Overview:

1. Socially responsible investment (SRI) – motivation, concept and market
2. oekom research’s Corporate Responsibility Rating
3. The metals & mining industry - challenges and criteria
4. Performance of the industry and selected results of the CRR
socially responsible investment

Basic idea:
Supplement conventional financial research with environmental and social criteria

Motivation:
Added value through sustainability

Ethics
Incorporation of individual ethical values in investment decisions

Risk Management
Identification and minimisation of ESG (environmental, social, government) risks
socially responsible investment

SRI strategies:

– Negative screening
  
  **Exclusion** of companies involved in controversial business areas or practices, such as human rights violations, weapons, corruption, environmentally controversial projects (**exclusionary criteria**)

– Positive screening
  
  **Selection** of companies on the basis of positive criteria, such as good governance, environmental management, climate protection, stakeholder dialogue, community awareness and outreach (** „best-in-class” approach**)

– Shareholder Activism / Engagement
  
  **Control** by the fund management on the company’s management by dialogue or voting on the AGM
SRI market

European SRI market

**FIGURE 4: CORE SRI AND ITS COMPONENTS, DECEMBER 31St, 2005**

- Total Core SRI: €105 billion
- Positive screens €64 billion
- Combined Positive screens and Ethical exclusions €32 billion
- Ethical exclusions €73 billion

**FIGURE 2: SRI IN EUROPE, DECEMBER 31St 2005**

CORE SRI: €105 billion
BROAD SRI: €1.033 trillion

*Source: Eurosif*

**Number and volume (bn Euro) of sustainability mutual funds in Europe**

0 50 100 150 200 250 300 350 400

1999 2001 2003 2004 2005

0 5 10 15 20 25

400 350 300 250 200 150 100 50 0

**oekom research**
Research services for investors since 1993:

- Customer base: financial services companies and institutional investors in Europe and Japan
- Research applied to funds and mandates with a total volume of EUR 85 bn (05.2007)

Independence:

- Rated companies are not offered consultancy services
- Clients do not have any shareholding in oekom research and cannot influence rating results
- No engagement in financial research/asset management

Quality standards:

- Principles of Sustainability Rating and Code of Conduct
- Certification to Quality Standard CSRR-QS 2.0
- Scientific Advisory Board
Corporate Responsibility Rating
(best-in-class evaluation based on 200 criteria)

2 dimensions
- Social Rating
  - Staff and Suppliers
- Environmental Rating
  - Environmental Management

6 categories
- Society and Product Responsibility
- Corporate Governance and Business Ethics
- Products and Services
- Eco-efficiency
corporate responsibility rating

category

Society and Product Responsibility

Society

Product Responsibility

subject

Human Rights

Community Involvement

Political Donations

Taxes and Subsidies

Stakeholder Dialogue

criteria

Content (quality of structures, performance)

Coverage (scope of the content)

indicators

Policy on human rights/cultural self-determination

Analysis and mitigation of HR risks

Controversies involving the company in HR cases
corporate responsibility rating

Client-specific exclusionary criteria

Controversial business areas
- Abortion
- Alcohol
- Biocides
- Chlororganic mass products
- Embryonic research
- Gambling
- Genetically modified organisms
- Military
- Nuclear power
- Pornography
- Tobacco

Controversial business practices
- Animal testing
- Business malpractice (Corruption etc.)
- Child labour
- Controversial environmental practices
- Human rights violations
- Labour rights violations
metals & mining

Key sustainability issues and development of industry-specific indicators

1. Conflicts over land use and protection of human rights

Indicators
- land use planning (consideration of risks and hazards)
- analysis and mitigation of potential negative social impacts
- controversies involving the company in human rights cases

2. Prevention of excessive damage to the environment

Indicators
- tailings storage and disposal facilities management
- low-impact operations, biodiversity management
- mine closure standards, rehabilitation and monitoring
- controversial environmental practices and projects
3. Occupational Safety

**Indicators**
- health and safety conditions and management systems
- development of the accident rate and occurrence of fatalities
- controversies related to health and safety

4. Community development

**Indicators**
- community involvement
- stakeholder dialogue - community awareness and outreach

5. Climate protection and energy-efficient process design

**Indicators**
- strategy on climate change; use of renewable energy sources
- secondary raw material use and promotion of recycling
- reduction of energy consumption of processes
CRR – selected results

CRR of the metals & mining industry

20 large listed companies assessed in December 2006, including major players Anglo American, Arcelor Mittal, Alcan, Alcoa, Barrick Gold, BHP Billiton, Newmont Mining, Rio Tinto, Xstrata

Best-in-Class results

• Results ranged from B+ to C- on a scale from A+ (excellent) and D- (poor)
• 6 out of 20 scored above pre-defined minimum grade for investment (B-)
• Top performers BHP Billiton (B+), Alcoa (B), Corus (B-)

Exclusionary criteria (business practices)

14 companies involved in single or several major controversies, thereof
• business malpractice (6)
• controversial environmental practices (7)
• human rights violations (7)
• labour rights violations (2)
CRR – selected results

Conflicts over land use and protection of human rights

+ compensation payments for resettled communities and rules and training for security staff to prevent violence
  – safeguard for livelihood and maintenance of traditional lifestyle of affected population to be improved

Prevention of excessive damage to the environment

+ precautionary measures applied in new projects
  – environmental threats posed by abandoned sites
  – practices such as riverine or submarine tailings disposal still applied
  – activities in protected areas and areas prone to earthquakes and flooding

Occupational Safety

+ preventive measures taken and generally falling accident rates
  – fatal accidents occurred at 19 out of 20 companies assessed
CRR – selected results

Community development

+ initiatives and programmes to ensure stakeholder dialogue
  – lack of transparency on social impact analysis and payments to governments
  – reconciliation of community and project development interests to be improved

Climate protection and energy-efficient process design

+ awareness and commitment; energy-efficiency measures
  – reluctant use of renewable power sources except large hydropower
  – lack of commitment to increase secondary raw material use
conclusions

• high awareness of sustainability issues and comprehensive mitigation measures

• major environmental controversies and social conflicts prevail

• six out of 20 companies assessed reached the minimum 'best-in-class'-score for recommendation for socially responsible investment

• yet only one of these six stayed clear of controversial business practices which are exclusionary criteria for most socially responsible investors

• updates of the industry rating will show whether the companies‘ sustainability initiatives will lead to improved performance in the future
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