

Annual Report 2007



Comments by the Chairman

At the beginning of 2007, four of the buffer funds in the national Swedish pension system, AP1, AP2, AP3 and AP4, took an important step. They formed the Ethical Council. The purpose of setting up the Ethical Council was to combine both resources and votes so as to increase the ability of the Funds to influence the foreign companies in which the Funds invest to conduct their operations without breaching the international conventions signed by Sweden.

It is not without some pride that I am now able to summarise this first year and describe the work of the Ethical Council in 2007 in this report.

To be successful in our endeavour of influencing the companies we invest in we have to work systematically. We now have a well-established process for working with issues associated with corporate social and environmental responsibility. But we are not stopping here; we are continually enlarging our network of investors, companies and international organisations.

It is important to retain a humble attitude to these complex issues so as to keep learning more, at the same time as we want to take a stand and contribute to greater awareness of shareholders' responsibilities and their possibilities of influencing companies' actions. We are prepared to bring other shareholders together on issues we engage in so as to increase pressure on the companies concerned and signal that ethical and environmental issues are important to us as investors.

DIALOGUE – OUR MOST IMPORTANT TOOL

To achieve success we must create an awareness and understanding of the work of the Ethical Council. Publishing this annual report is part of that process. We want to be transparent and show how we have worked during the year, at the same time as it is of the utmost importance to safeguard the trust we have attained in the dialogues we conduct with companies.

Work to achieve change takes time, but if we can create a positive climate for dialogue with companies, we have a better chance of bringing about the change we are seeking. During the year my colleagues in the Ethical Council, and I myself, have participated in a number of meetings with companies to show that we want to bring about change and that we take responsibility as active shareholders for our long-term investments.

The Ethical Council met a total of eight times in 2007. We discussed how to bring the companies we are in discussions with to respect the fundamental international conventions that we want all the companies we invest in to follow. We also drew up action plans for our work. Moreover, in November we made a study visit to one of the world's fastest growing economies, China, to learn more about the challenges and issues that companies are faced with and to show companies, at the same time, how important it is for us as investors that companies take ethical and environmental considerations into account in their operations.

COOPERATION BEYOND SWEDEN'S BORDERS

Looking ahead, I see a continued development of the work of the Ethical Council, and a greater degree of cooperation. All of the Funds support the UN initiative Principles for Responsible Investment (PRI) and there we see greater activity, engagement and opportunities for investors all over the world to cooperate for sustainable development. In 2007 the Swedish government appointed a committee of inquiry to investigate the AP Funds' guidelines on the environment and ethics. With this report we want to show all our stakeholders that the environment and ethics are very much on our agenda. I want to thank the members of the Ethical Council for their excellent cooperation in 2007 and I am now looking forward to an exciting new year with Carl Rosén, the representative of AP2, at the helm.

Stockholm, April 2008

Nadine Viel Lamare, AP1
Chairman of the Ethical Council in 2007



Nadine Viel Lamare was the Chairman of the Ethical Council in 2007. Carl Rosén is the Chairman in 2008.



A dialogue on environmental and ethical issues is important to us as investors.



The most important advantages of the Ethical Council:

- The aggregate capital of the four Funds, some SEK 900 billion (USD 150 billion), increases the possibility of influencing a company compared with individual actions.
- A united Council is an attractive partner for other international investors with a similar environmental and ethical agenda, which further increases the ability to influence companies to make positive changes.
- Cooperation in the Ethical Council makes the work of the Funds more efficient and effective, as is, for instance, seen in a greater number of company dialogues.

About the Ethical Council

The First to Fourth AP Funds (AP1-AP4) are buffer funds in the national Swedish pension system. The four competing Funds were given the same assignment in 2001: to invest pension capital to achieve the maximum benefit for the pension system and generate a high long-term return at a low level of risk. The Funds have to take account of the environment and ethics, but without compromising the overall goal of a high return.

SWEDISH CORE VALUES

As buffer funds in the Swedish pension system, AP1, AP2, AP3 and AP4 manage capital for everyone who has worked in Sweden at some time. The ethical and environmental policies of the Funds are therefore based on the core values of the Swedish State as they are expressed in international conventions signed by Sweden and decisions on foreign policy. Until the end of 2006 the four Funds worked separately on ethical and environmental matters. A common denominator for this work was not only the international conventions on which the work was based, but also the use of dialogue as an important tool for achieving change and greater awareness of ethical and environmental issues.

UNITED WE ARE STRONGER

In 2006 the Funds decided to coordinate the procurement of ethics consultancy. The aim was to increase the efficiency of the procurement process and to make cost savings. During the course of the procurement the idea of more far-reaching cooperation evolved as it turned out that all the Funds intended to conduct a dialogue with companies on the basis of the international conventions signed by Sweden. Cooperation focused on driving positive change in foreign companies associated with violations of international conventions was deemed possible within the framework of the Funds' remit from the Riksdag (Swedish parliament), since the competition between the Funds relating to asset management was not affected by such a decision. The Ethical Council was set up formally after all the Funds had selected the same ethics consultant, GES Investment Services. The Ethical Council consists of a representative of each Fund, with the right to appoint an additional deputy representative. Council Chairmanship, which rotates between the Funds, was held by AP1 in 2007 and has been transferred to AP2 for 2008.



Members of the Ethical Council



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The work of the Ethical Council

With the support of external consultants, the Ethical Council follows a number of cases where companies have been accused of breaches of international conventions and principles. The Ethical Council's objective is to conduct an active dialogue with around ten of these companies in order to make them take action.

According to their terms of reference, the four AP Funds, which are the members of the Ethical Council, can invest in thousands of international companies. It goes without saying that the Ethical Council does not have the resources to conduct active governance of that many holdings. This is why the Council uses a model to quickly identify the holdings that can benefit most from active governance. The model also contributes to a spread of the problems encountered and types of companies in order to avoid too narrow a focus on the same industrial sectors or the same type of problems.

DIALOGUE AS A TOOL

Dialogue is the Ethical Council's most important tool to make companies act responsibly. The dialogues are not simply intended to have the company address the alleged breach. As long-term investors we also want to see the company implementing preventive systems to avoid future breaches. Conducting this kind of work for change requires both discipline and a great measure of patience. Even though we would prefer to see a continuous positive development, we must be prepared for it to take time to achieve results.

The infringements of conventions identified by the Ethical Council are often symptoms that the company is not aware of its responsibility for incidents or that it has not been sufficiently focused on proactive work concerning environmental and social issues. We are convinced that companies that take their responsibility and integrate these issues into their day-to-day operations are a better investment for us and therefore for Sweden's pensioners in the long term. Our engagement in a company can also make other companies in the same industry review their procedures and strategies for acting responsibly. The Ethical Council is therefore prepared to invest time and resources to achieve results.

ENGAGEMENT IN A DOZEN COMPANIES

After examining the total holdings of the Funds, the Ethical Council selected twelve companies at the beginning of 2007 to work with actively. In May the dialogue was expanded to include another two companies. In several cases the Ethical Council is

The funnel – how 3,500 companies are reduced to 10

The selection process can be divided into three stages:

Stage 1

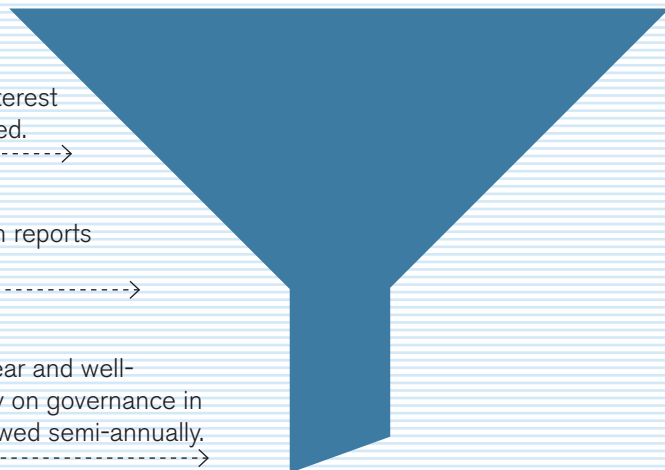
Systematic screening of 3,500 companies. The media, interest organisations and UN bodies are among the sources used.

Stage 2

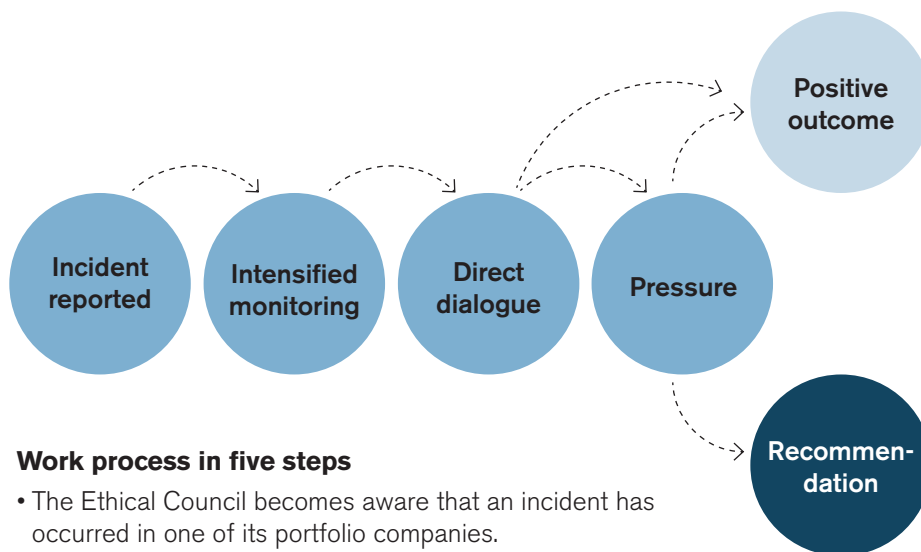
100 companies are selected for closer scrutiny based on reports of claimed breaches of international conventions.

Stage 3

Based on a list of 20–25 companies where there are clear and well-documented problems, the Ethical Council works actively on governance in relation to about 10 companies per year. The list is reviewed semi-annually.



The monitoring of and dialogue with other companies continues at the same time through the Council's ethics consultant.



Work process in five steps

- The Ethical Council becomes aware that an incident has occurred in one of its portfolio companies.
- Monitoring is intensified in the event of serious incidents.
- The Ethical Council takes the initiative to start a direct dialogue.
- Additional pressure is applied. This includes cooperation with other investors and filing proposals to and voting at annual general meetings.
- If the above measures do not lead to the desired result, each individual Fund takes a decision on the possible sale of its holding based on a recommendation by the Ethical Council.

cooperating with other Swedish and international investors to jointly increase the pressure on the companies to take action.

In addition to these 14 companies, the Ethical Council has chosen to have contact each year with the only company to be excluded by all the Funds, Singapore Technologies Engineering, one of the few companies in the world whose manufacture of anti-personnel landmines is documented. The Ethical Council has called on the company to end this production in line with the Ottawa Convention, also known as the Mine Ban Treaty.

CONFIDENTIAL DIALOGUES

The Ethical Council wants to disseminate information about and establish an understanding of the work we are doing. We have therefore chosen to publicise the names of the companies with which we are currently conducting an active dialogue and the objectives we want to achieve in each individual case.

However, we have chosen not to disclose details of ongoing dialogues as their success is based on the presence of trust between the Ethical Council and the companies concerned. As long as we feel that a positive development is still possible we will continue to press our demands. If, despite the patience we have shown, the dialogue does not progress work for change, the Ethical Council will consider recommending each AP Fund to sell its holding in the company.

Since the work for change being conducted by the Ethical Council takes time, we had not expected to be able to remove any companies from our list in the first year. However, at the end of 2007 it turned out that the US company Halliburton, which had been accused of business ethics failings and bribery, could be removed from the list after the company had assumed responsibility for irregularities in a subsidiary and had also reinforced its policies for agents and its anti-corruption programme at group level.



We want to create an awareness and understanding of the work of the Ethical Council. This is why we name the companies with which we are conducting an active dialogue.



Problem areas:

-  Human rights
-  Labour law
-  Environment
-  Corruption
-  Special weapons



Dialogue status:

-  No positive development
-  Signs of development
-  Weak positive development
-  Positive development
-  Very positive development

Status of dialogues as at 31 December 2007.

Company removed from the list – the objectives of the dialogue have been achieved

Halliburton Corporation

Domicile	Sector	Country	Area	Development
USA	Energy	Iraq and Nigeria		

Incident: The company is associated with business ethics failings and bribery in Iraq and Nigeria contrary to the UN Convention against Corruption.

Objective: For Halliburton to reinforce and implement policies and guidelines for the use of agents and intermediaries in commercial contexts and to act responsibly in the incidents reported.

Comment: In recent years Halliburton has worked actively with official investigators to increase insight into a number of transactions where there have been irregularities. The company has clarified its policy in the matter and has reinforced responsibility in its organisation to comply with the guidelines. In 2007, in connection with the sale of the subsidiary that had been central to the investigations, Halliburton announced officially that it assumed responsibility for any legal and/or financial consequences of the actions of the former subsidiary. In this connection the Ethical Council removed Halliburton from its focus list.



Ongoing dialogues

BHP Billiton Plc

Domicile	Sector	Country	Area	Development
Australia and the United Kingdom	Raw materials	Australia		

Objective: Right to sign collective agreements.

Incident: The company has been associated with violations of the right to sign collective agreements in Australia, which is contrary to the ILO Right to Organize and Collective Bargaining Convention.

Objective: For BHP Billiton to alter its employment procedures so that the signing of individual agreements is not a decisive condition for employment and that employees instead have the right to sign collective agreements.

Comment: Under Australian law companies are permitted to sign individual contracts with employees ('Workplace Agreements'). This law has been criticised by the ILO for several years since it is deemed to be in breach of ILO core conventions. In connection with the change of government in 2007 expectations increased that labour law would be amended to reflect international rights.

Bridgestone Corporation

Domicile	Sector	Country	Area	Development
Japan	Consumer durables/tyres	Liberia		

Objective: Prevent child labour.

Incident: The company has been associated with child labour at the company's 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. As a preventive measure the company should adopt a policy on child labour for all of its operations.

Chevron Corporation

Domicile	Sector	Country	Area	Development
USA	Energy	Nigeria		

Objective: Report on how the company is securing compliance with its human rights policy.

Incident: The company has been associated with violations of human rights in Nigeria contrary to the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials.

Objective: Chevron has adopted a framework, the Voluntary Principles on Security and Human Rights, to safeguard human rights in connection with the work of security personnel. The objective is for the company to report how they have implemented their policy in practice to secure compliance.

Comment: The Funds with holdings in Chevron at the time of the general meeting in 2007 voted for a resolution tabled by American shareholders urging the company to produce a clearer and more robust policy for human rights. The resolution received almost 27 per cent of the votes at the general meeting, which is regarded as a very strong signal from shareholders that the issue should be addressed by the company.





Objective: Improvement in environmental work.

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Chevron Corporation (cont.)



Domicile	Sector	Country	Area	Development
USA	Energy	Ecuador		

Incident: The company has been associated with environmental degradation in the Amazon region, Ecuador, contrary to the UN Convention on Biological Diversity.

Objective: For Chevron to take preventive action by strengthening its guidelines for the environment and to undertake to use the best available technology for extraction in all the company's operations, and also for the company to address the specific pollution problems as a result of the company's operations in Ecuador.

Comment: The Funds with holdings in the company at the time of the general meeting in 2007 voted for a resolution tabled by American shareholders calling on Chevron – with reference to its operations in Ecuador and other matters – to raise environmental standards in its operations. The resolution was supported by just under 9 per cent of the votes at the general meeting, which is sufficient support to raise the issue at the next general meeting.



Duke Energy Corporation

Domicile	Sector	Country	Area	Development
USA	Energy	USA		

Incident: By failing to modernise a number of coal-fired power stations in the United States Duke Energy has been associated with serious air pollution contrary to the Convention on Long-range Transboundary Air Pollution.

Objective: For the company to report how the power stations affected 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.

Freeport-McMoran Copper & Gold Inc



Domicile	Sector	Country	Area	Development
USA	Raw materials	Indonesia		

Incident: Freeport is associated through its mining operations in Indonesia with a serious negative environmental impact contrary to the UN Convention on Biological Diversity and also with accusations of bribery.

Objective: For the company to report how it is working to reduce its environmental impact and also to produce a plan for the restoration of the area when mining operations end.

Comment: At the time of the general meeting the Funds with holdings in the company supported a resolution put forward by an American pension fund. However, the company contested the resolution at the US Securities and Exchange Commission (SEC), which decided that the resolution did not need to be raised at the general meeting.

Grupo Ferrovial S.A.



Domicile	Sector	Country	Area	Development
Spain	Construction	Poland		

Incident: The company is associated with a road project that infringes on a nature protection area in Poland, which is contrary to the UN Convention on Biological Diversity.

Objective: For Ferrovial to take measures so that road construction will not be in conflict with the guidelines that protect the area and to strengthen its own guidelines and risk analysis for the assessment of environmental risks in connection with similar projects.

Objective: Improvement in environmental work.

L-3 Communications Holdings

Domicile	Sector	Country	Area	Development
USA	IT	Iraq		

Incident: The company is associated with complicity concerning violations of human rights in the Abu Grahb prison in Iraq contrary to the UN Universal Declaration of Human Rights and the Geneva Convention on the Treatment of Prisoners of War.

Objective: At present there is no information to support a link between the company and further violations, but the company continues to be involved in risky operations in connection with contracts in conflict zones. The objective is therefore for L-3 Communications to formulate a policy for human rights – especially in conflict zones – and show how it is being implemented in its organisation in order to prevent new violations.

Objective: Adopt a human rights policy.

PetroChina Company Limited

Domicile	Sector	Country	Area	Development
China	Energy	China		

Incident: The company is associated with deficient safety procedures and discharges of chemicals in the Songhua River in China contrary to the Basel Convention on Hazardous Waste.

Objective: For PetroChina to strengthen its guidelines and procedures for safety and environmental work and to take action to deal with the consequences caused by the discharge of chemicals.

Objective: Improvement in environmental work.

Sodexo Alliance SA

Domicile	Sector	Country	Area	Development
France	Hotel and Restaurant	UK		

Incident: Sodexo has been associated with inhuman conditions for inmates at a centre for immigrants in the United Kingdom contrary to the UN Universal Declaration of Human Rights and the UN Convention on the Status of Refugees.

Objective: For the company to formulate and implement a clear policy on human rights that addresses particularly sensitive issues such as deprivation of liberty.

Objective: Adopt a human rights policy.



Objective: Greater transparency and guidelines for transactions.

Objective: Adopt a policy on freedom of association.

Objective: Labour law policy and implementation of a monitoring system.

Thales SA

Domicile	Sector	Country	Area	Development
France	Defence industry	South Africa		

Incident: Thales has been associated with bribery of officials in South Africa contrary to the UN Convention against Corruption.

Objective: For the company to increase transparency in relation to its transactions and anti-corruption policy and guidelines.

Toyota Motor Corporation

Domicile	Sector	Country	Area	Development
Japan	Consumer durables/ car industry	Philippines		

Incident: Toyota Motor is 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 address 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 for employees on freedom of association.

Wal-Mart Stores Inc

Domicile	Sector	Country	Area	Development
USA	Consumer discretionary	USA		

Incident: Wal-Mart is associated with systematic violations of workers' rights contrary to ILO core conventions on working conditions both in its own operations and among its suppliers.

Objective: For Wal-Mart to strengthen its policies and guidelines to align them with the international guidelines, and to show a credible monitoring system that secures compliance with the guidelines.

Comment: Together with international investors, the Funds on the Ethical Council with holdings in Wal-Mart presented a resolution to the company's general meeting in 2007. The shareholders called on Wal-Mart to examine its procedures in comparison with the international guidelines for workers' rights and to produce recommendations as to how the company can achieve greater compliance with these guidelines. The resolution was supported by about 4 per cent of the votes and therefore qualified for presentation at the next general meeting.

Yahoo! Inc

Domicile	Sector	Country	Area	Development
USA	IT	China		

Objective: Adopt a human rights and freedom of expression policy.



Incident: Yahoo has been associated with violations of freedom of expression in China by disclosing user information about a journalist that has led to his imprisonment. This conduct by the company is contrary to the UN Universal Declaration of Human Rights, of which the right to freedom of opinion and expression is a part.

Objective: For Yahoo to produce and implement a policy for human rights and freedom of expression as well as procedures that specifically address how the company is to avoid complicity in such situations.

Comment: The Funds with holdings in the company at the time of the general meeting in 2007 voted for two resolutions put forward by American shareholders on freedom of expression and human rights. The resolutions received 15 and 4 per cent of the votes respectively, which indicates that the issue is of importance to several investors and also qualifies the resolutions to be reconsidered. Yahoo is participating in an initiative along with other companies in the industry and NGOs to produce guidelines for acting in line with human rights. The Ethical Council encourages this work and is following developments.

Excluded companies

Singapore Technologies Engineering (passive dialogue)

Domicile	Sector	Country	Area	Development
Singapore	Industry	Singapore		

Objective: Stop the production of anti-personnel landmines.

Incident: The company is associated through a subsidiary with the manufacture of anti-personnel landmines in Singapore contrary to the Ottawa Convention.

Objective: For the company to stop manufacturing anti-personnel landmines and to undertake not to resume production in the future.

Comment: None of the Funds on the Ethical Council invest in this company. The Ethical Council intends to have an annual routine of calling on the company to comply with the international convention.



Our visit marked the fact that there are foreign investors willing to take their responsibility.

During an intensive week in China the Ethical Council met many Chinese and foreign companies as well as journalists, economists and NGOs.



The Ethical Council in China

The visit by the Ethical Council to China to learn more about how Chinese companies view social responsibility gave the representatives of the Council a good insight into the complexity of the country. The visit also clearly marked the fact that there are foreign investors willing to take their responsibility for helping to solve China's enormous environmental problems and improving the country's strongly criticised working conditions in its manufacturing industry.

FOCUS ON THE ENVIRONMENT

China's enormous environmental problems and criticised working conditions in its manufacturing industry have been in focus in recent years. These issues are increasingly attracting attention in pace with the growing engagement of companies, investors and consumers in corporate social responsibility (CSR) around the world.

The environmental problems that have attracted most attention from the central authorities are water shortages and air and river pollution. At present some 80 per cent of China's energy comes from fossil fuels (mainly coal), leading to environmental pollution both in mining (heavy metals) and through very large carbon dioxide emissions. According to the World Bank, air and water pollution costs 5.8 per cent of China's GDP, mainly due to the large number of cases of illness and deaths.

THE RESPONSIBILITIES OF THE LOCAL AUTHORITIES

Central regulation has begun to be tightened, a number of measures have been taken and more are planned to reduce air and water pollution and to cut energy consumption. But it is clear that the measures taken so far have been insufficient; the smog in major urban areas and breathing difficulties are evidence that much still remains to be done.

A large part of the problems are attributable to the local authorities, which have the task of monitoring central regulation, but where corruption and inadequate monitoring are not unusual. Directives from the central government seem to be followed in an arbitrary way at local level as long as they are not accompanied by strong sanctions for deviations.

In its new environmental directives, the Chinese government has introduced a compulsory system of sanctions so that environmental issues will be given priority.

As regards working conditions, central regulation is also increasing in this area even though this is happening more slowly. While 400 million Chinese have been lifted out of acute poverty in the past 20 years, the social gaps have increased. Migrant workers from rural China are not covered by the safety nets and are the people with the most dangerous, most strenuous and worst paid jobs. In addition, their opportunities of obtaining education and health care are severely limited. Protective equipment, statutory overtime pay and working hours, and insurance are only a few examples of areas where employers cheat and do not follow existing regulations; this mainly affects migrants workers.

THE ROLE OF COMPANIES

The increased demands for environmental impact reporting were noticeable among the companies we visited. The Chinese authorities have decided that the state-owned companies have to start publishing reports on their environmental work and, in combination with growing international reporting, the pressure is increasing on other Chinese companies to also increase their awareness and reporting concerning these matters. The authorities have mainly focused on heavy industry, such as paper mills, in their demands for environmental improvements and more efficient resource use. All the companies we met – in the pulp and paper, textile and food industries – had their own wastewater treatment systems.

Social aspects and employee rights were discussed to a lesser extent in the public arena. The foreign companies we met testified to the problems they have when inspecting Chinese companies to ensure that these companies are complying with codes of conduct. Transparency is the main problem. Double accounts and fake records are everyday occurrences and replacing a supplier because it has cheated means that an opportunity to influence companies to change sub-standard conditions is lost. Instead there is more and



It is quite clear that foreign customers and investors play an important role in accelerating China's development in environmental and ethical areas.

China, a fast-growing country with clear contrasts – even within the same city.

more talk of influence via dialogue, repeated visits and a focus on improvements rather than zero tolerance for failings. It is quite clear that Western companies have a positive impact on Chinese companies and are able to exert influence.

The Swedish companies we met took the view that they would not be able to compete in a global market, if they did not have proper codes of conduct and monitored ethical and environmental factors in their own operations and those of their suppliers.

In other words “responsible” business is also a competitive advantage if you want to export goods from China.

FOREIGN INVESTORS A NEW FEATURE

Only one out of the dozen companies we met during our visit to China had previously had visits from investors discussing CSR. There is a high level of awareness that foreign customers attach great weight to CSR, but the fact that foreign investors like the Swedish AP Funds prioritise this issue seemed to be news to many.

This is a response that confirms that the Ethical Council is at the forefront. As foreign investors we must therefore continue to be active in taking responsibility and continue our dialogue with Chinese companies, in order to promote sustainable development on several fronts in the country.

NEED FOR FOREIGN PRESSURE

One Swedish company we met was emphatic that “all Chinese companies can have a good manufacturing environment”. Another said that “there is no excuse for bad working conditions”. These are comments that inspire hope, while requiring foreign customers and investors to continue to make high demands on Chinese manufacturing companies.

After our visit to China it is very motivating to be working in the framework of the Ethical Council for better environmental and working conditions in that country. It is quite clear that foreign customers and investors play an important role in accelerating China's development in these areas.



International cooperation and initiatives

In addition to the Ethical Council's core task of influencing the actions of a number of companies through dialogue, the Council takes part in a number of international initiatives intended to demonstrate its position as an investor and to increase corporate responsibility.

COMMON PRINCIPLES

As members of the UN initiative Principles for Responsible Investment (PRI), the four Funds on the Ethical Council support the idea that investors have to take account of environmental and social issues. PRI is also an important forum that creates conditions for cooperation between international investors.

In 2007 the Ethical Council took part in a call in the PRI members' forum, the Clearinghouse, to contact companies that have joined the UN Global Compact. In letters to some hundred companies, encouragement was given to companies that have worked actively to integrate the principles of the Global Compact in their work and others were called on to live up to the principles they have pledged to follow. Together with other investors, the Ethical Council is showing both through these letters and its public support for the initiative that work on the environment and ethics is valued by shareholders, and that we are monitoring the development of companies in these issues.



An investor initiative in partnership with UNEP FI and the UN Global Compact

THE ETHICAL COUNCIL MAKES ITS VOICE HEARD

In 2007 the federal US authority for trade in securities, the Securities and Exchange Commission (SEC), started a process to review the rules on the possibilities for shareholders to exert influence.

One central issue for many investors with the environment and social matters on their agenda is the possibility that investors have in the United States of filing proposals concerning the conduct of companies in these matters for a vote at the general meeting of the company. Since deficient procedures on environmental and social issues can have negative financial consequences, there is a clear financial link that justifies this type of resolution. The proposed changes presented by the SEC would have led to restrictions on shareholders exercising their rights in these matters. Many investors in the United States and the rest of the world – including the Ethical Council – responded strongly by contacting the SEC and expressing support for the present system.

Prior to Wal-Mart's general meeting in 2007, the three Funds with shares in the company were involved in co-filing a resolution drafted by New York City Pension Funds, which made demands for improvements for Wal-Mart employees through stronger guidelines based on international conventions for employees. This possibility of exerting influence and drawing public attention to an issue is an important tool for shareholders.

PRI – is an abbreviation of Principles for Responsible Investment, which is the UN initiative in this area. PRI increases contacts and the exchange of information between responsible investors all over the world. (www.unpri.org)

Global Compact

– is a voluntary UN initiative to encourage companies to take account of ten generally accepted principles for conducting their operations. The ten principles are based on UN conventions in the areas of human rights, labour law, the environment and anti-corruption. The companies that are members of the Global Compact try to integrate these principles into their operations. (www.unglobalcompact.org)



CLIMATE CHANGE

All the Funds on the Ethical Council support the Carbon Disclosure Project (CDP), which is a cooperative international project to increase companies' awareness of climate change. Through the project institutional investors are pressing companies to report in a more transparent manner on their strategies for climate issues and to be better at documenting key indicators that can demonstrate improvements. The CDP is intended to increase the efficiency of the data collection process by a large number of investors collectively signing a joint request for data and reports on emissions of greenhouse gases. On 1 February 2007 the fifth set of questionnaires was sent to 2,400 companies from 280 institutional investors that together represent over USD 41 trillion. The replies are made freely available on a website and the questionnaires have had a response rate of 80–90 per cent in recent years.

CARBON DISCLOSURE PROJECT

TRANSPARENCY IN THE OIL INDUSTRY

Another international initiative supported by the members of the Ethical Council is the Extractive Industries Transparency Initiative (EITI), which is an initiative for transparency in the extractive industries, especially oil companies. Together with some 70 other investors the Funds have given their formal support to the EITI, which sends a signal to countries and companies with extractive operations that shareholders value clear and transparent reporting of revenue. The need for transparency and governance is particularly great in countries with rich natural resources but weak governments. Clearer reporting of revenue in host countries and reports on payments made by the companies increase transparency in society and contribute to better conditions for financial control.



ILO – the International Labour Organisation – is the UN body for labour law issues and working conditions and consists of representatives of the social partners in member countries. The ILO has produced a number of conventions on employment rights; 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)

Stakeholder dialogue

At the end of the year the Ethical Council invited a number of representatives of various NGOs and other bodies, in order to present the Ethical Council and its work and to open the way for dialogue. Some 20 people from various organisations such as trade unions, environmental organisations and groups defending human rights took part in the meeting. The members of the Ethical Council presented the background to their cooperation and how they work together. Many of the participants had questions and comments for the Ethical Council, and the discussion focused particularly on transparency and on how to report the work of the Ethical Council.

Other questions that were raised were work on climate change and how the Ethical Council is to work to address issues on a broader front. The participants expressed their appreciation that the Ethical Council had initiated talks.

The Ethical Council will continue to actively gather stakeholders for constructive talks and comments.



Conferences in 2007

In 2007 the Ethical Council participated actively in a number of conferences and forums to present our work and share experience on environmental and ethical issues. By sharing experience and describing our work we contribute to the debate on and awareness of corporate social responsibility.

SIRA, Stockholm, 20 March

Nadine Viel Lamare presented the Ethical Council to members of SIRA, the Swedish Investor Relations Association.

SWESIF, Stockholm, 23 March

Nadine Viel Lamare and Christina Kusoffsky Hillesøy presented the Ethical Council to members of SWESIF, Sweden's Forum for Sustainable Investment.

Öhrlings PriceWaterhouseCoopers, Women on the Board, Stockholm, 9 May

Nadine Viel Lamare gave an account of why CSR is important from an investor perspective and described the Ethical Council, the common platform of the Swedish AP Funds for work on these issues.

European Summit on Corporate Governance and Responsible Investments, Copenhagen, 13–14 June

Nadine Viel Lamare presented the Ethical Council and the ideas behind active influence and dialogue at an international investor conference.

UN PRI In Person, Geneva, 3–4 July

Christina Kusoffsky Hillesøy and Christina Olivecrona represented the Ethical Council at the first PRI Conference, attended by 130 member companies and investors from all over the world.

ICGN autumn conference, New York, 29 October

Carl Rosén took part in a panel debate on greater regulation and shareholder rights in an international comparison.

ClimateInvest, London, 27-29 November

Carl Rosén took part in a panel debate on climate issues and investment strategies.

Contact information

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A COLLABORATION BETWEEN
FIRST-FOURTH AP-FUNDS