



Folketrygdfondet

Ownership Report 2007

Folketrygdfondet manages
the Government Pension Fund – Norway

Folketrygdfondet 40 year



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The Ownership Policies and Practises of Folketrygdfondet

Folketrygdfondet hereby presents its first public Ownership Report. The Report outlines how the ownership responsibilities associated with the Norwegian equity portfolio are attended to. The ownership role and the ownership policies are based on the principles and practises that have evolved since Folketrygdfondet was authorised to invest in equities in 1991. Changes to the administrative and legal status of Folketrygdfondet in the last couple of years have brought the need for an account of its ownership policies and practises to the fore. The Board of Directors of Folketrygdfondet has therefore stipulated, in the *Fundamental Ownership Guidelines for Folketrygdfondet*, that Folketrygdfondet shall prepare an annual report on its ownership policies and practises.

In December 2005, the Storting adopted the Act relating to the Government Pension Fund, and the Government Pension Fund – Global and the Government Pension Fund – Norway were established on the basis of the assets of the Government Petroleum Fund and National Insurance Scheme Fund, respectively. Folketrygdfondet was charged with managing the assets of the Government Pension Fund – Norway on behalf of the Ministry of Finance.

As from 1 January 2007, Folketrygdfondet is governed by a new set of regulations, the Regulations relating to the Management of the Government Pension Fund – Norway, which are laid down by the Ministry of Finance. The new Regulations set out new and expanded investment rules for Folketrygdfondet. These include, *inter alia*, expanded scope for equity investments, a quota for investments in fixed-income instruments in the Nordic region, as well as authorisation for the use of derivatives to manage interest risk. The new Regulations have also clarified the distinction between the organisation Folketrygdfondet, in its role as asset manager, and the assets that are managed. As a final element of this restructuring process, the Act relating to Folketrygdfondet was therefore adopted by the Storting on 7 June this year, 40 years after the Storting laid down the first Code of Practise for Folketrygdfondet. Folketrygdfondet will be classified as a company by special statute when this Act enters into force on 1 January next year, and will for the first time become a separate legal entity.

As the manager of the Government Pension Fund – Norway, Folketrygdfondet is responsible for exercising the ownership rights associated with the equities in which we are invested. The objective of the ownership policies and practises is to safeguard the financial interests of the Government Pension Fund – Norway. Ownership policies and practises make important contributions to the safeguarding of both shareholder values and a well-functioning financial market.

The role as manager of the Government Pension Fund – Norway means that our efforts are subject to stringent requirements as far as proper management and openness are concerned. We want the principles underpinning the ownership policies and practises to be well known. We also want to fully disclose the ownership policies and practises of Folketrygdfondet. This is the background against which the present Ownership Report has been prepared, with its presentation of the ownership principles we have adopted, as well as what we have done to implement these principles. Our ownership principles are discussed at the beginning of the Ownership Report.

It follows from the *Fundamental Ownership Guidelines for Folketrygdfondet* that Folketrygdfondet should participate in the Shareholders' Meetings of companies. During this year's season of Shareholders' Meetings we have focused, in particular, on communicating what principles we believe should form the basis for determining executive salaries and the choice of remuneration models for companies in which Folketrygdfondet holds ownership interests. A summary of our participation in Shareholders' Meetings during 2007, and our views on remuneration models, is included in the Ownership Report.

Folketrygdfondet is of the view that the investments should be ethically sound, and that an ethically soundness requirement will contribute to promoting long-term value creation and, thereby, to safeguarding shareholder values. Consequently, ethics is a qualitative investment criterion to which considerable weight is attached in ongoing asset management efforts. We have, for purposes of charting the ethical attitudes and actions of companies, and to contribute to enhanced awareness thereof, carried out a survey of all the Norwegian companies in which we hold ownership interests. The findings from the survey are discussed in the Ownership Report. Moreover, we have included a separate discussion of our follow-up of the UN Principles for Responsible Investment.

The Fundamental Ownership Guidelines for Folketrygdfondet describe how Folketrygdfondet shall act in its capacity of owner, and through what bodies such ownership interests shall be attended to. Folketrygdfondet shall not be represented on the Boards of Directors of companies, but shall be represented on Election Committees, Shareholders' Committees and Corporate Assemblies. We have included in the Ownership Report an overview of the appointments held by employees of Folketrygdfondet with such bodies.

As per 30 June 2007, Folketrygdfondet managed assets somewhat in excess of NOK 117 billion, of which somewhat in excess of NOK 63 billion was invested in 49 companies listed on the Oslo Stock Exchange. It is important, both to the Government Pension Fund – Norway, and to the companies in which its assets are invested, to have responsible, predictable and good ownership policies and practises on the part of Folketrygdfondet. We hope that the present Ownership Report will serve as a positive contribution in this regard.

Oslo, 13 August 2007

Olaug Svarva, Managing Director

The Ownership Principles of Folketrygdfondet

Folketrygdfondet manages the Government Pension Fund – Norway on behalf of the Ministry of Finance. The assets of the Government Pension Fund – Norway are held with Folketrygdfondet in the form of a capital contribution, and are invested by Folketrygdfondet, under its own name, in financial instruments, pursuant to the guidelines laid down by the Ministry of Finance. The Board of Directors of Folketrygdfondet is responsible for ensuring that the assets are invested with a view to maximizing returns over time, given a prudent level of risk. Responsibility for exercising the ownership rights lies with Folketrygdfondet, which is charged with safeguarding, through its ownership policies and practises, the financial interests of the Government Pension Fund – Norway. Folketrygdfondet aims to be a responsible financial investor and owner, with a long-term perspective. The following is a discussion of Folketrygdfondet's role as investor and owner, as well as the Guidelines governing its ownership policies and practises.

Folketrygdfondet's role as investor and owner

As from 2006, the role of Folketrygdfondet as a manager of government assets has, through the Act relating to the Government Pension Fund, been given a renewed and more formalised underpinning. Folketrygdfondet is not subject to restrictions in the form of ongoing return or capital adequacy requirements. This means that Folketrygdfondet enjoys a special position as far as asset management is concerned, and is well placed to adopt a long investment horizon. The role as a long-term financial investor is emphasised in the Regulations relating to the Management of the Government Pension Fund – Norway. In recent years there has been a growing focus, in Norway and internationally, on financial markets and the role of investors when it comes to good corporate governance and ethics. The mandate and long investment horizon of Folketrygdfondet suggest that these issues will be of key importance to Folketrygdfondet as a responsible financial player.

Folketrygdfondet has been investing in the stock market since 1991, and its role as a financial investor is well entrenched. Responsibility for exercising the ownership rights lies with Folketrygdfondet. The overarching objective of its ownership policies and practises is to safeguard the financial interests of the Government Pension Fund – Norway. The Board of Directors of Folketrygdfondet stipulates the Guidelines and principles governing the ownership policies, practises and ethics, and these form the basis for the practical exercise of the ownership rights. Folketrygdfondet shall be a long-term owner and lender in the Norwegian securities market, and will over time hold a large portfolio of Norwegian securities. The composition of the portfolios shall be evaluated on an ongoing basis, for purposes of realising the defined objectives, and adjustments shall be made through the purchase and sale of securities. This implies active management, and requires Folketrygdfondet to take a view on the issues to be deliberated in Shareholders' Meetings. In case of a shareholder conflict, an investor needs to address the disputed issues or dispose of its holdings. Folketrygdfondet knows from experience that taking a stand on disputed issues may

give rise to debate and criticism, but Folketrygdfondet, being a large shareholder, cannot disclaim its ownership responsibilities. This requires good processes and professional conduct, and the assessments made must be seen to be just and proper. Furthermore, it is important to act in a predictable and consistent manner. At the same time, each individual case must be examined on its merits, and in view of the size of the investment. The Guidelines and principles governing Folketrygdfondet reflect the fundamental underpinnings of its ownership policies and practises. Folketrygdfondet shall exercise, in all respects, a high degree of diligence.

The corporate governance principles adopted by Folketrygdfondet are premised on the Norwegian Code of Practise for Corporate Governance and the OECD Principles of Corporate Governance. Good corporate governance shall attend to the rights of the owners and other stakeholders in relation to the companies, and ensure that the management mechanisms of the companies work appropriately.

Important aspects of the ownership principles adopted by Folketrygdfondet are:

- Ensuring good corporate governance
- Ensuring the establishment of a clear set of basic values and ethical guidelines
- Ensuring the equal treatment of shareholders
- Safeguarding the rights of shareholders, and their scope for exercising ownership policies and practises
- Ensuring that the appointment of Directors is thoroughly prepared, linked to defined qualification requirements and enjoys the support of the shareholders
- Ensuring the establishment of remuneration models that are goal-oriented and justifiable, and which do not erode shareholder value

The present Guidelines form a step towards the implementation of these principles.

Fundamental Ownership Guidelines for Folketrygdfondet

1. The ownership policies and practises of Folketrygdfondet shall be 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. 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.
3. 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.
4. Folketrygdfondet may, for purposes of attending to its interests, engage in cooperation with other investors when deemed to be appropriate.
5. 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.
6. 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.
7. Folketrygdfondet shall seek to avoid being placed in an insider position on the basis of information received from the companies.
8. Folketrygdfondet shall, generally, 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.
9. Folketrygdfondet shall seek to 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.
10. 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 reported.
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.

Shareholders' Meetings 2007 – Activities and Experiences

Folketrygdfondet has had an active season of Shareholders' Meetings in 2007, and has attended 30 Annual Shareholders' Meetings. In total, management has made addresses to 16 Shareholders' Meetings. These addresses have related, in particular, to matters involving executive salary principles, and we have attached weight to explaining our views by reference to the Fundamental Ownership Guidelines for Folketrygdfondet and the principles adopted by Folketrygdfondet for the assessment of executive salaries in businesses in which we hold ownership interests. Folketrygdfondet has voted against submitted proposals on 16 matters.

Active season of Shareholders' Meetings in 2007

The Public Limited Companies Act includes, as from 2007, a provision to the effect that the Annual Shareholders' Meeting shall deliberate the statement of the Board of Directors as to the determination of salaries and other remuneration for executive personnel, and that an advisory vote shall be held as to the guidelines adopted by the Board of Directors for the determination of executive salaries.

Folketrygdfondet has attached weight to communicating what basic principles we believe should underpin executive salaries and remuneration models. We have therefore been more active during the 2007 season of Shareholders' Meetings than has previously been the case.

We decide, based on the assessments made by Folketrygdfondet in connection with matters to be deliberated by a Shareholders' Meeting, how to vote and who should represent the equities held by Folketrygdfondet in the Shareholders' Meeting. Folketrygdfondet management will, whenever possible, attend the Shareholders' Meetings.

Representatives of Folketrygdfondet have participated in 30 Annual Shareholders' Meetings thus far this year. The Chairperson of the Corporate Assembly, the Chairperson of the Board of Directors or another person has been appointed proxy on 11 occasions. In total, we have made addresses to 16 Shareholders' Meetings. We have demanded that our objections be recorded in the minutes of 14 Shareholders' Meetings, and have voted against submitted proposals on a total of 16 matters in 10 Shareholders' Meetings.

What Folketrygdfondet has focused on

We have during this year's season of Shareholders' Meetings had a special focus on matters pertaining to remuneration models, authorities to issue shares and Election Committees.

Remuneration models

Option schemes and other equity-linked incentive schemes shall be approved by the Shareholders' Meeting. It is important for the Shareholders' Meeting to be presented with sufficient information about the proposed schemes, to ensure that such matters are deliberated in a thorough and good manner.

However, Folketrygdfondet's experience from this year's season of Shareholders' Meetings is that the degree to which satisfactory information is disclosed in the notices of Shareholders' Meetings is varying, and that these matters are dealt with differently in different Meetings. We are of the view that companies' disclosure of executive salary principles has often been very general in nature, and not particularly informative. We believe that it is important to emphasise the following messages to ensure sound deliberation of incentive schemes:

- The schemes have to be clearly explained in the notice of Meeting.
- The resolution should specify which criteria and terms form part of the scheme.
- The schemes should be deliberated as separate matters in a Shareholders' Meeting, and not simply as part of other authorisations requested by the Board of Directors.

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 on the part of businesses in which we hold ownership interests. In most cases where we have this year chosen to make an address, or to vote against submitted proposals, the proposals submitted by the Boards of Directors of companies have not, to a sufficient extent, been in conformity with these principles. In particular, the requirement for a cap on the annual remuneration of management, as well as the introduction of a rate of return requirement in connection with option schemes, has often not been observed.

Authorities to issue shares

Folketrygdfondet has also been active in matters relating to authorities for the repurchase of shares and authorities to issue shares. These are matters in which the Boards of Directors of certain companies have requested large-scale authorities to issue shares, and in which the shareholders are requested to waive their pre-emptive right to subscribe for shares. We are of the view that a general authority to issue shares should normally not exceed ten percent of the share capital. The reason for this is that Folketrygdfondet does not wish to waive its pre-emptive right to subscribe for shares beyond this level without being presented with a specific and sound reasoning on the part of the company. If there is a need for a share issue in excess of ten percent, one should, as a main rule, convene a new Shareholders' Meeting when the need for such share issue arises. In cases of large-scale general authorities to issue shares, we have voted against granting the Board of Directors such authority.

Election Committee

Folketrygdfondet deems it important for companies to have well-functioning Boards of Directors, with a composition capable of attending to the interests of the company and its shareholders in a good manner. We have therefore, during the 2007 season of Shareholders' Meetings, placed a particular focus on the principle that companies should have an Election Committee, and on the criteria governing the composition of the Election Committee.

Most companies listed on the Oslo Stock Exchange have established an Election Committee. One of the most important duties of the Election Committee is to examine the work and composition of the Board of Directors, hereunder to propose new candidates for appointment as Directors by the Shareholders' Meeting. The role of the Election Committees is to ensure a good process for the appointment of Directors, with the proposed candidates enjoying the support of the main shareholders, and to ensure that the interests of the shareholders as a whole are attended to.

We have written to all companies in which Folketrygdfondet holds ownership interests, but which do not have an Election Committee. The letter refers to the Norwegian Code of Practice for Corporate Governance, and the companies were encouraged to establish an Election Committee. In addition, we have followed up on this communication by addressing the Annual Shareholders' Meetings. In that context we have explained our views, and encouraged the Board of Directors of the company in question to establish an Election Committee. Thus far, none of the companies have complied with the request. However, Folketrygdfondet hopes, based on the attention now paid to this issue, that a number of the companies will in future contemplate the establishment of an Election Committee.

The composition of Election Committees is important. Folketrygdfondet is of the view that the members of an Election Committee should, as a matter of principle, be independent from, and disinterested in, the persons that are to be appointed. To ensure this, Directors should not be members of the Election Committee. We have voted against submitted proposals for the composition of the Election Committee in cases where this principle has not been adhered to.

Future efforts

We will continue to attach considerable weight to assessing the matters to be deliberated by Shareholders' Meetings. Our assessment of, and voting on, the matters put forth for deliberation will be based on the *Fundamental Ownership Guidelines for Folketrygdfondet* and the principles we have laid down for the evaluation of remuneration models.

Principles for the Evaluation of Remuneration Models

Folketrygdfondet has deemed it appropriate, as part of its work on ownership policies and practises for the Government Pension Fund – Norway, to define a set of principles for the design of remuneration models. The following is a discussion of the principles laid down by the Board of Directors of Folketrygdfondet for the evaluation of executive salaries in businesses in which the Government Pension Fund – Norway is invested.

An important aspect of safeguarding shareholder value is to follow up the executive salary policy of companies. This involves an assessment as to whether the schemes are designed in such a way as to actually contribute to more effective and goal-oriented management. Furthermore, it requires an assessment as to what transfer of value from shareholders to management is implied by any equity-linked schemes.

Good management is an important prerequisite for long-term value creation. Folketrygdfondet is therefore committed to ensuring that companies offer competitive executive salaries, hereunder transparent and goal-oriented incentive schemes. In addition, the amount of the overall remuneration should not be unreasonable, nor determined by external circumstances outside the influence of management. The same applies to pension schemes, other supplementary benefits, as well as severance agreements. Severance agreements should not reward poor management.

It is important to make equity-linked schemes and option schemes subject to a certain minimum lock-in period, in order to ensure the necessary long-term perspective and to prevent adverse strategic choices. Folketrygdfondet is favourably disposed towards a combination of pure goal-oriented bonus schemes and the purchase of company equities.

Amendments to the Public Limited Companies Act, cf. Proposition No. 55 (2005–2006) to the Odelsting, dictate that executive salary terms shall, with effect from 2007, be deliberated by the Shareholders' Meeting. Folketrygdfondet will evaluate the proposed guidelines for the determination of salaries and other remuneration, as submitted to Shareholders' Meetings by the Boards of Directors of companies. The proposals will be benchmarked against our basic principles for the evaluation of remuneration models.

We will, to the extent possible, communicate Folketrygdfondet's principles for the evaluation of remuneration models in Shareholders' Meetings and in direct meetings with the companies.

Folketrygdfondet acknowledges that it is difficult to design well-functioning incentive schemes, but one should seek to ensure that the structure and scope of such schemes meet with general acceptance amongst the shareholders, and do not impair the reputation of the company. This implies that there has to be a correlation between company performance and the overall remuneration. Where this is not the case, or where the remuneration model violates key elements of the principles we have adopted, we will seek to raise the issue with the company. If no good reason is presented as to why the company has chosen to adopt other principles, it will be necessary to examine whether this conflicts with the qualitative and quantitative assessments on which the investment in the company is based.

Basic principles for the evaluation of remuneration models

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 alone.
3. There shall be a maximum cap on the annual remuneration of management that is not perceived to be unreasonable in view of actual performance. The same applies to pensions, other supplementary benefits, as well as severance pay.
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 organisation 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 authorities to grant options shall specify the allotment criteria, the real value of the option schemes, accounting implications for the company and potential dilution effects.
7. When using option schemes, the strike price shall be adjusted annually. As far as equity-based schemes and options are concerned, a significant portion of the equities shall be held for a minimum of three years.
8. The Directors shall not be encompassed by incentive schemes.

Folketrygdfondet's Focus on Ethically Sound Investments

It follows from the Fundamental Ownership Guidelines for Folketrygdfondet that Folketrygdfondet shall, inter alia, attend to its ownership interests on the basis of a set of qualitative investment criteria focused on ethics and corporate governance. The reason why we want ethics to form a key aspect of our company assessments is that we believe that a conscious and responsible attitude to ethical issues will over time contribute to enhanced value creation. This will again contribute to safeguarding our shareholder value, as entrusted to companies. Folketrygdfondet has therefore defined a set of investment principles for ethical investment assessments, and these are incorporated into our investment methodology and ongoing asset management efforts.

Ethical assessments

Folketrygdfondet is a selective investor, wishing to invest in companies with high quality operations and management. High quality also includes high quality in terms of companies' ethical attitudes and behaviour. Folketrygdfondet expects the companies in which we hold ownership interests to observe internationally recognised principles and guidelines, like the UN Global Compact and the OECD Guidelines for Multinational Companies.

In our ongoing asset management work, we evaluate, *inter alia*, company 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 process, location of production, customer relations, corporate culture/management culture, company ownership structure and ownership interests.

Tools for the implementation of the ethical principles of Folketrygdfondet

We have, in the main, four sets of tools at our disposal for purposes of the ethical evaluation of companies: positive selection, negative screening, exclusion, as well as ownership policies and practises.

- Positive selection involves the evaluation of whether specific companies, relative to similar companies, appear to be responsible businesses, pursuant to a set of criteria, prior to them being included in the portfolio.
- Negative screening involves defining certain types of companies as falling outside the investment universe.
- Exclusion involves the exclusion, based on an evaluation, of companies from the investment universe if an investor might, through an investment therein, contribute to unacceptable practises.
- Ownership policies and practises involve an investor using its influence over decision-making to influence the company for the better.

We may use different tools, or combinations thereof, depending on the type of investment, hereunder on whether it is an investment in Norway or elsewhere in the Nordic region.

Investments in Norwegian equities

The investment profile of Folketrygdfondet suggests that the main tool should be ownership policies and practises. Ownership policies and practises have been chosen because we are a selective investor wishing to invest in companies with high quality operations and management. Should there arise a situation in which it would be opportune to query the position of companies in which investments are held, the issue at hand shall be raised with the company.

Folketrygdfondet will also, if appropriate, cooperate with other investors for purposes of attending to its interests and ensure that its views are heard, thus influencing companies to remedy unacceptable practises. Folketrygdfondet may divest its holdings in a business if the necessary changes are not implemented. We shall evaluate the companies included in the portfolio on an ongoing basis. The portfolio is monitored continuously, and any relevant issues that are identified are evaluated against established principles. The companies in the portfolio will be evaluated against the criteria at least once a year, and new companies will be subjected to a corresponding evaluation process before any investments are made.

Investments in Norwegian interest-bearing securities

Tools associated with ownership policies and practises pertain to equities. Fixed-income investments convey no ownership rights, and consequently do not entail the same ownership responsibilities as equity investments. Nevertheless, it is important to be conscious of both ethical and other issues in relation to fixed-income investments as well. This means that we shall, both as owners and as lenders, conduct ourselves as a responsible financial investor with a long-term perspective.

A large number of investments and less ongoing contact with the companies make it difficult and impractical to embark on a comprehensive qualitative company assessment. As far as fixed-income investments are concerned, credit ratings are very frequently based on accounting and quantitative criteria. However, Folketrygdfondet will also to some extent be engaging in qualitative company follow-up in the context of its fixed-income management effort in Norway. When it comes to those companies in which both equity and fixed-income investments are held, any measures taken will apply to both types of investment. In other words, if a company is excluded from the equity investment universe of Folketrygdfondet, any fixed-income securities issued by the same company shall also be excluded for purposes of any fixed-income investment. To the extent that Folketrygdfondet embarks on a qualitative evaluation of relevant fixed-income investments, the ethical investment principles will form an integral part of such evaluation. Apart from this, all investments in credit instruments shall be monitored for purposes of identifying any violations of the investment principles of Folketrygdfondet.

Investments in Nordic equities and interest-bearing securities

As far as investments in Nordic equities and fixed-income securities issued by Nordic companies are concerned, Folketrygdfondet will adhere to the decisions made by the Ministry of Finance on the basis of recommendations from the Council on Ethics for the Government Pension Fund – Global.

The evaluation process – survey

Folketrygdfondet acknowledges that the area of ethics involves a number of complex questions and issues. The evaluations we undertake have to be based on information available in the public domain, as well as information disclosed by companies themselves.

We have adopted, to ensure the most objective and precise evaluation possible of the ethical attitudes and behaviour of companies, a methodology based on a combination of open-access sources like Annual Reports, information in the media and on the Internet, as well as information gathered directly from companies through a survey of all the Norwegian companies in which we hold ownership interests.

During the first phase of the evaluation process we examine companies' own reporting in the form of Annual Reports, sustainability reports, Internet searches, etc. Our standardised questionnaire is tailored to each individual

company, on the basis of such information, prior to the questionnaire being forwarded to the company for its completion. The questionnaire covers topics like the overarching principles and guidelines of the company in relation to ethical issues, the responsibilities, communications and organisation as far as the area of ethics is concerned, as well as the attitudes of senior management respecting the environment, human rights, corruption and unethical conduct. Good corporate governance involves interaction between attitudes, principles and guidelines within a framework of clear responsibilities and management systems. Particular weight is therefore attached to these three main aspects in our communications with companies.

We have chosen to adopt, for purposes of evaluating the level of a company's ethical involvement, and to compare various companies, a numerical scoring system for each qualitative variable in respect of which we have gathered information. The evaluation is based on criteria that ensure comparability across sectors and company sizes. If there is significant uncertainty as to the appropriate scores, we will approach the companies for a clarifying dialogue.

In the autumn of 2006, we distributed questionnaires to 41 Norwegian companies in which we hold ownership interests. We have received replies from 32 of the companies, which represents a response rate of 80. The findings presented in the following are based on these 32 companies.

What are the findings from the survey?

The highest score a company could achieve in the survey was 110 points. Within the 0–110 point range we have classified performance as high, medium or low. 17 companies out of the 32 that completed our questionnaire had a total score of 76 or more, thus being classified as high performance companies. 12 companies were classified as medium performance companies, with scores in the 41–75 range. Only 2 companies were classified as low performance companies, scoring 0–40 points.

All but one of the companies that responded to the survey have prepared ethical guidelines. 75 percent of the companies have guidelines on the environment, corruption, conflicts of interest, as well as proper and honest conduct. The portions of companies with written guidelines on human rights and child labour are lower; 60 percent and 50 percent, respectively.

The survey shows that most of the companies are well underway with the integration of ethical guidelines into their management systems. The validity of the guidelines is often limited to their own business, despite an increasing focus on responsibility in the value chain. Only 12 percent of the companies state that the guidelines also apply to partially-owned companies. Half of the companies lack guidelines for suppliers and customers.

70 percent of the companies appear to adopt a systematic approach, with dedicated resources, to communication, training and reporting in connection with the principles and standards laid down by the company in its guidelines. 40 percent of the companies have signed the UN Global Compact. This category features, as expected, a disproportionate number of large companies.

As far as concerns the attitudes of senior management to corruption, human rights, unethical conduct and the environment, companies generally achieve a high score based on their own assessments.

The survey and our overall evaluation of the ethical aspects of the management and practises of the companies give, on the whole, a favourable impression of the attention level, standards and practises of the companies that participated in the survey. A significant portion of the presentational variation may be attributed to the nature and size of the companies, as well as the challenges they are facing. Companies within the energy sector that are engaged in wide-ranging global business activities have, for example, more well-developed standards and practises in relation to corruption, human rights and child labour than do, for example service companies within the technology sector.

Future follow-up

Ethics is amongst the themes incorporated into our company assessments. We believe, through the effort have now put into the issue of ethics, that we have a good basis for the systematic evaluation of, and reporting on, key ethical issues in our asset management work. We have established a methodology that enables us to compare different companies, and offers us scope for measuring developments over time.

We have, in connection with the implementation of the survey, sought a dialogue with the companies concerning management culture and practises in relation to the ethical investment principles. Folketrygdfondet will monitor companies' future efforts and developments as far as ethics are concerned, and we will seek additional discussions should the need arise. We will now continue to seek a dialogue with the companies that did not reply to our communication in 2006. We hope, in this manner, to maintain a focus on the companies' involvement with ethical issues, and to thereby contribute to enhanced awareness of such issues.

The UN Principles for Responsible Investment

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 their asset management.

Folketrygdfondet supports this initiative, which may contribute to enhanced awareness in financial markets of issues that are important to take into consideration as part of the effort to ensure long-term value creation in the business sector.

A total of six Principles for Responsible Investment have been defined. We have related the principles below, and 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 integrated ethical principles 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 adopted by Folketrygdfondet for its ownership policies and practises are set out in the *Fundamental Ownership Guidelines for Folketrygdfondet*. These form the basis for our follow-up efforts within the areas of corporate governance and ethics.

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

Folketrygdfondet has requested, through a survey, information on companies' guidelines relating to ethical issues. We assume, *inter alia*, that the companies in which Folketrygdfondet holds ownership interests operate within the UN Global Compact. It follows from this that the companies should report of how they pursue ESG issues.

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

Folketrygdfondet has established its own principles supporting this initiative, and encourages other players to do the same.

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 *Fundamental Ownership Guidelines for Folketrygdfondet*. Such cooperation may also involve ethical issues when appropriate.

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

Folketrygdfondet will prepare an annual report on its ownership policies and practises. In such report we will explain what activities Folketrygdfondet has carried out to attend to our interests as owner and investor.

More information on the UN Principles for Responsible Investment is available on: www.unpri.org

Participation in Governing Bodies

Folketrygdfondet may, pursuant to the Fundamental Ownership Guidelines for 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 2007, and shows what appointments are held by employees of Folketrygdfondet.

Corporate Assemblies:

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

Shareholders' Committees:

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

Election Committees:

Orkla ASA	Managing Director Olaug Svarva	<i>member</i>
Storebrand ASA	Managing Director Olaug Svarva	<i>member</i>
Veidekke ASA	Managing Director Olaug Svarva	<i>member</i>
Oslo Børs ASA	Managing Director Olaug Svarva	<i>member</i>
EDB Business Partner ASA	Director Nils Bastiansen	<i>member</i>
Prosafe SE	Director Nils Bastiansen	<i>alternate</i>
Schibsted ASA	Director Nils Bastiansen	<i>alternate</i>

Other Relevant Information

The following documents may also contain relevant information on issues discussed in the Ownership Report:

- Act of 21 December 2005 relating to the Management of the Government Pension Fund
- Regulations of 15 December 2006 relating to the Management of the Government Pension Fund – Norway
- Proposition No. 2 (2005–2006) to the Odelsting, On the Act relating to the Government Pension Fund
- Report No. 24 (2006–2007) to the Storting, On the Management of the Government Pension Fund during 2006
- Proposition No. 49 (2006–2007) to the Odelsting, On the Act relating to Folketrygdfondet
- Fiscal Budget for 2007
- Norwegian Code of Practise for Corporate Governance
- UN Principles for Responsible Investment
- UN Global Compact
- OECD Principles of Corporate Governance
- OECD Guidelines for Multinational Companies
- Council on Ethics for the Government Pension Fund – Global

The Government Pension Fund shall support government savings for the pension expenditure of the National Insurance Scheme

	2002	2003	2004	2005	2006
mill. kroner	2 444	22 158	17 146	15 861	17 385
prosent	1,9	16,2	10,6	9,0	11,1
mill. kroner	-27,5	47,0	36,5	31,9	32,1
prosent	-31,1	43,4	38,5	40,5	24,2
mill. kroner	-43,5	45,0	18,9	25,1	24,2
prosent	-43,5	46,4	19,6	24,5	25,3
mill. kroner	8,8	11,1	5,2	2,8	1,3
prosent	8,8	12,2	7,2	3,7	0,7
mill. kroner	19 176	25 575	33 763	41 895	52 471
prosent	14,1	16,2	19,3	21,9	49,1
mill. kroner	253	5 469	7 058	8 679	10 937
prosent	10,6	3,5	4,0	4,5	10,2
mill. kroner	128 610	127 210	134 249	140 741	45 640
prosent	105,2	80,3	76,7	73,6	40,7
mill. kroner	133 782	133 331	175 477	191 338	106 540



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