NORGES BANK
INVESTMENT MANAGEMENT

Climate change

Expectations of companies

Norges Bank Investment Management manages the assets of the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. As a long-term and global financial investor, we are dependent on sustainable development, well-functioning markets and good corporate governance.

Our expectation documents set out how we expect companies to manage various environmental and social matters. Our expectations are based on internationally recognised principles such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises and other topic-specific standards. This document serves as a starting point for our interaction with companies on climate change. We expect companies to address this topic in a manner meaningful to their business model and wish to support them in their efforts.

Our expectations are primarily directed at company boards. Boards should understand the broader environmental and social consequences of company operations, taking into account the interests of relevant stakeholders. Boards must set their own priorities and account for the associated outcomes. Companies should pursue relevant opportunities and address significant risks. They should report financially material information to investors, and broader impacts as appropriate. Boards should effectively guide and review company management in these efforts.

Climate change

Climate change may give rise to transition and physical risks and opportunities for companies. How these are managed may drive long-term returns for us as a shareholder. Companies should integrate relevant climate change risks and opportunities into their corporate strategy, risk management and reporting.

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 at a company level.

Climate outcomes may affect company and portfolio returns over time. To reduce future risk and increase opportunities, the fund has an interest in well-functioning carbon markets and other measures that may contribute to the transition to a low-emissions economy. The Paris Agreement, evolving Nationally Determined Contributions and UN Sustainable Development Goals 13 (Climate Action) and 15 (Life on Land) provide business with reference points for global climate change commitments.

Our expectations are high-level guidance for companies. We support effective climate disclosure, as this contributes to sustainable market outcomes and enables a better understanding of the financial system's exposure to climate-related risks. We welcome efforts such as those of the Task Force on Climate-related Financial Disclosures (TCFD) to provide an internationally agreed framework for climate reporting.

Our expectations are directed at all companies in our portfolio. We are, however, mindful that climate change risks may be especially relevant to companies whose operations or value chains result in significant greenhouse gas emissions. Some expectations are also specifically related to activities that result in the clearing of forests, as deforestation is a significant anthropogenic source of carbon dioxide in the atmosphere.

As an investor, we expect companies to be transparent about the topics raised in this document. For selected companies, we use such information to assess their climate change risk exposure, management and performance.

A.
Integrate climate change considerations into policies and strategy

- Companies should understand the business implications of directly or indirectly generating greenhouse gas emissions and seek to achieve reductions over time.

- Companies should consider the sensitivity and resilience of their long-term business strategy and profitability to different transition and physical climate scenarios and incorporate material financial impacts in their investment planning over relevant timeframes.

- Companies should take into consideration a transition to a low-emissions economy consistent with a 2 degrees Celsius or lower scenario, as well as scenarios consistent with increased physical climate-related risks.

- Building on widely accepted scenario models, they should identify future potential climate regulations (such as carbon prices), technological developments and market conditions of relevance to their business. Companies may also consider research and development needs to enhance the company's competitiveness under evolving market conditions.

- Companies should consider whether their organisational structure, incentive systems, training programmes and wider company culture integrate sustainable business practices appropriately. Employees and contractors should be engaged in these efforts and made aware of company policies and practices.

- Companies involved in the financing of coal activities should adopt policies that outline their criteria and assessment processes for providing new loan commitments or other types of financial intermediary support.

- Companies engaged in activities that may cause clearing of tropical forests should have a strategy to ensure the conservation of tropical forests.

- Companies engaged in activities with a direct or indirect impact on tropical forests should assess their life cycle impacts and have a strategy for reducing deforestation from their own activities and/or supply chains. Companies should adopt, where appropriate, "no deforestation, no peat, no exploitation" policies.

B.
Integrate material climate change risks into risk management

- Companies should identify and include material short-, medium- and long-term climate change risks in a robust and integrated risk management framework. This should include appropriate processes for prioritising, mitigating, monitoring and reporting climate risks.

- Companies should identify and consider relevant risk adaptation and mitigation measures; for example, programmes to improve energy and resource efficiency, increased use of less carbon-intensive raw materials and processes and protection of high-carbon-stock landscapes.

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

- Companies with oil and gas and coal-mining operations should evaluate their exposure to downstream climate risk and, where relevant, promote more efficient or low-emissions use of the fuel they produce.

- Companies should adopt, where relevant, industry standards and best practices in the sustainable management of forests. Companies should disclose their processes to identify, assess and manage material deforestation risks in their own operations or supply chains.

- Companies should monitor whether suppliers that deliver forest-linked commodities, products and materials linked to tropical forests adopt best practices to avoid deforestation and adhere to international standards and certification systems for the sustainable management of forests.

C.
Disclose material climate change information

- Companies should disclose a strategy to address material physical and transition climate change risks and opportunities. Companies should seek to align their disclosures with applicable reporting standards, in particular the TCFD recommendations.

- Companies should be transparent on their application of climate scenario analysis, including key economic, regulatory, technological and physical assumptions.

- Companies should develop a framework to monitor the emissions associated with their business operations and, where relevant, along their value chains.

- Companies should report greenhouse gas emissions to appropriate, internationally recognised reporting initiatives. They should report absolute and relative greenhouse gas emissions in accordance with the Greenhouse Gas Protocol or other relevant industry or national standards. Companies should report emissions directly generated by industrial facilities they own or operate, emissions associated with purchased or acquired electricity, steam, heating and cooling, and, if material, scope 3 emissions. Companies should consider providing industry-specific greenhouse gas efficiency ratios.

- Benchmarks and targets, and performance against these, should be quantified where relevant. Climate-related metrics and targets should be disclosed; for example, internal carbon prices, capital expenditure on low-carbon technologies, investments in low-carbon R&D and emissions from land use change. Metrics should be provided for historical periods to allow for trend analysis. Companies should provide a description of the methodologies used to calculate relevant metrics.

- Asset-specific information relevant to transition or physical climate risk analysis, such as locations, technologies and physical characteristics of facilities, should be disclosed.

- Companies involved in the financing of fossil fuel activities should disclose climate-related risks and opportunities for their loan portfolios. Metrics might include the amount and percentage of carbon-related assets relative to total assets, as well as the amount of finance provided that is linked to climate-related opportunities.

- 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.

- 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.

Engage transparently and responsibly on climate change policy

- 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.

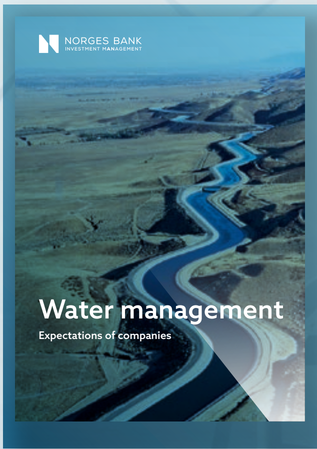
- Companies should review their memberships of industry associations and interest groups on a regular basis and assess whether the advocacy positions on climate and energy policies held in these groups are aligned with their own positions.

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

- Companies should describe how they consider existing and emerging regulatory requirements related to climate change and 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.

See our website www.nbim.no for a full and updated list of our expectations on sustainability topics.



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