

Folketrygdfondet

Ownership Report 2009

Folketrygdfondet manages
the Government Pension Fund – Norway
the Government Bond Fund



TABLE OF CONTENTS

Investment and Ownership in Times of Crisis	1
The Ownership Principles of Folketrygdfondet	2
Shareholders' Meetings 2009	3
Folketrygdfondet's Principles relating to Remuneration Models	6
Ethics – Important to the Long-Term Creation of Value	7
Folketrygdfondet's Ethical Principles relating to its Investment Activities	10
The UN Principles for Responsible Investment	11
Folketrygdfondet's Participation in Governing Bodies	12
Other Relevant Information	13



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INVESTMENT AND OWNERSHIP IN TIMES OF CRISIS

Folketrygdfondet is, through its management of the Government Pension Fund – Norway, a large investor at the Oslo Stock Exchange. Our role has been reinforced over the last year, as Folketrygdfondet has made significant equity acquisitions and been appointed to manage the Government Bond Fund. Its ownership share at the Oslo Stock Exchange has been increased to 4.8 percent, and NOK 5.5 billion has been invested in the market for credit-linked notes. It is important for Folketrygdfondet to be a responsible owner in the companies in which it is invested, both to safeguard its financial interests and to contribute to a well-functioning financial market. We want to fully disclose our ownership policies and practises. This is the background against which we publish an annual Ownership Report, which describes the ownership principles adopted by the Board of Directors, our ownership policies and practises, the work that has been carried out and the experience that has been gained.

The last year has been characterised by dramatic developments in the world's financial markets, which resulted in major setbacks for the economy, for businesses and for investors. There may be many reasons why a strong growth period ended in financial collapse and economic setbacks. Nevertheless, it seems indisputable that an important factor was the Directors and managers of certain large international financial institutions exposing, in their pursuit of short-term gains, their institutions to unwarranted risks, and setting aside corporate governance principles and concern for the sustainable creation of long-term value. In this sense, the financial crisis has highlighted the need for shareholders to act as responsible owners. It is of equal importance that the investments of assets managers are ethically sound. This will promote the creation of long-term value and safeguard the assets of shareholders.

In the Ownership Report we present the activities and the follow-up efforts of Folketrygdfondet when it comes to the integration of ethics in our asset management activities. Folketrygdfondet also participates in the new cooperation project Sustainable Value Creation – Investor Cooperation to Promote Sustainable Development and Long-Term Value Creation in Norwegian Listed Companies. The project has included a survey of the principles and practises of companies in this regard, with a special focus on the responsibilities of Directors. We believe it is a positive development for Norwegian financial investors to have joined forces through this project. This is because it contributes to the effective gathering of information of importance to investors, in a unified and coordinated manner, from companies, and because companies will feel more obliged to participate when the project is supported by such a high proportion of major investors.

We have just completed this year's season of Annual Shareholders' Meetings, and it is important to us that the resolutions passed are in conformity with the principles on which our efforts are based. However, it is not an objective for Folketrygdfondet to draw attention to itself by voting against proposals presented to the Shareholders' Meetings. In some cases we pursue a dialogue with the companies prior to their Shareholders' Meetings, both in order to clarify any queries we may have in connection with individual matters and to clearly communicate our views and our priorities to such companies. In addition, we thus offer the Directors of the company an opportunity to respond in a constructive manner. Dialogue plays an important role in our ownership policies and practises.

Cases we have focused specifically on during this year's season of Annual Shareholders' Meetings relate to the authorisations granted to the Boards of Directors, and in particular authorisations relating to remuneration models, share issues and the repurchasing of own shares.

Following the introduction, in 2007, of a provision in the Public Limited Companies Act to the effect that the Annual Shareholders' Meeting shall deliberate the statement from the Board of Directors as to the determination of salaries and other remuneration for executive personnel, we have made an active effort to communicate what principles we believe should govern executive salaries and compensation models. It is our experience that many companies now pay heed to feedback from shareholders. Moreover, Directors have shown more moderation as the result of the financial crisis and the setbacks suffered by the economy. However, it remains the case that the extent to which companies disclose satisfactory information in relation to executive salaries in their notices of Shareholders' Meetings varies. There are also variations in how these matters are dealt with in Shareholders' Meetings. Folketrygdfondet has therefore in several instances raised relevant issues with companies prior to their Shareholders' Meetings, and many companies have provided important supplementary and clarifying details in relation to executive salary schemes in their Shareholders' Meetings. As a result hereof, we have this year chosen, with only one exception, to vote in favour of these schemes.

Folketrygdfondet also believes that it is important to conduct good selection processes to ensure that companies have well-functioning Boards of Directors that can attend to the interests of the companies and their shareholders in a good manner. The composition, functions and duties of the Election Committee are key considerations in this regard. However, there is much room for improvement on the part of some companies when it comes to the establishment of systematic and transparent appointment processes. There are also companies that still have no Election Committee. We believe this to be unfortunate and contrary to the interests of shareholders. Regrettably, these companies have not yet concurred with our views. We will continue to follow up on this with the relevant companies.

It is important, both to Folketrygdfondet and to the companies in which its assets are invested, to have responsible asset management and ownership policies and practises on our part. We hope that the present Ownership Report will serve as a positive contribution in this regard.

Oslo, 26 August 2009

Olaug Svarva
Managing Director

THE OWNERSHIP PRINCIPLES OF FOLKETRYGDFONDET

1. The ownership policies and practises of Folketrygdfondet are based on the premise that Folketrygdfondet is a responsible long-term financial investor, aiming to maximize returns over time, given a prudent level of risk.
2. The ownership policies and practises of Folketrygdfondet are based on the UN Global Compact, the OECD Guidelines on Corporate Governance and Multinational Enterprises and the Norwegian Code of Practise for Corporate Governance.
3. Folketrygdfondet shall attend to its ownership interests on the basis of a set of qualitative investment criteria within the areas of ethics and corporate governance. Evaluation against such criteria shall form an integral part of the investment methodology of Folketrygdfondet, and of its ongoing asset management effort.
4. Folketrygdfondet shall exercise a high degree of diligence in its treatment of ownership issues, and act in such a manner that no doubt is cast on the role of Folketrygdfondet as a responsible financial investor, or on the independence and neutrality of Folketrygdfondet in relation to other stakeholders.
5. Folketrygdfondet shall conduct its affairs in a responsible and predictable manner, and be conscious of the responsibility for negative consequences that may result from passivity on the part of shareholders.
6. The financial interests of Folketrygdfondet shall be attended to by way of management monitoring, on an ongoing basis, financial developments on the part of the companies in which Folketrygdfondet is invested, hereunder by attending investor presentations held by the companies and by meeting with management representatives of the companies when deemed desirable.
7. Folketrygdfondet may be represented on the Election Committees, Shareholders' Committees and Corporate Assemblies of companies. Folketrygdfondet is not permitted to be represented on the Boards of Directors of companies.
8. Folketrygdfondet should attend the Shareholders' Meetings of companies. In those cases where Folketrygdfondet is unable to attend Shareholders' Meetings, it may appoint representatives of the company or others as proxies to vote on behalf of Folketrygdfondet.
9. Folketrygdfondet may, for purposes of attending to its interests, engage in cooperation with other investors when deemed to be appropriate.
10. Folketrygdfondet shall seek to avoid being placed in an insider position on the basis of information received from the companies.
11. Folketrygdfondet shall, for purposes of realising the defined objectives, evaluate the composition of the portfolio on an ongoing basis, and make adjustments to such composition through the purchase and sale of securities.
12. Folketrygdfondet shall prepare an annual report on its ownership policies and practises. The report shall be available to the general public. The reporting shall be done with due care and discretion, and no company-sensitive information shall be published.

SHAREHOLDERS' MEETINGS 2009

The financial crisis has made investors take a more restrictive view on authorisations granted to Boards of Directors. Folketrygdfondet has over the last year attended 34 Shareholders' Meetings of companies that form part of our Norwegian equity portfolio. We have voted against submitted proposals on eight matters. Folketrygdfondet has in three Shareholders' Meetings demanded that our views be recorded in the minutes. These views are based on the Ownership Principles of Folketrygdfondet and the principles adopted by Folketrygdfondet in relation to remuneration models. The addresses we have made to this year's Shareholders' Meetings have been posted on our website, www.ftf.no.

The 2009 season of Shareholders' Meetings

The shareholders exercise supreme authority over a company through the Shareholders' Meeting. The Shareholders' Meeting is charged with approving the annual accounts, the annual report and the distribution of dividends. In addition, it shall deliberate other matters that fall under the auspices of the Shareholders' Meeting pursuant to statute or the Articles of Incorporation. Such matters include, for example, authorisations requested by the Board of Directors and the statement of the Board of Directors as to the determination of salaries and other remuneration for executive personnel.

Folketrygdfondet is committed to being a responsible owner, and we therefore devote much time to efforts relating to Shareholders' Meetings. We decide, based on a thorough assessment of the proposals put forward, how we will vote. Representatives from the Folketrygdfondet management team will, if possible, attend the Shareholders' Meetings. If we are unable to attend ourselves, we appoint representatives of the company or others who can cast votes on behalf of Folketrygdfondet as proxies.

If our review of the agenda gives rise to questions in relation to one or more of the proposals to be deliberated by the Shareholders' Meeting, we will normally contact the company prior to the Shareholders' Meeting in order to solicit a response to our questions. In many cases, the rationales and answers provided by the companies are satisfactory, and we are able to vote in favour of the proposal in the Shareholders' Meeting. In most cases the dialogue results in more comprehensive disclosure in the Shareholders' Meeting, but it may also result in proposals being amended or withdrawn from the agenda of the Shareholders' Meeting.

The financial crisis has made investors adopt a more restrictive view as to the authorisations granted to Directors. It is important to Folketrygdfondet that the resolutions passed in the Shareholders' Meetings of the companies in which we have ownership interests are in conformity with the principles on which our efforts are based. It is not an objective for Folketrygdfondet to draw attention to itself by voting against proposals presented to the Shareholders' Meetings. The dialogue we pursue with the companies in order to clarify any queries we may have prior to their Shareholders' Meetings therefore forms part of our ownership policies and practises. Such dialogue is important both to clarify our queries in relation to individual proposals and to clearly communicate our views and our priorities to such companies. In addition, we offer the Directors of the company, through such dialogue, an opportunity to respond or amend the proposal in a constructive manner.

The Folketrygdfondet management team has attended 33 Annual Shareholders' Meetings and one Extraordinary Shareholders' Meeting over the course of the last year. In addition, we have appointed the Chairperson of the Corporate Assembly, the Chairperson of the Board of Directors or another person as proxy on 25 occasions, of which 19 appointments have included complete instructions as to how votes should be cast.

In total, we have voted against submitted proposals on a total of eight matters in six Shareholders' Meetings. We addressed three Shareholders' Meetings. Both the addresses and letters explaining our voting have been made public on the Folketrygdfondet website; www.ftf.no.

Matters of concern to Folketrygdfondet

It is important to be conscious of what authorisations Folketrygdfondet, as a shareholder, grants to the Board of Directors. We therefore attach considerable weight to examining the authorisations requested by the Board of Directors, with a special focus on authorisations relating to remuneration models and share issues. In order to ensure that the companies in which we hold ownership interests have well-functioning Boards of Directors, we focus on the implementation of a good procedure for the appointment of Directors. The composition, functions and duties of the Election Committee are key considerations in this regard.

Remuneration models

The Board of Directors of Folketrygdfondet has, as part of its effort to safeguard shareholder value, stipulated principles for the evaluation of executive salaries and remuneration models. These are the principles we apply when reviewing proposals relating to the determination of salaries and other remuneration in companies in which we have investments.

There was introduced, in 2007, a provision in the Public Limited Companies Act to the effect that the Annual Shareholders' Meeting shall deliberate the statement from the Board of Directors as to the determination of salaries and other remuneration for executive personnel. We have since then made an active effort to communicate what principles we believe should govern executive salaries and compensation models. We believe that it is important, in order to ensure sound deliberation of an incentive programme, that the programme is clearly explained in the notice of Shareholders' Meeting. It should also be specified in the resolution what criteria and conditions apply under the programme. The programmes should be deliberated as separate matters in the Shareholders'

Meeting, not only as part of other authorisations requested by the Board of Directors.

It is our experience that many companies now have taken onboard our feedback in relation to executive salaries and remuneration models, and we consider this a positive development and an indication that the companies listen to the views of their shareholders.

However, it remains the case that the extent to which companies disclose satisfactory information in relation to executive salary schemes in their notices of Shareholders' Meetings varies. There are also variations in how these matters are dealt with in Shareholders' Meetings. Folketrygdfondet has therefore raised relevant issues with companies prior to their Shareholders' Meetings, and many companies have provided important supplementary and clarifying details in relation to executive salary schemes in their Shareholders' Meetings. As a result hereof, we have this year chosen, with one exception, to vote in favour of these schemes.

Authorisations to issue shares

We have also devoted resources to matters relating to authorisations to issue shares. In some of these matters the Boards of Directors have requested large-scale authorisations to issue shares, and the shareholders have been requested to waive their pre-emptive right to subscribe for shares. Folketrygdfondet is of the view that a general authority to issue shares should normally not represent more than ten percent of the share capital. We do not wish to waive our pre-emptive right to subscribe for shares beyond this level without being presented with a specific and acceptable reasoning on the part of the company. If there is a need for a share issue in excess of ten percent, the companies should, as a main rule, convene a new Shareholders' Meeting when the need for such share issue arises. In cases of large-scale general authorisations to issue shares, without a satisfactory justification, Folketrygdfondet will vote against granting the Board of Directors such authority.

Capital structure

Authorisations for the repurchase of own shares shall be approved by the Shareholders' Meeting. Many companies have chosen not to pay dividends for 2008. In such cases it becomes important to consider whether the company shall be granted authorisations for the repurchase of its own shares. Capital structure is a multifaceted topic, and encompasses issues to do with both equity structure and debt structure. We are of the view that it is important for the Board of Directors to explain the company's need for equity and debt funding. Some companies have a capital structure that makes it out of the question to repurchase own shares, and in such cases the Board of Directors should not request such authorisations from the Shareholders' Meeting.

Election Committee

We believe that it is important for companies to have well-functioning Boards of Directors, with a composition capable of attending to the interests of the company and all of its shareholders in a good manner. Many companies listed on the Oslo Stock Exchange have established an Election Committee. The most important duty of the Election Committee is to examine the work,

expertise and composition of the Board of Directors, as well as to propose new candidates for appointment to the governing bodies of the company by the Shareholders' Meeting. The Election Committee shall ensure a good process for appointments to governing bodies. This means, inter alia, that the proposed candidates must enjoy the support of the main shareholders, whilst it must also be ensured that the interests of all shareholders are attended to.

As per yearend 2008, the Norwegian equity portfolio of Folketrygdfondet comprised 49 companies. 41 of these companies have an Election Committee, and we are represented on eight of these. Seven of the Election Committees from amongst the remaining 35 companies have approached us with invitations to submit feedback and suggestions as to the composition of the Boards of Directors. Folketrygdfondet takes a favourable view of such initiatives, and we have replied to the communications we have received. Such a process contributes to vesting the appointment of Directors in the shareholders, and improves understanding of the proposals submitted by the Election Committee for the composition of governing bodies.

Folketrygdfondet has a favourable impression of the role played by the Election Committee, and in many companies the Committee functions in a satisfactory manner. However, it is our experience that there are considerable variations in terms of the working methods and practises of Election Committees, and we believe that there is a large potential for improvement in terms of establishing systematic and transparent processes on the part of certain companies.

There are also some companies that still have no Election Committee. These companies are often characterised by having one dominant private owner. We find it unfortunate that some companies opt out of having an Election Committee, and believe it not to be in the best interest of shareholders. However, these companies have not agreed with our position yet.

Addresses made to Shareholders' Meetings

There are three specific matters that we would like to highlight in connection with Shareholder's Meetings held over the last year. A more thorough explanation of our voting in these matters is available on the Folketrygdfondet website, www.fff.no.

Folketrygdfondet voted against the option scheme at an Extraordinary Shareholders' Meeting of Acergy. The reason for this was the scope of the scheme. The vote resulted in the scheme being voted down. We explained the reasons for our vote in a letter to the Shareholders' Meeting, as represented by the Chairman of the Board of Directors.

Folketrygdfondet voted against the granting of an authorisation for the repurchase of own shares at the Shareholders' Meeting of Rieber & Søn. This relates to the address we made to the Shareholders' Meeting last year concerning the low yield on, and liquidity in, the shares of the company. We then emphasised that it is the responsibility of the Board of Directors to evaluate, on an independent basis, the company's capital structure from the perspective of the ownership structure and liquidity characterising the shares of the company.

Folketrygdfondet voted against the appointment of the Chairman of the Board of Directors and the executive salary statement at the Shareholders' Meeting of TGS Nopec. The reason why we voted against the appointment of the Chairman was that the candidate would remain an employee of the company. Folketrygdfondet takes that view that the executives and the Board of Directors should, as a matter of principle, be independent of each other. The reason why we voted against the executive salary statement was that the statement described neither the executive salary principles, nor the scope thereof, in sufficient detail.

Future efforts

Folketrygdfondet shall be a responsible owner, and the efforts we make in relation to the Shareholders' Meetings of companies form an important part of our ownership policies and practises. This means that we will continue to attach considerable weight to reviewing and assessing the matters to be deliberated by Shareholders' Meetings. The ownership principles of Folketrygdfondet and Folketrygdfondet's principles relating to remuneration models are key reference documents guiding this work, and the outcome will be presented in our annual Ownership Reports.

PRINCIPLES RELATING TO REMUNERATION MODELS

Folketrygdfondet's Principles relating to the Remuneration Models of Companies in which we Invest

1. Guidelines for the remuneration of executive personnel shall be set out in the Annual Report. The same applies to all elements of the remuneration of the Chief Executive Officer and each member of senior management.
2. Incentive-based salary schemes shall be based on actual performance over and above what could normally be expected, shall be evaluated in view of general market developments, and shall not be based on developments in the company share price.
3. There should be a maximum cap on the annual remuneration of management that is not perceived to be unreasonable in view of actual performance. Nor should the scope of pensions, other supplementary benefits or severance pay be unreasonable.
4. The incentive schemes shall be designed such as to motivate, to the maximum extent possible, management to long-term value creation and the creation of robust organisations with a good working environment.
5. One should facilitate the investment of a portion of any paid-out performance bonus in company equities, for purposes of ensuring a long-term perspective and correct strategic choices.
6. Proposals for authorisations to grant options shall specify the allotment criteria, and should calculate the real value of the option schemes, accounting implications for the company and potential dilution effects.
7. When using option schemes, the strike price should be adjusted annually. As far as equity-based schemes and options are concerned, a significant portion of the equities should be held for a minimum of three years.
8. The Directors shall not be encompassed by incentive schemes.

ETHICS – IMPORTANT TO THE LONG-TERM CREATION OF VALUE

Folketrygdfondet is committed to investing in companies characterised by high-quality operations and management, and this has contributed to us having achieved a >0.5 percentage point annual excess return on our overall portfolio relative to the market over the last decade. High-quality operations and management also mean high-quality attitudes and actions in relation to ethical matters on the part of the companies. Ethical considerations have therefore been included as part of the qualitative investment criteria we apply in making our investment decisions.

Ethics and ownership

Folketrygdfondet takes a systematic approach to integrating ethical considerations in its asset management efforts, and ethics are an integrated aspect of our ownership policies and practises. We do this because we believe that companies that operate in an ethically sound manner create more value in the long run, and that this will have a positive effect on the return achieved by Folketrygdfondet over time.

We attach considerable weight to being a responsible financial player and to conducting our affairs appropriately as far as good corporate governance is concerned. The values and involvement of the Board of Directors and senior management define the standard in terms of how a corporate organisation addresses ethical issues. We therefore focus on the Board of Directors and the executives of a company when we examine this type of issues on the part of the companies in which we hold ownership interests.

Folketrygdfondet is a selective investor, and we seek to invest in companies with operations and management of good quality. This implies, inter alia, that the companies shall show high-quality attitudes and actions in relation to ethical issues. We believe it is important for the companies to have introduced a sound framework within the area of ethics, and for such framework to be promoted and followed up on within the organisation. Recognised principles and guidelines have been adopted in the international arena, such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises. We find it encouraging when the companies in which we invest have signed this type of international agreement.

We have adopted a set of ethical principles relating to the investment activities of Folketrygdfondet to ensure that we address ethical issues in a sound manner. These are important principles that underpin our asset management work. The principles are published in this Ownership Report, and are also available on our website; www.fff.no.

Efforts relating to ethical issues

The management methodology of Folketrygdfondet features both quantitative and qualitative assessment criteria. Ethical factors are defined as forming part of the qualitative investment criteria we apply in making investment decisions.

Folketrygdfondet's ethical principles relating to its investment activities are based on the premise that laws and regulations shall be complied with, and that companies shall conduct their affairs in conformity with generally accepted ethical norms. We have defined, in our ethical principles, a set of issues that we examine specifically. These themes include corruption, human rights, child labour and the environment.

The ethical principles relating to our investment activities apply to the Folketrygdfondet portfolio in its entirety. However, we use different methods in following up the various parts of the portfolio.

As far as the management of Norwegian equities is concerned, Folketrygdfondet has chosen positive selection and ownership policies and practises as tools in this effort. We believe that these tools are the most appropriate based on our investment philosophy and profile as a responsible, long-term, financial investor in the Norwegian stock market.

Positive selection means that we actively choose to invest in companies that meet our requirements. This implies that the companies also have to meet our requirements within the area of ethics. We attach considerable weight to examining whether a company operates in conformity with the norms we have defined as our ethical principles. Our assessments are based on the information disclosed by the company through its reporting or other information available in the public domain. In addition, we raise ethical issues in meetings with company management.

Ownership policies and practises are important tools in enabling us to attend to our investments in the best possible manner. If there arise situations that give cause to question how companies in which we are invested handle ethical issues, we will raise the matter with corporate management. We offer companies an opportunity, through this type of ownership policies and practises, to remedy unacceptable conditions, and we attend to the interests of Folketrygdfondet by contributing to positive developments and good practise amongst companies within the area of ethics. If our dialogue with the company does not result in the company paying heed to our concerns to a sufficient extent, we will contemplate raising the matter in the Shareholders' Meeting. If the latter approach does not work either, we will eventually have to consider the divestment of our holdings in the company.

Fixed-income investments do not carry the same ownership rights, and therefore do not imply the same ownership responsibilities, as equity investments. Nevertheless, we address both ethical and other issues in relation to our fixed-income investments as well, and relevant measures will be contemplated and implemented if we uncover violations of our investment principles. Any measures we choose to implement in respect of Norwegian companies where we have both equity and fixed-income holdings will apply to both forms of investment.

As far as investments in Nordic equities or interest-bearing securities issued by Nordic companies are concerned, we adhere to the decisions made by the Ministry of Finance on the basis of the

recommendations from the Council on Ethics for the Government Pension Fund – Global. This means that if the Ministry of Finance decides that the Government Pension Fund – Global shall refrain from investing in certain companies, then the relevant securities will also be excluded from the Folketrygdfondet investment universe.

It follows from Report No. 20 (2008-2009) to the Storting, On the Management of the Government Pension Fund during 2008, that the differences between the Government Pension Fund – Global and the Government Pension Fund – Norway suggest that the guidelines relating to ethics/ownerships policies and practises should not necessarily be harmonised to a greater extent than is currently the case. An important reason for this is that the Government of Norway has other means of influencing Norwegian companies than companies of non-Norwegian ownership. If Folketrygdfondet is of the view that a Norwegian company is operating in violation of the ethical guidelines governing our investment activities, it will be the Board of Directors of Folketrygdfondet that determines whether such company shall be excluded from our investment universe. However, said company will not be omitted from the benchmark index stipulated by the Ministry of Finance, and against which the return achieved by Folketrygdfondet is measured.

Activities during 2008 and 2009

We devote significant resources to efforts involving ethics because we believe that ethical considerations are important in an investment context.

Internet searches

Folketrygdfondet continuously monitors the equity and fixed-income portfolios through systematic and electronically-based Internet searches in editorial sources worldwide. These include sources like newspapers, magazines, NGOs and organisations. At present, more than 100,000 sources are monitored, and more than half a million news articles are searched daily. The searches are systemised, and we are notified if the companies in our portfolio are linked to key ethics themes like corruption, human rights, child labour and the environment. This enables us to keep track of whether the companies



Internet searches – articles received

The chart shows the number of articles received by Folketrygdfondet per month as the result of the Internet search in relation to the Norwegian equity portfolio. The chart also shows what news items have received particularly extensive media coverage over the last year.

comply with their own guidelines within the area of ethics. Corresponding monitoring is also in place for all of our fixed-income investments.

The number of hits from Internet searches over the period from 1 July last year to 30 June this year was 2,121 news items from more than 400 sources. In 8 out of 10 cases these news items come from the Norwegian media. Sweden is dominant when it comes to media coverage in the Nordic region. There has been an increase in European media's coverage over the last year, and UK media are now clearly dominant over German media. Coverage figures for the rest of the world are twice those of last year. Ethical issues are mainly addressed by financial periodicals, and it is interesting to note that news about events in Norwegian companies are covered to such an extent by foreign media.

The following news items have received the most media attention over the last year:

- September 2008: Allegations against Telenor in relation to child labour and money laundering, as well as statutory infringement and breach of contract.
- October 2008: Two StatoilHydro executives are forced to resign because Hydro is linked to corruption in Libya during 2000-2001.
- May 2009: The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) decides not to embark on an investigation of the Libya case.

Folketrygdfondet has followed up on these matters as stipulated in our ethical principles. The companies have explained the issues and described what measures they have implemented to resolve the situations. We have taken note of these explanations and descriptions.

The UN Principles for Responsible Investment

Folketrygdfondet has become a signatory to the UN Principles for Responsible Investment. The UN Principles for Responsible Investment are an initiative promoted by the United Nations Environment Programme Finance Initiative and the UN Global Compact. The initiative is aimed at asset owners, investment managers and their professional service partners, who are all encouraged to sign up to the principles. We are of the view that the principles can contribute to raising awareness in the financial markets of areas that merit attention for purposes of ensuring sound long-term value creation in the business sector. The principles are concerned with being a responsible and active owner through integrating environmental, social and corporate governance themes in asset management activities and in ownership policies and practises. By signing up to the UN Principles for Responsible Investment an organisation commits itself to a «Comply or Explain» principle. We refer to a separate article in the Ownership Report for a more detailed description of what we do in order to follow up on the UN Principles.

Sustainable Value Creation

«Sustainable Value Creation» is a cooperation project to promote sustainable development and long-term value creation in Norwegian listed companies. The concept of sustainable value creation calls on companies to create financial, environmental and social value. Concern for the stakeholders of companies shall also be dealt with in a responsible manner. Good corporate governance is an important element in ensuring sustainable value creation.

Folketrygdfondet has previously conducted surveys relating to ethical issues in Norwegian companies in which we hold ownership interests. We are of the view that the cooperation project Sustainable Value Creation is a good and appropriate initiative that contributes to the effective gathering of company information of importance to investors in a unified and coordinated manner. Folketrygdfondet's participation in the cooperation project means that we no longer need to conduct this type of survey independently.

The project distributes, on behalf of the investors that participate in the cooperation project, a questionnaire to all companies included in the Oslo Stock Exchange Benchmark Index. The questionnaire covers the following six focal areas:

- human rights
- employee rights
- the environment
- anti-corruption
- health, safety and environment (HSE)
- responsible business conduct

Examples of questions posed to the companies are whether they have guidelines that address key elements within responsible and sustainable business operations, to whom these guidelines apply, where they are vested, how they are implemented and how compliance is reported. The responsibility of the Board of Directors within this area is also a theme under the survey.

Half of the companies that received a questionnaire from the project Sustainable Value Creation chose to file a response. Experience suggests that this is a good participation figure for this type of survey. A non-participation analysis shows that size, industry and challenges within the areas addressed by the survey may have impacted whether or not a company has filed a response.

The survey shows that there are major variations in how far companies have come in their efforts to adopt responsible and sustainable business practises, and there would appear to be room for improvement in all companies.

The Boards of Directors assuming responsibility for the relevant issues is the part of the survey where companies achieve the highest scores. We are gratified by this, and see it as indicating that the Directors are concerned with this type of issues. Responsible business conduct was, in addition to health, safety and environment, the area dealt with by the Boards of Directors of the largest number of companies, and the area where companies believed that their Directors had expertise.

The survey shows that all responding companies have established guidelines for one or more of the six focal areas, but there is potential for improvement in relation to implementation and compliance. This is particularly the case with reporting and communication. For example, all companies have guidelines on health, safety and environment, but only half of them provide training in this regard to new personnel. The survey shows that companies achieve the lowest score in relation to reporting and communication. Folketrygdfondet would applaud an enhanced focus on the part of the Boards of Directors of companies when it comes to company follow-up of established guidelines, hereunder the potential for improvement in relation to reporting and communication.

The findings show that areas where compliance is increasingly required as the result of industry standards or statutory regulation, also outside Norway – such as health, safety and environment – are the areas where companies achieve, generally speaking, the highest scores. For example, health, safety and environment is the area where the largest number of companies have, in full or in part, management systems, control procedures, defined targets and executive salary sanctions in case of non-compliance. The findings also indicate that companies take corruption seriously, and a large share of the companies have both anti-corruption guidelines and, in full or in part, a management system for following up on these guidelines. Human rights are the focal area where companies achieve, in aggregate, the lowest score under the survey.

Folketrygdfondet believes that the project Sustainable Value Creation is an important project that draws attention to difficult issues that do not always receive sufficient attention. We believe that the project contributes to enhanced awareness of ethical matters on the part of companies, and find it encouraging that a number of companies have initiated processes to achieve improvements within various areas.

Folketrygdfondet also follows up on the project in its asset management work. We use the individual replies filed by the companies in our internal analysis of companies, and raise relevant questions and issues in meetings with company management as part of our ownership policies and practises.

Accumulation of knowledge

Since Folketrygdfondet's ethical principles relating to its investment activities form an integral part of its asset management methodology, and therefore a part of our daily asset management work, it is important for asset managers to have fundamental and sound knowledge within the area. It is also important for us to share a joint understanding as to the scope of the issues. FTF has in 2008 held internal seminars where ethical issues have been the theme, in order to further increase awareness amongst employees and enhance the knowledge of portfolio managers within this area. The effort to accumulate ever-improved knowledge within the area of ethics forms a significant and continuous part of the culture of the asset management organisation, and of the investment philosophy of Folketrygdfondet.

Sustainable Value Creation

Folketrygdfondet participates in the cooperation project «Sustainable Value Creation – Investor Cooperation to Promote Sustainable Development and Long-Term Value Creation in Norwegian Listed Companies». The investors supporting the initiative are DnBNOR Kapitalforvaltning, Vital, the Ministry of Trade and Industry, Alfred Berg, StatoilHydro Kapitalforvaltning, Nordea, Odin, Storebrand, Gjensidige and KLP, in addition to Folketrygdfondet. These investors represent aggregate assets under management valued at NOK 2,700 billion, of which NOK 1,000 billion are directly invested in the Norwegian market. The project Sustainable Value Creation was launched on the Oslo Stock Exchange on 11 August 2008, and a report from the projects work in 2008 was published on 10 December 2008.

You will find more information concerning the project on the website www.baerekraftigverdiskaping.no.

ETHICAL PRINCIPLES

relating to the investment activities

1. Folketrygdfondet shall not make investments entailing an unacceptable risk that Folketrygdfondet contributes to unethical actions or omissions. Such contributions would impair sustainable development and long-term value creation, and might thereby reduce the returns achieved by Folketrygdfondet over time.
2. Folketrygdfondet is a selective investor, seeking to invest in companies with high quality operations and management. This also includes high quality in terms of companies' ethical attitudes and behaviour.
3. Folketrygdfondet expects the businesses in which it invests to comply with applicable laws and regulations.
4. Folketrygdfondet expects the companies to observe internationally recognised conventions, like the UN Global Compact and the OECD Guidelines for Multinational Companies.
5. Folketrygdfondet evaluates businesses' management and practises in relation to human rights, child labour, corruption and the environment. These matters are evaluated in view of the products manufactured, actual production processes, production locations, customer relations, corporate and management culture, company ownership structure and ownership interests. Folketrygdfondet examines, inter alia, whether companies produce, themselves or through entities controlled by them, weapons that violate fundamental humanitarian principles in their normal use.
6. Folketrygdfondet makes evaluations on the basis of information available to the general public and information disclosed by the companies themselves. The evaluations attach weight to the attitude of management, and to the company's awareness and control of the abovementioned issues.
7. As far as investments in Norwegian equities are concerned, Folketrygdfondet makes use of positive selection and ownership policies and practises to contribute to adequate quality of the ethical attitudes and behaviour of the companies in which it has invested. Folketrygdfondet may divest its holdings in the company if necessary changes are not implemented.
8. Folketrygdfondet monitors all fixed-income investments. Companies that violate the ethical principles of Folketrygdfondet are excluded from the investment universe unless the violations are remedied.
9. As far as investments in Nordic equities or fixed-income securities issued by Nordic companies are concerned, Folketrygdfondet takes into account the decisions made by the Ministry of Finance on the basis of the recommendations rendered by the Council on Ethics for the Government Pension Fund – Global. Folketrygdfondet will therefore refrain from investing in companies that the Ministry of Finance has decided to exclude from investment.
10. Folketrygdfondet shall publish, on an annual basis, the outcome of its efforts relating to ethically sound investments. The reporting shall be done with due care and discretion, and no company-sensitive information shall be published.

THE UN PRINCIPLES

for Responsible Investments

Folketrygdfondet has in 2008 become a signatory to the UN Principles for Responsible Investment. The principles are a laudable initiative, which may contribute to enhanced awareness in financial markets of issues that are important to take into consideration to ensure long-term value creation in the business sector.

The UN Principles for Responsible Investment were launched on 27 April 2006, at the behest of the UNEP Finance Initiative and the UN Global Compact. The principles are based on the premise that a responsible owner and investor should integrate Environmental, Social and Corporate Governance (ESG) issues into its asset management.

The six UN Principles for Responsible Investment are set out below. We have in respect of each principle commented on what Folketrygdfondet is doing to follow up on the principle in question.

1. We will incorporate ESG issues into investment analysis and decision-making processes

Folketrygdfondet has adopted ethical principles relating to its investment activities, and has integrated these into its investment methodology and its ongoing asset management work.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices

The principles we adopted for our ownership policies and practises are set out in the Ownership Principles of Folketrygdfondet. These form the basis for our follow-up efforts within the areas of corporate governance and ethics. The Ownership Principles are made public on the Folketrygdfondet website.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest

Folketrygdfondet assumes that the companies in which we hold ownership interests operate within the UN Global Compact. It follows from this that the companies should report on how they pursue ESG issues. In order to assess the level of ethical attitudes and actions on the part of companies, we have conducted a survey on this topic in the companies in which we hold ownership interests. We also cooperate with a number of Norwegian institutional investors through the "Sustainable Value Creation" project. Questionnaires have in that regard been distributed to companies listed on the Oslo Stock Exchange. This latter survey addresses, inter alia, companies' internal guidelines in connection with ethical issues.

4. We will promote acceptance and implementation of the Principles within the investment industry

Folketrygdfondet has adopted ethical principles relating to its investment activities. It follows, inter alia, from the principles that we evaluate corporate management and practises in relation to human rights, child labour, corruption and the environment. The principles are made public on the Folketrygdfondet website.

5. We will work together to enhance our effectiveness in implementing the Principles

Folketrygdfondet cooperates with other investors for purposes of attending to our interests. This is reflected in the Ownership Principles of Folketrygdfondet. Such cooperation may involve ethical issues when deemed appropriate by us.

6. We will each report on our activities and progress towards implementing the Principles

Folketrygdfondet prepares an annual report on our ownership policies and practises. In such report we describe, inter alia, what activities we have carried out to attend to our interests as owner and investor.

PARTICIPATION IN GOVERNING BODIES

Folketrygdfondet may, pursuant to the Ownership Principles of Folketrygdfondet, be represented on the Election Committees, Shareholders' Committees and Corporate Assemblies of companies. Folketrygdfondet shall not be represented on the Boards of Directors of companies. The below overview is updated as per June 2009, and shows what appointments are held by employees of Folketrygdfondet.

Corporate Assemblies:

Norske Skog ASA	- Portfolio Manager Ann Kristin Brautaset	<i>member</i>
Norsk Hydro ASA	- Deputy Managing Director Lars Tronsgaard	<i>member</i>
Orkla ASA	- Managing Director Olaug Svarva	<i>member</i>
	Portfolio Manager Ann Kristin Brautaset	<i>alternate</i>
StatoilHydro ASA	- Managing Director Olaug Svarva	<i>chairperson</i>
Telenor ASA	- Managing Director Olaug Svarva	<i>vice chairperson</i>

Nomination Committees:

DnBNOR ASA	- Director Nils Bastiansen	<i>member</i>
DnBNOR Bank ASA	- Director Nils Bastiansen	<i>member</i>
DnBNOR Boligkreditt AS	- Director Nils Bastiansen	<i>alternate</i>
DnBNOR Næringskreditt AS	- Director Nils Bastiansen	<i>alternate</i>
DnBNOR Skadeforsikring AS	- Director Nils Bastiansen	<i>member</i>
Vital Forsikring ASA	- Director Nils Bastiansen	<i>member</i>
Storebrand ASA	- Managing Director Olaug Svarva	<i>member</i>
Deputy	- Managing Director Lars Tronsgaard	<i>alternate</i>

Election Committees

Orkla ASA	- Managing Director Olaug Svarva	<i>member</i>
Prosafe SE	- Director Nils Bastiansen	<i>alternate</i>
Schibsted ASA	- Director Nils Bastiansen	<i>member</i>
StatoilHydro ASA	- Managing Director Olaug Svarva	<i>chairperson</i>
Storebrand ASA	- Managing Director Olaug Svarva	<i>member</i>
Tandberg ASA	- Director Nils Bastiansen	<i>member</i>
Veidekke ASA	- Managing Director Olaug Svarva	<i>member</i>
Yara ASA	- Managing Director Olaug Svarva	<i>member</i>

OTHER RELEVANT INFORMATION

The following documents are available on the Folketrygdfondet website, www.ftf.no:

- Act of 21 December 2005 No. 123 relating to the Government Pension Fund
- Act of 29 June 2007 No. 44 relating to Folketrygdfondet
- Articles of Incorporation for the company by special statute Folketrygdfondet
- Regulations of 7 November 2007 No. 1228 relating to the Management of the Government Pension Fund – Norway
- Guidelines for the management of the Government Pension Fund – Norway
- Management agreement for the Government Pension Fund – Norway
- The Ownership Principles of Folketrygdfondet
- Folketrygdfondet's ethical principles relating to its investment activities
- Folketrygdfondet's principles relating to remuneration models

The Ministry of Finance website, www.finansdepartementet.no, provides links to, inter alia:

- Fiscal Budget for 2009
- Report No. 20 (2008–2009) to the Storting, On the Management of the Government Pension Fund during 2008
- Proposition No. 2 (2005–2006) to the Odelsting, On the Act relating to the Government Pension Fund
- Proposition No. 49 (2006–2007) to the Odelsting, On the Act relating to Folketrygdfondet
- Information concerning the Council on Ethics for the Government Pension Fund – Global

The website www.nues.no contains, inter alia

Norwegian Code of Practise for Corporate Governance

The website www.unpri.org can provide more detailed information concerning:

- UN Principles for Responsible Investment
- UN Global Compact

www.oecd.org offers information about:

- OECD Principles of Corporate Governance
- OECD Guidelines for Multinational Companies

The Government Pension Fund – Norway, which forms part of the Government Pension Fund, shall support government savings for the funding of the pension expenditure of the National Insurance Scheme

The Government Bond Fund shall contribute to increased liquidity in, and capital inflow to, the Norwegian market for credit-linked notes



	mil. kroner	prosent	17 146	15 891	17 385	10 409
Markedsverdier	prosent	10,6	9,0	11,1	9,8	-29,1
Norske aksjer	prosent	12,9	10,8	10,0	7,2	-48,16
Norske aksjer	prosent	36,5	32,0	32,1	16,4	-54,08
Referanseportefolje norske aksjer	prosent	38,5	40,5	32,4	11,5	-32,75
Avkastning norsk aksjeforfølge	prosent	18,9	25,1	24,7	3,0	-37,47
Referanseportefolje norske aksjer	prosent	19,6	25,1	25,3	0,4	8,48
Avkastning norsk aksjeforfølge	prosent	5,2	2,8	1,3	3,2	7,84
Referanseportefolje norske aksjer	prosent	7,2	3,7	0,7	2,5	23,49
Avkastning norsk aksjeforfølge	prosent				2,7	24,62
Markedsverdier	mil. kroner	prosent	33 738	41 895	52 471	60 253
Norske aksjer	mil. kroner	prosent	19,3	21,9	49,1	51,6
Norske aksjer	mil. kroner	prosent	7 058	8 679	10 927	9 821
Norske aksjer	mil. kroner	prosent	4,0	4,5	10,2	11,4
Norske aksjer	mil. kroner	prosent	134 249	140 741	45 640	26 302
Norske aksjer	mil. kroner	prosent	76,7	73,6	40,7	42,7

Folketrygdfondet

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