve their efforts on environmental and social issues.

The First, Second, Third and Fourth AP Funds manage assets on behalf of the pensioners of today and tomorrow. The funds have been given the same assignment by the Swedish parliament; that is, to achieve high returns at a low level of risk. In so doing, the Funds must exercise ethical and environmental consideration without compromising the overall objective of attaining a high return.¹

On the basis of this assignment, the Funds have formulated a set of core values – “to act in accordance with our principles on engagement, action, and change, with the aim of making a difference.” As part of the Swedish pension system, the funds rest on the same principles of engagement, action and demand for change, since those form the core values of the Swedish State. Central tenets of these values include democracy, the equal value of all people, freedom and dignity of the individual and sustainable development. This is in accordance with what is written in Sweden’s Constitution.

Side by side with the Swedish Government’s value system, international conventions to which Sweden is a signatory and Sweden’s particular stances on international public law issues constitute essential instruments for the Ethical Council in its work.

Engagement to make a difference

The Ethical Council sees its mission as encouraging companies, on the basis of the business they conduct, to address relevant sustainability issues, to have in place fit-for-purpose guidelines and to apply control and follow-up systems to enable the business to be operated in as responsible a way as possible, wherever in the world they may operate.

.....

 **Engagement in all areas and in all companies is neither possible nor effective; priorities have to be set.**

The number of areas in which responsible investors could engage is considerable, and constantly growing. These involve not only industry-wide problems but also serious offences at individual companies. Engagement in all areas and all companies is neither possible nor effective; priorities have to be set.

The Ethical Council operates both preventively and reactively. Problem areas and incidents are surveyed and analysed systematically by the Ethical Council, which then selects a number of focus areas and companies. These areas and companies are chosen on the basis of the funds’ mission from the parliament and core values, but the Ethical Council’s chances of making a difference are also taken into account. Areas in which a large number of other actors are pushing for improvements may be rejected in favour of areas that have not yet attracted so

¹ See the preamble to the National Pension Insurance Funds (AP Funds) Act 2000:192, which governs the work of the Funds.

much attention from the investment community. The choice of focus area is therefore not a statement that other areas are in themselves less important. On the contrary, it is the result of a deliberate strategy to place the Ethical Council's resources where they are thought likely to produce the most benefit.

Preventive initiatives – an important means of influence

The Ethical Council's engagement is not limited to exercising influence over companies where problems have already emerged. At least equally important are the Ethical Council's preventive initiatives, which are designed to support the work of companies in sustainability, to prevent serious incidents from occurring. One good example is the Ethical Council's mining project, which is described on the next page. The mining industry is a sector that faces huge challenges

from the viewpoint of sustainability. Against that background, the Ethical Council started a mining project in 2011 and invited other asset managers to participate. The project, which is planned to extend over two or three years, is divided into several steps including analysis, dialogue and follow-up. Other preventive initiatives are described later in this report.



.....
The Ethical Council
operates both
preventively and
reactively.

Cooperation – an important success factor

The issues that the Ethical Council addresses are complex and their solutions are rarely obvious. This means that, to succeed in persuading companies to act in a more socially responsible way, many factors have to be in place. Making a difference demands resources, specific industry knowledge, contacts, time and engagement. In addition, the Ethical Council's experience is that a face-to-face meeting is the medium of communication that delivers the best results of all. As a result, face-to-face meetings are prioritised.

The Ethical Council's resources have been bolstered over the years; the council has expanded its network of specialists and developed our members' depth of knowledge of various sectors. Most importantly of all, cooperation with a number of selected major international pension fund managers has been intensified, enabling us to engage in more dialogues and achieve a greater degree of influence.

The Ethical Council's mining project



- The mining industry is a sector that faces huge challenges from the viewpoint of sustainability.
- In 2011, the Ethical Council started a mining project in 2011 and invited other asset managers to participate.
- The project is planned to extend over two or three years.
- The project is divided into several steps including analysis, dialogue and follow-up.

Read more on page 8.



Why is the issue important to responsible investors?

- Mining activities have considerable impact on the environment and people.
- Resource exploitation often takes place in countries with weak legislation.
- Companies should systematically address environmental issues, human rights, corruption and health and safety, and this should be an integral part of operations.

The mining project – focus on several areas of sustainability

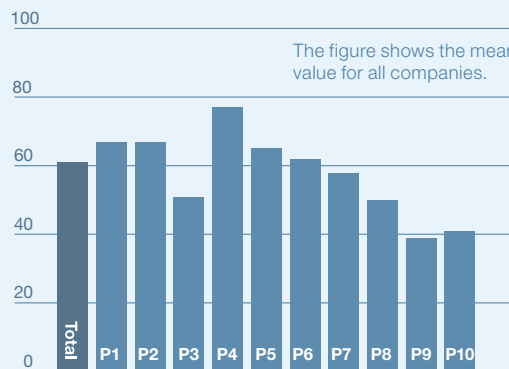
Demand remains strong for raw materials globally and in recent years mining companies throughout the world have begun major exploration activities and opened new mines. For several years, the Ethical Council has been engaged in well-known mining projects such as the Freeport-McMoRan copper mine in Indonesia, Vedanta’s preparations for a bauxite mine in India and Goldcorp’s gold mine in Guatemala.

Each mine is unique and it is important that companies address sustainability issues properly throughout the life cycle of the mine, from exploration to closure, and at every level of the company. The mining industry needs to deal with issues such as different forms of negative environmental impact (for example, use and pollution of water), human rights, the rights of the local populations and indigenous peoples (including consultation before a mine is opened) and corruption.

In 2008, the Ethical Council published a report on the various challenges facing the mining industry. The report is available for download from the Ethical Council’s website. On the basis of this report and the Ethical Council’s experiences, a special mining industry project was established in 2011. The purpose of the project is to review the way in which companies in the industry address sustainability issues and then attend to the shortcomings that emerge in the analysis. The project involves around 30 companies of various sizes in different parts of the world. To bring additional weight to the dialogue with the companies, the Ethical Council enlisted The Seventh AP Fund and the Dutch pension fund PGGM as participants in the project.

To what extent are companies observing the ICMM’s principles?

- The companies are marked relatively high for risk management (principle 4).
- The lowest marks are awarded for social development (principle 9), reporting (principle 10) and uphold fundamental human rights (principle 3).



The figure shows the mean value for all companies.

Results of analysis for 30 companies, according to ICMM’s 10 principles, 1 to 10.

Average points per principle, where 100 is the maximum according to the analysis.

The principles are described on the next page.

¹ICMM, International Council of Metals and Mining, www.icmm.com

The study analysed the companies' efforts in sustainability according to the ten principles of sustainable development (see Fact Box) of the International Council of Mining and Metals (ICMM). On the basis of these principles, the Ethical Council, in association with a research firm, formulated a number of criteria for judging how the companies are complying with each individual principle. The companies were awarded points on the basis of how closely they observed the criteria established. The analysis was based on information in the public domain. Through this analysis, the Ethical Council has gained insight into strengths and weaknesses of preventive work at the companies, and this material has made it possible to compare and rank different companies.

The Ethical Council has written to all the companies analysed, highlighting both strengths and shortcomings of their work on sustainability. In 2012, these letters will be followed up by telephone or through face-to-face meetings.

Why the ICMM principles?

ICMM is a mining industry association in which several of the major mining corporations are members. The association's principles were launched in 2003, and all ICMM members have undertaken to observe them. ICMM comprises 21 mining companies and 31 national and regional industry associations in the mining industry.

The Ethical Council has elected to base its analysis on ICMM's sustainability principles, whether the companies are members of ICMM or not, since the principles were formulated by the mining companies themselves via an extensive dialogue with stakeholders and basically represent an industry standard for mining companies. However, the majority of the companies that the Ethical Council has chosen to include in the project are not members of ICMM. The principles deal with areas such as business ethics, human rights, the environment, risk management, the role of companies in society and accounting.

Corruption and the rights of the local populations and indigenous peoples

Two examples from the analysis:

Corruption

Corruption is addressed by ICMM principle 1. The clarification of this principle states that the company should "introduce policies and systems to prevent bribery and corruption".

The analysis conducted on the companies included in the project checks, for example, whether the companies operate a policy in the area, where they have "whistleblower program" and whether they have a policy in place on political lobbying and on campaign contributions. These are then judged for quality against a number of criteria and graded. The analysis also provides an indication of improvements that can be made.

The rights of the local populations and indigenous peoples

Another area that the Ethical Council has worked a great deal on in recent years is the rights of the local populations and indigenous peoples, which is covered by principles 3, 9 and 10.

The diagram on page 8 indicates that these three principles in particular show the lowest degree of implementation among the companies. Specific issues relating to this area that are included in the analysis are whether a policy on the rights of the local populations and indigenous peoples is in place and what is the nature of the strategy at the companies for development of the local community and for interaction with the local population.

The ICMM's ten sustainable development principles

- 1 Implement and maintain ethical business practices and sound systems of corporate governance.
- 2 Integrate sustainable development considerations within the corporate decision-making process.
- 3 Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities.
- 4 Implement risk management strategies based on valid data and sound science.
- 5 Seek continual improvement of our health and safety performance.
- 6 Seek continual improvement of our environmental performance.
- 7 Contribute to conservation of biodiversity and integrated approaches to land use planning.
- 8 Facilitate and encourage responsible product design, use, re-use, recycling and disposal of our products.
- 9 Contribute to the social, economic and institutional development of the communities in which we operate.
- 10 Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders.

From the ICMM website.

For more information go to <http://www.icmm.com/our-work/sustainable-development-framework/10-principles>

Why is the issue important to responsible investors?

- Climate changes are seen as potentially having a major impact on long-term return.
- Substantial investment will be necessary to adjust to a less carbon intensive society.
- Measures will be needed at all levels of society.
- Lack of clarity from decision-makers as to what measures will be taken is creating uncertainty.
- As a result of this uncertainty, necessary investments are not being made.

IIGCC

Institutional Investors Group on Climate Change

- The AP Funds of the Ethical Council have been members of IIGCC since 2010.

www.iigcc.org

CARBON DISCLOSURE PROJECT

- The Ethical Council hosted a seminar at which the Nordic region CDP report was presented.

www.cdproject.net

The climate issue

The AP Funds of the Ethical Council have been members of the Institutional Investors Group on Climate Change (IIGCC) since 2010. In 2011, the Ethical Council took an active part in the organisation's work, in association with its US and Australian counterparts, on producing a document in which the Investor Group jointly clarifies what it expects of companies in terms of risk analysis and action plans for addressing the problems of climate change. The point of the initiative is to assemble the views of many investors and provide the companies with a coherent picture of the expectations of the investment community. The document was published in January 2012.

How should companies and investors in practice deal with the climate issue in their investment decisions? Today, the signal on prices for carbon emissions is weak. The situation is leading to uncertainty and investors worldwide have for several years joined together in a collective appeal for clearer signals from policy-makers ahead of the UN's climate change conferences, to enable the necessary investments to be made. In October 2011, the AP Funds of the Ethical Council, along with a further 281 investors from Europe, North America, Australia and New Zealand, backed a call to world leaders before the Durban Climate Change Conference, for clear, credible and long-term national and international guidelines to enable an expansion in investments in "low-carbon".

For more information, go to www.investorsonclimatechange.com.

Focus on the companies

Another climate change initiative that the funds have been supporting for several years is the CDP (Carbon Disclosure Project). The purpose of the project is to present a co-ordinated picture of what companies all over the world are doing in purely practical terms to cut their carbon emissions. About 10 years ago, investors began to make demands and engage in how the companies they own act on the climate issue. Many actions have been taken, above all, in the form of energy and resource efficiency measures. Progress among the companies varies; some have undertaken extensive analysis of risks and opportunities and have implemented far-reaching changes, while others have just started out on the road. However, understanding of and insight into the problems of climate change and the impact of different industries have increased markedly.

In October 2011, the Ethical Council hosted a seminar at which the Nordic region report was presented. In 2011, 143 Nordic companies reported on their climate change efforts to CDP.

Oil sand – better supervision and regulation needed

As a result of a combination of high oil prices and limited access to traditional oil fields, the oil companies in which the AP Funds and many other institutional investors have invested in are continuing to seek out alternative oil resources, including oil sand in Canada. Today, oil sand in Canada accounts for around 10 percent of world oil reserves, and more or less all major oil companies are in one way or another involved in oil sand projects there.

For the past couple of years, the Ethical Council has been involved in an investor initiative on oil sand with the aim of improving the quality of reporting and forcing the pace of activities by the companies to reduce the negative impact of extraction of oil from oil sand.

In spring 2011, the members of the Ethical Council were asked whether they together with a number of other investors were willing to sign a letter to the government of the Province of Alberta regarding its supervision of environmental monitoring and regulation of oil sand projects. Several reports had previously pointed out supervisory and regulatory shortcomings. The letter focused on the need for reliable information, better follow-up and transparent control of the monitoring system, but also on the need for taking a broader perspective, including social issues and in particular the rights of the indigenous people, into account.

Working conditions in the electronics industry

In 2011, a new investor initiative was established to improve the working conditions in the electronics industry. The Ethical Council was invited to participate. Around 15 electronics companies were contacted in order to gain a better understanding of how the industry manages and controls working conditions in its operations and at its suppliers.

The main focus of discussions centred on working conditions in China, since a high proportion of production for electronics companies takes place in China. Discussions were on both general and specific issues, such as for example the widely reported suicides at the factories of Foxconn in spring 2010. Many electronics companies have taken measures in their own production facilities and in following up their suppliers after the problems at the Foxconn factories were revealed. However, the situation in China continues to attract criticism. Issues include excessive overtime and work environment problems.

Why is the issue important to responsible investors?

- With higher oil prices and limited access to traditional oil fields, oil companies are increasingly focusing on alternative oil resources.
- Oil sand accounts for 10% of world oil reserves.
- Extraction from oil sand is energy- and water-intensive and causes major negative environment impact. The oil industry should work actively on reducing the negative impact and report on its activities.

Why is the issue important to responsible investors?

- Poor working conditions at the supplier stage are common in low-pay countries such as China.
- Several cases of seriously poor conditions have been reported in the electronics industry.
- Companies should make actively preventive efforts and control working conditions in their own operations and at the supplier stage.

Why is the issue important to responsible investors?

- Corruption is widespread in many countries and industries.
- Corruption distorts competition and detracts from efficiency in the economic system.
- Companies should work actively to reduce the risk of corruption in their business.



➤ The AP Funds of the Ethical Council are members of PRI (Principles for Responsible Investment). In 2010, the Ethical Council signed up to an initiative on corruption.

www.unpri.org



➤ The Ethical Council supports the international initiative for transparency in extractive industries.

www.eiti.org

Continued focus on corruption

Corruption is one of the Ethical Council's focus areas. The reason is simple: corruption undermines the legitimacy and sustainability of the economic system. If the reason is simple, solving the problem is all the more complex. In dialogues on corruption with companies, the Ethical Council sometimes hears comments such as "you'll also be looking at companies in country X, or our competitor Y, won't you?". There is a deep-set fear of losing competitiveness, and so business, in many corporate cultures.

In 2010, the Ethical Council signed up to a PRI (Principles for Responsible Investment) initiative on corruption. A number of companies were analysed in respect of their work to prevent corruption. As a result of the analysis around 20 companies were contacted and asked to respond to questions about their anti-corruption activities. Along with other investors, the Ethical Council followed up the companies' responses via telephone consultations and face-to-face meetings during the year.

In 2011, the Ethical Council also maintained its focus on corruption via the project initiated by the Council in the mining industry. Corruption is an important issue in the mining industry since many companies operate in countries with weak legislation and in a sector where corruption is present. Read more on page 8.

On several occasions during the year, the Ethical Council discussed corruption with other investors, companies and political representatives to determine how together they can make further progress on this important issue.

Support for EITI continues to grow

The Ethical Council supports the Extractive Industries Transparency Initiative (EITI). There is a particularly pressing need for transparent reporting and good governance in countries with abundant natural resources but weak legislation. More exact disclosure from the companies – about what they pay – and from the countries' governments – about what income they receive from the oil, gas, and mining industries – will bring about greater transparency in society and help establish better conditions for financial management.

Together with other international investors, the members of the Ethical Council back EITI. This sends a signal to countries and companies with extractive operations that shareholders value clear and transparent accounting. During the year, the number of companies and countries supporting EITI continued to grow.

Sustainable value creation

The Swedish Sustainable Value Creation investment initiative is another example of proactive engagement by the four AP Funds represented in the Ethical Council. In spring 2011, the four AP Funds and ten other institutional investors – DNB, Folksam, Handelsbanken, Meta asset management, Nordea, SEB, Skandia Liv, SPP, Swedbank Robur and the Church of Sweden – urged the 100 largest companies on the OMX Nordic Exchange, Sweden to participate in a survey featuring questions on responsible and sustainable enterprise.

The Ethical Council chose to support this initiative because the four AP Funds believe that by actively tackling environmental and social aspects of their activities, companies can reduce risks and costs while also exploiting business opportunities. This promotes sustainable value creation, and allows the Funds, as investors, to ensure that essential conditions are in place for a financial return for current and future pensioners in Sweden that is sustainable in the long term.



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Encouragingly, companies that already in 2009 were working on sustainable development issues in a structured way have continued to make progress.

The survey was the second in its series. As in 2009, a little over 80 of the 100 companies that received the survey chose to reply. The responses have been of great value to the Ethical Council, partly because the individual responses highlight how companies' Boards view their responsibility for, and work

towards, sustainable value creation, and partly because they have given the Ethical Council a more structured impression of how much progress major Swedish companies have made in integrating environmental and social aspects of their business operations. It has been especially interesting to monitor developments over time. It is encouraging that companies that already in 2009 were working on sustainable development issues in a structured way have continued to make progress. It is of more concern that companies that in 2009 were paying very little attention to sustainable development issues have not moved forward.

On presentation of the results from the survey in January 2012, the investor initiative organised a well-attended seminar at which Leif Johansson, Chairman of Ericsson, shared his thoughts on sustainability. His introductory speech was followed by a panel discussion involving representatives of the business community, on the theme of the Board's role and responsibilities in their companies' work on sustainable development.



➤ Read more about the Sustainable Value Creation project at www.hallbartvarde-skapande.se



Preventive dialogues with companies

The Ethical Council regularly conducts proactive dialogue with companies that do not appear on the Council's official dialogue list. The idea of these dialogues is to monitor certain issues and highlight the Council's expectations of the companies. The proactive dialogues are supposed to persuade the companies to focus more closely on various environmental and ethical issues, improve internal processes and improve the transparency of its work. This does not, however, involve companies that may be linked to violations of conventions.

The Ethical Council seeks above all to exercise influence via dialogue with the board of directors or management of the companies. The aim of these dialogues is to ensure that the companies, via preventive measures and processes, avoid committing possible violations of conventions. The dialogues are conducted in confidence and as a result it is not always possible to report publicly on them. However, the Ethical Council champions transparency and wherever possible aims to make aspects of its proactive work public, without naming the companies concerned. In this report, you can read about several proactive projects, dialogues and initiatives.



The Ethical Council seeks above all to exercise influence via dialogue with the board of directors or the management of the companies.”

Examples of proactive dialogues with companies in 2011

The Ethical Council conducted dialogue with a **NORTH AMERICAN MINING COMPANY** with regard to its work on communicating and working with the local population in the African countries in which it operates. Dialogues with the local population dealt, for example, with job creation, contributing to sustainable development in nearby villages and ensuring that the population is treated with respect. The company in question has learnt from long experience that dialogue with the local population is vital to avoid any violation of ILO 169 and prevent any conflicts. Similarly, corruption and accounting for income in accordance with the EITI standard were discussed, important issues in the mining industry, particularly in countries with weak legislation. (For more about EITI, see page 12.)

The Ethical Council engaged in dialogue with a **EUROPEAN FORESTRY COMPANY**, regarding sustainable forestry and FSC certification of forest in the parts of the world in which it operates. The dialogue also addressed the company's dialogue with the local population and guaranteeing that land agreements are legally correct.

Dialogue took place with **TWO EUROPEAN OIL COMPANIES**, in relation to safety work during deep sea drilling and regarding their plans to extract oil from unconventional energy sources such as oil sand. Also discussed were the companies' activities in countries with undemocratic regimes and how the particular company ensures that it does not violate human rights. The Ethical Council also engaged in dialogue with **ANOTHER EUROPEAN OIL COMPANY** about cleaning up earlier oil spills and the company's work on preventive safety measures.

A discussion was held between the Ethical Council and **A EUROPEAN STAFFING COMPANY** regarding working conditions for employees, and the company's responsibilities with regard to working conditions of employees at the company's customers.

Dialogue with companies previously on the Ethical Council's dialogue list

The Ethical Council continued its dialogue with the Indian mining company **VEDANTA** with regard to that company's mining operations in India, focusing on the company's routines for evaluating environmental and social consequences, including the rights of the indigenous people, routines to ensure compliance with the code of conduct and greater transparency on sustainability issues.

The Ethical Council met representatives of the French service management company **SODEXO** to follow up the company's progress in implementing its human right policy in its operations. It was clear that the Ethical Council's engagement in the issue in 2007–2009 and the company's adoption of the policy were the starting signal for a more systematic approach to human rights. Other subjects discussed included the trade union conflicts and the right of workers to join a trade union in Sodexo's operation in North America.

Stakeholder dialogues

Stakeholder groups who pay attention to the Ethical Council include NGOs, students, researchers, politicians and the media. The Ethical Council regularly meets with various stakeholder organisations to discuss environmental and social issues. These dialogues provide material for the Council's work to exercise influence over companies by shedding light on a variety of problems from different angles. The stakeholder dialogues also present pointers for ways in which the work of the Ethical Council may be developed. Several stakeholder groups have emphasised that the Ethical Council should give more information on proactive dialogues and investor initiatives which the Council has adopted and described in the report for the year.

Same ultimate goals but different methods of exerting pressure

Many NGOs would like the AP Funds to sell their shareholdings in problem companies. In many cases, the Ethical Council has the same basic outlook as these organisations, namely that an unsatisfactory state of affairs caused by company must be rectified. However, ways in which companies can be influenced may differ. The Ethical Council's view is that the more responsible course is to use its ownership in the first instance to influence companies in the right direction. If the funds sell their shares, they renounce the opportunity to table shareholder proposals at AGMs – an important tool for bringing about dialogue with companies, above all in North America. It also limits the scope for exercising influence on the company, whereas the problem does not disappear for those affected by the companies' operations.

ILO

➤ ILO – International Labour Organization – the UN agency for labour law issues and working conditions. The ILO embraces representatives from both sides of the employer/employee divide. It has produced a number of conventions on labour rights, of which the best known are the eight ILO Core Conventions dealing with freedom of association and the right to organise, forced labour, discrimination and child labour.

www.ilo.org



Goldcorp – an exercise in long-term dialogue

The Marlin Mine in Guatemala

➤ The Ethical Council has maintained a constructive dialogue on a regular basis with the company for several years. Since the dialogue began, the company has undertaken a series of measures and changed its approach to dealing with the problems highlighted in the HRIA report.

Mining of ore at the Marlin Mine in Guatemala started in 2005 and the mine was acquired by Goldcorp in 2006. When the Ethical Council's attention was drawn to disturbances taking place at the Marlin Mine, the Council visited Guatemala in 2008. As well as visiting the mine, discussions were held with representatives of the employees, communities affected, the Church, NGOs and several ministers.

The visit revealed that there was widespread discontent with the company and its mining operations. Part of the discontent arose from anomalies back at the exploration stage, that is, before Goldcorp acquired ownership of the mine. How the mine would affect the health, environment and safety of residents of the area had not been analysed adequately. Criticism was also directed at consultation and the way in which acquisition of land around the mine had been handled.

Shortly after the visit in 2008, the AP Funds, as a shareholder in Goldcorp, joined with Canadian investors in tabling shareholder resolution for consideration at Goldcorp's AGM. The resolution included a demand that an independent assessment (HRIA – Human Rights Impact Assessment) should be carried out at the Marlin Mine. The resolution never reached the AGM, since Goldcorp undertook to have an HRIA carried out in return for the resolution being withdrawn. A steering committee for the assessment, including representatives of the group of shareholders, the company and the local community, was formed and an independent consultancy firm was engaged to perform the HRIA.

In parallel with the assessment, Goldcorp initiated an internal sustainable development programme. As a result, a sustainable development policy was developed, the company signed up to the UN Global Compact and the Marlin Mine was certified under the UN's "cyanide code".

Work on the assessment was time-consuming and was made more difficult, for example, by disturbances in the vicinity of the mine and difficulties in carrying out interviews with the local population. A further delay arose when the steering committee decided to extend the assessment by adding an in-depth risk assessment of the impact of chemicals.

The results of the assessment were presented in May 2010, divided into seven in-depth sections dealing with, for example, the consultation before the mine opened, the environmental impact and the acquisition of land. At the same time, the Inter-American Commission on Human Rights – IACHR – called on the Guatemalan government to close the mine on the basis of its negative impact on the population and environment near the mine.

In June 2010, Goldcorp presented a detailed action plan addressing every problem area in the report. Since then, the company has reported regularly on progress of its work in accordance with the action plan. The reports are published on the company's website.

In December 2010, monthly round-table discussions began on developments at the mine. The discussions were attended by representatives of Goldcorp and representatives of local organisations and the ministries affected. The discussions were supervised by OAS¹.

In early 2011, the UN's Special Envoy on the rights of indigenous peoples presented a report on the situation at the mine. The report highlighted a number of problem areas, including the mine's environmental impact and plans for its closure. It was also noted that improvements had been made, wholly in line with reports from the company stating that a large number of measures in the action plan had been implemented.

Immediately afterwards, the Guatemalan government, responding to the demand of IACHR and others for the mine to be closed, declared that they saw no reason to revoke the licence for the Marlin Mine. Later that year, IACHR also withdrew its demand for the mine to be closed.

In the second half of 2011, representatives of Goldcorp visited the Ethical Council on two occasions. It emerged during discussions that a large number of the points raised in the HRIA now form part of the day-to-day work of the company. The company also confirmed that a third party evaluation of the HRIA, the company's action plan and the programme of measures will be carried through. At one of the meetings, a number of NGOs were invited to meet the company. The Ethical Council also met a bishop from the region in which the mine is located, when he visited Sweden.

The Ethical Council has maintained a constructive dialogue on a regular basis with the company for several years. Since the dialogue began, the company has undertaken a series of measures and changed its approach to dealing with the problems highlighted in the HRIA report. It is the Ethical Council's opinion that conditions at the mine and Goldcorp's work on sustainable development issues are considerably better today than they were when the Council began its dialogue with the company. At the same time, certain points still remain to be remedied.

Goldcorp – milestones

2011

- ✦ The government in Guatemala announces that mining license will not be revoked.
- ✦ IACHR² withdraws its request for the mine to be closed.

2010

- ✦ The HRIA report is presented.
- ✦ IACHR² demands that the Guatemalan government close the mine.
- ✦ Goldcorp presents an action plan in response to the HRIA.
- ✦ The company updates its sustainable development policy and policy on human rights.
- ✦ Monthly round-table discussions start.

2009

- ✦ Goldcorp signs up to the UN Global Compact.
- ✦ The Marlin Mine is certified in accordance with the UN's "cyanide code".

2008

- ✦ The Ethical Council visits the Marlin Mine.
- ✦ Shareholder resolution requiring independent assessment (HRIA).

2007

- ✦ Report of disturbances at the Marlin Mine.

¹ Organisation of American States. www.oas.org

² IACHR – Inter-American Commission on Human Rights. www.iachr.org



Interview with Goldcorp

In autumn 2011, the Ethical Council met with Brent Bergeron, Vice President of Corporate Affairs at Goldcorp, who is responsible for development and implementation of CSR practices within the company. In an interview, Bergeron talks about the dialogue with the Investor Group about the situation at the Marlin Mine in Guatemala, from Goldcorp's point of view.

“The dialogue with the Ethical Council has not only led to decisive changes in the way we regard our operations in the mine itself”, says Bergeron. “The dialogue has also had an important impact on our work in CSR generally, and has even affected how the mining industry as a whole addresses issues relating to the impact that mining operations have on human rights”.

Brent Bergeron talks about the analysis of the effects of activities at the Marlin Mine on human rights and the rights of the indigenous people – the HRIA (Human Rights Impact Assessment) – that was performed in response to demands from the Investor Group, including the Ethical Council. The HRIA eventually became a framework for Goldcorp's work in taking action to guarantee respect for the rights of the indigenous people in the area around the mine and to ensure continued dialogue with the investors.

“The view shared by the company and the Investor Group is that our measures have gradually met the recommendations of the assessment. We at Goldcorp have also found this work and the processes introduced for implementation useful as a framework for developing CSR routines throughout the group. Today, we apply our experiences from the HRIA process at the Marlin Mine in our other projects in other countries. For example, in our latest project in Argentina, the HRIA process is one of the corner-stones of policy for determining how we will go ahead with our investment there. The intention in the initial stage is to reach out to as many stakeholders as possible and involve them in development of the project”.

The dialogue on the Marlin mine has also indirectly impacted on the international mining industry, says Bergeron.

“Today, we are being contacted by our colleagues in other mining companies to ask how we apply the HRIA report in our operations in Guatemala and to learn from our experiences. So the effects of our dialogue with investors have rippled out further than what we could have foreseen”.


Asked whether small investors really can influence to this extent how a major corporation works, Bergeron replies by referring both to the actual process and formal regulations:

“Since the dialogue with the Investor Group began, a great deal has happened around the mine and changed for the better. Small investors, too, can have a major impact on how we work on our projects, when shortcomings that have been pointed out need to be addressed. Shareholders' questions and unease about how we are conducting our operations also serve to open our eyes. In addition, we obviously have no right either to distinguish between minor and major shareholders in terms of their right to raise questions they feel are important at the

AGM. One example of that was when, before the AGM in spring 2008, the Ethical Council joined with other small shareholders to take the initiative that resulted in an HRIA and its follow-up”.

As for the issue of whether Goldcorp agreed that an HRIA should be carried out, Bergeron says that as far as the company was concerned the study was absolutely not initiated as an emergency measure to halt other actions by the investors.

“Our positive attitude towards an HRIA basically derives from the nature of the company”, explains Bergeron. Mines exist where natural resources are present, we cannot move our operations to another country because the conditions for our operations are questioned and need to be analysed and possibly changed. This means that we as a company on the spot have to tackle the issues and problems we come across in the local communities and not only act responsibly but also explain carefully about the responsibility we assume.

.....
 **As regards the company’s work on CSR issues, we have made it clear internally that CSR processes are to be part of our operational commercial activities.”**

“We are mindful that not everything we do is perfect, but we are also aware that everything we do can be improved. In these efforts, the dialogue conducted with the investors has been a mutual learning process. We have jointly developed structural procedures for CSR issues that we as a company can apply to other projects, and I believe that the Investor Group too has drawn similar conclusions about a structured methodology in corporate contacts”.

What then are the most important conclusions for Goldcorp from the dialogue on the Marlin Mine?

“As regards the company’s work on CSR issues, we have made it clear internally that CSR processes are to be part of our operational commercial activities and constitute a basic element of our decision-making processes right from the start”, replies Bergeron.

“In terms of our overall business objective and commercial goals, Goldcorp’s management has introduced the concept “sustainable prosperity” to summarise our business aims: an endeavour to generate prosperity that is long term and sustainable, both for us and the communities in which we as a mining company operate.

“When we explain the concept in this way, it meets with a great deal of acceptance both from investors and stakeholders”, concludes Brent Bergeron.



Brent Bergeron

↳ Vice President Corporate Affairs at Goldcorp and responsible for development and implementation of the CSR practices within the company.

Company dialogues

A company is removed from the Ethical Council's dialogue register when the objectives set by the Council when the dialogue was commenced have been met. Subsequently, the company becomes subject to special monitoring for five years. Prior to 2011, the Council concluded its dialogue with a total of nine companies in which the objectives of the dialogue were met:

➤ Read more on the Ethical Council's website www.ethicalcouncil.com

The Ethical Council is engaged in active dialogues with companies in breach of conventions. The aim is to persuade these companies to discontinue their violations and ensure that preventative systems precluding future convention breaches are implemented.

Problem areas:		Change is rated according to the objectives established in each individual case.	
	Human rights		No positive change
	Labour law		Signs of change
	Environment		Weak positive change
	Corruption		Positive change
	Special weapons		Very positive change

The status of the dialogues refers to the situation at year-end 2010 and 2011, respectively.

Companies where the objectives of the dialogue were met in 2011


Duke Energy


.....

DOMICILE > USA

SECTOR > Energy

LOCATION > USA

AREA > 

CHANGE > 

.....

Incident: Duke Energy Corporation has been associated with serious air pollution through failure to modernise a number of coal-fired power plants in the USA, contrary to the Convention on Long-range Transboundary Air Pollution.

Objective: For the company to report how the affected power plants will be made more efficient through modernisation and the implementation of technology to measure and reduce emissions of nitrogen oxides and sulphur dioxide, in accordance with the requirements of the US Environmental Protection Agency.

Comment: The Ethical Council has maintained an inactive dialogue with Duke Energy since 2009 pending a court ruling. Although the ruling has not been announced, Duke Energy has now introduced modern purification technology for nitrogen and sulphur dioxides at the coal-fired power stations concerned, as well as for two smaller plants that are used only in peak periods, and a plan to phase out these facilities is also in place. On that basis, the Ethical Council considers that the objective of the dialogue has been fulfilled.


Bridgestone


.....

DOMICILE > Japan

SECTOR > Consumer

LOCATION > Liberia

AREA > 

CHANGE > 

.....

Incident: Bridgestone Corporation has been associated with child labour at its rubber plantation in Liberia, contrary to the UN Convention on the Rights of the Child.

Objective: For Bridgestone to take concrete measures to prevent the occurrence of child labour and to implement a scrutiny mechanism to secure compliance with this aim. As a preventive measure, the company should adopt a policy on child labour for all of its operations.

Comment: Bridgestone has adopted a global policy distancing the company from child labour and forced labour. The company has now designated a member of personnel to be responsible for ensuring that human rights are respected.

Ongoing dialogues








Incident: AES Corporation has been associated with violations against the rights of the indigenous people in Charco la Pava in connection with construction of the Chan 75 hydroelectric dam in Panama. The violations have been condemned by the UN's special rapporteur on human rights and fundamental freedoms of indigenous peoples and are contrary to ILO Convention 169 concerning Indigenous and Tribal Peoples.

Objective: To suspend construction of Chan 75 until a transparent and inclusive evaluation process has been carried out in accordance with

the principle of free prior and informed consent as stated in ILO Convention 169 and in the UN Declaration on the Rights of Indigenous Peoples, or until the company can otherwise show that the rights of Charco la Pava are being respected.

Comment: In 2011, the dam was filled under the supervision of the ombudsman, public authorities with responsibility for the environment and natural resources, and local authorities. The company is in the process of developing human rights policies across the company. The process is expected to be complete in 2012.

AES








DOMICILE >	USA				
SECTOR >	Energy				
LOCATION >	Panama				
AREA >					
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2010	2011				
					

Incident: Alstom, S.A. has been linked to a violation of the Fourth Geneva Convention by supplying dedicated trains for a light rail system connecting West Jerusalem with settlements on Palestinian territory occupied by Israel.

Objective: For Alstom to withdraw from its involvement in the project or for the company to prove in a transparent and credible way that the project is being conducted in accordance with the interests and wishes of the Palestinian people.

Comment: The company is engaged in advanced discussions aimed at disposing of its ownership share in the Citypass Project. However, Alstom will retain a maintenance contract.

Alstom

DOMICILE >	France				
SECTOR >	Engineering				
LOCATION >	Palestinian territories				
AREA >					
CHANGE >	<table border="1"> <tr> <td>2010</td> <td>2011</td> </tr> <tr> <td></td> <td></td> </tr> </table>	2010	2011		
2010	2011				
					

Incident: Freeport-McMoran Copper & Gold Inc. is associated with a serious negative environmental impact through its mining operations in Indonesia, contrary to the UN Convention on Biological Diversity, and with accusations of corruption.

Objective: For the company to report on how it is working to minimise its impact on the environment and to draw up a plan for reinstating the area once mining operations have ceased.

Freeport-McMoran

DOMICILE >	USA				
SECTOR >	Raw materials				
LOCATION >	Indonesia				
AREA >					
CHANGE >	<table border="1"> <tr> <td>2010</td> <td>2011</td> </tr> <tr> <td></td> <td></td> </tr> </table>	2010	2011		
2010	2011				
					

Ongoing dialogues

Goldcorp








DOMICILE >	Canada				
SECTOR >	Raw materials				
LOCATION >	Guatemala				
AREA >					
CHANGE >	<table border="1"> <tr> <td></td> <td></td> </tr> <tr> <td>2010</td> <td>2011</td> </tr> </table>			2010	2011
					
2010	2011				

Incident: The Mayan people in communities around the Marlin Mine have accused Goldcorp Inc. of failing to respect their human rights and rights as an indigenous people, and of polluting the water and contributing to rising tensions, threats and harassment within the communities. The violation can be linked to the UN Global Compact Principles 1 and 2 concerning Human Rights.

Objective: For Goldcorp to develop policies and programmes for, and impact on, the local population and to take action to ensure respect for the rights of the indigenous people in current and future projects in Guatemala.

Comment: The Ethical Council visited the Marlin Mine in February 2008 along with some Canadian investors. On the recommendation of the Investor Group, an independent assessment was made of how the human rights situation in the area had been handled. In 2010, the company presented concrete measures in response to the conclusions and recommendations from the assessment. The majority of these measures have been implemented and third-party verification of the process and the implementation is now awaited. For more information, see page 16.








Incitec Pivot

DOMICILE >	Australia				
SECTOR >	Chemicals				
LOCATION >	Western Sahara				
AREA >					
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2010	2011				

Incident: Incitec Pivot Ltd. purchases phosphate from a Moroccan company involved in mining phosphate in Western Sahara. Western Sahara has been occupied by Morocco since 1975 and is on the UN list of Non-Self-Governing Territories that must be decolonised. In January 2002, the UN Legal Counsel ruled that no extraction of natural resources may take place in Western Sahara against the will of the Sahrawi population. Doing so would be a contravention of the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

Objective: For Incitec Pivot to terminate its purchases of phosphate from Western Sahara, or prove that extraction is being carried out in accordance with the interests and wishes of the Sahrawi population, in line with the UN declaration from 2002. Also, the company should adopt a corporate policy that prevents it from breaching international humanitarian law.

Motorola Solutions








DOMICILE >	USA				
SECTOR >	Telecom				
LOCATION >	Palestinian territories				
AREA >					
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2010	2011				

Incident: Motorola Solutions, Inc. has delivered a dedicated surveillance system for settlements on the West Bank. The settlements that lie in occupied Palestinian territory contravene international humanitarian law (e.g. the Fourth Geneva Convention), as confirmed by the International Court of Justice in the Hague.

Objective: For the company to halt the supply and maintenance of the surveillance system and associated services for settlements that lie in occupied territory. Also, the company should adopt a corporate policy that prevents it from being involved in breaching international humanitarian law.

Comment: The Ethical Council is investigating the possibility of filing a resolution at the next AGM.

Rio Tinto

DOMICILE >	Australia				
SECTOR >	Raw materials				
LOCATION >	Indonesia				
AREA >					
CHANGE >	<table border="1"> <tr> <td></td> <td></td> </tr> <tr> <td>2010</td> <td>2011</td> </tr> </table>			2010	2011
					
2010	2011				

Incident: Through its cooperation with Freeport-McMoran Copper & Gold Inc. and its mining operations in Indonesia, Rio Tinto Ltd has been associated with serious negative environmental impact, contrary to the UN Convention on Biological Diversity.

Objective: For Rio Tinto to proactively ensure that the necessary measures are implemented so that operations at the Grasberg Mine are in compliance with internationally accepted levels for mining waste management.

Comment: Rio Tinto is collaborating with Freeport on reducing the risks of serious negative impact on the environment from the mining operations at Grasberg. Rio Tinto concedes that emissions of mining waste into rivers cannot be regarded as acceptable practice, but argues that at the Grasberg mine the method is suitable.

Incident: Toyota Motor has been associated with anti-union activity in a subsidiary in the Philippines, contrary to the ILO Convention on Freedom of Association and the Right to Organise.

Objective: For the company to deal with the situation in the Philippines and ensure that an independent trade union is able to act freely, and for the company to adopt a group policy on freedom of association for employees.

Comment: To add weight to the dialogue/create greater scope to exercise influence, the Ethical Council now conducts dialogue in association with several other European and North American investors.

Toyota

DOMICILE > Japan

SECTOR > Consumer

LOCATION > The Philippines

AREA >



CHANGE >



Incident: Veolia Environment has been linked to a violation of the Fourth Geneva Convention by supplying dedicated management and operation of a light rail system connecting West Jerusalem with settlements on Palestinian territory occupied by Israel.

Objective: For the company to withdraw from its involvement in the project or for the company to demonstrate, transparently and credibly, that the project is being conducted in accordance with the interests and wishes of the Palestinian people.

Comment: The company is engaged in advanced discussions aimed at disposing of its ownership share in the Citypass Project. Following the sale, Veolia will retain a short consultancy agreement linked to the project.

Veolia

DOMICILE > France

SECTOR > Public Services

LOCATION > Palestinian territories

AREA >



CHANGE >



Incident: Walmart Stores, Inc. has been associated with systematic violation of workers' rights, contrary to the ILO Core Conventions on labour standards both in its own operations and among those of its suppliers. The company is deemed to have actively impeded its employees' right to form trade unions and gain union affiliation.

Objective: For Walmart to strengthen its policies and guidelines so that these are aligned with the international guidelines, and to demonstrate a credible monitoring system that ensures compliance with the guidelines.

Comment: In recent years, Walmart has dealt with many problems in its operations, including environment and human rights in its delivery chain, as well as environmental issues in its own business. The company has not yet been equally constructive in addressing its employees' rights, but dialogue with the company indicates that it is working on the issue. The Ethical Council visited the company in the USA in 2011.

The Ethical Council and two other investors jointly signed an opinion article to underline the importance of maintaining good employee relationships in terms of the company's long-term profitability. The article was published in the Financial Times in June 2011.

Walmart

DOMICILE > USA

SECTOR > Consumer

LOCATION > USA

AREA >


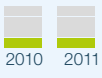


CHANGE >



Companies where the dialogue is inactive, pending the outcome of ongoing legal proceedings

Chevron

DOMICILE >	USA
SECTOR >	Energy
LOCATION >	Ecuador
AREA >	
CHANGE >	

Incident: Chevron Corporation has been associated with environmental destruction in the Amazon Rainforest in Ecuador, contrary to the UN Convention on Biological Diversity.

Objective: For Chevron to take preventive action by strengthening its guidelines on the environment and to undertake to use the best available technology for extraction across all the company's operations, and to address with the specific pollution problems that have arisen from the company's activities in Ecuador.

Comment: The case is the subject of ongoing legal proceedings in Ecuador and the USA. The judge in the case has been replaced due to charges of bribery. The case involves both claims and counterclaims, which is further delaying a ruling. The company denies responsibility for the pollution in the area and claims that it adopted sufficient pollution control measures before it withdrew from the project. The Ethical Council believes it has come as far as it can in its active dialogue with Chevron, and is now awaiting a final ruling on the case and for the ruling to become legally binding.

Companies that have been excluded from all Funds

The Ethical Council is engaged in active dialogues with companies in breach of conventions. The aim is to persuade these companies to discontinue their violations and ensure that preventative systems precluding future convention breaches are implemented.

Alliant Techsystems Inc.

Can be associated with violation of the Convention on Cluster Munitions.

GenCorp Inc.

Can be associated with violation of the Convention on Cluster Munitions.

General Dynamics Corporation

Can be associated with violation of the Convention on Cluster Munitions.

Hanwha Corporation

Can be associated with violation of the Convention on Cluster Munitions.

L-3 Communications Holdings, Inc.

Can be associated with violation of the Convention on Cluster Munitions.

Lockheed Martin Corporation

Can be associated with violation of the Convention on Cluster Munitions.

Poongsan Corporation (plus Poongsan Holdings Corporation)

Can be associated with violation of the Convention on Cluster Munitions.

Raytheon Company

Can be associated with violation of the Convention on Cluster Munitions.

Textron Inc.

Can be associated with violation of the Convention on Cluster Munitions.

Singapore Technologies Engineering

Can be associated with violation of the Ottawa Convention on anti-personnel mines.

All the companies named above are domiciled in countries that have not signed weapons conventions regarding cluster munitions and anti-personnel mines. Consequently, these companies are not obliged to comply with these conventions under national legislation. This means that there is little scope for the Ethical Council to exert an influence, since the companies are expected to follow national security policy directives. As an annual procedure, the Ethical Council urges all the above companies to act in accordance with the international weapons conventions.

Several companies on the list informed the Ethical Council during the year that they have now terminated or are in the process of terminating production and marketing of cluster munitions and related equipment that fall within the definition of the Convention on Cluster Munitions. The Ethical Council looks favourably on this development and is now examining the criteria by which the exclusion of these companies can be reviewed.

Elbit Systems Ltd.

Can be associated with violation of international humanitarian law, contrary to the Fourth Geneva Convention.

Both the European Union and the Swedish Government are clear on their stance that those sections of the separation barrier, and the settlements erected by Israel on the occupied territories are contrary to international public law, and, more specifically, Article 49 of the Fourth Geneva Convention. The Convention states that the occupying power may not deport or transfer sections of its civilian population into the territory it occupies.

Ethical Council – members

Composition of the Ethical Council

➤ The Ethical Council consists of a representative of each Fund. The Chair, which alternates between the Funds, was held by the First AP Fund in 2011 and has now transferred to the Second AP Fund for 2012.



LEFT TO RIGHT: Christina Olivecrona (deputy), Christina Kusoffsky Hillesöy, John Howchin, Ulrika Danielson, Nadine Viel Lamare, Annika Andersson and Arne Lööv (deputy).

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