

OWNERSHIP REPORT 2011

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



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It is one thing to establish principles; to turn them into action is another and more challenging task.

OWNERSHIP AND ITS ATTENDANT RESPONSIBILITIES

Folketrygdfondet is a manager of government assets. As per 30 June 2011, total assets under management were NOK 185 billion, of which NOK 78.8 billion were invested in equities of 48 companies in Norway and 90 companies in Denmark, Finland and Sweden. In addition, NOK 55.4 billion were invested in credit-linked notes.

Folketrygdfondet has previously operated with one set of ownership principles and one set of ethical principles. Acknowledging the mutual interdependence between the two areas, the Executive Board has this year adopted one set of principles for the investment activities of Folketrygdfondet that encompasses both of these areas. The principles highlight how we work on ownership and ethical issues in a context where the asset management activities of Folketrygdfondet aim to achieve the maximum possible return over time.

It is one thing to establish principles; to turn them into action is another and more challenging task. This concerns the ability to «walk the talk». Folketrygdfondet having signed up to the UN Principles for Responsible Investment (PRI) means that we are also evaluated on how we conduct our work. All investors participating in PRI are requested to report on implementation of the principles every year. The reporting effort and feedback have contributed to identifying areas where our efforts can be strengthened in future.

Long-term value creation depends on several factors; favourable financial development on the part of the companies, good management of the companies' social responsibilities and satisfactory corporate governance. We consider the manner in which a company handles environmental, social and governance issues to be an important indicator of the quality of the company's management team and its ability to achieve long-term value creation. Our investment activities are based on thorough analysis and we seek to avoid being invested in companies that fail to take these issues seriously, as the risk involved is too high. Historically, this has contributed to our success in outperforming the market over time.

As a financial investor, we get involved in ownership issues relating to the composition of Boards of Directors, remuneration, reporting and communication, values and governance principles, as well as capital structure and strategy. In following through on our social responsibilities, we have chosen to prioritise topics like reporting and communication, anti-corruption and greenhouse gas emissions

because we believe that these areas are associated with considerable financial risk as far as our overall portfolio is concerned. Moreover, we have chosen to focus on two areas of material importance to our Norwegian equity portfolio. These are issues relating to salmon aquaculture and unconventional oil and gas extraction.

An important aspect of the ownership activities is the continuous dialogue we pursue with company executives and Boards of Directors with regard to governance issues and social responsibility. We work continuously with the companies on governance issues, and in some companies our involvement in such processes may last for several years. We emphasise, at the same time, that our role as a financial owner does not imply that we shall tell the companies how specifically to solve any problems. It is the role of the Boards of Directors to ensure that this is handled in a professional manner within a good corporate governance framework.

Folketrygdfondet attaches considerable weight to active participation in the Shareholders' Meetings of the companies, and has in 2011 cast votes in the Shareholders' Meetings of all companies of which we have been a shareholder at the time. This means that we have cast votes in a total of 60 Shareholders' Meetings of companies listed on the Oslo Stock Exchange. We have voted against 12 proposed resolutions in the Shareholders' Meetings of seven different companies. These proposals have related to executive salary statements and accompanying authorisations to issue shares under options programmes, as well as to general authorisations to issue shares that we believe have been too broad in scope. As far as the Nordic portfolio is concerned, Folketrygdfondet has cast votes in 116 Shareholders' Meetings, all by proxy with accompanying voting instructions.

The purpose of the Ownership Report is to contribute to openness about, and understanding of, the principles that underpin our management of society's assets, and compliance with the stated objectives. It is also important for us to convey our commitment to predictability and consistency in both words and actions.



Olaug Svarva, Managing Director
Oslo, 24 August 2011

ACTIVE OWNERSHIP

Folketrygdfondet shall be a responsible manager of society's assets, with a long-term perspective. We also believe that it is important, in order to safeguard our financial assets, to pursue well-informed ownership policies and practices that can contribute both to positive development in the value of the companies in which we are invested and to a well-functioning financial market. Folketrygdfondet is of the view that long-term value creation will benefit from companies practising good corporate governance and focusing on environmental and social issues. We therefore work systematically on these issues as an integrated aspect of our responsible investment activities. Good follow-up of ownership interests require insight and knowledge about operations, strategy, framework conditions and corporate management. We therefore attach considerable weight to the ownership activities forming an integrated part of the investment activities, thus enabling us to be a demanding owner that acts professionally and in conformity with established principles.

To enable us to act in a predictable and consistent manner in matters of a similar nature, and in accordance with the requirements stipulated by the Ministry of Finances in the asset management mandate, the Executive Board of Folketrygdfondet has adopted a set of principles for responsible investment activities. These principles have been made public, and can be accessed via the Folketrygdfondet website www.ftf.no.

Folketrygdfondet is working to ensure that the companies in which we invest shall comply with the principles set out in the Norwegian Code of Practice for Corporate Governance. We also encourage the companies to adhere to the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Furthermore, our ownership policies and practices are based on the UN Principles for Responsible Investment (PRI). Folketrygdfondet also participates in the collaborative

projects Sustainable Value Creation and the Carbon Disclosure Project (CDP).

Our ownership activities involve attending and voting in Shareholders' Meetings and Bondholders' Meetings where relevant. In addition, we raise matters with senior company executives and/or the Chairperson of the Board of Directors whenever we deem it necessary, whether in meetings or in writing. Such contacts offer us the opportunity to give our feedback, thus enabling the companies to find solutions that are also in conformity with the interests of their owners. We also cooperate with other shareholders when we believe this to be appropriate for purposes of attending to our financial interests.

Folketrygdfondet is represented on some Election Committees, Corporate Assemblies and Shareholders' Committees. We believe that the work of the Election Committee is highly important to ensure well-qualified and well-functioning Boards of Directors. In those cases where we are not represented on the Election Committee, we often provide the Committee with input on criteria and qualifications we believe to be of importance to ensure that the company has a suitable and competent Board of Directors.

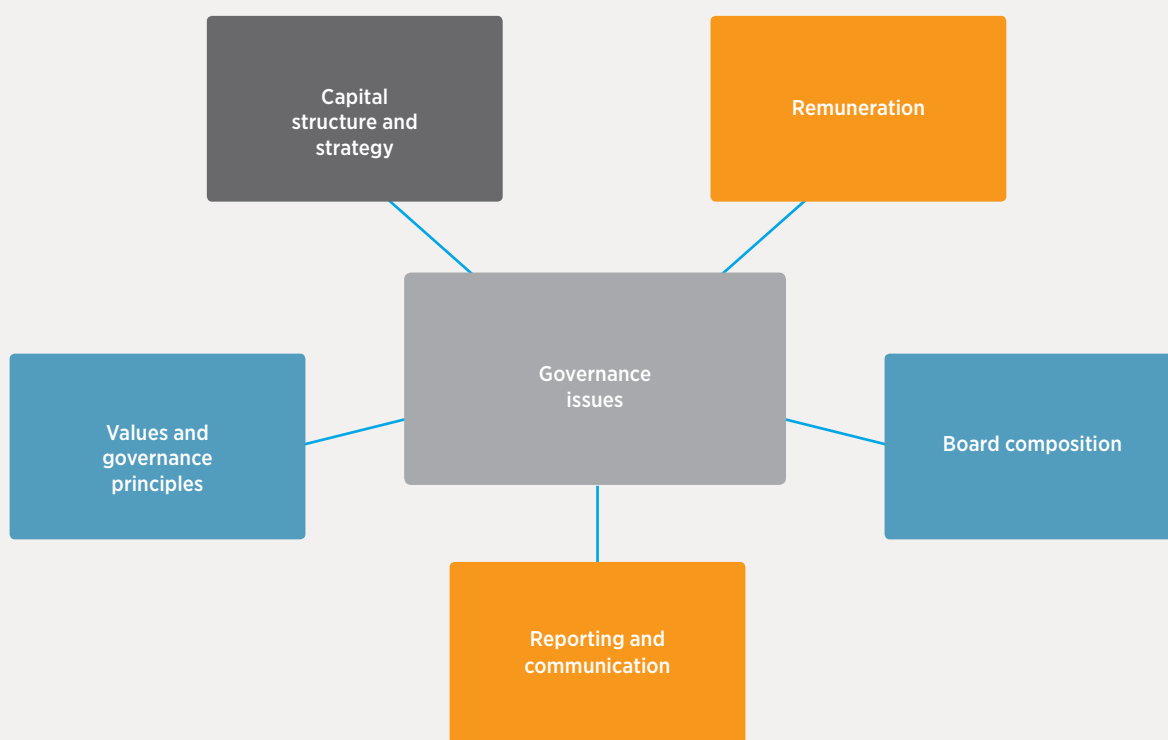
As far as fixed-income management is concerned, the ownership interests in question do not involve ownership rights, as is the case with equities. In the bond market, it is important for the lending arrangements to be governed by clear and unambiguous contracts. We therefore work actively, in connection with subscriptions to new loans, to ensure that the loan agreement includes covenants tailored to the credit risk assumed to be represented by the loan in question. If, however, a credit event occurs, in the form of payment default or the issuer being in breach of covenants under the loan agreement, the bondholders have to become involved. Folketrygdfondet may therefore, as one of the major players in the Norwegian fixed-income market, play an active role in relation to default situations in bond loans in which we have large holdings.

Well-informed and actively pursued ownership policies and practices shall contribute to safeguarding our financial assets.

KEY GOVERNANCE ISSUES

As per the end of the first half of 2011, Folketrygdfondet held equity investments valued at NOK 67,5 billion in 48 Norwegian companies and NOK 11.2 billion in 90 other Nordic companies. The largest investment in the Norwegian equity portfolio is Statoil at NOK 13.3 billion, whilst the largest investment in the Nordic equity portfolio is Novo Nordisk at NOK 848 million. The largest ownership stake in the Norwegian equity portfolio is Ekornes at 10.6 percent. The largest ownership stake in the Nordic equity portfolio is the 1.3 percent ownership stake in HIQ International.

As a large financial investor, we focus on the following key governance issues:



OPEN AND PREDICTABLE OWNERSHIP ACTIVITIES

Folketrygdfondet shall pursue open and predictable ownership policies and practices. We publish general information about our ownership policies and practices on the Folketrygdfondet website, www.ftf.no, hereunder the principles that form the basis

for our responsible investment activities. Statements made by Folketrygdfondet in connection with relevant Shareholders' Meeting proposals are also published on the website.

Active participation in the Shareholders' Meetings of companies is an important part of our ownership activities.

SHAREHOLDERS' MEETINGS FROM AUTUMN 2010 TO SPRING 2011

Folketrygdfondet is one of the main financial investors on the Oslo Stock Exchange. In addition, we hold ownership stakes in companies listed on the stock exchanges in Sweden, Denmark and Finland. Predictable and well-informed ownership exercise as an integrated part of the management of the portfolios is important to safeguard our assets.

Active participation in the Shareholders' Meetings of the companies based on Folketrygdfondet's principles for responsible investment activities form an important part of our ownership activities. All issues for deliberation in Shareholders' Meetings are evaluated on the basis of the same principles, and against the background of the particularities of the matter. However, the most important part of the ownership activities is the continuous dialogue we pursue with senior company executives and Boards of Directors. We work continuously with the companies on governance issues, and in some companies our involvement in such processes may last for several years. Folketrygdfondet wants to be a predictable owner that emphasises dialogue with the

companies and responds constructively to an accommodating attitude on their part. This means, inter alia, that we may choose to vote in favour of a proposal that is, generally speaking, not perfectly aligned with our principles, provided that the company demonstrates clear development and improvement over time. In this year's Shareholders' Meetings, we have in large part experienced that earlier years' dialogues have been accorded weight and that improvements have been carried out. Where we experience that the company does not show the necessary willingness to change we will, however, vote against submitted proposals that are contrary to the principles of Folketrygdfondet.

Folketrygdfondet has in 2011 cast votes at the Shareholders' Meetings of all companies of which we were a shareholder at the time of the meeting. This means that we have cast votes at a total of 60 Shareholders' Meetings of companies listed on the Oslo Stock Exchange. We have voted against twelve proposed resolutions at the Shareholders' Meetings of seven different companies. These proposals have related to executive salary statements and accompanying authorisations to issue shares under options programmes (Algeta, Noreco, Atea and RCCL), general

Season of Shareholders' Meetings	1 July 2010 – 30 June 2011	Norway	Nordic region
Participation in Shareholders' Meetings	Total	60	116
	Attendance	31	
	Proxy with instruction	29	116
Total number of occasions on which votes were cast against submitted proposals		12	68
Number of occasions on which votes were cast against a proposal of the Board of Directors	Executive salary	4	16
	Authorisation to issue shares	6	3
	Directors emoluments	1	2
	Election Committee		2
	Sale of subsidiary		2
	Repurchase authorisation		1
	Dividends		1
	Reappointment of auditor		3
	Participation in liquidation programme		2
Shareholder proposals	Against miscellaneous proposals	1	36
	In favour of right of conversion from B equities to A equities		2

authorisations to issue shares that are very broad in scope (Norwegian Property, Axis-Shield) and linked to Directors' emoluments with options (Algeta). Voting explanations have been issued in respect of our voting, and these are available on www.ftf.no.

As far as the Nordic portfolio is concerned, Folketrygdfondet has cast votes at a total of 116 Shareholders' Meetings, all by proxy with accompanying voting instructions. We adopt, essentially, the same asset management strategy and investment process to management in Norway and in the Nordic region, and experience positive interaction and skill transfer effects from managing both the Norwegian and the Nordic portfolios. The increased information access achieved by the asset managers through operating in a more international investment universe makes it easier to ascertain market changes at an early stage, which is also of use in the management of the Norwegian portfolio.

Our experience from the Nordic portfolio is that most cases in which we have voted against the proposal of the Board of Directors relate to executive salary statements and accompanying incentive programmes/ authorisations to issue shares. In addition, we have on a couple of occasions voted against guidelines for, and appointment of, the Election Committee, since the submitted proposals would have resulted in the Chairperson of the Board of Directors also being the head of the Election Committee. Other proposals we have voted against which may be mentioned include the sale of subsidiaries, extra fees for the Board of Directors and an extensive repurchase authorisation. On one occasion we abstained from voting for the payment of dividends to signal that we believed the dividends to be too low. Moreover, we have voted against Danish banks participating in a liquidation programme, and against the reappointment of an auditor since such auditor had also received significant payments in respect of non-auditing-related services. In the Nordic portfolio we have experienced the submission of a large number of shareholder proposals, and we have voted against 36 proposals of this type. The matters have varied from proposals for the launch of an enquiry to requests for conducting annual evaluations and discounts on the company's products for the shareholders. We have, however, voted in favour of two shareholder proposals relating to a right of conversion to A equities for the holders of B equities.

Authorisations to issue shares

In the 2010-2011 season of Shareholders' Meetings, Folketrygdfondet has noted that some companies in the Norwegian portfolio are requesting both a general 10-percent authorisation to issue shares and a corresponding authorisation to issue equities under a potential convertible loan. Folketrygdfondet has, generally speaking, accepted general authorisations to issue shares up to a maximum of 10 percent. Authorisations to issue shares in excess thereof must be premised on a special need and a specific purpose. Authorisations to issue shares relating to potential convertible loans is, in practice, a type of general authorisation as long as there are no plans for, no specific need for, and no offer for the establishment of, a convertible loan. We acknowledge, at the same time, that access to the convertible loan market may represent an attractive commercial opportunity for the company, both for refinancing purposes and in relation to other structural realignments, and accept that a company may want to benefit therefrom. We do not wish to prevent the companies from availing themselves of such loan market opportunities, but this needs to be weighed against potential dilution effects for the shareholders.

In this year's Shareholders' Meetings we have contacted those companies that have submitted authorisation proposals for both general purposes and convertible loans, requesting an explanation with regard to needs and purposes. We have normally voted in favour of the authorisations where a sufficiently specific and well-founded explanation has been provided, but in some companies the Shareholders' Meetings themselves have also chosen to reduce the amounts of the authorisations. We believe, however, that general authorisations, including authorisations for convertible loan purposes, should not exceed a total of 10 percent of the company's share capital.

With regard to the authorisations to issue shares we note a tendency to specify that the authorisation may also be used in takeover situations or in circumstances as addressed in Section 6-17 of the Securities Trading Act. The Board of Directors being authorised to issue shares in the context of a takeover bid against the company represents, in actual fact, a form of «poison pill». Folketrygdfondet is sceptical about permitting the authorisation to issue shares to also be used to prevent a takeover situation without the shareholders having been afforded an opportunity to approve such use.

THE ROLE OF THE ELECTION COMMITTEE

The mandate of the Board of Directors is to create value for the shareholders and ensure favourable long-term development on the part of the company. A well-functioning Board of Directors represents a competitive advantage, and the most important duty of the Election Committee is to ensure a good process for identifying good candidates for the governing bodies of the company. Only a limited number of the companies of which Folketrygdfondet is a shareholder have chosen not to establish an Election Committee. Folketrygdfondet has encouraged these companies to also establish an Election Committee.

The Election Committee is not a body required by statute, but is premised on good corporate governance principles, and should, according to the Norwegian Code of Practise for Corporate Governance, be stipulated as a requirement in the Articles of Association. It follows from the Norwegian Code of Practise for Corporate Governance, after the amendments made in 2010, that the Shareholders' Meeting should adopt guidelines for the Election Committee. We have noted that a number of the companies in which we are invested have now complied with this.

A few important principles should underpin the composition and work of the Election Committee. The composition of the Election Committee should be such as to make the majority of its members independent from the Board of Directors and senior executives, and the Chairperson should be independent from the main owner. Directors should not be members of the Election Committee.

The Election Committee shall evaluate the work, qualifications and composition of the Board of Directors, and shall make a recommendation to the Shareholders' Meeting concerning the appointment of candidates for the governing bodies of the company. It is important for the Election Committee

to attend to the interests of all shareholders in its efforts, and to both encourage and actively seek and assess feedback from the shareholders. This implies that the Election Committee needs to obtain a good understanding of circumstances on the part of the company, interactions and processes within the Board of Directors, as well as relations between senior executives and the Board of Directors. Important inputs that should be taken into consideration for such purposes include a review of the Board of Directors' evaluation of its own efforts, as well as other feedback from both the Board of Directors and the Chief Executive Officer.

The Election Committee must analyse what qualification profile and other requirements are desirable in selecting candidates for appointment to the Board of Directors. If new candidates need to be found, interviews and evaluations of individual candidates have to be conducted. In some cases it may be appropriate to get assistance from external recruitment firms to ensure a sufficiently broad recruitment basis.

The Election Committee must submit a reasoned recommendation that summarises the work it has carried out, the assessments made and the reasons why the relevant candidates are being proposed for appointment by the Shareholders' Meeting. The Board of Directors shall attend to the interests of the company and all shareholders in a good manner, and the recommendation should enjoy the support of the main shareholders.

Folketrygdfondet is often approached by the Election Committees with invitations to submit feedback and suggestions as to the composition of the Boards of Directors. We take a favourable view of such initiatives, and we seek to provide constructive feedback in response to any requests we receive. Such a process contributes to vesting the appointment of Directors in the shareholders, and to a good understanding of the proposals submitted by the Election Committee for the composition of the governing bodies of the company.

The composition of the Election Committee should be such as to make the majority of its members independent from the Board of Directors and senior executives, and the Chairperson should be independent from the main owner.

EXECUTIVE SALARY SCHEMES

In this year's season of Shareholders' Meetings, most of the proposals that Folketrygdfondet has voted against have related to executive salary statements and accompanying authorisations to issue shares. Competitive executive salaries, hereunder transparent and targeted incentive schemes, are positive when contributing to the safeguarding of shareholder value, but the overall amount of compensation must not be unreasonable or determined by external circumstances outside the influence of executives. Folketrygdfondet has adopted guidelines for executive salary schemes that constitute the basis for our evaluations. The guidelines are available on www.ftf.no.

In our assessments of executive salary statements, we attach weight to whether the incentive schemes are designed such as to actually contribute to more effective and performance-oriented management. Clear performance targets need to be defined, and these have to go beyond what could normally be expected and not be determined by external circumstances beyond the influence of executives. Furthermore, there should be a correlation between the performance of the company and the overall compensation, hereunder a maximum cap on the annual remuneration that is not perceived as unreasonable relative to the performance achieved.

Folketrygdfondet would like to see any purely performance-oriented bonuses schemes being combined with the purchase of shares of the company to ensure a long-term perspective and appropriate strategy choices. However, it is important for option- and share-related schemes to be subject to a minimum lock-in period. To the extent that options are allotted, one should calculate the fair value of the option schemes, the accounting implications on the part of the company, as well as potential dilution effects. This is important to enable the shareholders to evaluate what value is transferred from the shareholders to senior company executives. Under share-related schemes, a significant portion of the shares should be held for a minimum of three years.

The executive salary statement shall outline last year's effects of remuneration agreements on the company and the shareholders. This will enable the shareholders to assess the scheme as a whole, hereunder any dilution effect.

The executive salary statement shall be submitted to the Shareholders' Meeting for comment on a consultative basis. If the scheme involves compensation in the form of shares, warrants, options or similar, or is otherwise related to share price developments, it shall require the approval of the Shareholders' Meeting. If the compensation scheme implies the issuance of new shares it is, in addition, necessary to have an authorisation to issue shares of sufficient scope. In our experience, it not made clear enough whether the executive salary statement is submitted for a consultative or a binding

resolution. We believe that it is of considerable advantage for it to be clearly and unambiguously stated what type of resolution is being adopted, and for such resolution not to include both consultative and binding elements or being construed as encompassing an authorisation to issue shares.

Folketrygdfondet attaches weight to the following factors in its assessment of executive salary schemes:

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 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 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, taking into account 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.

We have adopted, to enable us to act in a predictable and consistent manner, a set of principles for responsible investment activities.

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 and 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 practices of Folketrygdfondet are based on the UN Principles for Responsible Investment (PRI), the OECD Principles of Corporate Governance and the Norwegian Code of Practice 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, at 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 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 violate 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 carried out with due care and discretion, and no company-sensitive information shall be published.

GLOSSARY

ESG

Environment, Social and Corporate Governance.

UN Global Compact

An initiative encouraging enterprises to adhere to, and report on their implementation of, 10 principles within human rights, labour, environment and anti-corruption.

UN PRI

UN Principles for Responsible Investment. The initiative focuses on being a responsible owner by integrating ESG issues into ownership policies and practices.

OECD Guidelines on Multinational Enterprises

This is a recognised framework for social responsibility which governments are committed to promote. The guidelines are voluntary, but represent a recommendation from governments to multinational enterprises.

OECD Principles of Corporate Governance

The principles represent a common platform that the OECD countries deem necessary for the development of good practice within corporate governance.

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 and well-functioning and effective markets.

Folketrygdfondet has developed a good and appropriate concept for responsible asset management, and we now have a higher level of activity towards more companies than before.

RESPONSIBLE INVESTMENT ACTIVITIES

Responsible investment activities attend to long-term financial, social and environmental interests. In practice this implies the integration of important environmental, social and governance (ESG) issues into company analyses and investment decisions. Moreover, it means that ownership policies and practices are used to promote awareness of ESG-related issues and associated financial risk.

In order to achieve the best possible return over time, Folketrygdfondet wishes to invest in companies with high-quality business operations and management. How a company handles environmental and social matters is considered a leading indicator of the quality of executive personnel and the ability of the company to create value in the long term.

Principles for responsible investment activities

Folketrygdfondet has adopted a set of principles for responsible investment activities that apply to all of our investments. However, we use different methods in following up the various parts of the portfolio.

As far as the management of the Norwegian equity portfolio is concerned, the exercise of ownership rights and dialogue with companies are important tools. This involves, inter alia, that we raise ESG issues with corporate management, thus offering companies an opportunity to remedy unacceptable conditions. If the company does not, following such dialogue, pay heed to our concerns to a sufficient extent, we will contemplate raising the matter in the Shareholders' Meeting. If the latter approach does not succeed either, we will eventually have to consider the divestment of our holdings in the company.

If we are of the view that a company is operating in violation of our principles for responsible investment activities, it will be the Board of Folketrygdfondet that determines whether such company shall be excluded from our investment universe. However, said company will not be omitted from the benchmark index stipulated by the Ministry of Finance, and against which the return achieved by Folketrygdfondet is measured.

Fixed-income investments do not carry the same ownership rights, and therefore do not imply the same ownership responsibilities, as equity investments. Nevertheless, we address ESG issues in relation to our fixed-income investments as

well, and relevant measures will be contemplated and implemented if we uncover potential violations of our investment principles. Any measures we choose to implement in respect of companies where we have both equity and fixed-income holdings will apply to both forms of investment.

As far as investments in Nordic equities or interest-bearing securities issued by Nordic companies are concerned, we adhere to the decisions made by the Ministry of Finance on the basis of the recommendations from the Council on Ethics for the Government Pension Fund Global. This means that if the Ministry of Finance decides that the Government Pension Fund Global shall refrain from investing in certain companies, then the relevant securities will also be excluded from Folketrygdfondet's investment universe.

Working methods and tools

ESG analysis

Folketrygdfondet has since 2009 increased the resources devoted to efforts relating to responsible investments, in particular with regard to the analysis of so-called ESG issues. Folketrygdfondet prepares comprehensive analyses that form a good basis for the follow-up of individual companies' approach to environmental, social and governance matters that may have implications for long-term value creation.

We have prepared an ESG analysis for each of the companies in the Norwegian equity portfolio. These analyses include an assessment as to which guidelines the company themselves have adopted, how these guidelines are implemented and whether the company reports on compliance therewith.

The ESG analyses are made available to the portfolio managers in the Equities Department, with the result that such information is integrated into the evaluation of each individual company. This has resulted in relevant ESG issues being raised, to a greater extent than before, in meetings with senior company executives.

When Folketrygdfondet makes a company aware of an ESG-related problem, we expect the company to explain how it is handling the problem and, if necessary, to implement measures to remedy said problem. Folketrygdfondet acknowledges that different problems and challenges necessitate different time horizons in terms of implementing appropriate solutions. However, we focus on following up on each individual case until the problem has been dealt with in a satisfactory manner.

Media monitoring

Folketrygdfondet continuously monitors the companies included in our equity and fixed-income portfolios through worldwide Internet searches in editorial sources. The searches are systemised, and Folketrygdfondet is notified if companies in our portfolio are linked to key social responsibility issues. The purpose is to monitor whether the companies comply with their own guidelines and refrain from operating in violation of international conventions and recognised norms with regard to responsible operations.

Dialogue with the companies

Folketrygdfondet is committed to pursuing a constructive and good dialogue with the companies with regard to ownership issues and social responsibility. It is our experience that this type of dialogue may take several forms.

Proactive dialogue takes place before, or without, the occurrence of any violations of recognised norms with regard to responsible operations. In such cases the focus will be on areas in which there may be room for improvement on the part of the company. This type of dialogue is often pursued over long periods of time and necessitates follow-up.

Reactive dialogue takes place, for example, when there is reason to query whether a company is carrying out activities that are in violation of recognised norms with regard to responsible operations. This is often triggered by a specific event and the media coverage associated therewith. A reactive dialogue often takes place shortly after the issue has arisen, and in most cases the company needs to implement immediate measures to clarify facts in relation to the matter and solve any problems.

Over the last year, Folketrygdfondet has been pursuing a dialogue with several companies concerning, for instance, environmental issues that have also drawn attention from the media. In each of these cases Folketrygdfondet has entered into a dialogue with the company in order to clarify facts about the case, and assessed the risk of contributing to irresponsible activities through investments in the company.

SPECIFIC CASES

**Anti-corruption**

- Dialogue with one company concerning its anti-corruption efforts.
- We have encouraged two companies to develop publicly available anti-corruption guidelines.

**Environment**

- Dialogue with five companies concerning their efforts in relation to various environmental issues.

**Human rights/labour rights**

- Dialogue with two companies that have operated in areas where human right violations are a problem.
- Dialogue with one company concerning potential labour right violations.
- We have encouraged one company to develop guidelines on labour rights.

**Reporting and communication**

- Dialogue with four companies concerning improved reporting on environmental and social matters.

As a large shareholder of some companies in the aquaculture industry we take the problems facing the industry seriously. We have discussed current challenges with environmental organisations, other investors and industry representatives.

Prioritised themes within the Norwegian equity portfolio

We have, based on an assessment as to which ESG-related issues we believe to be associated with the most financial risk as far as the overall portfolio of Folketrygdfondet is concerned, chosen to accord priority to the three following themes: reporting and communication, anti-corruption and greenhouse gas emissions.

Reporting and communication

Folketrygdfondet believes that reporting on environmental and social matters by the companies in which we are invested is of major importance. This type of reporting should explain to investors and other stakeholders how the company addresses ESG-related issues and challenges in order to reduce the risk associated therewith. We need this type of information to be able to make good and responsible investment decisions.

In addition to direct dialogue with Norwegian companies concerning the importance of adequate and appropriate reporting with regard to environmental and social issues, Folketrygdfondet has been involved in the development of new requirement for reporting in relation to social responsibility in the Norwegian Accounting Act.

Anti-corruption

Corruption may entail considerable financial risk in the form of reputational damage, exclusion from markets, legal proceedings, the imposition of financial penalties, etc.

In 2010, Folketrygdfondet carried out an analysis of guidelines relating to anti-corruption on the part of selected companies in the Norwegian equity portfolio. The analysis revealed absent or inadequate anti-corruption guidelines as far as some companies were concerned. This has been an important topic in discussions with senior executives of these companies in 2010 and thus far in 2011.

In 2011, Folketrygdfondet has implemented training measures for the purpose of expanding our knowledge on the issue of anti-corruption, and how we as an investor can work to reduce corruption-related risks on the part of the companies in which we are invested.

Greenhouse gas emissions

Companies' greenhouse gas emissions are associated with both environmental and financial costs as the result of

higher energy prices, the possibility of the introduction of a CO₂ tax, the need for adapting to an expanding regulatory framework pertaining to greenhouse gas emissions, as well as consequences of reputational loss.

We are of the view that greenhouse gas emissions will, alongside other important environmental issues, be an important theme for companies and investors in the years to come. Folketrygdfondet has therefore opted to continue our participation in the Carbon Disclosure Project 2011.

Special focal areas

Folketrygdfondet is invested in some sectors that have been facing particular ESG challenges in recent years. Against this background we have, over the last year, done a considerable amount of work on relevant issues within the areas of unconventional oil and gas extraction and salmon aquaculture.

Unconventional oil and gas extraction

The development of so-called unconventional oil and gas resources, such as oil sands in Canada and shale gas in the United States, has become an important topic in recent years. This is due to such activities having implications for, inter alia, demonstrated energy reserves, long-term energy security and, not least, the environmental and social challenges associated with the extraction of these resources.

A shareholder proposal was submitted to the Shareholders' Meeting of Statoil ASA on 19 May 2011, to the effect that Statoil should withdraw from the oil sands project in Canada. Folketrygdfondet deemed it appropriate to vote against the proposal.

The extraction of oil sands resources raises a number of difficult issues. Statoil has informed shareholders and the financial market about plans, challenges and risks associated with the oil sands project in Canada. The company has defined objectives with regard to the sound development of the oil sands project and has reported on compliance with such objectives. Folketrygdfondet has taken note of this information, and will monitor future developments. Folketrygdfondet is of the view that it is the responsibility of the Board of Directors to establish and follow up on the strategy of the company, hereunder to evaluate previously adopted strategic decisions on an ongoing basis. We are therefore of the opinion, based on a normal division of responsibilities with regard to corporate governance, that the issue of the oil sands project in Canada is not a matter for the Shareholders' Meeting.

Salmon aquaculture

Folketrygdfondet has this year been working with various challenges within the aquaculture industry, hereunder issues relating to escaped salmon, salmon lice, feed and the reputation of the industry.

Folketrygdfondet has pursued a dialogue with senior executives of the companies in which we hold ownership interests in order to pose questions relating to the above mentioned themes. It is not our role to tell the companies how they should handle various issues, but to make them aware of the financial risk perceived by us and to encourage them to handle the problems in a sound manner, such as to avert major negative implications as far as the company's long-term value creation is concerned.

Cooperation and external initiatives

Folketrygdfondet has over the last year further expanded its participation in external initiatives, conferences and seminars relating to responsible investments, as well as collaborative projects in Norway. This affords us opportunities to exchange information and experience about responsible investment practices with other interested parties.

CDP

At the end of 2009, Folketrygdfondet decided to become a participating investor in the Carbon Disclosure Project (CDP). CDP is an independent, not-for-profit organisation that maintains the world's largest database of information concerning businesses' handling of greenhouse gas issues. CDP conducts an annual survey relating to businesses' greenhouse gas emissions, as well as climate-related risks and opportunities. The questionnaire is distributed to listed companies on behalf of the participating investors.

Out of the 37 companies in Folketrygdfondet's Norwegian equity portfolio that received the CDP 2010 questionnaire, 20 (54 percent) responded. Information from the Norwegian companies is incorporated into the company-specific ESG analyses prepared by Folketrygdfondet. Folketrygdfondet believes the CDP to be a useful initiative, and has therefore decided to continue its support of the project in 2011.

PRI

Folketrygdfondet joined and signed the UN Principles for Responsible Investments (PRI) in 2008. The premise underlying

the six UN principles is that one should, as a responsible owner and investor, integrate ESG issues into asset management activities. Folketrygdfondet is of the view that the initiative can contribute to raising awareness in the financial markets of areas that merit attention for purposes of ensuring sound long-term value creation in the business sector.

Every year, all investors participating in PRI are requested, through the annual PRI survey, to report on the implementation of the principles. Folketrygdfondet has in 2011 submitted a report for the second time (see separate article in which the principles are discussed in more detail). The reporting work has been a valuable experience that has contributed to identifying areas in which efforts may be strengthened in future.

Sustainable Value Creation

Since 2008, Folketrygdfondet has participated in the collaborative project Sustainable Value Creation. The project has involved the distribution of a questionnaire, on behalf of the participating investors, to all companies included in the main index of the Oslo Stock Exchange in 2008 and 2009. The companies were requested to respond to questions relating to the handling of specific ESG issues.

The findings from the most recent survey have been incorporated into Folketrygdfondet's ESG analysis of each individual company, and shall be used as the basis for discussions with senior company executives. The project has contributed to the initiation of positive processes within the companies. We are also of the view that there is room for further development of the collaborative project to make the information gathered an even more accessible and useful basis for the benefit of investors, businesses and other interest groups.

We consider cooperation with other investors to be an important tool for realising our objectives.

THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENTS

The six UN Principles for Responsible Investment (UN PRI) are premised on the idea that a responsible owner and investor shall integrate Environmental, Social and Corporate Governance (ESG) issues in its investment activities.

Folketrygdfondet believes that the UN PRI is a good initiative that may contribute to increasing the awareness of financial markets in areas that need to be focused on in order to safeguard long-term value creation in the business sector. We have therefore signed up to the UN PRI, and present below the measures we take to follow up on each of the principles in our management of the Government Pension Fund Norway.

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

Folketrygdfondet manages the Government Pension Fund Norway on behalf of the Ministry of Finance. It follows from the guidelines laid down by the Ministry of Finance with regard to the investment activities that Folketrygdfondet shall, inter alia, integrate good corporate governance, environmental and social issues in its investment activities. It also follows that the ownership policies and practices shall primarily be based on internationally recognised principles with regard to the social responsibilities of businesses, as well as responsible investments. Folketrygdfondet has adopted, in line with the mandate from the Ministry of Finance, principles for responsible investment activities, and has integrated these into our investment methodology and ongoing investment activities.

Folketrygdfondet is of the view that how a company works with regard to ESG issues is an important indicator of the quality of the overall management of the company. Moreover, we believe that if we fail to place enough focus on ESG-related issues in our investment portfolio, this will have negative implications for the return achieved on the Government Pension Fund Norway in the longer term. We have therefore integrated issues relating to the environment, social responsibility and good corporate governance into our investment analyses and decision-making processes.

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

Folketrygdfondet shall be an active owner and a responsible investor with a long-term perspective, which integrates ESG-related considerations into our ownership policies and practices. We try to be represented, in person or by proxy, at all Shareholders' Meetings of companies that are included in the Norwegian equity portfolio. As far as the Nordic equity portfolio is concerned, we vote by proxy based on voting instructions. Our voting is based on a thorough assessment of the proposed resolutions, and our principles for responsible investment activities form an important basis for these assessments.

We also raise ESG-related issues with the management teams of companies that form part of the Norwegian equity portfolio whenever we deem it appropriate during the course of the year. Folketrygdfondet seeks, through dialogue with senior company executives, to reduce the risk that issues associated with ESG-related matters shall have a negative impact on the long-term prospects of the company.

ESG themes are also integrated into the management of the Norwegian fixed-income portfolio, through which we hold positions in many of the same companies that are included in the Norwegian equity portfolio.

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

Folketrygdfondet believes that the ESG reporting of the companies is important, and we therefore attach considerable weight to this in our dialogue with senior company executives. Folketrygdfondet also encourages the companies in which we are invested to adhere to the UN Global Compact. This initiative requires participating enterprises to report annually on how they implement its ten principles relating to human rights, labour, environment and anti-corruption.

Folketrygdfondet is, furthermore, a participating investor in the Carbon Disclosure Project (CDP). CDP conducts an annual survey relating to businesses' handling of greenhouse gas issues, based on a questionnaire distributed to stock-exchange listed companies worldwide. We are also a member of the project Sustainable Value Creation in Norway. The project has arranged for the distribution, on behalf of the participating investors, of a questionnaire to all companies included in the main index of the Oslo Stock Exchange in 2008 and 2009 with regard to their handling of ESG issues.

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

Folketrygdfondet is involved in two initiatives that promote ESG issues, and to a large extent the principles of UN PRI, in the investment industry. The first of these is the Sustainable Value Creation project, as discussed above. The second one is the Ownership Forum, comprising the largest institutional investors in Norway, which contributes to the development of the Norwegian Code of Practice for Corporate Governance.

In addition, we discuss topics relating to Norwegian companies' handling of ESG issues, and how investors shall implement the principles under PRI, with other investors. Folketrygdfondet is of the view that both formal and informal cooperation with other investors are important to promote acceptance and integration of ESG considerations in the financial market.

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

Folketrygdfondet cooperates with other investors in order to promote our interests. This is embedded in our principles for

responsible investment activities. Such cooperation may include ESG issues when we deem it appropriate. Folketrygdfondet cooperates, as discussed above, with other investors through both investor initiatives like the Ownership Forum and the Sustainable Value Creation project in Norway and the Carbon Disclosure Project (CDP) at the international level. We are also involved in a number of more informal investor collaborations relating to company-specific matters, as well as research and dialogue concerning ESG issues at the industry level.

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

Folketrygdfondet prepares an annual report on our ownership policies and practices. The report is made publicly available. The report includes information about, inter alia, the activities we have carried out to attend to our interests as an owner and investor and how we have implemented our principles for responsible investment activities in our investment practices.

It follows from the guidelines laid down by the Ministry of Finance that Folketrygdfondet shall integrate good corporate governance, environmental and social issues in its investment activities.

PARTICIPATION IN GOVERNING BODIES

Folketrygdfondet may, pursuant to its principles for responsible investment activities, 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 2011, and shows what appointments are held by employees of Folketrygdfondet.

Corporate Assemblies::

Norske Skog ASA	- Portfolio Manager Ann Kristin Brautaset	member
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 Svarva	chairperson
Telenor ASA	- Managing Director Svarva	vice chairperson

Shareholders' Committees:

DnBNOR ASA	- Director Nils Bastiansen	member
DnBNOR Bank ASA	- Director Nils Bastiansen	member
DnBNOR Boligkreditt AS	- Director Nils Bastiansen	member
DnBNOR Næringskreditt AS	- Director Nils Bastiansen	member
DnBNOR 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
Vital Forsikring ASA	- Director Nils Bastiansen	member

Election Committee:

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	- Managing Director Olaug Svarva	member

OTHER RELEVANT INFORMATION

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

- Act of 21 December 2005 No. 123 relating to the Government Pension Fund
- Act of 29 June 2007 No. 44 relating to Folketrygdfondet
- Articles of Incorporation for the company by special statute Folketrygdfondet
- Mandate for the Management of the Government Pension Fund Norway
- Folketrygdfondet's Principles for Responsible Investment Activities
- Folketrygdfondet's Guidelines for Executive Salary Schemes

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

- Fiscal Budget for 2011
- No. 15 (2010–2011) to the Storting, On the Management of the Government Pension Fund during 2010
- Proposition No. 2 (2005–2006) to the Odelsting, On the Act relating to the Government Pension Fund
- Proposition No. 49 (2006–2007) to the Odelsting, On the Act relating to Folketrygdfondet
- Information concerning the Council on Ethics for the Government Pension Fund Global

The website www.nues.no contains, inter alia:

- Norwegian Code of Practise for Corporate Governance

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

- UN Principles for Responsible Investment
- UN Global Compact

www.oecd.org offers information about:

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

The website www.baerekraftigverdiskaping.no contains information about:

- The investor project Sustainable Value Creation

The website www.cdproject.net contains information about:

- The Carbon Disclosure Project (CDP)

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