

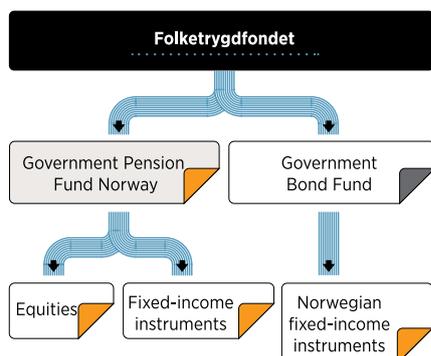


OWNERSHIP REPORT 2012

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

IN BRIEF



Folketrygdfondet is a company by special statute that manages the Government Pension Fund Norway and the Government Bond Fund pursuant to mandates laid down by the Ministry of Finance. The capital takes the form of a deposit placed with Folketrygdfondet and is invested in the name of Folketrygdfondet.

Folketrygdfondet shall not accept company directorships, and may hold up to 15% of the shares of Norwegian companies and up to 5% of the shares of companies listed on other Nordic stock exchanges. As per the end of the second quarter of 2012, the value of the Government Pension Fund Norway was NOK 135.5 billion, comprising a Norwegian equity portfolio (51.89%), a Norwegian fixed-income portfolio (33.08%), a Nordic equity portfolio (9.14%) and a Nordic fixed-income portfolio (5.89%).

The objective of the management of the Government Pension Fund Norway is to achieve the maximum possible return over time. The mandate stipulates that «A good return in the long term is regarded as being dependent upon sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and effective markets.»

The mandate requires Folketrygdfondet to report annually on its work relating to active ownership and the integration of good corporate governance and environmental and social issues in its management activities. We have chosen to do so in a separate Ownership Report issued in the wake of the annual season of Shareholders' Meetings.

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MANAGING DIRECTOR OLAUG SVARVA:

WILL BE CONSISTENT AND ACCOUNTABLE

– For Folketrygdfondet, active ownership and responsible investment activities have to do with reducing risk and creating value. We devote considerable time and resources to such work, and we do so because we believe it to be profitable in the long run.

– ***It is our experience*** that long-term value creation is best in companies characterised by good corporate governance, as well as good systems and procedures for handling social and environmental issues. We therefore integrate such matters in our ongoing investment activities, Says Olaug Svarva, the Managing Director of Folketrygdfondet.

Consistent and accountable

Folketrygdfondet exercises its role as owner in many venues – in direct contact with senior company executives and Boards of Directors, in Shareholders' Meetings, in Corporate Assemblies or Shareholders' Committees, and in Nomination Committees.

Dialogue with the companies is the most important channel. Such direct contact with the companies keeps us informed about developments and enables us to understand the strategy, challenges and risks of the company. We are, at the same time, conscious about not obtaining inside information. We have been monitoring the companies for many years and know their strengths and weaknesses.

She also emphasises that Folketrygdfondet shall be consistent in its active ownership activities, and that the principles adhered to shall be publicly available.

We have defined five key ownership issues on which we focus - the financial capital structure and strategy of companies, executive remuneration, Board composition, reporting and communication and, finally, the values and governance principles of companies. We address these issues and communicate our views to companies.

As an owner Folketrygdfondet aims to be both predictable and accountable. As a public fund, it is of particular importance that we effectively communicate our ownership activities for the knowledge of the

general public as well as other stakeholders. To help achieve this Folketrygdfondet's Board has adopted Principles for Responsible Investment Activities and our annual Ownership Report provides an overview of activities and specific matters from the last 12 months, with an emphasis on the last season of Shareholders' Meetings.

Conscious of our responsibility

– The Ministry of Finance has issued Folketrygdfondet a clear mandate which conveys certain responsibilities, also when it comes to contributing to healthy and well-functioning markets. We seek to contribute, through our size, long-term perspective and active ownership, to proper conduct and a clear division of roles in the markets. This is of decisive importance as far as confidence in the financial markets is concerned, and therefore contributes to supporting and developing the Norwegian business sector, says Ms. Svarva.

Want to make a difference

– *What are the long-term objectives of Folketrygdfondet with regard to active ownership and responsible investments?*

– We would like to contribute to the healthy and favourable development of the companies in which we are invested and the markets in which we operate. It is always about developing best practice. We seek to be a useful and constructive, but also an exacting, owner in the companies in which we have invested, whilst at the same time having an impact on the market in general. As far as good corporate governance and responsible investment are concerned, it is indeed important to make a difference, concludes Ms. Svarva.

LOOKING TO INVEST IN HIGH-QUALITY COMPANIES

The mandate from the Ministry of Finance establishes that Folketrygdfondet shall manage the Government Pension Fund Norway with a view to achieving the maximum possible return over time.

The size of Folketrygdfondet in the Norwegian market means that we are less able than many other investors to swiftly enter and exit individual companies. Our ownership stake in a company will be relatively large, and once we have chosen to invest in a company we will typically hold on to such investment for a number of years.

Identifying high-quality companies is of fundamental importance to our investment strategy, and is one of the criteria we need to meet in order to realise our objective of achieving an excess return over time.

The Ministry of Finance has stipulated the following in the mandate: «A good return in the long term is regarded as being dependent upon sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and effective markets.»

Quantity and quality

Seeking out high-quality companies is therefore a key feature of Folketrygdfondet's investment activities, and we have adopted a set of evaluation criteria to assist us in such work. Both quantitative and qualitative criteria are included in the overall assessment we will eventually make.

Our assessments are premised on expectations with regard to market developments, macroeconomic developments and general investment conditions. We will, based on such expectations, take a

qualified view on developments in the valuation of the company, and measure this against its stock market price. We make use of financial analysis tools and valuation techniques in this work, which represent the core of the quantitative assessments. The qualitative assessments will be about analysing the strategy, management, values, Board composition and social responsibility of the company, including how such company addresses its environmental challenges.

The investments in Folketrygdfondet's portfolio are based on a series of such overall assessments. Thereafter commences the long-term follow-up of the companies, in which we will seek to pursue the same criteria through, among other things, dialogue with the companies and voting in the Shareholders' Meetings. In addition, we make decisions about increasing or decreasing our holdings in companies every single day, and these may also be influenced by both quantitative and qualitative criteria.

Sometimes, the qualitative criteria are so important that we are willing to deselect a company even though the quantitative assessments indicate that such company may generate a favourable financial return in the short run.

KNOWING THE COMPANIES WE'RE INVESTED IN

Folketrygdfondet wants to be a responsible owner that knows the companies, poses questions to the Boards of Directors and senior executives and addresses key ownership issues of its own accord. By being such an owner, we would like to make a positive contribution to developing the value of companies over time.

The motivation behind Folketrygdfondet's ownership activities will always be to safeguard our interests. Follow-up of the companies in which we have invested is important both to reduce risk and to contribute to the most favourable development in the valuation of the portfolio.

It is our ambition to be an engaged and predictable owner. We shall act recognisably and consistently in matters of the same nature, and the Executive Board of Folketrygdfondet has therefore adopted a set of principles that guide our ownership activities.

In order to be an active and competent owner, we need to understand the companies, and we therefore contact their Boards of Directors and senior management directly. This is how we get to know the companies, and the companies get to know us through dialogue over time.

These are issues on which we will have opinions

The Shareholders' Meeting is the supreme governing body of a company and the most important arena for the shareholders. The issues mentioned below are ones that we deem to be important to us, in which we get involved and on which we will have opinions.

Board composition and governing bodies

We emphasise: Good processes for identifying qualified candidates and an appropriate assortment of experience and expertise. Support from the main shareholders.

Remuneration

We emphasise: Clear and good information. Performance-related schemes if the interests of the shareholders and of senior executives are aligned. Predictable costs. Reasonable amounts. Not based on external circumstances outside the control of senior executives.

Capital structure and strategy

We will have opinions on: Return targets, share issues, dividends and authorisations to issue shares. The consequences of the strategy of the companies for their capital structures, returns and risk levels.

Values and governance principles

We expect companies to adhere to the recommendations in the Norwegian Code of Practice for Corporate Governance (NUES) or corresponding relevant international recommendations. Moreover, we expect companies to prepare guidelines and governance principles relating to social and environmental matters associated with their activities.

Reporting and communication

We expect companies to communicate financial information to the market and to explain values, governance principles, environmental and social matters in a relevant and correct manner. Reporting in accordance with the NUES recommendation is a minimum requirement.

DIALOGUE AS AN OWNERSHIP STRATEGY

We have opted for dialogue with the companies as our approach to responsible ownership because we believe that this strategy delivers the best results over time.

Being a large shareholder carries responsibilities. We need to be available to the companies, and we expect the companies to be available to us. We have opted for dialogue with the companies as our approach to responsible ownership because we believe that this delivers results over time

In the Norwegian market, we hold meetings with senior executives of all the companies in which we are invested, and we communicate with the Chairperson of the Board on matters that fall within the responsibilities of the Board of Directors. These processes operate on a continuous basis, and are well established as our way of following up on our investments.

The dialogues enable us to understand, among other things, the performance developments, strategy, competitive situations and growth opportunities of individual companies. This contributes to making us a better owner, not least because we are able to quickly evaluate the capital needs of the companies.

VOTING AT SHAREHOLDERS' MEETINGS – NORWAY:

VOTED AGAINST PROPOSALS IN NINE COMPANIES

Folketrygdfondet has voted in 61 Shareholders' Meetings in Norway over the last year. We have voted against 19 proposals in a total of nine companies. Executive remuneration and authorisations to issue shares recur as the issues on which we have most often chosen to vote against the proposal of the Board of Directors.

Folketrygdfondet has during the 2011/2012 season of Shareholders' Meetings chosen to vote against the executive remuneration schemes of five companies. In four of these companies, Folketrygdfondet voted against corresponding schemes in last year's Shareholders' Meetings as well. The four recurrences are Algeta, Atea, Noreco and RCCL. In addition, Folketrygdfondet has this year also voted against the executive remuneration scheme of Spectrum.

In general, Folketrygdfondet looks favourably on executive remuneration schemes that are goal-

oriented and performance-related. We believe that incentive schemes should be linked to personal targets, company targets and targets for ensuring good value creation for the shareholders over time.

On those occasions when we choose to vote against the executive remuneration schemes of companies, it is because these include elements we believe to be inappropriate or because there is inadequate information. It may, for example, be that the scheme does not include any defined cap, or that the Board of Directors has failed to properly explain which criteria have been applied.

OVERVIEW OF COMPANIES WHERE FOLKETRYGDFONDET HAS VOTED AGAINST PROPOSALS FROM THE BOARD OF DIRECTORS*

COMPANY	NUMBER OF CASES	TYPES OF CASES
Spectrum	5	Authorisation to issue shares. The executive remuneration statement. Authorisation to issue shares under an option programme. Authorisation to issue convertible bonds. Repurchase of own shares.
Noreco	2	The executive remuneration statement. Authorisation to issue shares under an option programme.
Atea	2	The executive remuneration statement. Authorisation to issue shares under an option programme.
Algeta	3	The executive remuneration statement. Authorisation to issue shares under an option programme. Directors' remuneration in the form of options.
RCCL	2	The executive remuneration statement. CEO on the Board of Directors.
Prosafe	1	Authorisation to issue shares.
Golar	1	Delisting of the company.
Subsea 7	1	CEO on the Board of Directors.

*) In addition, Folketrygdfondet has voted against proposals submitted by shareholders in the Shareholders' Meetings of Statoil and RCCL.



OUR VOTING EXPLANATIONS IN CASES WHERE WE HAVE VOTED AGAINST THE EXECUTIVE REMUNERATION STATEMENT

COMPANY	VOTING EXPLANATION (cases where Folketrygdfondet has voted against the proposal of the Board of Directors)
Spectrum	... Folketrygdfondet is of the view that Spectrum's option scheme is excessive in scope, as it may imply the potential issuance of 15.8 percent new shares. Folketrygdfondet is of the view that the option scheme implies an unmerited transfer of assets from the shareholders to the employees of the company...
Noreco	... Folketrygdfondet is of the view that Noreco's option scheme is excessive in scope and implies an unmerited transfer of assets from the shareholders to the employees of the company ...
Atea	... The executive salary statement does not explain which allotment criteria are used under the bonus and stock option programme, and the programme is not subject to any upper cap. Folketrygdfondet is therefore voting against the approval of the Board of Directors' executive remuneration statement and guidelines in relation to the use of options and stock-based incentives aimed at senior executives.
Algeta	... We are of the view that option programmes shall be approved by the Shareholders' Meeting with clear performance-related allotment criteria and with an upper cap for the scheme, and that it shall not be unreasonable in scope. The shareholders shall be in a position to assess which assets are transferred from the shareholders to the senior executives of the company. We are unable to see that the said parameters are covered by the description of the option programme in the annual report of Algeta..
RCCL	... Folketrygdfondet is voting against the executive remuneration scheme proposal of the Board of Directors due to the scope of the programme. The programme may imply the transfer of considerable assets from the shareholders to the employees.

See www.ftf.no for complete voting explanations

VOTING AT SHAREHOLDERS' MEETINGS – SWEDEN, DENMARK AND FINLAND:

VOTED IN 105 SHAREHOLDERS' MEETINGS

Over the last 12 months, Folketrygdfondet has cast votes in a total of 105 Shareholders' Meetings of companies in the Nordic portfolio.

We have voted against, or abstained from voting on, 25 of the cases in which proposals have been submitted by the Boards of Directors. In addition, we have voted against 17 proposals submitted by shareholders.

Executive remuneration

Most of the Board proposals we have voted against relate to executive remuneration statements. Generally speaking, it is our experience that the executive remuneration statements contain insufficient information about the schemes, that incentive programmes lack individual performance requirements or that such schemes are not limited in scope. These have also in the Nordic companies of the portfolios been the main reasons why we have voted against the executive remuneration statements.

We have also, on the same grounds, voted against warrant programmes, option programmes and other corresponding programmes for executives and employees.

Nomination Committees and appointment of auditors

In two Swedish companies, the Chairperson of the Board of Directors was proposed to chair the Nomination Committee. We believe that Directors should not be represented on Nomination Committees, and voted against in both of these cases.

We are also seeing examples of auditors rendering non-auditing services to companies, with the fees

relating to such ancillary services exceeding the auditing fees. In such cases we have consistently voted against reappointment of the auditors.

Proposals submitted by shareholders

As far as proposals submitted by shareholders are concerned, we have often voted against these because many such proposals are not adequately substantiated. Furthermore, a number of the proposals submitted by shareholders concern matters that, under general principles for the division of responsibilities within a listed company, fall outside the scope of the decision making powers of the shareholders as a group. We have for this reason voted against such proposals.

We have only voted in favour of one proposal submitted by shareholders during the course of this season of Shareholders' Meetings in the Nordic region. This proposal concerned examining whether equal voting rights could be conferred on the A and B shares of the company.

Votes in all Shareholders' Meetings

As from the 2010 season of Shareholders' Meetings, we have voted in all Shareholders' Meetings of companies included in the Nordic portfolio. We subscribe to an analysis service that enables us to evaluate the specific cases submitted to Shareholders' Meetings. The evaluations are made on the basis of our principles and guidelines. This approach enables us to vote consistently across the entire equity portfolio.

Cases where we have voted against the proposal of the Board of Directors, by topic:	Sweden	Denmark	Finland	Total
Executive remuneration statement	8	1		9
Warrant/ convertible loan/subscription right programme/options	5		1	6
Election Committee – the Chairperson of the Board to chair the Election Committee	2			2
Extra Directors' emoluments	1			1
Reappointment of auditors		1	5	6
Share issue (abstained from voting)			1	1
Proposals submitted by shareholders				
Against	15	2		17
For	1			1

THE IMPORTANCE OF A NORDIC PRESENCE

Folketrygdfondet may invest in equities and fixed-income instruments issued by companies listed on regulated marketplaces in Norway, Sweden, Denmark and Finland. The investments in the Nordic region provide us with knowledge that makes us a better investor in the Norwegian market as well.

At any given time, approximately 15 percent of the portfolio of the Government Pension Fund Norway will be invested in companies listed on Swedish, Danish and Finnish stock exchanges.

Generally speaking, Folketrygdfondet is concerned with the same ownership issues throughout the portfolio, and we apply the same active ownership principles and guidelines in respect of the Nordic portfolio as we do in the Norwegian one. However, our active ownership activities are more intensive in the Norwegian portfolio than in the Nordic portfolio. This is a natural implication of the fact that our ownership stakes are significantly larger in the Norwegian market.

In the Nordic region, we primarily exercise our ownership rights through voting in the Shareholders' Meetings.

Building up our knowledge base

There are many joint drivers in the markets, and the Nordic investments are thereby a source of information on structural conditions for us. Holding active positions in the Nordic region provides us with broader insight into macroeconomic trends, better sector knowledge and an improved basis for assessing the market pricing of Norwegian equities as well. Moreover, we note that company analyses and sector-related issues in the Nordic portfolio also shed light on the investments in the Norwegian portfolio.

Exclusion of companies

An important difference between our investment activities in Norway and in the Nordic region is that the Nordic portfolio is subject to the decisions of the Ministry of Finance with regard to the exclusion of companies from the investment universe. Such decisions are made by the Ministry after recommendations from the Council on Ethics for the Government Pension Fund Global. (See www.finansdepartementet.no)

ESG ANALYSES FOR ASSESSING AND MANAGING RISK

Folketrygdfondet has invested in sectors whose activities incur particular challenges in relation to environmental and social issues, as well as corporate governance. Based on this, we have defined certain issues that we place a special focus on in our work with responsible ownership.

Both environmental challenges and corruption are examples of ESG (Environmental, Social, Corporate Governance) issues that may represent a potentially large financial risk in our portfolio. We have, as a risk management tool, prepared ESG analyses for each of the Norwegian companies in which we are invested. Special topics from such analysis are followed up on in direct dialogue with the companies.

We have in the present Ownership Report chosen to highlight the environmental challenges of the aquaculture industry and the anti-corruption efforts of companies as examples of themes to which we have accorded priority. Another field in which it has been important to accumulate knowledge, and which we continue to monitor closely, is unconventional oil and gas extraction.

How we are organised

Folketrygdfondet has a designated SRI analyst (Socially Responsible Investment analyst). Organisationally, the SRI analyst is located in the Equities Department, working in a team with the portfolio managers, and is thus one of several people who add to our understanding of individual companies and industries. The SRI analyst has a special responsibility for preparing analyses, contributing to dialogue with companies and representing Folketrygdfondet in external initiatives relating to SRI.

We have emphasised the importance this organisational approach, because we believe that this part of the analysis should be as integrated as possible with both the investment decisions and with the follow-up of each individual company.

Examples of special focus areas

UNCONVENTIONAL OIL AND GAS EXTRACTION

Folketrygdfondet gathers, on an independent basis, information to understand the risk associated with Statoil's involvement in unconventional oil and gas extraction.

As per 30 June 2012, Folketrygdfondet holds 3.5 percent of the shares of Statoil. This shareholding is valued at NOK 15.6 billion, and is the largest individual investment in our equity portfolio.

In recent years, Statoil's involvement in unconventional oil and gas extraction has become an issue that Folketrygdfondet needs to keep track of as a shareholder. This type of activity gets a lot of attention because it has implications for, among other things, proven energy reserves and long-term energy security and, not least, because extracting these resources entails both environmental and social challenges.

Folketrygdfondet has gathered, on an independent basis, information about the various risks and opportunities relating to Statoil's oil sands project in Canada and to the company's involvement in shale gas and oil extraction in the United States. Folketrygdfondet has held a number of meetings with Statoil on specific environmental, social, regulatory and reputational risks associated with these activities. Over the last year, we have requested a briefing on how the company handles these challenges. Our expectations with regard to the company's dissemination of information in this area have been clearly communicated to the company. As a shareholder, we expect thorough documentation of Statoil's strategy for the extraction of unconventional oil and gas resources, and how to implement such strategy in an environmentally sound manner.

ANTI-CORRUPTION

We realise that corruption is an issue that represents a potentially large risk in our portfolio. Corruption undermines economic growth and is detrimental to the operations of the companies involved.

For the individual company involved, the financial implications of corruption may be that it is excluded from markets, loses contracts, has fines imposed on it and is subjected to protracted legal processes.

Corruption can be a difficult issue to deal with, not least because corruption may assume many different forms. Companies involved in international activities may have operations or partnerships in countries where attitudes with regard to corruption differ from those in the «home country» of such company. This may represent a dilemma, but does not justify companies becoming involved in corruption, irrespective of where they operate.

It is up to each individual company to protect its activities, its assets and its reputation from corruption. This implies that the company needs to have established guidelines and procedures for the handling of corruption-related issues, as well as to report on such work. Furthermore, employee training and the establishment of a whistle-blowing system are important to prevent and uncover any instances of corruption.

The Board of Directors of each company is responsible for ensuring that the necessary measures are implemented, and also needs to keep itself updated on such work. If any instances of corruption are uncovered in a company, it is the duty of the Board of Directors to deal with these. As an investor, we need to keep ourselves informed about how the Board of Directors is following up on the matter, and what is being done to avert the reoccurrence of such events.

Two current examples

Two cases that emerged over the last year illustrate what risk corruption may represent: Telenor's problems in India and Yara, which is being investigated by the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim).

Telenor has invested NOK 18 billion in India. Improper conduct on the part of Telenor's partner has subsequently been uncovered, and uncertainty relating to Telenor's investments in India persists.

Unacceptable payments have been uncovered

on the part of Yara. The company is under investigation by Økokrim. The Board of Directors has initiated a separate inquiry into the matter, and the main findings have been made public.

CHALLENGES WITHIN THE AQUACULTURE INDUSTRY

Folketrygdfondet has invested in five companies within aquaculture in Norway. Over the course of the last two years we have been in contact with each of these in order to identify and reduce ESG-related risks in our portfolio.

The aquaculture industry is an important and growing industry in Norway. At present, Folketrygdfondet has shareholdings in Austevoll Seafood (the ownership stake as per 30 June 2012 is 0.95 percent), Cermaq (4.88 percent), Lerøy Seafood (1.46 percent), Marine Harvest (7.19 percent) and Salmar (8.32 percent). The total market value of our investments in these companies as per the end of the first half of 2012 was NOK 1.9 billion kroner, corresponding to 2.7 percent of the Norwegian equity portfolio.

Folketrygdfondet has addressed various challenges within the aquaculture industry during the last two years, including key issues such as fish escapes, sea lice and feed. Fish escape incidents hurt companies in both financial and reputational terms, whilst the treatment of sea lice is costly, and improper handling of this issue may prevent further growth within the industry. Feed represents a large part of the costs involved in salmon farming, and it is important for feeds to be based on nutritional, sustainable and cost-effective raw materials.

We have requested the companies to explain how they handle the abovementioned challenges. Meetings with senior executives of the companies have provided us with thorough explanations, and we have been able to discuss the financial risk we believe to be entailed by the environmental challenges facing the industry.

It is our experience that the companies are taking the issues seriously, and we observe that measures are being taken. The industry is, at the same time, facing pressure from environmental organisations that are of the view that such measures are insufficient. The industry will have to grapple with this situation in coming years. We will, on our part, continue to monitor developments, both within individual companies and for the industry as a whole.

Company Analyses and Focus Areas

DIALOGUES BASED ON ESG ANALYSES – ISSUES THAT REPRESENT SPECIAL RISK FACTORS IN OUR PORTFOLIO

Some of the dialogues referenced in this table were concluded during the last year. Others remain in progress. In some cases we have contacted the company subsequent to a specific event (Reactive dialogue). In most cases we have approached the company to identify risk and contribute to improved follow-up on the part of the company (Proactive dialogue).

A joint feature of all of these dialogues is that they address issues that we believe to represent risks associated with our portfolio.

SECTOR	TYPE OF DIALOGUE	ISSUE
Energy	Proactive	Social responsibility and anti-corruption efforts
	Proactive	Anti-corruption guidelines
	Proactive and reactive	Follow-up of environmental accounting with regard to part of the business
	Proactive	Environmental and social issues with regard to part of the business
Materials	Proactive	Social responsibility practice in new geographical areas
	Proactive and reactive	Anti-corruption guidelines and procedures
	Reactive	Question of an infringement of international conventions in relation to a joint-venture agreement
Manufacturing industry	Proactive	Anti-corruption guidelines and procedures, as well as greenhouse gas emissions reporting
	Proactive	Social responsibility strategy
Consumables	Proactive	Environmental issues
Consumer goods	Proactive	Environmental implications at a subsidiary
	Proactive	Environmental issues (concerns three companies)
Financial services	Proactive	Environmental reporting and anti-corruption guidelines
Information technology	Proactive	Guidelines on human rights and employee rights in the supply chain

FROM BONDS TO SHARES

Over the past year, Folketrygdfondet has participated in the financial restructuring of two companies in which we originally had large bond holdings. The bonds were converted into shares in both companies.

Eitzen Maritime Services: As the result of weak financial performance and a fragile financial position, Eitzen Maritime Services ASA (EMS) contacted the bond trustee Norsk Tillitsmann (NTM) in August 2011, announcing that the company would be unable to pay interests falling due that same month. At the same time, it submitted a proposal for a temporary solution that was acceptable neither to NTM, nor to the bondholders.

Instead, NTM and a majority of the bondholders submitted a proposal for a more permanent solution to the financial problems of the company. The main element of the proposal involved the issuance of a liquidity loan corresponding to a minimum of USD 10 million, and the conversion of existing bond liabilities into share capital of the company.

The financial restructuring proposal obtained the support of all bondholders in October. The restructuring solution was also accepted by the shareholders in an Extraordinary Shareholders' Meeting that same month. At the time, this solution was perceived to serve the financial interests of the bondholders well, whilst also being the best solution for the company itself.

Blom: Blom ASA had negative equity in the amount of NOK 194.4 million as per the end of 2011, following major write-downs and impairment losses. In order to enable the company to continue its operations, a bondholder meeting was convened in April 2012, during which it was requested that a bond loan in the amount of NOK 300 million be converted into shares in its entirety. Moreover, it was proposed that the due date of a small bond loan be changed, and that the credit margin on such loan be reduced.

These measures received the full support of the bondholder meeting, and the conversion was also approved by the Extraordinary Shareholders' Meeting of the company. This resulted in the bondholders as a whole being allotted a total of 92.4 percent of the share capital of Blom. In addition, certain large bondholders (shareholders) contributed a new liquidity loan in the amount of NOK 22 million.

We are of the view that these measures offer better scope for recouping our investment than could be expected in the event of liquidation/bankruptcy. The solution is also considered to be well suited for ensuring the continued sound operation of the company.

Exercising Creditor Rights

The overarching objective of our bond management is to attend to our financial interests and to ensure satisfactory solutions for the bond issuer.

Folketrygdfondet is often amongst the largest bondholders of a company, and will therefore have to play an active role in default situations. In such situations we will participate in bondholder meetings and get involved in any restructuring processes. We have a responsibility, as a large bondholder, to arrive at a solution which is deemed acceptable by all parties.

Folketrygdfondet will seek to ensure that loans are issued with appropriate loan clauses tailored to the credit risk such loans are assumed to represent. We will not invest in loans unless a trustee is appointed.

THE IMPORTANCE OF REPRESENTATION

Folketrygdfondet is represented on the Nomination Committees of 7 Norwegian companies. In addition, we participate on 4 Corporate Assemblies and 8 Supervisory Boards.

Nomination Committees have over the last few years assumed an increasingly important role. Directorships are being professionalised, and the selection of Directors who jointly have the relevant expertise for the company has become increasingly important.

Folketrygdfondet has contributed to promoting such developments, not least through the establishment of the Norwegian Code of Practice for Corporate Governance (NUES). We also accord priority to participation on the Nomination Committees of some of the companies in which we have invested. We will also, when possible, contribute input to the work of the Nomination Committees of other companies. The most important thing for us is to ensure that the Nomination Committees have good processes for selecting competent Directors.

Participation in, and feedback to, Nomination Committees and governing bodies

Folketrygdfondet promotes the establishment of a Nomination Committee in the companies in which we are invested. The Nomination Committee shall attend to the interests of all shareholders and ensure good processes, thus resulting in an overall composition of the Board of Directors that represents appropriate and relevant expertise.

In companies where Folketrygdfondet is a major shareholder, or where merited by special considerations, we may participate on Nomination Committees. We may also be represented on Corporate Assemblies and Supervisory Boards, but we shall not accept directorships.

PARTICIPATION IN EXTERNAL INITIATIVES

Folketrygdfondet participates in a number of collaborative projects and initiatives relating to our responsible ownership activities.

Participation in external initiatives is important for purposes of exchanging information and experience with other investors and keeping ourselves updated on new regulations and standards. We wish to thereby also contribute to the development of best practice within the area.

PRI: Folketrygdfondet has since 2008 been a participating investor in the UN Principles for Responsible Investment (PRI). The six principles under this initiative are based on the premise that a responsible owner and investor integrates ESG issues into its asset management efforts. Our participation in PRI obliges us to report on our implementation of responsible investment activities (see www.ftf.no).

CDP: Folketrygdfondet participates in the Carbon Disclosure Project (CDP), which conducts an annual survey on the greenhouse gas emissions of businesses. Information gathered through the CDP is incorporated into our company-specific ESG analyses (see www.ftf.no).

Norwegian initiatives: Folketrygdfondet participates in the Eierforum group of institutional investors and in the Norwegian Society of Financial Analysts, which again has representation in relation to the Norwegian Code of Practice for Corporate Governance (NUES). Folketrygdfondet also participates in the Norwegian Institute of Directors.

Collaboration with other shareholders: Folketrygdfondet will also collaborate with other shareholders on individual matters where we believe such collaboration to be appropriate for the purpose of attending to our financial interests. We may also collaborate with other investors to bolster support for issues we raise with a company.

Nomination Committees and Governing Bodies

FOLKETRYGDFONDET'S REPRESENTATIVES ON NOMINATION COMMITTEES AND GOVERNING BODIES

Corporate Assemblies

Norsk Hydro ASA	Deputy Managing Director Lars Tronsgaard	member
Orkla ASA	Managing Director Olaug Svarva	member
	Portfolio Manager Ann Kristin Brautaset	member
Statoil ASA	Managing Director Olaug Svarva	chairperson
Telenor ASA	Managing Director Olaug Svarva	vice chairperson

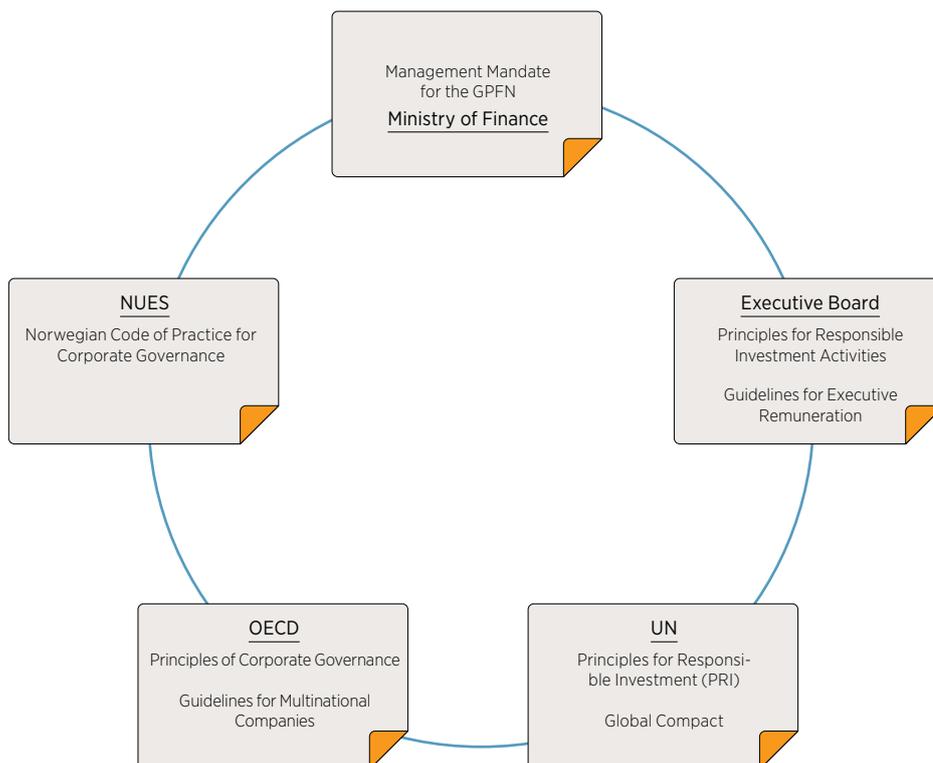
Shareholder's Committees

DNB ASA	Director Nils Bastiansen	member
DNB Bank ASA	Director Nils Bastiansen	member
DNB Boligkreditt AS	Director Nils Bastiansen	member
DNB Næringskreditt AS	Director Nils Bastiansen	member
DNB Skadeforsikring AS	Director Nils Bastiansen	member
Gjensidige ASA	General Counsel Christina Stray	member
Storebrand ASA	Managing Director Olaug Svarva	member
	Deputy Managing Director Lars Tronsgaard	alternate
DNB Livsforsikring ASA	Director Nils Bastiansen	member

Nomination Committees

Orkla ASA	Managing Director Olaug Svarva	member
Schibsted ASA	Director Nils Bastiansen	member
Statoil ASA	Managing Director Olaug Svarva	chairperson
Storebrand ASA	Managing Director Olaug Svarva	member
TGS-Nopec ASA	General Counsel Christina Stray	member
Veidekke ASA	Managing Director Olaug Svarva	member
Yara ASA	Portfolio Manager Ann Kristin Brautaset	member

MANDATE, GUIDELINES AND PRINCIPLES



EXCERPTS FROM THE MANAGEMENT MANDATE FOR THE GOVERNMENT PENSION FUND NORWAY*

Chapter 2. Responsible investment activities

Section 2-1. Folketrygdfondet's work with responsible management

(1) The management of the Fund's capital shall be based on the goal of achieving the **highest possible return**, cf. Section 1-1, Sub-section 2. A good return in the long term is regarded as being **dependent upon sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and effective markets**.

(2) Folketrygdfondet shall have internal guidelines for integrating considerations of good corporate governance and environmental and social issues in investment activities, **in line with internationally recognised principles for responsible investment**. The integration of these considerations shall occur in respect of the GPFN's investment strategy and role as a long-term financial manager.

*) Emphasis added

Section 2-2. Active ownership

- (1) Folketrygdfondet's primary goal in its active ownership shall be to **safeguard the GPFN's financial interests**.
- (2) Active ownership shall be **based on the UN Global Compact, the OECD Guidelines on Corporate Governance and the OECD Guidelines for Multinational Enterprises**. Folketrygdfondet shall have internal guidelines for its exercise of ownership rights that indicate how these principles are integrated.

Section 2-3. Contribution to the development of good national standards for responsible investment and active ownership

Folketrygdfondet shall actively contribute to the **development of good national standards in the area of responsible investment and active ownership**.

FOLKETRYGDFONDET'S PRINCIPLES FOR RESPONSIBLE INVESTMENT ACTIVITIES

- 1 The management of Folketrygdfondet is premised on the objective of maximizing returns over time within the limits defined by the mandates given to Folketrygdfondet. The long-term creation of value depends on favourable financial and environmental developments on the part of the companies, good stewardship with regard to the social responsibilities of the companies, as well as well-functioning and effective markets.
- 2 Folketrygdfondet integrates environmental, social and corporate governance considerations into its investment activities in line with internationally recognised principles for responsible investment activities. Such integration reflects its investments strategies and its role as a long-term financial asset manager.
- 3 The overarching objective of the ownership policies and practices of Folketrygdfondet is to safeguard financial interests.
- 4 Folketrygdfondet shall contribute actively to the development of good national standards with regard to responsible investment activities and corporate governance.
- 5 The ownership policies and practises of Folketrygdfondet are based on the UN Global Compact, the UN Principles for Responsible Investment (PRI), the OECD Principles of Corporate Governance, the OECD Guidelines on Multinational Enterprises and the Norwegian Code of Practise for Corporate Governance.
- 6 Folketrygdfondet shall conduct its affairs in a responsible and predictable manner, shall exercise a high degree of diligence in its treatment of ownership issues, and shall act in such a manner that no doubt is cast on the role, independence and neutrality of Folketrygdfondet in relation to other stakeholders.
- 7 Folketrygdfondet shall seek to be represented, directly or by proxy, in the Shareholders' Meetings of companies. Folketrygdfondet may 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.
- 8 Folketrygdfondet evaluates the handling of environmental, social and corporate governance issues on the part of companies. This involves evaluation as to what guidelines the company has adopted, how these guidelines are followed up through relevant measures, and to what extent the company reports on the implementation of the guidelines. In addition, the extent to which the Board of Directors is involved in this effort is evaluated.
- 9 As far as investment in Norwegian equities is concerned, Folketrygdfondet uses the exercise of its ownership rights and dialogue with the company as tools to achieve changes in conformity with the principles guiding the investment activities of Folketrygdfondet. If dialogue does not produce results, Folketrygdfondet may eventually divest its holdings in the company.
- 10 Folketrygdfondet monitors all Norwegian companies in which Folketrygdfondet has made credit investments. Any companies that violates Folketrygdfondet's principles for responsible investment activities may be excluded from the investment universe by the Executive Board unless the violation is remedied.
- 11 As far as investments in Nordic equities or Nordic fixed-income securities are concerned, the Ministry of Finance notifies Folketrygdfondet of the exclusion of companies from the investment universe on the basis of the recommendations of the Council on Ethics for the Government Pension Fund Global.
- 12 Folketrygdfondet shall annually publish the outcome of its efforts relating to responsible investment activities. The reporting shall be done with due care and discretion, and no company-sensitive information shall be published.

FOLKETRYGDFONDET'S GUIDELINES FOR EXECUTIVE REMUNERATION

Good management is an important prerequisite for long-term value creation. Folketrygdfondet is therefore committed to the companies in which it is invested being able to offer competitive executive remuneration, including transparent and goal-oriented incentive schemes. In addition, the overall remuneration shall neither be unreasonable in scope, nor determined by external circumstances outside the influence of the executives. The same applies to pension schemes, other supplementary benefits and severance agreements, the last of which shall not reward poor management.

As part of its management of the Government Pension Fund Norway, Folketrygdfondet has adopted Principles for Responsible Investment Activities as such activities constitute an important part of asset management. However, the design of remuneration schemes for senior executives has turned out to raise special issues. Folketrygdfondet has therefore deemed it appropriate to prepare Guidelines for Executive Remuneration to indicate what we will consider in the evaluation of the various executive remuneration schemes of companies in which we are invested.

The guidelines are rooted in the premise that it is important to monitor the executive remuneration policies of companies in order to safeguard shareholder value. This implies an evaluation as to whether the remuneration schemes are designed in such a manner as to actually contribute to more effective and performance-oriented management. Moreover, an assessment must be made with regard to what any equity-related schemes imply in terms of transfer of assets from the shareholders to the company executives.

Folketrygdfondet considers the following factors in its assessment of executive remuneration:

1 A statement on salaries and other remuneration of executive personnel pursuant to Section 6-16(a) of the Private Limited Companies Act shall be set out in the Annual Report.

2 Incentive-based remuneration 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 determined by external circumstances outside the influence of executive personnel.

3 There should be a maximum cap on the annual remuneration of executive personnel 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, executive personnel 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.

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