California Public Employees' Retirement System

California Public Divest from Iran Act
Annual Legislative Report

December 31, 2012

California Public Employees' Retirement System
Iran Related Investments – Fifth Annual Legislative Report
December 31, 2012

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Executive Summary

1. This Legislative Report sets out CalPERS implementation of the California Public Divest from Iran Act (Iran Act) during 2012. The Iran Act requires that CalPERS identify, notify, and make a determination to divest investments in companies engaged in the international nuclear, defense, oil and gas sectors, subject to CalPERS overriding fiduciary duty, and finally liquidate investments in such companies.

2. During the period covered a number of companies announced they were making significant progress towards curtailing or have already begun decreasing their activities in Iran.

3. CalPERS divested from one company, Petronet LNG Ltd., operating in Iran as it failed to take substantial action as defined by the Iran Act. New investments in this Company will be blocked as well. In addition, CalPERS blocked future investments in one company, Oil India Limited. Global Equity staff analyzed the potential costs, market impact and potential to affect risk and return associated with a divestment of the two securities. Staff determined that the divestment would not be material due to the small size of the holdings. The decision to divest and block these investments was presented to the CalPERS Investment Committee on October 15, 2012.

4. CalPERS reviewed six companies and determined these were not subject to the Iran Act: Bharat Petroleum Corporation, Hyundai Heavy Industries, Maire Tecnimont, Polskie Gornictwo Naftowe I Gazownictwo, and Saras SpA.

5. CalPERS continues to identify companies potentially subject to the Iran Act, to notify them of the law’s provisions, and call for their withdrawal from Iran.

Introduction

This fifth report to the California Legislature is provided by the California Public Employees' Retirement System (CalPERS) under the requirements of Government Code sections 7513.7 and 16642, commonly known as the California Public Divest from Iran Act (Iran Act).

CalPERS is the largest public pension plan in the United States, responsible for over $240 billion in global assets, which are invested to provide retirement and health benefits for over 1.6 million Californians. The CalPERS Board has sole and exclusive responsibility to administer the System in a manner that will assure prompt delivery of benefits to its participants and their beneficiaries. The assets of the System are trust funds that must be held for the exclusive purpose of providing benefits to participants in the retirement System and their beneficiaries and defraying the reasonable expenses of administering the System.

Iran Act Implementation

CalPERS has diligently and comprehensively implemented the requirements of the Iran Act throughout the reporting period and from the time the legislation became effective on January 1, 2008.

The CalPERS Board, senior management and staff continue to devote significant time and attention to ensuring that the provisions of the Iran Act are fully implemented. This report charts further significant progress towards meeting the objectives of the Iran Act, which are to ensure that companies in relevant sectors curtail or cease business operations in the country. The details are set out in the tables which follow.

Other national events continue to have impact. On January 23, 2012, the European Union issued an embargo on Iran's oil exports banning imports of Iranian crude oil by EU states starting on July 1, 2012, prompting Maire Tecnimont, Polskie Gornictwo Naftowe I Gazonictwo and Saras SpA to end all investments in Iran.

Requirements of the Iran Act

The Iran Act sets out a number of requirements, as follows:

The legislation requires that CalPERS identify companies with business operations in Iran, as defined in the Iran Act, or that provide revenue to the government of Iran.

Under the Iran Act, a company has business operations in Iran if the company meets the following criteria:

1. The company (A) is invested in or engaged in business operations with entities in the defense or nuclear sectors of Iran or (B) is invested in or engaged in business operations with

entities involved in the development of petroleum or natural gas resources of Iran, and that company is subject to sanctions under Public Law 104-172 (any entity that has invested at least $20 million in any year since 1996 to develop petroleum or natural gas resources of Iran), as renewed and amended in 2001 and 2006.

2. The company has demonstrated complicity with an Iranian organization that has been labeled as a terrorist organization by the United States government. (Gov. Code §7513.7(b).)

"Business operations" is defined in the Iran Act to mean "maintaining, selling, or leasing equipment, facilities, personnel, or any other apparatus of business or commerce in Iran, including the ownership or possession of real or personal property located in Iran." (Gov. Code §7513.7(a)(2).)

- **Identification**

The process for researching and identifying the companies that have business operations in Iran has been developed with great care and attention to detail. For this report, CalPERS utilized the U.S. Government Accountability Office (GAO) report on Iran sanctions for the initial identification of companies subject to the Iran Act. In addition, CalPERS continues to collaborate with CalSTRS.

On June 14, 2012, CalPERS and the California Department of General Service Office of Policies Procedures and Legislation (DGS) initiated a collaborative partnership to keep each other apprised of company outreach and engagements related to the Iran Act for CalPERS and the Iranian Contracting Act for DGS. Staff from CalPERS Global Governance Program and DGS will meet by teleconference every other month to provide updates on company engagement and status under the relevant Act. Correspondence between CalPERS and DGS can occur more frequently, as needed.

It is understood that CalPERS and DGS lists may not be consistent regarding identified company names for reasons which could include but are not limited to:

a) Timing: Every effort will be made to keep each other current on company engagement and status; however there could be instances where CalPERS and DGS lists are not consistent due to the timing of our individual engagement with companies.

b) CalPERS Portfolio Holdings: There could be instances where CalPERS does not hold investments in companies that have been identified by DGS as subject to the provisions of the Iranian Contacting Act.

- **Notification**

Once identified, CalPERS has provided timely notification to each company, setting out the provisions of the Iran Act, and seeking a response which can be properly assessed.

To ensure the highest level of engagement, letters have been couriered to the most senior board member of each company, for example, the Chairman, CEO or President. The critical provisions are those in the Iran Act that relate to exemption through the company boycotting the government, curtailing business, and selling assets, such as, equipment and property.

Staff actively pursue a substantive response to these corporate engagements, for example by identifying parent companies where decisions will be made, and if need be, making use of translating services to ensure clear communication.

- **Determination**

Following the communication with identified companies, staff determines their status under the Iran Act. The companies' responses are analyzed by CalPERS staff to determine the applicability of the Iran Act's provisions. Where company activity is deemed to be subject to the Iran Act, staff assesses whether the company is taking substantial action to withdraw, or making substantial progress towards this.

In October 2011, Assembly Bill 1151, was enacted which amended the Iran Act, to its current status as applicable to CalPERS. AB 1151 requires CalPERS to determine that a company is taking substantial actions to end or curtail business operations in Iran. This must also be supported by findings adopted by a rollcall vote of the CalPERS Board following a presentation and discussion of the findings in open session.

- **Divestment Policy**

The CalPERS Investment Committee had adopted a policy on divestment, which builds on the concept of fiduciary duty and some of the possible implications of divestment on these responsibilities. The policy defines instances when CalPERS will undertake divestment as follows:

1. CalPERS will sell targeted company investments or refrain from making them to the extent investment in the targeted company is imprudent and inconsistent with fiduciary duty.

2. CalPERS will comply with federal laws requiring divesting, if any.

3. To the extent required by law and consistent with fiduciary duty, CalPERS will comply with constitutional California state laws that require divesting.

- **Fiduciary analysis**

The Iran Act requires that CalPERS divest its shares in those companies that have not provided evidence of exemption from the Iran Act's provision, within 90 days of being notified. However, the Iran Act specifies that this does not "require the board to take action as described…unless the board determines, in good faith, that the action…is consistent with the fiduciary responsibilities of the board as described in Section 17 of Article XVI of the California Constitution." (Gov Code §7513.7(k).)

Hence, the Iran Act requires that divestment be consistent with the California Constitution which determines that the board of CalPERS acts with a singular focus on the purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the System.

In August 2012, two securities were determined by staff to be subject to the divestment provisions of the Iran Act. Global Equity staff analyzed the potential costs, market impact and potential to affect risk and return associated with a divestment of the two securities. Staff determined that the divestment would not be material due to the small size of the holdings. For that reason, a full fiduciary analysis was not commissioned, as the cost would have outweighed any potential benefit to the System. CalPERS did not own a position in one company - Oil India and had de minimis exposure to shares in Petronet LNG.

- **Liquidation**

The Iran Act requires the sale of any investments in companies subject to divestment within an 18 month time period from the point of such determination. CalPERS has completed liquidation of the one company subject to the Iran Act in 2012, and blocked future investments in the other company.

Reporting Requirement of Section 7513.7(i)(3) – Whether the Board has Reduced its Investments in any Companies Described in Section 7513.7(b) ("Covered Companies")

CalPERS has fully divested from one company which continues to have business activities in Iran and was unresponsive to CalPERS engagement: Petronet LNG Ltd.

Reporting Requirements of Section 7513.7(i)(6) – Detailed Summary of Investments Transferred to Funds or Accounts Devoid of Companies with Business Operations in Iran as Described in Section 7513.7(f)

CalPERS investment activity in the types of fund structures referenced in section 7513.7(f)(1)(2)(3) do not contain exposure to companies with Iran business operations to the best of staff's knowledge. No transfers have been made to different fund or account structures.

Progress on Company Withdrawal from Iran

The table that follows sets forth CalPERS current holdings in the non-US companies that have been identified as having business operations in Iran, as defined by the legislation.

The progress on company withdrawal from Iran or exemption from the Iran Act is as follows:

1. (Table 1) 2 companies under engagement by CalPERS.

2. (Table 2) 11 companies being monitored by CalPERS.

3. (Table 3) 5 companies restricted from ownership by CalPERS pursuant to the Iran Act.

Conclusion

CalPERS continues to diligently implement the requirements of the Iran Act. Through this process CalPERS has tracked significant progress in company withdrawal and reduction of activity in Iran. In part, this reflects the growing geo-political risk in the country, but it also demonstrates a positive response to active shareowner engagement and economic sanctions. CalPERS will continue to identify, notify, and make a determination to divest and liquidate investments in companies engaged in specified business operations in Iran, subject to materiality and CalPERS overriding fiduciary duty.

CalPERS will continue to ensure its compliance with the Iran Act, that the Board is kept fully apprised of developments, and that staff are positioned to review CalPERS response as required.

TABLE 1: 2 Companies Under Engagement by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2011***	***Shares Held by CalPERS 10/31/2012***	***Market Value ($) of Shares Held by CalPERS 10/31/2012***
Lukoil (Russia)	"Russian oil giant LUKOIL has resumed gasoline sales into Iran in partnership with China's state-run firm Zhuhai Zhenrong, even as the United States urges the international community to be tough with Tehran... A LUKOIL spokesman said 'one-off deliveries (to Iran after it decided to stop the shipments in spring) took place within the frame of previously signed contracts." (Reuters,"Russia resumes gasoline sales to Iran," 8/11/10).	CalPERS initiated engagement with Lukoil in 2012.	1,426,174	$85,900,462
Sinopec Yizheng Chemical (China)	"The delivery of millions of barrels of Iranian crude to its top buyer, China, is at risk of delay due to a dispute between refining giant Sinopec and shipper National Iranian Tanker Co (NITC) over freight terms, Beijing-based sources said. China has turned to NITC for delivery of the 500,000 barrels per day of crude it buys from Iran as a result of European Union sanctions . . . That left Sinopec unable to use Chinese shippers and forced it to use NITC. Sinopec, through Unipec and state-trader Zhuhai Zhenrong Corp, had scheduled to lift some 500,000 barrels per day of Iranian oil this month, traders said. Sinopec slashed its purchases of Iran crude by more than half in the first quarter in a dispute with Tehran over the cost of the crude and payment terms as it negotiated a 2012 supply contract. Iranian shipments to Sinopec started to rebound in April following the end of the dispute, but the damage to Iran's market share in China had already been done." (Reuters, "Exclusive: Freight dispute risks delay in Iran oil to China - sources," 7/2/12)	CalPERS initiated engagement with Sinopec Yizheng in 2012.	132,000	$27,762
		Category Total:	**1,558,174**	**$85,928,225**

TABLE 2: 11 Companies Being Monitored by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2011***	***Shares Held by CalPERS 10/31/2012***	***Market Value ($) of Shares Held by CalPERS 10/31/2012***
Bharat Petroleum Corporation (India)	India's Bharat Petroleum Corp has made its first payment for Iranian oil in rupees, two industry sources said on Tuesday, becoming the first refiner to use a payment channel that skirts tightening Western sanctions on Iran's trade. (Reuters, "India's BPCL starts rupee payments for Iran oil-sources," 6/19/12)	CalPERS initiated engagement with Bharat Petroleum in 2012. In correspondence with Bharat Petroleum dated July 9, 2012, the Company confirmed that it does not have any business activities subject to the divestment provisions of the Iran Act. CalPERS concluded that the Company is not subject to the divestment provisions of the Iran Act.	711,510	$4,646,545
Hyundai Heavy Industries (South Korea)	Hyundai Heavy Industries (HHI) owns a controlling stake in the Hyundai Corporation. Hyundai Corporation signed a $1.9 billion contract to provide Iran with materials "in the fields of shipbuilding, machinery, steel & metal, chemicals, home appliances, etc." As of 2010, HHI has ties to Iran through the supply of equipment for facilities and the delivery of ships and tankers to Iran state-owned companies. The U.S. Government Accountability Office reported in April 2010 that the company had special investments in Iran's energy sector between 2005 and 2009.	CalPERS initiated engagement with Hyundai Heavy Industries in 2012. In correspondence with Hyundai Heavy Industries dated June 21, 2012, the Company confirmed that it does not have any business activities subject to the divestment provisions of the Iran Act. CalPERS concluded that the Company is not subject to the divestment provisions of the Iran Act.	160,357	$33,671,147
KunLun Energy (Formerly CNPC Hong Kong) (Hong Kong)	CNPC Hong Kong announced its name change in KunLun Energy Company Limited (Kunlun) in February 2010. Kunlun is a publicly traded subsidiary of the state-owned China National Petroleum Corporation (Sinopec), which holds a 52.7 percent interest. It is assessed as tied to Iran because of its parent company's ties. Sinopec is deeply involved in Iran through oil exploration contracts and interests, refining, and commercialization of gas processing products. Kunlun has had a service contract for the Masjed Soleiman oilfields in Iran and has previously participated in the development of Block 11 of the South Pars gas field. Also, Kunlun is negotiating a seven-year contract to develop Block 14 of the South Pars gas field, which would give CNPC access to the estimated 370 billion cubic meters of gas reserves.	CalPERS has no current investment position in KunLun Energy.	0	0

TABLE 2: 11 Companies Being Monitored by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2011***	***Shares Held by CalPERS 10/31/2012***	***Market Value ($) of Shares Held by CalPERS 10/31/2012***
	In late July 2008, the Iranian government reached a USD100-billion-worth agreement with Sinopec, in which the firm agreed to purchase Iranian natural gas and help develop one of Iran's largest oil fields, according to an editorial in the Washington Times newspaper. In exchange, Tehran agreed to export 150,000 barrels of oil per day to China at "market prices." According to a ChinaDaily.com report in December 2007, the Iranian Oil Ministry awarded a USD2-billion contract for engineering services at the Yadavaran oilfield to Sinopec, along with 51 percent ownership of the project. This will be carried out in two subsequent phases of four and three years, respectively.			
Maire Tecnimont (Italy)	"Subsidiary company Tecnimont KT was hired as a contractor by the National Iranian Oil Refining and Distribution Company to expand their Arak refinery, the largest in the Middle East. The expansion allowed the refinery's capacity to increase to 100,000 barrels per day." Iran Branch Office (Company Website) "Maire Tecnimont S.p.A. has received a Letter of Intent from Petropars Ltd. ("PPL"), a company owned by Naftiran Intertrade Company ("NICO") which is a subsidiary of National Iranian Oil Company ("NIOC"), for work related to an integrated Gas Treatment Plant in Tombak (Iran). This work will be executed by a consortium formed by Tecnimont S.p.A. and the Iranian companies Nargan, Dorriz and Gamma. The cost is estimated to be approximately €1.3 billion, while Tecnimont's scope of work will include overall project management, engineering, procurement services and construction assistance for a total amount exceeding €200 million. The Contract is expected to be signed in July 2009 and its completion is expected end of 2012." (Company Press Release, 6/9/2009)	CalPERS initiated engagement with Maire Tecnimont in 2012. In correspondence with Maire Tecnimont dated July 18, 2012, the Company confirmed all existing projects are being closed out without renewal demonstrating agreement to curtail even its non-material business operations in Iran. In addition, Tecnimont confirmed that the Letter of Intent from Petropars to initiate an engineering, procurement, and construction (EPC) contract for an integrated gas treatment plant in Tombak (Iran) has not been acted upon. CalPERS concluded that the Company is not subject to the divestment provisions of the Iran Act.	1,102,747	$879,512.34

TABLE 2:
11 Companies Being Monitored by CalPERS

Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalPERS 10/31/2012*	*Market Value ($) of Shares Held by CalPERS 10/31/2012*
MISC Berhad (Malaysia)	MISC Berhad is the leading international shipping line of Malaysia. MISC Berhad operates a fleet of over 100 vessels, specializing in the shipping of energy products such as liquefied natural gas and petroleum (Company Website). MISC Berhad ships cargo to the Iranian port of Bandar Abbas, and describes its specific shipping policy for the port on its website. The company lists three other ports of call in Iran on its website.	CalPERS has no current investment position in MISC Berhad.	0	0
Oil & Natural Gas (ONGC) (India)	According to media reports in 2011, Oil & Natural Gas Corp., have been exploring how to jointly develop energy resources with Iranian partners.	CalPERS has no current investment position in ONGC.	0	0
PetroChina (China)	According to Iranian news media dated September 4, 2011, PetroChina will invest $8.4 billion to develop the Azadegan oilfield.	CalPERS has no current investment position in PetroChina.	0	0
Petronas (Malaysia)	In a statement issued October 5, 2010, Datuk Shamsul Azhar Abbas CEO of Petroliam Nasional Bhd (Petronas) said that the company has no intention of leaving Iran's market at the present time despite U.S. threats to punish companies continuing trade with the country.	CalPERS has no current investment position in Petronas.	0	0
Polskie Gornictwo Naftowe I Gazownictwo (PGNIG) (Poland)	In 2008, Polskie Gornictwo Naftowe i Gazownictwo (PGNiG) held preliminary talks "with Iran's Offshore Oil Company to cooperate on managing already-discovered gas reserves" in the Lavan gas field, for a contract worth $2 billion (Reuters, August 18, 2009 & Mehr News Agency, June 28, 2008). According to the firm's website, PGNiG signed a letter of intent in February 2008 (PGNiG Website, April 7, 2009).	CalPERS initiated engagement with PGNiG in 2012. In correspondence with PGNiG, the Company confirmed the project concerning potential development of the Lavan field offshore Iran was officially and definitely closed on November 23, 2010. In addition, PGNIG suspended negotiations due to sanctions imposed on Iran by the European Union and notified the Iranian party in writing on August 16, 2010. CalPERS concluded that the Company is not subject to the divestment provisions of the Iran Act.	6,205,023	$7,671,912

TABLE 2: 11 Companies Being Monitored by CalPERS				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2011***	***Shares Held by CalPERS 10/31/2012***	***Market Value ($) of Shares Held by CalPERS 10/31/2012***
PTT Public Company Ltd. (Thailand)	PTT Public Company Limited is the parent company of PTT Exploration and Production Pcl (PTTEP), and PTT Chemical Public Co (PTTCH), both of which are involved in Iran. In 2010, PTTEP Iran conducted a feasibility study and post-well evaluation in the Saveh Block. As of 2010, PTTCH holds a 10% stake in MEHR Petrochemical, an Iranian petrochemicals plant with high density polyethylene production capacity. PTTCH has no intention to increase its stake in MEHR. In correspondence dated July 2010, the Company confirmed operations in Iran within the parent company (PTT) and the subsidiaries PTTEP & PTTCH. In addition, the Company exceeds the $20 million dollar investment threshold.	In May 2011, the CalPERS Investment Committee approved divestment of shares in PTT Public Company Ltd. In correspondence with PTT Public Company dated July 19, 2011, the Company confirmed plans to cease the supply of Jet fuel to Iran Air. CalPERS concluded that the Company is not subject to the divestment provisions of the Iran Act.	1,553,500	$16,117,879
Saras Spa (Italy)	Italian oil refiner Saras SpA (SRS.MI), traditionally a big buyer of Libyan crude oil, said in a Reuters interview on Friday that it was looking at replacing oil shipments from Libya and had already slightly increased sour crude supplied from Iran.(Reuters, "Iran sells more oil as Libyan exports dwindle," 2/25/11)	CalPERS initiated engagement with Saras Spa in 2012. In correspondence with the Saras dated August 1, 2012, the Company confirmed due to European Union sanctions Saras stopped entirely any purchase of Iranian crude oil. CalPERS concluded that the Company is not subject to the divestment provisions of the Iran Act.	2,435,200	$3,253,353
		Category Total:	**12,168,337**	**$66,240,350**

TABLE 3: 5 Companies Restricted from Ownership by CalPERS Pursuant to the Iran Act				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2011***	***Shares Held by CalPERS 10/31/2012***	***Market Value ($) of Shares Held by CalPERS 10/31/2012***
CNOOC Ltd. (Hong Kong)	CNOOC Ltd. is a listed subsidiary of China National Offshore Oil Corp. (CNOOC) which is 70-percent owned by the Government of the People's Republic of China. CNOOC Ltd. itself does not have operations in Iran. Parent company CNOOC has stated that its affiliates or subsidiaries can be involved in restricted countries by the United States Sanctions Acts and State-level legislations. In March 2009, Iran's oil ministry stated that CNOOC had reached a deal to develop the North Pars gas field in the Persian Gulf (NP). CNOOC is reportedly expected to invest USD5 billion in upstream gas projects, and USD11 billion in gas liquefaction (downstream) facilities, until 2012. Iran and CNOOC had already signed a Memorandum of Understanding in 2006 for gas supply from Iran to China. In July 2009, CNOOC was reported by the Iranian Offshore Oil Company's managing director to have signed a cooperation agreement with Malaysia-based Amona for the development of Resalat oilfield. In its 2009 form 20-F, issued in April 2010, CNOOC Ltd. stated that the company is possibly subject to United States sanctions, as a result of "current or future activities by CNOOC Ltd. or its affiliates in countries that are the subject of U.S. sanctions as Iran and Sudan.”	In May 2011, the CalPERS Investment Committee approved divestment of shares in CNOOC Ltd. The Company, through its parent, has failed to take substantial action to curtail business operations in Iran.	0	0
Daelim Industrial Co. (Korea)	Daelim Industrial Co.'s website lists several offices in Iran, where the company is active. Currently, Daelim Industrial is collaborating with Iranian companies to upgrade the Esfahan refinery in Iran. In addition, it has secured a deal to build liquefied natural gas and liquefied petroleum gas tanks in Tombak, located in southern Iran. The Esfahan refinery project, which is to be completed in 2011, aims to give Iran more refining ability so that it no longer needs to import fuel. In 2009, it was reported that Daelim has secured a deal to build storage tanks, provide a fully integrated communication solution to equipment for an onshore gas plant and three offshore platforms of the South Pars gas field in Iran, and construct a	In May 2011, the CalPERS Investment Committee approved divestment of shares in Daelim Industrial. The Company has been unresponsive to CalPERS request to take substantial action to curtail business operations in Iran.	0	0

TABLE 3: **5 Companies Restricted from Ownership by CalPERS Pursuant to the Iran Act**				
Company Name (Domicile)	***Summary of Ties to Iran***	***Summary of Changes From 2011***	***Shares Held by CalPERS 10/31/2012***	***Market Value ($) of Shares Held by CalPERS 10/31/2012***
	gas refinery and an ethyl benzene plant in Iran. The company's 2008 Annual Report listed the following projects in progress in Iran: LNG & LPG Tank (2007-2011), Esfahan Refinery Upgrading Project (2007-2012) and AKPC LDPE Project (2005-2009). Daelim is carrying out the construction of a total of five LNG and LPG storage tanks on a turnkey basis in association with local contractor Ghorb Nooh. The client is National Iranian Oil Company, and the work is valued at USD 320 million. The company's 2008 Annual Report lists the following projects in progress in Iran: LNG & LPG Tank (2007-2011), Esfahan Refinery Upgrading Project (2007-2012) and AKPC LDPE Project (2005-2009). Daelim is carrying out the construction of a total of five LNG and LPG storage tanks on a turnkey basis in association with local contractor Ghorb Nooh. The client is National Iranian Oil Company, and the work is valued at USD 320 million. Three of the LNG tanks are to have capacities of 140,000 metric tons each and two capacities of 30,000 metric tons each in Tombak, southern Iran. Daelim awarded a contract to Metito, a wastewater treatment company, to install a major industrial system for phases 6, 7 and 8 of the gas field development in Iran. Daelim Industrial won contracts as part of a consortium to construct a gas refinery and an ethyl benzene plant.			
Edison Spa (Italy)	As of September 2010, Italy-based Edison is involved in Iran through a four-year exploration deal signed in January 2008, regarding the offshore oil and gas block Dayyer, tendered by the state-owned National Iranian Oil Company (NIOC). The exploration contract signed between Edison and the NIOC for the Dayyer block envisages an exploration period of four years, during which studies will be made, seismic data will be acquired and processed, and one exploration well will be drilled. Investments will be approximately EUR 30 million (USD 40 million) in total. If	In May 2011, the CalPERS Investment Committee approved divestment of shares in Edison Spa. The Company confirms operations in Iran exceed the $20 million investment threshold pursuant to the Iran Act and subsequently failed to take substantial action to curtail operations in Iran.	0	0

TABLE 3: 5 Companies Restricted from Ownership by CalPERS Pursuant to the Iran Act				
Company Name (Domicile)	*Summary of Ties to Iran*	*Summary of Changes From 2011*	*Shares Held by CalPERS 10/31/2012*	*Market Value ($) of Shares Held by CalPERS 10/31/2012*
	reserves are discovered, Edison will directly enter the development phase.			
Oil India Limited (India)	According to the company's 2009 annual report, Oil India has an exploration service contract in the Farsi Oil Block. The company, along with its partners ONGC Videsh (OVL) and Oil India Corporation (OIC) holds interest in the Farsi oil field. The US administration had in May 2010 named Oil India Ltd among the 41 firms worldwide having energy ties with Iran, an act for which it may impose sanctions on them." (Economic Times, "Oil PSUs to seek legal opinion of impact of sanctions on Iran," July 22, 2010).	In October 2012, the CalPERS Investment Committee approved a block in future share purchase in Oil India. The company did not demonstrate that they are taking substantial action or curtailing business operations in Iran.	0	0
Petronet LNG (India)	According to an Indian news agency, Petronet signed a Memorandum of Understanding in December 2009 to develop South Pars phase 12 and support Iran's building of a new LNG plant. Petronet holds a 20% stake in a consortium that includes ONGC Videsh (OVL) and the Hinduja Group (PTI, December 2, 2009). According to an Indian news service, the plant is being built by Iran LNG Co., a subsidiary of the National Iranian Oil Company (NIOC), at Tombak Port in Iran. As of November 2009, the plant was 25% complete and is expected to become operational in 2011 (Express India, November 16, 2009). The US administration had in May named Petronet LNG among the 41 firms worldwide having energy ties with Iran, an act for which it may impose sanctions on them. (Indian Express, "Oil PSUs seeking legal opinion on sanctions," 7/22/2010)	In October 2012, the CalPERS Investment Committee approved divestment of shares in Petronet LNG Ltd. The Company has failed to respond to multiple CalPERS attempts for engagement in relation to the Iran Act.	0	0
		Category Total	**0**	**$0**

Appendix A:

Definitions

"**Authorized business operations**" – A United States company that is authorized by the federal government to have business operations in Iran.

"**Board**" – The Board of Administration of the Public Employees' Retirement System or the Teachers' Retirement Board of the State Teachers' Retirement System, as applicable.

"**Business operations**" – The company (A) is invested in or engaged in business operations with entities in the defense or nuclear sectors of Iran or (B) is invested in or engaged in business operations with entities involved in the development of petroleum or natural gas resources of Iran, and that company is subject to sanctions under Public Law 104-172 (any entity that has invested at least $20 million in any year since 1996 to develop petroleum or natural gas resources of Iran), as renewed and amended in 2001 and 2006.

"**Humanitarian activity**" – A company primarily engaged in supplying goods or services intended to relieve human suffering in Iran or a company that promotes health, education, or journalistic, religious, or welfare activities in Iran.

"**Substantial action**" – A boycott of the government of Iran, curtailing business in Iran or selling company assets, equipment or real and personal property located in Iran.

Appendix B:

Requirements

The implementation steps and requirements specified within the Iran Act are:

1. Identification of companies, through publicly available information, with activities in the specified areas.

2. Notification to such companies that their activities may make them subject to divestment unless they take “substantial action” within 90 days.

3. Determination by June 30, 2008 which companies may be subject to “divestment” due to lack of “substantial action” or progress toward it.

4. Monitor and review companies making sufficient progress toward “substantial action” for up to 12 months from the initial notification.

5. Determination: Upon determination that a company is subject to “divestment”, making no further investments into such company.

6. Fiduciary analysis to determine that actions to be taken are consistent with the boards’ fiduciary responsibilities as established in the “California Constitution, article 16, section 17”.

7. Liquidation within 18 months of investments determined to be subject to “divestment”.

8. Report annually (beginning January 1, 2009) to the California Legislature regarding the status of CalPERS compliance with the Iran Act (see note below).

Appendix C:

CalPERS Divestment Determination Process

Staff implements the following process to determine the costs and values of divestment under Government Code Section 7513.6:

A. Firms Involved: Obtain list of companies considered for divestment.

B. Approximate Value: Determine the market value of CalPERS holdings in each individual company as well as the approximate total value of the list of companies considered for divestment.

C. Divestment Determination Steps:

   1. Determine the company has failed to complete, or has failed to make sufficient progress towards substantial action within the time specified by statute.

   2. Estimate the trading costs and price impact using an applicable trading cost model, and estimate how long it would take to sell the securities after the decision to divest.

   3. Use a portfolio construction process and simulate reinvestment of the proceeds of the sales of divested securities, aiming at a minimal expected performance impact on the appropriate asset class portfolio.

   4. Estimate the execution costs of the reinvestment trade list, using the appropriate trading cost model.

   5. Use the new expected performance impact estimate (from No. 3 above) to calculate the performance at risk (PAR) resulting from divestment.

   6. Include any expected loss-of-opportunity performance impact with the costs of divestment.

   7. Calculate the costs and values as determined above.

   8. Gather and analyze all additional facts that could be relevant to a divestment decision

   9. Review with Fiduciary Counsel and General Pension Consultant, and prepare a recommendation to the Board: either in favor of divestment, or in favor of a Section 7513.6(k) determination.

   10. Submit the recommendation to the Investment Committee.

   11. If the decision is to divest, isolate the affected securities and immediately notify all appropriate managers to cease purchasing the identified entity's securities.