

NBIM INVESTOR EXPECTATIONS
CLIMATE CHANGE RISK MANAGEMENT

Sector Compliance Report 2010

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Norges Bank Investment Management

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ISSN 1891-7720 Sector Compliance Report 2010

Print: 07 Gruppen a/s

Design and illustration: Burson-Marsteller/Erik Sand

Photo: Solar Millennium AG

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NBIM Expectations on Climate Change Risk Management 2010 Sector Compliance Report

Executive Summary:

This is the first report on the level of compliance with the NBIM Investor Expectations on Climate Change Risk, covering 499 companies in six sectors that NBIM was invested in at the end of 2010. These sectors have been identified as having high exposure to climate change-related risks and comprise Basic Resources, Building Materials, Chemicals, Transport, Oil & Gas and Power Generation. The assessments were based solely on publicly available information from the companies.

The average level of compliance was low, with variations between sectors. The Power Generation sector had the highest level of compliance, with Transport and Basic Resources showing the lowest levels.

We found little to suggest an overall improvement between this report and the first assessment in 2009. Our findings showed a possible trend of increasing compliance with our expectations for companies to integrate climate change risk with core strategic planning processes and for companies to disclose action plans for specific risks and opportunities. The Building Materials and Chemicals sectors' data suggested improvement on these and the majority of the other expectations indicators, while the Basic Resources sector regressed on most. No sector showed any sign of increasing disclosure on quantitative forward targets for greenhouse gas emissions.

The wider context in 2010 was also mixed in terms of national and international progress to reduce the emissions of greenhouse gases. In the United States, efforts at the federal level to introduce an emissions cap and trade scheme corresponding to the one operating in the European Union were abandoned. There were similar developments in Australia, highlighting a tendency in these markets to move away from efficient market-based mechanisms to centrally planned regulatory intervention. The United Nations Climate Change Conference in Copenhagen in December 2009 failed to yield an international consensus on emission reduction. While the succeeding meeting in Cancun in December 2010 was hailed as being more successful, a legally binding global agreement remains elusive.



Introduction

The NBIM Investor Expectations on Climate Change Risk Management outlines our criteria for evaluating corporate performance on effective climate change risk mitigation and adaptation. The expectations are summarised on the last page of this report and are also available on NBIM's website, www.nbim.no.

The expectations are directed at companies that operate or have supply chains in sectors where the exposure to climate change risk is high. We annually assess how these companies manage climate change risk, measuring their performance against our expectations.

The assessments of the companies in this report were carried out by an external analyst and based solely on publicly available information from the companies at the end of 2010. The assessments provide both NBIM and the companies with a tool to guide improvement of corporate performance related to climate change risk management and serve as a basis for constructive dialogue.

Methodology

Publicly available material as of 31 December 2010 was analysed for each company against the nine indicators presented in this report. Performance on individual indicators was graded as «compliant» or «non-compliant» depending on the level of disclosure of relevant information. To be considered compliant, companies must have addressed the relevant indicator in their publicly available material.

As in the previous 2009 assessment, we focused on information disclosed on company websites, including annual reports, sustainability reports, corporate social responsibility reports, press releases and information in the database of the Carbon Disclosure Project (CDP).

The industries included in this report were selected according to their exposure to climate change-related risk. Companies within each sector were chosen based on a combination of their market capitalisation and NBIM's holdings in the company, with an added focus on companies in emerging markets.

Comparisons were made with data from the 2009 compliance report, covering 476 companies. We reassessed 452 of these companies as well as an additional 47 companies in 2010. The findings may have been influenced by companies being added to, or dropped from, the assessment sample in the two-year period.

FTSE sector classifications were used to define the sector categories as listed below:

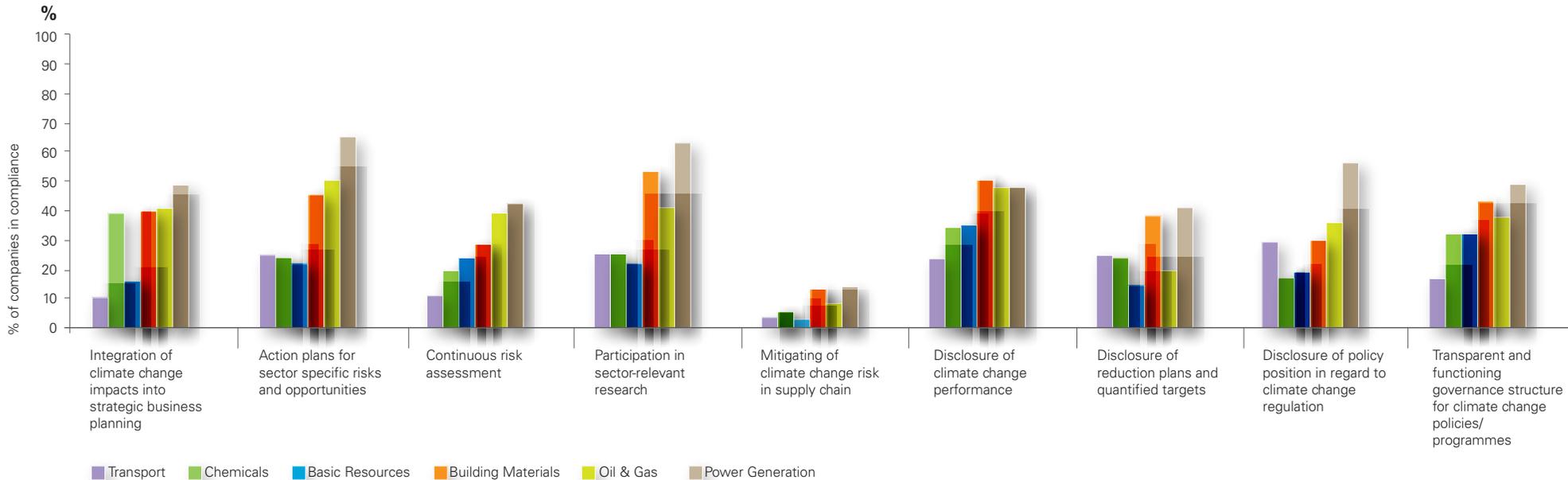
- **Transport:** Airlines, delivery services and providers of truck, rail and marine transport (136 companies, representing 77 percent of the sector market capitalisation in our portfolio)
- **Chemicals:** Bulk producers of simple chemical products (76 companies, representing 83 percent of the sector market capitalisation in our portfolio)
- **Basic Resources:** Aluminium, non-ferrous metals, platinum & precious metals, gold, coal and general mining companies (63 companies, representing 23 percent of the sector market capitalisation in our portfolio)
- **Building Materials:** Especially companies involved in cement production (40 companies, representing 32 percent of the sector market capitalisation in our portfolio)
- **Oil & Gas:** Exploration and production along with vertically integrated oil and gas companies (74 companies, representing 49 percent of the sector market capitalisation in our portfolio)
- **Power Generation:** Electric utilities with fossil fuel generation assets (110 companies, representing 67 percent of the sector market capitalisation in our portfolio)

The reported compliance results in 2010 are subject to two main sources of uncertainty. The first is where companies have released relevant information that may not have been discovered in the assessment process. The second arises from the potential for differing interpretation of discovered material. These sources of error should be kept in mind

when interpreting patterns in the data. Commentary in this report is restricted to trends that are judged to have some significance despite the methodological uncertainties.

Sector Comparison

Compliance with the Expectations



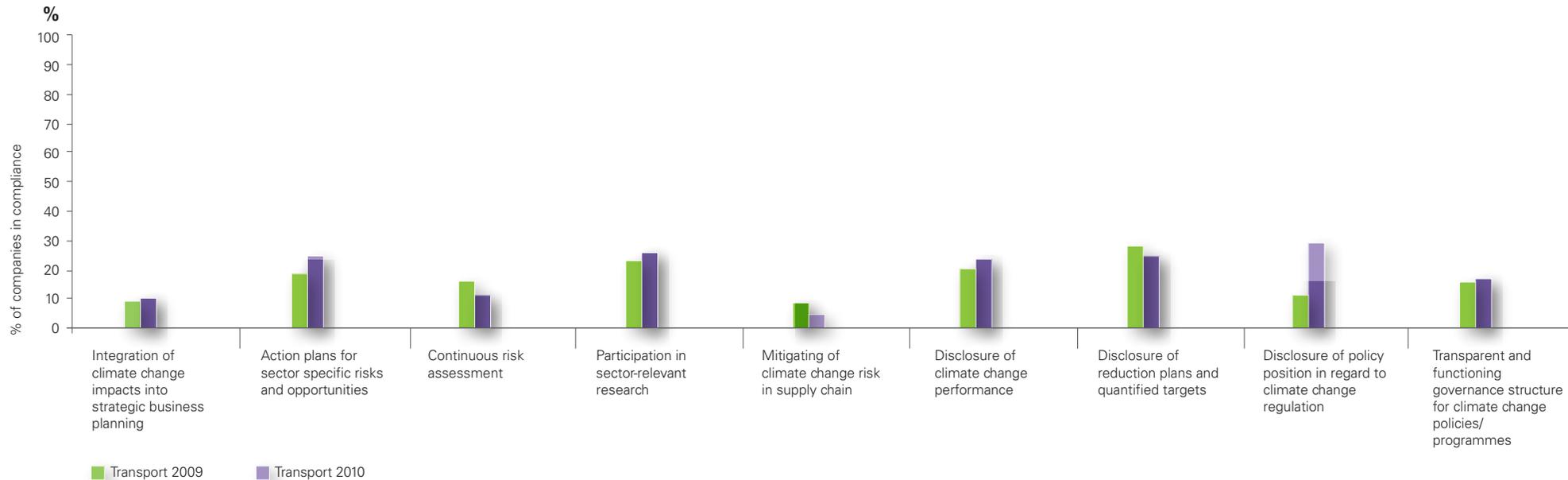
The reported overall level of compliance remains significantly below 50 percent for the majority of sectors and indicators.

The Power Generation sector had the highest level of reporting on most indicators, followed by the Oil & Gas and Building Materials sectors. The Transport and Basic Resources sectors showed the lowest levels of disclosure.

Compared to the 2009 assessment, the Building Materials and Chemical sectors showed the greatest improvement, while the Basic Resources sector regressed on most indicators.

Transport Sector

Compliance with the Expectations



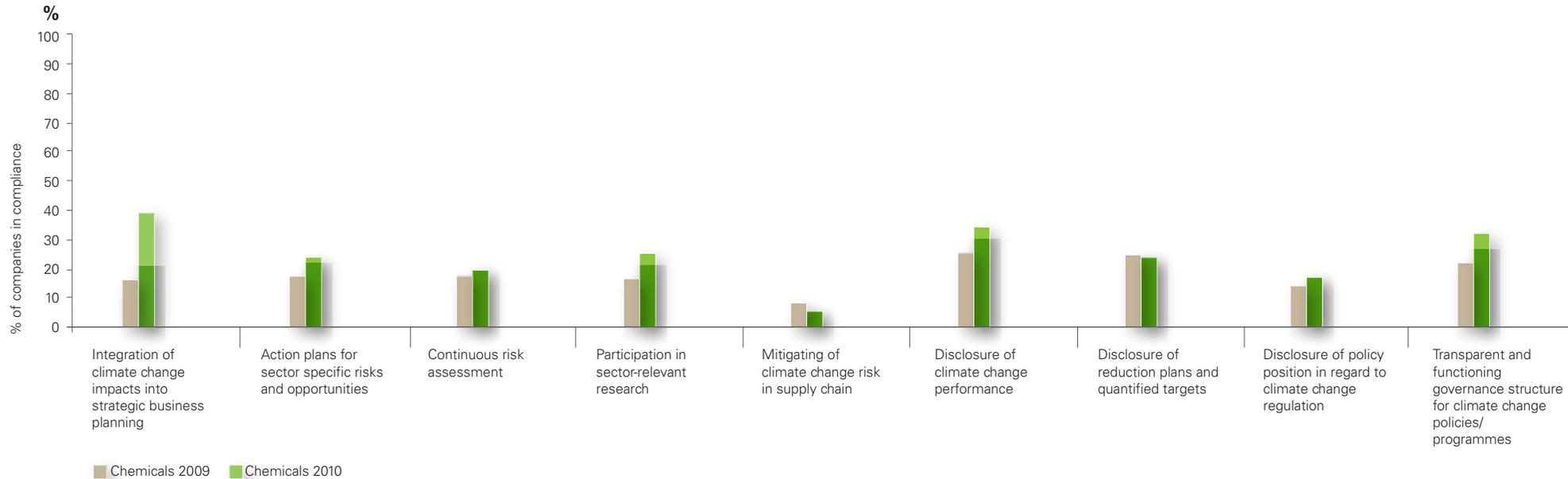
The Transport sector covers the Airlines, Shipping, Trucking and Delivery Service sub-sectors.

Although compliance levels varied by sub-sector, the overall level was very low. There were signs of improvement for more than half of the indicators. The highest level of reporting was on companies' positions on climate change regulation. Few companies were compliant with our expectation to integrate climate change risk into strategic planning or address it in the supply chain.

The greatest need for improved disclosure is in the Trucking sub-sector, which has a higher proportion of small- and medium-sized companies. NBIM will encourage initiatives led by industry associations assisting companies with emissions accounting, reporting and benchmarking.

Chemicals Sector

Compliance with the Expectations



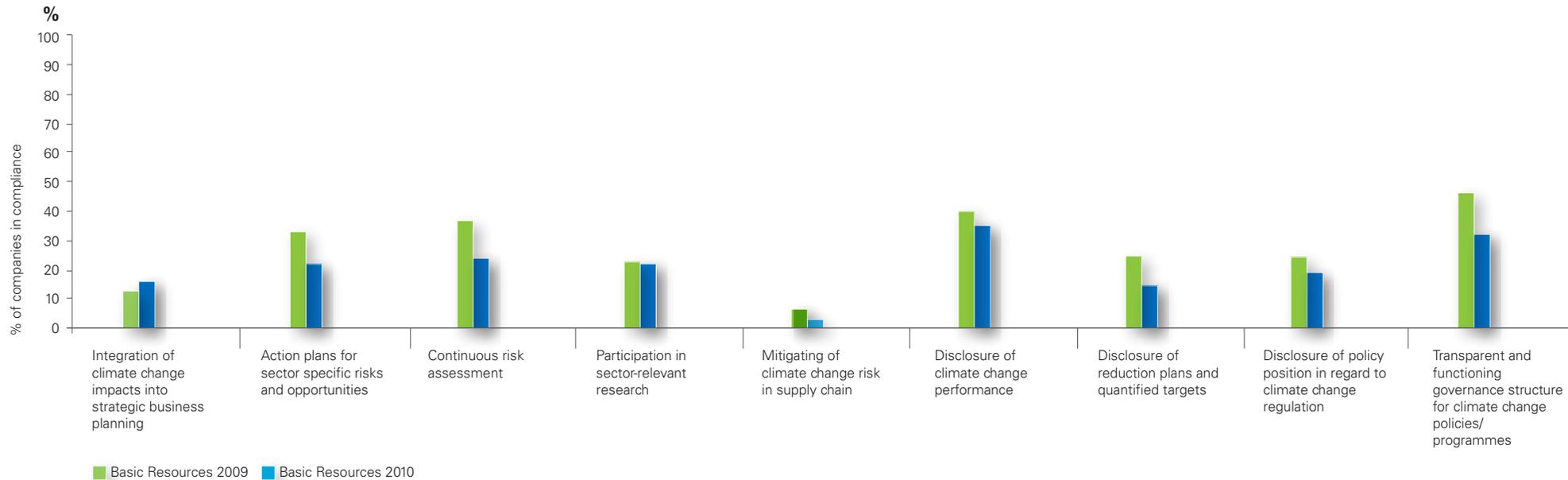
The Chemicals sector as defined in this report produces bulk intermediate feedstock for a large range of end products including clothing, fertilizer, plastic bags and building insulation.

The overall level of compliance in 2010 was low, with the highest reported for the indicator on integrating climate risk into strategic planning. The indicators relating to disclosure of positions on climate change regulation and mitigation of risk in the supply chain had the lowest reported compliance.

On a positive note, the sector showed signs of improved compliance on many indicators compared to the 2009 assessment. NBIM will continue to encourage companies in this sector, especially in developing markets, to improve their reporting on greenhouse gas emissions and to define their strategies to capture market opportunities and mitigate regulatory and reputational risk.

Basic Resources Sector

Compliance with the Expectations



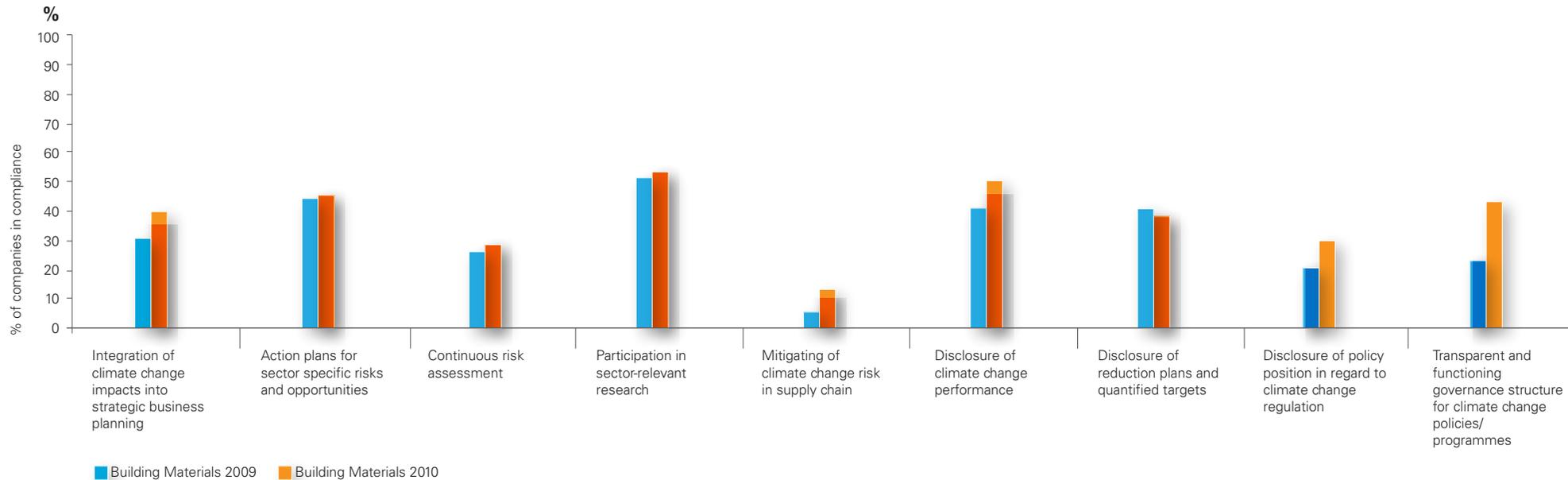
The companies in the Basic Resources sector have activities in mining and mineral processing, including the production of aluminium.

Overall compliance levels were low in 2010. The highest level of disclosure was on climate change performance reporting (i.e. reporting on greenhouse gas emissions), while the lowest were on setting quantitative targets for future emissions, integrating climate risk in strategic planning, and mitigating risk in the supply chain. Compliance decreased on most of the indicators compared to the 2009 assessment.

Some companies acted as frontrunners for the sector in 2010, by calling for a tax on carbon to introduce a clear price signal in the market and to secure a greater degree of certainty for related investment. Many other mining companies, however, released only rudimentary information on their position on climate change risk. Coal producers in the US are particularly poor on disclosure, especially in light of Environmental Protection Agency (EPA) regulations that will require reporting on associated methane emissions, a powerful greenhouse gas, by 2012.

Building Materials Sector

Compliance with the Expectations



The companies selected in the Building Materials sector are involved in cement production and the supply of concrete.

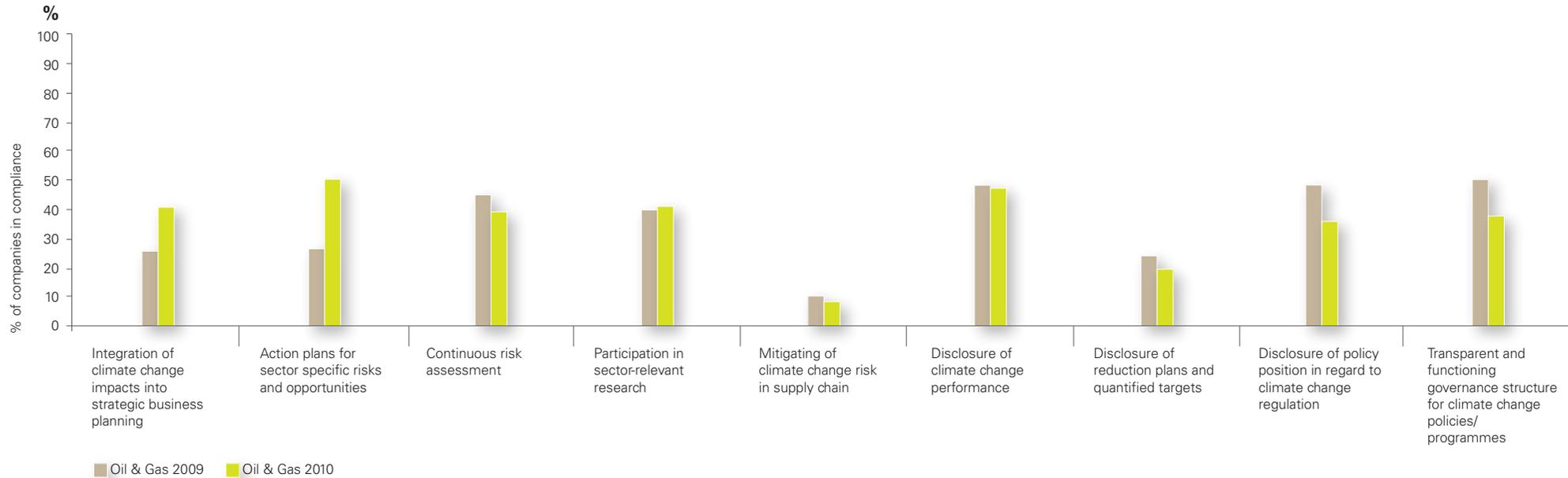
Compliance levels reported in 2010 were average compared to the other sectors. The highest compliance was reported on participation in relevant R&D efforts, while the lowest was on disclosing positions on climate change regulation, continuous risk assessment and mitigation of climate change risk in the supply chain.

The sector showed a trend of increased compliance on most indicators compared to the 2009 assessment.

A key focus for NBIM is the emerging economies that now account for the majority of world emissions from cement production, and where there is still too little disclosure on greenhouse gas emissions and mitigation strategies. Global corporations in particular are expected to set high standards for reporting on their activities, even if they are only minority shareholders in companies operating in these markets.

Oil & Gas Sector

Compliance with the Expectations



The Oil & Gas sector includes a selection of upstream and integrated companies.

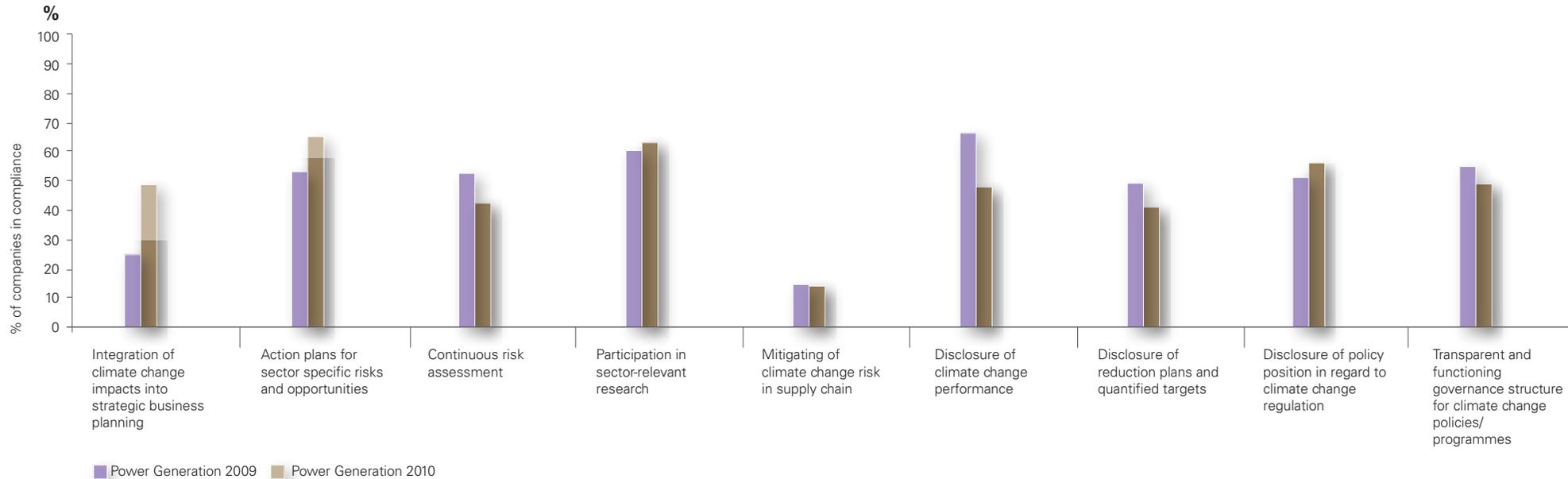
Overall compliance was higher than the average for the other sectors. The highest level of reporting was on action plans for specific risks and opportunities, while the lowest was for quantitative targets for emission reduction and mitigation of risk in the supply chain.

Compared to the 2009 assessment, there was no consistent trend of increasing or decreasing compliance across indicators.

NBIM will continue to focus on increased disclosure, including seeking more detailed information on the greenhouse gas profiles of companies' reserves. For example, while the industry has promoted natural gas as a more climate friendly alternative compared to other fossil fuels, gas reserves in many parts of the world have significant concentrations of CO₂, a factor that should be taken into account by investors.

Power Generation Sector

Compliance with the Expectations



Companies selected in the Power Generation sector produce a significant proportion of electricity from the burning of fossil fuels.

Compliance was above average compared to the other sectors in the assessment, with the highest levels of reporting on action plans for specific risks and opportunities. The lowest compliance was seen on the indicators relating to quantitative targets for emissions and mitigation of climate risk in the supply chain.

Compared to the 2009 assessment, there was no consistent trend of increasing or decreasing compliance across indicators.

The key short-term concern for the sector is increasing regulatory risk as policy frameworks become more complex and power prices continue to be tightly regulated by many national and sub-national bodies. While this sector has the highest compliance of those surveyed in this report, it is also one where investors require the greatest access to information to manage their exposure to climate change-related risk.



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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 are divided into four areas with accompanying compliance indicators.

A: 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.

B. 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.

C. 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.

D. 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.

Indicators

- Climate change risk considerations are fully integrated into strategic planning
- Action plans exist for material sector-specific risks and opportunities
- There is a continuous risk assessment process that covers climate change issues
- There is participation in sector-relevant research
- Action is being taken to mitigate change risk in the supply chain
- Performance on climate change mitigation is disclosed by reporting on greenhouse gas emissions
- Plans and quantified targets for reducing greenhouse gas emission intensity are disclosed
- The corporate position regarding current or pending climate change regulation is disclosed
- There is a transparent and functioning governance structure for climate change risk management