

**Report to Colorado  
PERA Board of  
Trustees**

**From Investment  
Staff**

**Regarding the  
*Colorado PERA*  
*Iran-Related*  
*Investment Policy***

**January 21, 2011**



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# SECTION 1

## Executive Summary

Since the last *Iran-Related Investment Policy Report* on January 15, 2010, Colorado PERA staff has continued to work diligently to implement the requirements of the *Colorado PERA Iran-Related Investment Policy* (PERA's policy). Specifically, our efforts have focused on the following areas:

- Reviewing reports received from PERA's research provider to continue to update the list of companies meeting PERA's policy criteria (Phase I).
- Sending letters to companies identified by the U.S. Department of State for ending their investments in Iran (Phase II).
- Monitoring compliance with the moratorium on direct public investments enacted by the Board (Phase III).
- Obtaining and analyzing updated information about companies that had met policy criteria in the past as well as those companies that had been identified as requiring further research.

### *Background*

As of January 15, 2010, 16 companies met the criteria specified in PERA's policy. On April 16, 2010, the moratorium on Bow Valley Energy, a company cited in the previous report to the Board for terminating its investments in Iran, was removed upon the expiration of the 90-day notice period to the public, the General Assembly, and the Governor required before the effective date of any moratorium repeal. Of the 15 remaining companies meeting the policy criteria, PERA owned direct public securities issued by six of the companies. In compliance with its policy, PERA maintained a moratorium on the purchase of direct public investments in the nine companies of the 15 that PERA did not own.

### *Research*

Since the last report on PERA's policy, PERA staff has attempted to obtain and analyze all relevant publicly available information that has been published in the past 12 months on the 15 companies that had met the policy criteria in addition to several other companies PERA continues to monitor. **Based on this analysis, PERA staff has concluded that the actions taken by nine of the 15 companies merit their removal from the list of companies that meet the policy criteria.** These nine companies are:

- ENI S.p.A.
- GAIL (India) Ltd.
- GS Engineering & Construction Corporation
- INPEX Corporation
- Liquefied Natural Gas Ltd. (LNGL)
- Lukoil OAO
- Royal Dutch Shell
- Statoil ASA
- Total S.A.

See Section 9 for a more detailed discussion of the reasons underlying the recommendation for their removal.

PERA currently has a moratorium on five of the nine companies. These five companies are ENI S.p.A., GAIL (India) Ltd., GS Engineering & Construction Corporation, INPEX Corporation, and Liquefied Natural Gas Ltd. (LNGL). As specified in Phase III of PERA's policy, removal of moratorium companies requires 90-days advance notice to the public, the General Assembly, and the Governor before the effective date of any repeal of this moratorium. The effective date of the repeal of the moratorium would be April 22, 2011. These five companies will remain on the list of companies meeting the policy criteria until that date. Regarding the four companies in which PERA has holdings (Lukoil OAO, Royal Dutch Shell, Statoil ASA, and Total S.A.), PERA staff recommends their removal from the list of companies meeting the policy criteria effective January 21, 2011. **There have been no new companies identified as meeting PERA's policy criteria since the last report to the Board of Trustees.**

#### *Summary*

As of January 21, 2011, there are 11 companies that meet the criteria specified in PERA's policy. Of the 11 companies, PERA owns direct public securities issued by two of the companies. PERA will maintain the moratorium on direct public investments in the nine companies of the 11 that PERA does not currently own. Subject to the Board's approval and absent any action by the General Assembly or the Governor, the moratorium placed upon ENI S.p.A., GAIL (India) Ltd., GS Engineering & Construction Corporation, INPEX Corporation, and Liquefied Natural Gas Ltd. (LNGL) will be removed on April 22, 2011, and the companies will then also be removed from the list of companies meeting the policy criteria.

#### *Investment Staff Evaluation*

For the two companies that meet the policy criteria and in which PERA holds direct public securities, PERA staff has identified and gathered updated information on each of the companies. Staff believes that this information will assist in performing the analysis required by Phase IV of PERA's policy. Phase IV of PERA's policy requires PERA staff to analyze (1) the available strategies for addressing the risk presented, (2) the materiality of the companies' Iranian operations in relation to their overall operations, and (3) the availability of alternative direct public investments providing similar diversity and return expectations. The information presented includes company specific information, oil and gas information, PERA's separate account exposure, market index weights, and historical total returns. In summary, the information presented details:

- Both companies have unique characteristics; some so unique that they cannot be replicated by another public company.
- Based on the oil and gas data collected, neither of the companies appears to have material oil and gas operations in Iran as compared to company operations as a whole. Both companies hold a globally diversified portfolio of oil and gas projects of which Iran is just one of many projects. If an event were to occur that adversely impacted the company's future business prospects in Iran (e.g., sanctions, expropriation of assets, war), it is reasonable to conclude that the impact on these companies' overall operations would be minimal. From this perspective, the risk to PERA members solely related to these companies' operations in Iran is negligible.
- In total, both companies represent 5.5 percent of the energy sector of the MSCI ACWI ex US index (the investable universe for the international equity asset class) and approximately 18 percent of the energy sector of the MSCI EM index (the investable universe for international equity emerging markets managers).

- Both companies comprise a significant percentage of their respective country portion of the MSCI ACWI ex US index.

**Based on this work, staff concludes that neither of the companies in which PERA has holdings currently warrant divestment, given the provisions of the PERA policy.**

#### *Engagement*

On October 21, 2010, PERA mailed letters to six companies that were cited in the State Department press release dated September 30, 2010. This press release is included as Appendix A of this report. The press release stated that these companies “have all ended or are in the process of terminating their activities in Iran and have all committed not to engage in any new activities there.” PERA requested that the companies confirm the State Department’s claim and provide any additional information regarding their business activities in Iran including plans on ending their investment(s). PERA has received responses from three of the six companies to date. PERA staff has also sent e-mails directly to the investor relations departments of the three companies that have not responded.

On November 2, 2009, PERA mailed engagement letters to two companies that had recently been identified as requiring further research. PERA was seeking information directly from the companies in addition to using other information sources to determine if they met the criteria. PERA has received responses from both companies, and it has been determined that neither of the companies meet the policy criteria.

#### *Reporting*

Staff is providing this *Colorado PERA Iran-Related Investment Policy Report* as of January 21, 2011. Subject to the Board’s approval, this report will be placed on the PERA Web site and forwarded promptly to the Governor and the General Assembly.

## SECTION 2

### **Colorado PERA Iran-Related Investment Policy**

*Adopted January 18, 2008, and revised March 20, 2009*

PERA will initiate a phased strategy to address PERA's direct public investments in foreign companies doing business in the Islamic Republic of Iran. The strategy will address and will include a number of actions, up to and including possible divestment. PERA recognizes the federal government has sole responsibility for the conduct of American foreign policy. PERA is acting out of a fiduciary concern for the welfare of its members' assets, which requires a broad horizon and sensitivity to the potential risks posed by investment in Iran.

The United States prohibits loans from U.S. financial institutions and direct investment in the Iranian energy and defense sectors. The U.S. government can also impose economic sanctions on foreign companies investing in Iran's petroleum and natural gas sector. It is widely reported that Iran supports terrorism, supplies explosively formed penetrators for use against our troops in Iraq, continues to develop the infrastructure to support advanced nuclear technology, and that its president publicly calls for the destruction of the State of Israel.

PERA must be managed for the benefit of the members, retirees, and beneficiaries, and this policy is developed to address the potential for risk presented by pension fund investments in companies doing business in Iran.

Accordingly, the PERA Board of Trustees adopts a policy consisting of the following phases:

- Phase I: Commencing immediately, staff shall undertake research to identify a list of public companies doing business in Iran which meet the following criteria: (This list will be developed through staff research of publicly available information that may include the retention of external third party researchers and/or other information provided by other public funds, pension systems, and investor organizations.)
  1. That have made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20,000,000 or more, in Iran's energy sector; or
  2. Are engaged in business with any Iranian organization labeled by the U.S. government as a terrorist organization; or
  3. Are engaged in any business that facilitates Iranian acquisition of nuclear, chemical, or biological weapons technology or military equipment.

The Board may determine that a company has taken sufficient steps to mitigate risks presented by Iranian investments or that there is sufficient evidence of an elimination of ongoing Iranian investment or business activities to warrant removal of a company from the list (removal of moratorium companies requires 90-day advance notice as specified in Phase III).

- Phase II: Upon a company being included on the list that meets the criteria set forth under Phase I in which PERA holds a direct public investment, staff shall within 30 days after identifying such a company, engage such company and ask them to:
  1. Provide a detailed description of the nature, extent, duration, and full history of the companies' business activities in Iran;
  2. Provide an explanation as to how these activities are consistent with a sound and prudent long-term investment strategy;
  3. Report how they are engaging the government of Iran regarding its conduct and how they are mitigating investment risks posed by doing business in Iran;
  4. Report whether substantial action has been taken to affect the policies and practices of the government of the Islamic Republic of Iran; and

5. Additionally, staff shall, where practical, confer and work with other pension systems and investor organizations regarding information stemming from their engagement with such companies and potentially cooperate in taking joint action in engaging such companies.
- Phase III: Upon a company being included on the list that meets the criteria set forth under Phase I, the Board enacts a moratorium on direct public investments in companies in which PERA currently holds no interest. The moratorium shall apply upon the date that staff determines such a company meets the criteria. The Board shall give 90-days advance notice before the effective date of any amendment or repeal of this moratorium to the public, the General Assembly, and the Governor.
  - Phase IV: Within 90 days after engaging such a company, staff shall evaluate the companies' responses and determine if they have taken sufficient steps to minimize risk to PERA and/or whether additional time is required to effectively engage such company. If not, staff shall analyze:
    1. The available strategies for addressing the risk presented;
    2. The viability of working with other interested parties and investors to affect the policies and practices of companies with business operations in Iran;
    3. The materiality of the company's Iranian operations in regards to their overall operations; and
    4. The availability of alternative direct public investments providing similar diversity and return expectations.
  - Phase V: Staff shall report to the Board its findings, actions, and recommendations concerning individual companies on the list as changes to the list warrant, but not less than annually. This report shall be made available to the public and forwarded to the General Assembly and the Governor; provided, however, the first public report shall be made no later than March 21, 2008. Should adequate mitigation of risk not be possible, the PERA Board of Trustees, consistent with its fiduciary obligations and responsibilities, will thereafter direct staff to:
    1. Withhold additional or new direct public investments in non-complying companies; and/or
    2. Divest current direct public investments in the companies.

## Section 3

### Review of Staff Activities (January 18, 2008 – January 21, 2011)

*January 18 – March 21, 2008*

- Made initial contact with two independent research providers (January 25)
- Discussed product offering with first research provider (January 29)
  - What could they provide
  - Current clients they are serving with similar needs
  - What would it cost
  - What research is currently available
  - How much customization would be required to meet PERA's criteria
  - How long would it take to obtain a list customized to PERA's criteria
- Agreed to send PERA a proposal and agreement
- Discussed product offering with second research provider (January 29)
  - What could they provide
  - Current clients they are serving with similar needs
  - What would it cost
  - How much customization would be required to meet PERA's criteria
  - How long would it take to obtain a list customized to PERA's criteria
  - Research provider indicated that it would be about three months, or perhaps sooner, to provide a list that met PERA's criteria
- Received proposal from first research provider interviewed that included a sample report and a draft of an agreement for research services (January 30)
- Forwarded job description for Investment Analyst to Human Resources (January 29)
- Posted job announcement in *Denver Post* and on CFA Web site (beginning February 3)
- Conducted first interviews (February 14, 15, 19, 26, 29, and March 6). Conducted second interviews week of March 10
- Held follow-up conversation with research provider regarding criteria wording (February 7). Also discussed inclusion of subsidiaries and nuclear power plants on the list – agreed to create a watch list for companies that do not have involvement in Iran
- Signed contract with research provider (February 13)
- Received initial set of reports from research provider (February 15). Prepared detailed list of questions related to criteria wording, questions on specific companies on the list and also companies excluded from the list (February 25). Held conversation regarding questions and definition of "investing in Iran" (February 26)
- Compared JCRC list (initially received in 2007) to research provider list (February 19)
- Evaluated exposure (domestic equity and fixed income) to companies on both the JCRC list and the research provider list as of December 31, 2007 (February 25). Considered needs for creating security identifiers for relevant companies and report description needs



- Conducted conference calls with two large public pension plans to discuss what each fund has done to date (February 13)
- Received updated JCRC list (February 25)
- Received new research provider report (March 3)
- Updated comparison of JCRC list and research provider list (March 7)
- Contacted JCRC to request information regarding JCRC list criteria (March 7)
- JCRC responded to PERA. JCRC will request AIPAC to follow up on PERA request (March 9)
- Completed initial review of research provider's report and list (March 14)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (March 14–March 20)

### *March 21 – June 20, 2008*

- Sent letters to all 31 companies identified in the March 21, 2008, report as part of Phase II of the *Colorado PERA Iran-Related Investment Policy* (March 21)
- Enacted a moratorium on three companies identified in the March 21, 2008, report as part of Phase III of the *Colorado PERA Iran-Related Investment Policy* (March 21)
- Updated the portfolio accounting system to identify securities issued by the three companies meeting the policy criteria with a purchase moratorium in effect (March 21)
- Sent letters to all portfolio managers (internal and external) of actively managed separate account portfolios notifying the managers of the moratorium (March 21)
- Hired Investment Analyst (March 24)
- Conducted conference call with AIPAC regarding their methodology in selecting companies for divestment (March 31)
- Reviewed security holdings and transactions to verify compliance with moratorium (April 1)
- Received new research provider report (April 1). Prepared and sent a detailed list of questions to research provider regarding the findings in their April 1 report (April 8). Received response from research provider (April 10)
- Conducted conference call with research provider to further discuss their research (April 11). Received follow-up answers from research provider in response to additional questions posed during April 11 conference call (April 14). Sent research provider further questions on their findings (April 15). Received response from research provider (April 16). Received another response from research provider regarding unresolved questions remaining from our April 11 conference call (April 17)
- Compared JCRC research (received February 2008) and provider research (April 1) for each company on a project by project basis in an effort to corroborate findings and determine if cited companies meet PERA's policy (April 14–16)
- Used Bloomberg research to determine if each cited company had publicly traded debt or equity (April 17)

- Searched the following Web sites for company activities in Iran in an effort to independently corroborate provided research: U.S. Department of Energy, U.S. Department of State, Congressional Research Service, Library of Congress, Reuters, Bloomberg, and brokerage research sites in addition to the individual Web sites of each cited company (April 18–22)
- Retrieved the annual reports and Forms 20-F (Form filed with the SEC by non-U.S. companies with securities that trade on a U.S. exchange) for each subject company for the years that company was believed to have conducted operations in Iran (April 22)
- Examined annual reports and other SEC filings in order to identify and calculate the value of subject companies' Iran investments (April 24–30)
- Reviewed security holdings and transactions to verify compliance with moratorium (May 1)
- Received new research provider report (May 1). Prepared and sent a detailed list of questions to research provider regarding the findings in their May 1 report (May 2). Received response from research provider (May 5)
- Prepared and sent a detailed list of questions to AIPAC regarding their research findings; also requested an updated research report (if one was available) (May 5)
- Sent e-mails directly to the investor relations departments of those remaining companies that had not yet replied to PERA's engagement letter sent on March 21 (May 6–8)
- Met with PERA's Equity and Fixed Income Divisions to outline steps necessary to develop a framework for implementing Phase IV of the *Iran-Related Investment Policy* (May 16 and 21)
- Reviewed security holdings and transactions to verify compliance with moratorium (June 2)
- Received new research provider report (June 2)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (May 29–June 11)

#### *June 20 – September 19, 2008*

- Enacted a moratorium on five additional companies identified in the June 20, 2008, report as part of Phase III of the *Colorado PERA Iran-Related Investment Policy* (June 20)
- Sent letters to all portfolio managers (internal and external) of actively managed separate account portfolios notifying the managers of the moratorium (June 20)
- Used Bloomberg research to identify actively traded securities issued by the five additional companies meeting PERA's policy criteria with a purchase moratorium in effect (June 23)
- Updated the portfolio accounting system to identify securities issued by the five additional companies meeting PERA's policy criteria with a purchase moratorium in effect (June 24–26)
- Reviewed security holdings and transactions to verify compliance with moratorium (July 1)
- Received new research provider report (July 1)
- Acquired equity and fixed income index constituent data. Identified the constituent securities within these indices issued by the eight companies that met the criteria but do not have a purchase moratorium in effect, which will be referred to hereafter as the "eight companies with PERA holdings." Calculated the sector and geographical weightings of these companies within each respective index (July 2–23)

- Requested that PERA's custodian bank determine the potential active risk associated with removing the eight companies with PERA holdings from the respective equity benchmarks (July 8)
- Read the annual reports, SEC filings, and other public documents issued by each of the eight companies with PERA holdings in order to collect relevant information for each company (July 9–16)
- Used Bloomberg research to identify actively traded securities issued by the eight companies with PERA holdings (July 15–18)
- Updated the portfolio accounting system to identify securities issued by the eight companies with PERA holdings (July 21–24)
- Sent research provider questions on their research (July 22). Received response from provider (July 23)
- Inquired of certain external equity managers regarding preliminary thoughts on potential replacement investments (July 22–August 5)
- Retrieved monthly return data for the fixed income securities of the eight companies with PERA holdings (July 24)
- Gathered, interpreted, converted, and verified oil and gas reserve data for the eight companies with PERA holdings (July 28–August 1)
- Received monthly equity return data from PERA's investment consultant for the eight companies with PERA holdings (July 29)
- Received active risk analysis from custodian bank (July 31)
- Reviewed security holdings and transactions to verify compliance with moratorium (August 1)
- Received new research provider report (August 1)
- Gathered research from major brokerage firms on the eight companies with PERA holdings. Read and synthesized research. Began preparing detailed analyses on these companies in order to better understand their history, structure, risks, opportunities, revenue and profit drivers, and future prospects (August 5–September 10)
- Sent research provider additional questions on their research (August 11). Received response from provider (August 14)
- Reviewed security holdings and transactions to verify compliance with moratorium (September 2)
- Received new research provider report (September 2)
- Evaluated PERA's exposure (equity and fixed income) to the securities of the eight companies with PERA holdings as of the close of business on September 5, 2008 (September 8)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (August 27–September 9)

### *September 19 – November 21, 2008*

- Collected and analyzed information on the current status of the Iran divestment policies of 22 other public pension funds (September 19–October 22)
- Reviewed security holdings and transactions to verify compliance with moratorium (October 1)
- Received research provider updated report (October 1)
- Sent e-mails directly to the investor relations departments of the three remaining companies with PERA holdings that had not yet replied to PERA's engagement letter sent on March 21, 2008 (October 8)
- Read the annual reports, SEC filings, and other public documents issued by each of the eight companies with a purchase moratorium in effect in order to collect relevant information for each company (October 9–November 21)
- Acquired equity index constituent data for the MSCI indices utilized by PERA as benchmarks as of October 16, 2008. Identified the constituent securities within these indices issued by the eight companies with PERA holdings. Calculated the energy sector weightings of these companies within each respective index (October 16)
- Reviewed security holdings and transactions to verify compliance with moratorium (November 3)
- Received research provider updated report (November 3)
- Evaluated PERA's exposure (equity and fixed income) to the securities of the eight companies with PERA holdings as of the close of business on November 7, 2008 (November 10)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (October 27–November 10)

### *November 21, 2008 – January 16, 2009*

- Reviewed security holdings and transactions to verify compliance with moratorium (December 1)
- Received research provider updated report (December 1)
- Read the annual reports, SEC filings, and other public documents issued by each of the eight companies with a purchase moratorium in effect in order to collect relevant information for each company (October 9–January 7)
- Evaluated PERA's exposure (equity and fixed income) to the securities of the eight companies with PERA holdings as of the close of business on December 29, 2008 (December 30)
- Reviewed security holdings and transactions to verify compliance with moratorium (January 5)
- Received research provider updated report (January 5)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (December 15–January 7)

### *January 16 – March 20, 2009*

- Used Bloomberg research to identify actively traded securities issued by the 16 companies meeting PERA's policy criteria (January 20–26)
- Updated the portfolio accounting and trading systems to identify securities issued by the 16 companies meeting PERA's policy criteria (January 26–February 11)
- Gathered, interpreted, converted, and verified oil and gas reserve data for the eight companies without PERA holdings (January 27–February 20)
- Received research provider updated report (February 2)
- Reviewed security holdings and transactions to verify compliance with moratorium (February 2)
- Retrieved monthly return data for the equity securities of the eight companies without PERA holdings (February 3)
- Acquired equity and fixed income index constituent data for the MSCI and Barclays indices utilized by PERA as benchmarks. Identified the constituent securities within these indices issued by the eight companies without PERA holdings. Calculated the relevant sector and country weightings of these companies within each respective index (February 6-10)
- Received research provider updated report (March 2)
- Reviewed security holdings and transactions to verify compliance with moratorium (March 2)
- Evaluated PERA's exposure (equity and fixed income) to the securities of the eight companies with PERA holdings as of the close of business on March 5, 2009 (March 6)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (February 20–March 11)

### *March 20, 2009 – January 15, 2010*

- Reviewed security holdings and transactions to verify compliance with moratorium (April 1)
- Received research provider updated report (April 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (May 1)
- Received research provider updated report (May 1)
- Used Bloomberg research to identify actively traded securities issued by the 16 companies meeting PERA's policy criteria (May 18-22)
- Sent letters to all portfolio managers (internal and external) of actively managed separate account portfolios notifying the managers of the moratorium (May 19)
- Updated the portfolio accounting and trading systems to identify securities issued by the 16 companies meeting PERA's policy criteria (May 26-June 18)
- Reviewed security holdings and transactions to verify compliance with moratorium (June 1)
- Received research provider updated report (June 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (July 1)
- Received research provider updated report (July 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (August 3)
- Received research provider updated report (August 3)

- Reviewed security holdings and transactions to verify compliance with moratorium (September 1)
- Received research provider updated report (September 1)
- Retrieved the 2008 annual reports and Forms 20-F for each subject company. Extracted and compiled descriptions of business activities in Iran. Assessed whether subject companies met policy criteria (September 15-November 3)
- Requested updated research on company activity in Iran from AIPAC (September 29). No response received to date
- Reviewed security holdings and transactions to verify compliance with moratorium (October 1)
- Received research provider updated report (October 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (November 2)
- Received research provider updated report (November 2)
- Sent letters to two newly identified companies as part of Phase II of the *Colorado PERA Iran-Related Investment Policy* (November 2)
- Read the annual reports, SEC filings, and other public documents issued by each of the six companies with PERA holdings in order to collect relevant information for each company (November 3-December 7)
- Acquired equity and fixed income index constituent data for the MSCI and Barclays indices utilized by PERA as benchmarks. Identified the constituent securities within these indices issued by the six companies with PERA holdings. Calculated the relevant sector and country weightings of these companies within each respective index (November 9, 13)
- Gathered, interpreted, converted, and verified oil and gas reserve data for the six companies with PERA holdings (November 16-December 4)
- Retrieved monthly return data for the equity securities of the six companies with PERA holdings (November 18)
- Reviewed security holdings and transactions to verify compliance with moratorium (December 1)
- Received research provider updated report (December 1)
- Evaluated PERA's exposure (equity and fixed income) to the securities of the six companies with PERA holdings as of the close of business on December 7, 2009 (December 8)
- Reviewed security holdings and transactions to verify compliance with moratorium (January 4)
- Received research provider updated report (January 4)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (November 2–January 6)

#### *January 15, 2010 – January 21, 2011*

- Updated the portfolio accounting and trading systems to identify securities issued by the 16 companies meeting PERA's policy criteria (January 15)
- Reviewed security holdings and transactions to verify compliance with moratorium (February 1)

- Received research provider updated report (February 1). Prepared and sent a detailed list of questions regarding the findings of their February 1 report (February 5)
- Received research provider updated report (March 1). Research provider addressed staff's concerns with February report
- Reviewed security holdings and transactions to verify compliance with moratorium (March 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (April 1)
- Received research provider updated report (April 1)
- Removed moratorium on Bow Valley Energy. Issued updated Iran list. Sent letters to all portfolio managers (internal and external) of actively managed separate account portfolios notifying them of the moratorium removal. Deleted the company's securities from the portfolio accounting and trading systems (April 16)
- Reviewed security holdings and transactions to verify compliance with moratorium (May 3)
- Received research provider updated report (May 3)
- Reviewed security holdings and transactions to verify compliance with moratorium (June 1)
- Received research provider updated report (June 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (July 1)
- Received research provider updated report (July 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (August 2)
- Received research provider updated report (August 2)
- Reviewed security holdings and transactions to verify compliance with moratorium (September 1)
- Received research provider updated report (September 1)
- Reviewed security holdings and transactions to verify compliance with moratorium (October 1)
- Received research provider updated report (October 1)
- Retrieved the 2009 annual reports and Forms 20-F for each subject company. Extracted and compiled descriptions of business activities in Iran. Assessed whether subject companies met policy criteria (October 15-December 15)
- Sent letters to six companies cited by the U.S. Department of State for ending their investments in Iran (October 21)
- Reviewed security holdings and transactions to verify compliance with moratorium (November 1)
- Received research provider updated report (November 1). Prepared and sent a detailed list of questions regarding the findings of their November 1 report (November 5)
- Reviewed security holdings and transactions to verify compliance with moratorium (December 1)
- Received research provider updated report (December 1)
- Evaluated PERA's exposure (equity and fixed income) to the securities of the two companies with PERA holdings as of the close of business on December 16, 2010 (December 17)

- Acquired equity and fixed income index constituent data for the MSCI and Barclays indices utilized by PERA as benchmarks. Identified the constituent securities within these indices issued by the two companies with PERA holdings. Calculated the relevant sector and country weightings of these companies within each respective index (December 17)
- Retrieved monthly return data for the equity securities of the two companies with PERA holdings (December 20)
- Gathered, interpreted, converted, and verified oil and gas reserve data for the two companies with PERA holdings (December 17-21)
- Reviewed security holdings and transactions to verify compliance with moratorium (January 3)
- Received research provider updated report (January 3)
- Prepared *Iran-Related Investment Policy Report* for Board of Trustees (November 9 – January 12)



## Section 4

### Company Response Letters

In compliance with Phase II of the *Colorado PERA Iran-Related Investment Policy*, on March 21, 2008, PERA sent letters to 31 companies. The letters requested information relating to the criteria specified in Phase I, asked the companies to provide and report on the items specified in Phase II, and also requested information on their business activities within Iran. The letters were sent via Federal Express courier, and PERA received delivery verification notices for each letter. Between May 6 and May 8, and again between October 8 and October 13, 2008, PERA staff sent e-mails directly to the investor relations departments of the companies who had not yet responded. On November 2, 2009, PERA sent letters to two additional companies that had recently been identified as possibly meeting policy criteria. On October 21, 2010, PERA mailed letters to six companies that were cited in a press release dated September 30, 2010 by the U.S. Department of State. Each company's response status is summarized below. Companies highlighted in red text currently meet the criteria in PERA's policy and are listed in Section 5 of this report.

	Company	Company Responsive to PERA Communications
1	Belorusneft & Belneftekhim	No
2	Bow Valley Energy Ltd.	Yes; June 15, 2008
3	China National Offshore Oil Corporation (CNOOC)	Yes; April 18, 2008
4	China National Petroleum Corporation	No
5	China Petroleum & Chemical Corporation (Sinopec)	No
6	Cygam Energy Inc.	No
7	Empresa Nacional del Petroleo (ENAP)	Yes; April 21, 2008
8	ENI S.p.A.	Yes; November 12, 2010 and March 31, 2008
9	Essar Oil Limited	No
10	GAIL (India) Limited	No
11	Gazprom Neft JSC	Yes; December 14, 2009
12	Gazprom OAO	No
13	GS Engineering & Construction Corporation	No
14	GVA Consultants	No
15	Indian Oil Corporation Limited	No
16	INPEX Corporation	Yes; October 28, 2010 and April 16, 2008
17	Linde AG	Yes; April 9, 2008
18	Liquefied Natural Gas Limited (LNGL)	No
19	Lukoil OAO	No
20	Oil & Natural Gas Corp. Ltd. (ONGC)	No
21	Oil India Limited	No
22	OMV AG	Yes; April 15, 2008
23	Petroleo Brasileiro S.A. (Petrobras)	Yes; April 25, 2008

	<b>Company</b>	<b>Company Responsive to PERA Communications</b>
24	Petroliam Nasional (Petronas)	No
25	PTT Exploration & Production	No
26	Repsol YPF	Yes; April 3, 2008
27	Royal Dutch Shell Plc	Yes; April 10, 2008
28	Sasol Ltd.	No
29	Siemens AG	Yes; December 18, 2009
30	Statoil ASA	Yes; November 5, 2010 and April 21, 2008
31	The Siam Cement PCL	Yes; April 11, 2008
32	Total S.A.	Yes; April 17, 2008
33	Ulan-Ude Aviation Plant JSC	No

## Section 5

### Iran-Related Companies Meeting Criteria as of January 21, 2011

#### 1. China National Petroleum Corporation

China National Petroleum Corporation (CNPC) is a Chinese oil and gas company. “CNPC is China's largest oil and gas producer and supplier, as well as one of the world's major oilfield service providers and a globally reputed contractor in engineering construction, with businesses covering petroleum exploration & production, natural gas & pipelines, refining & marketing, oilfield services, engineering construction, petroleum equipment manufacturing and new energy development, as well as capital management, finance and insurance services.”<sup>2</sup>

China National Petroleum Corporation meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 2. China Petroleum & Chemical Corporation (Sinopec)

China Petroleum & Chemical Corporation (aka Sinopec) is a Chinese energy and chemical company. “China Petroleum & Chemical Corporation is an energy and chemical company, which through its subsidiaries, engages in integrated oil and gas, and chemical operations in the People's Republic of China. Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products, and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a range of chemicals for industrial uses.”<sup>1</sup>

China Petroleum & Chemical Corporation meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 3. ENI S.p.A.

“ENI S.p.A. is an Italy-based company producing, supplying and distributing petroleum and natural gas, as well as producing electricity and offering engineering, construction and petrochemical services. The Company operates in three segments: Exploration and Production, which is involved in the exploration and production of hydrocarbons; Gas and Power, which is involved in all phases of the gas business and electricity generation activities, and Refining and Marketing, which is involved in the refining and marketing of petroleum products.”<sup>1</sup>

ENI S.p.A. meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

#### 4. GAIL (India) Limited

GAIL (India) Limited is a natural gas company in India. “The Company operates through its business segments, which include gas transmission, petrochemicals, liquid hydrocarbons, LNG, LPG transmission and marketing, exploration and production (E&P), and coal bed methane (CBM).”<sup>1</sup>

GAIL meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran's energy sector.

<sup>1</sup> Company description information sourced from Reuters.

<sup>2</sup> Company description information sourced from Company Web site.

## 5. Gazprom OAO

Gazprom OAO is a Russian oil and gas company. “Gazprom OAO and its subsidiaries operate a gas pipeline system. The Company provides production of oil and oil products. It is also an exporter of gas to European countries. Its principal activities include exploration and production of gas; transportation of gas; domestic and export sale of gas; production of crude oil and gas condensate, and processing of oil, gas condensate and other hydrocarbons and sales of refined products. Other activities primarily comprise banking, construction and media. The Company operates through six segments: production of gas, transport, distribution, production of crude oil and gas condensate, refining and other.”<sup>1</sup>

Gazprom OAO meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran’s energy sector.

## 6. GS Engineering & Construction Corporation

“GS Engineering & Construction Corp., formerly LG Engineering & Construction Co., Ltd., is a Korean company involved in civil, architectural, and environmental engineering. The Company specializes in the construction of oil, gas, and petrochemical plants, and power and electrical plants; the construction of environmental facilities; the construction of commercial and residential buildings, and the provision of remodeling services. It is also engaged in feasibility studies; the gathering, analysis and evaluation of data on proposed projects; consulting services; the operation and maintenance of completed plants; design engineering services, including concept design, reserve design, basic design, detailed design, and production design; procurement services, and facilities-commissioning and start-up services.”<sup>1</sup>

GS Engineering & Construction meets criteria (1) - a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran’s energy sector.

## 7. INPEX Corporation

“INPEX Corporation, headquartered in Tokyo, Japan, is a supplier of oil and natural gas. The Company primarily is engaged in the exploration for, and the development, supply and shipping of natural resources such as petroleum and natural gas. The Company has major exploration projects in Indonesia, Australia, the Timor Sea Joint Petroleum Development Area (JPDA), the Caspian Sea area, the Middle East and South America.”<sup>1</sup>

INPEX meets criteria (1) - a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran’s energy sector.

## 8. Liquefied Natural Gas Ltd. (LNGL)

“Liquefied Natural Gas Limited is engaged in the development of liquefied natural gas (LNG) production plants to facilitate the production and sale of LNG in Australia.”<sup>1</sup>

LNGL meets criteria (1) - a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran’s energy sector.

## 9. Petroliam Nasional Bhd (Petronas)

Petroliam Nasional is the Malaysian national oil company. “Petronas’ business has grown to encompass the full spectrum of oil and gas operations, both locally and globally, in the areas of upstream oil and gas exploration and production (E&P) to downstream oil refining; marketing

<sup>1</sup> Company description information sourced from Reuters.

<sup>2</sup> Company description information sourced from Company Web site.

and distribution of petroleum products; trading; gas processing and liquefaction; gas transmission pipeline network operations; marketing of liquefied natural gas (LNG); petrochemical manufacturing and marketing; shipping; and property investment. According to Bloomberg the company is also involved in upstream and downstream ventures in Vietnam, China, Pakistan, the Philippines, and the Middle East, and has interests in Australia and Argentina.”<sup>2</sup>

Petroliam Nasional meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran’s energy sector.

#### 10. Sasol Ltd.

“Sasol Limited is an integrated oil and gas company with substantial chemical interests. Sasol mines coal in South Africa. The Company also has chemical manufacturing and marketing operations in Europe, Asia, and the Americas. Its larger chemical portfolios include monomers, polymers, solvents, olefins, surfactants, surfactant intermediates, comonomers, waxes, phenolics, and nitrogenous products.”<sup>1</sup>

Sasol Ltd. meets criteria (1) – a company that has made an investment on or after August 5, 1996, or in any combination in any 12-month period, of \$20 million or more, in Iran’s energy sector.

#### 11. Ulan-Ude Aviation Plant JSC

“Ulan-Ude Aviation Plant JSC is a Russian company specializing in the production of military and civilian helicopters and airplanes.”<sup>2</sup>

Ulan-Ude meets criteria (3) – a company that is engaged in any business that facilitates Iranian acquisition of nuclear, chemical, or biological weapons technology or military equipment.

<sup>1</sup> Company description information sourced from Reuters.

<sup>2</sup> Company description information sourced from Company Web site.

## SECTION 6

### PERA Holdings of Iran-Related Companies Meeting Criteria as of January 21, 2011

To develop the following information, PERA used an identification date of December 16, 2010. The following table indicates which companies are (a) on the list meeting the policy criteria, and (b) are or are not held by PERA in separate account portfolios. Companies highlighted in red text are currently held by PERA within separate accounts and are recommended for removal from the list of companies meeting PERA's criteria. Companies highlighted in blue text are also recommended for removal from the list of companies meeting the policy's criteria and currently have a moratorium placed upon the purchase of their securities. No new companies have been identified as meeting PERA's policy criteria since the last report to the Board of Trustees.

Company Name	Date Added to PERA List	Market Value
China National Petroleum Corporation	January 15, 2010	–
China Petroleum & Chemical Corporation (Sinopec)	March 21, 2008	–
ENI S.p.A.	March 21, 2008	–
GAIL (India) Ltd.	June 20, 2008	–
Gazprom OAO	March 21, 2008	\$ 28,858,489
GS Engineering & Construction Corp.	March 21, 2008	–
INPEX Corporation	June 20, 2008	–
Liquefied Natural Gas Ltd. (LNG)	June 20, 2008	–
Lukoil OAO	March 21, 2008	\$ 6,869,567
Petroliam Nasional Bhd (Petronas)	March 21, 2008	–
Royal Dutch Shell	March 21, 2008	\$ 42,909,036
Sasol Ltd.	June 20, 2008	\$ 4,411,433
Statoil ASA	March 21, 2008	\$ 3,031,870
Total S.A.	March 21, 2008	\$ 32,484,846
Ulan-Ude Aviation Plant JSC	June 20, 2008	–

## Section 7

### Iran-Related Companies Meeting Criteria as of April 22, 2011

Subject to the Board's approval of the removal of nine companies from the list of companies meeting the policy criteria and upon the expiration of the 90-days notice period required for the removal of moratorium companies, there will be four companies with a purchase moratorium in effect and two companies that are held within separate accounts.

<b>Company Name</b>	<b>Date Moratorium Enacted</b>	<b>Market Value</b>
China National Petroleum Corporation	January 15, 2010	
China Petroleum and Chemical Corporation (Sinopec)	June 20, 2008	
Petroliam Nasional Bhd (Petronas)	March 21, 2008	
Ulan-Ude Aviation Plant JSC	June 20, 2008	
Gazprom OAO	–	\$ 28,858,489
Sasol Ltd.	–	\$ 4,411,433

## Section 8

### Information on Companies Meeting Criteria with PERA Holdings

Phase IV of PERA's policy requires PERA staff to analyze (1) the materiality of a company's Iranian operations in regards to the company's overall operations and (2) the availability of alternative direct public investments providing similar diversity and return expectations.

For both companies meeting PERA's policy criteria in which PERA has holdings, PERA staff has gathered the following information:

- Company specific information – relevant data regarding the company including information that addresses the company's unique characteristics
- Oil and gas information – each of these companies provides information on the geographic break-out of their oil and gas reserves. Companies typically disclose proved and unproved reserves as well as the discounted future cash flows relating to proved reserves. Proved reserves are those quantities of petroleum deemed to be recoverable in future years using known techniques. Crude oil is measured in millions of barrels, which is abbreviated mmbbl. Natural gas is measured in billions of cubic feet, which is abbreviated bcf. The conversion of a company's reserves, whether they be in liquid or gaseous form, into crude oil is reported in barrel oil-equivalent or boe units. This report measures barrel oil-equivalent units in millions, which is abbreviated mmboe.
- Separate account exposure – PERA's equity and fixed income exposure
- Index weights – the performance for each of PERA's portfolios is benchmarked against broad index measures. The international equity portfolios are benchmarked against the following indices:
  - MSCI All Country World Index excluding US (includes developed and emerging market countries)
  - MSCI Europe, Australasia, and Far East Index
  - MSCI Emerging Market Index

These indices are a representation of PERA's investable universe. The sector and country representation are important characteristics that define a company's risk and return expectations. Both companies are included in the Energy sector, and each company is a significant portion of their country weight.

PERA staff has gathered information showing the respective weights for each company's securities within the relevant equity index, within the Energy sector of the relevant equity index, and within the country portion of the relevant equity index.

PERA's fixed income portfolios are benchmarked against the following indices:

- Barclays Universal (includes emerging market and high yield fixed income securities as well as the Barclays Aggregate)
- Barclays Aggregate (includes Treasury, government-related, asset-backed, mortgage-backed, and corporate fixed income securities)
- Fixed Income Custom Index (consists of 98 percent Barclays Universal Bond Index and 2 percent Barclays Capital Long Government/Credit Index)
- Custom Emerging Market (includes government-related and corporate fixed income securities of emerging market countries)



PERA has fixed income holdings in one of the companies identified as meeting PERA's policy criteria. For this company, PERA staff has gathered information showing the respective aggregate weights within the relevant fixed income indices for all of the company's securities.

- Historical Equity Total Returns – the one-, three-, and five-year total returns for each company's equity securities.

# Gazprom OAO

## Company Specific Items

- Russia's largest company
- Russian government owns 50.002 percent<sup>1</sup>
- Former Gazprom chairman Dmitri Medvedev was elected President of Russia in 2008; the current CEO of the company is characterized as a Putin ally
- Gazprom accounts for 25 percent of Russia's tax revenues<sup>2</sup>
- Controls 18 percent of the world's natural gas reserves<sup>3</sup>
- Controls 70 percent of Russia's natural gas reserves<sup>4</sup>
- World's largest producer of natural gas<sup>5</sup>
- Produces 79 percent of Russia's natural gas<sup>6</sup>
- Operates the largest gas transmission network in the world<sup>7</sup>
- Supplies one-third of Western Europe's natural gas imports<sup>8</sup>
- Has interests in two phases of developing one natural gas field in the Persian Gulf offshore of Iran.<sup>9</sup> Also has exploration projects in 10 other countries across three continents<sup>10</sup>
- The valuation of the company's reserves versus the company's implied valuation based on equity prices indicates significant potential for appreciation<sup>11</sup>

**There is no other publicly traded Russian energy company with these unique characteristics.**

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<sup>1</sup> Gazprom 2009 Annual Report, p. 88

<sup>2</sup> Hoover's, Inc. 2010

<sup>3</sup> Gazprom in Figures 2005-2009, p. 5

<sup>4</sup> Gazprom in Figures 2005-2009, p. 5

<sup>5</sup> Hoover's, Inc. 2010

<sup>6</sup> Gazprom in Figures 2005-2009, p. 5

<sup>7</sup> Gazprom Questions and Answers 2009, pp. 34-35

<sup>8</sup> Gazprom Questions and Answers 2009, p. 52

<sup>9</sup> Reuters

<sup>10</sup> Gazprom in Figures 2005-2009, pp.28-37

<sup>11</sup> Based on PERA external manager data

## Oil and Gas Information

Gazprom's public documents only disclose proved reserves located in Russia.

*Proved Reserves (Categories A+B+C<sub>1</sub>)<sup>1</sup> (data as of December 31, 2009)*

	mmboe
Natural Gas Reserves	197,776.8
Gas Condensate	10,839.9
Crude Oil	13,084.1
<b>Total Proved Reserves</b>	<b>221,700.2</b>

*Geographical Distribution of Proved Natural Gas Reserves, Gas Condensate, and Crude Oil (Categories A+B+C<sub>1</sub>)<sup>2</sup> (data as of December 31, 2009)*

		mmboe	%
<b>Russia</b>	Ural Federal District	160,680.1	72.5%
	Northwestern Federal District	827.4	0.4%
	Southern and North Caucasian Federal Districts	18,290.6	8.3%
	Privolzhskiy Federal District	5,999.1	2.7%
	Siberian Federal District	2,276.8	1.0%
	Far East Federal District	2,755.3	1.2%
	Shelf	30,870.9	13.9%
	<b>Total</b>	<b>221,700.2</b>	<b>100.0%</b>

<sup>1</sup> The reserves presented here were calculated under the Russian reserve system, which is different than the Securities and Exchange Commission's accepted methodology. The Russian reserves system is based solely on an analysis of the geological attributes of reserves and takes into consideration the actual physical presence of hydrocarbons in geological formations or the probability of such physical presence. Explored reserves are represented by categories A, B, and C<sub>1</sub>; preliminary estimated reserves are represented by category C<sub>2</sub>; prospective resources are represented by category C<sub>3</sub>; and forecasted resources are represented by categories D<sub>1</sub> and D<sub>2</sub>. Explored natural gas reserves in categories A, B, and C<sub>1</sub> are considered to be fully extractable (Gazprom in Figures 2005-2009, p. 10).

<sup>2</sup> Gazprom in Figures 2005-2009, p. 15

# Sasol Ltd.

## Company Specific Items

- Established in 1950 by the South African government.<sup>1</sup> Listed on the Johannesburg Stock Exchange in 1979 and on the New York Stock Exchange in 2003<sup>2</sup>
- The seventh largest company (by market capitalization) listed on the Johannesburg Stock Exchange<sup>3</sup>
- South African government owns 8 percent<sup>4</sup>
- Alternative energy company. Sasol mines coal in South Africa and produces natural gas in Mozambique. This coal, together with Mozambican natural gas, is converted into fuels using proprietary technology. This fuel is then marketed through Sasol's network of 418 gas stations (9.6 percent of South Africa market)<sup>5</sup>
- The world leader in producing synthetic fuel employing CTL (coal-to-liquid) and GTL (gas-to-liquid) technology<sup>6</sup>
- Proven and probable coal reserves of 3,906 million tons, which are all located in South Africa.<sup>7</sup> For reference, Peabody Energy is the world's largest private sector coal company<sup>8</sup> with proven and probable reserves of 9,015 million tons<sup>9</sup>
- Operates the only inland crude oil refinery in South Africa<sup>10</sup> (three others coastally located and not owned by Sasol)
- Produces crude oil offshore of Gabon and natural gas in Mozambique. Also has exploration projects in Mozambique, South Africa, Gabon, Papua New Guinea, Australia, and Nigeria<sup>11</sup>
- In partnership with the National Petrochemical Company of Iran, Sasol signed a joint venture agreement in 2003 to construct a polymer plant in Iran. The plant became fully operational in 2009<sup>12</sup>
- Has activities in 30 countries across five continents<sup>13</sup>

**There is no other publicly traded South African energy company with these unique characteristics.**

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<sup>1</sup> Sasol 2010 20-F, p. 29

<sup>2</sup> Sasol 2010 20-F, p. 30

<sup>3</sup> Sasol 2010 20-F, p. 34

<sup>4</sup> Sasol 2010 20-F, p. 30

<sup>5</sup> Sasol 2010 20-F, p. 53

<sup>6</sup> JP Morgan, African Equity Research, Sasol, Ltd., May 12, 2006, p. 3

<sup>7</sup> Sasol 2010 20-F, p. 122

<sup>8</sup> Peabody Energy 2009 Annual Report, p. 1

<sup>9</sup> Peabody Energy 2009 Annual Report, p. 40

<sup>10</sup> Sasol 2010 20-F, p. 39

<sup>11</sup> Sasol 2010 20-F, p. F-35

<sup>12</sup> Sasol 2010 20-F, p. 31

<sup>13</sup> Sasol Facts 2010, pp. 10-11

## Oil and Gas Information

*Proved Reserves<sup>1</sup> (data as of June 30, 2010)*

	Synthetic Oil	Crude Oil & Condensate Reserves	Natural Gas Reserves	Total Reserves	
	mmbbl	mmbbl	bcf	mmboe	%
South Africa	841.0	0	0	841.0	75.3%
Mozambique	0	4.7	1,597.4	270.9 <sup>2</sup>	24.3%
Other Areas	0	4.6	0	4.6	0.4%
<b>Total</b>				<b>1,116.5</b>	<b>100.0%</b>

In terms of total proved reserves, Sasol reports 0.4 percent outside of South Africa and Mozambique. Since Sasol's involvement in Iran is limited to the construction of a petrochemical complex, it would appear that Sasol does not have any proved reserves in Iran.

*Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves<sup>3</sup> (data as of June 30, 2010)*

	South African Rand, million	%
South Africa	61,142.0	90.6%
Mozambique	5,776.5	8.6%
Other Areas	570.4	0.8%
<b>Total</b>		<b>100.0%</b>

Discounted future net cash flows associated with the Other Areas category are 0.8 percent of the company's overall total. Given its operations in Iran, it is reasonable to conclude that Sasol has no discounted future net cash flows from proved reserves in Iran.

<sup>1</sup> Sasol 2010 20-F, p. G-5

<sup>2</sup> (1,597.4 billion ft<sup>3</sup>) (1 billion boe/6,000 billion ft<sup>3</sup>) = 0.2662 billion boe or 266.2 million boe  
4.7 mmbbl + 266.2 mmboe = **270.9 mmboe**

<sup>3</sup> Sasol 2010 20-F, p. G-8

However, Sasol does report geographic information relating to its revenues, operating profit, and assets (data as of June 30, 2010):

(South African Rand, million)	<b>Total Revenue</b>	<b>%</b>	<b>Operating Profit/(Loss)</b>	<b>%</b>	<b>Total Consolidated Assets</b>	<b>%</b>
South Africa	115,425	65.4%	18,143	75.8%	101,953	65.8%
Mozambique	271	0.2%	186	0.8%	5,766	3.7%
Nigeria	429	0.2%	2	0.0%	3,029	2.0%
Rest of Africa	4,953	2.8%	219	0.9%	1,028	0.7%
Germany	7,649	4.3%	773	3.2%	7,744	5.0%
Italy	2,724	1.5%	283	1.2%	2,997	1.9%
Rest of Europe	17,247	9.8%	2,497	10.4%	6,721	4.3%
US	11,692	6.6%	880	3.7%	6,498	4.2%
Rest of N. America	1,401	0.8%	180	0.8%	345	0.2%
South America	1,443	0.8%	113	0.5%	302	0.2%
Southeast Asia and Australasia	3,066	1.7%	218	0.9%	2,246	1.4%
Iran	795	0.5%	252	1.1%	7,521	4.9%
Qatar	13	0.0%	(684)	(2.9%)	5,239	3.4%
Rest of Middle East and India	4,642	2.6%	969	4.0%	1,882	1.2%
Far East	4,752	2.7%	(94)	(0.4%)	1,758	1.1%
<b>Total</b>	<b>176,502</b>	<b>100.0%</b>	<b>23,937</b>	<b>100.0%</b>	<b>155,029</b>	<b>100.0%</b>

Source: Sasol 2010 20-F, p. F-41

Based on the above disclosure, Sasol's operations in Iran comprise:

- Half of 1 percent of its total revenue
- Approximately 1 percent of its total operating profit
- Approximately 5 percent of its total assets

**Given this, Sasol's operations in Iran do not appear to be material as compared to the company's operations as a whole.**

**Separate Account Exposure (data as of December 16, 2010)**

	<b>Equity Exposure</b>	<b>Fixed Income Exposure</b>	<b>Total Exposure</b>
Gazprom OAO	\$19,053,844	\$9,804,645	\$28,858,489
Sasol Ltd.	\$4,411,433	–	\$4,411,433
			<b>\$33,269,922</b>

## Index Weights

Equity (data as of December 16, 2010)

	<b>MSCI ACWI ex US Energy Sector Weight</b>	<b>MSCI EM Energy Sector Weight</b>	<b>MSCI ACWI ex US Country Weight</b>
Gazprom OAO	3.9%	12.6%	27.3%
Sasol Ltd.	1.6%	5.2%	9.6%
	<b>5.5%</b>	<b>17.8%</b>	

- The energy sector of the MSCI ACWI ex US index (the investable universe for the international equity asset class) is comprised of 115 equities. The equity securities of the above two companies that are members of the index's energy sector represent 5.5 percent of the entire sector.
- The energy sector of the MSCI EM index (the investable universe for international equity emerging markets managers) is comprised of 49 equities. The equity securities of the above two companies that are members of the index's energy sector represent 17.8 percent of the entire sector.
- Both companies comprise a significant percentage of their respective country portion of the MSCI ACWI ex US index. Gazprom represents approximately 27 percent of all Russian companies in the index, and Sasol represents approximately 10 percent of all South African companies in the index.

Fixed Income (data as of December 16, 2010)

	<b>Barclays Universal Foreign Agency Sector Weight</b>	<b>Custom EM Foreign Agency Sector Weight</b>	<b>Barclays Universal Country Weight</b>	<b>Custom EM Country Weight</b>
Gazprom OAO	3.3%	23.4%	19.3%	20.4%

- Fixed income securities issued by one of the 11 companies that meet the policy criteria are held by PERA within its separate accounts.
- The fixed income securities of this company comprise a significant percentage of the sector and country portion of the fixed income indices of which they are a member.



## Historical Equity Total Returns<sup>1</sup>

	<b>Ticker</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>
Gazprom OAO	GAZ.GR	-0.5%	-24.7%	-4.1%
Sasol Ltd.	SOL.SJ	17.4%	-0.7%	9.5%

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<sup>1</sup> Returns are calculated from month-end prices, are denominated in U.S. dollars, and are as of November 30, 2010.

## SECTION 9

### Information on Companies Recommended to be Removed

Since the last *Iran-Related Investment Policy Report* on January 15, 2010, several companies that had met PERA's policy criteria have taken substantial action to eliminate their ongoing investment and business activities in Iran's energy sector. These companies and their recent actions are listed below. **Given this information, PERA staff recommends that these companies be removed from the list of companies that meet the policy criteria.**

Companies upon which PERA has a moratorium will not be removed from the list of companies that meet the policy criteria until the 90-day notice period to the public, the General Assembly, and the Governor has expired on April 22, 2011. Staff will continue to monitor these companies for future business activities in Iran's energy sector.

#### ***ENI S.p.A.***

On September 30, 2010, the U.S. Department of State announced that ENI S.p.A. was one of several oil and gas companies that had ended or was in the process of terminating its activities in Iran. In a letter to PERA, dated November 12, 2010, ENI S.p.A. stated the following:

- "ENI has pledged to end its investments in Iran's energy sector"
- "The U.S. State Department announced that it would not undertake an investigation or make a sanctions determination with respect to ENI's previous activities in Iran's energy sector based on ENI's commitment to end its investment in Iran's energy sector and not to undertake new energy-related activities in Iran that may be sanctionable under the ISA (Iran Sanctions Act). The U.S. State Department has further indicated that, as long as ENI acts in accordance with these commitments, ENI will not be regarded as a company of concern for its past Iran-related activities"

On December 1, 2010, PERA's external research provider removed ENI S.p.A. from its list of companies that meet PERA's policy criteria.

#### ***GAIL (India) Ltd.***

In 2005, GAIL (India) Ltd. announced it would participate in a joint venture with Iran's National Petroleum Company to build a petrochemical complex in Assaluyeh, Iran. Investment estimates for the project ranged from \$150 million to \$1.84 billion. Since the announcement of the joint venture, investment data for the project has not been reported in any of the company's financial statements. In a recent statement, GAIL (India) Ltd. indicated that it has not made any investment in Iran nor is it earning any revenue from the country. Furthermore, reports from external research providers state that the company has ceased its operations in Iran.

On December 1, 2010, PERA's external research provider removed GAIL (India) Ltd. from its list of companies that meet PERA's policy criteria.

#### ***GS Engineering & Construction Corporation***

In a filing to a regulatory agency on July 1, 2010, GS Engineering & Construction Corporation announced that it was cancelling a \$1.2 billion contract for a gas treatment project in Iran that it had signed in October 2009. The cancellation of the contract was also reported in the September 30, 2010, State Department press release as the U.S. Government had aggressively urged the company to avoid commercial activity in Iran's energy sector until Iran complies with its international obligations.

On December 1, 2010, PERA's external research provider removed GS Engineering & Construction Corporation from its list of companies that meet PERA's policy criteria.

### ***INPEX Corporation***

In 2004, INPEX Corporation signed a service contract with the National Iranian Oil Company to develop the Azadegan oil field in Iran. On September 3, 2010, the Government of Japan announced that it was suspending new oil and gas investments in Iran by Japanese companies. On October 15, 2010, INPEX Corporation announced in a press release that the company was withdrawing from the Azadegan project. On October 28, 2010, PERA received a letter signed by the president of the company confirming their withdrawal from the project.

### ***Liquefied Natural Gas Ltd. (LNGL)***

In 2006, LNGL signed a cooperation agreement with the National Iranian Oil Company to develop a natural gas liquefaction plant on Qeshm Island in the Persian Gulf. Investment estimates for the project were approximately \$1.5 billion, and the project was scheduled to be completed by 2010. Since the preliminary agreement was signed in 2006, investment data for the project has not been reported in any of the company's financial statements as construction of the plant was never begun. In June 2010, LNGL announced on its Web site that it was no longer pursuing its project in Iran.

### ***Lukoil OAO***

In 2003, Lukoil signed a contract with the National Iranian Oil Company to explore the Anaran oil field in western Iran. Lukoil discovered oil in the block in 2005, and the company reported in 2006 that they were in negotiations with Iran to further develop the field. In 2010, Lukoil reported that they had ceased their operations in Iran "because of the threat of economic sanctions of the US Government."<sup>1</sup> In a company press release dated September 2, 2010, the president of the company announced that Lukoil "has no relations with Iran and will not be working with Iran until international sanctions in relation to that country are lifted." In a subsequent press release dated September 15, 2010, the company announced that Lukoil "has not invested in Iran for many years." The press release further stated that Lukoil has terminated its exploration contract for the Anaran oil field and has withdrawn its operations from the area.

On December 1, 2010, PERA's external research provider removed Lukoil from its list of companies that meet PERA's policy criteria.

### ***Royal Dutch Shell***

In 2004, Royal Dutch Shell ("Shell") and Repsol, a Spanish oil and gas company, entered into a project framework agreement with the National Iranian Oil Company to develop phases of the South Pars natural gas field in Iran. In 2007, Shell signed a formal service contract to develop the South Pars field but did not make a final decision on whether to proceed with the project until the remaining commercial and engineering work was complete. In its press release dated September 30, 2010, the U.S. Department of State announced that "Shell and Repsol have abandoned negotiations over development of phases 13 and 14 of the South Pars gas field and have committed to us not to engage in any further discussions with Iran."

On December 1, 2010, PERA's external research provider removed Shell from its list of companies that meet PERA's policy criteria.

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<sup>1</sup> Lukoil 2009 Annual Report, p. 135

## **Statoil ASA**

Statoil was cited as a company that had ended or was in the process of terminating its activities in Iran in the U.S. State Department press release dated September 30, 2010. Statoil had previously taken part in exploration and drilling activities in the Anaran oil field in Iran. On page 59 of Statoil's 2009 Form 20-F (Form filed with the SEC by non-U.S. companies with securities that trade on a U.S. exchange), the company reported that "work on this project has been stopped." Statoil also holds a license for exploration of the Khorramabad field. However, Statoil reported that "no activity is planned for this license."<sup>1</sup> Finally, Statoil was the operator for the development of phases 6, 7, and 8 of the South Pars natural gas field in Iran. "The development is now complete," and the "Iranian oil company NIOC has taken over as operator for the field."<sup>2</sup> In their letter to PERA, dated November 5, 2010, Statoil described their current involvement in Iran as being "in a cost recovery phase." Specifically, the company stated the following:

- "Statoil's current involvement in Iran relates to the South Pars 6-8 project from which remuneration is still outstanding. Statoil recovers the remuneration we are entitled to according to the contract with the National Iranian Oil Company (NIOC)."
- "Statoil will not make any new investments in Iran."

On November 1, 2010, PERA's external research provider removed Statoil from its list of companies that meet PERA's policy criteria.

## **Total S.A.**

Total was also cited in the State Department press release as one of the companies that had ended or was in the process of terminating its activities in Iran and had pledged not to engage in any new activities there. In a section describing their Iran activities, Total reported the following in their 2009 Form 20-F:

- "Since 2008, Total's position has consisted essentially in being reimbursed for its past investments as part of buyback contracts signed between 1995 and 1999 with respect to permits on which the Group is no longer the operator."<sup>3</sup>
- "To date, Total has entered into such buyback contracts with respect to the development of four fields: Sirri, South Pars 2 & 3, Balal and Dorood. For all of these contracts, development operations have been completed and Total retains no operational responsibilities. As Total is no longer involved in the operation of these fields, Total has no information on the production from these fields."<sup>4</sup>

On December 1, 2010, PERA's external research provider removed Total from its list of companies that meet PERA's policy criteria.

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<sup>1</sup> Statoil 2009 20-F, p. 59

<sup>2</sup> Statoil 2009 20-F, p. 59

<sup>3</sup> Total 2009 20-F, p. 57

<sup>4</sup> Total 2009 20-F, pp. 58-59

## Appendix A

### U.S. Department of State Press Release – September 30, 2010



## Companies Reducing Energy-related Business with Iran

### Fact Sheet

Office of the Spokesman

**Washington, DC**

**September 30, 2010**

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As part of our efforts to increase the pressure on the Government of Iran to comply with its international obligations, the U.S. Government has been aggressively urging foreign governments and companies to avoid commercial activity in Iran's energy sector until Iran complies with its international obligations. The results of the State Department's efforts are clear: Companies are recognizing the increased risks of doing business in Iran and terminating their operations there or committing not to engage in any new activities in Iran.

The following are some of the companies that have announced they are discontinuing their activities in Iran's energy sector.

#### Refined Petroleum

- Turkish refiner Tupras told the State Department in August that it had cancelled contracts to supply gasoline to Iran.
- French oil group Total, Royal Dutch Shell, Kuwait's Independent Petroleum Group, and India's Reliance have all informed the State Department that they stopped refined product sales to Iran earlier this year.
- Swiss energy traders Vitol, Glencore, and Trafigura all publicly committed in March 2010 not to supply refined petroleum products to Iran.
- Russian oil firm LUKOIL in April announced that it had ceased gasoline sales to Iran. LUKOIL re-confirmed this commitment to U.S. officials on Sept. 2 after press reports to the contrary.
- BP and Shell have told the State Department they are no longer supplying jet fuel to Iran Air.

## Upstream Projects

- Shell, Total, ENI and Statoil have all ended or are in the process of terminating their activities in Iran and have all committed not to engage in any new activities there.
- Shell and Repsol have abandoned negotiations over development of phases 13 and 14 of the South Pars gas field and have committed to us not to engage in any further discussions with Iran.
- South Korea's GS Engineering & Construction announced on July 1 that it had cancelled a \$1.2 billion gas processing project in Iran.

## Shipping

- Lloyds of London announced on July 9 it would not insure or reinsure petroleum shipments going into Iran.
- Key shipping associations have created clauses in contracts that enable ship owners to refuse to deliver refined petroleum cargoes to Iran.
- Hong Kong shipping company NYK Line Ltd, announced that it had decided to withdraw from trade with Iran.