Harvard University

Corporation Committee on Shareholder Responsibility

Annual Report, 2009-10

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Corporation Committee on Shareholder Responsibility
2010 Annual Report

Introduction

In 1972 Harvard established two committees to assist the University in addressing its ethical responsibilities as a large institutional investor: the Corporation Committee on Shareholder Responsibility (CCSR) and the Advisory Committee on Shareholder Responsibility (ACSR). The CCSR consists of three members of the Harvard Corporation. Acting on behalf of the President and Fellows, it decides how Harvard's shares should be voted on issues of social responsibility and oversees the consistent application of University policy with respect to investments in certain sectors and precedent, actively considering new circumstances or information that may suggest changes in policy or practice. The ACSR, a twelve-member committee made up of Harvard faculty, students and alumni, is responsible for analyzing proxy issues and making recommendations on how Harvard should vote its shares. The investigation of issues and communication of analysis is the central function of the ACSR, which provides the CCSR with the reasons underlying each recommendation, including the rationale for divergent views on how the University should vote. From time to time the ACSR has also suggested new policy approaches regarding investments or proxy voting. The purview of these two committees encompasses the range of issues of social responsibility that are put before corporate shareholders. Shareholder proposals addressing corporate governance matters are decided by the Harvard Management Company.

During the 2010 spring proxy voting season (the period between March and June when most publicly-traded corporations hold annual meetings), the Committees considered twenty-six proposals dealing with issues of social responsibility that were addressed to corporations whose securities were owned directly by Harvard1. Issues raised through the proxy process this year included corporate environmental practices; company efforts to address global warming; human rights; equal employment and diversity; corporate political contributions; and executive compensation in relation to issues of social responsibility. New topics addressed in 2010 included resolutions asking oil companies to adopt policies to protect coastal wetlands and to report on environmental risks associated with hydraulic fracturing, a procedure used for extracting natural gas that was previously considered unrecoverable. Other new proposals addressed the issues of privacy and censorship on the internet. (For a list of both Committees' votes by company, see Appendix A.)

This report provides a detailed description of the ACSR’s recommendations and the CCSR’s votes on shareholder proposals that came to vote during the 2010 proxy season. The report also provides

1 Harvard participates in hedge and mutual funds, the shares of which are voted by the funds.
a description of the University's policies with regard to oil companies doing business in Sudan (see Appendix B) and to firms involved in the sale and manufacture of tobacco products (see Appendix E).

I. 2010 Proxy Season

During the 2010 proxy season, the University voted on shareholder proposals addressing a wide range of social issues. The University’s approach to proxy voting is to consider each proposal on a case-by-case basis in the light of the ACSR’s discussions and CCSR precedent on comparable issues. The ACSR’s analysis of proxy issues is supported by background material provided by Sustainable Investments Institute (Si2), a newly-formed, not-for-profit organization that provides institutional investors with analyses of issues of social concern and corporate responsibility raised through the proxy process. Because the CCSR’s role emphasizes consistency in applying precedent, and the ACSR is responsible for keeping abreast of new information or circumstances which may suggest taking a different position, the ACSR is often a leading indicator for change on shareholder issues.

While the two Committees occasionally disagree on the appropriate response to a shareholder proposal, the voting pattern over a period of years shows a high degree of agreement. Of the twenty-six proposals considered by the Committees during the 2010 proxy season, the ACSR and the CCSR were in complete agreement on eighteen proposals (69%), the Committees partially agreed (e.g., one Committee abstained while the other voted against or in favor of the proposal) on two (8%), and the ACSR vote was split on five proposals (19%). There was one case (<4%) in which one Committee was in favor of the proposal and the other was opposed. (For a list of both Committees’ votes by company, see Appendix A.)

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* Due to changes in asset allocation in effect during the 2009 and 2010 proxy seasons, the ACSR considered fewer proposals than usual.
A. Environment

For many years, corporate policies and practices related to the environment have been of particular interest to shareholders. In 2010, more than half of the proposals considered by Harvard’s two shareholder committees addressed environmental issues. Below is a detailed account of the ACSR’s recommendations and the CCSR’s votes on each of the proposals.

1. Climate Change

a. Adopt Goals to Cut GHG Emissions

For several years, shareholders have put forward resolutions calling on companies to adopt goals for reducing greenhouse gas emissions. This year three companies were asked to

“adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company’s products and operations; and that the Company report (omitting proprietary information and prepared at reasonable cost) to shareholders by September 30, 2010, on its plan to achieve these goals.”

The ACSR recommended support of the proposal to ConocoPhillips (9-0-3), Mirant (9-0-3) and ExxonMobil (9-0-2). ACSR members discussed each company’s record with regard to GHG emissions and found that the companies were reluctant either to report on GHG emissions or to report on internal goals for reducing such emissions. ACSR members recommending support believe it is reasonable to ask companies to adopt goals for reducing GHG emissions given the likelihood of future federal regulations that will require significant reductions. In addition, they pointed out that the companies would not be penalized for failing to meet their own internal goals for GHG emissions. Some members thought it was significant that Harvard has recently adopted its own internal goals for GHG emissions, and that (according to the Si2 background report) 43% of Fortune 500 companies now report their emissions reduction targets to the Carbon Disclosure Project. Abstaining members think the issue would be better addressed through government regulation, and agree with company management that complex forces dictate a firm’s ability to reduce emissions, such as changes in market demand or new resources that require more energy-intensive efforts to produce. The CCSR voted in favor of all three resolutions following the ACSR recommendations.

b. Report on Financial Risks of Climate Change

Proponents of a new resolution to ConocoPhillips are concerned about the ways in which climate change and changing regulatory requirements may impact shareowner value. The proposal called on the company to
“prepare a report to shareowners on the financial risks resulting from climate change and its impacts on shareowner value over time, as well as actions the Board deems necessary to provide long-term protection of our business interests and shareowner value. The Board shall decide the parameters of the study and summary report.

“A summary report will be made available to investors by September 15, 2010. Cost of preparation will be kept within reasonable limits and proprietary information omitted.”

The ACSR voted 0-9-3 to recommend opposition to the proposal. It was noted that although ConocoPhillips is required to disclose information about all material risks—including those associated with climate change—in periodic reports to the SEC, neither the company’s plan nor its SEC filings contain the kind of detailed information sought by proponents. Opposing members are concerned that the proposal is too vague in asking for a report on all risk associated with climate change (e.g., unpredictable severe weather could be a risk factor). They also argued that the request is ill-timed, given the expectation of new federal regulations intended to reduce climate change emissions. Abstaining members are also concerned that the proposal is vague, and that anticipated new regulations could have an impact on corporate responses to climate change. At the same time, they pointed out that current climate change data is spread out in various reports and is not readily available to shareholders. They agree with the suggestion of a single report on this issue. The CCSR voted against the resolution following ACSR recommendation.


The proponents of a new proposal to ExxonMobil would like the company to make a greater commitment to developing non-carbon energy sources. They argue that the company’s recent commitments to alternative energy sources are minor compared to its investments in oil exploration projects in Africa and the Middle East during the same time period. The resolution called on the company to

“establish a Committee to study steps and report to shareholders within six months of the annual meeting (barring competitive information and disseminated at a reasonable expense), on how ExxonMobil, within a reasonable timeframe, can become the recognized industry leader in developing and making available the necessary technology (such as enhanced sequestration, engineered geothermal and the development of other renewable energy sources) to enable the U.S.A. to become energy independent in an environmentally sustainable way.”

The ACSR voted 0-9-2 to recommend a vote against the resolution. Opposing members argued that the request is overly broad and could be interpreted as asking the company to shift away from fossil fuels to alternative energy, a move that would be at odds with the company’s stated business strategy.
They noted that ExxonMobil expects a dramatic increase in demand for fossil fuel and is directing its investments in response to this view. Abstaining members agreed that the proposal is broadly worded, but are sympathetic to the proponents’ underlying intent to encourage ExxonMobil to increase its investment in alternative energy sources. The CCSR abstained, acknowledging the arguments of ACSR members recommending a vote against the proposal. At the same time, the CCSR thought it could benefit the company to seek to understand what would be involved in expanding its attention to alternative energy sources.

d. Report on Fossil Fuel Demand Risks

A proposal to ExxonMobil addressed concerns that the company’s policies are not taking into account the possibility of a decline in demand for fossil fuels. The proponent argues that as new regulations regarding GHG emissions come into play, and as developing countries invest in non-carbon energy sources, global energy needs in the future may vary greatly from ExxonMobil’s predictions. In addition, demand could be lower if economic growth is negatively affected by climate change. ExxonMobil says that it already considers a wide range of assumptions in its strategic planning, and that world energy needs are such that oil will continue to be an important part of the energy mix. The company also notes that it has invested in alternative energy sources, although its primary focus will continue to be fossil fuels. The resolution asks the Board of Directors to

“consider in its strategic planning process the risk that demand for fossil fuels in the next 20 years could be significantly lower than ExxonMobil has projected, and report to shareholders (at reasonable cost and omitting proprietary information), no later than November 30, 2010, on how such demand reduction would affect ExxonMobil’s long-term strategic plan.”

The ACSR voted 0-10-1 to recommend a vote against. Opposing members agree with management that the proposal is unnecessary, since management already takes into account a wide range of scenarios in its strategic planning. They do not believe the requested report would be of value to shareholders. The ACSR member recommending abstention supports the proponent’s underlying goal to encourage the company to invest more heavily in alternative energy sources. The CCSR followed the ACSR recommendation and voted against the proposal.

2. Report on Oil Sands Operations

For a third year, ConocoPhillips was asked to address the environmental consequences of its extensive oil sands operations in Canada. The company is one of the world’s largest energy concerns with extensive exploration and production operations, in which oil sands projects play a significant role.
Extracting oil from tar sands involves both surface mining and in situ recovery processes that use large amounts of water and chemicals to soften the tar to allow it to be pumped to the surface. According to Si2, these processes can cause significant environmental damage, are the most energy-intensive forms of oil production, and release several times more greenhouse gases into the atmosphere than conventional crude oil extraction. In recent years, Canada has become the largest supplier of oil to the U.S. as a result of its massive oil sands deposits in Alberta. The proponents are concerned about the impact of oil sands operations on wildlife habitats in Alberta’s boreal forests and would like more information about the environment and financial risks associated with these projects. Management argues that the report is unnecessary and duplicative of information already available to shareholders on its website, and points to the company’s efforts to move away from surface mining to in situ extraction to reduce environmental impacts. The proposal called on the company to

“prepare a report (at reasonable cost and omitting proprietary information) on the environmental damage that would result from the company's expanding oil sands operations in the Canadian boreal forest. The report should consider the implications of a policy of discontinuing these expansions and should be available to investors by November 2010.”

The ACSR unanimously voted (12-0-0) to recommend support for the proposal, citing precedent of both Committees in favor of an identical proposal to the company in 2008. Although Conoco Phillips publishes a Sustainable Development Report that includes some information about the company’s oil sands activity, some members thought an additional report on the company’s oil sands operations would be helpful given the potential for environmental damage from oil sands production. They also cited ACSR and CCSR precedent on this issue.

Citing arguments in favor of the proposal to ConocoPhillips, the ACSR unanimously voted (10-0-0) to recommend support of a similar proposal to ExxonMobil that came to vote later in the year. The proposal requested the company to

“prepare a report discussing possible long term risks to the company's finances and operations posed by the environmental, social and economic challenges associated with the oil sands. The report should be prepared at reasonable cost, omit proprietary and legal strategy information, address risks other than those associated with or attributable to climate change, and be available to investors by August 2010.”

It was noted that ExxonMobil’s oil sands projects are conducted through a Canadian subsidiary, Imperial Oil, which has extensive operations in Alberta. Although the company provides information about general environmental policies in reports to shareholders, there is little detailed information available about its oil sands projects. Given ExxonMobil’s extensive oil sands operations, ACSR members believe the request for a report is reasonable. Some members added that the resolution is milder
than the request to ConocoPhillips in that it does not ask the company consider the implications of discontinuing expansion of oil sands operations.

The CCSR voted in favor of both resolutions following ACSR recommendations.

3. **Report on Hydraulic Fracturing**

A new resolution to ExxonMobil suggested that the growing demand for natural gas has led to an increase in extraction of gas from unconventional sources and by complicated extraction techniques, including hydraulic fracturing. “Fracking,” as it is sometimes called, is a process that forces a mix of sand, water, and chemicals underground to break up masses of rock to allow captured gas to escape. Although hydraulic fracturing has been in use for over 60 years, regulation of fracturing operations is sporadic, and includes a mix of state and federal laws. The proponents are concerned that ExxonMobil’s pending merger with XTO Energy will significantly increase its fracturing operations. They argue that regulations have not kept up with technological advances in the field, and are concerned about the potential risks to water, land and air resources, especially as these operations move closer to densely populated areas in the Northeast. At present, the EPA is studying the relationship between hydraulic fracturing and drinking water, and the House and Senate are proposing new legislation that would require greater disclosure of chemical additives used in fracturing operations, along with other requirements. The proposal called on the company to

“prepare a report by October 1, 2010, at reasonable cost and omitting proprietary information, summarizing
1. the environmental impact of fracturing operations of Exxon Mobil;
2. potential policies for the company to adopt, above and beyond regulatory requirements, to reduce or eliminate hazards to air, water, and soil quality from fracturing.”

The ACSR vote was split 4-2-5 on the proposal. ACSR members recommending a vote in favor agree with the proponents that the company’s fracturing operations have the potential to contaminate ground water supplies, and think the request for a report is reasonable, especially in light of the ExxonMobil’s expected purchase of XTO. They noted that it is difficult to find information about fracturing operations in company reports or on its website and would like greater transparency in this area. Opposing members support the goal of greater transparency, but point out that the House and Senate are currently considering new regulations regarding fracturing operations. They believe the proposal is ill-timed in asking for a report on policies the company might adopt prior to anticipated changes in federal legislation regarding hydraulic fracturing. Abstaining members agree, but do not want
to vote against a proposal that raises serious questions about the public health implications of the company’s operations.

The CCSR abstained on the proposal in light of the ACSR’s split vote and in anticipation of additional discussion of this issue.

4. Adopt Coastal Wetlands Protection Policy

Both ConocoPhillips and ExxonMobil have extensive oil exploration and production operations in coastal Louisiana. The proponents of a new resolution contend that these operations have contributed to the destruction of coastal wetlands, leaving the area particularly vulnerable to severe weather. They point to studies demonstrating that the direct and indirect effects of oil and gas exploration, recovery and processing have resulted in a 40% to 60% loss of wetlands. They would like the companies to adopt policies to address the environmental impact of their operations, to aid in restoring wetlands, and to prevent future harm to the area. The resolution called on each company to

“adopt environmental policies to address the environmental hazards of its oil and gas-related activities in coastal Louisiana by devising and implementing business practices that will prevent future harms to coastal Louisiana and by aiding in the restoration of wetlands lost through past actions of ConocoPhillips.”

The ACSR vote was split 3-4-5 on the proposal to ConocoPhillips, and the vote was 4-1-6 to recommend abstention on the proposal to ExxonMobil. For ConocoPhillips, which owns approximately 600,000 acres in southeast Louisiana, ACSR members noted that the company has a biodiversity policy that addresses coastal wetlands preservation. The company claims that it “regularly provides access to its lands at no cost and works closely with the government agency or group operating projects” to restore wetlands. According to the Si2 report, there are currently 60 wetlands restoration projects underway on properties owned by ConocoPhillips. ExxonMobil owns two million acres in Louisiana, has numerous deep water wells in the Gulf of Mexico, and plans to expand production in the area, in part by acquiring additional acreage. The proponents claim that ExxonMobil has played a significant role in the destruction of coastal wetlands, and that the company has reclaimed less than 10% of the area it has destroyed. As with ConocoPhillips, ExxonMobil says it already has policies in place to protect coastal wetlands, and that it is working with conservation organizations to protect species and reclaim and restore wetland areas.

ACSR members recommending opposition argued that the issues raised by the proposal are complex, and that wetlands destruction is the result of years of industrial activity by many companies.
Since there is no clear evidence that either company has added disproportionately to the depletion of coastal wetlands, they questioned whether these companies should be singled out by shareholders in this manner. (The shift in vote on the proposal to ExxonMobil reflects the view of some members that the company may have played a greater role in coastal wetlands destruction.) Some believe the proposals are unrealistic and vague in suggesting that the companies “prevent future harms.” Abstaining members agree, but also note that the massive oil spill in the Gulf of Mexico, which will cause further damage to the Louisiana coastal wetlands, highlights the need for increased scrutiny of offshore oil drilling. They are concerned that a vote against the proposal might indicate a lack of concern about this issue. Supporting members stressed that in light of the Gulf oil spill it is particularly important for shareholders to express concern about the effects of oil exploration, recovery and processing operations on coastal wetlands, and to press companies to ameliorate past harm.

The CCSR abstained on the proposals, agreeing with the arguments of ACSR members recommending abstention.

5. Report on Environmental Risk Management Oversight

Concern about the financial risks arising from pollution, climate change, and possible changes in energy markets has prompted a group of shareholders to question whether ConocoPhillips has devoted enough attention to risk management. They would like the company to

“issue a report by October 15, 2010 regarding risk management oversight, at reasonable expense and excluding proprietary information, providing additional details, beyond what has been provided in the annual report, proxy statement and committee charters, regarding how the board of directors oversees risk management, and whether risk management oversight should be delegated to a separate board committee.”

The ACSR vote was split 0-6-6 on the proposal. Members noted that ConocoPhillips has assigned risk assessment to two board committees: the Public Policy Committee, which oversees risks that might arise if the public views the company’s actions on environmental or other social issues as inadequate; and the Audit and Finance Committee, which oversees all other risk. ACSR members recommending a vote against the proposal view it as an extremely broad request, and do not see the value of asking the company to form a new board committee to address risk assessment. They would prefer a more focused proposal if the proponents’ concern is primarily related to environmental issues.

Abstaining members agree that the proposal is broadly worded, but argued that the company provides relatively little information about risk assessment in reports to shareholders. While they do not support the wording, they believe risk management is critical, especially for a large multi-national oil
company, and argued that shareholders have a right to details about the company’s risk assessment process. They are concerned a vote against would indicate a lack of concern about this issue. The CCSR abstained on the proposal in light of the ACSR’s split vote and in anticipation of further discussion of this new type of request.

6. Adopt Goals to Cut Toxic Emissions

ConocoPhillips is already required to report to the Environmental Protection Agency and other regulatory agencies on toxic emissions, including goals for reducing such emissions. Reports to shareholders, however, provide only broad environmental goals for sustainability and do not specifically address Toxic Release Inventory (TRI) emissions. Although ConocoPhillips has reduced toxic releases since 2002, when it was considered the 3rd worst polluter on the Toxic 100 Air Polluters index, there is little information available to inform shareholders of the company’s efforts to reduce emissions. The resolution called on the company to

“adopt stringent goals to reduce significantly the emission of TRI [Toxic Release Inventory] chemicals from our Company’s refineries and to report annually by September 15th (i) its progress in implementing these goals as well as (ii) a comprehensive description of the quantities of toxic chemicals reportable under the TRI that were emitted at those facilities during the prior calendar year.”

The ACSR voted 3-0-9 to recommend abstention. ACSR members recommending support believe ConocoPhillips should take a leadership role in efforts to reduce TRI emissions. They also believe the company could do a better job of keeping shareholders informed about such efforts. Abstaining members observed that the company’s expenses related to environmental compliance already exceed $1 billion per year. Since ConocoPhillips is making progress with regard to reducing emissions, they did not think it necessary to ask the company to adopt additional goals, nor did they see the value of another report to shareholders on this issue. At the same time, they would like to encourage the company to continue current efforts to reduce toxic emissions. The CCSR abstained following the ACSR recommendation.

7. Report on BPA

A resolution to Coca-Cola addressed concerns about the use of Bisphenol A (BPA) as a component in epoxy linings for aluminum cans. BPA is one of the most widely used chemicals in the world, and is pervasive in the environment. 93% of individuals tested have some amount of BPA in their bodies. According to the Si2 report, there have been numerous studies regarding the health effects of BPA, but the results are inconclusive and there is little consensus among scientists about its safety.
Although BPA is not considered a carcinogen, it has been implicated in a variety of negative health impacts. The FDA is re-evaluating BPA standards and undertaking new research on possible health risks. In addition, several states have banned BPA for certain uses. Coca-Cola, the world’s largest beverage company, does not produce the cans that contain BPA, but has close relationships with and owns substantial stakes in bottling companies that use BPA. The proposal called on the company to “publish a report by September 1, 2010, at reasonable cost and excluding confidential information, updating investors on how the company is responding to the public policy challenges associated with BPA, including summarizing what the company is doing to maintain its position of leadership and public trust on this issue, the company’s role in adopting or encouraging development of alternatives to BPA in can linings, and any material risks to the company’s market share or reputation in staying the course with continued use of BPA.”

The ACSR voted 5-2-1 to recommend a vote in favor, based on the view that the proposal is a reasonable request for information about how Coca-Cola is responding to concerns about BPA and its impact on the company. Supporting members believe it is in Coca-Cola’s best interest, both financially and from a public relations standpoint, to take the lead in addressing growing concerns about the safety of BPA. Opposing members believe that Coca-Cola is highly aware of the importance of the issue, especially since the regulatory risks are substantial. They stressed that the company is likely to be exploring strategies to address concerns about BPA, and are concerned that asking the company to disclose its role in adopting or encouraging alternatives to BPA in can linings might create a competitive disadvantage. The abstaining member agrees that the proposal raises an issue of serious concern with potential public health implications, and would encourage Coca-Cola to continue studying the topic. At the same time, this member thinks that the company should be given latitude about how and when it publicizes information about its activities in relation to BPA.

The CCSR opposed the resolution following arguments of opposing ACSR members and in light of the fact that scientific evidence regarding BPA’s safety is inconclusive.

8. Publish Sustainability Report

A growing number of companies publish annual sustainability reports that address environmental, social and governance issues. Although Google regularly publishes blogs on its website that describe the company’s “green” initiatives and sustainability efforts, the proponents of a new resolution to Google are asking the company to “issue a sustainability report, at reasonable cost and omitting proprietary information, by April 1, 2011.”
The ACSR unanimously voted (12-0-0) to recommend support, pointing out that information about sustainability initiatives on the company’s website is difficult to find and lacks conformity. They think it would be in Google’s best interest to prepare a sustainability report that would both formalize the company’s policies and highlight its innovative programs related to social and environmental issues. They stressed that sustainability reporting is increasingly becoming best practice for large corporations, and are concerned that Google could be seen as lagging on this issue. The CCSR voted in favor of the resolution following ACSR recommendation.

B. Human Rights

1. Human Rights Committee

Concern about internet censorship in China prompted a new proposal to Google requesting that “the following human rights principles should be formally adopted by Google to guide its actions relating to its operations affecting China:

1. No information technology products or technologies will be sold, and no assistance will be provided to law enforcement authorities in China, that could contribute to human rights abuses in that country. Specifically, no user information will be provided, and no technological assistance will be made available, that would place individuals at risk of persecution based on their access or use of the Internet or electronic communications for free speech and free association purposes.

2. Censorship of access or use of the Internet will not be used as a method of restricting assistance to Chinese law enforcement authorities engaged in Internet or electronic surveillance that adversely affects the human rights of users. Every effort will be made to assist users to have access to encryption and other protective technologies and approaches, so that their access and use of the Internet will not be restricted, before resorting to censorship as a means for preventing unlawful surveillance and repression by Chinese law enforcement authorities. Google will provide financial and technological support to efforts aimed at developing and making more accessible to users in China more advanced technologies that would allow them to evade unlawful surveillance of their Internet use by Chinese authorities.

3. Google will establish a Human Rights Committee with the responsibility to review and approve all policies and actions taken by the Company that might affect human rights observance in countries where it does business, or where its products and technologies are being used. This Committee will include high level officials of Google, and respected outside human rights experts who are in a position to help Google understand the human rights impacts of their activities abroad, and frame approaches that will assure that Google does not contribute to human rights abuses by foreign governments.”

The ACSR vote was split 1-6-5 on the resolution. ACSR members recommending opposition believe the request is inappropriate because it asks the company to undertake activity that could be in
violation of Chinese law (part two). They also noted that part one is vague and could be interpreted as requiring the company to cease doing business in China. Abstaining and supporting members agree that the proposal is poorly written, but strongly support the proposal’s underlying goal to encourage the company to protect the human rights of its consumers. The CCSR abstained on the proposal in light of the ACSR’s split vote and in the absence of precedent.

2. Internet Privacy

A related new proposal to Google addressed the issue of privacy and the internet. The proponents are concerned that Google’s policies with regard to internet privacy do not clearly state how the company shares personal information about users with other companies, and would like the company to formalize its current practices with regard to the collection and protection of personal information. The proposal called on the company to

“adopt, by August 2010, a set of principles for online advertising that goes beyond current Company statements and addresses the collection of sensitive information about health, finances, ethnicity, race, sexual orientation, and political activity for the purposes of behavioral advertising.”

The ACSR unanimously voted (12-0-0) to recommend support of the resolution. ACSR members believe that regulators are somewhat behind in developing controls regarding internet privacy, and think Google should take the lead on this issue. They agree with the proponents that adoption of the resolution will simply require the company to formalize current practices, and will allow users some redress if the company fails to comply with the policy. The CCSR voted in favor of the proposal following ACSR recommendation.

3. Human Right with Regard to Water

A proposal to ExxonMobil refers to the Human Right to Water, which the United Nations defines as “all people’s right to safe, sufficient, acceptable, physically accessible and affordable water for personal and domestic use.” The resolution called on the company to

“create a comprehensive policy articulating our company's respect for and commitment to the human right to water.”

The ACSR voted (1-6-4) to recommend a vote against the proposal. ACSR members recommending opposition agree with past arguments that the U.N. definition of water rights is overly broad, and that the proposal raises a public policy issue that is better dealt with by governments than on a company-by-company basis. Abstaining members agree, but they are concerned that the company does
not have a specific policy regarding water use, even though its oil and gas operations use massive amounts of water. Although the ACSR did not endorse the proposal as written, they did support the proponents’ underlying interest in encouraging the company to develop sustainable water use policies. The CCSR abstained on the proposal following the arguments of ACSR members recommending abstention, and precedent of both Committees on an identical proposal to PepsiCo in 2008.

C. Equal Employment

Although federal law prohibits employment discrimination based on race, color, religion, sex, or national origin, there is no federal legislation protecting lesbian, gay, bisexual, and transgender/transsexual workers from discrimination in the workplace. A resubmitted proposal called on two major oil companies to

“amend [their] written equal employment opportunity policy[ies] to explicitly prohibit discrimination based on sexual orientation and gender identity or expression and to substantially implement the policy.”

The ACSR unanimously recommended a vote in favor of the proposals to ExxonMobil (11-0-0) and ConocoPhillips (12-0-0). With regard to ExxonMobil, the company continues to be one of the few companies that do not explicitly prohibit discrimination based on sexual orientation in their non-discrimination policy. ExxonMobil’s global policy simply states that it is committed to having a workplace that is “free from any form of harassment or discrimination,” although the company will include specific clauses where required by law. Since many states do not require these clauses, ACSR members are concerned that in some states there are no protections against discrimination for ExxonMobil’s employees in regard to sexual orientation or gender identity. ConocoPhillips does include sexual orientation in its non-discrimination policy, but does not explicitly bar discrimination based on gender identity. Given long-standing precedent of both Committees, and the fact that Harvard’s own policy prohibits discrimination on the basis of sexual orientation and gender identity, ACSR members unanimously recommended support for the proposals. The CCSR voted in favor following ACSR recommendation and precedent.

D. Political Contributions

For several years, shareholder activists have been concerned about the increasing level of corporate spending in the political process. Despite passage of campaign reform legislation, the amount of money flowing from corporations into the political process has grown steadily, and a recent Supreme
Court decision has removed prior corporate spending restrictions on campaign finance. Although companies provide shareholders with some information about their political contributions, there is a general lack of accountability regarding contributions made at the state level or to trade organizations that are used for political purposes. The proponents would like to bring transparency and accountability to corporate political spending, and have called on several companies to

“provide a report, updated semi-annually, disclosing our Company's:

1. Policies and procedures for political contributions and expenditures, both direct and indirect, made with corporate funds.

2. Monetary and non-monetary political contributions and expenditures not deductible under section 162(e)(1)(B) of the Internal Revenue Code, including but not limited to contributions to or expenditures on behalf of political candidates, political parties, political committees and other political entities organized and operating under 26 USC Sec. 527 of the Internal Revenue Code and any portion of any dues or similar payments made to any tax exempt organization that is used for an expenditure or contribution if made directly by the corporation would not be deductible under section 162(e)(1)(B) of the Internal Revenue Code. The report shall include the following:

a. An accounting of our Company's funds that are used for political contributions or expenditures as described above;

b. Identification of the person or persons in our Company who participated in making the decisions to make political contribution or expenditure; and

c. The internal guidelines or policies, if any, governing our Company's political contributions and expenditures.

This report shall be presented to the Board of Directors' audit committee or other relevant oversight committee and posted on our Company's website to reduce costs to shareholders.”

The ACSR voted to recommend abstention on the proposal to Sprint Nextel (0-0-12), Charles Schwab (0-0-12), Republic Services (0-0-12), and Southwestern Energy (1-0-10) citing concerns about the request that the companies identify employees who participate in decisions regarding political contributions. ACSR members expressed frustration with the proposal’s wording, since they would have supported the request if part 2.b. were not included. They noted that with the recent Supreme Court ruling, there is an even greater need for transparency about corporate spending in the political arena.

For this reason, the ACSR unanimously voted (12-0-0) to recommend support of a proposal to ConocoPhillips, requesting that the company

“provide a report, updated semi-annually, disclosing: Monetary and non-monetary political contributions and expenditures not deductible under section 162 (e)(1)(B) of the Internal Revenue Code, including but not limited to any portion of any dues or similar payments made to any tax exempt organization that is used for an expenditure or contribution that if made directly by the Corporation would not be deductible under
section 162 (e)(1)(B) of the Internal Revenue Code. The report shall include an accounting through an itemized report that includes the identity of the recipient as well as the amount paid to each recipient of the Company’s funds that are used for political contributions or expenditures as described above.

The report shall be posted on the Company’s website to reduce costs to shareholders.”

The Committee noted that the proposal to ConocoPhillips does not include the request that the company identify employees who participated in decisions regarding political contributions.

The CCSR voted in favor of the resolution to ConocoPhillips and abstained on the proposals to Sprint Nextel, Charles Schwab, Republic Services, and Southwestern Energy following ACSR recommendations.

E. Executive Compensation

Since the 1980s, shareholders have expressed concern about the excessive compensation packages offered to top executives and the widening gap between executive compensation and the wages paid to lower level employees. Past resolutions have attempted to create a link between executive compensation and a company’s performance in addressing a variety of social concerns. This year, Harvard voted on a proposal calling on General Electric to

“initiate a review of our company's executive compensation policies and make available, upon request, a report of that review by October 1, 2010, omitting confidential information and processed at a reasonable cost. We request that the Committee consider including in the report:

1. a comparison of the total compensation package of our company’s top executives and our lowest paid employees, including health care benefits and costs, in the United States in July 2000, July 2004 and July 2009.
2. an analysis of any changes in the relative size of the gap between the two groups and an analysis and rationale justifying any such trend.
3. an evaluation of whether our top executive compensation packages, including, options, benefits, perks, loans, health care and retirement agreements, would be considered "excessive" and should be modified to be kept within reasonable boundaries.
4. an explanation of whether any such comparison of compensation packages, including health care benefits, of our highest and lowest paid workers invites changes in executive compensation, including health care benefits for departing executives, to more reasonable and justifiable levels;

and whether the Board should monitor the results of this comparison in the future--with greater equity as the goal.”

The ACSR vote was split 1-4-3 on the proposal. Opposing members believe that corporate compensation structures have serious systemic problems that are not addressed by the proposal. They point out that the U.S. is emerging from a severe recession that has created strong anti-business sentiment,
particularly with regard to executive compensation, and that there is an ongoing bitter debate about health care. At present, excessive corporate pay is a topic of national and congressional debate, and a major overhaul of the nation’s health care system is underway. Opposing members believe the proposal is poorly timed in light of the ongoing national dialogue. In addition, since almost half the company’s proxy statement is dedicated to an explanation of executive compensation, they see no value in an additional report on the issue. They believe a vote against is appropriate, especially in light of ACSR and CCSR precedent to oppose similar resolutions in 2008.

Abstaining members agree that the proposal does not address the systemic problems underlying most executive compensation structures. At the same time, they believe it is critical for shareholders to continue urging companies to provide information about issues of disparity in compensation and benefits, and are concerned a vote against the proposal would suggest a lack of concern about these topics, especially given their prominence in national debate. The supporting member believes that a vote in favor is the best way to reinforce the message that shareholders are concerned about pay disparity and exorbitant executive compensation.

The CCSR voted against the resolution following arguments of ACSR members recommending opposition and precedent of both Committees.

II. Conclusion

The CCSR would like to thank the members of the ACSR for their hard work and generous time commitment during the 2010 proxy season, with special thanks to Professor Joseph Bower, the ACSR Chairman, for his leadership. The University has benefited greatly from the Committee's thoughtful consideration of many complex issues and careful examination of the circumstances surrounding each recommendation. The CCSR relies heavily upon the ACSR's analysis of issues to support the University's commitment to voting proxy resolutions addressing social and ethical issues. We look forward to working with Professor Bower and other continuing members of the Committee in the coming year.
## 2009 Proxy Season Summary

<table>
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<td>adopt goals to cut GHG emissions</td>
<td>9-0-3 In favor</td>
<td>In favor</td>
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<tr>
<td>Mirant</td>
<td>adopt goals to cut GHG emissions</td>
<td>9-0-3 In favor</td>
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</tr>
<tr>
<td>Exxon Mobil</td>
<td>adopt goals to cut GHG emissions</td>
<td>9-0-2 In favor</td>
<td>In favor</td>
</tr>
<tr>
<td>ConocoPhillips</td>
<td>report on climate change risks</td>
<td>0-9-3 Oppose</td>
<td>Oppose</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>report on energy independence leadership</td>
<td>0-9-2 Oppose</td>
<td>Abstain</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>report on fossil fuel demand risks</td>
<td>0-10-1 Oppose</td>
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<td>ConocoPhillips</td>
<td>report on environmental risk mgt. oversight</td>
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<td>Abstain</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>report on oil sands operations</td>
<td>12-0-0 In favor</td>
<td>In favor</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>report on oil sands risks</td>
<td>11-0-0 In favor</td>
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<td>Exxon Mobil</td>
<td>report on hydraulic fracturing</td>
<td>4-2-5 Split</td>
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<tr>
<td>ConocoPhillips</td>
<td>adopt coastal wetlands protection policy</td>
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<td>Abstain</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>adopt coastal wetlands protection policy</td>
<td>4-1-6 Abstain</td>
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<tr>
<td>ConocoPhillips</td>
<td>adopt goals to cut toxic emissions</td>
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<td>Abstain</td>
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<tr>
<td>Coca-Cola</td>
<td>report on BPA</td>
<td>5-2-1 In favor</td>
<td>Oppose</td>
</tr>
<tr>
<td>Google</td>
<td>publish sustainability report</td>
<td>12-0-0 In favor</td>
<td>In favor</td>
</tr>
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<td>Google</td>
<td>establish human rights committee</td>
<td>1-6-5 Split</td>
<td>Abstain</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>adopt policy on human right to water</td>
<td>1-6-4 Oppose</td>
<td>Abstain</td>
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<td>Google</td>
<td>adopt principles on internet privacy</td>
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<td>In favor</td>
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<tr>
<td>Exxon Mobil</td>
<td>adopt sexual orientation non-discr. policy</td>
<td>11-0-0 In favor</td>
<td>In favor</td>
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<td>ConocoPhillips</td>
<td>revise nondiscrimination policy</td>
<td>12-0-0 In favor</td>
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<td>General Electric</td>
<td>report on pay and benefit disparities</td>
<td>1-4-3 Split</td>
<td>Oppose</td>
</tr>
<tr>
<td>ConocoPhillips</td>
<td>report on political contributions</td>
<td>12-0-0 In favor</td>
<td>In favor</td>
</tr>
<tr>
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<td>report on political contributions</td>
<td>0-0-12 Abstain</td>
<td>Abstain</td>
</tr>
<tr>
<td>Charles Schwab</td>
<td>report on political contributions</td>
<td>0-0-12 Abstain</td>
<td>Abstain</td>
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<tr>
<td>Southwestern Energy</td>
<td>report on political contributions</td>
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</tr>
<tr>
<td>Republic Services</td>
<td>report on political contributions</td>
<td>0-0-12 Abstain</td>
<td>Abstain</td>
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Harvard's Investment Policy with Regard to Oil Companies Operating in Sudan

In 2005, the CCSR recommended to the Harvard Corporation that the University divest itself of stock held in PetroChina Company Limited (PetroChina), a Chinese oil company with major interests in Sudanese oil production. This decision was made in light of the analysis presented in the spring of 2005 by a subcommittee of the ACSR. In 2006, the CCSR further recommended that the University divest itself of stock held in China Petroleum and Chemical Corporation (Sinopec Corporation). The Corporation’s decision to divest these companies reflected deep concerns about the grievous crisis that persists in the Darfur region of Sudan and about the role of these companies in the production of oil in Sudan. The CCSR concluded that the considerations that led the University to divest its PetroChina holdings in April 2005 militated in favor of divestment of holdings in Sinopec Corporation. (See Appendices C and D for the full text of the CCSR Statements on PetroChina and Sinopec.)
Appendix C

Statement by Harvard Corporation Committee on Shareholder Responsibility (CCSR)
Regarding Stock in PetroChina Company Limited
April 4, 2005

We are announcing today the Harvard Corporation’s decision to direct Harvard Management Company (HMC) to divest itself of stock held by HMC in PetroChina Company Limited (PetroChina).

This decision reflects deep concerns about the grievous crisis that persists in the Darfur region of Sudan and about the extensive role of PetroChina’s closely affiliated parent company, China National Petroleum Corporation, as a leading partner of the Sudanese government in the production of oil in Sudan. Oil is a critical source of revenue and an asset of paramount strategic importance to the Sudanese government, which has been found to be complicit in what the U.S. Congress and U.S. State Department have termed “genocide” in Darfur and what a United Nations commission of inquiry recently characterized as “crimes against humanity and war crimes . . . [that] may be no less serious and heinous than genocide.”

Although Harvard maintains a strong presumption against the divestment of stock for reasons unrelated to investment purposes, we believe that the case for divestment in this instance is persuasive, in view of the confluence of circumstances summarized below, under the heading “Recommendation to Divest from Petrochina.”

The Corporation, on our recommendation, has reached this decision in light of the advice of the University’s Advisory Committee on Shareholder Responsibility (ACSR) to divest from PetroChina. The ACSR is comprised of four faculty members, four students, and four alumni. We asked the ACSR to study the issue and offer its advice to us after concerns had been expressed by members of the Harvard community about PetroChina and the situation in Darfur. We are especially grateful for the efforts of an ACSR subcommittee chaired by Joseph Badaracco, Shad Professor of Business Ethics and former chair of the ACSR. The subcommittee, after hearing from representatives of the group urging divestment from companies doing business with Sudan and otherwise inquiring into the circumstances, prepared a report that thoughtfully addresses the relevant considerations, and we therefore quote from it at length below.

The Crisis in Darfur

The ACSR subcommittee report begins by describing the grave situation in Darfur:

A grievous crisis exists in the Darfur region of Sudan. In March 2004, the United Nations humanitarian coordinator for Sudan described the situation in Darfur as an instance of “ethnic cleansing” and “the world’s greatest humanitarian crisis.” In July 2004, both houses of the United States Congress passed a resolution declaring the atrocities in Darfur to constitute genocide. In September 2004, U.S. Secretary of State Colin S. Powell similarly declared that genocide has been
committed in Darfur, for which the Sudanese government and the so-called Janjaweed militia groups bear responsibility.

On January 25, 2005, a special UN commission of inquiry, while stopping short of declaring that “genocide” is underway in Sudan, concluded that “the Government of the Sudan and the Janjaweed are responsible for serious violations of international human rights and humanitarian law amounting to crimes under international law,” including “killings of civilians, torture, enforced disappearances, destruction of villages, rape and other forms of sexual violence, pillaging and forced displacement, throughout Darfur.” It stated that such acts have been “conducted on a widespread and systematic basis,” and that “the crimes against humanity and war crimes that have been committed in Darfur may be no less serious and heinous than genocide.”

Numerous other observers have condemned the Sudanese government for complicity in actions that have reportedly resulted in the deaths of more than 70,000 Sudanese civilians (some estimates are far higher) and the displacement of 1.5 million more. [See note below, regarding a more recent and much higher estimate of death toll.] There have also been reports linking oil production activities in Sudan directly to mass displacement of civilians and other human rights abuses. The grave situation in the Darfur region persists, notwithstanding the recent signing of a peace accord to end the longstanding north-south civil war in Sudan, and several rounds of negotiations concerning Darfur.

Note: On March 29, 2005, after the ACSR subcommittee had completed its report, a British parliamentary report stated that the death toll in Darfur may be as high as 300,000.

The importance of oil to the Sudanese government, and the involvement of CNPC

The ACSR report also discusses the central importance of oil to the governing regime in Sudan, as well as the extensive involvement of China National Petroleum Corporation, the parent company of PetroChina, in the production of Sudanese oil:

Oil production is widely understood to be a crucial source of revenue for the Sudanese government, essential to the government’s capacity to fund military operations, and an asset of exceptional strategic importance to the regime. According to a recent report of the U.S. Department of Energy, “With the start of significant oil production (and exports) beginning in late 1999, . . . . Sudan’s economy is changing dramatically, with oil export revenues now accounting for around 73% of Sudan’s total export earnings.” [Energy Information Administration, U.S. Department of Energy, Sudan Country Analysis Brief, July 2004.] As of January 2004, Sudan’s estimated proven reserves of crude oil stood at 563 million barrels, more than twice the 2001 estimate. As of June 2004, crude oil production had risen to 345,000 barrels per day, up from 270,000 barrels per day just a year earlier. [Ibid.]

The China National Petroleum Corporation (“CNPC”) is wholly-owned by the Chinese Government[. CNPC] conducts oil operations in Sudan. CNPC is the largest single shareholder of the Greater Nile Petroleum Operating Company (“GNPOC”), a consortium that “dominates Sudan’s oil fields.” [“China Invests Heavily in Sudan’s Oil Industry,” *The Washington Post*, December 23, 2004 (Post article).] GNPOC was
created by the Sudanese government and includes, among its joint venturers, the Sudanese state-owned oil company, Sudapet. (United States investors are prohibited by U.S. sanctions law from investing in the GNPOC joint venture.) CNPC recently reported that its production of crude oil in Sudan exceeded 16 million tons in 2004, which appears to account for a substantial fraction of its total foreign oil production.

It has also been observed that the production of Sudanese oil has been a matter of attention within the United Nations Security Council in discussions of possible international sanctions against Sudan based on the situation in Darfur, and that substantial revenue from Sudan’s oil production has gone toward the purchase of weapons.

CNPC and PetroChina

The ACSR report also addresses the relationship of CNPC to PetroChina:

In April 1999, CNPC announced its plans to sell $10 billion shares on the New York Stock Exchange. Human rights groups and others objected to the initial public offering, contending that the deal would be tantamount to U.S. support for genocide in [southern] Sudan. In response, CNPC restructured the transaction. It created a new subsidiary, PetroChina, which would operate only inside China, to be owned 90% by CNPC and 10% by private investors. On April 6, 2000, $2.9 billion dollars of shares in PetroChina were sold on the New York Stock Exchange to private investors. At that time, CNPC’s investment bankers from Goldman Sachs asserted to investors that none of the money raised in the IPO would be used to fund CNPC’s projects in Sudan. [Post article; China’s Involvement in Sudan: Arms and Oil, Human Rights Watch, November 2003 (Human Rights Watch Report).]

Despite CNPC’s assurances, several potential investors viewed with considerable skepticism CNPC’s firewall strategy. Opponents of the IPO pointed out that when PetroChina was created, it incurred $15 billion in debt from CNPC, some of which was incurred in connection with the GNPOC project. [Human Rights Watch Report.] Fund managers were skeptical that PetroChina could make independent business decisions because CNPC owned 90% of its shares. As a result of these concerns, several major institutions, including such pension funds as TIAA-CREF and Calpers, elected at the time of the IPO not to invest.

Within the past few months, there have been further complaints that “[t]ransparency in the relationship between PetroChina and CNPC is so poor that investors are often in the dark about potential cross-subsidies.” [“Assets Plan for PetroChina in Global Drive,” The Standard, October 25, 2004.]

In an effort to determine whether PetroChina can exercise independence from CNPC despite CNPC’s 90% ownership interest in it, the subcommittee examined the management of the two companies. The results of that review were striking. The Chairman of PetroChina is the President of CNPC; PetroChina’s legal counsel is CNPC’s President; PetroChina’s Vice Chairmen, Executive Directors, and Non-executive Directors are also CNPC’s Vice Presidents; and the four subcommittees of PetroChina’s Board of Directors contain substantial representation from CNPC. Indeed, the
investment and development subcommittee of the board of PetroChina is comprised solely of two Vice Presidents of CNPC.

Against this background come new reports that suggest the two companies are contemplating the integration of their operations. According to The Standard, “Beijing plans to create an integrated oil giant capable of competing on the global stage with the likes of Exxon-Mobil and Royal Dutch Shell by restructuring PetroChina and its parent China National Petroleum Corp. (CNPC).” [Ibid.] As a result of this contemplated corporate restructuring, PetroChina itself may become the direct owner of substantial oil assets in Sudan now owned by CNPC, or CNPC and PetroChina may establish a joint venture through which they would jointly own such assets.

The Recommendation to Divest from PetroChina

Finally, the ACSR report recommends that Harvard divest itself of PetroChina stock, recognizing the strong presumption against divestment for reasons unrelated to investment purposes, but also pointing to the unusual combination of circumstances presented by this particular holding:

The subcommittee understands that Harvard manages its endowment to achieve maximum returns to support the academic purposes and programs of the University, consistent with a prudent level of risk. The University maintains a strong presumption against divesting itself of securities for reasons unrelated to investment purposes, and against using divestment as a political tool or a “weapon against injustice”—not because there are not many worthy political causes or deeply troubling injustices in the world, but because the University is first and foremost an academic institution. During his tenure as president of Harvard, Derek Bok wrote thoughtfully and extensively about the reasons for that approach. His writings are a compelling reminder that the University, as an academic rather than a political institution, must take great care to avoid leveraging its endowment or prestige in ways that could embroil the institution in political and social controversies not directly related to its academic pursuits, and thus compromise the core values and independence of the academic enterprise.

Nevertheless, there are exceptional cases in which the strong presumption against divestment may be overcome. As President Bok noted, “Although trustees have a legal and moral obligation to enhance and conserve the university’s resources, there are rare occasions when the very nature of a company’s business makes it inappropriate for a university to invest in the enterprise.” Typically, in such cases, the act of divestment is not taken with the expectation that it will induce a company to cease its objectionable operations; rather, to paraphrase President Bok, the University simply does not consider it proper to make investments in the enterprise in question.

We believe the unique pattern of circumstances relating PetroChina to the crisis in Sudan counsels in favor of taking the extraordinary step of divestment:

- the declarations by the United States Congress and the U.S. Secretary of State describing the situation in Darfur as involving a “genocide” in which the Sudanese government is complicit;
• the judgment of a United Nations commission of inquiry that the Government of Sudan shares responsibility for “widespread and systematic acts” in Darfur amounting to “crimes against humanity and war crimes . . . [that] may be no less serious and heinous than genocide”;

• the apparent persistence of the crisis in Darfur notwithstanding the recently negotiated peace agreement intended to end the north-south civil war in Sudan and several rounds of negotiations focused on Darfur;

• the salient importance of oil to the Sudanese government as a strategic asset and source of revenue, available to fund military and other operations;

• the reports that oil-related activities themselves have exacerbated the humanitarian crisis in Sudan;

• the magnitude and scope of CNPC’s active involvement in Sudanese oil production activities (especially in GNPOC), the importance of its Sudanese activities in its overall range of foreign oil activities, and CNPC’s status as a direct joint venture partner of Sudapet, owned by the Sudanese government;

• the express inclusion of the GNPOC joint venture on the list of entities with which persons in the United States are prohibited from doing business under U.S. sanctions law;

• CNPC’s 90 percent ownership of PetroChina, and the lack of realistic opportunity for an owner of a small fraction of PetroChina’s publicly traded shares to exercise “voice” in a way that could be expected to exert significant influence on the conduct of CNPC, which is wholly owned by the Chinese government;

• the fact that PetroChina’s Board of Directors is dominated by CNPC’s senior management;

• the recent reports that PetroChina itself may soon become the direct owner of international oil assets (including Sudanese assets) now owned by CNPC, or that CNPC and PetroChina may form a joint venture through which they would jointly own such assets, as a result of a contemplated corporate restructuring.

Conclusion

The CCSR is persuaded, and the Corporation agrees, that this particular combination of circumstances, taken together, warrants the rare step of divestment. We accordingly are directing Harvard Management Company to divest its holdings of PetroChina stock.
Appendix D

Statement by Harvard Corporation Committee on Shareholder Responsibility (CCSR)
Regarding Stock in China Petroleum and Chemical Corporation (Sinopec Corporation)
March, 2006

We are announcing today the Harvard Corporation’s decision to direct Harvard Management Company (HMC) to divest itself of stock held by HMC in China Petroleum and Chemical Corporation (Sinopec Corporation).

The Corporation, on our recommendation, has reached this decision in light of the analysis presented last spring by a subcommittee of the University’s Advisory Committee on Shareholder Responsibility (ACSR) for divestment from PetroChina Company Limited (PetroChina), another Chinese oil company with major interests in Sudanese oil production, and developments since that decision regarding Sinopec Corporation’s involvement in Sudanese oil production. The decision to divest from Sinopec reflects these new developments as well as deep concerns about the grievous crisis that persists in the Darfur region of Sudan and about the role of Sinopec Corporation and its closely affiliated parent company, China Petrochemical Corporation (Sinopec Group), in the production of oil in Sudan. Oil is a critical source of revenue and an asset of paramount strategic importance to the Sudanese government, which has been found to be complicit in what the U.S. Congress and U.S. State Department have termed “genocide” in Darfur and what a United Nations commission of inquiry has characterized as “crimes against humanity and war crimes . . . [that] may be no less serious and heinous than genocide.”

Having monitored recent developments regarding Sinopec Corporation’s involvement in Sudanese oil production, the CCSR has concluded that the considerations that led us to divest from PetroChina in April 2005 counsel in favor of our now divesting from Sinopec Corporation. Those considerations are set forth in the statement available at http://www.news.harvard.edu/gazette/daily/2005/04/04-sudan_statement.html. With particular regard to Sinopec, the CCSR has further noted the following:

- Sinopec Corporation is a publicly listed company in which a dominant (68%) interest is held by China Petrochemical Corporation (Sinopec Group). Sinopec Group is wholly owned by the Chinese government, and Sinopec Corporation and Sinopec Group have substantially overlapping management.

- Sinopec Corporation is a partner in Petrodar Operating Company Ltd., a consortium whose partners also include China National Petroleum Corporation (CNPC, the 90% owner of PetroChina) and Sudapet (the Sudanese state-owned oil company), among others.

- In August 2005 Petrodar commenced production of oil in blocks 3 and 7 in Southeast Sudan. In December 2005 Petrodar announced that its first shipment of crude oil would be shipped from Sudan in January 2006. Petrodar’s operations represent a major increase in overall Sudanese oil production, with Petrodar’s output expected to reach 250,000 barrels/day by the end of 2006 and to grow to 350,000 barrels/day in 2007.
In November 2005, Sinopec Group announced plans to partner with CNPC to purchase an oil field in Sudan, and has reportedly indicated an interest in expanding its business in Sudan.

**Conclusion**

Although Harvard maintains a strong presumption against the divestment of stock for reasons unrelated to investment purposes, the CCSR is persuaded, and the Corporation agrees, that the particular combination of circumstances bearing on Sinopec Corporation’s involvement in oil production activities in Sudan warrants the unusual step of divestment. We accordingly are directing Harvard Management Company to divest its holdings of Sinopec Corporation stock.
Appendix E

Harvard's Investment Policy with Regard to Tobacco

In 1990 the University completed sales of its stock in a number of companies in the tobacco industry and adopted a policy prohibiting the future purchase of stock in companies producing significant quantities of cigarettes or other tobacco products. These actions followed extensive consideration by both of Harvard's Committees on Shareholder Responsibility of the issues associated with direct investment in the tobacco industry. In 1988 at the urging of the ACSR, the CCSR wrote to portfolio companies in the tobacco industry, asking them to address the ethical responsibilities associated with tobacco sales in developing countries and to provide information on their policies for informing consumers of tobacco-use risks in nations having minimal governmental regulations concerning smoking health risks. In some cases this information was not forthcoming; in others the firms had made considered decisions not to follow the World Health Organization code for tobacco marketing or contested the evidence linking tobacco use with disease. In September of 1989 after reviewing this correspondence, the University reached the decision to sell its holdings in the stock of several companies involved in the manufacture of cigarettes and other tobacco products. This decision was motivated by the University's belief that in this case it would be unable, as a continuing shareholder, to influence the policy of the companies in regard to the marketing practices mentioned above, and by the desire not to be associated as a shareholder with companies engaged in significant sales of products that create a substantial and unjustified risk of harm to human health. The sale of stock was completed early in 1990, and later in the year the ACSR encouraged the University to adopt a formal policy precluding any future purchase of such stock. The Corporation subsequently adopted a policy prohibiting the purchase of stock in companies producing significant quantities of cigarettes or other tobacco products.