



*IR Seminar: Reporting Climate Change
Tuesday 14 December 2010*

Welcome



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Thanks to:

3i for hosting today's event.





*IR Seminar: Reporting Climate Change
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Chair:

Mike Mitchell, *General Manager, IR Society*

Speakers:

Bruce Duguid, *The Carbon Trust*

Paul Dickinson, *The Carbon Disclosure Project*

Ingrid Holmes, *Low Carbon Finance, E3G*

Meg Brown, *Citi Investment Research and Analytics*

David Russell, *USS*



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Bruce Duguid
The Carbon Trust



Climate Change and Investments

Bruce Duguid
Head of Investor Engagement, The Carbon
Trust

December 2010



Aims of this presentation

- Introduce the Carbon Trust
- Brief history of climate change
- Frameworks for climate change and investments
- Latest trends in climate change theme
 - International, National

The Carbon Trust's mission is to accelerate the move to a low carbon economy



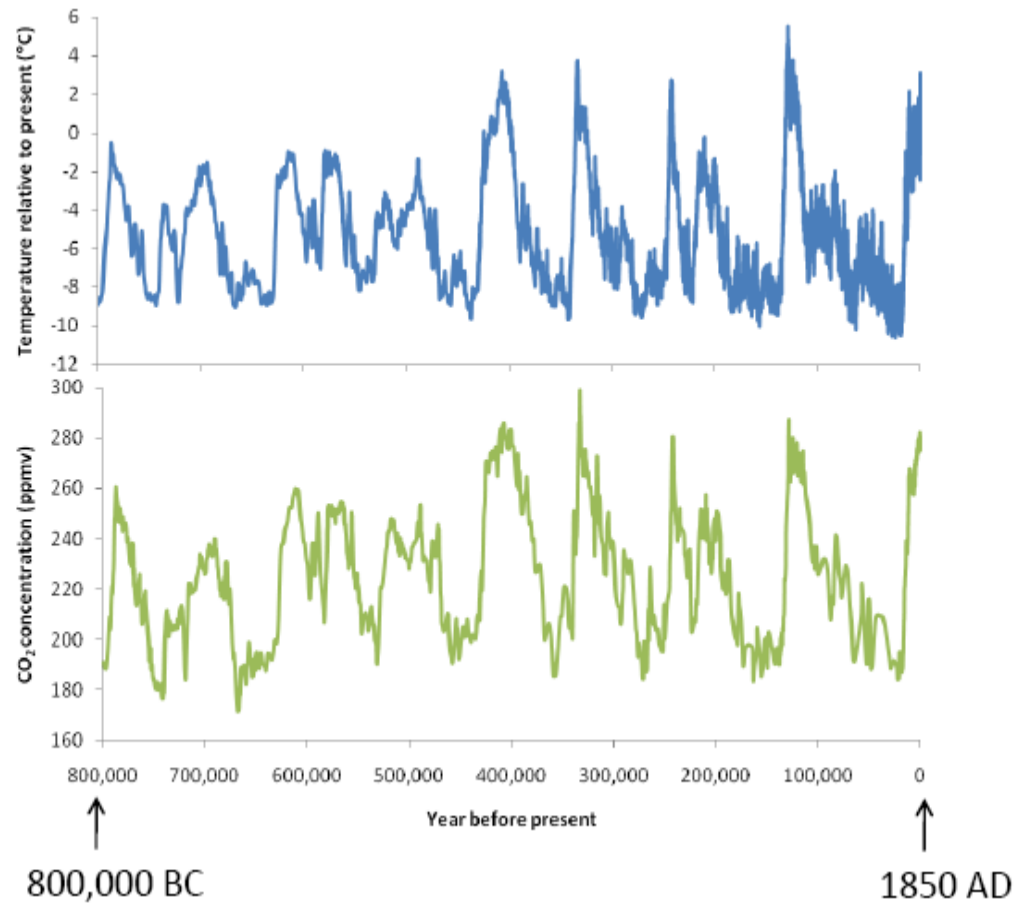
Cutting carbon emissions now

- By providing business and the public sector with expert advice, finance and accreditation
 - Supported 30,000 customers incl (75% of FTSE 100) saving ~2MtCO₂ and £1m per day in energy costs
 - ~£70m in interest-free Energy Efficiency loans in '09/10
- Setting standards for carbon reduction

Cutting future carbon emissions

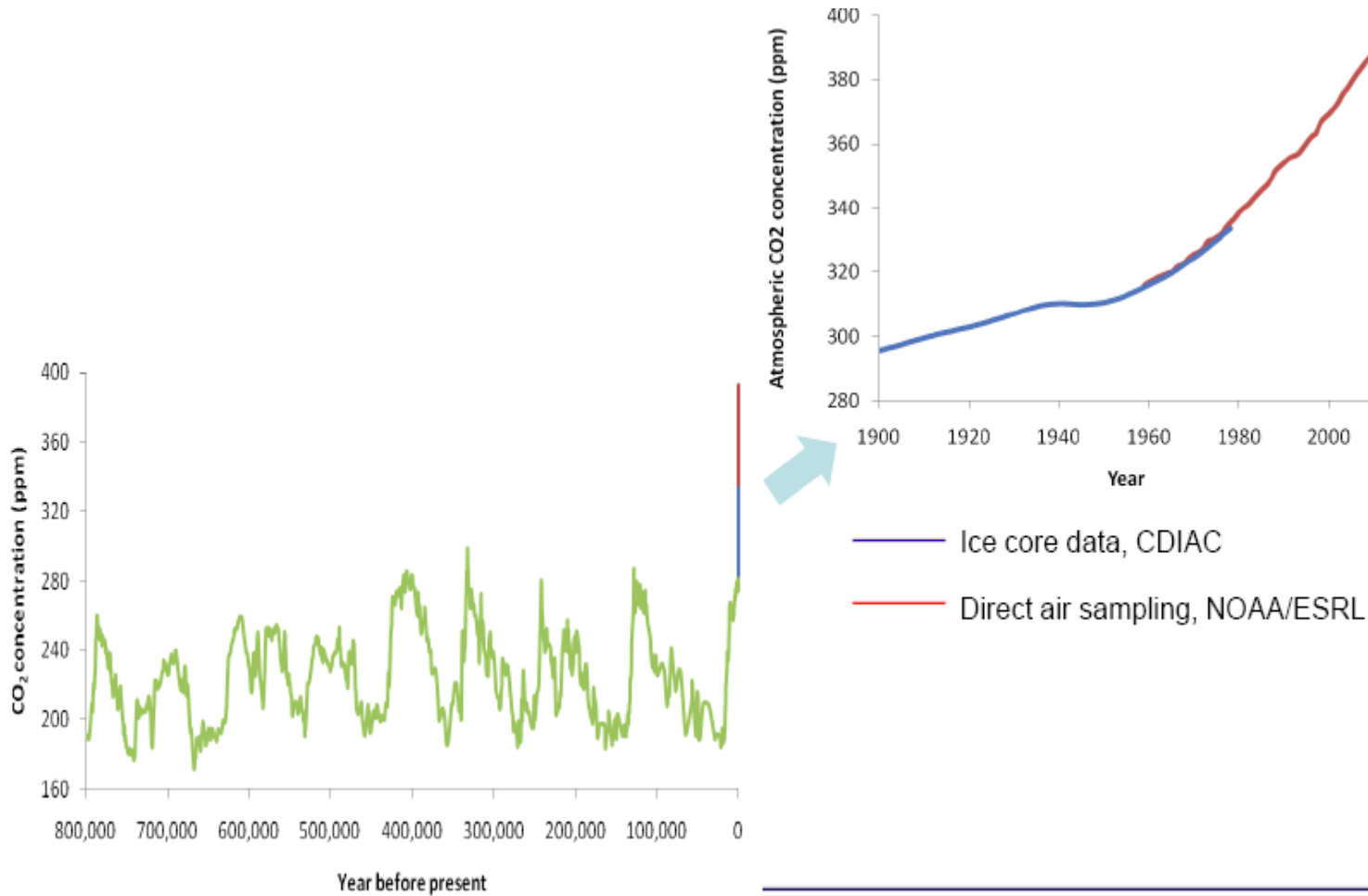
- Opening markets for low carbon technologies
 - Incubated ~20 companies raising ~£20 million private investment
- Leading industry collaborations to commercialise technologies
 - E.g. manage £50m offshore wind accelerator to cut industry costs of 10% over 5 years
- Investing in early stage low carbon companies
 - Invested in 17 low carbon technology companies via venture capital

Temperature and Carbon Dioxide levels are closely linked



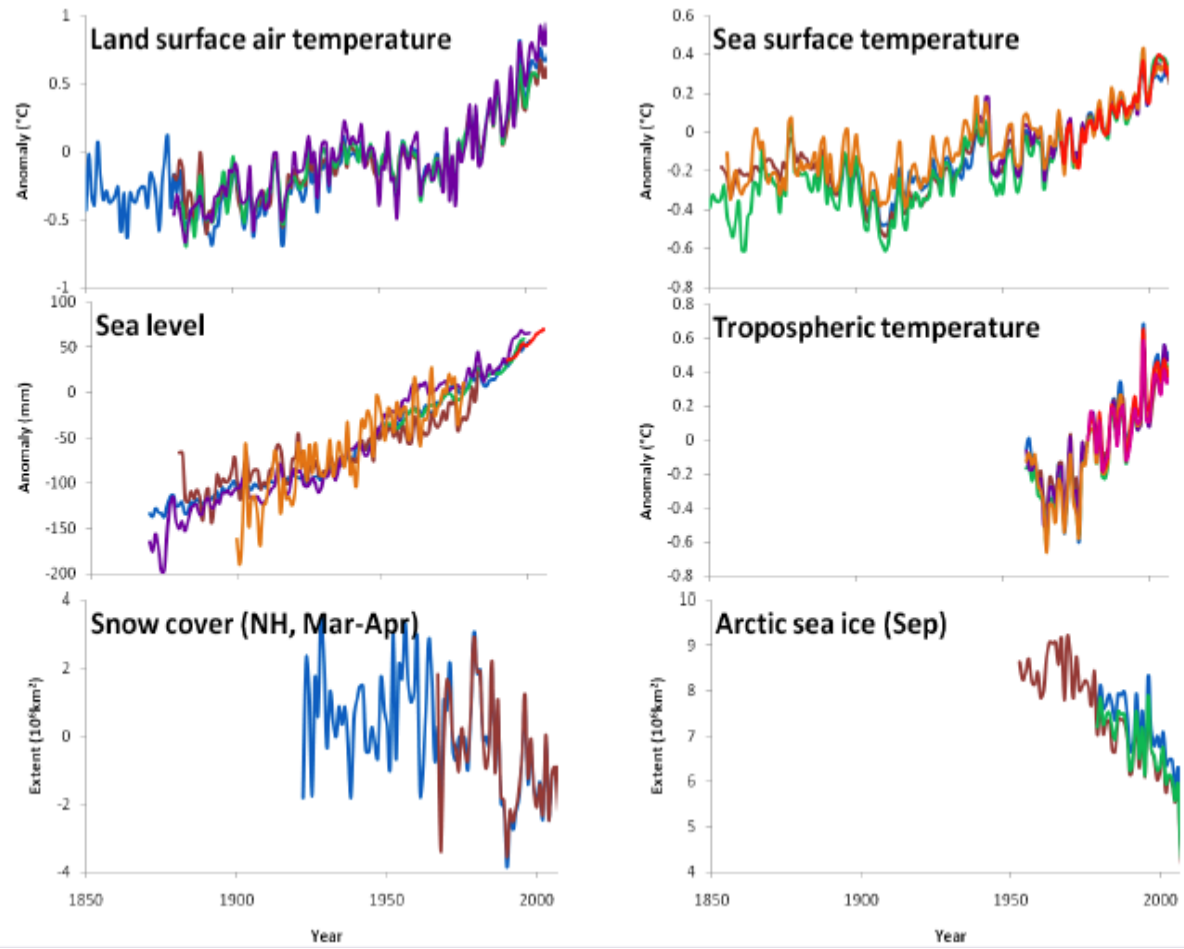
Source: Committee on Climate Change

Carbon Dioxide levels are now significantly beyond natural levels



Source: Committee on Climate Change

All the indicators suggest rising temperatures since industrial age...



ARNDT ET AL.
(2010) STATE OF
THE CLIMATE IN
2009

Source: Committee on Climate Change

Temperature is estimated to increase in range 1.1-6.4C by 2100



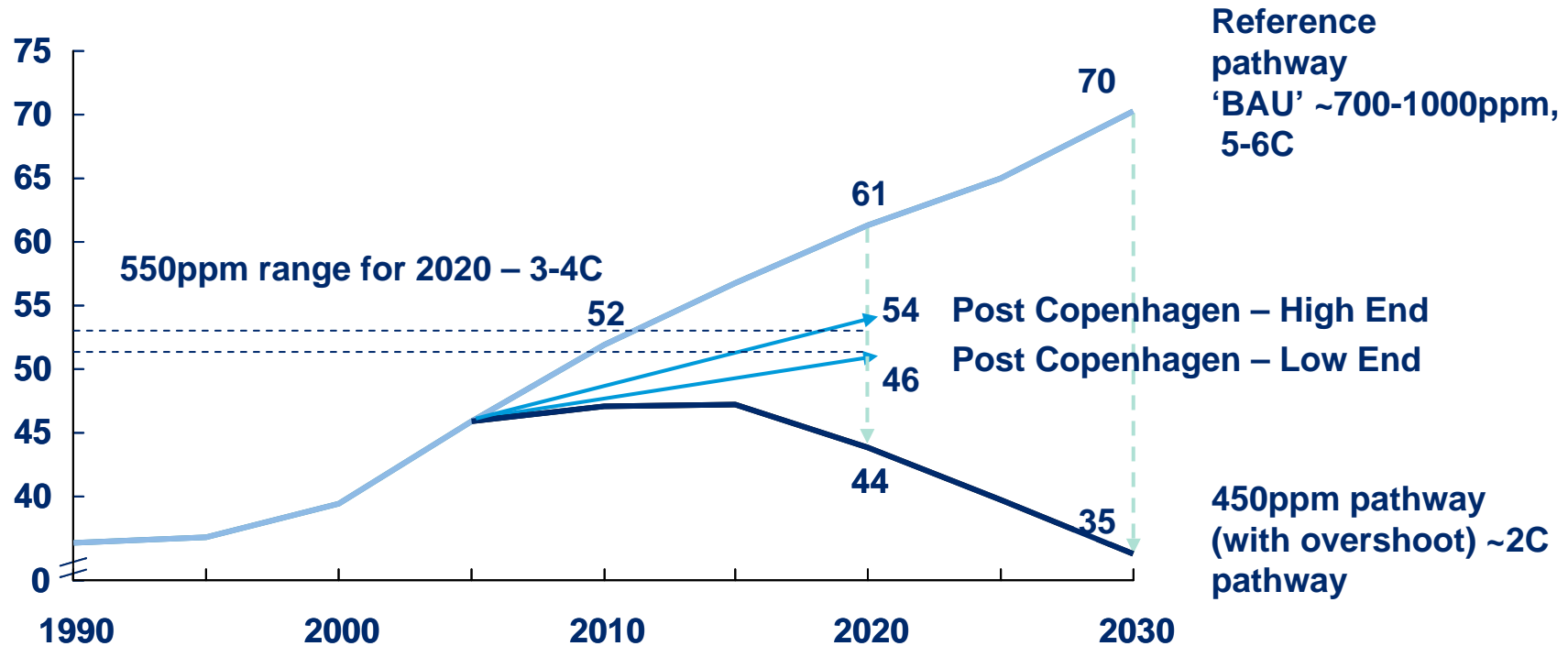
Scale and timing of impacts is uncertain

Note: Not to scale
 Source: Intergovernmental Panel on Climate Change, *Third Assessment, Stern Report, analysis and approximations of median point by Bruce Duguid*

Copenhagen Accord/ Cancun has bridged around half the gap – 3-4C world?

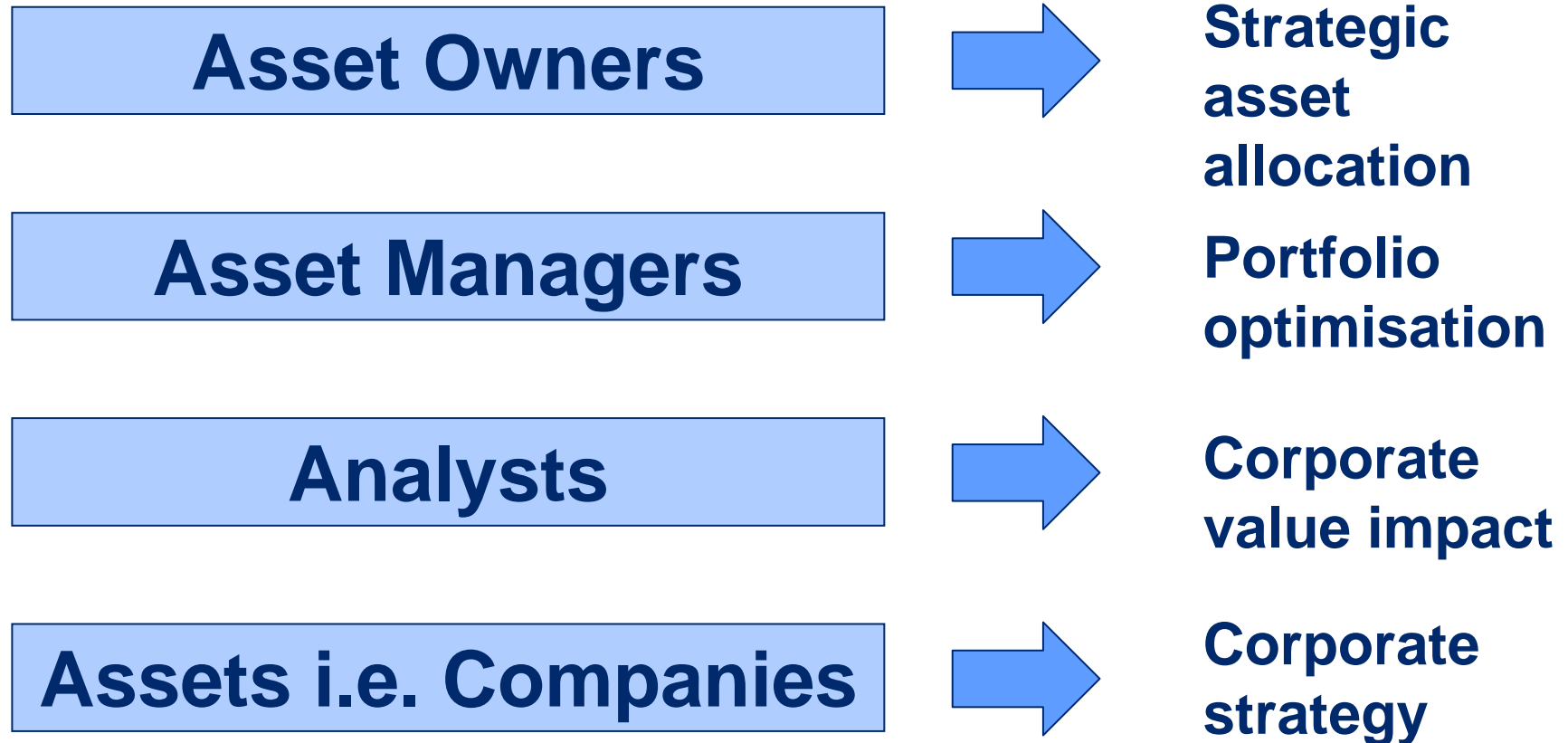


Global GHG emissions, Gt CO₂e per year



Source: McKinsey Global GHG Abatement Cost Curve v2.0; Houghton; IEA; US EPA; den Elzen, van Vuuren; CAI; C-ROADS Output Project Catalyst analysis

What does climate change mean for investors?



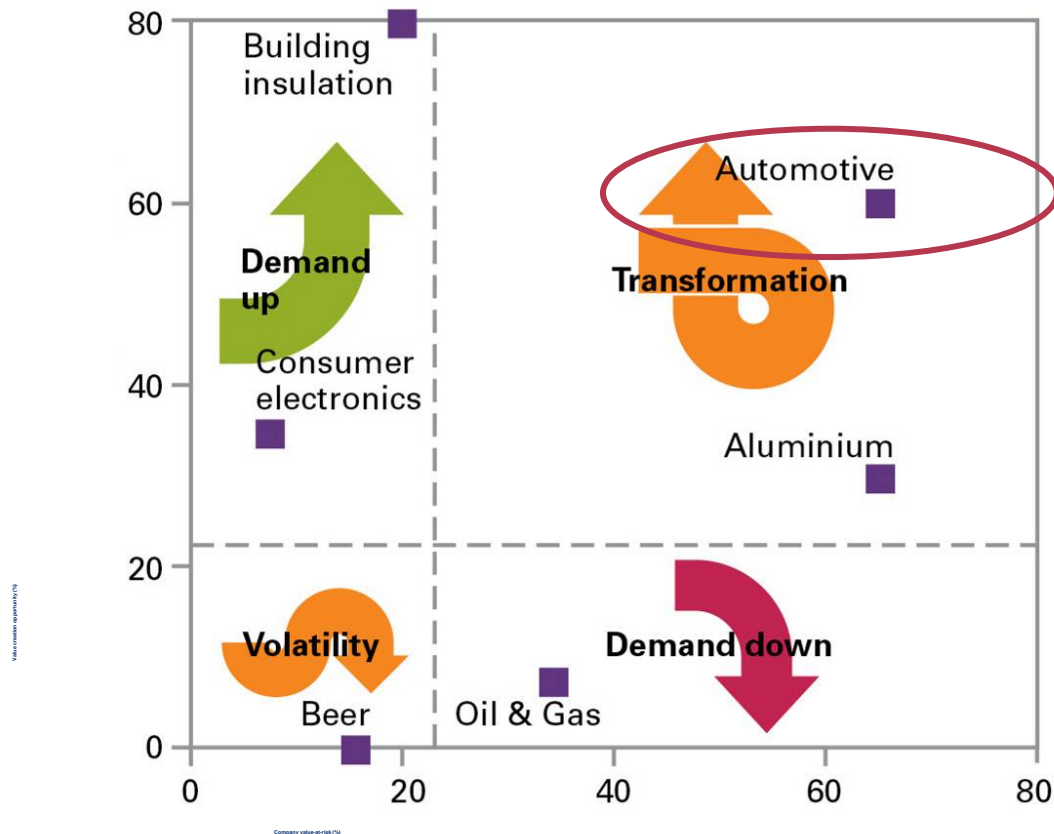
Implications for Strategic Asset Allocation are emerging



- Mercer-led project, sponsored by Carbon Trust and IFC, + 14 leading asset, tasked with identifying implications for strategic asset allocation

- Emerging findings (to be published early 2010)
 - Current tools of strategic asset allocation do not work to anticipate impact of climate change
 - Future tools require use of factor analysis – key drivers are future policy and technology
 - Climate change materially increases the risk in a typical portfolio
 - To manage down increased risk, without reducing reward, need to move into emerging low C asset classes e.g. 'green' infrastructure, renewable equities

Implications for asset managers/ analysts: Climate change will cause a Business Revolution



Source: Carbon Trust and McKinsey & Co. analysis

News flow suggests tackling climate change is already affecting the global auto market



Chery Volt launch photo© Ford 2009

General Motors remains committed to the Chevrolet Volt and says bankruptcy will not stop the range-extended electric vehicle from rolling off an assembly line next year
Wired, 1st June 2009



Collaps of Hummer, Feb 2010

A deal by GM to sell Hummer to China based Sichuan Tengzhong Heavy Industrial Machinery has been cancelled after months of negotiations. As a result, the Hummer brand will be wound down completely.



Launch of Prius plug-in hybrid, Jan 2010

“Toyota has finally bowed to pressure and announced a plug-in version of the Prius” Daily Telegraph, 5 Jan 2010



Toyota recalls 437,000 Prius hybrids, Feb 2010

Toyota’s president today announced plans for a global recall of more than 430,000 of its flagship Prius hybrid cars Times, 9 February 2010



© AP

“The German carmaker’s decision to join forces with Renault and Nissan was driven largely by Europe’s tightening of regulation on carbon dioxide, which is forcing premium carmakers to expand into small cars”. Financial Times, 7 April 2010

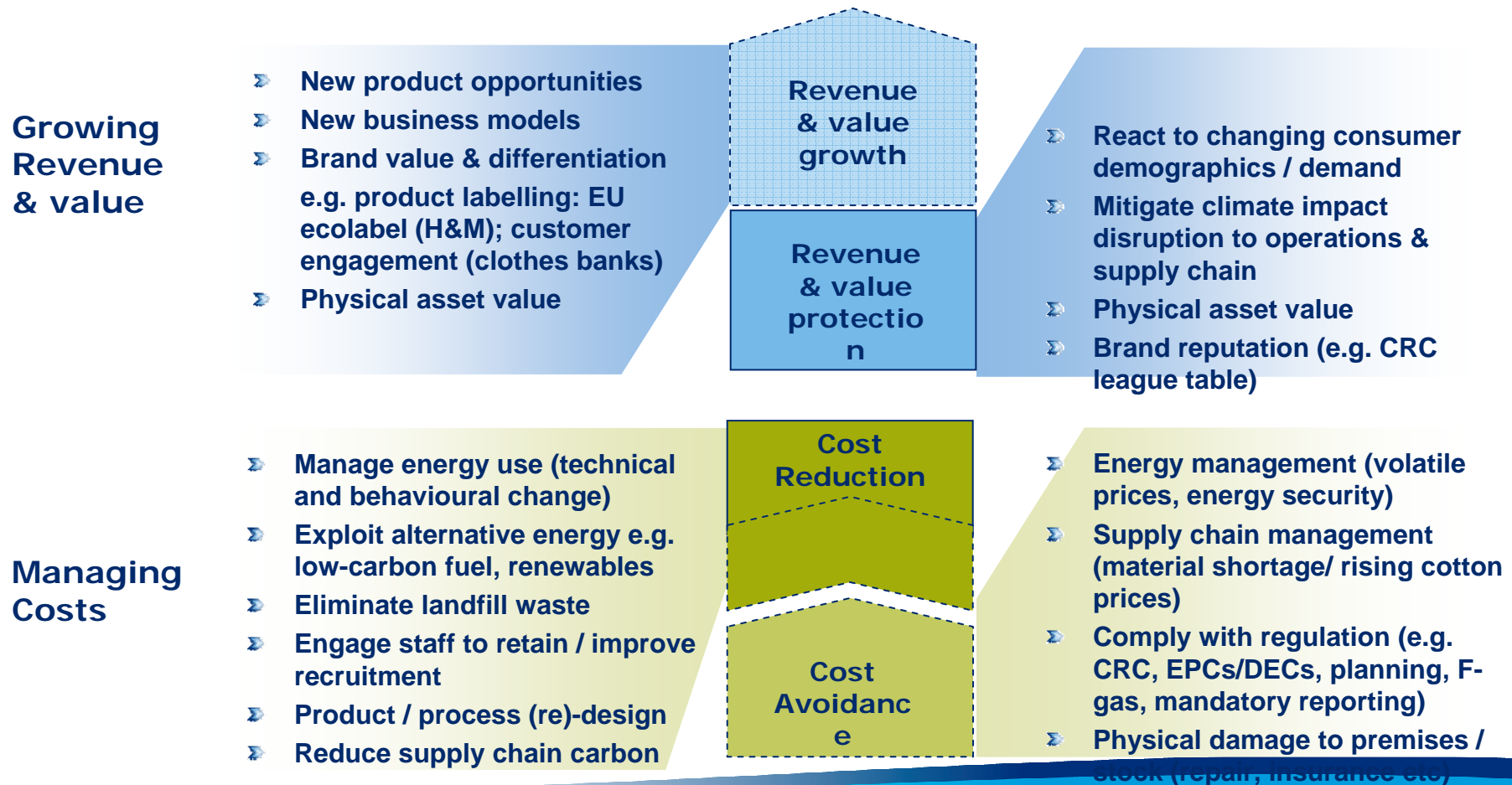


Nissan Leaf to be built in Sunderland March 2010

Nissan, Japan's third-biggest carmaker, said the Leaf would be the world's first mass-produced zero-emission car. About 50,000 will be made in Sunderland each year, as well as 60,000 batteries, creating more than 550 jobs. Guardian, 18 March 2010

Source: Carbon Trust research

A step-wise approach is used to identify corporate impact



Trends in climate change and investment



International

- **Global financial crisis/ recession**
- **“Climate-gate”**
- **Copenhagen/ Cancun**

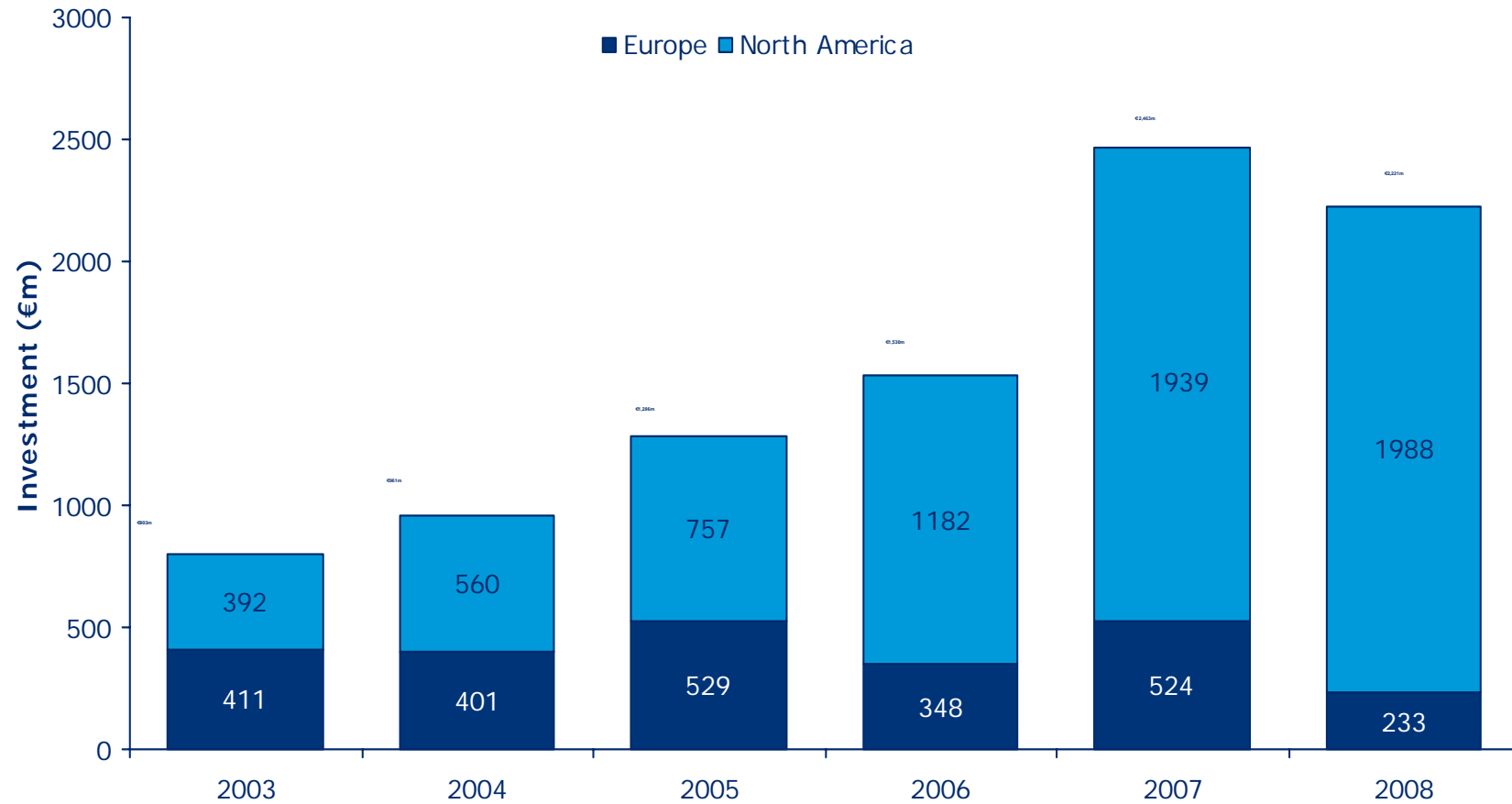
National/ Regional

- **Coalition agreement – “the greenest gov’t ever”**
- **Green Deal**
- **Green Investment Bank**
- **Electricity Market Reform**
- **EU 30%?**
- **CCC 4th budget – 90% decarbonised grid by 2030**

Clean energy investments fell in 2008



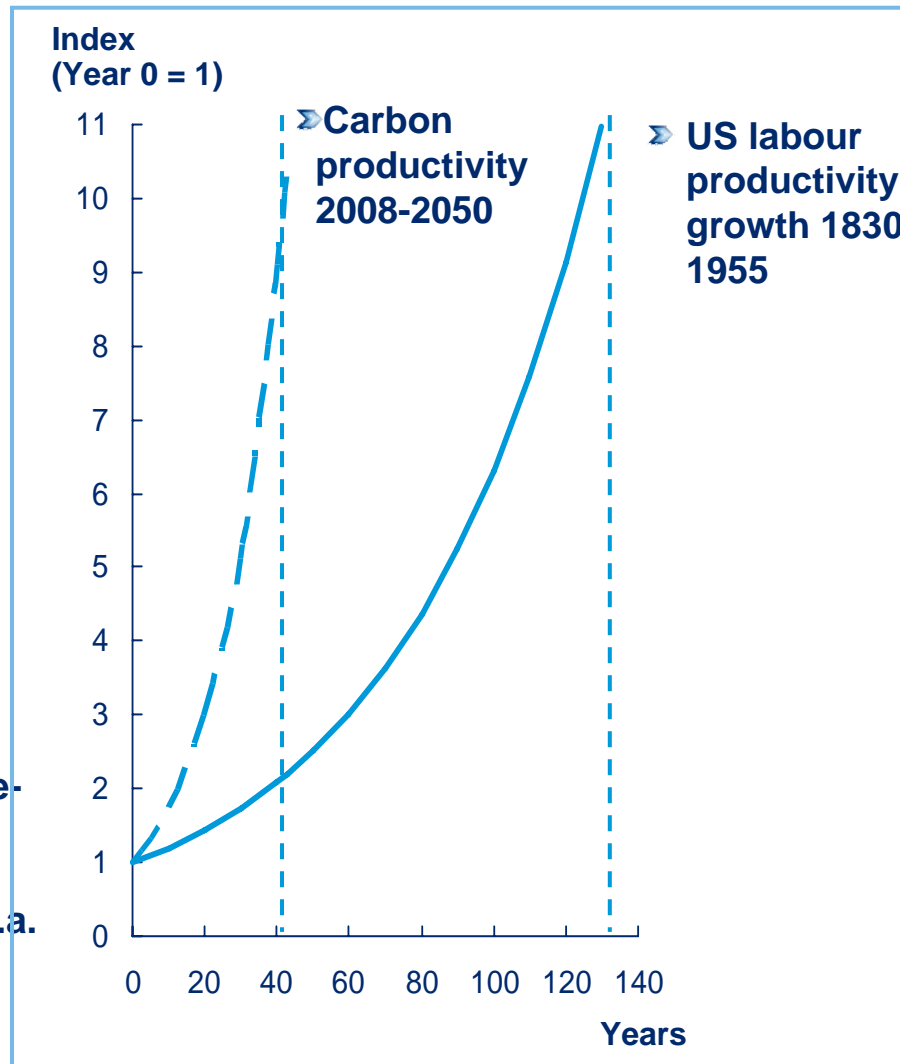
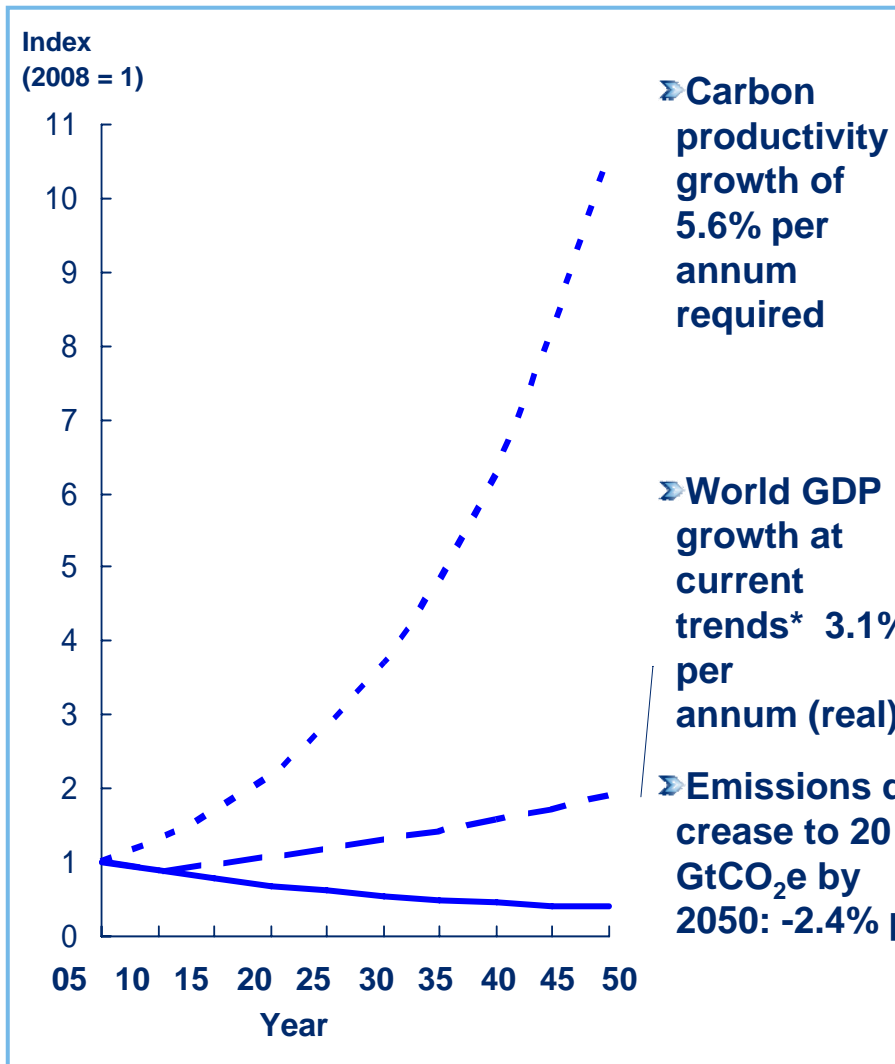
Clean Energy investment in North America and Europe 2003 to 2008



Source: New Energy Finance, Carbon Trust analysis

Source: New Energy Finance

Tackling CC only costs ~1% GDP, but requires change 3x industrial revolution



*Global Insight GDP forecast to 2037, extrapolated to 2050
 Source:McKinsey analysis, Contours of the World Economy 1–2030 A.D., Maddison, 2007



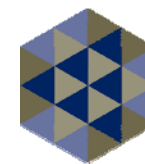
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Paul Dickinson
**The Carbon Disclosure
Project**



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Ingrid Holmes
Low Carbon Finance,
E3G

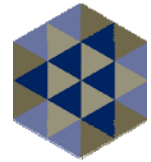


E3G

UK Green Investment Bank

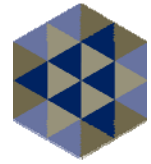
Ingrid Holmes, E3G

December 2010



- Financing the Low Carbon Transition
- Case for a Green Investment Bank
- Government discussion

The Challenge of Low Carbon Transition



E3G

- Need to shift investment focus on a huge scale
- Rapid redeployment needed to hit targets
- High levels of technology and political risk plus price volatility
- Much investment needed in new markets and business models e.g. energy efficiency; forests; smart and super grids
- Market and technology often both at early stage so unattractive investment area for private capital

Response from many private investors is to not to invest

Government support needed to accelerate market maturity



- Historic approach of ramping up rewards has not delivered scale or speed of deployment needed
- Many low carbon projects carry high operating and technology risk
- Carbon targets means accelerate deployment is required
 - More public/private risk sharing needed to support this
- As new business models and technologies are established, commercial banks take over majority funding
- GIB should be a flexible and nimble platform for deploying risk sharing tools to accelerate investment in the right portfolio of projects to deliver Government's strategic goals

Three Phases for Low Carbon Finance?



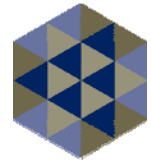
Financial Recovery
→ 2014?

Scaling-Up
→ 2018?

Mainstreaming
→ 2025?

Different issues at each stage

Contents



E3G

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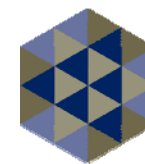
Green Investment Bank: E3G view



Four main areas of focus:

- Risk - provider of risk-sharing financial products to assist with ‘Valley of Death’
- Scale – backstop in the event of investment hiatus (E&Y indicates a £370bn funding gap to 2025 for energy alone)
- Aggregation – focus on smaller fragmented projects
- Critical friend - to Government with respect to policy design

Why a Bank not Ad Hoc Mechanisms?



E3G

- Low Carbon Transition will require 20-30 year intervention to drive new investment and innovation
- Some uncertainties we understand, others we don't – challenging timelines means a proactive approach is needed
- Fund/quangos without the ability to borrow won't deliver the scale needed
 - £800m International Environmental Transformation Fund, the £500m Ofgem Low Carbon Network Fund and the £400m Environmental Transformation Fund ...

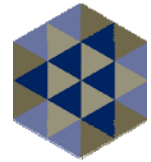
Infrastructure Investment (Billions £s)



E3G

	2010-2015	2016-2020	2021-2025	Total
Energy efficiency	115	115	115	345
Power generation	28.3	49.8	28.3	106.4
Power networks	26.5	24	13.9	64.4
Heat	13	39.8	0	52.8
Waste	15	15	0	30
Transport	52.5	33.5	17	103
RD&D	12.5	12.5	12.5	37.5
International	3	5	0	8
Total	265.8	294.6	186.7	747.1

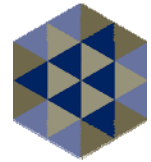
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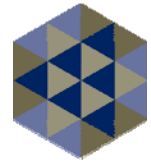
The big questions



E3G

- Business model design complete May 2011; launch December 2011
- Main questions are on:
 - Capitalisation (including bond issuance)
 - On/off balance sheet treatment and nature of any guarantees
 - Governance structure (and legislation)
 - Remit
- Remit yet to be determined:
 - Current focus on large-scale infrastructure, with offshore wind, industrial heating, industrial energy efficiency, 'a large transport projects, waste treatment under consideration
 - Smaller projects and R&D support not under consideration currently

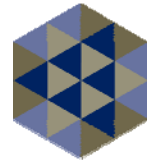
Product list



E3G

- Government want to understand where the market failures and investment barriers lie
- BIS/HMT are developing own financial models and will 'market test' products with the financial community during the next 6 weeks
- Products under consideration include:
 - First loss equity
 - Mezzanine debt
 - Guarantees
 - Insurance
- Also under consideration is whether liquidity needs to be provided (debt or equity)

Next steps



E3G

- Strong support for a strong, scaled and independent bank in the Cabinet including the PM and DPM
 - Seen as an integral part of the growth agenda
- BUT very senior opposition inside HMT for a fully independent GIB
 - Primary aim is to reduce the deficit
 - The 'Treasury View' still persists
 - Manifest as preference for a quango funded by Government



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Meg Brown
Citi Investment
Research & Analytics

What are investors looking for from companies on the topic of Climate Change?

Meg Brown

Climate and Sustainability Analyst

Citi Investment Research and Analysis

Meg.Brown@citi.com

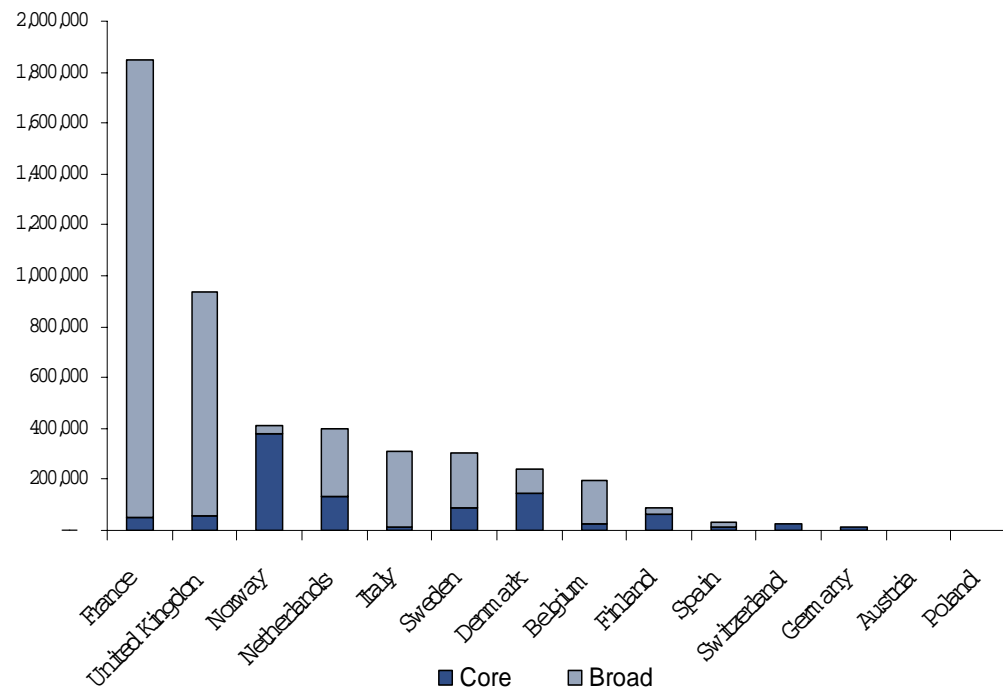
+44 207 986 9852



1. Update on the market

SRI market has two types of product

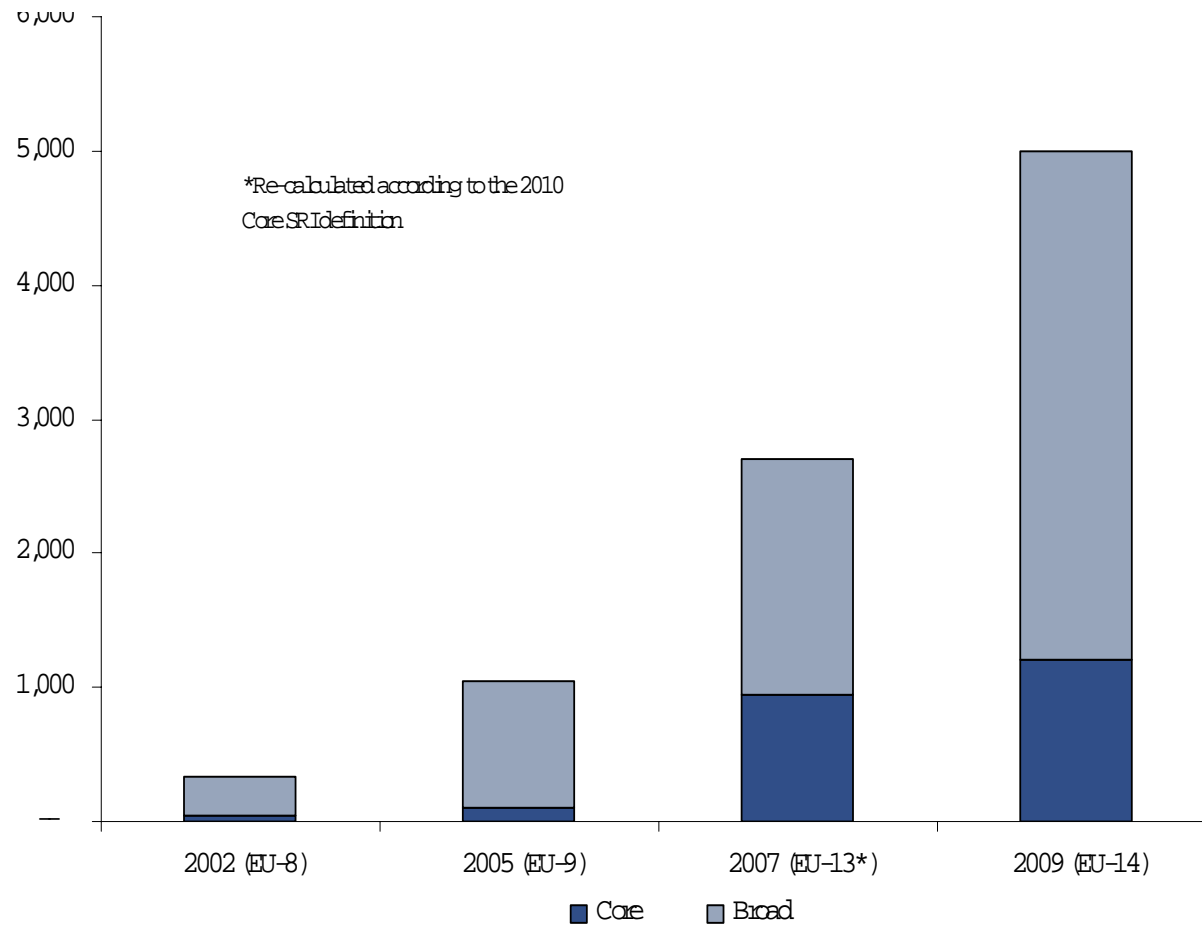
- The SRI market in Europe has two types of products
 - Specialist funds (thematic sustainability opportunities, best in class, exclusion criteria)
 - Engagement overlays (risk assessment, stewardship functions, green or social activism)
- Some use the SRI analysis for the benefit of their wider holdings, some keep it exclusively for use by the SRI team
- EUROSIF estimates that the EU SRI market has now reached €5tr



(source: Eurosif European SRI Study

The financial crisis has supported SRI market growth

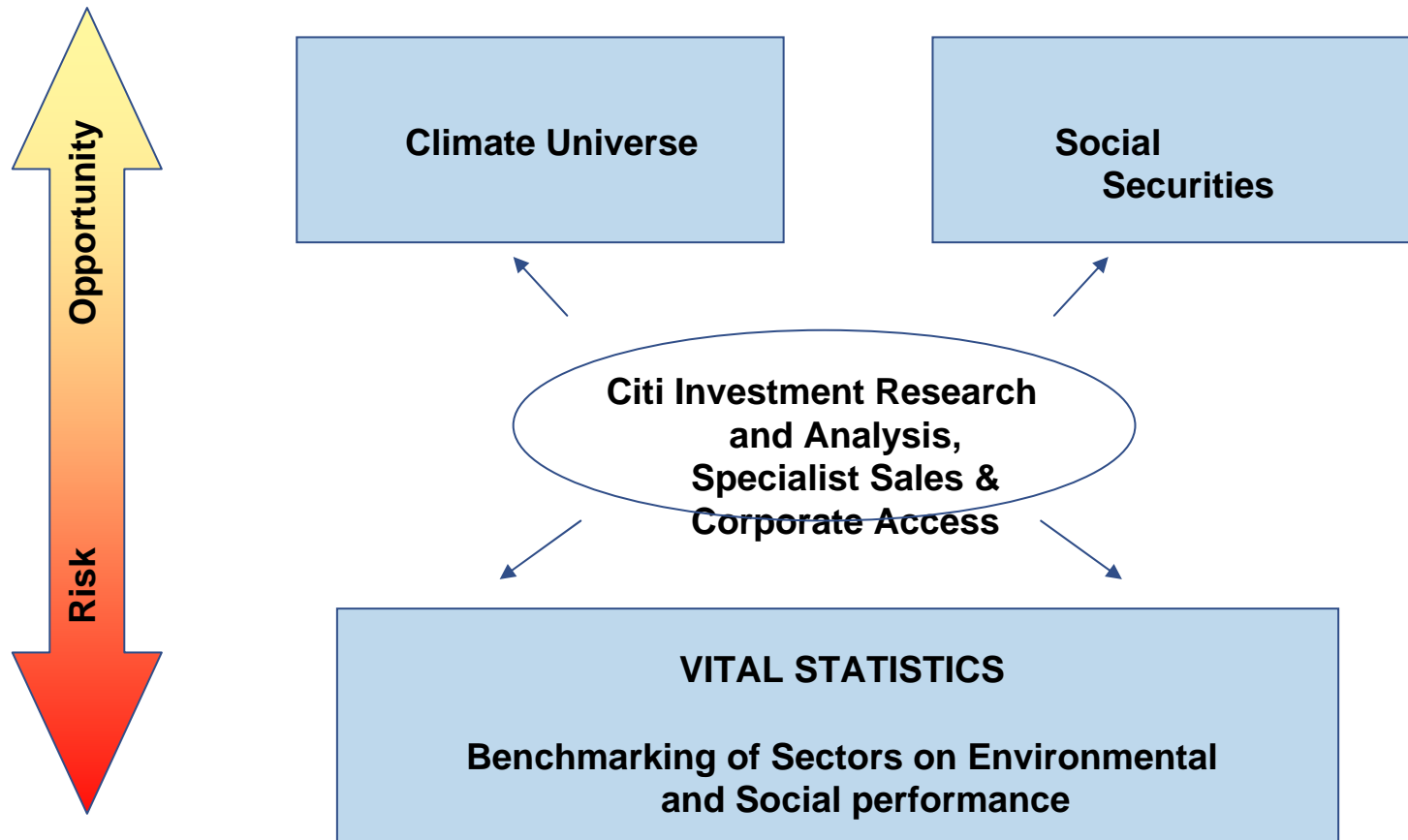
- 800 asset managers have signed the UN's Principles for Responsible Investment
- UK Stewardship Code seeks to end "silent shareholder" approach
- Sustainable development is a key aspect of economic recovery, globally



(source: Eurosif European SRI Study

2. Citi's approach to SRI analysis

Citi's SRI product



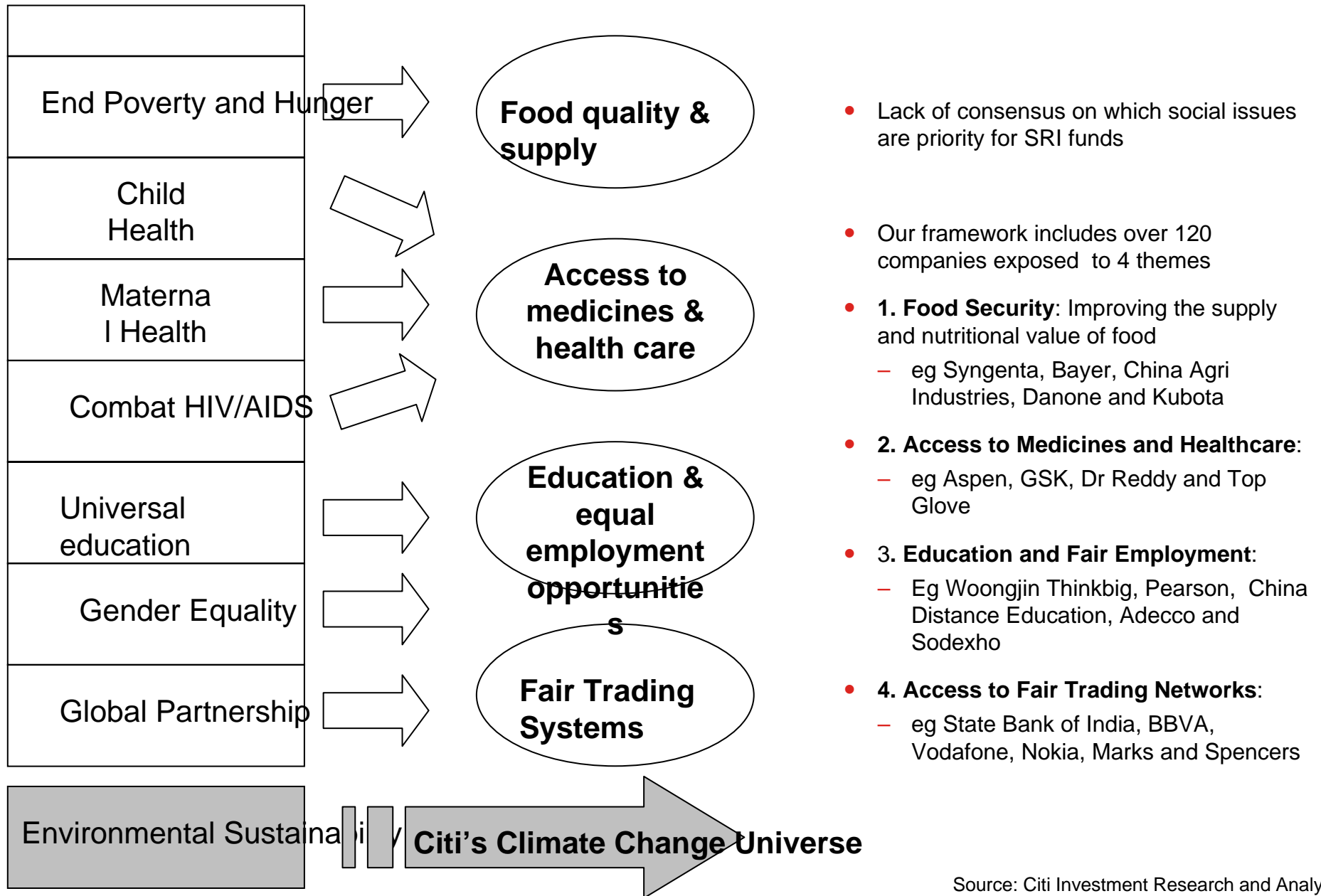
Climate Change Universe

- Over 150 companies exposed to 4 climate change investment themes
- **1. Lower Carbon Electricity** : eg Fortum, Dongfang Electric, EDP Renovaveis, SolarWorld
- **2. Gas Power and Heating**: eg BG group, Xinao Gas, Centrica, PAA Natural Gas Storage
- **3. Lower Carbon Transport**: China South Locomotive, Central Japan Railway, FirstGroup, Fiat, Johnson Matthey, Halfords
- **4. Energy and Resource Efficiency**: eg Saint Gobain, GEA Group, Siemens, Veolia

- Specialist sales service for thematic investors helping clients optimise returns from within the universe

- **Thematic research on new technologies and emerging policy:**
 - Biomass...the 10 questions
 - Carbon Capture and Storage: There's life in the old fields yet!
 - All hail the electric car.....but where will be plug them in?
 - Tar Sands: Is CO2 and investor issue?
 - EU carbon pricing and company liabilities
 - Global Climate Policy Update: Two steps forward, one step back

Social Securities Universe

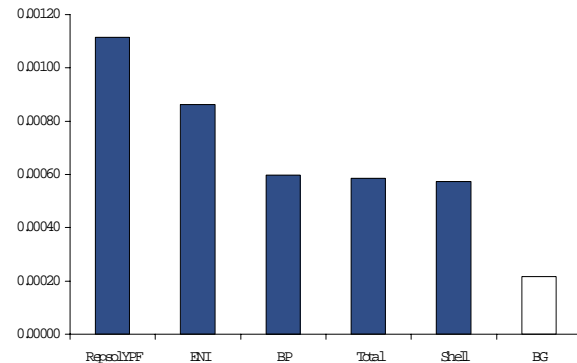


Vital Statistics for Sustainable Investment

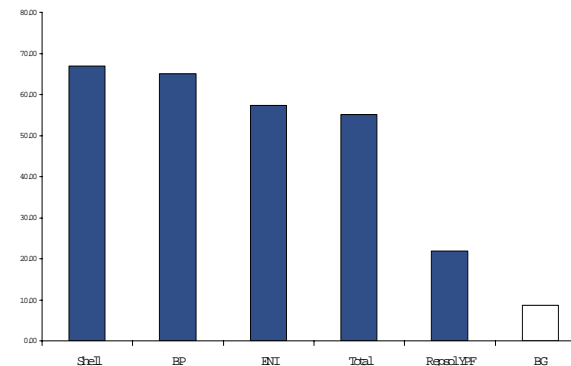
- Benchmark of EU coverage universe on key social and environmental metrics
- Company trends where information is available
- Format designed to assist use of metrics by sector specialists and engagement clients
- So far completed: metals and mining, oil and gas, utilities and chemicals
- Metrics chosen for relevance to the sector and to reflect available information
- No published data = no benefit of the doubt

Climate change metrics – emissions, liabilities and products (energy)

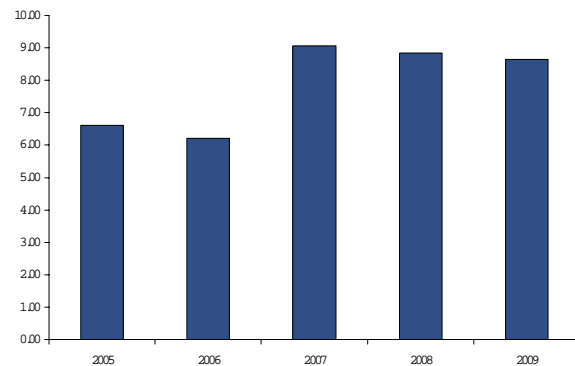
GHG emissions across industry (2009)



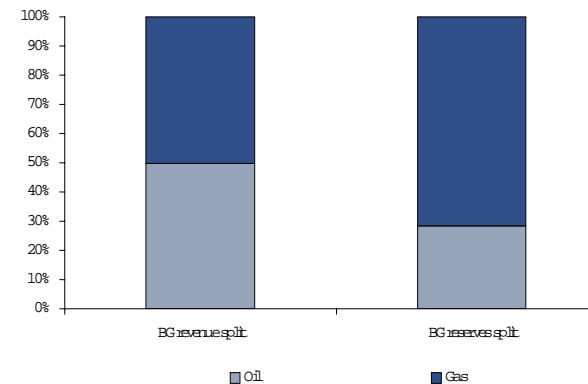
GHG (mtCO2e) by market cap (€m) across industry (2009)



BG Direct GHG emissions (mtCO2e)



BG Revenue and reserves split (2009)

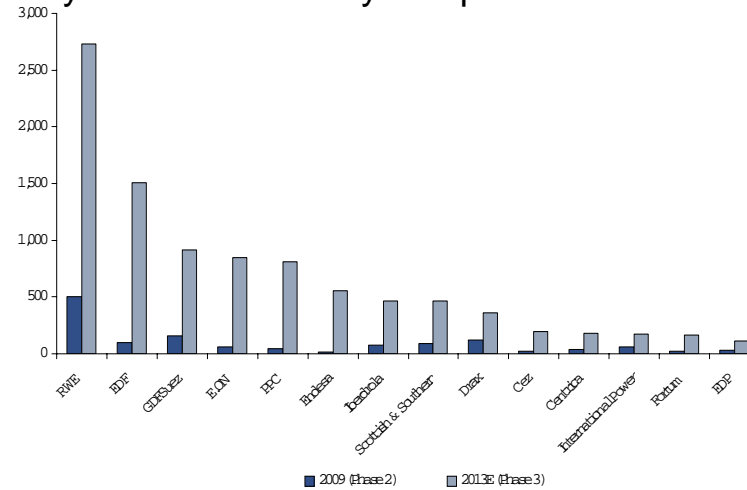
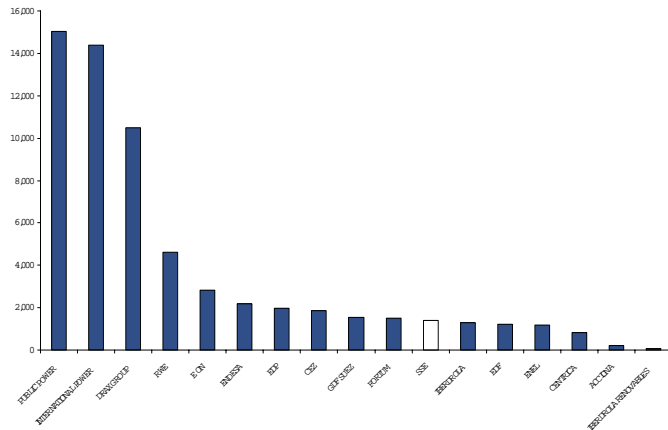


Emissions Liability	2008	2009
Global CO2 emissions (mtCO2)	7.8	7.6
Hypothetical carbon liability (assuming €20/tCO2e) (€m)	157	152
Hypothetical carbon liability as % EBIT	2.4	3.5

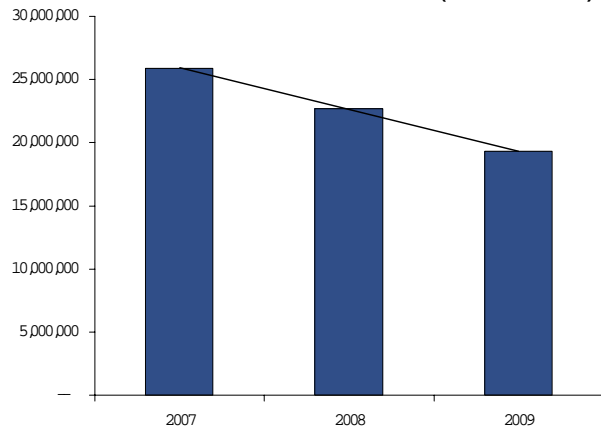
Source: Company reports and Citi Investment Research and Analysis

Climate change metrics – emissions, liabilities and products (utilities)

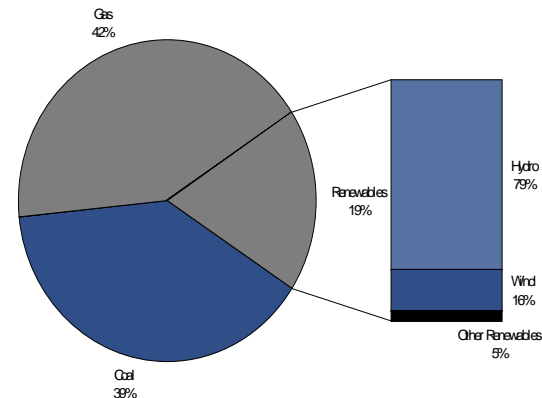
GHG (mtCO₂e) by market cap (€m) industry (2009) Industry emissions liability comparison 2009 to 2013 (€m)



SSE Direct GHG emissions (mtCO₂e)



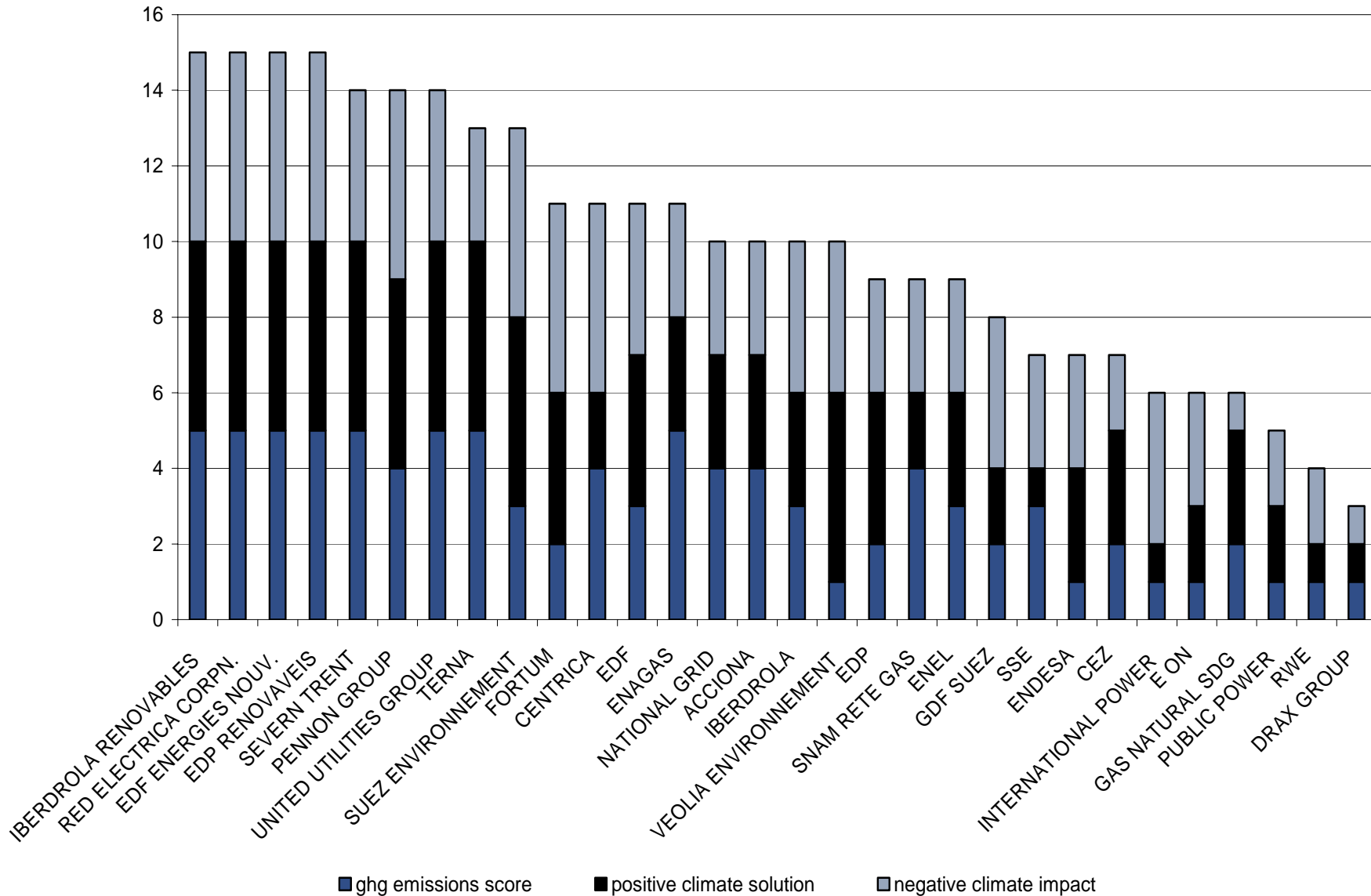
SSE generation capacity split (2009)



EU ETS emissions (mtCO ₂)		free allocation (mtCO ₂)		% free allocation	uncovered emissions (mtCO ₂)		offset allowance (mtCO ₂)		Value of emissions liability (€m)	
2009 mt/CO ₂	2013E mt/CO ₂	2009	2013E	2009	2009	2013E	2009	2013E	2009	2013E
23	25	15	0	66%	8	25	2	2	92	462

Climate Change Metrics – Preparedness for a low carbon economy

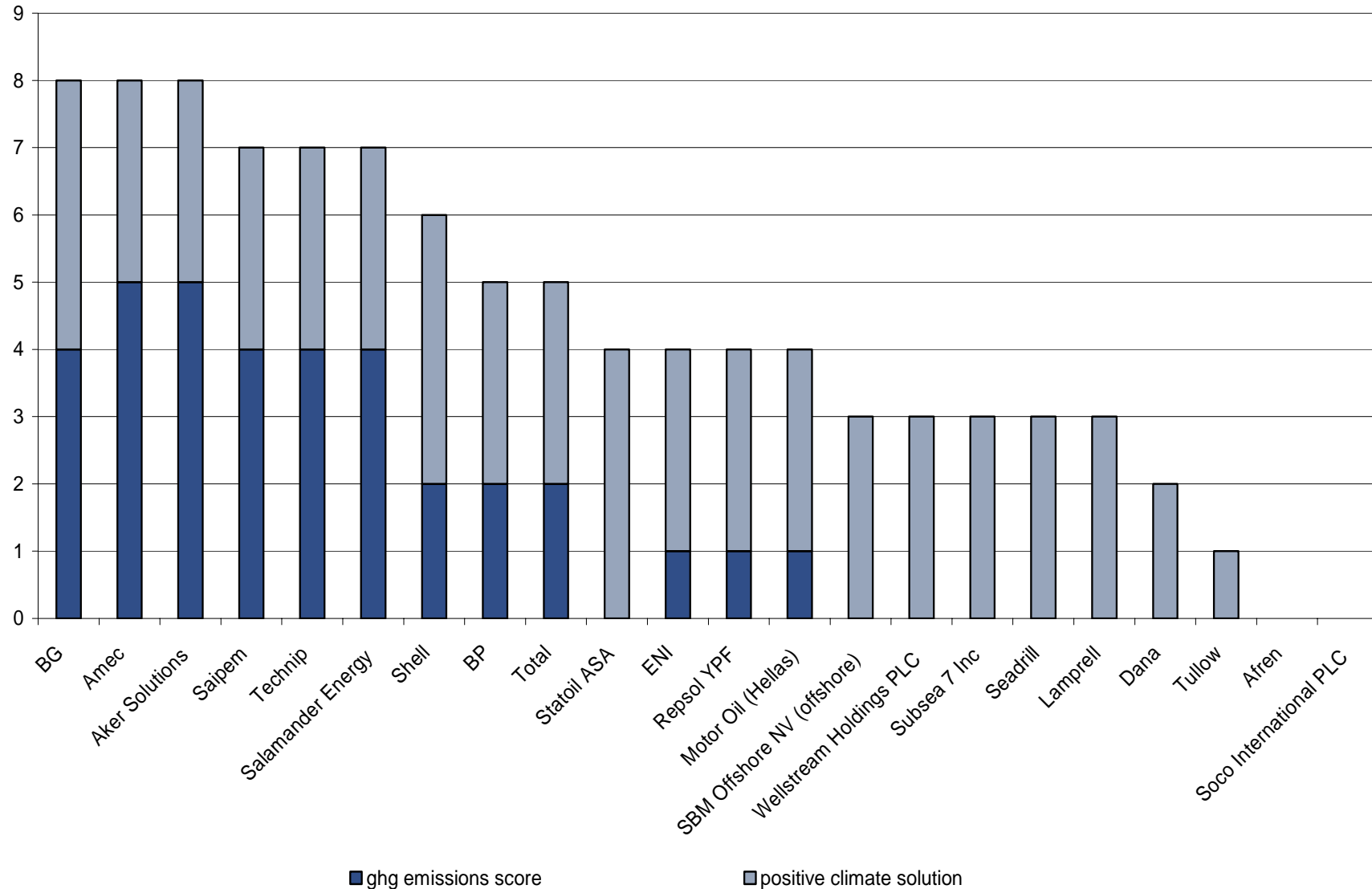
Climate Change Score for Utility Companies (high score means well prepared for low carbon economy)



Source: Citi Investment Research and Analysis

Climate Change Metrics – Preparedness for a low carbon economy

Climate Change Score for Oil and Gas Companies (high score means well prepared for low carbon economy)



Source: Citi Investment Research and Analysis

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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Data current as of 30 Sep 2010

	Buy	Hold	Sell
Citi Investment Research & Analysis Global Fundamental Coverage	53%	36%	11%
<i>% of companies in each rating category that are investment banking clients</i>	48%	45%	39%

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CIRA's stock recommendations include a risk rating and an investment rating.

Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).

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To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

For securities in emerging markets (Asia Pacific, Emerging Europe/Middle East/Africa, and Latin America), investment ratings are: Buy (1) (expected total return of 15% or more for Low-Risk stocks, 20% or more for Medium-Risk stocks, 30% or more for High-Risk stocks, and 40% or more for Speculative stocks); Hold (2) (5%-15% for Low-Risk stocks, 10%-20% for Medium-Risk stocks, 15%-30% for High-Risk stocks, and 20%-40% for Speculative stocks); and Sell (3) (5% or less for Low-Risk stocks, 10% or less for Medium-Risk stocks, 15% or less for High-Risk stocks, and 20% or less for Speculative stocks).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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Meg Brown

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