

OWNERSHIP REPORT 2014

Achieving a strong financial return over time is dependent upon our taking environmental and social factors into consideration.

FOLKETRYGDFONDET IS A RESPONSIBLE OWNER

Folketrygdfondet is such a large actor on the Oslo Stock Exchange that we, via our investments, have an influence on many companies. We engage with the companies and take responsibility in our capacity as owner.

Folketrygdfondet is the largest institutional investor on the Oslo Stock Exchange and because of our size we have a different role to play than many other actors. Folketrygdfondet is among the three largest shareholders in 37 listed companies, and the largest shareholder in four companies (as of 31 December 2014).

To the companies it is important to maintain a dialogue with their largest shareholders, both from day to day and in strategically demanding situations, for instance when making acquisitions and amending their capital structure. We are aware of our responsibility in this regard, and give high priority to dedicating both time and resources to our role as owner.

Increasing returns

The objective for the management of Folketrygdfondet is to achieve a high return over time. There are two primary ways of achieving this:

- By strengthening the profitability of companies and contributing to a well-functioning market place, thus boosting the overall market return.
- By generating additional returns on Folketrygdfondet's own portfolio compared to benchmark indices.

For Folketrygdfondet, active, robust company monitoring and engagement is a deliberate strategy for achieving our financial objectives. By contributing to the development and profitability of each individual company, we achieve a higher portfolio return over time.

The best interests of the company

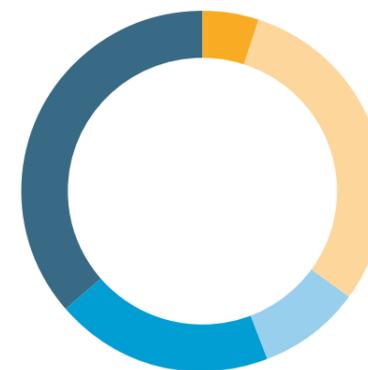
In some situations, achieving an additional return on Folketrygdfondet's portfolio compared to the benchmark may conflict with the aim of strengthening value creation in a company. In such cases, we give priority to the best interests of said company. In practice, this entails exercising good ownership also in companies in which our stake is smaller than indicated by the benchmark index. This order of priority is laid down in Folketrygdfondet's strategic plan.

We have made this choice because we consider it a consequence of our role as a responsible investor and because over time it contributes to the highest possible return on the portfolio as a whole. This approach is consistent with the expectations we encounter among the companies in which we invest.

The Nordic region

Our active ownership in Danish, Finnish and Swedish companies follows the same principles as in Norwegian companies. However, Folketrygdfondet's shareholdings in the other Nordic markets are smaller, and spread amongst a larger number of companies. Accordingly, our active ownership is not as intense as in the companies listed on the Oslo Stock Exchange. Under Folketrygdfondet's mandate, the highest permitted shareholding in any Norwegian company is 15 percent, compared to 5 percent in the case of companies in the other Nordic countries.

OWNERSHIP OF COMPANIES LISTED ON THE OSLO STOCK EXCHANGE



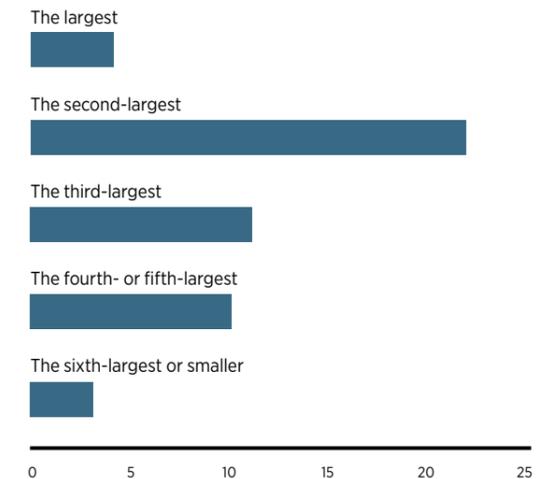
Folketrygdfondet	5,06 %
Central and local government	30,08 %
Norwegian institutional investors	9,02 %
Other Norwegian investors	19,44 %
Foreign investors	36,14 %

Sources: Oslo Stock Exchange monthly statistics and Folketrygdfondet

Figure 18

FOLKETRYGDFONDET'S OWNERSHIP OF COMPANIES LISTED ON THE OSLO STOCK EXCHANGE

Folketrygdfondet has shareholdings in 50 Norwegian companies. The chart below shows the numbers of companies in which Folketrygdfondet's shareholding is:



Sources: Company websites, VPS and stock exchange notices. Where a nominee account is among the largest shareholders, Folketrygdfondet has estimated the rankings.

Figure 19

FOLKETRYGDFONDET IS THE LARGEST SHAREHOLDER IN FOUR COMPANIES LISTED ON THE OSLO STOCK EXCHANGE



Borregaard

Wood-processing company with factories and sales offices in 17 countries. Head office in Sarpsborg, Norway.

"By using natural, sustainable raw materials, Borregaard produces advanced and environmentally friendly biochemicals, biomaterials and bioethanol that replace oil-based products."



Opera Software

Internet company with operations in 13 countries. Head office in Oslo, Norway.

"Whether you are a consumer getting online for the first time, or a multinational corporation trying to reach the right audience, Opera can help you discover more online."



Storebrand

Insurance company with operations in Norway and Sweden. Head office at Lysaker in Bærum, Norway.

"The Storebrand Group is a leading player in the Nordic market for long-term savings and insurance."



Petroleum Geo-Services, PGS

Seismic company with operations in 25 countries. Head office in Oslo, Norway.

"We help oil companies to find oil and gas reserves offshore worldwide."

FOLKETRYGDFONDET'S OWNERSHIP OF COMPANIES LISTED ON THE OSLO STOCK EXCHANGE

Companies in which Folketrygdfondet (FTF) owns more than 5 percent of the capital or is among the three largest shareholders.

Company name	FTF's shareholding	FTF's shareholder ranking
Petroleum Geo-Services	10,70 %	1
Ekornes	10,51 %	2
Tomra Systems	10,44 %	2
Nordic Semiconductor	9,98 %	2
Norwegian Air Shuttle	9,92 %	2
Storebrand	9,87 %	1
Marine Harvest	9,64 %	2
Veidekke	9,59 %	2
Opera Software	8,97 %	1
Norwegian Property	8,49 %	3
Olav Thon Eiendomsselskap	8,33 %	2
Stolt-Nielsen	7,98 %	3
REC Silicon	7,57 %	2
SalMar	7,57 %	2
Schibsted	7,54 %	2
Norsk Hydro	7,33 %	2
Orkla	7,27 %	2
Det norske Oljeselskap	7,12 %	2
Yara International	6,39 %	2
TGS-NOPEC	6,24 %	2
DNB	6,23 %	3
REC Solar	6,21 %	4
Kongsberg Gruppen	6,13 %	3
Subsea 7	5,89 %	2
Golden Ocean Group	5,83 %	2
Atea	5,71 %	3
Prosafe	5,21 %	5
Farstad Shipping	5,06 %	4
Gjensidige Forsikring	5,05 %	2
BW LPG	4,96 %	2
Wilh. Wilhelmsen	4,93 %	2
Telenor	4,85 %	2
Entra	4,59 %	3
Borregaard	4,26 %	1
Lerøy Seafood Group	4,21 %	3
Fred. Olsen Energy	3,67 %	3
Statoil	3,32 %	2
Wilh. Wilhelmsen Holding	3,04 %	3
Kongsberg Automotive	3,02 %	3
Aker	1,47 %	3

Sources: Company websites, VPS and stock exchange notices.

Where a nominee account is among the largest shareholders, Folketrygdfondet has estimated the rankings.

OUR PROCEDURES

Folketrygdfondet conducts regular meetings with the management and board chairs of portfolio companies, and this dialogue is the most common instrument we use in our work as an active owner. Other important arenas include general meetings, corporate assemblies and nomination committees.

Folketrygdfondet does not hold any directorships in the companies in which it invests, and gives emphasis to an orderly division of roles between boards of directors and shareholders. Within this framework, we seek to be an active, demanding and constructive owner.

Arenas

Active, constructive dialogue with portfolio companies suits Folketrygdfondet's role as a large, long-term investor. Meetings and other contact with board chairs and management allow companies to get to know us, and vice versa. To make such engagement as productive as possible for both parties, we have prepared guidelines on a number of key topics.

Folketrygdfondet votes at the general meetings of the companies in which it is invested. When we vote against a board proposal, we publish an explanation of our decision.

We get involved in the election of company boards, and may participate in nomination committees, corporate assemblies and shareholders' committees.

Topics

We have defined five key ownership issues with which we are engaged and on which we have an opinion:

- Financial targets and capital structure
- Board composition
- Executive remuneration
- Good corporate governance
- Reporting and transparency

Although our role as bondholder differs from our role as shareholder, monitoring of the two portfolios has become more uniform over time.

► **Our website – ftf.no – provides further information on our ownership strategy and an updated overview of the work we do in the context of active ownership.**

INSTRUMENTS USED IN RESPONSIBLE INVESTMENT ACTIVITIES

	ESG considerations* in management	Exclusion	Dialogue with portfolio companies	Voting at general meetings
Norwegian equities	●	—	●	●
Nordic equities	●	●	●	●
Norwegian bonds (corporate)	●	—	●	N/A
Nordic bonds (corporate)	●	●	●	N/A
Government bonds	—	—	N/A	N/A

* "ESG considerations" means that we analyse and monitor how portfolio companies handle environmental, social and corporate governance issues.

In the case of Folketrygdfondet's investments in Denmark, Finland and Sweden, we have followed the decisions made by the Ministry of Finance in response to exclusion recommendations received from the Council on Ethics for the Government Pension Fund Global.

SYSTEMATIC MONITORING

When we see that an issue will have a significant impact on the portfolio, we may choose to devote particular attention to it for a period of time. In 2014, we had the following focus areas: Financial objectives and capital structure, climate change, aquaculture and anti-corruption.

At Folketrygdfondet, we employ both quantitative and qualitative analyses of companies and sectors, as well as analyses of changes in trends and framework conditions. A long-term financial investor, Folketrygdfondet is focused on environmental and social conditions and good corporate governance (ESG issues), since these influence the ability of companies to generate value over time. In the active ownership context, we work on a broad range of ESG issues at any given time, depending on what matters are deemed important to a given company.

To be able to work systematically and with a performance focus, we also prioritise topics we consider important to multiple companies in the

portfolio. These focus areas are followed up in various ways, including direct meetings with companies, joint initiatives with other investors and surveys, presentations and other measures.

► **When we conclude that a topic requires more systematic monitoring over time, we publish an explanation and statement of reasons for our conclusion on ftf.no**

Our focus areas remain the same at the beginning of 2015 as in 2014.

FOCUS AREAS OVER TIME

2012



Unconventional oil and gas production



Anti-corruption



Aquaculture

2013



Climate change



Unconventional oil and gas production



Anti-corruption



Human rights and workers' rights

2014



Financial objectives and capital structure



Climate change



Aquaculture



Anti-corruption

FINANCIAL OBJECTIVES AND CAPITAL STRUCTURE

Capital is a limited resource. We expect portfolio companies to adopt financial objectives and communicate them clearly to the market. Several companies responded positively to the challenge in 2014.

How can we ensure the efficient allocation of capital in individual companies and between companies and sectors on the Oslo Stock Exchange? Our priority as an investor is to obtain better, clearer information from companies to improve our understanding of the criteria and objectives which underpin strategic priorities, risk profiles and capital allocations.

In 2014, this issue was a key item on Folketrygdfondet's active ownership agenda. We have invested considerable efforts in communicating our views and expectations both directly to companies and to the market in general.

In our view, it is precisely by requesting clear objectives and robust explanations from company boards that we can promote more efficient allocation of capital and thereby ensure capital discipline. This in turn nurtures value creation in individual companies and the commercial sector as a whole. Folketrygdfondet and other investors should not assume the responsibilities or roles of company boards, but can ask the right questions and expect to receive good answers.

We strongly expect the boards and management teams of portfolio companies to work to achieve the best possible total return for shareholders over time. As an investor, we therefore want companies to provide

clear target figures on their capital return, growth and capital structure. A clear, predictable dividend policy is a natural part of these expectations.

Positive development

In both 2013 and 2014, Folketrygdfondet conducted a survey of its portfolio companies. The results indicate a positive trend, with the proportion of companies setting concrete capital return targets increasing from 21 percent in 2013 to 31 percent in 2014.

We have developed guidelines setting out our expectations regarding not only the work of company boards but also financial objectives and company communications and reporting.

► **The guidelines are available on ftf.no**

EXAMPLES OF ACTIVITIES IN 2014

Dialogue	The topic was taken up at a total of 43 meetings with 28 Norwegian companies.
Presentation	Assistant Director Ann Kristin Brautaset at the Norwegian Society of Financial Analysts' seminar on financial reporting on 24 September 2014.

Table 11



Royal Caribbean Cruise Line (RCCL) operates in a capital-intensive industry experiencing strong demand growth. However, a considerable increase in capacity for a number of years has impacted the market balance negatively, limiting value creation. Folketrygdfondet therefore raised the issue of low capital returns and the absence of clear financial objectives in its meetings with the company. In 2014, RCCL published concrete capital return targets, and thereafter experienced a robust increase in its share price at a time when prices on the Oslo Stock Exchange were falling. In our view, RCCL provides a good example of the fact that setting and communicating concrete financial objectives contributes positively to value creation.

CLIMATE CHANGE

We focus on the financial risk presented by greenhouse gas (GHG) emissions, and on reducing the portfolio's climate risk over time. In 2014, a new CO₂ analysis provided additional support for our dialogue with portfolio companies.

At Folketrygdfondet, we consider how individual companies deal with issues related to climate change, not only in terms of their risk assessments and steps taken to reduce emissions, but also their ability to identify long-term commercial opportunities. In our view, companies that take climate change seriously and incorporate this awareness into their long-term business strategies will increase their chances of being profitable in the future.

Environmental accounts, including reports on energy consumption and GHG emissions, are increasingly demanded by the market. This is because they provide data which is relevant for calculating potential risk exposure and profitability at the company level. Folketrygdfondet expects thorough, reliable information for use in its company analyses. This is why we have developed guidelines providing further details of our expectations to companies in their efforts to address environmental challenges and their reporting on their activities in this area.

► **The guidelines are available on ftf.no**

New CO₂ analysis in 2014

Folketrygdfondet wishes to improve its understanding of climate risk, both in the portfolio as a whole and in individual companies.

In 2013, we commissioned our first CO₂ analysis of the Norwegian equity portfolio. In 2014, a new analysis of the Oslo Stock Exchange Benchmark Index (OSEBX) was prepared on behalf of the Norwegian Forum for Responsible and Sustainable Investment (Norsif). This collaboration has given us access to a tool enabling us to calculate the scale of the portfolio's emissions exposure.

An emissions intensity indicator shows how vulnerable the portfolio is to new costs or regulatory requirements relating to CO₂ emissions by companies. In 2014, this indicator totalled 0.42 tonnes of CO₂ equivalents per NOK 10,000 invested on the Oslo Stock Exchange by Folketrygdfondet. Our aim is to try to reduce this figure over time.

To succeed in this regard, we will engage in dialogue with portfolio companies, urging them to develop strategies and implement measures to reduce their CO₂ intensity over time.

We are also focused on increasing the proportion of companies reporting on their emissions and related strategies. This will continue to be a topic at our meetings with companies.



As an investor, we need to analyse and understand the long-term risk associated with the GHG emissions of the portfolio companies. This is true of companies in all industries. Our objective is to reduce the portfolio's emissions intensity, and our tool for doing so is dialogue. Folketrygdfondet will encourage companies to adopt strategies and measures to make them less CO₂ intensive over time.

EXAMPLES OF ACTIVITIES IN 2014

Type of activity	Company	Topic
Dialogue	Fred. Olsen	Climate strategy, challenges
Dialogue	Farstad	Environmental indicators and reporting
Dialogue	Statoil	Climate strategy for parts of the business
Dialogue	Seadrill	Climate strategy and reporting
Dialogue	Stolt Nielsen	Climate strategy and reporting
Dialogue	Det norske oljeselskap	Environmental strategy and reporting
Participation in Norsif's project group		CO ₂ analysis of OSEBX
Presentation		Director Nils Bastiansen at a seminar hosted by the Ministry of Climate and Environment on climate risk work in the context of asset management

Table 12

CO₂ ANALYSIS OF THE NORWEGIAN EQUITY PORTFOLIO AS OF 31 OCTOBER 2014*

	Portfolio market value (NOK billion)	Total emissions** (tCO ₂ e)	Emissions intensity Emissions (tCO ₂ e) per NOK 10,000 invested	Proportion of companies reporting their emissions
Norwegian equity portfolio	89,5	3 731 678	0,42	61%

* Norsif engaged South Pole Carbon and CDP to prepare the analysis to give all forum members access to both quantitative and qualitative data on Norwegian companies' GHG emissions and climate strategies.

** This figure encompasses "scope 1" and "scope 2" emissions, i.e. various forms of direct and indirect emissions linked to own production. The figure excludes "scope 3" emissions, the category covering emissions in the supply chain and all other indirect emissions.

ANTI-CORRUPTION

As an investor, Folketrygdfondet cannot accept involvement in corruption by any portfolio company, irrespective of where said company may be operating. In 2014, we saw further examples of the great damage companies suffer through possible involvement in corruption.

Three high-profile corruption cases involving companies in Folketrygdfondet's portfolio made the headlines in 2014. We have conducted meetings with the board chairs and senior management of Yara, Telenor and Kongsberg Gruppen to gather information on this matter. The three cases differ, and we have concentrated on ensuring that the respective boards of directors take the necessary steps and provide satisfactory information to the market.

Corruption undermines value creation in society and harms the companies involved. Our clear requirement is that companies in which we invest may not be involved in corruption. For individual companies, the financial consequences of involvement in corruption may include exclusion from markets, loss of contracts, fines and protracted legal proceedings.

We understand that operating in different countries with different attitudes presents numerous dilemmas. Nevertheless, as an investor we cannot accept companies becoming involved in corruption, irrespective of where they operate.

Every company is responsible for protecting its own business, values and reputation against corruption practices. This requires companies to put in place guidelines and procedures, and to report on their work in this context. We have developed a set of guidelines for anti-corruption to help clarify our expectations of portfolio companies.

► [The guide is available at ftf.no](http://ftf.no)

EXAMPLES OF ACTIVITIES IN 2014

Type of activity	Company	Topic
Dialogue	Yara	The company has accepted a corporate penalty from Økokrim (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime). Legal proceedings against one current and three former employees concerning possible corruption are ongoing. We have liaised with management and the board chair, asking for an account of the company's response in the matter.
Dialogue	Kongsberg Gruppen	Økokrim has issued an indictment claiming corruption in connection with deliveries in Romania. We have liaised with management and the board chair, asking for an account of the company's response in the matter.
Dialogue	Telenor	Corruption has been alleged in connection with the partly-owned subsidiary VimpelCom. We have liaised with management and the board chair, asking for an account of the company's response in the matter.

The table above describes our dialogue with companies involved in specific corruption cases in 2014. In addition to these particular cases, we have conducted a proactive dialogue with several companies to inform them of our expectations and familiarise them with our guidelines for anti-corruption.

AQUACULTURE

Folketrygdfondet has invested in four Norwegian companies in the aquaculture industry. In the past year, we have contacted all four companies to evaluate sustainability-related risks and gain an overview of measures implemented to manage such risks.

In its meetings with management, Folketrygdfondet has raised particular challenges in the aquaculture industry, such as sea lice, disease, escapes, feed and pollution. We have received comprehensive feedback from the companies, and have clearly explained the financial risk we consider to be associated with the industry's environmental challenges.

Our dialogue with the companies has been positive, and we have found that the aquaculture industry takes a very realistic view of the challenges it faces. The companies have made good progress, not least with regard to reporting, but major challenges remain. We expect companies to adopt long-term objectives, concrete measures and clear priorities.

"We are impatient"

Folketrygdfondet has clear expectations of the aquaculture industry. We believe in the industry and want to invest capital, but certain challenges have to be overcome. We are impatient for the industry to find and implement smart, long-term solutions to these challenges.

Since the stock market may sometimes take a short-term view in its assessments and decisions, Folketrygdfondet considers that large, active, long-term owners are beneficial to the aquaculture industry. Lower short-term growth may be a prerequisite for long-term value creation. We also wish to promote cooperation and larger units in the aquaculture industry because we see these as facilitating better solutions to industry problems.

From a lecture by Folketrygdfondet Managing Director Olaug Svarva at Cermaq's sustainability seminar on 21 May 2014.

EXAMPLES OF ACTIVITIES IN 2014

Type of activity	Company	Topic
Dialogue	Marine Harvest	The company's handling of challenges such as sea lice, disease, escapes, feed and pollution.
Dialogue	Salmar	The company's handling of challenges such as sea lice, disease, escapes, feed and pollution.
Dialogue	Lerøy	The company's handling of challenges such as sea lice, disease, escapes, feed and pollution.
Dialogue	Austevoll	The company's handling of challenges such as sea lice, disease, escapes, feed and pollution.
Presentation		Managing Director Olaug Svarva on Folketrygdfondet's view on the aquaculture industry and sustainability challenges, at Cermaq's sustainability seminar.
Consultation comments submitted to the Ministry of Trade, Industry and Fisheries on 9 January 2015		Consultation comments concerning growth in the Norwegian salmon and trout farming industry.

CLOSER CONTACT WITH COMPANY BOARDS

Last year, Folketrygdfondet had 75 meetings on specific incidents or key ownership issues, with a total of 40 Norwegian companies. In 2014, we gave priority to increasing contact with board chairs.

Being a large shareholder carries obligations. We seek to be available to the portfolio companies, and expect them to be available to us.

Our meetings with portfolio companies are often held between senior executives from both sides. Folketrygdfondet prioritises this form of collaboration, and invests substantial amounts of time and resources in direct contact with board chairs and executive management. In our capacity as an owner, we use such meetings to discuss both specific incidents and key ownership issues, such as capital structure and financial objectives.

In 2014, we chose to expand these exchanges by contacting the chairs of several company boards directly. We will continue to communicate with company boards in this way going forward.

When it is sensible to include experts in meetings, for example when discussing particular environmental or social issues, both Folketrygdfondet and the company in question involve staff with the requisite expertise.

Our conversations with board chairs and management enable us to understand strategies, operations, growth opportunities and risk profiles. This makes us a better owner, not least because we can quickly assess companies' capital requirements and strategic adjustments.

Dialogue and day-to-day contact

At Folketrygdfondet, we define "dialogue" as cases where we request an explanation, clarification or response from a company in a specific case or regarding a particular topic. In our capacity as an investor, we also engage in day-to-day contact with portfolio companies on different levels, for example through investor meetings and presentations.

► Our website – ftf.no – contains an overview of topics monitored by Folketrygdfondet through dialogue with companies in different sectors. The overview is updated quarterly.

The Nordic region

We have engaged an external service provider to assist us in monitoring portfolio companies in Denmark, Finland and Sweden in line with our responsible investment principles. The agreement encompasses help with monitoring company conduct, preparing analyses and conducting dialogues with companies when serious problems are discovered. Folketrygdfondet intends to develop its ownership activities in the Nordic region further in 2015. This will entail more frequent direct dialogue when we have questions about companies' activities.

Our procedures for

Dialogue

- We have meetings with the administration to monitor the company's development.
- We communicate with the board chair about matters falling within the board's area of responsibility.
- Folketrygdfondet and the portfolio companies are both aware that we should not receive inside information.
- Special procedures are followed if, in special cases, we do receive inside information.
- There must always be full transparency about the principles we apply and the methods we may use in our active ownership.
- In individual cases, however, transparency considerations must be balanced against considerations related to ongoing processes.

From Folketrygdfondet's active ownership, June 2012

DIALOGUES IN NORWAY

Number of meetings	Number of companies	Topic and total number of times raised
75	40	<ul style="list-style-type: none"> • Capital structure, financial objectives and strategy: 43 • Executive remuneration: 7 • Climate and environment: 6 • Anti-corruption work: 5 • Aquaculture – sea lice, escapes and feed: 5 • Authorisations to issue shares: 5 • Composition of governing bodies: 5 • Reporting and communication: 5 • Corruption (specific instances): 3 • Human rights/workers' rights: 2 • Demergers and company acquisitions: 2

The table summarises all meetings at which we discussed ownership issues or specific matters with company boards and management in 2014. In the discussion of Folketrygdfondet's focus areas (page 60), we have provided a more detailed description of some of these dialogues and our reasons for focusing on particular topics. In addition to the dialogues reported here, we also conduct various conversations and meetings with companies at different levels. This is part of our ongoing management, and includes investor meetings and investor presentations.

Table 16

DIALOGUES IN THE NORDIC REGION

Country	Number of companies	Topic and total number of times raised
Sweden	3	<ul style="list-style-type: none"> • Human rights/workers' rights: 3 • Anti-corruption work: 1 • Corruption (specific instance): 1
Denmark	1	<ul style="list-style-type: none"> • Human rights/workers' rights: 1
Finland	2	<ul style="list-style-type: none"> • Human rights/workers' rights: 2 • Climate and environment: 1

The table summarises the dialogues conducted by GES Investment Services on behalf of Folketrygdfondet in 2014.

IMPORTANT MEETING PLACE AND ARENA FOR EXERCISING AUTHORITY

Folketrygdfondet would like to see greater engagement in companies' general meetings. In our view, the role of general meetings as a meeting place for company boards, management and shareholders needs to be developed further.

For Folketrygdfondet, a key aspect of active ownership is voting at the general meetings of all companies in which it holds shares. In the case of Norwegian portfolio companies, we seek to attend all general meetings in person.

Successful initiatives

In 2014, we voted against proposals by the boards of four companies listed on the Oslo Stock Exchange. We are also prepared to oppose future proposals we consider to be contrary to shareholder interests. However, we have noted that the number of such board proposals is falling. While executive remuneration schemes were a frequent topic of discord in the past, only a few exceptions now remain. In other words, the vast majority of companies have adapted to shareholder demands over time. We have observed similar success with respect to the scope of authorisations requested from shareholders by company boards.

We have seen general improvements in dialogues between boards of directors and shareholders in recent years. This allows boards to give greater consideration to important shareholder signals prior to general meetings, thus avoiding surprises and confrontations at the meetings themselves.

One major reason why most general meetings now proceed in a quiet, calm manner is that shareholders have already successfully presented their views ahead of time. The introduction of generally accepted principles and guidelines, such as the Norwegian Code of Practice for Corporate Governance, has also helped to reduce the level of discord. Nevertheless, general meetings can be employed as an arena for addressing difficult topics or conflicts of opinion whenever required. The knowledge that this option is available is itself an instrument of power.

Use general meetings!

Although it is positive that general meetings can be held without significant disruption, something is lost if this annual opportunity to gather the board of directors, management and shareholders of a company

is not utilised. General meetings are a potentially important arena, and should be used to benefit the company.

Folketrygdfondet therefore welcomes all constructive attempts to revitalise general meetings. We consider this a challenge not only for company boards and managements, but also for Folketrygdfondet and other shareholders.

Voting against board proposals

In 2014, we voted against a total of 10 proposals by the boards of four companies listed on the Oslo Stock Exchange: Atea, RCCL, Spectrum and Subsea 7. In one case, such a large proportion of shareholders voted with Folketrygdfondet that the board's proposal was blocked.

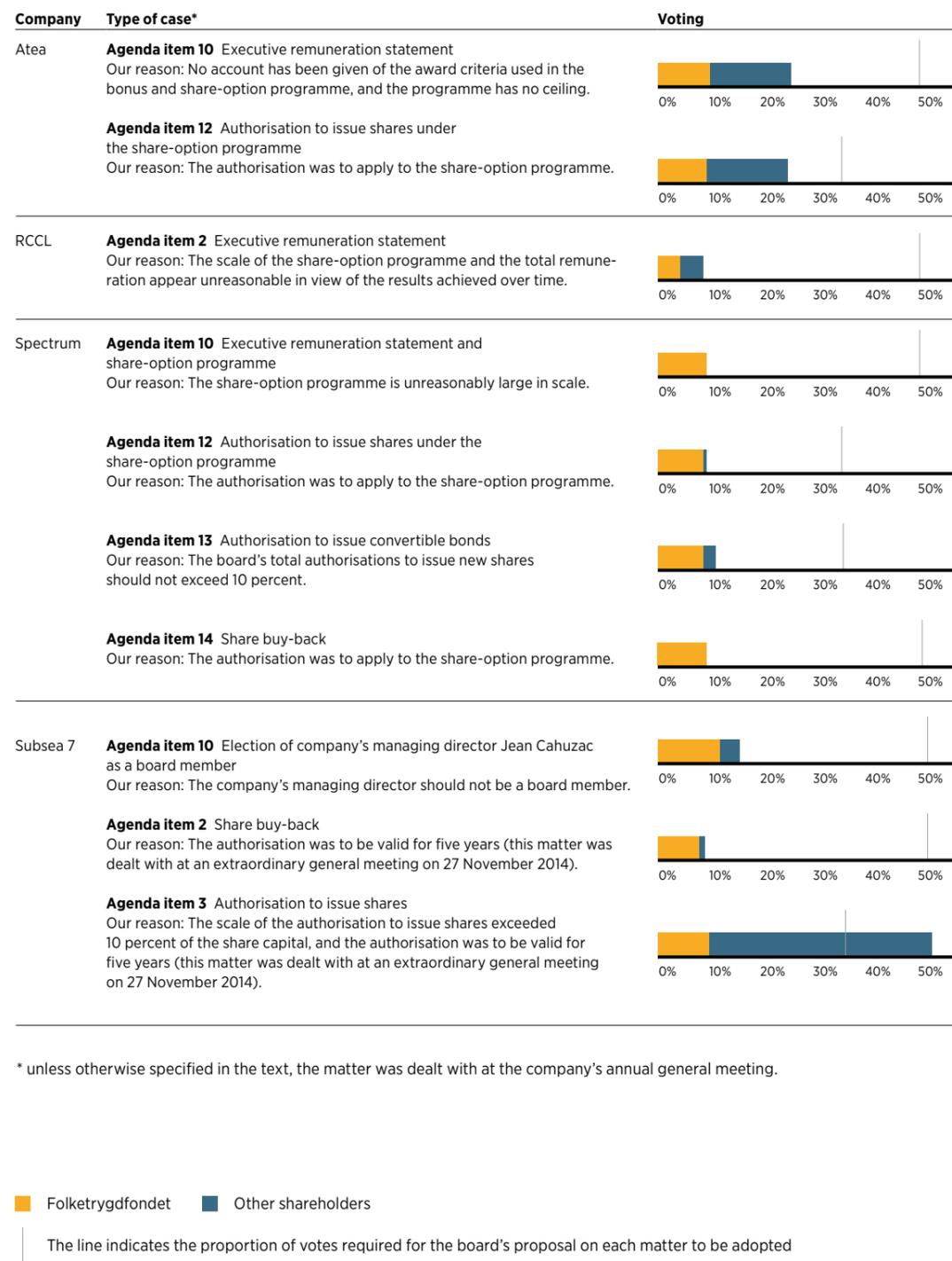
Our procedures for

Participation in general meetings

- Folketrygdfondet votes at the general meetings of portfolio companies.
- Wherever practicable, we aim to participate in person in the meetings of companies listed on the Oslo Stock Exchange.
- If we vote by proxy, we always issue voting instructions.
- Loaned shares will normally be recalled before general meetings so that we can vote for the full shareholding.
- Prior to a general meeting, we conduct a thorough review of the agenda and vote in accordance with our principles, guidelines and assessments.
- If we disagree with a board proposal, we seek to explain our position before the general meeting.
- We normally publish a voting statement on our website after the general meeting.
- Folketrygdfondet may make proposals to general meetings, but will in such cases engage in dialogue with the company concerned before submitting any proposal.

From Folketrygdfondet's active ownership, June 2012

NORWEGIAN COMPANIES WHERE FOLKETRYGDFONDET VOTED AGAINST BOARD PROPOSALS



ATTENDANCE 2014 – NORWEGIAN COMPANIES
Annual general meetings which Folketrygdfondet has attended

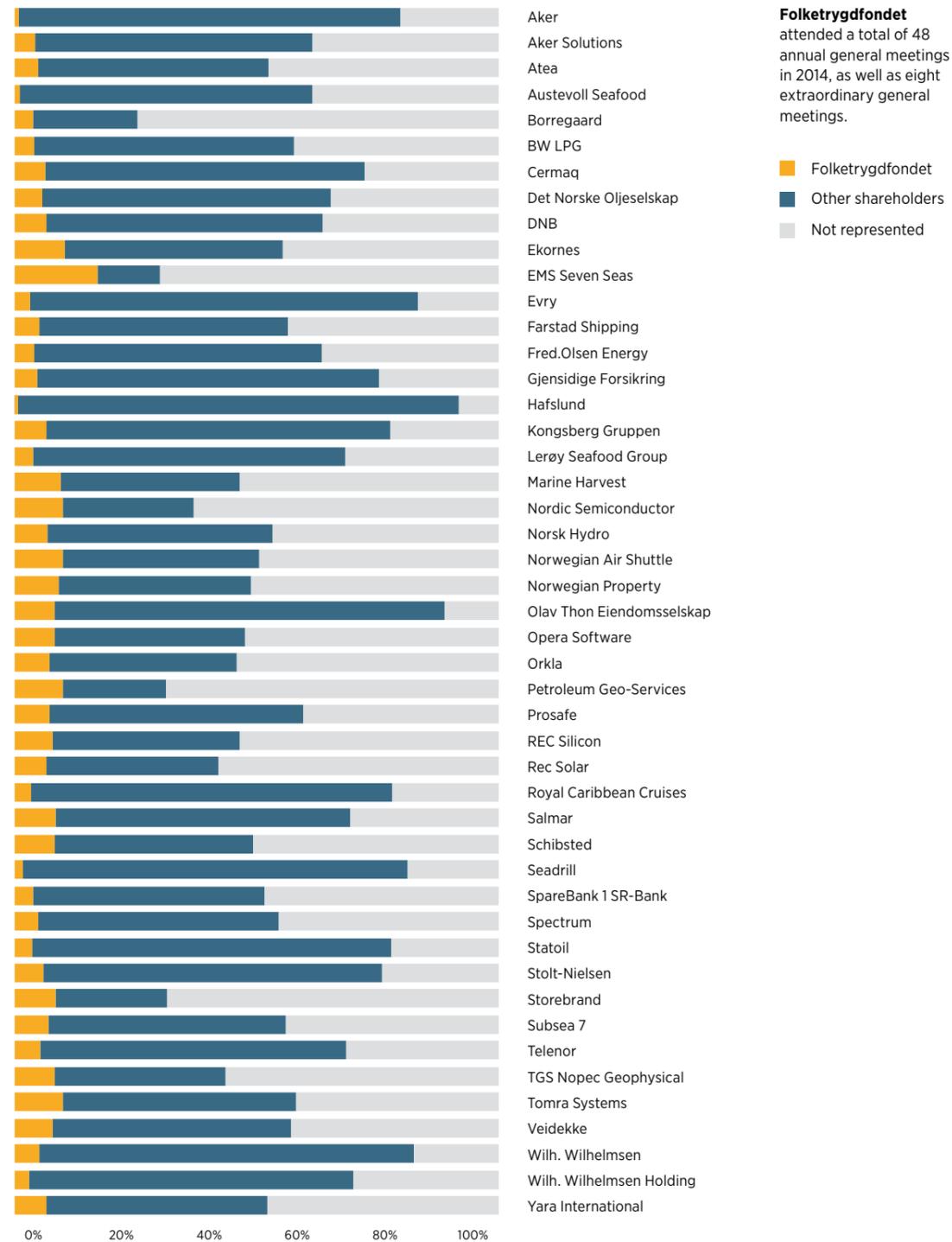


Figure 21

VOTED AT 108 GENERAL MEETINGS

In 2014, Folketrygdfondet voted at a total of 108 general meetings of companies listed on stock exchanges in Denmark, Finland and Sweden.

In total, we voted against or abstained from voting on 33 proposals put forward by the boards of Danish, Finnish or Swedish companies. Most of the board proposals we have voted against in Nordic portfolio companies relate to executive remuneration statements. We often find that executive remuneration statements contain insufficient information on the scheme in question, that incentive programmes lack individual performance requirements or that schemes include a strong discretionary element.

We voted against or abstained from voting on one proposal from a Danish company and nine proposals from Swedish companies concerning board remuneration. We are generally opposed to the payment of fees to board members for work performed in addition to their specified board duties.

In our experience, shareholders are increasingly submitting proposals to the general meetings of the Nordic portfolio companies. Some of these proposals concern issues falling outside the shareholders' remit as defined by the general principles governing the distribution of roles in listed companies.

Our procedures for

Active ownership in the Nordic portfolio

- Folketrygdfondet gives priority to the same ownership issues across the entire portfolio.
- Because we have invested in a larger number of companies, and generally have smaller ownership stakes, in Sweden, Denmark and Finland than in Norway, our active ownership is less intensive in this part of the portfolio.
- In the Nordic region, we primarily exercise our ownership by voting at general meetings.
- We have access to analyses enabling us to evaluate the individual matters to be voted on at each general meeting, and appoint an agent to vote for us in accordance with our voting instructions.

From Folketrygdfondet's active ownership, June 2012

FOLKETRYGDFONDET'S VOTING AT GENERAL MEETINGS IN 2014

	Sweden	Denmark	Finland	Norway	Total
Total number of general meetings voted at	64	18	26	56	164
Total number of matter voted on	777	321	250	806	2 154
Board proposals					
• Against	22	3	2	10	37
• Abstained from voting	5	1			6
Proposals voted against/abstained from voting on, by topic					
• Executive remuneration statement	14	2		5	21
• Board/board remuneration	9	1		1	11
• Auditor's fee/reappointment of auditor	2	1	1		4
• Board indemnity	2				2
• Authorisation to issue shares/share buy-back				4	4
Shareholder proposals					
• Against	26	50	1	3	80
• For	1				1

Table 18

INVOLVED IN SIX NOMINATION COMMITTEES

Folketrygdfondet is represented on six nomination committees in Norwegian companies. We are also involved in four corporate assemblies and three shareholders' committees.

While Folketrygdfondet will engage in the nomination and election of portfolio company boards, we do not hold any directorships as such. Accordingly, we want to be sure that the portfolio companies have reliable processes in place for the composition of expert boards.

Company boards are becoming more professional, and ensuring that boards possess the requisite skills has become even more important. Nomination committees have therefore assumed an increasingly central role in recent years.

Folketrygdfondet has helped to drive this development forward, not least through its participation in the Eierforum group of institutional investors and work on the Norwegian Code of Practice for Corporate Governance (NUES). We also ensure personal participation on behalf of Folketrygdfondet in the nomination committees of some portfolio companies, and emphasise a productive dialogue with the chairs of nomination committees in which we are not represented.

We are of the general view that it is important for companies to have a nomination committee reflecting

the shareholders as a whole, and that good communication needs to be established with shareholders who are not represented on the nomination committee.

We have noted that seven companies in our portfolio still lack a nomination committee. These are Farstad, Fred Olsen Energy, Golden Ocean, Olav Thon, RCCL, Seadrill and Stolt Nielsen.

Our procedures for

Nomination committees and governing bodies

- Folketrygdfondet seeks to ensure that portfolio companies have nomination committees.
- We will give input to nomination committees wherever possible.
- We may participate in the nomination committees of companies in which Folketrygdfondet has a significant shareholding, or when other considerations indicate that it would be appropriate.
- We may also be represented in corporate assemblies and shareholders' committees, although we will not accept directorships.

From Folketrygdfondet's active ownership, June 2012

REPRESENTATIVES ON NOMINATION COMMITTEES AND GOVERNING BODIES

Corporate assemblies

Norsk Hydro ASA	Executive Director Nils Bastiansen	Member
Statoil ASA	Managing Director Olaug Svarva	Chair
Telenor ASA	Managing Director Olaug Svarva	Deputy chair
Det norske oljeselskap ASA	Executive Director Nils Bastiansen	Member

Shareholders' committees

DNB ASA	Deputy Managing Director Lars Tronsgaard	Member
Gjensidige ASA	General Counsel Christina Stray	Deputy chair
Storebrand ASA	Managing Director Olaug Svarva	Member
	Portfolio Manager Joakim Gjersøe	Deputy member

Nomination committees

Yara ASA	Assistant Director Ann Kristin Brautaset	Member
Schibsted ASA	Executive Director Nils Bastiansen	Member
Statoil ASA	Managing Director Olaug Svarva	Chair
Storebrand ASA	Managing Director Olaug Svarva	Member
TGS-NOPEC ASA	General Counsel Christina Stray	Member
Veidekke ASA	Managing Director Olaug Svarva	Member

DEVELOPING BEST PRACTICE

Folketrygdfondet participates in various initiatives for the exchange of information and experience with other investors and for staying updated on new regulatory provisions and standards. Our aim is to contribute to the development of best practice.

In Norway, Folketrygdfondet is involved in the Eierforum group of institutional investors and the Norwegian Society of Financial Analysts (NFF), both of which in turn participate in the development of the Norwegian Code of Practice for Corporate Governance (NUES). Folketrygdfondet is also engaged in the Norwegian Institute of Directors.

Folketrygdfondet participated in the establishment of the Norwegian Forum for Responsible and Sustainable Investment (Norsif) in 2013. Norsif is an association of asset owners, managers, service providers and industry associations operating in Norway. In its capacity as a professional forum, Norsif is mandated to spread knowledge about and support the development of the responsible investment field. Finance Norway functions as Norsif's secretariat.

Folketrygdfondet became an associate member of the Norwegian Fund and Asset Management Association in 2013.

International initiatives

Folketrygdfondet has been a signatory to the UN Principles for Responsible Investment (PRI) since

2008. The six principles require responsible owners and investors to integrate environmental, social and corporate governance (ESG) issues into their management activities. Signatories to the PRI are obliged to report on their implementation of the principles.

Folketrygdfondet is also involved in CDP, previously known as the Carbon Disclosure Project. This independent, non-commercial organisation distributes an annual survey to the world's largest listed companies, asking questions about climate change and greenhouse gas (GHG) emissions. Based on the survey, CDP has established the world's largest database of information on how companies deal with GHG emissions. As a participating investor, Folketrygdfondet has access to this database.

Cooperation in individual cases

We also collaborate with other shareholders when appropriate, with the aim of safeguarding our financial interests in a specific matter. By collaborating with other investors we may be able to secure greater support on matters we raise with a company.

APPOINTMENTS AND INVOLVEMENT IN INITIATIVES

Managing Director Olaug Svarva	Norwegian Institute of Directors	Board member
General Counsel Christina Stray	Norwegian Society of Financial Analysts (NFF)	Board member
	Norwegian Code of Practice for Corporate Governance (NUES)	Member
	Technical committee, Norwegian Institute of Directors	Member
	Nomination committee, Norsif	Member
Senior Analyst Melanie Brooks	Norsif	Board member
Assistant Director Ann Kristin Brautaset	Awards committee for the Stockman Prize (awarded by NFF)	Member
Executive Director Nils Bastiansen	Eierforum	Member
Deputy Managing Director Lars Tronsgaard	Portfolio committee, NFF	Member
	Nordic Trustee	Board member
Portfolio Manager Hege Kristine Huse	Bond committee, NFF	Member

THE IMPORTANCE OF COMPREHENSIVE LOAN DOCUMENTATION

Folketrygdfondet wishes to support the continued development of the bond market. Access to comprehensive loan documentation is vital, and we therefore encourage issuers to report key financial figures.

Folketrygdfondet considers it important to promote a properly functioning bond market with improved transparency and liquidity. We are a large actor, and are aware that our conduct in the market has an impact. We also seek to support positive developments by engaging in the public debate and implementing concrete measures through suitable forums.

In this context, we emphasise that companies must be more proactive in publishing information of relevance to the capital market. This applies particularly to reporting on compliance with debt covenants. Both the stock market and the bond market are interested in such information. Most importantly, market turbulence may result if a company appears close to a covenant default. We therefore encourage companies to include information on their compliance with debt covenants in all accounting reports. This gives companies practice in providing relevant, constructive information for the benefit of both shareholders and bondholders.

Challenges in the high-yield market

The Norwegian market for less secure – high-yield (HY) – bonds features an established loan agreement standard which differs from that used in international markets, but which has proven to function well in the Norwegian market.

Norwegian bond loan agreements make extensive use of maintenance covenants. Deemed compliance with such agreements is conditional upon the issuer complying with and reporting on pre-defined key financial figures.

Internationally, the more common practice is for HY bond loan agreements to employ so-called incurrence covenants. These only require compliance with specified key figures if the company intends to engage in specified activities, for example to assume additional debt, pay a dividend, etc. Such agreements thus give investors weaker protection against undesirable, negative developments in a company.

Several private equity-owned companies issued bonds in the Norwegian HY market in 2014, and most of the supporting agreements included only incurrence covenants.

The drafting of the loan agreement is a vital aspect of the investment decision. As shown in the table below, in its HY portfolio Folketrygdfondet has clearly given priority to loans supported by agreements which ensure compliance with key financial figures, i.e. contain maintenance covenants.

Monitoring and dialogue

In our view, the manner in which an issuer deals with environmental and social matters is an indicator of credit risk. This is why we have a constant focus on improving the integration of environmental, social and corporate governance (ESG) analyses into our ongoing credit assessments. If such an approach becomes more widespread among investors, this may affect companies' funding costs over time.

We have engaged an external service provider to monitor and evaluate the fixed-income portfolio by reference to international standards, conventions and guidelines. The service provider may initiate dialogues with companies on Folketrygdfondet's behalf when matters requiring a response are discovered.

THE HIGH-YIELD PORTFOLIO

As of 31 December 2014

Total number of loans	53
Total number of issuers	39
• Number of loans containing maintenance covenants	47
• Number of loans containing incurrence covenants	4
• Loans containing other covenants	2
Number of secured loans	12

VOTED AT NINE BONDHOLDER MEETINGS

Folketrygdfondet takes a solution-focused approach to loan renegotiations. In 2014, we voted at nine bondholder meetings.

Folketrygdfondet responds to all requests for bondholder meetings, and participates actively in negotiations to find solutions beneficial to both the bondholders and the company in question. We regard such involvement both as a means of protecting the value of the individual bond and as important for the market in general.

In 2014, Folketrygdfondet voted at a total of nine bondholder meetings. Two cases concerned early bond redemption, while the other cases involved matters such as dividends, the amendment of loan provisions and issues raised by changes in organisational structure.

Default

Folketrygdfondet has been involved in two demanding financial restructurings in recent years. Our involvement in the restructuring process at Blom ASA, and thus our investment in the company, was terminated in 2013. In 2014, Folketrygdfondet sold its stake in EMS Seven Seas ASA following a protracted but successful refinancing and restructuring. In both cases, bonds were converted into shares to protect the bondholders' financial interests. New capital was also injected to ensure that the companies' new financial structure was robust.

“In the current credit market, in which capital is easy to secure, loan agreements are imbalanced in favour of issuers. This is not necessarily in their best interests in the longer term. The market would probably be better served by more balanced loan agreements.”

Deputy Managing Director Lars Tronsgaard

Opinion piece, Finansavisen newspaper, 25 June 2014

Our procedures for

Default situations

- If a payment default or breach of other clauses in a loan agreement occurs, we will participate in bondholder meetings and any other restructuring processes.
- Our starting point is that the ordinary order of priority must be followed.
- We are also aware of our responsibility to promote good solutions, and may accept the conversion of debt to equity if we believe this to serve our financial interests.
- Although we will apply our ownership principles in connection with bond-to-share conversions, in such situations our investment will normally require somewhat greater involvement.

From Folketrygdfondet's active ownership, June 2012

BONDHOLDER MEETINGS IN 2014

Number of bondholder meetings hosted by Nordic Trustee in 2014*	72
Number of bondholder meetings attended by Folketrygdfondet	9
• Number of bondholder meetings in the high-yield segment	8
• Number of bondholder meetings in the financial segment	1
Number of issuers affected by bondholder meetings	7

As the table shows, most bondholder meetings in 2014 related to the HY part of the portfolio.

* Source: Stamdata

Our principles

The investment mandate for the Government Pension Fund Norway (GPFN) states that the primary goal of Folketrygdfondet's active ownership is to safeguard the GPFN's financial interests.

The mandate also specifies that active ownership shall be based on

- The UN Global Compact
- The OECD Guidelines on Corporate Governance, and
- The OECD Guidelines for Multinational Enterprises.

Folketrygdfondet's board has adopted responsible investment principles which incorporate these guidelines. The board also expects Folketrygdfondet, in its work, to comply with national and international standards such as

- The UN Principles for Responsible Investment (PRI), and
- The Norwegian Code of Practice for Corporate Governance (NUES).

Folketrygdfondet also seeks to contribute actively to the development of robust national standards in the areas of responsible investment and active ownership.

“A good return in the long term is regarded as being dependent upon sustainable development in economic, environmental and social terms, as well as well-functioning, legitimate and effective markets.”

From the investment mandate for the Government Pension Fund Norway