


ANNUAL REPORT 2012



“ Preventive initiatives have proved to be an effective way of influencing companies.

Key advantages of the Ethical Council

Greater scope for influence

The combined assets of the four Funds, at approximately SEK 940 billion¹, 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 conferences in which the Ethical Council is represented.

About the Ethical Council

The First, Second, Third, and Fourth AP Funds are buffer funds in Sweden's national pension system. In 2001, the four funds were given a common mission – to invest the buffer capital so as to achieve the greatest possible benefit for the pension system and generate high long-term returns with 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.²

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 way as possible. The Ethical 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.

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¹ As of 31 December 2012.

² See the preamble to the Swedish National Pension Insurance Funds (AP-Funds) Act 2000:192, which governs the operations of the Funds.

The year in brief 2012

Just over 200 companies

► The Ethical Council engaged in dialogues with 118 companies throughout the world. In many cases, the dialogue addressed more than one area of sustainability. The Ethical Council's external consultants have, on behalf of the AP Funds and other customers, also engaged in dialogues with 102 companies.



Objectives were achieved

► Two companies linked to violations of conventions, Canadian Goldcorp and Australian Rio Tinto, took actions in accordance with the Ethical Council's requirements. Since the Ethical Council's objectives have been achieved, the dialogues were concluded, however the Council is continuing to monitor the companies.

Preventive initiatives – an effective way of influencing companies.

► Preventive initiatives, often in partnership with other pension funds, are an important aspect of the Ethical Council's efforts to encourage companies to act in a more socially responsible way. The Ethical Council's mining project is living proof that this is an effective way of encouraging companies to act more responsibly.

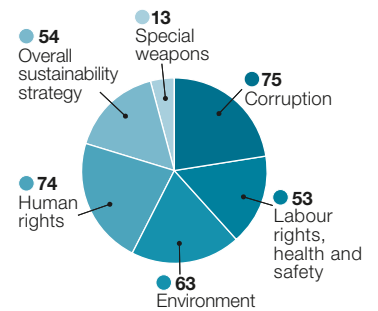


Burkina Faso – a young mining nation

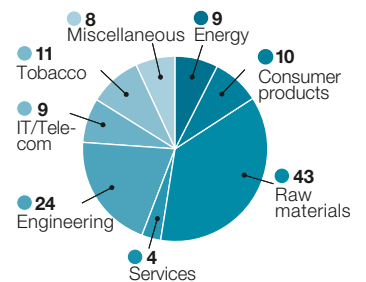
► The Ethical Council visited Burkina Faso to gain a better understanding of the challenges faced by mining companies and other companies when establishing themselves in developing countries.

The year in figures

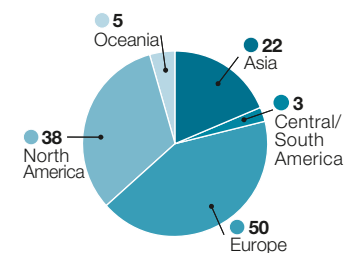
ENGAGEMENT PER AREA



ENGAGEMENT PER SECTOR

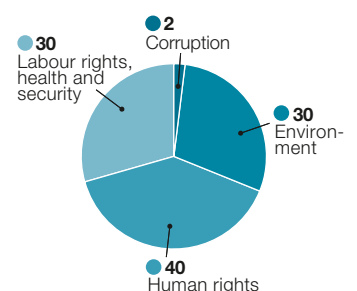


ENGAGEMENT PER REGION



ENGAGEMENT PER AREA

(Using external consultants on behalf of the Ethical Council and other customers)





ULRIKA DANIELSON
Chairwoman, 2012

A better world gives a better return

When the new pension system was launched in 2001, the First, Second, Third and Fourth AP Funds were given the same 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 with a low level of risk.

“ The fundamental principle behind our work at the Ethical Council, and the work that each Fund carries out within the area of sustainability, is that it should primarily generate higher returns and lower risk.

In so doing, the Funds must exercise ethical and environmental consideration without compromising the overall objective of attaining a high return. So are these two elements of the mission compatible? The answer to that question is a resounding yes! The fundamental principle behind our work at the Ethical Council, and the work that each Fund carries out within the area of sustainability, is that it should primarily generate higher returns and lower risk. The fact is that we are convinced that long-term sustainable companies are not just companies that act ethically, they are also companies that generate healthy returns for the future benefit of Sweden's pensioners.

With this attitude our most important tool is of course dialogue to encourage companies to act responsibly. Because if we can exercise influence on companies to both address documented violations and implement preventive systems to avoid future violations, then we have used our ownership to make a difference and thus also generate healthy returns. Engaging in dialogues requires resources, but also a large degree of patience and we must be prepared for it to take time to achieve results. Having said that, it is also important to point out that although we can influence companies we have invested in to act more responsibly, there are limitations to our role as an investor.

OBJECTIVES OF DIALOGUES WERE FULFILLED

One example of a constructive dialogue is the one we had with the Canadian mining company Goldcorp. This dialogue has been ongoing since 2008, and it is satisfying to be able to bring it to a conclusion now that the objectives we established for the dialogue have

been achieved. Goldcorp is a good example of how we at the Ethical Council, together with other shareholders and stakeholders, can influence the company to take sustainability issues genuinely seriously. Goldcorp has said that the dialogue with the Ethical Council has led to both crucial changes to their way of viewing operations at the Marlin Mine, and also had an important impact on their overall CSR work. The company believes that the dialogue has also affected the mining industry as a whole and the way in which it addresses issues relating to the impact of mining operations on human rights. The Marlin Mine will most likely continue to be the subject of criticism, as there are groups that do not want the mine there. But we are not here to advise on whether or not mines should exist, that is a decision for the authorities in the country in question. What we can do is to make sure that operations are pursued in as responsible way as possible – and that is what we work towards and have been instrumental in achieving.

The objectives of our dialogue with the Australian mining company Rio Tinto were also achieved when the company published an updated policy on mining waste in 2012. The focus of this dialogue has been the way in which Rio Tinto works with Freeport, operator of the Grasberg Mine, to reduce the risk of serious environmental impact. It is important that the company has a policy that clearly explains that in the future, the company will not release mining waste into rivers or shallow watercourses during the establishment and operation of new mines, and that they will continually work to reduce the company's environmental impact from existing mines.

PREVENTIVE DIALOGUES ACHIEVE RESULTS

We have on occasions been criticised for the Funds' holdings in mining companies. We are well aware that mining businesses have a major impact on both the environment and people, and that the industry has many challenges to deal with in order to pursue mining operations in a responsible manner. The Ethical Council, and prior to its establishment, the AP Funds, have engaged in dialogues with a considerable number of mining companies. In 2011 we also launched a mining project in partnership with the Dutch pension fund PGGM and the Seventh AP Fund, with the purpose of encouraging mining companies to improve their sustainability work in those areas where there were deficiencies. The investor group discussed the analysis results with many of the companies in 2012. In many cases, the companies pointed out that we, through our analysis, have either highlighted to them, or confirmed the company's own conclusions regarding deficiencies in their sustainability work – deficiencies that they now intend to rectify. And this was the very aim of our proactive project – to influence and make a difference so that the companies in which we invest act more responsibly, which in the long term benefits all the company's stakeholders, including us investors.

During the year, representatives from the Ethical Council have also visited mining companies in both Africa and Central America to see first hand the challenges faced by companies, but also to discuss with the companies and other stakeholders how sustainability work is put into practice. Good examples of how companies work with sustainability issues can then be used in dialogues with other companies.

REACTIVE DIALOGUES PROGRESS AT DIFFERENT RATES

The reactive dialogues that the Ethical Council conducts in relation to violations of conventions are often about complex issues. We find it frustrating that the process of change can take a long time in some companies, but we

are prepared to engage in cases for as long as we believe that our involvement will lead to a positive development. The dialogues that the Ethical Council has conducted during the year have progressed at varying rates. It is satisfying to report that a couple of dialogues, including those with Goldcorp and Rio Tinto, but also Toyota, have produced a positive outcome. Toyota, which has been on the Ethical Council's list since 2007, has guaranteed that the company's subsidiary in the Philippines now respects employees' freedom of association and the right to organise.

COOPERATION WITH OTHERS

The Ethical Council's work with ethical and environmental issues is continually developing. We cooperate effectively and efficiently within the Council, but it is not always enough. For several years now we have been highlighting the importance of cooperating with other investors so that we can exert our influence. It is not always the amount of capital behind the investor that counts when making demands, as our dialogue with Goldcorp demonstrates, where the AP Funds own just 0.1 percent of the votes and share capital. Instead it is important that investors from different parts of the world get involved in the companies. We now work in cooperation with several international pension fund managers, which means that we can conduct more dialogues and more importantly, gain greater opportunities to exert our influence.

I would like to conclude by extending my thanks to my fantastic colleagues at the Ethical Council, but also the investors we work with, NGO's and companies with which we are together able to make a difference. The Ethical Council creates long-term value by being an active and responsible owner representative within sustainability issues. Sustainable companies and healthy returns go hand in hand!

Gothenburg, April 2013

Ulrika Danielson, Second AP Fund
Chairwoman, Ethical Council, 2012

“ In many cases, the companies have pointed out that the Ethical Council has either highlighted to them, or confirmed the company's own conclusions regarding deficiencies in their sustainability work – deficiencies that they now intend to rectify.

The work of the Ethical Council

“ The choice of focus area is 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.

The guiding principle for the work of the Ethical Council is to make a difference. The Funds do this by acting as long-term, committed and responsible owners who exert influence on companies the world over to improve their efforts in relation to 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.³

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, as those that 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 growth. This is in accordance with what is written in Sweden’s Constitution.

Alongside 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 have management systems to enable the business to be operated in as responsible a way as possible, wherever in the world they may operate. The basis of the Ethical Council’s engagement in these issues is the AP Funds’ shared understanding that well managed companies, over time,

generate higher returns and lower risk.

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 incidents at individual companies. Engagement in all areas and all companies is neither possible nor effective, which is why 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’ brief 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 organisations are pushing for improvements may be rejected in favour of areas that have not yet attracted as 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 - IMPORTANT MEANS OF INFLUENCE

The Ethical Council has a systematic procedure for identifying and influencing companies that breach conventions. The process is described in more detail on the Ethical Council’s website (www.ethicalcouncil.com) and information about ongoing and concluded dialogues can be found at the end of this report.

The Ethical Council’s engagement is not limited to exercising influence over companies where problems already exist. The Council’s preventive initiatives are just as important, measures that are designed to support the work of companies with regard to sustainability issues, to prevent serious incidents from

³ See the preamble to the National Pension Insurance Funds (AP-Funds) Act 2000:192, which governs the work of the Funds.

“ Highlighting both strengths and weaknesses in companies’ sustainability strategies has during discussions proved to be a good way of getting them to take action.

occurring. Over the past few years, the Ethical Council has focused increasingly on preventive initiatives as they have proved to be an effective way of influencing companies to conduct their business in a more responsible way. Highlighting both strengths and weaknesses in companies’ sustainability strategies during discussions has proved to be a good way of getting them to take action. The dialogues are about persuading companies to focus more closely on various environmental and social issues, improve internal processes and improve the transparency of their work. The Ethical Council analyses companies’ weaknesses and strengths based on existing company information and best practice in the industry. One good example is the Ethical Council’s mining project, see page 8.

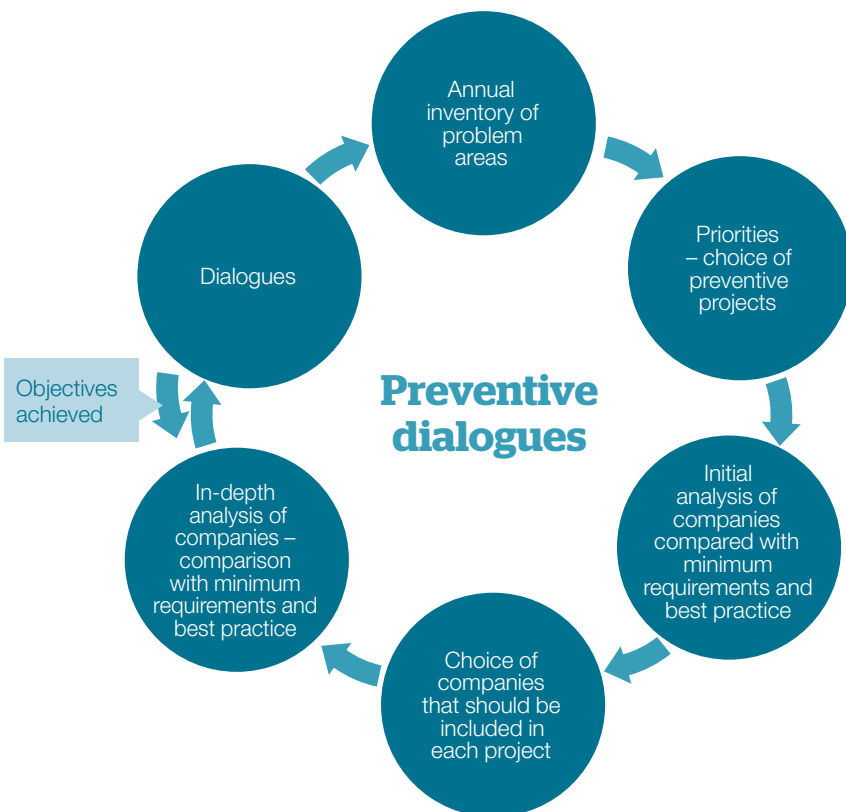
The dialogues are conducted in confidence and as a result it is not always possible to report publicly on them. However, the Ethical Council champions transparency and wherever possible aims to make aspects of its proactive work public, without naming the companies concerned. In this report, you can

read about several proactive projects, dialogues and initiatives that were carried out by the Ethical Council in 2012.

COOPERATION - A KEY SUCCESS FACTOR

The issues that 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 commitment. Furthermore, in the Ethical Council’s experience, face-to-face meetings is the medium of communication that delivers the best results of all.

The Ethical Council’s resources have been bolstered over the years; we have expanded our 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 funds has been intensified, enabling us to engage in more dialogues and achieve a greater degree of influence.



Why is this investor initiative important?

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

The mining industry

The Ethical Council has been running a mining project since 2011, with the aim of achieving an overview of how companies in the sector work with sustainability issues and their efforts to put policies and procedures in place.

The sustainability work of some thirty companies has been analysed according to the ten principles of sustainable development of the International Council of Mining and Metals (ICMM), see page 9. The companies have been scored according to how well they satisfy each principle, based on information that is publicly available. In autumn 2011, all the companies concerned were contacted by letter. In 2012, the Ethical Council and its partners in the project, the Dutch pension fund PGM and the Seventh AP Fund, followed up the analysis with approximately half of the companies. The follow-up work was carried out in the form of meetings and conference calls.

HOW ARE MINING COMPANIES WORKING WITH SUSTAINABILITY ISSUES?

The project includes a broad spectrum of companies and they run various types of mining activities all over the world. The analysis showed that there is considerable variance in the way mining companies work with sustainability issues, with some companies demonstrating that they are well-prepared in certain areas, while others showed weaknesses, see chart on page 9.

There are several explanations for this, one being that companies that have previously had problems in relation to sustainability issues tend to improve their preventive systems, while the systems of companies that have yet to experience any major problems are not as well-established. The Ethical Council also chose to include companies in the analysis whose operations did not give rise to reports of deficiencies in their sustainability work.

The project has generally been received well by the companies involved, since most of them share the Ethical Council's view that the sector is faced with a number of challenges. Many companies are also in the process of reviewing their sustainability practices as a consequence of the UN's new principles for companies regarding human rights, which

were developed by John Ruggie (see page 15), and the UK Bribery Act. The fact that the International Finance Corporation (IFC)⁴, which issues loans to mining projects in developing countries, updated its framework for sustainability in 2012, and the requirements that need to be satisfied if the IFC is to participate as a funder in projects, has also affected companies' sustainability efforts.

EXAMPLES FROM COMPANY DIALOGUES

The dialogues began with a general discussion on sustainability issues and the relevant environmental, human rights and business ethics matters. In nine of the dialogues, the Ethical Council and its partners specifically highlighted aspects to do with human rights, labour rights and working environment, and in five cases the Council took up issues relating to the rights of indigenous peoples. Biodiversity has been specifically mentioned in five cases and in five discussions, the company's preventive work on corruption was discussed in details. On two occasions, discussions focused on mining waste in rivers and lake systems. In principle, all discussions covered what companies report and why they choose to report/not to report certain information. Many companies have guidelines and procedures in place, but do not provide clear reports on how they have been followed.

For example, one of the companies had analysed its sustainability work recently against the ICMM's principles, and in the discussion with the Ethical Council it emerged that both parties had on the whole identified similar deficiencies in the company's preventive work. Before the meeting, the Ethical Council had the opportunity to read a new human rights policy drawn up by the company. During the meeting, the company also announced that it had carried out a thorough review of its anti-corruption work, both areas where the Ethical Council had identified deficiencies.

Following discussions with another company, the Ethical Council received an additional

⁴ IFC, International Finance Corporation, the part of the World Bank that works with the private sector in developing countries.

written response in which the company clarified its policy on the rights of indigenous peoples, and also wrote: in addition to this and taking heed of your recommendation, we have decided to propose the following amendment to our Human Rights Policy to include a commitment adopted from ICMM Guidelines: *"We acknowledge and respect the social, economic, environmental and cultural interests of Indigenous Peoples and their specific rights within these interests as articulated and defined by national and international laws"*

In the same response the company also writes: *"Following your recommendation and realising this was a gap in our Sustainability Management, we have now drafted a policy on biodiversity (appended to this letter)"*.

Both these responses match the deficiencies that were identified in the Ethical Council's original analysis results, see the Ethical Council's 2011 Annual Report.

COMPANY INSIGHT

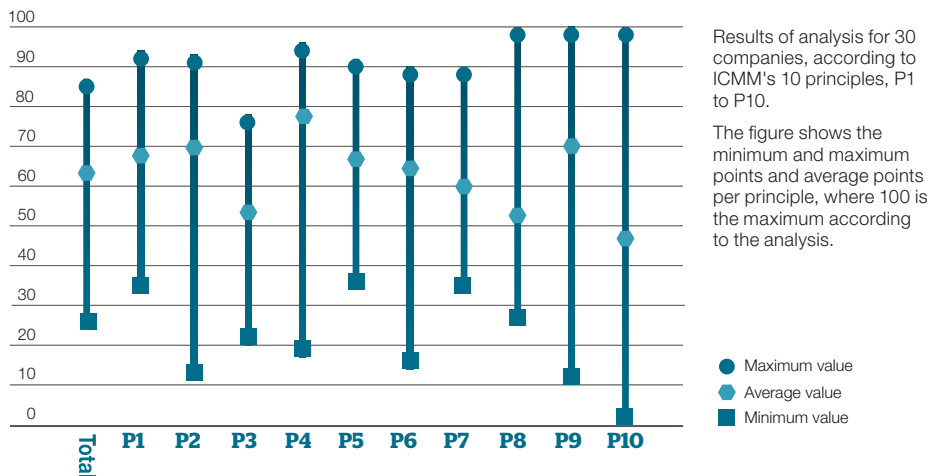
Although there was a slump in demand for minerals in 2012, demand remains high in a global perspective, boosted in particular by emerging markets. Global demand for gold is fuelling new prospecting, while several

historically rich deposits of many minerals are seeing a decline in production. This creates a situation where prospecting for mines is taking place all over the world, mines that create jobs and badly needed national cash flows, but that also compete with local traditional lifestyles and cause concern with regard to contamination and access to water, and other local environmental effects. Gaining and managing to retain the confidence of the local population is extremely important. In their discussions with the Ethical Council, companies generally give the impression that they are aware of this, but they report varying methods and approaches as regards their handling of situations, based on the company's, often local, experiences. This is in all likelihood a wise strategy, since each mine faces unique social and environmental challenges, but sharing experiences between companies is a healthy approach and something that the Ethical Council encourages.

FOLLOW-UP OF ANALYSIS, 2013

The Ethical Council aims to arrange meetings with the remaining companies during the first half of 2013, to complete a follow-up of the analysis based on the companies' sustainability reporting for 2014.

Considerable variation in how well companies satisfy ICMM's principles



The diagram shows, per principle and in total, how great the variance is between different companies in the project. For example, principle 10 on communication with companies' stakeholders and independently verified reporting, there are companies that do not report anything, while others appear to satisfy the requirement in full.

ICMM's ten sustainable development principles

P1 Implement and maintain ethical business practices and sound systems of corporate governance.

P2 Integrate sustainable development considerations within the corporate decision-making process.

P3 Uphold fundamental human rights and respect cultures, customs and values in dealings with employees and others who are affected by our activities.

P4 Implement risk management strategies based on valid data and sound science.

P5 Seek continual improvement with regard to health and safety performance.

P6 Seek continual improvement of our environmental performance.

Contribute to conservation of biodiversity and integrated approaches to land use planning.

Facilitate and encourage responsible product design, use, re-use, recycling and disposal of our products.

Contribute to the social, economic and institutional development of the communities in which we operate.

P10 Implement effective and transparent engagement, communication and independently verified reporting arrangements with our stakeholders.

From ICMM's website.
For further information <http://www.icmm.com/our-work/sustainable-development-framework/10-principles>.



Can the gold in Burkina Faso be a way out of poverty?

Representatives from the Ethical Council visited the country in autumn 2012 to gain a better understanding of the challenges faced by mining companies and other companies when establishing themselves in a developing country.

A COUNTRY FACING CHALLENGES, WHERE SMALL INITIATIVES CAN MAKE A BIG DIFFERENCE

Burkina Faso in West Africa is one of the poorest countries in the world.⁵ Some 85 percent of the population of

17 million live off the land and livestock.

The infrastructure is underdeveloped. Around 70 percent of the population are illiterate. The population is also very young, with approximately 65 percent aged under 21.

The country has begun to tackle its poverty levels in recent years. Economic reforms have been initiated and several social indicators show improvements, including an increase in the number of children attending school. The country's largest sources of income are currently gold (approximately 70 percent) and cotton.

MAJOR OPPORTUNITIES FOR A YOUNG MINING NATION

Burkina Faso is a young mining nation. The first exploitation permit for gold deposits was issued in 2007. Naturally the gold reserves are limited and it is now that Burkina Faso has the

chance to use the income from its gold to build up the country's prosperity. This means that the country's government has excellent opportunities to learn from the experiences of other countries. Income from a developing country's mining industry is often low and rarely benefits the people.

International organisations, such as the IFC⁶, EITI⁷ and the World Bank, can help the country to set up processes to ensure it receives appropriate levels of royalties from the gold extraction and corporate taxes. The country is also given support in establishing frameworks for guaranteeing transparency, as well as help in getting the finance ministry and mining ministry to "speak the same language".

Increased transparency is important, not only to reduce the risk of corruption but also to encourage understanding among the population and gain their endorsement for how the income from gold will be used to contribute to the country's development. Burkina Faso has made great progress in the right direction on this point through its application for membership of the Extractive Industries Transparency Initiative, EITI. The current mining legislation is under review and it will be obligatory for companies extracting gold to submit reports in accordance with EITI's standards. The mining chamber of commerce⁸ is therto working on a report that gives details of the mining industry's contributions in the

Burkina Faso

AREA: 274,200 km²

CAPITAL: Ouagadougou

BORDERING COUNTRIES: Mali, Benin, Niger, Togo, Ghana, Ivory Coast.

FORM OF GOVERNMENT: Republic. Independent since 1960.

HEAD OF STATE: President Blaise Compaoré.

POPULATION: 17 million (2011)

ANNUAL POPULATION GROWTH: 3% (2010)

PERCENTAGE OF INHABITANTS IN CITIES: 20.4% (2010)

LITERACY LEVELS: 28.7% (2007)

GDP PER CAPITA: USD 639

EXPORT GOODS: Gold and cotton.

Source: Swedish Institute of International Affairs, www.landguiden.se, as of 24 January, 2013.



⁵ In 2011, Burkina Faso achieved a ranking of 181 out of 187 in the UNDP's Human Development Index (HDI).

⁶ IFC, International Finance Corporation, the part of the World Bank that works with the private sector in developing countries.

⁷ EITI, Extractive Industries Transparency Initiative. See page 16 for a more detailed description of EITI. EITI approves Burkina Faso's membership during the first quarter of 2013.

⁸ Chambre de Mines.

form of infrastructure, schools and other social development. A proposal has also been put forward regarding the establishment of a gold reserve fund to further increase transparency on how the income from the gold industry is being used.

MINING INDUSTRY CREATES JOBS AND GENERATES GOVERNMENT INCOME

The multinational mining companies that are currently operating in the country pay 5 percent in royalties on the value of the gold that is exported from the country, 17 percent in corporate tax and 16 percent in tax on dividends. Property tax is paid based on the area of land taken up by the mine, and the government has a 10 percent stake in all mining projects.

The mining companies employ local people as far as possible, which creates new jobs in and outside the mine and encourages knowledge transfer. One of the mining companies that the Ethical Council visited, Semafo, explained that one employee within the mining industry creates approximately ten new jobs outside the mine. These are jobs and incomes that are essential in the country's efforts to tackle poverty.

Alongside the industrial mine exploration work there is also an artisanal mining extraction/exploration going on, where large amounts are extracted using non-industrial methods. There are an estimated 500-600 mines of this kind employing between 1,000 and 30,000 people per mine. The health and safety risks are enormous, with many unreported deaths from tunnels collapsing and poor handling of cyanide and other hazardous chemicals. There are often children working in these mines.

MAJOR INVESTMENT REQUIRED

However, companies that see business opportunities in Burkina Faso face major challenges. Extracting gold requires huge amounts of capital and major investment, resources that a poor country simply cannot supply. Excavators, drilling equipment and lorries, along with

road building and processing plants to crush and separate the gold from the ore are all major investments. One tonne of ore produces just 1-7 grams of gold, and the ore in Burkina Faso is considered rich in gold. In other words, companies are taking huge financial risks. Exploiting gold in the current climate does pay off thanks to the high price of gold, but if that price falls, companies are left having already invested money. Although Burkina Faso is now one of the more stable countries in the region, any risk assessment must also consider the political risk associated with possible future transfers of power, not just in the country but also in the surrounding countries.

MAJOR IMPACT ON ENVIRONMENT AND SOCIETY

Another important matter that companies need to handle responsibly is the social and environmental risks that arise. The mining industry has a major impact on the environment and society, and mining companies have great responsibility in this area.

There are many environmental issues to consider, for example more than 99 percent of the ore that is mined is waste that needs to be disposed of properly, and tailing ponds must be made impermeable so as not to contaminate watercourses. Cyanide and other chemicals must be handled and stored securely, and the use of water must be restricted in regions that are prone to water shortages, which is why it is extremely important to have systems that reuse process water. On top of this, reinstatement plans and funding need to be in place for the eventual closure of the mine.

DIALOGUE WITH LOCAL POPULATION KEY TO SUCCESS

Having a constructive dialogue with the local communities who are affected and consulting them both before and during the process is a key factor for success. For the companies, it is a matter of minimising risk, but if everything is managed using a responsible approach that is sustainable in the long term then it can be

Burkina Faso – a young mining nation

- ▶ The first exploitation permit for gold deposits was issued in 2007.
- ▶ The mining companies employ local people as far as possible, which creates new jobs in and outside the mine and encourages knowledge transfer.



**ATTENTION
PEUT CONTENIR
DES TRACES
DE CYANURE**



Small contributions make a big difference

- School meals encourage children to attend school and give them the energy to cope with the school day.
- The construction of local schools increases opportunities for children, particularly girls, to go to school.
- Installing a water pump in a village improves hygiene and saves women and children a huge amount of time that would otherwise be spent walking several kilometres to fetch water.

a win-win situation for both the company and the local population, as well as the country as a whole. It is important to have local knowledge and respect local communities. Burkina Faso is made up of a large number of ethnic groups, whose needs can vary. Put simply, there is no one-size-fits-all solution.

The voluntary organisation Orcade often informs the local people so that they understand their rights and the obligations of the mining companies at the various stages of starting up mining operations. By law, for example, mining companies must consult the population and provide compensation for homes that need to be moved because of mine exploitation – but only when they have acquired an exploitation permit. The question is, what the mining companies can do to help the population in addition to what the law says they are obliged to do.

WOMEN, EDUCATION AND HEALTH - FOCUS AREAS FOR COMPANIES' SOCIAL CONTRIBUTIONS

The Ethical Council was able to see examples of how local communities are consulted through the Canadian mining companies Semafo and IAMGOLD. The two companies have different approaches to handling social issues. Semafo works through its own foundation, while IAMGOLD has a more traditional model, in which the company manages its local work through employees and sponsorship of a nationwide education programme via the voluntary organisation Plan Canada.

Semafo's foundation has built schools, toilets, wells and libraries, donated school books, school meals, solar panels and invested in preventive health care initiatives. They have also built health clinics. Through education initiatives, funding and support, the foundation has helped women to open a factory for producing shea butter, which is made from shea nuts and used in beauty and skincare products and soap, as well as cultivation of sesame seeds and peppers. The products are sold both locally and exported.

Many of these initiatives may seem small, but they bring about critical changes. Installing a water pump in a village improves hygiene and

saves women and children a huge amount of time that would otherwise be spent walking several kilometres to fetch water. The construction of local schools increases opportunities for children to go to school, and providing meals attracts pupils and gives them the energy to cope with the school day. Financing a mill for grinding flour saves time for the women when the only meal of the day is often just one meal based on millet flour.

One important purpose of the mining companies' social work is the principle of help to self-help, i.e. avoiding dependency on the mining companies and instead enabling local communities to continue to support themselves after the companies are no longer in the area. This is where education initiatives play a key role, as does the importance of trying not to take over the duties and responsibilities of the state, which is a delicate balancing act for companies in many cases.

"Burkina Faso is becoming a mining nation and it is the government's responsibility to support mining companies in their efforts not to kill the goose that lays the golden egg," commented one woman who represents the provincial government⁹ at one of the meetings of the local advisory¹⁰ committee.

IMPORTANCE OF COLLABORATION BETWEEN DIFFERENT STAKEHOLDERS

Many NGOs and aid agencies, including the Swedish International Development Cooperation Agency (Sida), have offices in Burkina Faso, and the Ethical Council met several of them. The focus areas are health and education issues, as well as emergency aid for example when there is a famine. Lifting Burkina Faso out of poverty requires lots of organisations to work together, and although mining companies bear a heavy responsibility, international, national and regional initiatives are also needed, as well as the involvement of investors and NGOs – and it is of the utmost importance that they cooperate. Sharing experiences on all levels is essential for the country's continued development.

⁹ Quotes from notes taken at consultation meeting on 31 October, 2011, between Semafo and representatives from the local population (Comité consultatif local).

¹⁰ Two advisory committees have been set up at the Mana Mine to facilitate dialogue between the mining company and the communities that are affected by mining operations. The local advisory committee at the Mana Mine consists of company representatives, representatives from the province, official representatives from the villages that are located around the mine, individuals representing various faiths and representatives for young people, women and others.

“ Through education initiatives, funding and support, the foundation has helped women to start a factory for producing shea butter and soap, as well as cultivation of sesame seeds and peppers.



Oil extraction in the Niger Delta - a challenging dilemma

Nigeria began extracting oil in the Niger Delta back in the 1950s. Today, five international oil companies account for the majority of oil extraction in the country; Chevron, Eni, Exxon, Shell and Total. Oil has given Nigeria relative prosperity compared to other African countries, but corruption in the country is rife. In 2012, Transparency International gave Nigeria a ranking of 139 of 176 globally.¹¹

The Niger Delta has suffered widespread contamination. The report published by the UN Environment Programme (UNEP)¹² in autumn 2011 stated that it would take at least 25 years to clean up after the oil extraction in Ogoniland (Niger Delta) and UNEP estimated the cost at a minimum of SEK 7 billion. A representative from the Ethical Council visited Shell Petroleum Development Company of Nigeria's (SPDC) plants in the Niger Delta, together with a large group of investors. SPDC is owned by the Nigerian government (55 percent), Shell (30 percent), EPNL (10 percent) and Agip (5 percent).

NUMEROUS PROBLEMS AND HUGE CHALLENGES

SPDC has an extensive network of oil pipelines (6,000 km) in the Niger Delta that go through Ogoniland, a region that SPDC has not operated in or had any real access to since 1993, when unrest forced the company out of the area. This means that it has not been

possible to carry out maintenance on the oil pipelines. An illegal industry has emerged in the region, with local people sabotaging the pipelines to either export the oil or sell it to the local refinery. This has resulted in far-reaching negative environmental consequences. Illegal refining in principle involves distilling crude oil in drums over open fires, taking a fifth of the product that is formed and using it as a kind of low-grade petrol. The thick oil residue is usually dumped in the river system. On top of that, large-scale and systematic theft from the oil pipelines is happening on the quiet. A report in Nigeria maintains that as much as 250,000 barrels of oil disappears every day.¹³

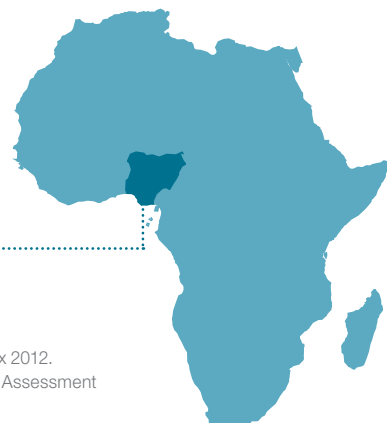
SPDC was criticised in the UNEP report for inadequate procedures for fixing leaks and spillage from the oil pipelines. The company has since worked on improving its procedures, but at the same time the number of illegal refineries and thefts has increased, which is hampering the large-scale and long-term clean up process.



► When the Ethical Council visited the Niger Delta, a 50,000 barrel oil tanker was on fire, along with one of SPDC's oil pipelines. It had exploded one night when it was to be illegally filled up.

 **1950s**

Nigeria began extracting oil in the Niger Delta back in the 1950s.



¹¹ Transparency International, Corruption Perceptions Index 2012.

¹² United Nations Environment Programme; Environmental Assessment of Ogoniland 2011.

¹³ Article in the Financial Times, 24 October 2012.

John Ruggie's principles

In the past there has been considerable dissension regarding the definition of companies' human rights responsibilities. In June 2011, the UN Human Rights Council adopted a framework setting out companies' responsibilities.

John Ruggie, the UN's special representative for human rights in business, developed the framework "Guiding Principles on Business and Human Rights: Implementing the United Nations Protect, Respect and Remedy Framework". The framework comprises three principles that provide guidance to companies in their work with human rights. It emphasises the responsibility of governments to protect human rights, the responsibility of companies to respect them and the shared responsibility

to remedy any problems. Governments still bear the fundamental responsibility for safeguarding human rights, but John Ruggie's principles clarify how companies should act. For example, companies need to carry out a due diligence of human rights issues, which for investors may facilitate the analysis of companies' risk management and any violations that arise. Such an assessment can also form the basis of dialogues with companies.

John Ruggie's principles

"Guiding Principles and Human Rights..."

...a framework developed by the UN's special representative for human rights in business, John Ruggie.

› Protect

The government's responsibility to **protect** human rights.

› Respect

The responsibility of companies to **respect** human rights.

› Remedy

The shared responsibility to **remedy** problems.

For further information, see www.business-humanrights.org/SpecialRepPortal/Home/Protect-Respect-Remedy-Framework/GuidingPrinciples

Protect
Respect
Remedy

Why is this initiative important?

- ▶ 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 Ethical Council supports the Extractive Industries Transparency Initiative, EITI.

www.eiti.org

Transparency important in tackling corruption

Work to tackle corruption is, and will continue to be an issue for the Ethical Council to pursue, because corruption undermines the legitimacy and sustainability of the economic system. The Ethical Council conducts dialogues with a large number of companies and in principle, all proactive projects include the issue of anti-corruption.

The Extractive Industries Transparency Initiative, EITI, is an initiative in which governments, companies and voluntary organisations work together to create transparency in the resource extraction industry. During its ten years, EITI has played a key role in the transparency of transactions at country level, encouraging companies extracting natural resources to report what they pay to governments in the form of royalties and taxes, while governments report the income they receive, in the hope that the figures tally. The aim is to use transparency to help improve democratic management and reduce problems such as corruption, poverty and conflicts.

The extensive Dodd-Frank legislation¹⁴, which was drawn up in the United States as a response to the Lehman Brothers crash of 2008, contains a paragraph regarding income streams from resource extraction. It means that companies must report income streams on a project basis, that is for each individual mining project instead of purely on a national basis. The companies affected maintain that this will restrict competition, as companies from other countries will not be subject to the same legislation. The EU is also reviewing its legislation in this area as a result of the Dodd-Frank Act and requirements for increased transparency from companies are likely to increase.

¹⁴The Dodd-Frank Wall Street Reform and Consumer Protection Act (often abbreviated to the Dodd-Frank Act) was signed into federal law by President Barack Obama on 21 July, 2010. The law came about as a result of the financial crisis of 2008-2009, the rescue packages for banks that followed it and the political desire to improve regulation of the financial sector.

Climate work continues

In 2012, the Ethical Council continued with its involvement in climate issues. The Ethical Council's representative participated in a two-day meeting in March with the UN climate negotiator, Christiana Figueres, regarding the role that the financial market and institutional investors can play in the transition to a low-carbon society.

The Ethical Council has also been involved in the Institutional Investors Group on Climate Change (IIGCC) and pushed for the development of an expectation document, The Institutional Investors' Expectations of Corporate Climate Risk Management. The aim is for investors to provide companies with a uniform picture of what they expect companies to do to reduce risks and take advantage of opportunities that arise as a result of climate change. Companies are also encouraged to improve their management and reporting of these risks and opportunities. The document was put together with the Investor Group on Climate Change and Investor Network on Climate Risk, a network whose members are primarily in Australia, New Zealand and North America.

A positive side effect of this is that the organisations mentioned above have expanded their cooperation by creating a global coalition, the Global Investor Coalition on Climate Change, to further strengthen the work.

During the year, IIGCC has focused on methane emissions from the oil and gas industry, where leakages of methane occur during various processes.

In its policy work, IIGCC has focused on the current ongoing revision of the EU's Emissions Trading Scheme (EU ETS). One of the main issues has been getting rid of the surplus of allowances in the system, so that the system can provide price signals to stimulate investment in energy efficiency and infrastructure for a low-carbon society.



Why are these investor initiatives important?

- ▶ 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 dioxide 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.
- ▶ Essential investments are not being made as a result of this uncertainty.

IIGCC

Institutional Investors Group on Climate Change

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

www.iigcc.org



The AP Funds in the Ethical Council support CDP for increased transparency on companies' carbon dioxide emissions.

www.cdp.net

Why is this investor initiative important?

- ▶ Tobacco is largely grown in countries that are considered high-risk in terms of corruption, environmental degradation and violations of human rights and labour rights.
- ▶ Companies should be proactive and have policies and functioning management systems in place to minimise the risks mentioned above.

Numerous sustainability challenges in the tobacco industry

The Ethical Council initiated a partnership with a European pension fund, a special tobacco project, to gain better insight into how companies in the tobacco industry work with sustainability issues. All companies owned by the European pension fund or one of the AP Funds in the Ethical Council, about a dozen, have been analysed and provided the Ethical Council with insight into the strengths and weaknesses regarding companies' preventive work. The analysis is based on information in the public domain.

WHO'S CONVENTION FOR TOBACCO CONTROL

International conventions that Sweden is a signatory to are essential instruments in the Ethical Council's work of ensuring that the AP Funds consider environmental aspects and ethical dimensions in their operations. The World Health Organization's (WHO) Tobacco Control Convention, which came into force in 2005 and was adopted by Sweden the same year, is such a convention.

The convention aims to protect current and future generations from the devastating health, social, environmental and economic consequences of tobacco use and exposure to tobacco smoke. This will be achieved by providing a framework for the signatories' implementation of tobacco control measures at national, regional and international level, with the purpose of continually and significantly reducing tobacco use and exposure to tobacco smoke. The convention also highlights the fact that tobacco is more than just a health issue. Tobacco also causes poor working conditions and negative consequences for the environment in tobacco-producing countries.

WHERE IS TOBACCO PRODUCED?

The largest tobacco producers are in China, the United States, India, Brazil and Turkey, with

production now on the increase in Africa as well. Many of these countries are classed as high-risk in terms of corruption, environmental degradation and human rights and labour rights violations.

TOBACCO COMPANY POLICIES

The initial analysis indicated that the environment was the area for which most companies had guidelines in place. Virtually all companies had guidelines in place, although certain environmental aspects were missing from the guidelines of some companies. Almost all companies had guidelines for responsible marketing. Policies on anti-corruption and lobbying were also in place for almost all companies, but in principle no company had guidelines that covered everything.

Sustainability guidelines relating to requirements for subcontractors were also common, but many of the companies were lacking here too regarding certain aspects of sustainability.

TOBACCO COMPANIES' FOLLOW-UP AND ACTION PROGRAMME

The situation was worse when it came to the existence of follow-up and action programmes. Just half of the companies had such programmes in place, and in most cases many



This is where tobacco is produced

China, United States, India, Brazil and Turkey, with production now on the increase in Africa as well.

areas had been neglected. The fact that the implementation side of things was weakest is not unique to the tobacco industry, but that does not make it any less important.

KEY ISSUES FOR THE INDUSTRY

With the analysis as a starting point, the European pension fund and the Ethical Council wrote letters to all the companies. The letters were then followed up with telephone meetings.

On the whole, the practice of using child labour is a challenge faced by all tobacco companies. Discussions with all companies therefore touched on how they were working to eliminate child labour from tobacco plantations. Many companies referred to their participation in the industry initiative, ECLT¹⁵, which was set up to tackle this very issue. It was positive to hear that in addition to the initiative, several of the companies were also pursuing their own work to reduce child labour in their own supply chains.

Another area that was discussed with the companies was how they were working to implement sustainability guidelines and follow up the work that is done. We were pleased to hear that many of the companies appeared to have got to grips with the matter and that several have now engaged the services of external consultants to monitor their progress.

This increases opportunities for external stakeholders as well as the company itself to gain a clear picture of the situation for each individual company.

The Ethical Council notes, however, that there are still major differences in how far companies have come in their work, and that only a few are well-equipped to handle the sustainability challenges that they face. The Ethical Council will therefore continue to follow up the work of tobacco companies in the area of sustainability and conduct discussions with them regarding how they can improve.

¹⁵ Eliminating Child Labour in Tobacco-growing Foundation, www.eclt.org.



Why is this investor initiative important?

► Child labour is widespread in Western Africa, where 70 percent of the world's cocoa beans are grown.

► Companies should be proactive about eliminating child labour from the cocoa industry.



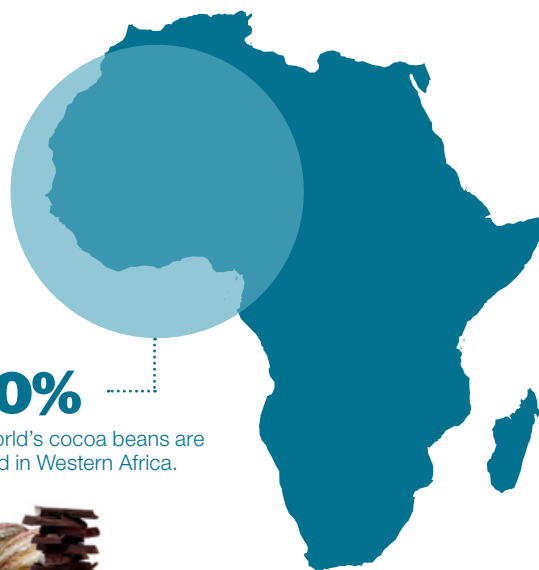
Initiative to tackle child labour in the cocoa industry

The cocoa industry has been criticised for many years for its involvement in child labour in Western Africa, where approximately 70 percent of the world's cocoa beans are produced. During the year, all the AP Funds in the Ethical Council signed an initiative, the purpose of which is to eliminate child labour in the cocoa industry.

The Ethical Council, together with several other investors, has sent letters to ten companies in the cocoa industry and asked them to give details of their long-term strategies for tackling child labour within the supply chain. The letters were followed up with telephone meetings with the companies. There will also be continual monitoring over the next few years. So far, the

dialogues indicate that the companies have achieved varying results but that they regard participation in initiatives to combat child labour as important.

During the year, the Ethical Council also visited one of the companies to find out more about how the company works with sustainability-related issues.



The Ethical Council works to develop and increase cooperation between investors

The four Funds behind the Ethical Council are all signatories to the UN's Principles for Responsible Investment (PRI). The aim of PRI is for investors to integrate environmental and social issues, as well as corporate governance matters, into both decision-making and engagement processes, and thus take responsibility for their investments. A central theme of PRI is for investors to engage and work together to achieve results, a principle that is shared by the Ethical Council.

Investors can use the PRI Clearinghouse to find shared points of contact and collaboration projects. This platform has been one of the factors behind PRI's success ever since the initiative started in 2006. More than 1,000 investors have now signed up to the principles. Several different investor projects covering such issues as climate impact, corruption, illegal weapons and child labour have been added to Clearinghouse since the start. However, PRI has noted that just 30 percent of those who have signed up to PRI actually use Clearinghouse, and the question is how to encourage the other 70 percent to become actively involved.

In 2012, PRI therefore decided to review the work and processes relating to Clearinghouse, with the aim of developing and clarifying a small number of long-term focus areas where PRI can contribute more actively using the organisations' own, and some external resources. To support PRI in this process, a steering committee was set up comprising investors and chaired by the Ethical Council's Secretary-General. The steering committee and PRI identified a number of focus areas that

needed special attention. One area was the importance of getting more investors to start working with engagement and integrating sustainability issues, partly to strengthen the work itself, but also to share the costs of the work among several organisations. In the current situation, a large group of investors is profiting from the efforts of a small number of active and dedicated investors, who are putting their resources into improving their companies' work.

Over the next few years, based on members' requests, PRI will primarily assign its internal resources to the following focus areas: director nomination processes, employee relations, labour standard in agricultural supply chain, hydraulic fracking operations and water risks in the food, drink and textile industries. Alongside these focus areas, Clearinghouse has been revised to create opportunities for different kinds of investor engagement, with joint financing. Since PRI has limited resources, joint financing increases opportunities to improve quality in the engagement projects.



The AP Funds in the Ethical Council are members of PRI (Principles for Responsible Investment). In 2012, the Ethical Council's Secretary-General chaired the steering committee that was set up to review PRI's collaboration platform, Clearinghouse.

www.unpri.org

PRI's focus over the next few years:

- ▶ Director nomination processes.
- ▶ Employee relations
- ▶ Labour standard in agricultural supply chain.
- ▶ Hydraulic fracking operations.
- ▶ Water risks in the food, drink and textile industries.

Examples of preventive dialogues with companies in 2012



- ▶ The Ethical Council has engaged in dialogues with a **European lorry company** about customer responsibilities and with another **European lorry company** regarding its efforts to combat corruption in its operations.
- ▶ The AP Funds have through the Ethical Council followed up ten **Swedish companies** who responded to the questionnaire “Sustainable value creation”, and asked them how they work with sustainability issues, what guidelines and policies they have in place and how these are followed up, how they report internally and externally, and the roles and responsibilities of the board of directors.
- ▶ The Ethical Council has met two **European engineering companies** to follow up their anti-corruption work. The Council also discussed environmental issues, strategies for sustainability work, human rights and health and safety with both companies.
- ▶ The Ethical Council has engaged in dialogues with two **European telecom companies** regarding policies and guidelines for handling integrity issues, freedom of expression, human rights and anti-corruption. Furthermore, the Ethical Council has highlighted the need for telecom operators to adopt a common approach to these matters.
- ▶ The Ethical Council has been in contact with two **North American toy manufacturers** regarding inferior working conditions at Chinese suppliers.
- ▶ A dialogue has been conducted with a **North American retail chain** regarding poor working conditions at suppliers in China, the need for the company to have a code of conduct and for them to improve transparency in relation to how the company monitors its suppliers.
- ▶ The Ethical Council has contacted a **North American transport firm** concerning protection for whistleblowers, employees who highlight irregularities in the company.
- ▶ Furthermore, the Ethical Council contacted an **Asian energy company**, which has been criticised for failing to engage in proper dialogue with local communities.
- ▶ The Ethical Council engaged in a dialogue with a **global trading company** about child labour and with another **global trading company** on their sustainability work in general.
- ▶ Dialogues took place with two **European oil companies** regarding environmental and safety issues on oil platforms.
- ▶ The Ethical Council has also been in contact with a **European engineering company** on matters concerning human rights.
- ▶ The Ethical Council has met with a **Russian mining company** to discuss what the company is doing to reduce its environmental impact.
- ▶ The Ethical Council continued its dialogue with the Indian mining company **Vedanta**, which was previously on the Council's dialogue list. The dialogue was about the company's mining operations in India, focusing on the company's procedures for evaluating environmental and social consequences, including the rights of the indigenous people, routines to ensure compliance with the code of conduct, follow-up of how much the company has achieved with regard to implementing the recommendations in the report that was presented by a bank consortium in 2010,¹⁶ as well as greater transparency on sustainability issues.

¹⁶ Scott Wilson report.

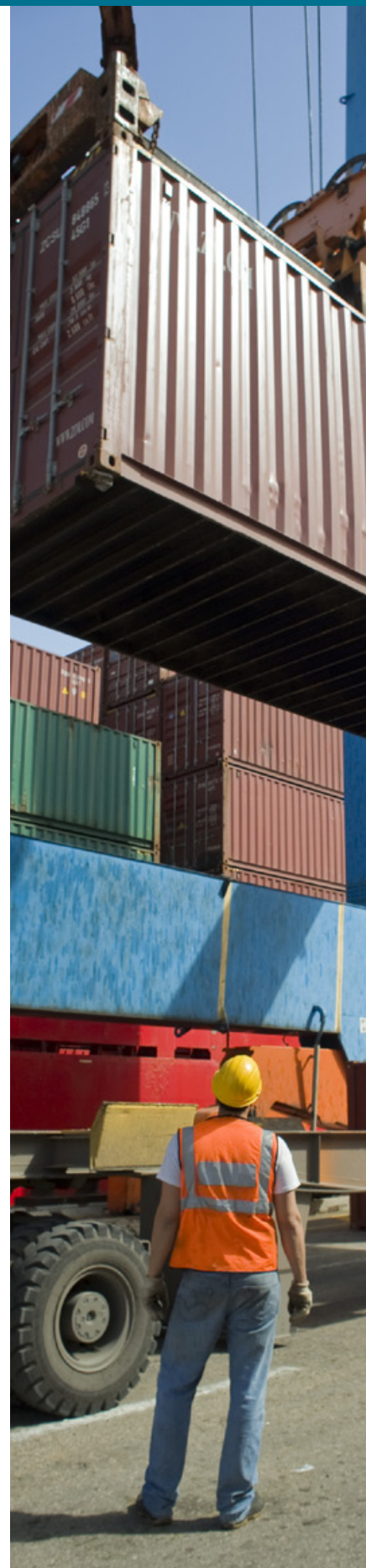
STAKEHOLDER DIALOGUES

Stakeholders who pay attention to the Ethical Council include NGOs, students, researchers, politicians and the media. The Ethical Council regularly meets with stakeholders to discuss environmental and social issues. These dialogues provide material for the Ethical Council's work to exercise influence over companies by shedding light on problems from different angles. The stakeholder dialogues also present pointers for ways in which the work of the Ethical Council may be developed.

SAME ULTIMATE GOALS BUT DIFFERENT METHODS OF EXERTING PRESSURE

Occasionally, some NGOs require 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 a company must be rectified. However, views on how to best to influence a company may differ.

The Ethical Council believes 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, for example, to file shareholder resolutions at AGMs – an important tool for bringing about dialogue with companies, above all in North America. By retaining ownership, the Funds can also vote against re-election of the board, which provides additional leverage if a dialogue is failing to lead to improvements. Opportunities to initiate a dialogue with the board and management team, those who hold ultimate responsibility for the company, therefore decrease significantly if the Funds no longer own shares in that company. It limits the scope for exercising influence on the company, while the problem usually continues for those affected by the companies' operations.



Company dialogues

► A company is removed from the Ethical Council's dialogue register when the objectives set by the Ethical Council when the dialogue was commenced have been met. Subsequently, the company becomes subject to special monitoring for five years.

► Prior to 2012, the Ethical Council concluded its dialogues with a total of 11 companies in which the objectives of the dialogue were met.






► Find out 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

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

Change is rated according to the objectives established in each individual case.

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

The status of the dialogues refers to the situation at year-end 2011 and 2012, respectively.

Companies where the objectives of the dialogue were met in 2012

Goldcorp Inc.

DOMICILE >	Canada
SECTOR >	Raw materials
LOCATION >	Guatemala
AREA >	
CHANGE >	

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: That the company develops policies and programmes to ensure that human rights are respected in ongoing and future projects in Guatemala.

COMMENT: After the Ethical Council and Canadian investors visited the Marlin Mine in 2008, the company carried out an independent assessment of how human rights are managed in the area, at the investors' request. The company responded by presenting a plan of action.

Measures have now been taken according to that plan and most of them have been verified or carried out by a third party, either in cooperation with the company or separately. The company has also developed policies for its conduct in similar situations in the future. On that basis, the Ethical Council considers that the objectives of the dialogue have been fulfilled. The Ethical Council will continue to monitor the company.

Rio Tinto

DOMICILE >	Australia
SECTOR >	Raw materials
LOCATION >	Indonesia
AREA >	
CHANGE >	

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 in Indonesia. Based on the fact that Rio Tinto updated its policy on mining waste in 2012, the Ethical Council considers that the objective of the dialogue has been fulfilled. According to the new policy, emissions of waste to rivers and shallow watercourses must be prevented for all new mines. Existing mines that emit waste in this way must continually strive to reduce their environmental impact. The Ethical Council will continue to monitor the company.

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 2013.

AES



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

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: Alstom still owns 20 percent of the consortium that runs the light rail system. This is because Israel's government has not approved the sale of the stake to Israel Infrastructure Fund (IIF), as agreed back in 2010. However, negotiations are continuing. Alstom will retain a maintenance contract extending over 30 years.

Alstom

DOMICILE > France
SECTOR > Engineering
LOCATION > Palestinian territories
AREA > 
CHANGE > 

INCIDENT: Daewoo buys cotton from Uzbekistan. An ILO report confirms that the cotton harvest, which is run by the state, is systematically carried out by children and through forced labour. This is a breach of ILO's conventions on child labour and forced labour.

OBJECTIVE: To set up adequate objectives, the wording of the objectives will be finalised when the Ethical Council has completed its initial discussions with the company.


COMMENT: The company has confirmed that it buys cotton from Uzbekistan and says that it is engaged in discussions with the Uzbek government to encourage change. A considerable number of textile and clothing companies are making a combined effort to avoid buying cotton from Uzbekistan. It is a difficult task, as traceability of cotton deliveries is poor.

Daewoo International

DOMICILE > South Korea
SECTOR > Trading company and distributor
LOCATION > Uzbekistan
AREA > 
CHANGE > **NEW!**

Ongoing dialogues

Freeport-McMoran


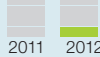
DOMICILE >	USA
SECTOR >	Raw materials
LOCATION >	Indonesia
AREA >	
CHANGE >	

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.

COMMENT: The company's reporting in terms of the environmental impact of its mining operations in Indonesia has improved. The Ethical Council is working to ensure that the company adopts a policy that explicitly states that no future mining projects will release mining waste into rivers.

Incitec Pivot


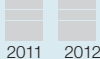
DOMICILE >	Australia
SECTOR >	Chemicals
LOCATION >	Western Sahara
AREA >	
CHANGE >	

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 must adopt a corporate policy that prevents it from breaching international humanitarian law.

COMMENT: The company has initiated a dialogue and explained how it is using phosphate from Western Sahara. The company has also explained its view on alternative production processes, in which they could possibly use phosphate from mines other than the one in Western Sahara, various problems and costs associated with these alternatives.

Motorola Solutions

DOMICILE >	USA
SECTOR >	Telecom
LOCATION >	Palestinian territories
AREA >	
CHANGE >	

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 must adopt a corporate policy that prevents it from being involved in breaching international humanitarian law.

COMMENT: So far the company has only responded to the Ethical Council's questions without entering into a dialogue. The Ethical Council has investigated the possibility of filing a resolution at the company's AGM, with the aim of getting the company to address the deficiencies in its policy, but it proved difficult to do this in 2012 due to US regulations on this matter. The Ethical Council is considering the possibility of filing a resolution at the 2013 AGM.

Olam International

DOMICILE >	Singapore
SECTOR >	Retail - Food & staples
LOCATION >	Uzbekistan
AREA >	
CHANGE >	NEW!

INCIDENT: Olam buys cotton from Uzbekistan. An ILO report confirms that the cotton harvest, which is run by the state, is systematically carried out by children and through forced labour. This is a breach of ILO's conventions on child labour and forced labour.

OBJECTIVE: To set up adequate objectives, the wording of the objectives will be finalised when the Ethical Council has completed its initial discussions with the company.


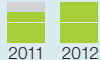
COMMENT: The company has confirmed that it buys cotton from Uzbekistan and says that it is conducting discussions with the Uzbek government to encourage change. A considerable number of textile and clothing companies are making a combined effort to avoid buying cotton from Uzbekistan. It is a difficult task, as traceability of cotton deliveries is poor.

INCIDENT: Toyota Motor has been associated with anti-union activity at 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: Much progress has been made in this dialogue during the year and the subsidiary in the Philippines now respects employees' freedom of association and right to organise. However, the objective of getting the company to adopt a group policy on freedom of association for employees has not yet been fulfilled.

Toyota

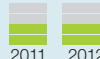
DOMICILE > Japan
SECTOR > Consumer
LOCATION > The Philippines
AREA > 
CHANGE > 

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 has an agreement with an Israeli company, Egged Transaction, on the sale of its stake in the light rail project. Local authorities put a stop to the deal in January 2012, as they decided that Egged did not yet have Veolia's level of expertise when it comes to running the light railway. A knowledge transfer process is currently underway and Veolia is planning to complete the deal when all the necessary conditions have been satisfied. Following the sale, Veolia will retain a five-year consultancy agreement in 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 labour right to form trade unions and gain union affiliation.

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








COMMENT: The dialogue with Walmart came to a standstill in 2012, largely due to the corruption scandal and subsequent investigation that was exposed in relation to its Mexican subsidiary, Walmex. Furthermore, the Ethical Council is not seeing any major progress on the matter of the company's handling of labour rights. The strikes that took place at Walmart's stores led to several unfair dismissal lawsuits against the company in 2012.

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 >	<table> <tr> <td></td> <td></td> </tr> <tr> <td>2011</td> <td>2012</td> </tr> </table>			2011	2012
					
2011	2012				

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 deal 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 case includes lawsuits and counter lawsuits, as well as accusations of bribery against a judge, which according to the company were only confirmed at the end of 2012. 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 and left the area. The Ethical Council believes it has come as far as it can in the current situation 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.

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.

In dialogues with the Ethical Council, several of the companies named above have announced that they have now terminated or are in the process of terminating production and marketing of cluster

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.

munitions and related equipment that fall within the definition of the Convention on Cluster Munitions. The Ethical Council therefore initiated a minor project in 2012 to see how an audit of companies associated with, specifically, violations of the Convention on Cluster Munitions could be carried out. The results showed that there are too many issues outstanding with regard to transparency and proactivity from the companies in question for it to be possible to conduct a credible audit. The Ethical Council will continue to work with this issue, as a number of contracts for this type of equipment are due to expire over the next few years. However, several companies are continuing to market systems at various weapons fairs.

Violation of the Convention on Special Weapons

Elbit Systems Ltd.

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

Both the EU 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.

Violation of international humanitarian law

The Ethical Council - members

Composition of the Ethical Council

The Ethical Council consists of a representative from each Fund. The Chair, which alternates between the Funds, was held by the Second AP Fund in 2012, and has now transferred to the Third AP Fund for 2013.



LEFT TO RIGHT: (standing) Christina Olivecrona (deputy), Ulrika Danielson, John Howchin, Pia Axelsson (deputy), (seated) Arne Lööw, Christina Kusoffsky Hillesöy and Nadine Viel Lamare.

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