NORGES BANK
INVESTMENT MANAGEMENT

CLIMATE CHANGE STRATEGY

EXPECTATIONS TO COMPANIES

Boards should integrate relevant climate change challenges and opportunities in their business management, such as investment planning, risk management, and reporting. They should ensure that responsibilities are clearly defined within the organisation and effectively guide, monitor, and review the company's management in these efforts.

The purpose of these expectations is to express how Norges Bank Investment Management, as a financial investor expects companies to approach the challenges and opportunities associated with climate change. Our expectations are primarily directed at company boards. The expectations serve as a starting point for our interaction with companies on the topic of climate change.

Norges Bank Investment Management is responsible for managing the assets of the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. We will, as a starting point and where appropriate, base our responsible investment practices on internationally recognised standards such as the UN Global Compact, the OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises.

PURPOSE

The purpose of these expectations is to express how Norges Bank Investment Management, as a financial investor, expect companies to approach the challenges and opportunities associated with climate change. Our expectations are primarily directed at company boards. The expectations serve as a starting point for our interaction with companies on the topic of climate change.

RELEVANCE

The point of departure for our climate change expectations is our long-term financial objective of safeguarding the fund's assets. The challenges of climate change, both the physical impacts and the regulatory and technological responses, may give rise to risks and opportunities for companies. How companies manage these, may drive long-term returns for us as a shareholder.

The scientific basis for climate change is widely accepted[1]. Climate change has the potential to affect the global economy. The economic impacts of climate change on specific markets and regions are complex, varied, and uncertain, rendering the timing and extent of impacts hard to predict on a company level.

Climate outcomes may affect company and portfolio return over time. To reduce future risk and increase opportunities, Norges Bank Investment Management have an interest in well-functioning carbon markets and other measures that may contribute to an efficient transition to a low-emissions economy.

Our expectations are high-level guidance for companies. We expect companies to address climate change in a manner meaningful to their operations and wish to support their efforts to manage the risks and pursue the opportunities.

Our expectations are directed at all companies in our portfolio. We are, however, mindful that climate change risk may be especially relevant to companies engaged in activities such as coal mining, oil and gas production, electricity production from fossil fuels and other business activities with large greenhouse gas emissions. Some expectations are also specifically related to

1 The scientific research on this issue is summarised in the Fifth Assessment Report (AR5) from the International Panel on Climate Change (IPCC).

activities such as tropical forestry, agriculture, or other activities that involve significant clearing of tropical forests.

As an investor, Norges Bank Investment Management analyse opportunities and risks to our investments. We encourage companies to be transparent about the topics raised in this document. We use such information to identify how climate change may affect companies' economic performance and prospects, and to assess whether management is taking relevant steps to develop a long-term business strategy for a transition to a low-emissions economy.

EXPECTATIONS

Boards should integrate relevant climate change challenges and opportunities in their business management, such as investment planning, risk management, and reporting. They should ensure that responsibilities are clearly defined within the organisation and effectively guide, monitor, and review the company's management in these efforts.

A. Integrate relevant climate change challenges and opportunities in investment planning.

- Companies should incorporate potential physical or regulatory climate impacts in investment planning and execution. They should understand the business implications of directly or indirectly generating greenhouse gas emissions, and achieving reductions over time. Companies may consider putting in place a mechanism for third-party evaluation of company climate strategy, for example a committee of relevant experts.

- Companies should consider the sensitivity of their long-term business strategy and profitability to different future regulatory and physical climate scenarios. To support strategic decision-making, they should identify future scenarios for climate regulation, carbon prices, and environmental conditions. The scenarios should include low-emissions scenarios incorporating countries' expressed national, bilateral or international climate commitments and ambitions. One such scenario should consider the successful implementation of policies to limit the likelihood of temperatures rising above 2 degrees Celsius.

- Companies should regularly consider whether their remuneration and incentive systems promote sustainable business practices and support the long-term profitability of the business.

- Companies engaged in activities with large greenhouse gas emissions or intensities, should have a strategy addressing a transition to a low-emissions energy system. This should include specific attention to the sensitivity to climate impacts, both physical and regulatory, of major investments. The strategy may also consider research and development to enhance company competitiveness under changing market conditions.

- Companies engaged in activities that lead to significant clearing of tropical forests should have a strategy responding to stricter future regulation concerning the conservation of tropical forests.

- Companies engaged in activities with a direct or indirect impact on tropical forests should assess impact through, for example, life-cycle analysis, and have a strategy for reducing deforestation as a result of their own activities or from their supply chains.

B. Integrate material climate change risk in risk management.

- Companies should identify and incorporate material climate change risk, including physical and regulatory risk, in a robust and integrated framework. This should include appropriate systems for monitoring, reporting and regular reassessment.

- Companies should identify and consider relevant risk adaptation and mitigation measures, for instance programmes to improve energy and resource efficiency, increased use of less carbon-intensive raw materials, optimisation of logistics and distribution, protection of high carbon stock landscapes, business restructuring, or measures to increase the resilience of operations.

- Companies should adopt, where relevant, industry standards and best practices in climate change risk management and the sustainable management of forests.

- Miners of coal and oil and gas companies should evaluate their exposure to down-stream climate risk and, where relevant, consider initiatives to promote a more efficient or low emissions' use of the fuel they produce.

- Companies should identify and monitor material climate change risk in their supply chains. To this end, they should implement relevant procurement policies for products and services, engage with strategic suppliers and share best environmental practices and integrate the cost-of-carbon into supply chain management systems.

- Companies should monitor whether suppliers that deliver commodities, products, and materials produced in tropical forests seek best practices to avoid deforestation and adhere to international, recognised standards and certification systems for sustainable production and management of forests.

C. Report material climate change risks and greenhouse gas emissions

- Companies should disclose in annual reports or on their company websites a view and strategy to address material physical and regulatory climate change risks and opportunities. Benchmarks and targets should be quantified where relevant.

- Companies should develop a framework to monitor greenhouse gas emissions associated with their business operations. They should report, in annual reports or on websites, absolute and relative greenhouse gas emissions in accordance with the Greenhouse Gas Protocol. At a minimum, they should report any emissions directly generated by industrial facilities they own or operate, and emissions associated with purchased or acquired electricity, steam, heat, or cooling.

- Companies should report greenhouse gas emissions to appropriate, internationally recognised reporting initiatives to better enable investors to analyse portfolio greenhouse gas emissions.

- Companies with direct or indirect impact on tropical forests should disclose information about the climate impact of their operations and their tropical forest footprints. Companies should also disclose how they monitor their impact on tropical forests over time. Finally companies should disclose whether and how they seek best practice and adhere to international standards for sustainable production of agricultural commodities or sustainable management of forests.

D. Transparency on interaction with policy makers and regulators, and positions on climate change legislation and regulation.

- Companies should have policies or guidelines for engaging with policy makers and regulators on climate change and related topics and be transparent about relevant associated spending and activities.

- Companies should promote the conditions for well-functioning markets and approach new market-based climate regulation constructively, within their financial objective.

- Companies should outline their position on specific climate change regulation relevant to their business profitability and outlook.

- Companies engaged in activities with large greenhouse gas emissions should report on activities to secure existing production or use of fossil fuels and disclose whether they, financially or otherwise, support industry groups or other initiatives seeking to influence climate regulation or policy.