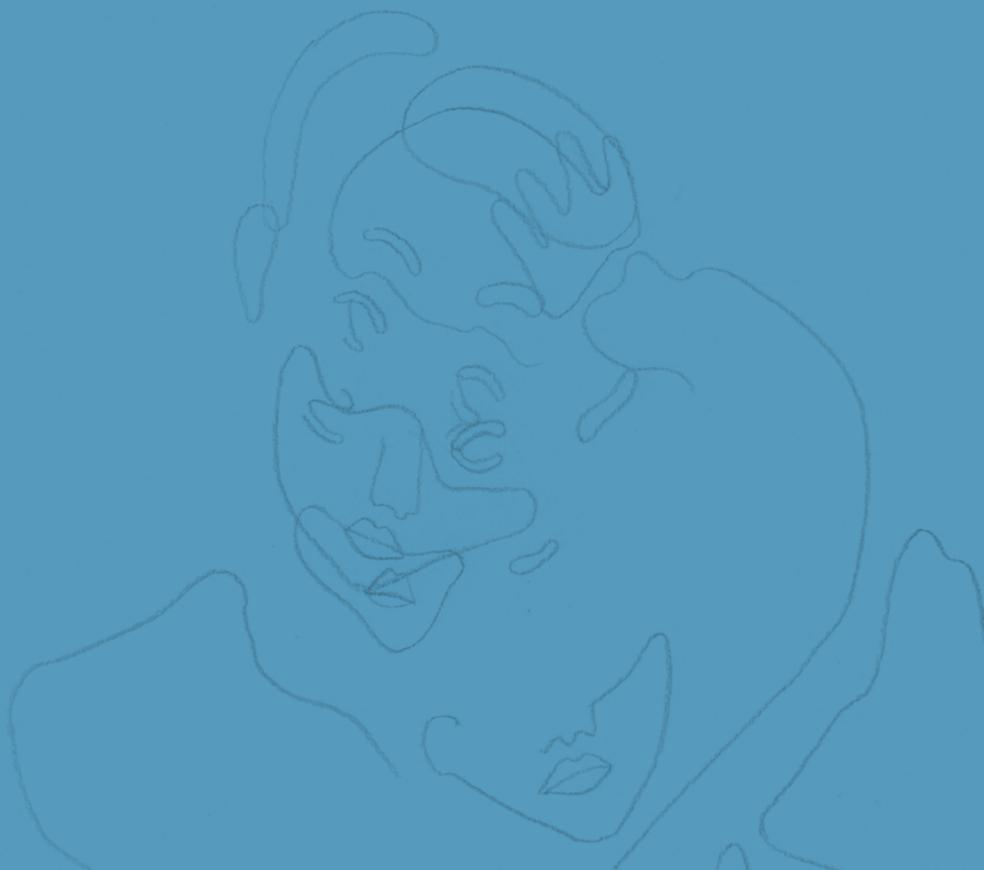


Folketrygdfondet

# FOLKETRYGDFONDET'S EXPECTATIONS

Guidance for companies on the handling of corporate governance, environmental and social issues



In accordance with Folketrygdfondet's management mandate, we communicate clear expectations to the companies regarding their handling of ownership issues and environmental and social conditions.

To make our dialogue with the companies as effective as possible, we have developed guidance documents on

- Financial targets and capital structure
- Anti-corruption
- Executive remuneration schemes
- Climate change
- Human rights
- Workers' rights
- Environmental issues

In our view, assessing how companies deal with such issues can reduce risk and help maximise the value of Folketrygdfondet's portfolio.

## THE PURPOSE OF THE GUIDANCE

The purpose of Folketrygdfondet's guidance for companies is to facilitate effective dialogue. This document sets out Folketrygdfondet's essential expectations.

For further information, see [www.folketrygdfondet.no](http://www.folketrygdfondet.no). Click on "Our investment management".

# FINANCIAL TARGETS AND CAPITAL STRUCTURE

Folketrygdfondet's efforts to understand companies' strategic decisions are financially motivated. Folketrygdfondet is mandated to achieve the highest possible return over time. We require insight into company strategies for achieving growth and long-term value creation in order to understand the potential for growth in shareholder value. We see strong long-term returns as being dependent on sustainable development in an economic, environmental and social sense.

Having a clear, well-founded long-term strategy helps companies to achieve effective resource utilisation and operations. Efficient capital structures and robust operations contribute positively to value creation by companies.

## What is expected?

### ■ Companies must have and communicate a clear, well founded long-term strategy

Folketrygdfondet expects the companies to have and communicate a clear, well founded long-term strategy that incorporates financial targets and risk profiling. Company strategies should include long-term plans for growth and necessary resource use, as well as assessments of risk and capital structure. Company boards are expected to:

- Develop **clear targets and strategies** for their activities within the framework of the articles of association.
- Develop **clear targets for the capital return and growth**.
- Determine **capital needs and allocations** based on clear financial targets and criteria such as capital return, growth and **cost of capital**, adjusted in view of the overarching strategy.
- Develop **targets for capital structure** adapted to strategies and risk profiles. Such targets should be explained and applied when board authorisation proposals relating to capital increases are presented at general meetings.
- Develop a **clear and predictable dividend policy** as a basis for dividend proposals put to general meetings. The dividend policy should wherever possible specify whether dividends will be paid in cash or take a different form such as a share buy-back or capital reduction.

### ■ Companies must conduct necessary analyses to survey risk exposure

We expect the companies in which we invest to survey and evaluate risks associated with the chosen strategy and capital structure. This includes assessments of whether a company's capital structure is sufficiently flexible and robust to support effective implementation of the company's strategy. On the other hand, companies should not be over-capitalised, with the resulting risk that capital will be used for purposes that reduce shareholder value. Equally, the risk associated with the company's long-term strategy should be evaluated by reference to the company's position in the supply chain as a whole, necessary resource use, expected market developments, political and other market-related framework conditions, and risks relating to governance, environmental and social conditions, including tax.

### ■ Allocation of roles and responsibilities in work related to strategy, financial targets and risk profiling

We expect company boards to ensure the development and implementation of a clear, reasoned long-term strategy for the company. This entails making the entire business aware of the company's overall strategy and financial targets, and integrating these into management activities.

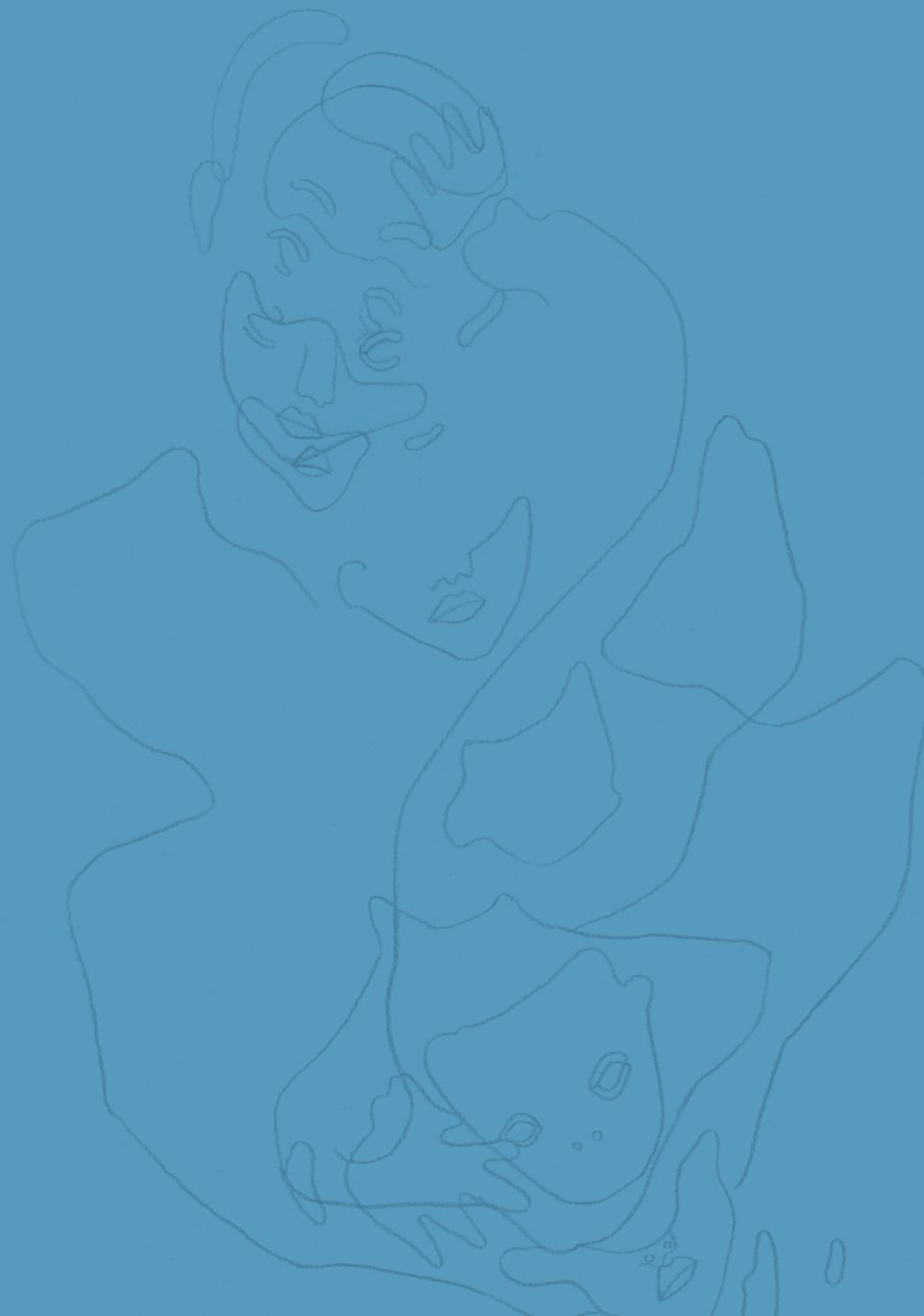


■ **Transparency and communication related to company strategy and financial targets**

We expect the portfolio companies to communicate their strategies and financial targets clearly both externally and internally, and to report achieved results.

Company boards are expected to adopt and explain key financial targets that are adapted to each individual company's sector of operation, strategy and value creation potential. Relevant targets/key figures/parameters may include:

<b>Target</b>	<b>Key figures/parameters</b>
Capital return	ROIC, ROCE, ROE, ROA, CROGI
Growth	Growth in sales: organic, acquisition EBIT margin, EBITDA margin
Cost of capital	WACC, Ke (required return on equity)
Capital structure	Equity ratio, debt/equity EBITA/interest, EBITDA/interest, net debt/EBITDA Loan conditions
Dividend policy	Clear and predictable dividend policy that explains, among other things: The distribution ratio Whether dividends are stable or increasing



# ANTI-CORRUPTION

Folketrygdfondet's anti-corruption efforts are financially motivated. We consider that the absence of corruption is a prerequisite for well-functioning markets and long-term value creation. Efforts to combat corruption are also important because failure to address such issues may give rise to costs in the form of legal proceedings and fines, as well as the loss of market access, assets and operational licenses.

## What is expected?

### ■ Companies are expected to avoid and prevent corruption

We expect the companies in which we invest to refrain from actions that involve corruption or that encourage or contribute to corruption.

### ■ Companies are expected to exercise due care and conduct necessary analyses to understand their risk exposure

We expect the companies in which we invest to identify and assess whether corruption constitutes a material risk. This includes understanding where in the supply chain such risk may arise. The analysis is also expected to include due diligence assessments to identify potential corruption-related challenges before new agreements or investments are entered into.

### ■ Companies are expected to include material corruption-related challenges in their performance management

We expect companies to have a performance management structure in place that is capable of dealing with material corruption-related challenges satisfactorily. This structure should be adapted to the requirements of the individual company and the activities pursued. The structure may include:

- Policies
- Procedures and processes for dealing with corruption-related challenges
- Targets and KPIs related to the handling of corruption-related challenges
- Action plans to prevent or reduce high risk

### ■ Allocation of roles and responsibilities in work related to anti-corruption

We expect company boards and management to allocate sufficient resources to enable material corruption-related challenges to be identified, understood and managed.

### ■ Transparency and communication related to anti-corruption

We expect the companies to report externally on their approach to anti-corruption. This includes risk and materiality analyses and resulting measures to manage any identified challenges. The reporting should cover:

- Policies
- Targets
- Implementation measures
- Results

# EXECUTIVE REMUNERATION SCHEMES

Folketrygdfondet focuses on executive remuneration schemes because executive remuneration can be an instrument for promoting long-term value creation and thereby unifying the interests of management and shareholders.

## What is expected?

### ■ Companies are expected to offer competitive executive remuneration

If variable pay is offered, the total amount of fixed and variable pay should not be unreasonable.

### ■ Company boards are expected to apply the following criteria when introducing incentive-based remuneration schemes:

- The scheme must be capped.
- The scheme must be linked to measurable and performance-based criteria that reflect achieved performance at the individual, department/unit and overall levels.
- The scheme must encourage long-term value creation.
- The relative performance criteria should not be determined by external circumstances outside the control of management.
- There should be a clear connection between the performance criteria and value creation on behalf of shareholders.

### ■ Company boards are expected to apply the following criteria to share-based schemes, including options and subscription rights:

- A minimum lock-in period must apply (normally at least three years).
- Accrual criteria must be specified.
- The actual value of the option schemes, as well as the accounting consequences for the company and potential dilution effects, should be calculated.

### ■ Shareholder-elected board members should not be included in incentive-based remuneration schemes

### ■ Transparency and communication related to executive remuneration

The executive remuneration statement must be presented to the general meeting for an advisory vote. In this connection:

- The executive remuneration statement should be included in the summons to the general meeting, preferably in a separate, self-contained enclosure.
- Thorough information on the above criteria should be provided to enable assessment of the scheme's:
  - size
  - encouragement of long-term value creation
  - linking of performance criteria with value creation on behalf of shareholders.

If the executive remuneration statement includes pay in the form of shares, subscription rights, options or similar instruments, or is otherwise linked with developments in the company's share price, this aspect must be approved by the general meeting.

Where an executive remuneration statements requires both an advisory vote and an approving vote, these should be presented to the general meeting as two separate agenda items.

## CLIMATE CHANGE

Folketrygdfondet's climate efforts are financially motivated.

In our view, strong long-term returns are dependent on sustainable development, including in a climate sense.

Further, climate developments are important to companies because failure to act may render business models unprofitable, weaken competitiveness, cause operational disruption through emissions restrictions and trigger costs related to taxes and regulatory compliance.

## What is expected?

### ■ Companies are expected to reduce their contribution to climate change

We expect the companies in which we invest to reduce their greenhouse gas emissions if their activities and operations entail material emissions or have a high emissions intensity. Companies are expected to deal with emissions throughout the supply chain. The appropriate measures are determined by where in the supply chain the emissions occur.

### ■ Companies are expected to address material risks and opportunities related to climate change

We expect the companies in which we invest to identify, understand and adapt to material risks and opportunities related to climate change. This includes, but is not limited to, the effect on business models, strategies and profitability of:

- anticipated climate related legislation
- ongoing and anticipated physical climate change
- anticipated changes in other climate-related parameters, such as consumption patterns.

### ■ Companies are expected to exercise due care and conduct necessary analyses to understand their exposure

We expect the companies in which we invest to identify and assess whether climate change presents material risks or opportunities. Such analyses should encompass company supply chains. The review is also expected to include due diligence assessments before new agreements or investments are entered into.

### ■ Companies are expected to include material climate-related risks and opportunities in their performance management

We expect the portfolio companies to have a performance management structure in place that is capable of dealing with material climate-related risks and opportunities satisfactorily. This structure should be adapted to the requirements of the individual company and the activities pursued. The structure may incorporate:

- Policies
- Procedures and processes for managing with climate-related challenges
- Targets and KPIs related to the management of material risks and opportunities
- Action plans for adaptation to material risks and opportunities, including planned investments and new products and services



■ **Allocation of roles and responsibilities in work related to climate change**

We expect company boards and management to allocate sufficient resources to enable material climate-related challenges to be identified, understood and managed.

■ **Transparency and communication related to the handling of climate change issues**

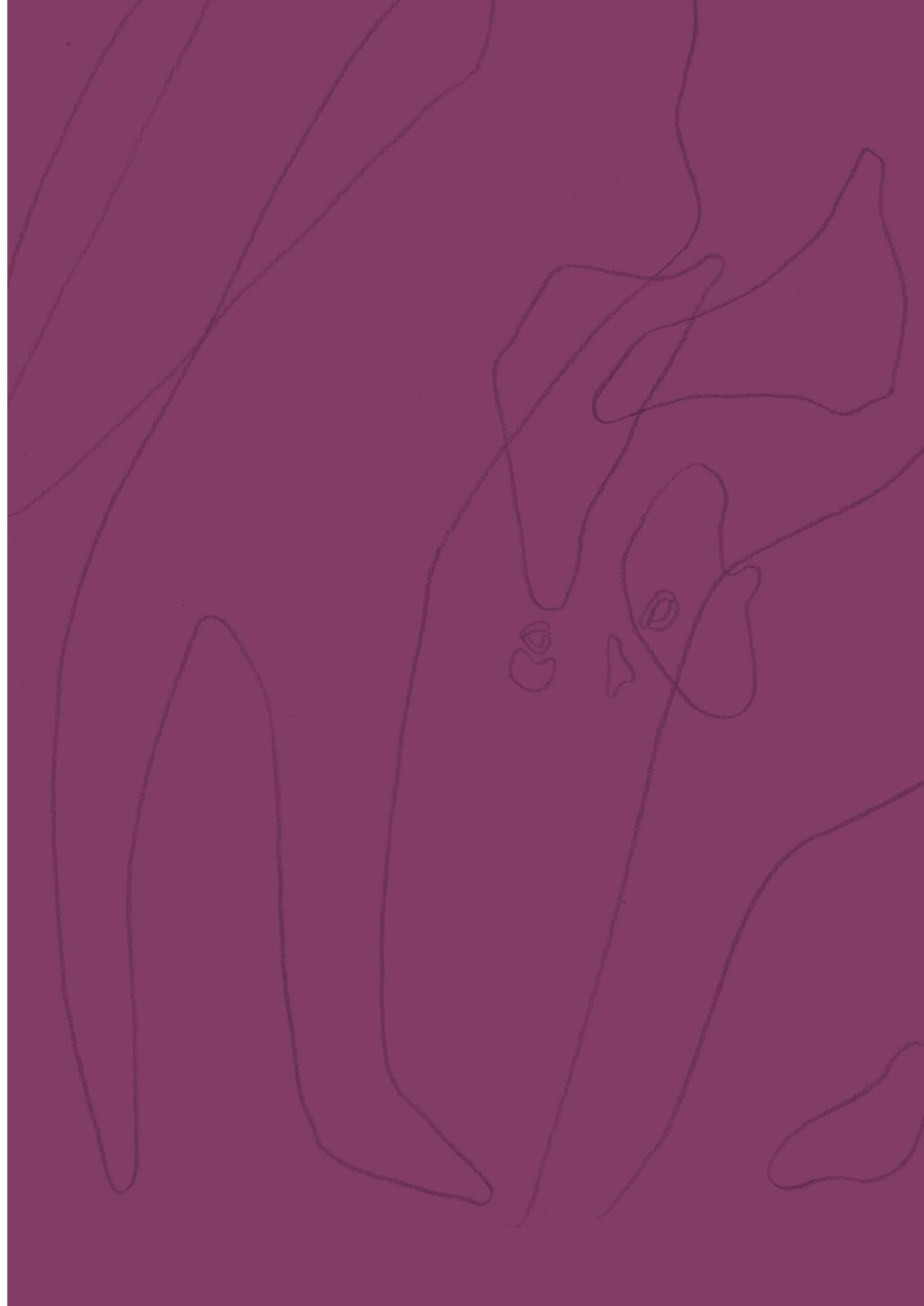
We expect the companies to report externally on their approach to issues related to climate change. This includes risk and materiality assessments and resulting

measures to manage any identified issues. Companies with substantial greenhouse gas emissions, or high emissions intensity, should report to CDP<sup>1</sup>. Such companies should also prepare publicly available reports covering the following:

- Strategy for managing risks and opportunities, including plans for investments and new products and services
- CO<sub>2</sub>e emissions<sup>2</sup>
- Absolute and relative targets, as well as measures to secure emissions cuts
- Results

<sup>1</sup> We encourage such companies to report to CDP (formerly known as the Carbon Disclosure Project).

<sup>2</sup> CO<sub>2</sub>e stands for CO<sub>2</sub> equivalent, a unit that compares the emissions of different greenhouse gases to the global warming effect that emissions of one ton of CO<sub>2</sub> will have in 100 years. Source: SSB.



# HUMAN RIGHTS

Human rights are important from an ethical perspective because Folkestrygdfondet is a responsible investor, and from a financial perspective because we find that the best long-term value creation is achieved by companies with robust corporate governance systems and reliable systems for understanding, addressing and reporting on environmental and social conditions.

## What is expected?

### ■ Companies are expected to avoid and prevent human rights violations

We expect the companies in which we invest not to engage in acts that infringe human rights or that encourage or contribute to human rights breaches.

### ■ Companies are expected to exercise due care and conduct necessary analyses to understand their risk exposure

We expect the companies in which we invest to identify and assess whether they are at risk of involvement in human rights violations. Such surveys should identify where in the supply chain such risk arises, and are also expected to include due diligence assessments to identify potential human rights challenges before new agreements or investments are entered into. In this assessment, we expect the companies to follow relevant guidelines on human rights, as well as the “comply or explain” and materiality principles.

### ■ Companies are expected to include material human rights challenges in their performance management

We expect companies that are at risk of involvement in human rights violations to have a performance management structure in place that is capable of addressing such risk satisfactorily. This structure should be adapted to the risk exposure of the individual company and the activities pursued. The structure may incorporate:

- Policies
- Due care procedures and action plans to identify, prevent and limit risk
- Procedures for managing any negative impacts caused or contributed to by the company
- Targets and KPIs
- Procedures for stakeholder dialogue

### ■ Allocation of roles and responsibilities in work related to human rights

We expect company boards and management to ensure that human rights are observed in all company activities, and that respect for human rights is integrated into the company culture. This includes the allocation of sufficient resources to manage the company’s risk and prevent and limit any negative impacts.

### ■ Transparency and communication related to the handling of human rights issues

We expect the portfolio companies to report externally on their human rights strategy. The reporting should cover:

- Risk and materiality assessments
- Policies
- Targets
- Implementation measures (including due care procedures and procedures for amelioration of any negative impacts)
- Results

## WORKERS' RIGHTS

Workers' rights are important from an ethical perspective because Folkestrygdfondet is a responsible investor, and from a financial perspective because failure to address relevant issues may lead to operational disruptions in the form of delays, reduced productivity and lower quality. Generally, we find that the best long-term value creation is achieved by companies with good corporate governance structures and reliable systems for understanding, addressing and reporting on environmental and social conditions.

## What is expected?

### ■ Companies are expected to avoid and prevent breaches of workers' rights

We expect the companies in which we invest not to commit acts that violate workers' rights or that encourage or contribute to infringement of workers' rights. This includes, but is not limited to:

- Breach of the right to organise
- Forced labour
- Unlawful child labour
- Discrimination

### ■ Companies are expected to exercise due care and conduct necessary analyses to understand their risk exposure

We expect the companies in which we invest to identify and assess whether violation of workers' rights constitutes a material risk. This entails understanding where in the supply chain any such risks arise. The review is also expected to include due diligence assessments to identify potential challenges related to workers' rights before new agreements or investments are entered into.

### ■ Companies are expected to include material challenges related to workers' rights in their corporate governance work

We expect companies to have a corporate governance structure in place that is capable of addressing material workers' rights challenges satisfactorily. This structure should be adapted to the requirements of

the individual company and the activities pursued. The structure may incorporate:

- Policies
- Procedures and processes for dealing with challenges related to workers' rights
- Targets and KPIs related to the handling of challenges related to workers' rights
- Action plans to prevent or reduce any negative impacts

### ■ Allocation of roles and responsibilities in work related to workers' rights

We expect company boards and management to ensure that workers' rights are observed in all company activities, and that respect for workers' rights is integrated into the company culture. This includes the allocation of sufficient resources to enable material challenges to be identified, understood and managed.

### ■ Transparency and communication related to the handling of workers' rights

We expect the companies to report externally on their approach to respect workers' rights. This includes risk and materiality assessments and resulting measures to manage any identified challenges. The reporting should cover:

- Policies
- Targets
- Implementation measures
- Results

# ENVIRONMENTAL ISSUES

Folketrygdfondet's environmental work is financially motivated. We believe that strong long-term returns are conditional on sustainable development, including in an environmental sense. The environment is also important to companies because failure to address relevant issues may weaken competitiveness, cause operational disruption through emissions restrictions and trigger costs related to taxes and regulatory compliance.

## What is expected?

### ■ Companies are expected to avoid and prevent serious harm to the environment

We expect the companies in which we invest not to commit acts that result in serious harm to the environment. This includes, but is not limited to:

- Pollution of air, water and land
- Over-utilisation of conditionally renewable resources
- Land degradation

### ■ Companies are expected to exercise due care and conduct necessary analyses to understand their exposure

We expect the companies in which we invest to identify and assess whether the environment presents material risks or opportunities. Such analysis should encompass company supply chains. The review is also expected to include due diligence assessments before new agreements or investments are entered into.

### ■ Companies are expected to include material risks and opportunities related to the environment in their performance management

We expect the companies to have a performance management structure in place that is capable of addressing material risks and opportunities relating to the environment satisfactorily. This structure should be

adapted to the requirements of the individual company and the activities pursued. The structure may incorporate:

- Policies
- Procedures and processes for dealing with environmental challenges
- Targets and KPIs related to the handling of material risks and opportunities
- Action plans for adaptation to material risks and opportunities

### ■ Allocation of roles and responsibilities in work related to the environment

We expect company boards and management to allocate sufficient resources to facilitate material challenges related to the environment to be identified, understood and managed.

### ■ Transparency and communication related to the handling of environmental issues

We expect the companies to report externally on their approach to managing environmental issues. This includes risk and materiality assessments and resulting measures. The reporting should cover:

- Policies
- Targets
- Implementation measures
- Results

## ABOUT FOLKETRYGDFONDET

- Folketrygdfondet is a specialised capital management organisation that invests the Government Pension Fund Norway on behalf of the Ministry of Finance.
- Folketrygdfondet is a responsible, active and long-term investor with the aim of achieving the highest possible return over time.
- We base our investments on a benchmark index composed of 60% shares and 40% bonds, split between Norway (85%) and the rest of the Nordic region (15%).
- We are the largest institutional investor on the Oslo Stock Exchange, with shareholdings totalling approximately 5% of the Norwegian stock market as a whole and approximately 10% of the main index.
- In accordance with our management mandate, we communicate clear expectations to the companies in which we invest regarding how they should address corporate governance, environmental and social issues. We have developed these guidance documents to make our dialogue with the companies as effective as possible.

## Folketrygdfondet

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