



Sector Compliance Report 2010

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2 [Sector Compliance Report 2010](#)

NBIM Investor Expectations on Water Management 2010 Sector Compliance Report

Executive Summary:

This is the first report on the level of compliance with the NBIM Investor Expectations on Water Management, covering 432 companies in six sectors that NBIM was invested in at the end of 2010. These sectors have been identified as having high exposure to water-related risk and comprise Forestry & Paper, Mining and Industrial Metals, Electricity & Multi-Utilities, Water, Pharmaceuticals and Food & Beverage. The assessments were based solely on publicly available information from the companies.

We noted great variation among sectors on the level of compliance with NBIM's Investor Expectations on Water Management. The relatively high level of reporting on clear strategy regarding water management and on water footprint and risk analysis showed that water issues were being addressed by many of the companies assessed. Few companies reported on their supply chain management systems, however, indicating that companies focused their reporting efforts on their direct operations. We expect companies to improve disclosure on the supply chain as they recognise a higher degree of exposure to water-related risk and tighter water regulation.

In China, the government is increasing water tariffs, dealing with water-pollution control and pushing for environmental information, reporting and disclosure to improve corporate performance. Under the EU Water Framework Directive (WFD), member states will be required to set water prices that reflect true costs. Promotion of sustainable water usage and pollution prevention and reduction are the main objectives of the framework. In the United States, drinking-water quality and water pollution are regulated by the Environmental Protection Agency's (EPA) Safe Drinking Water Act and Clean Water Act. In its 2011–2015 strategic plan, the EPA focuses on measures to further protect and restore watersheds and aquatic ecosystems.



Introduction

The NBIM Investor Expectations on Water Management outlines our criteria for evaluating corporate performance on managing water-related risk. 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 water-related risk is high. We annually assess how these companies manage water-related risk, measuring their performance against our expectations.

The assessments of the companies in this report were carried out by an external analyst and were 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 water 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 either «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.

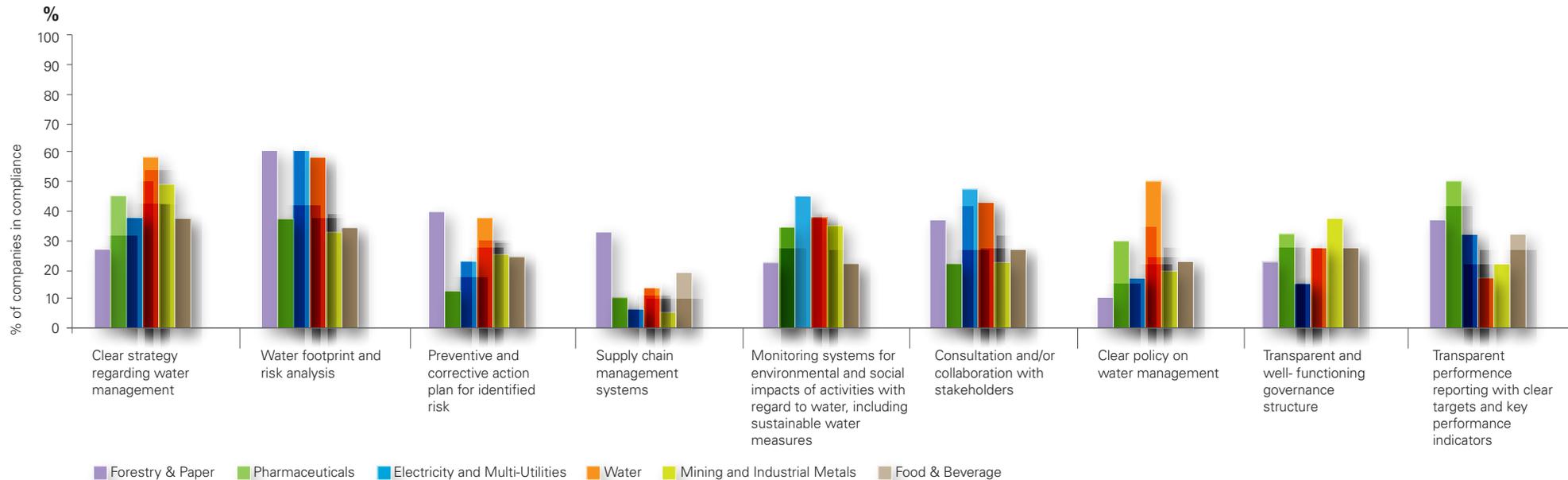
The industries included in this report were selected on the basis of their exposure to water-related risk. Companies within each targeted sector were chosen based on a combination of their market capitalisation and NBIM's holdings in the company. This means that the sample of companies may vary from year to year.

For 2010 the sectors below were identified and analysed. The FTSE sector classification was used to define the categories below:

- **Forestry & Paper:** 30 companies, representing 66 percent of the sector market capitalisation in our portfolio.
- **Mining and Industrial Metals:** 117 companies, representing 42 percent of the combined sectors' market capitalisation in our portfolio.
- **Electricity and Multi-Utilities:** 105 companies, representing 73 percent of the combined sectors' market capitalisation in our portfolio.
- **Water:** 30 companies, representing 80 percent of the sector market capitalisation in our portfolio.
- **Pharmaceuticals:** 50 companies, representing 63 percent of the sector market capitalisation in our portfolio.
- **Food & Beverage:** 99 companies, representing 65 percent of the sector market capitalisation in our portfolio.

Sector Comparison

Reporting Indicators 2010

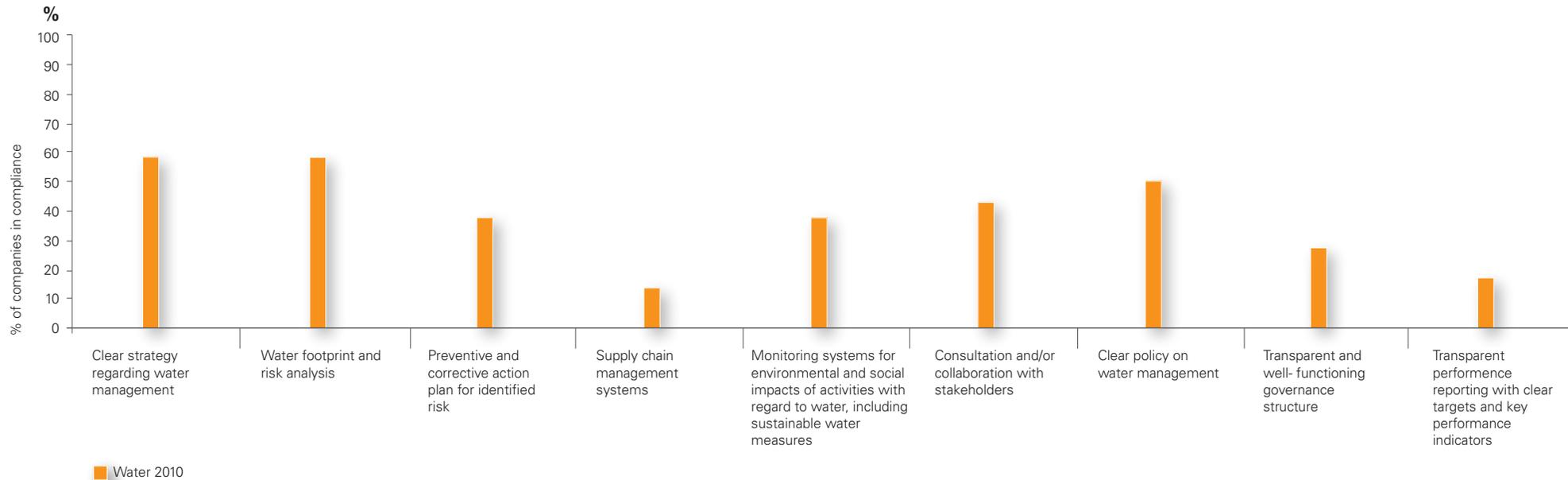


The level of compliance varied by sectors and by individual indicators. The Water sector had the highest level of compliance. There was a relatively high level of reporting on clear strategy for water management and on water footprint and risk analysis across sectors, indicating that water issues were addressed by many of the companies assessed. That was most evident in the Electricity and Multi-Utilities and Forestry and Paper sectors. The Mining sector showed the highest level of disclosure on governance structure.

Although the Food and Beverage sector's performance regarding reporting on the supply chain management was higher than in the other sectors, the level of reporting was low in all sectors.

Water Sector

Compliance with the Expectations

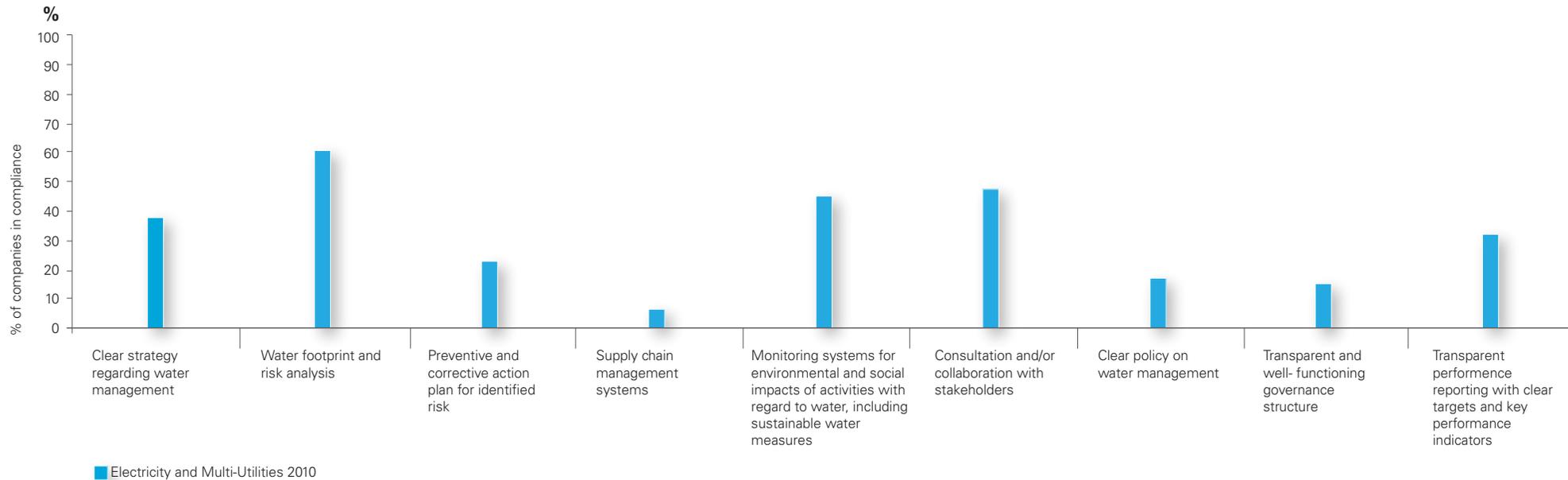


Water scarcity, ageing water distribution networks with high leakage rates, rising levels of pollution and tighter water-quality regulations are the main challenges for the Water sector. Compared with companies in the other sectors of this report, water utilities displayed the highest overall level of compliance. This result was expected, as water management is the core activity of water utilities. However, the level of reporting on supply chain management

systems was low, and we encourage water companies to improve their disclosure in this area. European companies displayed a higher level of disclosure than Asian companies.

Electricity and Multi-Utilities

Compliance with the Expectations

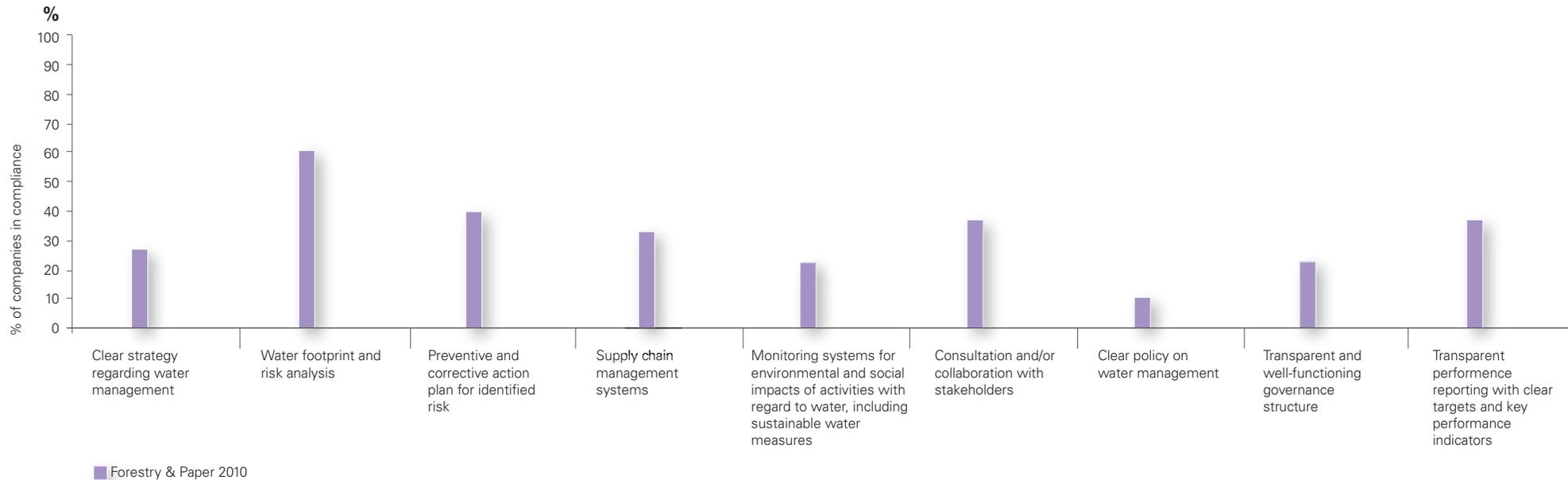


Electricity and multi-utility companies include those whose main activities are power generation, electricity transmission and distribution, as well as natural gas production, storage and distribution. Increased water stress, regulatory restrictions on water usage, wastewater discharges and cooling water discharges are challenges for this sector. More than half of the companies in this sector reported on their water footprint and risk analysis in 2010, while less than a third reported on preventive or corrective action plans for the identified risks. The level of reporting on the supply chain was very low in the Electricity

and Multi-utilities sector, also compared to the other sectors. European electricity and multi-utility companies displayed the highest level of compliance with our expectations. Asian companies disclosed very little information on water management.

Forestry & Paper Sector

Compliance with the Expectations

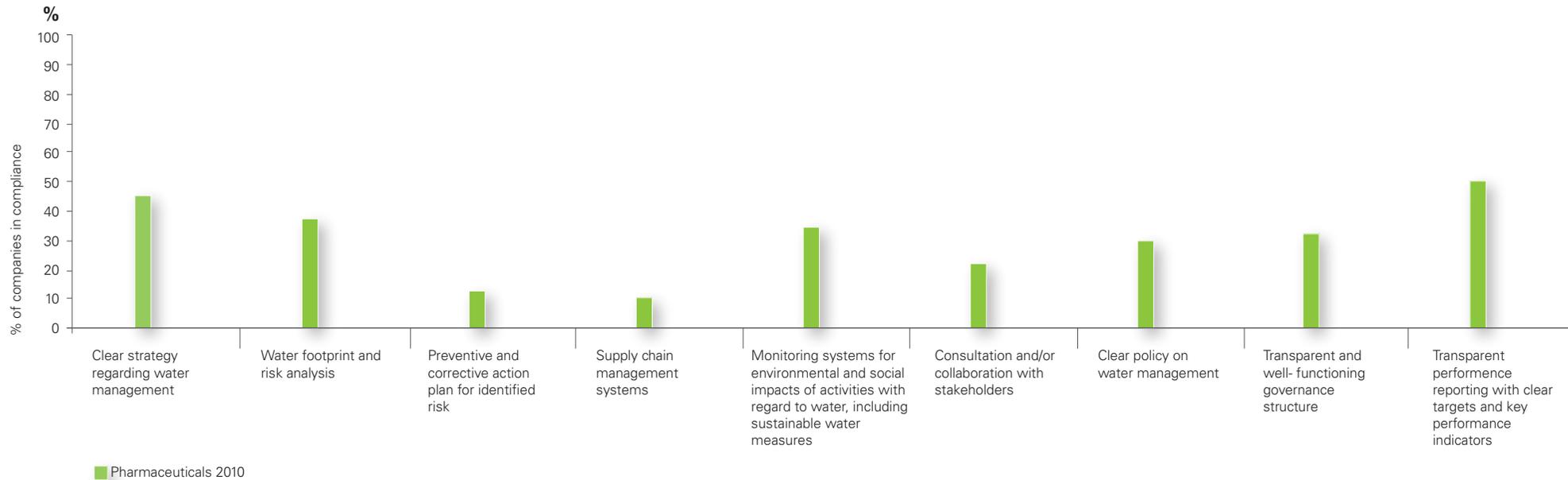


The level of reporting on the companies' water footprint and risk analysis was high compared to the other sectors and appeared to be followed up with clear preventive or corrective action plans. The sector had the highest level of reporting on supply chain management systems, which may reflect an increase in sourcing from forests certified by the Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC). These certifications require the implementation of water resources

protection measures. Disclosure of companies from the Americas was relatively high, especially compared to Asian companies. The level of compliance by European companies was uneven.

Pharmaceuticals

Compliance with the Expectations

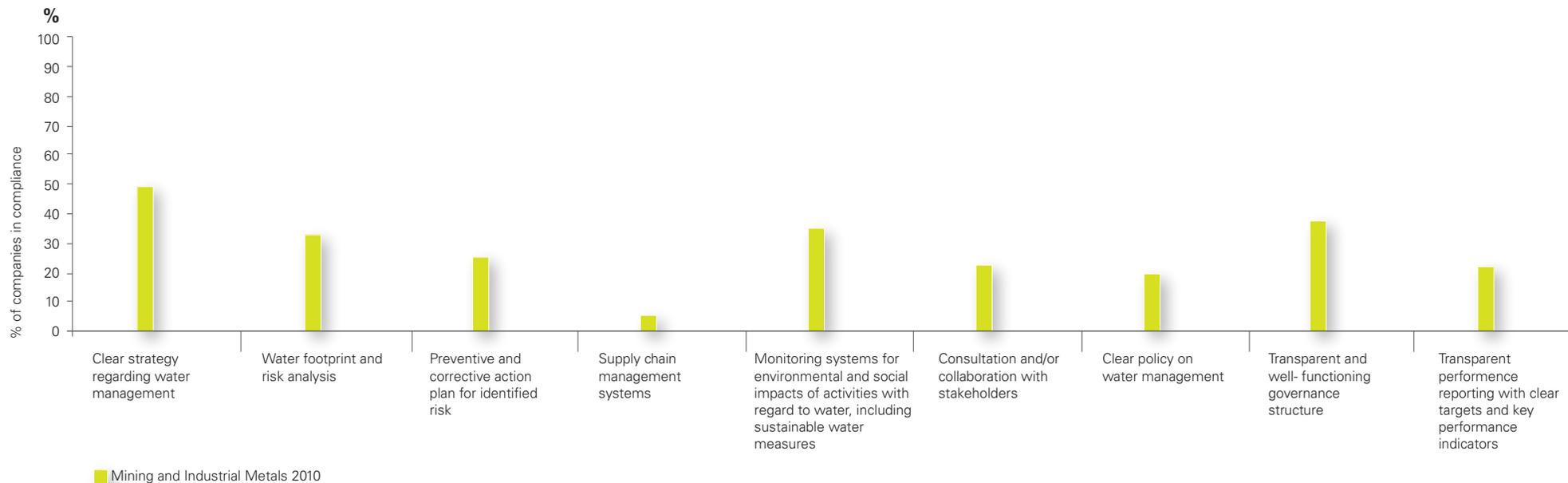


Pharmaceutical companies face the risk of new or higher treatment costs from regulatory measures aimed at waste concentration reduction in wastewater from manufacturing sites. The sector scored high on transparent performance reporting compared to the other sectors. There was, however, limited transparency on preventive and corrective action plans for identified risk and on consultation with stakeholders. Given the high public exposure and the increasing regulatory pressure on this industry sector, we would like to see increased disclosure in these areas. As with the other sectors, there was limited

reporting on the supply chain of companies. European companies had a higher level of disclosure than US and Asian companies.

Mining and Industrial Metals

Compliance with the Expectations

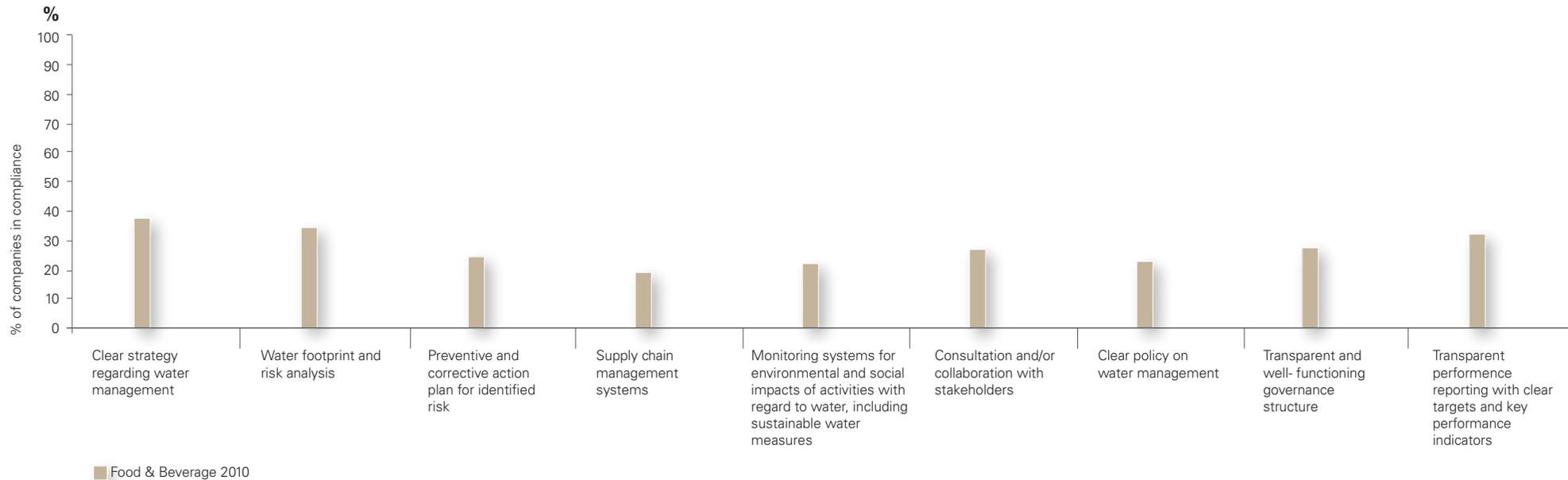


Mining companies have relatively high water-related risk exposure. They use large amounts of water to process ore, for cooling purposes and dust suppression. Processed water containing chemical substances is stored in ponds or directly discharged into rivers and streams. These practices may pollute bodies of water and pose health consequences for communities that rely on those supplies. Mining operations are also often located in remote and water-stressed areas. Close to half of the mining companies assessed in 2010 disclosed their strategy for water management. The sector had the highest level of reporting on governance structures, indicating that water-related issues were managed

at the board level in a number of companies. The level of performance reporting was low and, as stricter water-related regulation can be expected for this sector, improvement in performance reporting may be necessary. Hardly any of the companies reported on their supply chain. As segments of the mining supply chain, such as power producers, are highly water-intensive, we would like to see improved disclosure on companies' supply chain management systems. European companies, followed by South African companies, displayed the highest level of disclosure in 2010, while Chinese companies complied with very few indicators.

Food & Beverage Sector

Compliance with the Expectations



More than 70 percent of the global consumption of water occurs within agriculture. The food and agribusiness companies are exposed to costly pollution reduction measures in the supply chain, as well as to restrictions and regulations on water consumption and water pollution in their direct operations. Droughts and changes in rain patterns may affect the availability and price of agricultural commodities. The level of reporting in 2010 on supply chain management in the Food and Beverage sector was one of the highest of all sectors, but reporting on remaining indicators was low. We encourage the companies in

this sector to improve their disclosure for all indicators given the importance of water at every stage of the value chain of this sector. US companies displayed the highest level of compliance across the whole range of indicators, especially on strategy regarding water management and supply chain management systems. The level of transparency for Asian companies, in particular Chinese companies, was very low.





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NBIM Investor Expectations

Water Management

The NBIM Investor Expectations: Water Management specify investor expectations for corporate performance with regard to responsible water management. NBIM will present our expectations to the Board of our investee companies, and expect the Board to ensure that necessary policies and activities are implemented throughout the company.

The NBIM Investor Expectations: Water Management are divided into three main categories and outline what we consider important elements in a corporate water management strategy.

A: Clear Water Management Strategy

Investors should be able to assess how water scarcity could affect companies operations/profit. Water as an input and output factor in the production process needs to be assessed and companies should conduct a water footprint analysis covering direct operations, supply chain and products and services. Understanding the full extent of water-related risks to a company involves assessing factors outside the company's immediate operations.

B. Sustainable Water Management

Companies in high risk sectors and/or regions that have the best systems and technologies to deal with water challenges are better positioned to mitigate water-related risk, identify new market opportunities and create shareholder value. Sustainable water management means including the social and environmental impact on the surrounding communities of the companies' direct operations and supply chain.

C. Governance structure

Corporations must have a corporate governance structure that facilitates realistic strategies and responses to water management. The following elements should be considered: board-level involvement, board committee structures, management responsibilities, risk management and internal control processes, reporting lines, timelines and clear targets.

Requirements:

- Clear strategy regarding water management
- Water footprint and risk analysis
- Preventive and corrective action plan for identified risk
- Supply chain management systems
- Monitoring systems for environmental and social impacts of activities with regard to water, including sustainable water measures
- Consultation and/or collaboration with stakeholders
- Clear policy on water management
- Transparent and well-functioning governance structure
- Transparent performance reporting