



Decision to exclude from investments

1 December 2014

Summary

KLP (comprising KLP and the KLP Funds) has decided to exclude 27 companies, which are defined as coal companies from its investment portfolio:

Adaro Energy Tbk PT
Ameren Corp
American Electric Power Co. Inc
Banpu Public Comp. Ltd
China Coal Energy Comp. Ltd
China Resources Power Holdings Comp. Ltd
China Shenhua Energy Comp.
CLP Holdings Ltd
Coal India Ltd
CONSOL Energy Inc
Datang International Power Generation Comp. Ltd
DMCI Holdings Inc
E-CL SA
Exxaro Resources Ltd
Hokuriku Electric Power Comp.
Indo Tambangrava Megah Tbk PT
Inner Mongolia Yitai Coal Co. Ltd
NTPC Ltd
Peabody Energy Corp.
Power Assets Holdings Ltd
Reliance Power Ltd
Shougang Fushan Resources Group Ltd
Tambang Batubara Bukit Asam Tbk PT
Tata Power Co. Ltd
TransAlta Corp
Turquoise Hill Resources Ltd
Yanzhou Coal Mining Comp. Ltd

Coal companies are defined as companies that derive a large proportion of their revenues from coal-based operations, principally coal mining and coal-fired electricity generation.

Introduction

The consequences of climate change are severe, and there is broad scientific consensus that dramatic reductions in greenhouse gas emissions are required if the two-degree target is to be reached.¹ KLP wishes to assist in the transition to a low carbon society. In 2014,² KLP carried out an analysis of its investments in fossil fuel and evaluated the various tools KLP has at its disposal. On this basis, KLP's board of directors voted on 4 November 2014 to use the exclusion of coal companies to contribute to the realisation of the two-degree target.

The exclusion of coal companies will have little or no effect on the world's carbon emissions in the short term. That investors like KLP choose to exclude coal companies sends, however, an important signal about their future financing potential, and constitutes an incentive for companies to increase their revenues from sources other than coal. Energy is an important input factor for society, wealth creation, and development. Coal is the energy source with the highest level of carbon emissions per unit of energy produced, and also produces significant amounts of harmful local pollution. At the same time, coal is currently a low-cost form of energy, and is widely available to a large proportion of the world's population. KLP does not consider coal-based operations to be fundamentally unethical. It is also a completely lawful business activity. KLP has nevertheless decided to exclude coal companies from its investment portfolio because consumption of coal – at today's volumes – is not compatible with achievement of the two-degree target. Exclusion of coal companies as part of KLP's capital management strategy supports the IPCC's recommendations.

As at 31 October 2014, KLP had around NOK 386 million invested in the 27 identified coal companies.

Definition

In this analysis, coal companies are defined as companies that derive a high proportion of their revenues from coal, principally mining companies and power generators. KLP's board of directors has voted to exclude, at the very least, those that derive 50 per cent or more of their revenues from coal-based operations. In this first analysis, the threshold is set at companies that, in their last reported financial year, derived 50 per cent or more of their revenues from coal. In the future, companies for which coal represents a significant source of revenue, though less than 50 per cent, will also be at risk of exclusion.

Sources and data

The coal companies have been identified based on KLP's existing investments as of autumn 2014. This means that the list is not an exhaustive exposition of listed companies with coal-based operations. Moving forward, KLP will regularly review its investments to ensure that it does not invest in companies that fall within the scope of the definition.

KLP has used data from environmental data analysts Trucost to identify which companies derive 50 per cent or more of their revenues from coal-based operations. Trucost defines coal-based operations as mining, coal-based power generation and the manufacture of coal products. Trucost has gathered the data from the companies' own annual reports. Based on this information, the proportion of their

¹ IPCC (2014): "Fifth Assessment Report (AR5)". URL: <http://www.ipcc.ch/report/ar5/>

² KLP (2014): "Carbon Report: Investing in Fossil Fuels". November 2014. URL: <http://www.mynewsdesk.com/no/klp/documents/karbonutredning-investeringer-i-fossil-energi-40691>

revenues deriving from coal-based operations has been calculated. For the companies identified as deriving a large proportion of their revenues from coal-based operations KLP has also commissioned a further analysis from carbon footprinting specialists South Pole Carbon.

That revenue figures are reported by the companies themselves in their audited annual reports is important to ensure that they are excluded on the correct grounds. This is the advantage of selecting 'proportion of revenue' as the criterion for exclusion, rather than alternatives such as volume, emission levels or carbon intensity, for which there is greater variation in reporting around the world, as well as a lack of standardisation and non-disclosure by many companies. Use of one or more of these alternatives would therefore result in greater uncertainty with respect to the grounds for excluding companies. On the other hand, KLP will take these other parameters into account when assessing the exclusion of individual companies.

Identified companies

Based on the above-specified definition and the data collected, KLP has identified 27 companies that derive 50 per cent or more of their revenues from coal-based operations.

Here follows a brief description of the companies. The table indicates the proportion of each company's revenues deriving from coal-based operations. The table also shows the companies' carbon intensity (in tonnes of carbon equivalent emissions per USD million invested), KLP's investment in the company prior to exclusion, as well as the companies' weighting in MSCI's reference indexes (the index for developed markets and the index for emerging markets, respectively). Since KLP is a Norwegian partner of CDP, and we believe that companies' disclosure of greenhouse gas emissions and strategies is an important tool for reducing emissions, information is also included on the extent to which the companies have reported to CDP.

Company name	Share of revenue from coal	Carbon intensity ³ tCO2e/USDm	Latest reporting year	Amount invested (31.10.2014)	Index-weighted shares ⁴ (31.10.2014)		Country	Sector ⁵	CDP disclosure	
					DM	EM			Response	Openness
Coal India Ltd	100 %	3 005	2014	3 464 489	0.08 %		India	1010	No response	
Tambang Batubara Bukit Asam Tbk PT	100 %	630	2013	1 245 841	0.02 %		Indonesia	1010	No response	
Indo Tambangraya Megah Tbk PT	100 %	684	2013	1 054 108	0.02 %		Indonesia	1010	Refused to participate	
Shougang Fushan Resources Group Ltd	100 %	3 051	2013	0			China	1510	No response	
Banpu Public Comp. Ltd	100 %	3 439	2013	913 468	0.02 %		Thailand	1010	Responded	Confidential
Yanzhou Coal Mining Comp. Ltd	99 %	259	2013	2 043 267	0.04 %		China	1010	No response	
Inner Mongolia Yitai Coal Co. Ltd	99 %	3 027	2013	1 727 115	0.04 %		China	1010	No response	
Peabody Energy Corp.	99 %	1 272	2013	4 639 525		0.01 %	USA	1010	Refused to participate	
Exxaro Resources Ltd	98 %	950	2013	1 620 970	0.04 %		South Africa	1010	Responded	Public access
Reliance Power Ltd	97 %	9 602	2014	0	0.02 %		India	5510	No response	
China Resources Power Holdings Comp. Ltd	95 %	13 914	2013	6 203 099	0.14 %		China	5510	No response	
Adaro Energy Tbk PT	93 %	2 822	2013	1 634 889	0.03 %		Indonesia	1010	No response	
NTPC Ltd	91 %	16 274	2013	4 345 250	0.10 %		India	5510	No response	
China Coal Energy Comp. Ltd	90 %	2 898	2013	2 832 431	0.06 %		China	1010	Not asked	
Datang International Power Generation Comp. Ltd	84 %	14 803	2013	1 523 484	0.04 %		China	5510	No response	
China Shenhua Energy Comp.	68 %	7 164	2013	11 098 580	0.24 %		China	1010	Responded	Confidential
Power Assets Holdings Ltd	67 %	5 481	2013	93 051 961		0.04 %	Hong Kong	5510	Refused to participate	
American Electric Power Co. Inc	65 %	8 740	2013	112 657 655		0.09 %	USA	5510	Responded	Public access
CONSOL Energy Inc	65 %	2 915	2013	14 680 440		0.03 %	USA	1010	Responded	Public access
E-CL SA	61 %	7 743	2013	0	0.00 %		Chile	5510	No response	
Hokuriku Electric Power Comp.	60 %	4 420	2014	3 053 821		0.01 %	Japan	5510	Responded	Confidential
Ameren Corp.	58 %	6 215	2013	15 524 379		0.03 %	USA	5510	Responded	Public access
CLP Holdings Ltd	57 %	3 425	2013	91 913 213		0.05 %	Hong Kong	5510	Responded	Public access
Tata Power Co. Ltd	57 %	4 579	2014	2 045 002	0.04 %		India	5510	Responded	Public access
Turquoise Hill Resources Ltd	53 %	1 802	2013	3 675 048		0.01 %	Canada	1510	Responded	
TransAlta Corp	53 %	12 137	2013	3 639 205		0.01 %	Canada	5510	Responded	Public access
DMCI Holdings Inc	52 %	3 127	2013	1 839 180	0.04 %		Philippines	2010	No response	
Total				386 426 420	0.98 %	0.27 %				

³ Direct + 1st Tier Indirect, last carbon reporting year, tCO2e/USDm

⁴ In developed markets (DM) and emerging markets (EM), respectively.

⁵ Explanation of sector codes: 1010 = energy, 1510 = raw materials, 2010 = capital goods, 5510 = power plants

Coal India Ltd is a partly state-owned Indian company. It is the world's largest coal producer, and has operations in India and Mozambique.⁶

Tambang Batubara Bukit Asam Tbk PT is a state-controlled Indonesian company, and one of the largest coal mining companies in Indonesia.⁷

Indo Tambangraya Megah Tbk PT is an Indonesian coal company, whose operations include mining, processing and logistics.⁸

Shougang Fushan Resources Group Ltd is an integrated coal company with operations in China, largely related to mining and the sale of coke.⁹

Banpu Public Comp. Ltd is engaged in coal mining, coal-based energy production and other coal-related operations, both in Thailand and in other Asian markets.¹⁰

Yanzhou Coal Mining Comp. Ltd owns coal mines in China and Australia, and is also engaged in the transport of coal by rail and coal-based power generation.¹¹

Inner Mongolia Yitai Coal Co. Ltd is one of China's largest coal mining companies.¹²

Peabody Energy Corp. is the world's largest privately owned coal company. It has invested in mining operations in the USA and Australia, and markets, brokers, and trades in coal on several continents.¹³

Exxaro Resources Ltd has interests in several raw materials, including coal. It is South Africa's second largest coal producer.¹⁴

Reliance Power Ltd is an Indian power utility that uses a large proportion of coal as its energy source.¹⁵

China Resources Power Holdings Comp. Ltd is a power utility that invests, develops, owns and operates power plants in China. A large proportion are coal-based.¹⁶

Adaro Energy Tbk PT is an Indonesian energy company that focuses on coal and is engaged in coal mining.¹⁷

⁶ URL: <https://www.coalindia.in/en-us/company/aboutus.aspx> (21.11.2014)

⁷ URL: <http://www.indonesia-investments.com/doing-business/indonesian-companies/tambang-batubara-bukit-asam/item233> (21.11.2014)

⁸ URL: <http://www.itmg.co.id/en/page/about-us/business-overview> (21.11.2014)

⁹ URL: http://www.shougang-resources.com.hk/html/about_profile.html (21.11.2014)

¹⁰ URL: http://www.banpu.com/en_overview.php (21.11.2014)

¹¹ URL: http://www.yanzhoucoal.com.cn/en/profile/node_171.htm (21.11.2014)

¹² URL: <http://yitaicoal.com/NewsPage.aspx?id=1&sid=28> (21.11.2014)

¹³ URL: <http://www.peabodyenergy.com/content/113/Peabody-at-a-Glance> (21.11.2014)

¹⁴ URL: <http://www.exxaro.com/index.php/about-our-business/> (21.11.2014)

¹⁵ URL: http://www.reliancepower.co.in/about_us/company_profile.htm (21.11.2014)

¹⁶ URL: <http://www.cr-power.com/en/AboutUs/CorporateProfile/> (21.11.2014)

¹⁷ URL: <http://www.adaro.com/about-adaro/our-business-at-a-glance/> (21.11.2014)

NTPC Ltd is India's largest power utility, and is involved along the entire power generation value chain. A large proportion of its operations are coal-based.¹⁸

China Coal Energy Comp. Ltd is an energy conglomerate, which not only mines coal, but also supplies coal mining equipment and associated technical competence.¹⁹

Datang International Power Generation Comp. Ltd is a power utility that also has transport and coal operations.²⁰

China Shenhua Energy Comp. Ltd is a coal-based energy company. Its primary business is the production and sale of coal, the transport of coal products, as well as the generation and sale of electricity. The company owns the largest reserves of coal in China, and is the country's second largest coal supplier.²¹

Power Assets Holdings Ltd is a global investor in power generation and related operations.²²

American Electric Power is engaged primarily in the field of power generation, power transmission and operation of power plants in the USA. The company is also a transporter of coal.²³

CONSOL Energy Inc is a US producer of coal and natural gas.²⁴

E-CL SA is a Chilean power utility, whose primary energy sources are coal and gas.²⁵

Hokuriku Electric Power Company is engaged in the generation, transmission, and distribution of power in Japan.²⁶

Ameren Corp. is a holding company with several power utilities and energy companies in its portfolio.²⁷

CLP Holdings Ltd is the holding company of the CLP Group, which supplies electricity in Hong Kong. A large proportion of the electricity it supplies derives from coal.²⁸

Tata Power is India's largest integrated power utility.²⁹

Turquoise Hill Resources Ltd is a Canadian mining company, whose shareholdings include a coal mine in Mongolia.³⁰

¹⁸ URL: http://www.ntpc.co.in/index.php?option=com_content&view=article&id=42&Itemid=75&lang=en (21.11.2014)

¹⁹ URL: <http://www.chinacoalenergy.com/n43830/n43831/index.html> (21.11.2014)

²⁰ URL: <http://www.dtpower.com/2014/0429/65.shtml> (21.11.2014)

²¹ URL: http://www.shenhuachina.com/cs/sh_china_en/PAGE1382683238727/sh_china_en_ED.html (21.11.2014)

²² URL: http://www.powerassets.com/pahWeb/OurCompany/Index_en.htm (21.11.2014)

²³ URL: <http://www.aep.com/about/MajorBusinesses/> (21.11.2014)

²⁴ URL: <http://www.consolenergy.com/about-us/about-consol-energy.aspx> (21.11.2014)

²⁵ URL: http://www.e-cl.cl/prontus_ecl/site/edic/base/port/inicio.php (21.11.2014)

²⁶ URL: <http://www.rikuden.co.jp/annual/anre2014.pdf> (21.11.2014)

²⁷ URL: <http://www.reuters.com/finance/stocks/companyProfile?rpc=66&symbol=AEE> (21.11.2014)

²⁸ URL: <https://www.clpgroup.com/en/about-clp/company-profile> (21.11.2014)

²⁹ URL: <http://www.tatapower.com/> (21.11.2014)

³⁰ URL: http://www.turquoisehill.com/s/trq_at_a_glance.asp (21.11.2014)

TransAlta Corp is a Canadian electricity generator and seller.³¹

DMCI Holdings Inc is a Philippine conglomerate, engaged primarily in the construction industry. Other business areas include coal mining and power generation.³²

Impact on the KLP Funds

A key premise for the decision to pull KLP's pension assets out of coal is that no changes be made in the requirements relating to risk and return on investment.

The table below provides an overview of how the exclusion of these companies will affect the composition of the KLP Funds in relation to reference indexes. As can be seen from the columns for tracking error (TE before and after exclusion), the impact will be modest.

Fund	No. of shares excluded	% of the fund	Invested, mill. (31.10.2014)	TE before exclusion	TE after exclusion
KLP AksjeNorge Indeks	0	0.00 %	0	0.03 %	
KLP AksjeNorden Indeks	0	0.00 %	0	0.11 %	
KLP AksjeEuropa Indeks I	0	0.00 %	0	0.11 %	
KLP Aksje USA Indeks USD	4	0.28 %	15	0.05 %	0.06 %
KLP AksjeAsia Indeks I	3	0.77 %	7.2	0.10 %	0.13 %
KLP AksjeFremvoksende Markeder I	16	0.98 %	43.6	0.16 %	0.21 %
KLP AksjeGlobal Indeks I	9	0.26 %	56.8	0.03 %	0.04 %
KLP AksjeGlobal Lavbeta I	3	1.27 %	210	3.64 %	3.65 %
KLP Obligasjon Global I	4	0.15 %	31	n/a	n/a
Total			363.6		

In purely practical terms, exclusion will have no noticeable impact on the KLP Funds. It will, however, require a change in the way the divestment is handled in the funds' reference indexes. In order to prevent the exclusion of coal companies from resulting in reinvestment in companies deriving the *next largest proportion of their revenues from coal*, KLP will not re-weight the divestment in an industry-neutral way. The divestment of coal companies will result in all the remaining companies being re-weighted equally. This is also because the power sector (to which the largest number of excluded companies belong) produces considerably more carbon emissions than all the other sectors. Re-weighting in a new way will reduce KLP's and the KLP Funds' carbon footprint. See also disclosure of KLP's and the KLP Funds' carbon footprint at www.klp.no.

Decision

KLP and the KLP Funds exclude 27 coal companies from their investment portfolios with effect from 1 December 2014.

³¹ URL: <http://www.transalta.com/about-us> (21.11.2014)

³² URL: https://www.dmciholdings.com/our_company/page/profile (21.11.2014)