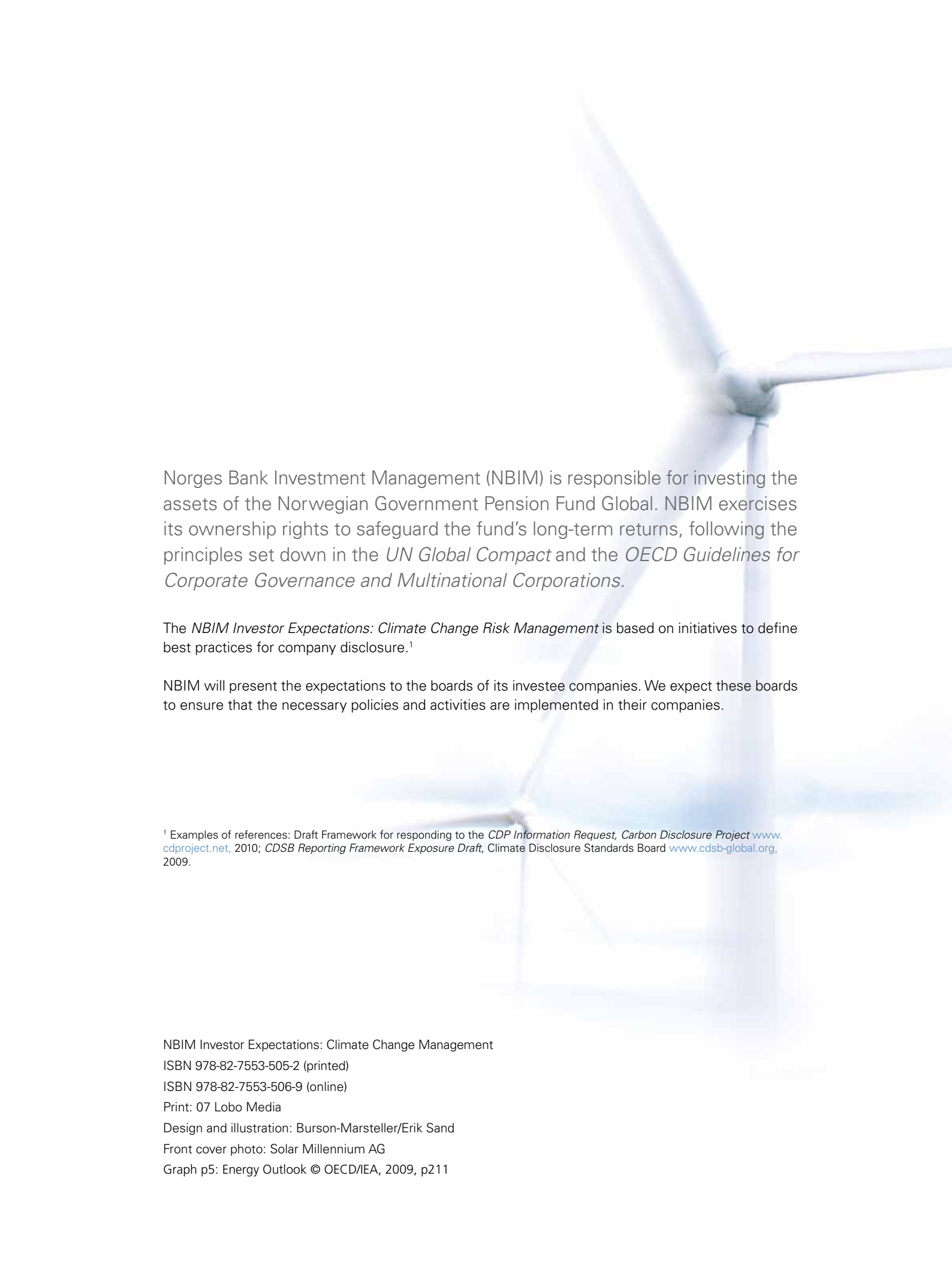




NBIM INVESTOR EXPECTATIONS
CLIMATE CHANGE RISK MANAGEMENT

NBIM

Norges Bank Investment Management



Norges Bank Investment Management (NBIM) is responsible for investing the assets of the Norwegian Government Pension Fund Global. NBIM exercises its ownership rights to safeguard the fund's long-term returns, following the principles set down in the *UN Global Compact* and the *OECD Guidelines for Corporate Governance and Multinational Corporations*.

The *NBIM Investor Expectations: Climate Change Risk Management* is based on initiatives to define best practices for company disclosure.¹

NBIM will present the expectations to the boards of its investee companies. We expect these boards to ensure that the necessary policies and activities are implemented in their companies.

¹ Examples of references: Draft Framework for responding to the *CDP Information Request, Carbon Disclosure Project* www.cdproject.net, 2010; *CDSB Reporting Framework Exposure Draft*, Climate Disclosure Standards Board www.cdsb-global.org, 2009.

NBIM Investor Expectations: Climate Change Management

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Purpose

NBIM expects companies to manage risk associated with the causes and impacts of climate change. Our expectations are directed at companies with operations or value chains in sectors and regions materially exposed to such risk.

Establishing expectations and monitoring companies' responses to climate change risk is a priority for investors as there is overwhelming scientific evidence that climate change threatens long-term financial returns.

However, the complexity of environmental and financial systems presents a significant challenge. Economic activity that produces greenhouse gas emissions may lead to future financial, environmental and social impacts that are not reflected in current prices of goods and services. Coherent regulation can address this problem by placing a cost on emissions and so harness market forces to efficiently allocate resources to prevent or adapt to the impacts of climate change.

It is in this context that NBIM seeks to promote the conditions for well-functioning markets and to encourage the boards of our investee companies to integrate climate change into their wider risk management responsibilities.

Our expectations should serve as a reference point that companies may be measured against, either by their management or their owners. Our goal is to encourage constructive dialogue between companies' boards and investors.

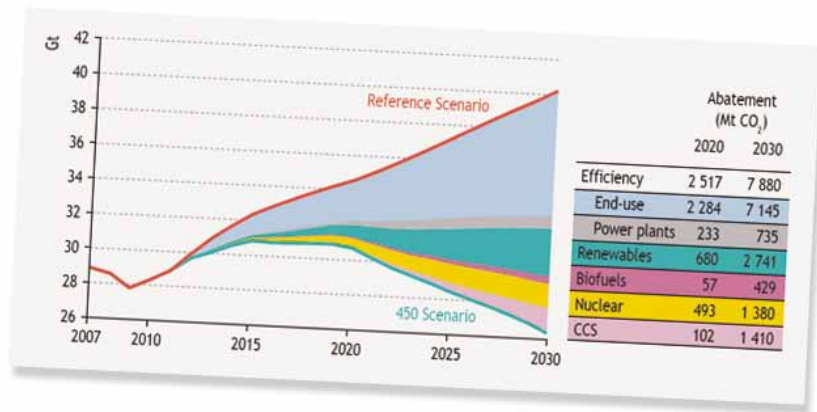
Why climate change is an issue for investors

Most forms of current economic activity are carbon intensive. Progression toward a low-carbon economy to reduce the risk of dangerous climate change will require significant adjustments in a wide range of sectors.

Companies increasingly feel the financial impact of regulatory measures that set renewable energy targets and price greenhouse gas emissions through market-based mechanisms or taxes. There is also a high general level of stakeholder concern on these issues, which makes the perception of how companies manage climate change risk important. In the medium and longer term there is increasing potential for climate change to directly and severely impact the activities of many companies.

Change also gives rise to opportunity. Companies that mitigate and adapt at the lowest cost, develop profitable new low-carbon products and services and attract the best talent by building a reputation for responsible action on climate change will create the greatest long-term value.





Source: IEA

Expectations

We expect companies to identify material risks, define an optimal mitigation strategy and take action to implement that strategy. Companies should also have a well-functioning governance structure for risk and be transparent in their interaction with policy-makers and regulators. They should disclose sufficient information demonstrating an effective approach to climate change risk, including key performance indicators on greenhouse gas emissions.

A. Strategy for optimised investment in climate change risk mitigation

Companies should address climate change risk as an integral part of their business strategy and effectively and efficiently allocate resources to mitigate this risk. The following questions should be considered in the strategic planning process:

- What are the material threats and opportunities to the company from:
 - the direct impacts of climate change?
 - regulation concerning climate change mitigation or adaptation?
- Especially for company investment in major projects, how sensitive is their profitability to future scenarios for:
 - direct impacts (e.g. changes in water availability, extreme weather, etc)?
 - regulation (e.g. carbon prices, emission caps, renewable energy targets, mandatory technology requirements, etc)?
- Are there specific environmental policies or guidelines that reflect the company's approach to climate change risk management?
- What are the key implications of major risk factors for the business and what is the overall strategic response?
- Are the risks and company response reassessed on a timely and regular basis?

energy lamps

B. Specific action to implement climate change strategy

Companies should take appropriate and timely action to implement their strategy to mitigate climate change risk. Implementation should encompass a company's direct operations and wider supply chain.

Companies should also invest, where appropriate, in research to close gaps in the knowledge and technology needed to manage climate change risk.

NBIM does not expect companies to invest in research and development that is not central to their businesses or to diversify out of businesses where they have a competitive advantage. Investors have the responsibility to manage the risk associated with intrinsically carbon intensive products and services by adjusting the composition of their portfolios. Key questions for boards to consider include:

- What actions are being taken to mitigate risk in direct operations? For example, is the company pursuing:
 - energy and resource efficiency improvement programs?
 - increased use of less carbon-intensive raw materials?
 - optimisation of logistics and distribution?
- What steps are being taken to address risk in the supply chain? For example, does the company:
 - have relevant procurement policies for products and services?
 - share best climate change practice with strategic suppliers?
 - integrate the cost-of-carbon into supply chain management systems?
- Does the company sponsor research and development in areas where there is a lack of knowledge or technology to assess and manage climate change risk?

C. Effective and efficient governance for risk management

To implement our expectations companies must have a corporate governance structure that facilitates realistic strategies to manage climate change risk. We expect boards to address the following questions:

- Does the board explicitly recognise the necessity of fully integrating climate change into its wider risk management responsibilities?
- Are there appropriate monitoring and reporting systems covering climate change risk?
- Is there a clearly defined line of responsibility and reporting in the organisation up to board level?

D. Transparency and disclosure

Companies should be transparent in how they manage climate change risk and disclose information addressing the topics in this document. NBIM will use this information to identify the most important climate change issues affecting companies' economic performance and prospects, and to assess whether management is taking appropriate steps to address those issues.

The introduction of regulation that directly or indirectly places a price on carbon is a significant near-term risk factor for companies in many sectors and regions. As a result, NBIM emphasises the importance of reporting on greenhouse gas emissions and considers the following questions when assessing a company's performance in this area:

- What are the company's current greenhouse gas emissions in tonnes of carbon dioxide equivalent (CO₂e) and in appropriate emission intensity units for the sector (e.g. revenue per tonne of CO₂e, production volume per tonne of CO₂e)?
- What is the breakdown of emissions arising from direct operations, use of purchased electricity and other supply chain inputs?
- Is the company's management signalling its quality by disclosing meaningful and quantitative emission intensity reduction targets with clear timelines? (Note that our focus is on continual improvement in emission intensity, as the use of this measure helps avoid confusion with the effects of increasing or decreasing demand and supply).
- Are emissions independently verified, with an estimate of uncertainty?
- Does the company set a uniform global standard for performance on carbon productivity/emission intensity, irrespective of where it has its operations? How does this compare with the expected development in regulatory standards?

Finally, we expect companies to provide information on their position on climate change legislation and regulation. Boards should address the following questions:

- What is the company's position on related legislation and regulation?
- What is the nature of the company's interaction with policy-makers and regulators?
- Does the company have policies or guidelines for engaging with policy makers and regulators? Do these provide guidance on funding and donations? Does the company report on this kind of expenditure?

NBIM INVESTOR EXPECTATIONS

CLIMATE CHANGE RISK MANAGEMENT

As a large diversified investor with a long-term outlook, NBIM recognises the potential for climate change to seriously impact the performance of its investments. We expect the companies we invest in to manage such risk and will present our expectations to their boards to ensure that the necessary policies and activities are implemented.

Our expectations cover four areas:

Strategy for optimised investment in climate change risk mitigation

Companies should plan for the effective and efficient allocation of resources to mitigate risk. Climate change should be integrated into a regular and comprehensive risk assessment process, particularly for investments in major projects. A clear strategy should be developed addressing significant threats and opportunities.

Specific action to implement climate change strategy

Companies should take concrete steps to minimise threats and capture opportunities. This includes considering initiatives in direct operations, supply chain management and research and development.

Effective and efficient governance for risk management

Companies should have a governance structure that facilitates an effective response to climate change risk. Boards need to fully integrate climate change into their wider risk management responsibilities. They should also ensure there is a clear delegation of responsibility in the management structure, appropriate monitoring and reporting, and incentives linked to key performance indicators.

Transparency and disclosure

Companies should disclose information on their climate change strategy, actions and governance, as well as report on greenhouse gas emissions and emission intensity reduction targets. They should also disclose their positions on climate change regulation and the nature of, and resources allocated to, interactions with policy makers.

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