COMPANIES MUST SUCCEED OVER TIME

Our owner has set us a clear objective: to deliver the highest possible return over time. We achieve this through active management and active, responsible ownership.

The management mandate for the Government Pension Fund Norway states that Folketrygdfondet is to deliver the highest possible return over time. For the purposes of our day-to-day management activities, we have translated this into two sub-goals:

- To achieve a better return than the market in general (excess return compared to benchmark indices).
- To support long-term value creation among companies and in the market.

These goals constitute the foundation for our investment philosophy. We engage in active management to achieve the goal of an excess return, while the goal of contributing to long-term corporate value creation is achieved through active, responsible ownership and the development of good practice and well-functioning markets. We have found that the two goals are interdependent. Our active ownership makes us a better investor.

Team-based management is important

Experience has shown us that the best investment decisions are often made when one is open to new information and interested in different perspectives and views. That is why we have adopted a team-based approach to active management at Folketrygdfondet. We give high priority to collaboration and information-sharing when constructing our equity and fixed-income portfolios. We hold weekly meetings at which the portfolio management teams coordinate their investment decisions. We also have daily meetings at which the listed equity, fixed-income and treasury departments exchange information. This includes in-depth reviews of macroeconomic data, trends, sectors and companies, as well as environmental, social and governance (ESG) issues. We use the insights from these meetings in our analysis of the quantitative and qualitative characteristics of portfolios and companies. We believe that our team-based management model builds expertise and enables us to achieve our overarching aim of the highest possible long-term return.

High-quality companies

In our active management, we select companies and over- and under-weightings compared to our benchmark index. Our investment decisions are based on financial analysis, ongoing contact with companies and ESG analyses. Our aim is to beat the market in the long term, i.e. to generate an excess return by exploiting our individual characteristics and advantages. Furthermore, to implement our mandate, we look to invest in companies that are long-term value generators. Our long-term returns are dependent on strong, consistent performance by the companies in which we invest, and on efficient and well-functioning markets.

Folketrygdfondet’s ownership role

Our priorities

Dialogue
Nomination committees and governing bodies
Good practice development
The fixed-income portfolio

OUR INVESTMENT PHILOSOPHY SUMMARISED

THE HIGHEST POSSIBLE RETURN OVER TIME

Excess return

Value-creation

Active manager

Active and responsible owner

Team-based – Expertise – Risk-awareness

Illustration 9

OUR APPROACH TO ACTIVE MANAGEMENT

Qualitative assessment of deviations from the benchmark index:
- Topic/trends
- Sector
- Geography
- Size of the deviation
- Liquidity
- Accuracy
- Time horizon
- Volatility/risk

Analysis of portfolio characteristics

The equities portfolio

Company analysis

Assessment of quantitative characteristics:
- Pricing
- Factor analysis
- Risk-tracking error

Valuation based on:
- Cash flow
- Growth
- Cost of capital
- Capital return
- Pricing multiples

Illustration 10
Qualitative assessment is crucial
In our experience, the most successful companies over time are characterised by good corporate governance, a good competitive position and well-considered strategies. In practice, such companies have capable boards and management, a clear, well-founded strategy for long-term value creation, take a long-term view of resources and risk, and exploit the opportunities offered by sustainable development. We invest our time and resources in qualitative assessment of factors related to strategy, corporate governance and competitive position. These assessments provide the basis for our quantitative company analysis.

KEY TOPICS IN OUR QUALITATIVE ANALYSIS:
- Clear, well-founded strategy for long-term value creation
- Capital return and growth targets
- Effective capital structure
- Comprehensive risk assessment
- Sustainable business model
- Predictable dividend policy

- Board composition
- Management and executive remuneration
- Reporting and transparency
- Corporate responsibility
- Ownership structure

- Growth opportunities
- Competitive advantage
  - Barriers to entry
  - Pricing power
  - Cost leadership
  - Ability to change/adapt

OUR COMPANY ANALYSIS SUMMARISED

HIGH-QUALITY COMPANIES

Corporate governance
Competitive position
Framework conditions
Regulatory provisions
Policy

Trends
Sector dynamics
Macro-analysis

Strategy

Growth
Pricing multiples
Cost of capital
Cash flow
Capital return

QUANTITATIVE ASSESSMENT

HIGH-QUALITY COMPANIES

Corporate governance
Competitive position

Illustration 11
Illustration 12
Folketrygdfondet’s ownership role

Folketrygdfondet’s ownership role


table 13

We tailor our responsible investment activities to our various portfolios.

The management mandate and our individual characteristics guide our selection of tools in the context of responsible investment.

We adapt our approach and the tools we use to our different financial instruments and portfolios. This is necessary to ensure that our responsible investment efforts serve the overarching aim of a highest possible return over time. In this assessment, we look at factors such as our influence over ESG issues pre- and post-investment. Nonetheless, we give priority to promoting well-functioning, legitimate and efficient markets in connection with all our financial instruments and portfolios. In part, this involves supporting the development of strong national responsible investment standards.

In the case of bonds, we have the greatest influence before we invest, since bondholders receive no ownership rights. We therefore focus on robust pre-investment ESG analysis to identify issues that may affect creditworthiness. As regards our equity investments, we have the greatest opportunity to influence ESG factors once invested, through our ownership rights. This makes active ownership an important tool in relation to the equity portfolio. Other instruments are used in connection with liquidity investments and currency hedging. Due to the low anticipated impact of ESG fac-

Responsibility management

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Responsible investment instruments

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Ownership report

Folketrygdfondet’s ownership role

We tailor our responsible investment approach to our different financial instruments

Higher

Equities

Higher

Other instruments

Lower

Bonds

As an investor

Influence/control over ESG factors

MAJOR PLAYER ON THE OSLO STOCK EXCHANGE

Folketrygdfondet is one of the largest financial investors on the Oslo Stock Exchange. Folketrygdfondet is a top-three shareholder in 41 listed companies.

It is important for companies to maintain contact with their largest shareholders, both on an ongoing basis and in connection with strategically important developments such as acquisitions and changes in capital structure. We are highly aware of our responsibility in this regard, and thus prioritise time and resources in our ownership dialogues.

The management mandate specifies that Folketrygdfondet may hold interests representing up to 15 percent of the share capital of any Norwegian company, compared to five percent in the case of companies from the other Nordic countries.

Future responsible investment efforts

In last year’s ownership report, we stated that our priority going forward would be further development of our reporting systems. We have implemented this in 2016. We have amended how we report company dialogues on our website, and now group dialogues by topic rather than sector. Further, dialogues relating to the exercise of creditor rights are now also included.

We will continue to develop our internal reporting systems in 2017.

In 2016, we also continued to develop the structure for our active ownership activities to strengthen the foundation for formulating objectives and reporting individual results. Financial investors like us can find it difficult to report and evaluate the results achieved through active ownership. Our aims are often linked to company conduct. It can be difficult to quantify how much we have contributed to a change of conduct or course on the part of a company. In our capacity as an investor, we can make demands and communicate our principles and expectations. However, implementation and achievement of change is the responsibility of the individual companies. This important principle guides the distribution of roles and responsibilities between investors, the company board and management. It is therefore natural for us to set targets related to our activities for our future active ownership efforts.

WE TAILOR OUR RESPONSIBLE INVESTMENT APPROACH TO OUR DIFFERENT FINANCIAL INSTRUMENTS

The size of the circle indicates the relative size of the instrument

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FOLKETRYGDFONDET’S OWNERSHIP INTERESTS ON THE OSLO STOCK EXCHANGE

Companies in which Folketrygdfondet owns more than five percent of equity or is among the three largest shareholders.

<table>
<thead>
<tr>
<th>Company name</th>
<th>FTF’s shareholder ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordic Semiconductor</td>
<td>14.34% 1</td>
</tr>
<tr>
<td>Norwegian Property</td>
<td>14.34% 2</td>
</tr>
<tr>
<td>Storebrand</td>
<td>12.81% 1</td>
</tr>
<tr>
<td>Volvo</td>
<td>12.55% 2</td>
</tr>
<tr>
<td>Norwegian Air Shuttle</td>
<td>11.27% 2</td>
</tr>
<tr>
<td>Ekornes</td>
<td>10.51% 2</td>
</tr>
<tr>
<td>Marine Harvest</td>
<td>10.03% 2</td>
</tr>
<tr>
<td>Opera Software</td>
<td>10.03% 1</td>
</tr>
<tr>
<td>Petrolém Geo-Services</td>
<td>9.97% 2</td>
</tr>
<tr>
<td>Nordic Nanovector</td>
<td>9.87% 2</td>
</tr>
<tr>
<td>TGS-NOPEC Geophysical Company</td>
<td>9.84% 1</td>
</tr>
<tr>
<td>Renholden</td>
<td>9.18% 3</td>
</tr>
<tr>
<td>Subsea 7</td>
<td>8.86% 2</td>
</tr>
<tr>
<td>Entra</td>
<td>8.76% 2</td>
</tr>
<tr>
<td>Atea</td>
<td>8.51% 2</td>
</tr>
<tr>
<td>Ottla</td>
<td>8.33% 2</td>
</tr>
<tr>
<td>Sydbank</td>
<td>8.10% 2</td>
</tr>
<tr>
<td>SaMar</td>
<td>7.40% 2</td>
</tr>
<tr>
<td>Norsk Hydro</td>
<td>7.03% 2</td>
</tr>
<tr>
<td>Kongsberg Gruppen</td>
<td>6.53% 3</td>
</tr>
<tr>
<td>Yara International</td>
<td>6.48% 2</td>
</tr>
<tr>
<td>TomTom Studios</td>
<td>6.44% 2</td>
</tr>
<tr>
<td>DNB</td>
<td>6.32% 3</td>
</tr>
<tr>
<td>Europris</td>
<td>6.31% 2</td>
</tr>
<tr>
<td>XLI</td>
<td>6.27% 2</td>
</tr>
<tr>
<td>Aker Solutions</td>
<td>5.98% 3</td>
</tr>
<tr>
<td>REC Silicon</td>
<td>5.92% 2</td>
</tr>
<tr>
<td>Bakkafrost</td>
<td>5.87% 4</td>
</tr>
<tr>
<td>AF Gruppen</td>
<td>5.37% 4</td>
</tr>
<tr>
<td>Tenner</td>
<td>5.07% 2</td>
</tr>
<tr>
<td>Olav Thun Eiendomskap</td>
<td>5.07% 2</td>
</tr>
<tr>
<td>Fanstad Shipping</td>
<td>5.06% 3</td>
</tr>
<tr>
<td>Aker BP</td>
<td>4.74% 3</td>
</tr>
<tr>
<td>Lerøy Seafood Group</td>
<td>4.33% 2</td>
</tr>
<tr>
<td>Gjensidig Forárkning</td>
<td>4.25% 2</td>
</tr>
<tr>
<td>Aker</td>
<td>3.85% 2</td>
</tr>
<tr>
<td>WiH, Wilhelmshavn Holding</td>
<td>3.79% 3</td>
</tr>
<tr>
<td>Fred. Olsen Energy</td>
<td>3.67% 2</td>
</tr>
<tr>
<td>Statoel</td>
<td>3.64% 2</td>
</tr>
<tr>
<td>Grøg Seafood</td>
<td>3.08% 3</td>
</tr>
<tr>
<td>BW LPG</td>
<td>2.06% 3</td>
</tr>
<tr>
<td>WiH, Wilhelmson</td>
<td>2.06% 3</td>
</tr>
<tr>
<td>Stolfi-Nielsen</td>
<td>2.00% 3</td>
</tr>
</tbody>
</table>

Sources: Company websites, VPS and stock exchange notices.

When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together where Folketrygdfondet has information to indicate that this is correct.

OUR PROCEDURES

Meetings with board chairs and management are the most common instrument used by Folketrygdfondet in its active ownership. Other important arenas include general meetings, corporate assemblies and nomination committees.

Arenas

Folketrygdfondet aims to be a demanding but reliable and responsible owner. Active, constructive dialogue with portfolio companies suits Folketrygdfondet’s role as a large, long-term investor. Meetings and other contact with board chairs and management allow companies to get to know us, and vice versa. Knowing the companies is the primary aim in most of our dialogues. We need to know the companies we invest in so that we can make sound investment decisions, assess capital requirements and identify areas in which we can exert influence.

Folketrygdfondet votes at the general meetings of the companies in which it is invested. When we vote against a board proposal, we publish an explanation of our decision.

Folketrygdfondet does not hold any directorships in the companies in which it invests, but we do involve ourselves in the election of company boards and may participate in nomination committees and corporate assemblies.

Topics

We have defined five key ownership issues with which we engage and on which we have an opinion:

- financial targets and capital structure
- board composition
- executive remuneration
- good corporate governance
- reporting and transparency.

We are also focused on ensuring that portfolio companies address material ESG issues. To make the dialogue as productive as possible for both parties, we have published a number of guidance documents on key topics. See ftf.no.

ACTIVE OWNERSHIP IN SEVERAL ARENAS:

| Sources: Company websites, VPS and stock exchange notices. |
| When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together where Folketrygdfondet has information to indicate that this is correct. |
The portfolios
Our active ownership in Danish, Finnish and Swedish companies follows the same principles as in Norwegian companies. However, Folketrygdfondet’s shareholdings in the other Nordic markets are smaller, and spread among a larger number of companies, and we adapt our active ownership activities accordingly. Further, the role of bondholders differs from the role of shareholder, not least because only shareholders have ownership rights. Relations between bondholders and companies are governed by the loan agreement, and there is limited dialogue with the company unless an undesirable event such as default occurs. Active ownership therefore takes a different form for our equity and bond investments.

Active ownership challenges
We devote considerable time and resources to our active ownership, and seek to ensure that the portfolio companies are aware of our expectations. We communicate the importance of addressing ownership issues and other material ESG topics in our general active ownership efforts, and raise specific cases where we feel that companies are not acting in line with our expectations. There is increasing understanding among the portfolio companies of our financial motivation for focusing on ownership issues and addressing material ESG issues, and the companies often have a mature approach to such topics. Nonetheless, it sometimes takes time for companies to start operating in accordance with our expectations, because such cases are often complex and entail dilemmas and balancing acts.

OUR ACTIVE OWNERSHIP OBJECTIVES:

<table>
<thead>
<tr>
<th>Objective</th>
<th>1. “We know the portfolio companies”</th>
<th>2. “They know us”</th>
</tr>
</thead>
<tbody>
<tr>
<td>How</td>
<td>Know the companies</td>
<td>Influence the companies</td>
</tr>
<tr>
<td>Purpose</td>
<td>Increase our understanding of the companies</td>
<td>Improve the companies’ awareness of and compliance with our principles and expectations</td>
</tr>
<tr>
<td>Arena</td>
<td>Dialogue</td>
<td>General meetings, dialogue, nomination committees, promote best practice</td>
</tr>
<tr>
<td>Indicator</td>
<td>Excess return</td>
<td>Support value creation in the companies in which we invest</td>
</tr>
</tbody>
</table>

ACTIVE OWNERSHIP CHALLENGES:

- **Complexity**
  - ESG-related issues are seldom clear-cut.

- **Long-term perspective**
  - Change processes often take time, as does finding solutions that match Folketrygdfondet's expectations.

- **Distribution of roles and responsibilities**
  - We emphasise dialogue and company initiative behind change processes.
  - We focus on preserving the normal distribution of work between boards and general meetings.
WE MONITOR FINANCIAL RISK

We monitor ESG issues of material importance to the portfolio companies and with a potential financial impact on us.

The matters we focus on are determined by an assessment of:
- Folketrygdfondet’s exposure.
- Significance of failure to address

Topics that score highly on both of the above factors are considered as potential topics in our company dialogue. The list is updated annually, and in the event of material changes. Accordingly, different topics remain a priority for different lengths of time. We may also decide to defer efforts in a given area if we see that the companies need time to make necessary changes.

What do we hope to achieve?
By focusing on ESG matters, we hope to contribute to companies managing material challenges and thereby secure the best possible foundation for long-term value creation.

In 2017, we will continue to focus on our ownership agenda and other material ESG-related risks and opportunities. In this regard, we plan to concentrate on climate change, anti-corruption, human rights and workers’ rights. We will also communicate our expectation that portfolio companies will comply with the Oslo Børs Guidance on the reporting of corporate responsibility.

FINANCIAL TARGETS AND CAPITAL STRUCTURE

Well-founded strategic priorities are a prerequisite for efficient capital utilisation and profitability over time. That is why we expect the portfolio companies to adopt long-term financial targets and communicate these clearly to the market.

In our experiences, companies that have long-term financial targets and communicate these clearly achieve stronger profitability and value creation than companies without clear targets.

The Norwegian business sector faces substantial challenges and necessary restructuring. We consider clear communication by companies of their strategies and long-term financial targets to be extremely important. Not least, such communication can help ensure that good investments are made and poor ones are avoided.

What do we hope to achieve?
Our objective is maximum value creation by the companies and in the market generally. That is why we want companies to communicate clear targets for their return on capital, growth, and capital structure, and to provide good reasons for their strategic priorities. This includes having a clear, predictable dividend policy. From our perspective as an asset manager, this focus on communication is also about obtaining reliable data from companies. We want to have the best possible insight into the assessments, criteria and objectives that underpin the companies’ strategies for long-term competitiveness, growth, and profitability.

What are we doing?
We have prepared a guide detailing our expectations as to both board-level development of financial targets and the portfolio companies’ communication and reporting activities. The guide is available on ftf.no.

We hope to promote more efficient allocation of capital by companies and markets, and to contribute to capital discipline. Neither we nor other investors can take over the responsibilities and role of the board of directors. However, we can ask the right questions and expect satisfactory answers.

Developments in 2016
Since 2013, Folketrygdfondet has conducted an annual survey of the companies listed on the Oslo Stock Exchange to identify how many have adopted financial targets and capital structure.

How we analyse ESG risks

We monitor material risks in various ways, including dialogue with the portfolio companies, joint initiatives with other investors and surveys.

What are we doing?
We monitor material risks in various ways, including dialogue with the portfolio companies, joint initiatives with other investors and surveys.

DIALOGUE REGARDING FINANCIAL TARGETS AND CAPITAL STRUCTURE IN 2016

<table>
<thead>
<tr>
<th>Topic</th>
<th>Purpose of the measure</th>
<th>Number of companies</th>
<th>Number of dialogue meetings</th>
<th>Status and results</th>
<th>Going forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial targets and capital structure</td>
<td>Know the companies’ procedures</td>
<td>27</td>
<td>39</td>
<td>Improved understanding of the companies’ maturity and procedures</td>
<td>Continue efforts in 2017</td>
</tr>
<tr>
<td></td>
<td>Make the companies aware of our expectations</td>
<td></td>
<td></td>
<td>Increased understanding of our expectations among the companies</td>
<td></td>
</tr>
</tbody>
</table>

Our priorities

<table>
<thead>
<tr>
<th>Topic</th>
<th>Purpose of the measure</th>
<th>Number of companies</th>
<th>Number of dialogue meetings</th>
<th>Status and results</th>
<th>Going forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial targets and capital structure</td>
<td>Know the companies’ procedures</td>
<td>27</td>
<td>39</td>
<td>Improved understanding of the companies’ maturity and procedures</td>
<td>Continue efforts in 2017</td>
</tr>
<tr>
<td></td>
<td>Make the companies aware of our expectations</td>
<td></td>
<td></td>
<td>Increased understanding of our expectations among the companies</td>
<td></td>
</tr>
</tbody>
</table>
Our priorities

CLIMATE CHANGE

Folketrygdfondet expects companies to address climate risks and provide reliable information on their efforts in this area through reporting. Our objective is to reduce climate risk in the portfolio over time.

Greenhouse gas emissions are an important risk driver to which our portfolio has significant exposure, and we are therefore focused on reducing portfolio climate risk.

This is why we are interested in how individual companies respond to challenges related to climate change, in terms of both risk assessment and related measures such as emissions reductions and adaptation to changes in legislative and regulatory frameworks, customer preferences, weather conditions and access to raw materials. A further focus area is the ability of companies to identify long-term commercial opportunities. In our view, companies that take climate issues seriously and address them in their strategies are more likely to be among the companies that outperform in the future.

What do we hope to achieve?

Folketrygdfondet requires sound, reliable information for use in company analysis. We therefore welcome reporting by companies on emissions and material climate opportunities and risks.

Such reports may cover greenhouse gas emissions, absolute and relative targets for emissions reductions, and overviews of risks and investments required to adapt to expected climate-related changes, including future legislation and customer demands.

What are we doing?

We have developed a guide that sets out our expectations as to the portfolio companies’ efforts to deal with climate challenges and their reporting on risks and opportunities, targets and results. The guide is available on fit.no.

We have conducted carbon footprint analyses of the Norwegian equity portfolio since 2013. The analysis for 2016 measures greenhouse gas emissions for the equity portfolio as a whole (weighted to reflect our ownership percentages), and makes a comparison with our selected benchmarks. Folketrygdfondet’s CO2e analysis* is based on our Nordic equity portfolio as at 31 December 2016. The analysis incorporates the latest available data on direct emissions (Scope 1) and indirect emissions from energy (Scope 2). Estimates are used for companies that do not report emissions directly or to the CDP.

We use the following indicators in our emissions reporting:

1. The portfolio’s absolute CO2 emissions. The figure is based on the total emissions of the portfolio companies, adjusted to reflect our ownership percentages (tonnes of CO2e).
2. The portfolio’s CO2 intensity. The figure is based on the portfolio companies’ total CO2 emissions compared to sales/assets (tonnes of CO2e/NOK million in sales/assets), adjusted to reflect our share of the companies’ market value.
3. The portfolio’s CO2 efficiency. The figure is based on the portfolio companies’ emissions compared to our investment (tonnes of CO2e/NOK million invested).

The emissions analysis improves our understanding of the financial risks associated with future emissions pricing (price of CO2). The analysis also gives us deeper insight into how prepared companies are to respond to climate-related risks and opportunities. This insight is useful in our company analyses, and as a starting point for active ownership.

However, the CO2 analysis also has limitations. For example, it does not tell us:

- How the companies in the equity portfolio are positioned regarding the transition to a low-emissions economy.
- The portfolio’s overall climate risk, including how the portfolio will be impacted by extreme weather, drought, flooding and changes in access to raw materials.

Increased awareness of climate risk

Folketrygdfondet has focused on improving its understanding of portfolio climate risk for several years. A key aspect of these efforts is dialogue with the portfolio companies, with the particular aim of understanding how companies approach climate issues. We also want companies to be familiar with our expectations.

In 2016, two new companies submitted reports to CDP (formerly known as Carbon Disclosure Project), and a further four Nordic companies resumed CDP reporting. In addition, numerous companies have improved their CDP reporting by including additional operational areas in their reports and expanding the quantitative focus of their risk analyses. In addition to increased reporting, we have also noted a gradual change in corporate attitudes towards climate reporting, and increased understanding of the financial relevance of climate issues. We are finding that companies are increasingly seeking to turn climate-related developments into competitive advantages, for example by responding proactively to new legislation.

Emissions analysis for the share portfolio as at 31 December 2016

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Portfolio</th>
<th>Benchmark Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2 emissions (tonnes of CO2e)</td>
<td>2,702,152.03</td>
<td>169,665,438.44</td>
</tr>
<tr>
<td>CO2 intensity (tonnes/NOK million in sales/assets)</td>
<td>25.26</td>
<td>26.35</td>
</tr>
<tr>
<td>CO2 efficiency (tonnes/NOK million invested)</td>
<td>20.40</td>
<td>21.21</td>
</tr>
</tbody>
</table>

Percentage of companies that report their greenhouse gas emissions: 60%

Percentage of companies that report to the CDP: 46%
Ownership report

Our priorities

Developments in 2016

The CO2 analysis is used to decide which companies to prioritise in the context of our efforts to understand and reduce portfolio climate risk. In our dialogues with companies, we have urged them to develop strategies and targets, and to implement measures to reduce their exposure to risks associated with the emission of greenhouse gases.

We are also focused on increasing the proportion of companies that report their emissions, and have raised the issue in our climate-related dialogue meetings. In 2016, along with other European investors, we participated in an initiative designed to boost corporate climate reporting under the auspices of the CDP. Through the initiative, we encouraged 30 Nordic companies to begin reporting to the CDP.

AQUACULTURE

Sustainable aquaculture is a prerequisite for increased growth and long-term value creation in the industry. We expect the companies in our portfolio to address key sustainability challenges such as lice, escapes, fish health and feed.

The aquaculture industry is an important growth industry. We have invested in five fish-farming companies. At the end of 2016, Folketrygdfondet had shareholdings in Salmar (7.4 percent), Marine Harvest (10.2 percent), Lerøy Seafood Group (4.3 percent), Bakkafrost (5.9 percent) and Grieg Seafood Group (3.1 percent) with a total value of NOK 11.98 billion. In the past year, we have been in touch with all of these companies to survey and reduce the risk in our portfolio.

What do we hope to achieve?

Failure to address sustainability challenges such as lice, escapes and feed has the potential to increase costs, reduce revenues and trigger the loss of reputation and production licences. As a long-term investor, we expect companies to have reliable processes in place to identify and manage such problems, so that the companies and the industry are able to generate value over

CLIMATE DIALOGUE IN 2016

<table>
<thead>
<tr>
<th>Topic</th>
<th>Purpose of the measure</th>
<th>Number of companies</th>
<th>Number of dialogue meetings</th>
<th>Status and results</th>
<th>Going forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate</td>
<td>Know how the companies deal with climate-related risks and opportunities</td>
<td>36</td>
<td>25</td>
<td>Improved understanding of the companies’ maturity and reporting</td>
<td>Continue efforts in 2017. This is a maturation process that will take time</td>
</tr>
<tr>
<td></td>
<td>Make the companies aware of our expectations regarding climate issues</td>
<td></td>
<td></td>
<td>Increased understanding of our expectations among the companies</td>
<td></td>
</tr>
</tbody>
</table>

HOW WE WORK IN THE AQUACULTURE INDUSTRY:

1. Identify
   - Sustainability is a prerequisite for long-term profitability.
   - Lice, escapes and feed are relevant issues.

2. Prioritise
   - The salmon louse is the primary priority.

3. Optimise
   - Dialogue with management and board chair.
   - Talks at conferences.
   - Opinion pieces in newspapers.
   - Interviews in industry journals.
   - Letters to the board of directors.

4. Implement
   - Raised in general company follow-up and dedicated dialogues over several years.
   - Portfolio manager and ESG analysts prepare and document.

5. Evaluate
   - Companies failing to make desired changes.
   - Additional instruments used.
time. We also expect the portfolio companies to report relevant information relating to these topics. This should include policies, action plans, long-term goals and results.

What are we doing?
We have been raising the challenges facing the industry in our meetings with company management for several years, including issues such as lice, fish health, escapes, feed and pollution. We have received thorough responses from the companies, and have clearly communicated the financial risk we see in the industry’s sustainability challenges. In 2015, we also sent a letter to the board chairs of all the companies. These resulted in good descriptions of the steps taken by the boards in response to these challenges.

Developments in 2016
We have positive experiences from our dialogue with the portfolio companies, and in 2016 discussed the problems caused by lice at all meetings with the aquaculture companies. The aquaculture industry appears to still have to be overcome, and we expect the companies to continue efforts in 2017.

Sustainability is a prerequisite for growth.

### Salmon lice, a major risk connected to our aquaculture investments
Fish-farming is an important investment area for Folketrygdfondet, and we have historically been over-weighted in this sector. This has contributed to our excess return. However, problems associated with salmon lice constitute a major risk in this context.

Salmon prices were high in 2016. At the same time, the difficulties and costs linked to salmon lice are considerable. The failure to control lice problems is having a negative impact on operational efficiency and growth prospects, and the industry as a whole needs to find a solution to the problem.

“The Norwegian salmon industry has a competitive advantage in terms of climate and through Norway’s long, sheltered coastline. However, costs have risen, undermining competitiveness and possibly reducing the potential for growth and value creation in the long term. This is a material concern, and a risk factor in the industry. To ensure maximum long-term value creation, it is important to resolve the challenges relating to biology and lice.”

From an interview with Ann Kristin Brautaset, Deputy Director Equities at Folketrygdfondet, in Intrafish on 6 January 2016.

### AQUACULTURE DIALOGUE IN 2016

<table>
<thead>
<tr>
<th>Topic</th>
<th>Purpose of the measure</th>
<th>Number of companies</th>
<th>Status and results</th>
<th>Going forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aquaculture</td>
<td>Understand how the companies deal with salmon louse-related risks</td>
<td>5</td>
<td>Improved understanding of the companies’ procedures</td>
<td>Continue efforts in 2017. It will take time for the companies to find a sustainable solution to salmon louse-related challenges</td>
</tr>
<tr>
<td></td>
<td>Make the companies aware of our expectations</td>
<td></td>
<td>Increased understanding of our expectations among the companies</td>
<td></td>
</tr>
</tbody>
</table>

### ANTI-CORRUPTION DIALOGUE IN 2016

<table>
<thead>
<tr>
<th>Topic</th>
<th>Purpose of the measure</th>
<th>Number of companies</th>
<th>Status and results</th>
<th>Going forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-corruption</td>
<td>Better understanding of the companies’ procedures</td>
<td>12</td>
<td>Increased understanding of our expectations among the companies</td>
<td>Continue efforts in 2017.</td>
</tr>
<tr>
<td></td>
<td>Make the companies aware of our expectations</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
HUMAN AND WORKERS’ RIGHTS

In its capacity as an investor, Folketrygdfondet cannot accept involvement by portfolio companies in human and workers’ rights violations, regardless of where the companies operate. That is why we expect the portfolio companies to avoid and prevent breaches of human and workers’ rights. The appropriate measures depend on where in the supply chain the risk of such infringements arises.

Breach and violation of human and workers’ rights has a negative impact on economic growth, promotes social inequality, and fosters political and civil unrest. For companies, breaches and violations may entail operational disruption due to delays, reduced productivity and lower quality. Companies may also suffer a reputational loss.

What do we hope to achieve?

We expect the portfolio companies to avoid and prevent breaches of human and workers’ rights by adopting a careful approach and conducting necessary analyses to survey risk exposure.

FOLLOW-UP RELATING TO HUMAN AND WORKERS’ RIGHTS IN 2016

<table>
<thead>
<tr>
<th>Topic</th>
<th>Purpose of the measure</th>
<th>Number of companies</th>
<th>Status and results</th>
<th>Going forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human and workers’ rights</td>
<td>Know the companies’ procedures</td>
<td>15</td>
<td>Better understanding of the companies’ maturity and procedures</td>
<td>Continue efforts in 2017</td>
</tr>
<tr>
<td></td>
<td>Make the companies aware of our expectations and relevant international standards</td>
<td></td>
<td>Increased understanding of our expectations among the companies</td>
<td></td>
</tr>
</tbody>
</table>
WE ARE AVAILABLE TO THE COMPANIES

Our aim is to be perceived as constructive and professional owner by the companies. We will ask challenging questions about material issues, and will also be available to the companies.

In some cases, Folketrygdfondet will ask a company for an update, feedback, clarification or action on a specific matter, or in connection with a particular topic we consider to be highly important for the company. At the same time, companies expect their owners to relate to various topics and issues. We know that being a large shareholder carries responsibilities with it, and we give priority to being available to the companies in which we have invested.

Folketrygdfondet held 161 dialogue meetings last year, discussing key ownership issues with 61 Norwegian companies.

Such talks with board chairs and managers enable us to understand a company’s strategy, operations, growth opportunities and risk profile, and thereby make us a better manager, not least because we can evaluate the companies’ capital needs and strategic shifts.

Our company engagements often take place at a high level. We give priority to this form of working in relation to our equity investments, and devote considerable time and resources to direct company dialogue. In our ownership capacity, we use such meetings to discuss both specific incidents in a company and key ownership questions, including capital structure and financial targets. When it is helpful to have technical experts present, for example when discussing specific environmental or social issues, both Folketrygdfondet and the company also provide staff with the right expertise.

The discussion of how Folketrygdfondet addresses material ESG risks (page 76) contains a more detailed account of some of these dialogues.

We apply the same active ownership principles to our Norwegian and Nordic equity investments. However, we distinguish between active ownership within and outside Norway. One reason for doing so is that we generally have smaller ownership interests in Nordic companies.

Exercise of creditor rights

The role of bondholder differs from that of shareholder, not least because a creditor has no ownership rights. Creditor–issuer relations are governed by the loan agreement. As long as the company meets their obligations, the bondholder has no reason to demand changes by the company. As a result, company dialogue is not a priority instrument for responsible management in this area. However, company meetings and presentations do form part of ordinary portfolio follow-up. We report on our exercise of creditor rights as part of our ordinary dialogue reporting. Several challenging cases relating to the exercise of creditor rights arose in 2016 as a result of current difficulties in the oil service industry. The dialogue topics have included mergers, changes to loan agreements and financial restructurings.

TOPICS AT FOLKETRYGDFONDET’S 161 DIALOGUE MEETINGS WITH 61 COMPANIES IN 2016

<table>
<thead>
<tr>
<th>Topic</th>
<th>Objective</th>
<th>Number of dialogue meetings at which the topic was raised</th>
<th>Number of companies</th>
<th>Result</th>
<th>Company progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital structure, financial targets and strategy</td>
<td>Long-term value creation by the companies</td>
<td>22</td>
<td>27</td>
<td>Improved understanding of the companies’ approach</td>
<td>Increased knowledge of our expectations</td>
</tr>
<tr>
<td>Board composition</td>
<td>Board composition that promotes long-term value creation</td>
<td>22</td>
<td>18</td>
<td>Feedback to relevant nomination committees and input in relevant processes</td>
<td>Increased knowledge of our expectations</td>
</tr>
<tr>
<td>Operations and market development</td>
<td>Satisfactory profitability in the short and longer term</td>
<td>38</td>
<td>45</td>
<td>Improved understanding of the companies’ approach</td>
<td>Increased knowledge of our expectations</td>
</tr>
<tr>
<td>Executive remuneration</td>
<td>Performance-based schemes that encourage long-term value creation</td>
<td>6</td>
<td>6</td>
<td>Feedback on the design of executive remuneration</td>
<td>Increased knowledge of our expectations</td>
</tr>
<tr>
<td>Climate change</td>
<td>Reduce climate risk in the portfolio</td>
<td>25</td>
<td>16</td>
<td>Improved understanding of the companies’ procedures</td>
<td>Increased and improved management</td>
</tr>
<tr>
<td>Aquaculture</td>
<td>Sustainable development and growth in the industry</td>
<td>19</td>
<td>5</td>
<td>Increased knowledge of our expectations</td>
<td>Increased knowledge of our expectations</td>
</tr>
<tr>
<td>Human rights and workers’ rights</td>
<td>Reduce the risk in the portfolios of human and workers’ rights violations</td>
<td>15</td>
<td>13</td>
<td>Improved understanding of the companies’ procedures</td>
<td>Increased knowledge of our expectations</td>
</tr>
<tr>
<td>Anti-corruption</td>
<td>Reduce corruption risk in the portfolio</td>
<td>18</td>
<td>12</td>
<td>Improved understanding of the companies’ procedures</td>
<td>Increased knowledge of our expectations</td>
</tr>
<tr>
<td>Changes to loan agreements</td>
<td>10</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial restructurings</td>
<td>4</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mergers</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
WE PROTECT SHAREHOLDER INTERESTS

General meetings are a key arena for Folketrygdfondet’s active ownership. In 2016, we voted against proposals put forward by the boards of eight Norwegian companies because we considered that the interests of shareholders were being downgraded.

Voting at the general meetings of the portfolio companies is a central aspect of Folketrygdfondet’s approach to active ownership. We try to attend the general meetings of all Norwegian companies in person.

What is the purpose?
All active ownership has the overarching purpose of supporting maximum value creation over time. In the vast majority of cases, we vote for board proposals at general meetings because we find them to be well-founded and consistent with company strategy.

In some instances, however, we see that a board proposal challenges shareholder interests and recognised good corporate governance principles. Folketrygdfondet considers it an important task to be a strong representative of minority shareholders in Norwegian listed companies. It is of fundamental importance to us that all shareholders are treated equally.

From a longer-term perspective, good corporate governance is also about preserving public confidence in the Norwegian stock market.

What do we achieve?
Our general impression based on the 2016 general meeting season is consistent with findings in previous years: general meetings are rarely arenas for confrontation and dispute.

Over time, shareholders, including Folketrygdfondet, have successfully presented their views on the design and scope of executive remuneration schemes and board authorisations. Controversial pay and authorisation proposals were more prevalent in previous years, but are now the exception.

Generally speaking, recent years have also seen an improvement in the dialogue between company boards and shareholders. This has improved the ability of boards to take account of shareholder signals before proposals are presented, thereby reducing the number of surprises and confrontations at general meetings.

Our procedures for general meetings:

• Folketrygdfondet votes at the general meetings of portfolio companies.
• Wherever practicable, we aim to participate in person in the meetings of companies listed on the Oslo Stock Exchange.
• If we vote by proxy, we always issue voting instructions.
• Prior to a general meeting, we conduct a thorough review of the agenda and vote in accordance with our principles, guidelines and assessments.
• Our starting point is that we wish to vote as proposed by the board. If we disagree with a board proposal, we seek to explain our position before the general meeting.
• If we vote against a board proposal, we normally publish a voting statement on our website after the general meeting.
• Our aim is to help ensure broad agreement on the general meeting agenda, and we consider pre-general meeting dialogue with the company a positive measure in this regard.

From Folketrygdfondet’s annual report 2016:

Our priorities
Our aim is to help secure broad agreement on the company’s agenda, and we consider pre-general meeting dialogue with the company a positive measure in this regard.

Norwegian companies where Folketrygdfondet voted against board proposals

<table>
<thead>
<tr>
<th>Company</th>
<th>Type of case</th>
<th>Why we voted against</th>
<th>Percentage of votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blokken ASA</td>
<td>Executive remuneration statement and authorisation to issue shares</td>
<td>Folketrygdfondet voted against election of the company’s CEO as chair. Our priority is to have a board that is independent of company management.</td>
<td>10.3 9.3</td>
</tr>
<tr>
<td>Business</td>
<td>Board composition</td>
<td>Folketrygdfondet voted against election of the company’s CEO as chair.</td>
<td>4.5 17.4</td>
</tr>
<tr>
<td>ASA</td>
<td>Board composition</td>
<td>Folketrygdfondet voted against election of the company’s CEO as chair. Our priority is to have a board that is independent of company management.</td>
<td>5.6 3.9</td>
</tr>
<tr>
<td>Stolt Nielsen Ltd</td>
<td>Board composition</td>
<td>Folketrygdfondet voted against election of the company’s CEO as chair.</td>
<td>0.0 7.1</td>
</tr>
<tr>
<td>Norwegian</td>
<td>Executive remuneration, buy-back authorisation and authorisation to issue shares</td>
<td>Folketrygdfondet voted against election of the company’s CEO as chair. Our priority is to have a board that is independent of company management.</td>
<td>19.3 27.3</td>
</tr>
<tr>
<td>ASA</td>
<td>Executive remuneration statement and option programme</td>
<td>Folketrygdfondet voted against election of the company’s CEO as chair. Our priority is to have a board that is independent of company management.</td>
<td>20.2 20.2</td>
</tr>
<tr>
<td>Solar ASA</td>
<td>Executive remuneration statement and option programme</td>
<td>Folketrygdfondet voted against the board’s executive remuneration policy statement.</td>
<td>20.2 20.2</td>
</tr>
<tr>
<td>Subsea 7</td>
<td>Board composition</td>
<td>Folketrygdfondet voted against election of the company’s CEO as chair. Our priority is to have a board that is independent of company management.</td>
<td>15.0 14.9</td>
</tr>
</tbody>
</table>
In 2016, Folketrygdfondet voted at a total of 87 general meetings of companies listed on stock exchanges in Sweden, Denmark and Finland.

In total, we voted against or abstained from voting on 40 proposals put forward by the boards of Swedish, Danish or Finnish companies. Most of the board proposals we have voted against in Nordic portfolio companies relate to executive remuneration statements and incentive schemes. We often find that executive remuneration statements contain insufficient information on the scheme in question, that incentive programmes lack individual performance requirements, or that schemes include a strong discretionary element.

In a total of 12 instances, all related to the same Swedish company, we have voted against indemnification of the board of directors based on the fact that the company is under investigation. In four cases involving Swedish, Danish and Finnish companies, we have voted against or abstained from voting on auditor fees and/or auditor reappointment because the fees for non-audit services exceeded the fees for audit services. Auditors are supposed to perform a control function, and their independence from the company is put at risk if they provide extensive advisory services in addition to auditing.

As in previous years, we have found that shareholders are submitting various proposals to the general meetings of the Nordic portfolio companies. We have not observed a corresponding trend in relation to companies listed in Norway. Many of these proposals concern issues falling outside the shareholders’ remit as defined by the general principles governing the distribution of roles in listed companies.

VOTING RELATED TO COMPANIES LISTED IN DENMARK, FINLAND AND SWEDEN IN 2016

<table>
<thead>
<tr>
<th>Board proposals</th>
<th>Against</th>
<th>Abstained from voting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exec. remuneration statement</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Audit fees/reappointment of auditor</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Authorisation to issue shares/buy-back of own shares</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Nomination committee</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholder proposals</th>
<th>Against</th>
<th>For</th>
<th>Abstained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of general meetings voted at</td>
<td>53</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Total number of matters voted on</td>
<td>973</td>
<td>259</td>
<td>174</td>
</tr>
<tr>
<td>Board proposals</td>
<td>32</td>
<td>6</td>
<td>38</td>
</tr>
<tr>
<td>Board proposals voted against, by topic</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Executive remuneration statement</td>
<td>10</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Auditor fees/reappointment of auditor</td>
<td>3</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Authorisation to issue shares/buy-back of own shares</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Nomination committee</td>
<td>6</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Shareholder proposals</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>194</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>For</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Abstained</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>
INVOLVED IN SEVEN NOMINATION COMMITTEES

Folketrygdfondet is represented on seven nomination committees in Norwegian companies. We also participated in four corporate assemblies in 2016.

Folketrygdfondet considers it important to help ensure that the boards of the portfolio companies have the requisite expertise and the right composition. Folketrygdfondet expects the companies in which it invests to have a nomination committee.

Company boards are becoming more professional, and it is crucial that boards collectively possess the necessary skills. Nomination committees have therefore assumed an increasingly central role in recent years. Folketrygdfondet has helped to drive this development forward, not least through its participation in the Eierrforum group of institutional investors and work on the Norwegian Corporate Governance Board (NUES).

Our top priority is to make sure that the portfolio companies have reliable processes in place for the composition of competent boards. We also involve ourselves in board elections, and give high priority to participation in nomination committees in some of the companies in which we have invested. However, the number of nomination committees has to be limited due to the time-consuming nature of the work involved.

Folketrygdfondet does not hold directorships, but was involved in several corporate assemblies in 2016, in addition to the various nomination committees.

CONTRIBUTING TO WELL-FUNCTIONING MARKETS

Folketrygdfondet participates in external initiatives to develop good practice and standards for commercial activity. We consider this an important instrument for ensuring both well-functioning markets and good long-term returns.

Folketrygdfondet participates in various forums to exchange information and experience with other investors and to support the development of new regulations and standards. Good long-term returns can only be achieved in well-functioning markets. Good standards for commercial activity are a further prerequisite. Cooperation with other investors is important for the adoption of best practice and commercial standards.

We participate in Norwegian and international initiatives, and also cooperate on a case-by-case basis when we see that this serves our financial interests.

What are we doing?
In 2016, we sought to promote good standards through the external initiatives in which we are engaged. For example, as a representative of the Norwegian Forum for Responsible and Sustainable Investment (Norsif), we participated in a working group developing the Oslo Børs guidance on the reporting of corporate responsibility. We also submitted comments in public consultations on topics of relevance to us, such as updated corporate responsibility reporting requirements in the Accounting Act. Our consultation comments are available on ftf.no. In accordance with our management mandate, we have been communicating clear expectations as to the handling of ownership issues and environmental and social conditions for several years. To make our dialogue with companies as effective as possible, we have developed guidance documents on:

- financial targets and capital structure
- anti-corruption
- executive remuneration schemes
- climate issues
- human rights
- workers’ rights
- environmental issues

In our view, proper management of such issues can reduce risk and help maximise value growth in our portfolio. We continued to develop our guidance documents in 2016. The result of these efforts is a brochure called Folketrygdfondet’s expectations. The purpose of
PARTICIPATION IN EXTERNAL INITIATIVES IN 2016

**Initiative**  
Norwegian Institute of Directors  
Norwegian Society of Financial Analysts  
Norwegian Corporate Governance Board (NUES)  
Eierrforum group of institutional investors  
Norwegian Forum for Responsible and Sustainable Investment (NorSif)

**Purpose**  
To promote value creation through good corporate governance and promote the development of best practice standards for board work  
To promote:  
- public understanding of the function and importance of the capital market in the Norwegian economy  
- the provision of high-quality financial analysis  
- the efficient functioning of the capital market within appropriate operating parameters  
- high ethical standards in financial analysis, asset management, advisory services and trading in financial instruments  
To keep the Norwegian Code of Practice for Corporate Governance up to date and to promote the code both in Norway and internationally  
To promote corporate governance best practice in Norway and drive further development of best practice. The forum is represented in NUES  
To promote and contribute to the development of the field of responsible investment in the Norwegian financial industry and among other stakeholders.

**FTF appointments**  
CEO Dag Røvra, board member  
General Counsel Christina Stray, member of the capital markets technical committee  
General Counsel Christina Stray, board member and member of the equity committee  
Deputy Director Equities Arn Kristin Braastad, committee for the award of the Stockman Prize  
Deputy Managing Director Lars Tronsvang, member of the portfolio committee  
Portfolio Manager Hege Kristine Huse, member of the bond committee  
General Counsel Christina Stray, representative  
Executive Director Equities Nils Bastiansen  
General Counsel Christina Stray, member of the nomination committee  
Senior analyst for responsible investments Tim Fossland, chair of the group on ESG integration in company analysis  
Senior analyst for responsible investments Tim Fossland, representative on the working group on the Oslo Stock Exchange’s guidance on the reporting of corporate responsibility

**Folketrygdfondet’s expectations**  
We have expectations as to how company boards and management teams should handle ownership issues and environmental and social issues. To make our dialogues as effective as possible, we have gathered our guidance documents in a brochure, which is available on ff.no.

### A CHALLENGING HIGH-YIELD MARKET

Difficult times in the oil service industry resulted in a number of financial restructurings in 2016. Comprehensive loan documentation is important, as is the constructive involvement of all stakeholders.

**THE PATH TO RENEGOTIATION OR RESTRUCTURING**

1. A company finances new investment through equity (shares, etc.) and debt (bank loans and bonds). Debt is accompanied by both loan documentation and obligations.

2. The prices of the company’s goods/services fall. Share and bond prices drop due to anticipated lower profitability and higher credit risk.

3. The company finds it difficult to fulfil agreed loan obligations, and has to initiate a dialogue with creditors. Topics of discussion may include:
   - Modification of the loan conditions  
   - Deferral of instalments  
   - Extension of the maturity period  
   - Conversion of debt into equity (shares)

The solution will depend on the company’s situation and what serves the financial interests of creditors in the long run.

**Table 24**

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Purpose</th>
<th>FTF appointments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norwegian Institute of Directors</td>
<td>To promote value creation through good corporate governance and promote the development of best practice standards for board work</td>
<td>CEO Dag Røvra, board member</td>
</tr>
</tbody>
</table>
| Norwegian Society of Financial Analysts | To promote:  
- public understanding of the function and importance of the capital market in the Norwegian economy  
- the provision of high-quality financial analysis  
- the efficient functioning of the capital market within appropriate operating parameters  
- high ethical standards in financial analysis, asset management, advisory services and trading in financial instruments | General Counsel Christina Stray, member of the capital markets technical committee |
| Norwegian Corporate Governance Board (NUES) | To keep the Norwegian Code of Practice for Corporate Governance up to date and to promote the code both in Norway and internationally | General Counsel Christina Stray, representative |
| Eierrforum group of institutional investors | To promote corporate governance best practice in Norway and drive further development of best practice. The forum is represented in NUES | Executive Director Equities Nils Bastiansen |
| Norwegian Forum for Responsible and Sustainable Investment (NorSif) | To promote and contribute to the development of the field of responsible investment in the Norwegian financial industry and among other stakeholders. | General Counsel Christina Stray, member of the nomination committee  
Senior analyst for responsible investments Tim Fossland, chair of the group on ESG integration in company analysis  
Senior analyst for responsible investments Tim Fossland, representative on the working group on the Oslo Stock Exchange’s guidance on the reporting of corporate responsibility |
| CDP (formerly known as the Carbon Disclosure Project) | To prevent climate change and protect natural resources | Senior analyst for responsible investments Tim Fossland, representative |
| The UN-supported Principles for Responsible Investment | To promote understanding of the investment and asset management implications of environmental, social and governance (ESG) factors | Senior analyst for responsible investments Tim Fossland, representative |
VOTED AT 16 BONDHOLDER MEETINGS

Folketrygdfondet takes a solution-focused approach to bond loan renegotiations. In 2016, we voted at 16 bondholder meetings.

Our procedures for

Default situations

• If a payment default or breach of other clauses in a loan agreement occurs, we will participate in bondholder meetings and any restructuring processes.
• We are aware of our responsibility to contribute to solutions acceptable to all parties.

From Folketrygdfondet’s eierskapsutøvelse (Folketrygdfondet’s active ownership), November 2015

THE HIGH-YIELD PORTFOLIO

As at 31 December 2016

<table>
<thead>
<tr>
<th>Total number of loans</th>
<th>62</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of issuers</td>
<td>52</td>
</tr>
<tr>
<td>Number of loans containing “maintenance covenants”</td>
<td>54</td>
</tr>
<tr>
<td>Number of loans containing “incurrence covenants”</td>
<td>5</td>
</tr>
<tr>
<td>Loans containing other types of clauses</td>
<td>5</td>
</tr>
<tr>
<td>Number of loans incorporating collateral security</td>
<td>16</td>
</tr>
</tbody>
</table>

The design of the loan agreement is an important aspect of the investment decision. As shown in the table, our high-yield portfolio (unsecured loans) contains clearly prioritised loans where the agreements ensure compliance with key financial ratios − the “maintenance covenants”. With “incurrence covenants”, the requirement to comply with specified ratios only applies if the company intends to take special steps, for example take up further debt or pay a dividend.

BONDHOLDER MEETINGS IN 2016

| Total number of bondholder meetings attended by Folketrygdfondet (all in the high-yield segment) | 16 |
| Financial restructuring cases | 4 |
| Changes to loan agreements | 10 |
| Mergers | 2 |
| Number of issuers affected by bondholder meetings | 13 |

A bondholder meeting is the supreme body for the owners of a bond loan. Decisions made at a bondholder meeting are binding on all investors in the loan in question.

Table 25

Table 26
Responsible management is enshrined in our mandate

The management mandate states that the primary goal of Folketrygdfondet’s active ownership is to safeguard the financial interests of the Government Pension Fund Norway.

The mandate also specifies that active ownership shall be based on:
• the UN Global Compact
• the OECD Principles of Corporate Governance
• the OECD Guidelines for Multinational Enterprises

Folketrygdfondet’s board has adopted responsible management principles which incorporate these guidelines. The board also expects Folketrygdfondet to comply with national and international standards such as:
• the UN-supported Principles for Responsible Investment (PRI)
• the Norwegian Code of Practice for Corporate Governance (NUES)

Folketrygdfondet seeks to contribute actively to the development of robust national standards in the area of responsible investment.