



1967-2017

Folketrygdfondet 50 years

COMPANIES MUST SUCCEED OVER TIME

Our owner has set us a clear objective: to deliver the highest possible return over time. We achieve this through active management and active, responsible ownership.

The management mandate for the Government Pension Fund Norway states that Folketrygdfondet is to deliver the highest possible return over time. For the purposes of our day-to-day management activities, we have translated this into two sub-goals:

- To achieve a better return than the market in general (excess return compared to benchmark indices).
- To support long-term value creation among companies and in the market.

These goals constitute the foundation for our investment philosophy. We engage in active management to achieve the goal of an excess return, while the goal of contributing to long-term corporate value creation is achieved through active, responsible ownership and the development of good practice and well-functioning markets. We have found that the two goals are interdependent. Our active ownership makes us a better investor.

Team-based management is important

Experience has shown us that the best investment decisions are often made when one is open to new information and interested in different perspectives and views. That is why we have adopted a team-based approach to active management at Folketrygdfondet. We give high priority to collaboration and information-

sharing when constructing our equity and fixed-income portfolios. We hold weekly meetings at which the portfolio management teams coordinate their investment decisions. We also have daily meetings at which the listed equity, fixed-income and treasury departments exchange information. This includes in-depth reviews of macroeconomic data, trends, sectors and companies, as well as environmental, social and governance (ESG) issues. We use the insights from these meetings in our analysis of the quantitative and qualitative characteristics of portfolios and companies. We believe that our team-based management model builds expertise and enables us to achieve our overarching aim of the highest possible long-term return.

High-quality companies

In our active management, we select companies and over- and under-weightings compared to our benchmark index. Our investment decisions are based on financial analysis, ongoing contact with companies and ESG analyses. Our aim is to beat the market in the long term, i.e. to generate an excess return by exploiting our individual characteristics and advantages. Furthermore, to implement our mandate, we look to invest in companies that are long-term value generators. Our long-term returns are dependent on strong, consistent performance by the companies in which we invest, and on efficient and well-functioning markets.

OUR INVESTMENT PHILOSOPHY SUMMARISED

THE HIGHEST POSSIBLE RETURN OVER TIME

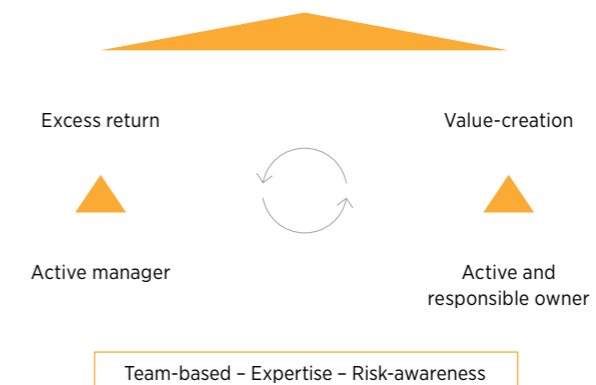


Illustration 9

OUR APPROACH TO ACTIVE MANAGEMENT

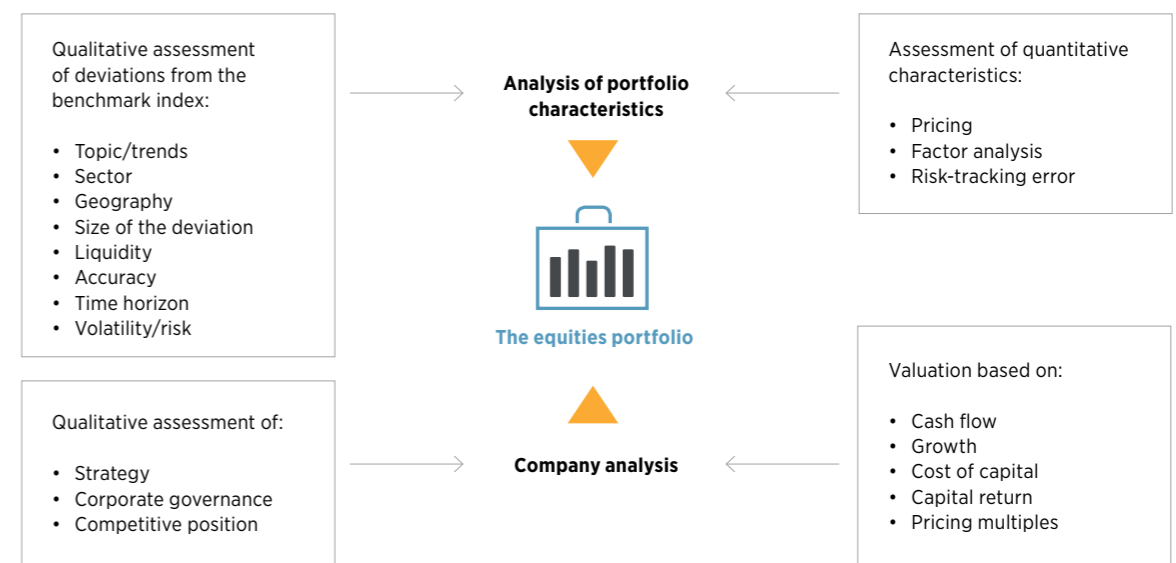


Illustration 10

OUR COMPANY ANALYSIS SUMMARISED

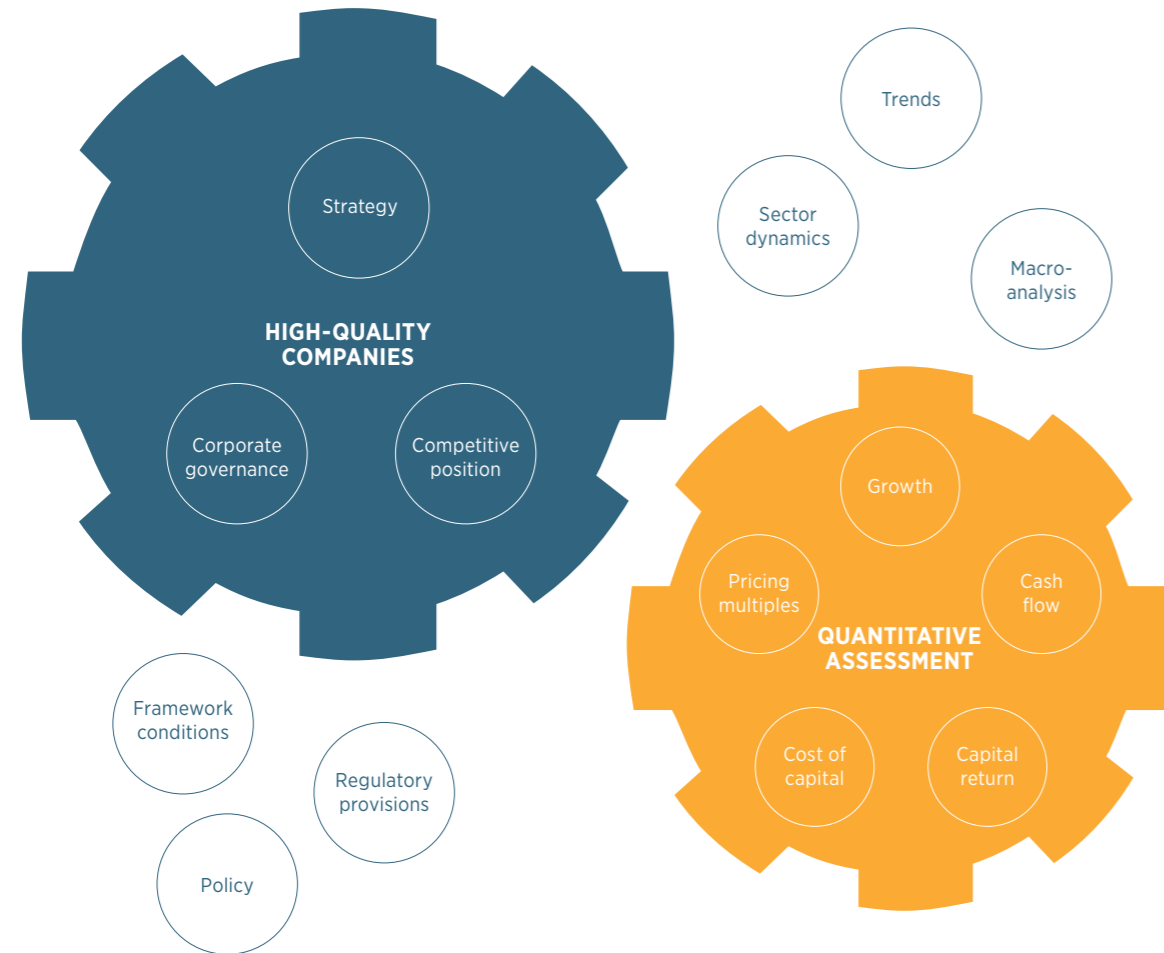


Illustration 11

Qualitative assessment is crucial

In our experience, the most successful companies over time are characterised by good corporate governance, a good competitive position and well-considered strategies. In practice, such companies have capable boards and management, a clear, well-founded strategy for long-term value creation, take a long-term view of

resources and risk, and exploit the opportunities offered by sustainable development. We invest our time and resources in qualitative assessment of factors related to strategy, corporate governance and competitive position. These assessments provide the basis for our quantitative company analysis.

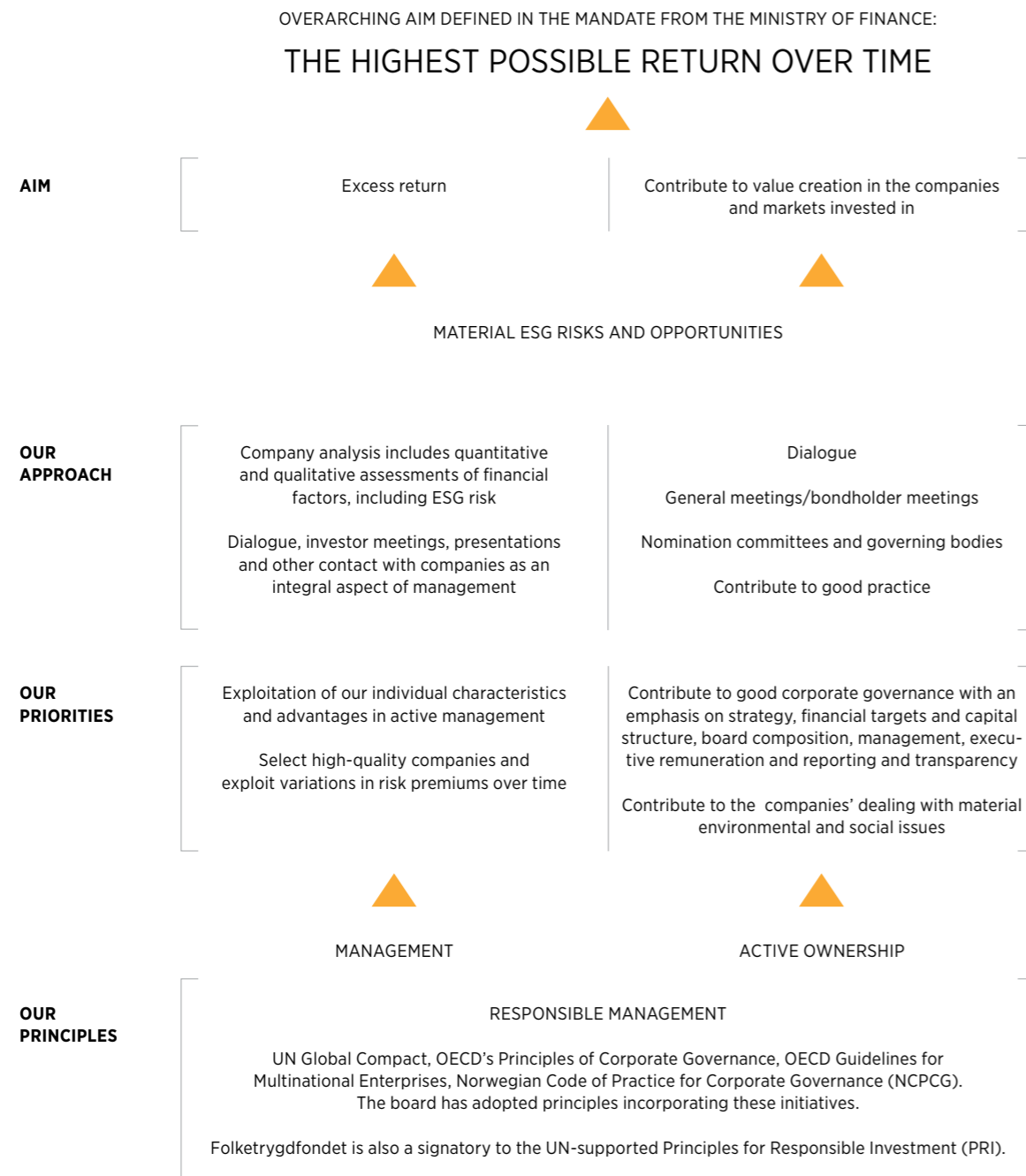
KEY TOPICS IN OUR QUALITATIVE ANALYSIS:

- Clear, well-founded strategy for long-term value creation
 - Capital return and growth targets
 - Effective capital structure
 - Comprehensive risk assessment
 - Sustainable business model
 - Predictable dividend policy
-
- Board composition
 - Management and executive remuneration
 - Reporting and transparency
 - Corporate responsibility
 - Ownership structure



Illustration 12

OUR RESPONSIBLE MANAGEMENT APPROACH



Explanation of terms

ESG: Environmental, social and governance issues.
 Exploit variations in risk premiums over time: exploiting the opportunities offered by variations in risk in the market over time.
 Buying securities when prices reflect excessively high risk and selling when prices reflect excessively low risk.

We tailor our responsible investment activities to our various portfolios

The management mandate and our individual characteristics guide our selection of tools in the context of responsible investment.

We adapt our approach and the tools we use to our different financial instruments and portfolios. This is necessary to ensure that our responsible investment efforts serve the overarching aim of a highest possible return over time. In this assessment, we look at factors such as our influence over ESG issues pre- and post-investment. Nonetheless, we give priority to promoting well-functioning, legitimate and efficient markets in connection with all our financial instruments and

portfolios. In part, this involves supporting the development of strong national responsible investment standards.

In the case of bonds, we have the greatest influence before we invest, since bondholders receive no ownership rights. We therefore focus on robust pre-investment ESG analysis to identify issues that may affect creditworthiness. As regards our equity investments, we have the greatest opportunity to influence ESG factors once invested, through our ownership rights. This makes active ownership an important tool in relation to the equity portfolio. Other instruments are used in connection with liquidity investments and currency hedging. Due to the low anticipated impact of ESG fac-

RESPONSIBLE INVESTMENT INSTRUMENTS

	ESG integrated into investment management	Exclusion	Dialogue with companies	Voting at general meetings/bondholder meetings	Contribute to well-functioning markets
Norwegian equities	●	—	●	●	●
Nordic equities	●	●	●	●	●
Norwegian bonds (corporate)	●	—	●	●	●
Nordic bonds (corporate)	●	●	●	●	●
Government bonds	—	—	N/A	N/A	—
Other instruments	N/A	●	N/A	N/A	●

Folketrygdfondet may not invest in companies excluded pursuant to the guidelines on observation and exclusion from the Government Pension Fund Global. An overview of exclusions is available on ftf.no. No companies were excluded or re-included during the period.

tors and short investment horizon, this is not a priority in our responsible investment efforts. Instead, we concentrate primarily on our contribution to well-functioning and efficient markets.

Future responsible investment efforts

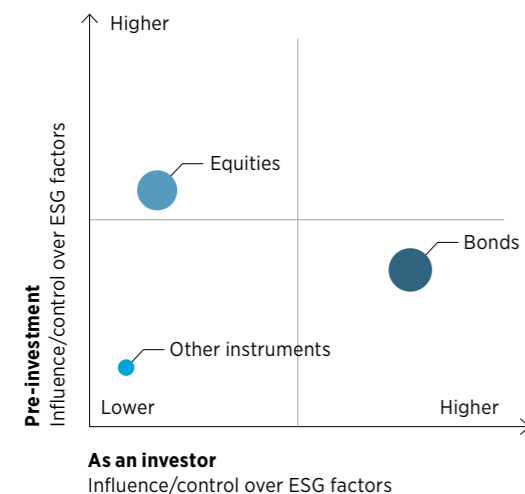
In last year's ownership report, we stated that our priority going forward would be further development of our reporting systems. We have implemented this in 2016. We have amended how we report company dialogues on our website, and now group dialogues by topic rather than sector. Further, dialogues relating to the exercise of creditor rights are now also included. We will continue to develop our internal reporting systems in 2017.

In 2016, we also continued to develop the structure

for our active ownership activities to strengthen the foundation for formulating objectives and reporting individual results. Financial investors like us can find it difficult to report and evaluate the results achieved through active ownership. Our aims are often linked to company conduct. It can be difficult to quantify how much we have contributed to a change of conduct or course on the part of a company. In our capacity as an investor, we can make demands and communicate our principles and expectations. However, implementation and achievement of change is the responsibility of the individual companies. This important principle guides the distribution of roles and responsibilities between investors, the company board and management. It is therefore natural for us to set targets related to our activities for our future active ownership efforts.

WE TAILOR OUR RESPONSIBLE INVESTMENT APPROACH TO OUR DIFFERENT FINANCIAL INSTRUMENTS

The size of the circle indicates the relative size of the instrument



MAJOR PLAYER ON THE OSLO STOCK EXCHANGE

Folketrygdfondet is one of the largest financial investors on the Oslo Stock Exchange. Folketrygdfondet is a top-three shareholder in 41 listed companies.

It is important for companies to maintain contact with their largest shareholders, both on an ongoing basis and in connection with strategically important developments such as acquisitions and changes in capital structure. We are highly aware of our responsibility in this regard, and thus prioritise time and resources in our ownership dialogues.

The management mandate specifies that Folketrygdfondet may hold interests representing up to 15 percent of the share capital any Norwegian company, compared to five percent in the case of companies from the other Nordic countries.

OWNERSHIP ON THE OSLO STOCK EXCHANGE



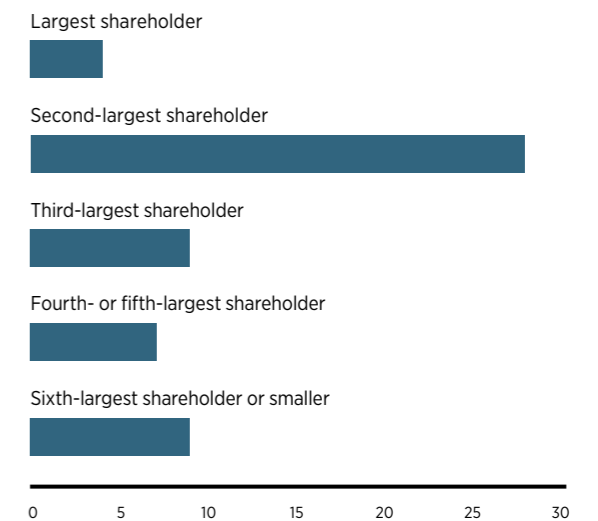
Folketrygdfondet	5.17 %
Central and local government	28.27 %
Norwegian financial owners	9.29 %
Other Norwegian owners	20.69 %
Foreign investors	36.58 %

Sources: Oslo Stock Exchange monthly statistics and Folketrygdfondet as at 31 December 2016

Figure 21

FOLKETRYGDFONDET'S OWNERSHIP INTERESTS ON THE OSLO STOCK EXCHANGE

Number of companies in which Folketrygdfondet is among the largest shareholders.



Sources: Company websites, VPS and stock exchange notices. When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together where Folketrygdfondet has information to indicate that this is correct.

Figure 22

FOLKETRYGDFONDET'S OWNERSHIP INTERESTS ON THE OSLO STOCK EXCHANGE

Companies in which Folketrygdfondet owns more than five percent of equity or is among the three largest shareholders.

Company name	FTF's shareholding	FTF's shareholder ranking
Nordic Semiconductor	13.76 %	1
Norwegian Property	13.48 %	2
Storebrand	12.81 %	1
Veidekke	12.55 %	2
Norwegian Air Shuttle	11.27 %	2
Ekornes	10.51 %	2
Marine Harvest	10.20 %	2
Opera Software	10.05 %	1
Petroleum Geo-Services	9.97 %	2
Nordic Nanovector	9.87 %	2
TGS-NOPEC Geophysical Company	9.84 %	1
RenoNorden	9.18 %	3
Subsea 7	8.86 %	2
Entra	8.76 %	2
Atea	8.51 %	2
Orkla	8.33 %	2
Schibsted	8.10 %	2
SalMar	7.40 %	2
Norsk Hydro	7.03 %	2
Kongsberg Gruppen	6.53 %	3
Yara International	6.48 %	2
Tomra Systems	6.44 %	2
DNB	6.32 %	3
Europris	6.31 %	2
XXL	6.27 %	2
Aker Solutions	5.99 %	3
REC Silicon	5.92 %	2
Bakkafrost	5.87 %	4
AF Gruppen	5.37 %	4
Telenor	5.07 %	2
Olav Thon Eiendomsselskap	5.07 %	2
Farstad Shipping	5.06 %	3
Aker BP	4.74 %	3
Lerøy Seafood Group	4.33 %	2
Gjensidige Forsikring	4.25 %	2
Aker	3.83 %	2
Wilh. Wilhelmsen Holding	3.79 %	3
Fred. Olsen Energy	3.67 %	2
Statoil	3.64 %	2
Grieg Seafood	3.08 %	2
BW LPG	3.06 %	3
Wilh. Wilhelmsen	2.96 %	3
Stolt-Nielsen	2.30 %	2

Sources: Company websites, VPS and stock exchange notices.

When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together where Folketrygdfondet has information to indicate that this is correct.

OUR PROCEDURES

Meetings with board chairs and management are the most common instrument used by Folketrygdfondet in its active ownership. Other important arenas include general meetings, corporate assemblies and nomination committees.

Arenas

Folketrygdfondet aims to be a demanding but reliable and responsible owner. 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. Knowing the companies is the primary aim in most of our dialogues. We need to know the companies we invest in so that we can make sound investment decisions, assess capital requirements and identify areas in which we can exert influence.

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.

Folketrygdfondet does not hold any directorships in the companies in which it invests, but we do involve

ourselves in the election of company boards and may participate in nomination committees and corporate assemblies.

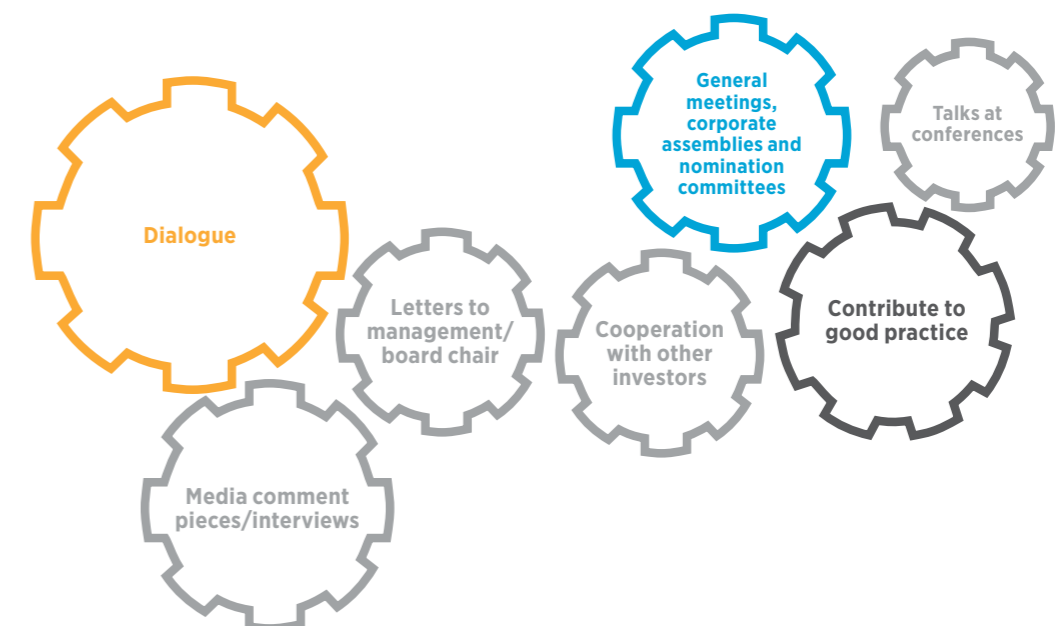
Topics

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

- financial targets and capital structure
- board composition
- executive remuneration
- good corporate governance
- reporting and transparency.

We are also focused on ensuring that portfolio companies address material ESG issues. To make the dialogue as productive as possible for both parties, we have published a number of guidance documents on key topics. See ftf.no.

ACTIVE OWNERSHIP IN SEVERAL ARENAS:



The portfolios

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 among a larger number of companies, and we adapt our active ownership activities accordingly. Further, the role of bondholders differs from the role of shareholder, not least because only shareholders have ownership rights. Relations between bondholders and companies are governed by the loan agreement, and there is limited dialogue with the company unless an undesirable event such as default occurs. Active ownership therefore takes a different form for our equity and bond investments.

Active ownership challenges

We devote considerable time and resources to our active ownership, and seek to ensure that the portfolio companies are aware of our expectations. We communicate the importance of addressing ownership issues and other material ESG topics in our general active ownership efforts, and raise specific cases where we feel that companies are not acting in line with our expectations. There is increasing understanding among the portfolio companies of our financial motivation for focusing on ownership issues and addressing material ESG issues, and the companies often have a mature approach to such topics. Nonetheless, it sometimes takes time for companies to start operating in accordance with our expectations, because such cases are often complex and entail dilemmas and balancing acts.

OUR ACTIVE OWNERSHIP OBJECTIVES:



Objective	1. "We know the portfolio companies"	2. "They know us"
How	Know the companies	Influence the companies
Purpose	Increase our understanding of the companies	Improve the companies' awareness of and compliance with our principles and expectations
Arena	Dialogue	General meetings, dialogue, nomination committees, promote best practice
Indicator	Excess return	Support value creation in the companies in which we invest

Illustration 16

ACTIVE OWNERSHIP CHALLENGES:

Complexity



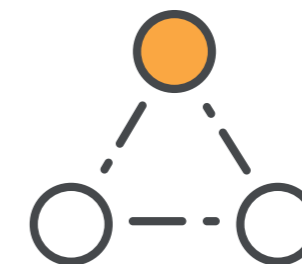
ESG-related issues are seldom clear-cut.

Long-term perspective



Change processes often take time, as does finding solutions that match Folketrygdfondet's expectations.

Distribution of roles and responsibilities



We emphasise dialogue and company initiative behind change processes.

We focus on preserving the normal distribution of work between boards and general meetings.

Illustration 17

WE MONITOR FINANCIAL RISK

We monitor ESG issues of material importance to the portfolio companies and with a potential financial impact on us.

The matters we focus on are determined by an assessment of:

- Folketrygdfondet's exposure.
- Significance of failure to address

Topics that score highly on both of the above factors are considered as potential topics in our company dialogue. This is updated annually, and in the event of material changes. Accordingly, different topics remain a priority for different lengths of time. We may also decide to defer efforts in a given area if we see that the companies need time to make necessary changes.

What do we hope to achieve?

By focusing on ESG matters, we hope to contribute to companies managing material challenges and thereby secure the best possible foundation for long-term value creation.

In 2017, we will continue to focus on our ownership agenda and other material ESG-related risks and opportunities. In this regard, we plan to concentrate on climate change, anti-corruption, human rights and workers' rights. We will also communicate our expectation that portfolio companies will comply with the Oslo Børs Guidance on the reporting of corporate responsibility.

HOW WE ANALYSE ESG RISKS

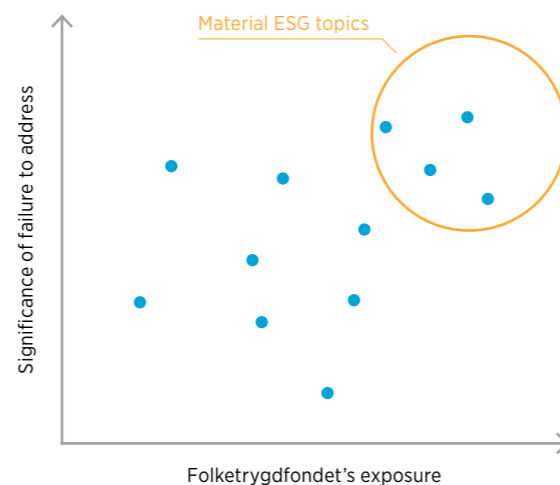


Illustration 18

What are we doing?

We monitor material risks in various ways, including dialogue with the portfolio companies, joint initiatives with other investors and surveys.

FINANCIAL TARGETS AND CAPITAL STRUCTURE

Well-founded strategic priorities are a prerequisite for efficient capital utilisation and profitability over time. That is why we expect the portfolio companies to adopt long-term financial targets and communicate these clearly to the market. We also see this as important for long-term value creation.

In our experiences, companies that have long-term financial targets and communicate these clearly achieve stronger profitability and value creation than companies without clear targets.

The Norwegian business sector faces substantial challenges and necessary restructuring. We consider clear communication by companies of their strategies and long-term financial targets to be extremely important. Not least, such communication can help ensure that good investments are made and poor ones are avoided.

What do we hope to achieve?

Our objective is maximum value creation by the companies and in the market generally. That is why we want companies to communicate clear targets for their

return on capital, growth, risk and capital structure, and to provide good reasons for their strategic priorities. This includes having a clear, predictable dividend policy. From our perspective as an asset manager, this focus on communication is also about obtaining reliable data from companies. We want to have the best possible insight into the assessments, criteria and objectives that underpin the companies' strategies for long-term competitiveness, growth and profitability.

What are we doing?

We have prepared a guide detailing our expectations as to both board-level development of financial targets and the portfolio companies' communication and reporting activities. The guide is available on ftf.no.

We hope to promote more efficient allocation of capital by companies and markets, and to contribute to capital discipline. Neither we nor other investors can take over the responsibilities and role of the board of directors. However, we can ask the right questions and expect satisfactory answers.

Developments in 2016

Since 2013, Folketrygdfondet has conducted an annual survey of the companies listed on the Oslo Stock Exchange to identify how many have adopted finan-

OUR PRIORITIES IN 2016



Financial targets and capital structure



Climate change



Aquaculture



Anti-corruption



Human rights and workers' rights

Illustration 19

DIALOGUE REGARDING FINANCIAL TARGETS AND CAPITAL STRUCTURE IN 2016

Topic	Purpose of the measure	Number of companies		Status and results	Going forward
		Number of companies	Number of dialogue meetings		
Financial targets and capital structure	Know the companies' procedures Make the companies aware of our expectations	27	39	Improved understanding of the companies' maturity and procedures Increased understanding of our expectations among the companies	Continue efforts in 2017

Table 15

cial targets. The results showed a positive development from 2013 to 2014, but some stagnation in 2015. The proportion of companies with concrete capital return targets increased from 21 percent in 2013 to 31 percent in 2014, but fell to 30 percent in 2015 and further to 23 percent in 2016.

This topic was also high up on Folketrygdfondet's active ownership agenda in 2016. We have made considerable efforts to communicate our views and expectations both directly to companies and to the market in general.

CLIMATE CHANGE

Folketrygdfondet expects companies to address climate risks and provide reliable information on their efforts in this area through reporting. Our objective is to reduce climate risk in the portfolio over time.

Greenhouse gas emissions are an important risk driver to which our portfolio has significant exposure, and we are therefore focused on reducing portfolio climate risk.

This is why we are interested in how individual companies respond to challenges related to climate

change, in terms of both risk assessment and related measures such as emissions reductions and adaptation to changes in legislative and regulatory frameworks, customer preferences, weather conditions and access to raw materials. A further focus area is the ability of companies to identify long-term commercial opportunities. In our view, companies that take climate issues seriously and address them in their strategies are more likely to be among the companies that outperform in the future.

What do we hope to achieve?

Folketrygdfondet requires sound, reliable information for use in company analysis. We therefore welcome reporting by companies on emissions and material climate opportunities and risks.

Such reports may cover greenhouse gas emissions, absolute and relative targets for emissions reductions, and overviews of risks and investments required to adapt to expected climate-related changes, including future legislation and customer demands.

What are we doing?

We have developed a guide that sets out our expectations as to the portfolio companies' efforts to deal with

climate challenges and their reporting on risks and opportunities, targets and results. The guide is available on ftf.no.

We have conducted carbon footprint analyses of the Norwegian equity portfolio since 2013. The analysis for 2016 measures greenhouse gas emissions for the equity portfolio as a whole (weighted to reflect our ownership percentages), and makes a comparison with our selected benchmarks.

Folketrygdfondet's CO₂e analysis* is based on our Nordic equity portfolio as at 31 December 2016. The analysis incorporates the latest available data on direct emissions (Scope 1) and indirect emissions from energy (Scope 2). Estimates are used for companies that do not report emissions directly or to the CDP.

We use the following indicators in our emissions reporting

1. The portfolio's absolute CO₂ emissions. The figure is based on the total emissions of the portfolio companies, adjusted to reflect our ownership percentages (tonnes of CO₂e).
2. The portfolio's CO₂ intensity. The figure is based on the portfolio companies' total CO₂ emissions compared to sales/assets (tonnes of CO₂e/NOK million in sales/

assets), adjusted to reflect our share of the companies' market value.

3. The portfolio's CO₂ efficiency. The figure is based on the portfolio companies' emissions compared to our investment (tonnes of CO₂e/NOK million invested).

The emissions analysis improves our understanding of the financial risks associated with future emissions pricing (price of CO₂). The analysis also gives us deeper insight into how prepared companies are to respond to climate-related risks and opportunities. This insight is useful in our company analyses, and as a starting point for active ownership.

However, the CO₂ analysis also has limitations. For example, it does not tell us:

- How the companies in the equity portfolio are positioned regarding the transition to a low-emissions economy.
- The portfolio's overall climate risk, including how the portfolio will be impacted by extreme weather, drought, flooding and changes in access to raw materials.

* CO₂e stands for CO₂ equivalent, a unit that compares the emissions of different greenhouse gases to the global warming effect that emissions of one ton of CO₂ will have in 100 years. Source: SSB.

Climate risk in the portfolio

Increased awareness of climate risk

Folketrygdfondet has focused on improving its understanding of portfolio climate risk for several years. A key aspect of these efforts is dialogue with the portfolio companies, with the particular aim of understanding how companies approach climate issues. We also want companies to be familiar with our expectations.

In 2016, two new companies submitted reports to CDP (formerly known as Carbon Disclosure Project), and a further four Nordic companies resumed CDP reporting. In

addition, numerous companies have improved their CDP reporting by including additional operational areas in their reports and expanding the quantitative focus of their risk analyses. In addition to increased reporting, we have also noted a gradual change in corporate attitudes towards climate reporting, and increased understanding of the financial relevance of climate issues. We are finding that companies are increasingly seeking to turn climate-related developments into competitive advantages, for example by responding proactively to new legislation.

EMISSIONS ANALYSIS FOR THE SHARE PORTFOLIO AS AT 31 DECEMBER 2016

	Portfolio	Benchmark index
CO ₂ emissions (tonnes of CO ₂ e)	2,702,152.03	169,665,438.44
CO ₂ intensity (tonnes/NOK million in sales/assets)	25.26	26.35
CO ₂ efficiency (tonnes/NOK million invested)	20.40	21.21

Percentage of companies that report their greenhouse gas emissions: 60
Percentage of companies that report to the CDP: 46

- The preparedness of the portfolio companies for the consequences of stricter legislation on matters such as energy efficiency and emissions.
- To what extent the portfolio is aligned with the 2°C or 1.5°C target.

We are seeking to improve our understanding of these points through sources such as the CDP, other company reporting and company dialogue.

Developments in 2016

The CO₂ analysis is used to decide which companies to prioritise in the context of our efforts to understand and reduce portfolio climate risk. In our dialogues with companies, we have urged them to develop strategies and targets, and to implement measures to reduce their exposure to risks associated with the emission of greenhouse gases.

We are also focused on increasing the proportion of companies that report their emissions, and have raised the issue in our climate-related dialogue meetings. In 2016, along with other European investors, we participated in an initiative designed to boost corporate climate reporting under the auspices of the CDP. Through the initiative, we encouraged 30 Nordic companies to begin reporting to the CDP.

AQUACULTURE

Sustainable aquaculture is a prerequisite for increased growth and long-term value creation in the industry. We expect the companies in our portfolio to address key sustainability challenges such as lice, escapes, fish health and feed.

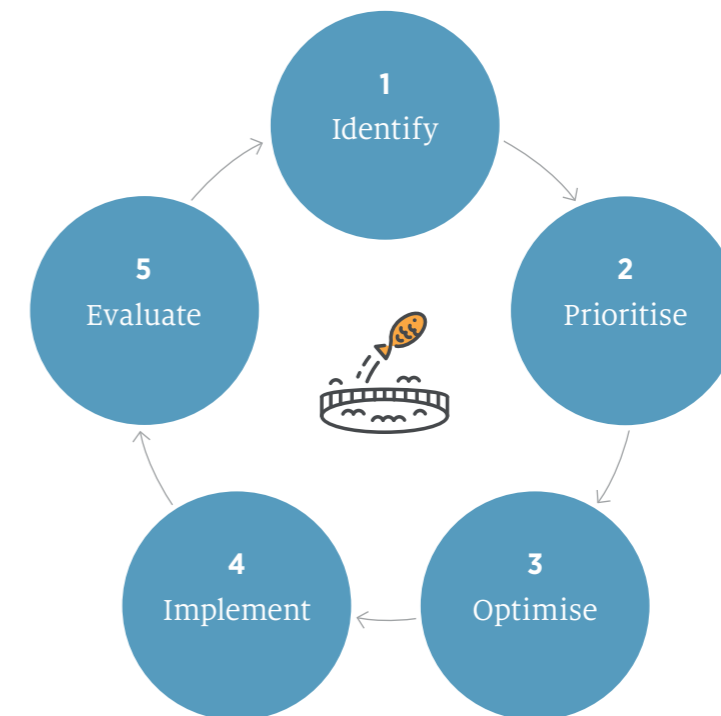
The aquaculture industry is an important growth industry. We have invested in five fish-farming companies. At the end of 2016, Folketrygdfondet had shareholdings in Salmar (7.4 percent), Marine Harvest (10.2 percent), Lerøy Seafood Group (4.3 percent), Bakkafrost (5.9 percent) and Grieg Seafood Group (3.1 percent) with a total value of NOK 11.98 billion. In the past year, we have been in touch with all of these companies to survey and reduce the risk in our portfolio.

What do we hope to achieve?

Failure to address sustainability challenges such as lice, escapes and feed has the potential to increase costs, reduce revenues and trigger the loss of reputation and production licences. As a long-term investor, we expect companies to have reliable processes in place to identify and manage such problems, so that the companies and the industry are able to generate value over

ACTIVE OWNERSHIP AT FOLKETRYGDFONDET

HOW WE WORK IN THE AQUACULTURE INDUSTRY:



1. Identify
 Sustainability is a prerequisite for long-term profitability. Lice, escapes and feed are relevant issues.

2. Prioritise
 The salmon louse is the primary priority.

3. Optimise
 - Dialogue with management and board chair.
 - Talks at conferences.
 - Opinion pieces in newspapers.
 - Interviews in industry journals.
 - Letters to the board of directors.

4. Implement
 - Raised in general company follow-up and dedicated dialogues over several years.
 - Portfolio manager and ESG analysts prepare and document.

5. Evaluate
 - Companies failing to make desired changes.
 - Additional instruments used.

CLIMATE DIALOGUE IN 2016

Topic	Purpose of the measure	Number of companies		Status and results	Going forward
		Number of companies	Number of dialogue meetings		
Climate	Know how the companies deal with climate-related risks and opportunities Make the companies aware of our expectations regarding climate issues	16	23	Improved understanding of the companies' maturity and reporting Increased understanding of our expectations among the companies	Continue efforts in 2017. This is a maturation process that will take time

time. We also expect the portfolio companies to report relevant information relating to these topics. This should include policies, action plans, long-term goals and results.

What are we doing?

We have been raising the challenges facing the industry in our meetings with company management for several years, including issues such as lice, fish health, escapes, feed and pollution. We have received thorough responses from the companies, and have clearly communicated the financial risk we see in the industry's sustainability challenges. In 2015, we also sent a letter to the board chairs of all the companies. These resulted in good descriptions of the steps taken by the boards in response to these challenges.

Developments in 2016

We have positive experiences from our dialogue with the portfolio companies, and in 2016 discussed the problems caused by lice at all meetings with the aquaculture companies. The aquaculture industry appears to be highly aware of the issue, and the companies are taking it seriously. Nonetheless, considerable difficulties still have to be overcome, and we expect the companies

Sustainability is a prerequisite for growth

Salmon lice, a major risk connected to our aquaculture investments

Fish-farming is an important investment area for Folketrygdfondet, and we have historically been over-weighted in this sector. This has contributed to our excess return. However, problems associated with salmon lice constitute a major risk in this context.

Salmon prices were high in 2016. At the same time, the difficulties and costs linked to salmon lice are considerable. The failure to control lice problems is having a negative impact on operational efficiency and growth prospects, and the industry as a whole needs to find a solution to the problem.

"The Norwegian salmon industry has a competitive advantage in terms of climate and through Norway's long, sheltered coastline. However, costs have risen, undermining competitiveness and possibly reducing the potential for growth and value creation in the long term. This is a material concern, and a risk factor in the industry. To ensure maximum long-term value creation, it is important to resolve the challenges relating to biology and lice."

From an interview with Ann Kristin Brautaset, Deputy Director Equities at Folketrygdfondet, in Intrafish on 6 January 2016.

in the portfolio to maintain their systematic efforts to tackle the sustainability challenges they face.

ANTI-CORRUPTION

In our capacity as an investor, we do not accept any involvement in corruption on the part of the portfolio companies, regardless of where they operate. The companies are expected to combat all forms of corruption, including blackmail and bribery.

Corruption undermines value growth in society and is harmful to the operational integrity of the involved companies. At the individual level, the financial consequences of corruption may include exclusion from markets, loss of contracts, fines and extensive legal proceedings.

What do we hope to achieve?

In its capacity as an investor, Folketrygdfondet applies the clear requirement that the companies in which it invests may not be involved in corruption.

Anti-corruption efforts at YARA

Structured anti-corruption efforts as a competitive advantage

Yara has sought to integrate social responsibility into its core business in recent years. One example is the work done in Tanzania to tackle corruption and challenges raised by poverty, illiteracy and a lack of infrastructure. The company invited 68 organisations, including multinational companies, international aid organisations and the Tanzanian authorities, to participate in a collaborative project called the Southern Agricultural Growth Corridor of Tanzania (SAGCOT). The aim was to improve agricultural conditions in the region, with a focus on development of infrastructure, a fertilizer terminal, roads and the electrical grid. The project has increased the incomes of small-scale farmers in the region, not least by improving access to fertilizer by reducing delays at the port through anti-corruption measures. Moreover, as a result of increased demand for fertilizer, the company has also increased its earnings in the area.

Source: The Ecosystem of Shared Value, Harvard Business Review

AQUACULTURE DIALOGUE IN 2016

Topic	Purpose of the measure	Number of companies		Status and results	Going forward
		Number of companies	Number of dialogue meetings		
Aquaculture	Understand how the companies deal with salmon louse-related risks Make the companies aware of our expectations	5	19	Improved understanding of the companies' procedures Increased understanding of our expectations among the companies	Continue efforts in 2017. It will take time for the companies to find a sustainable solution to salmon louse-related challenges

ANTI-CORRUPTION DIALOGUE IN 2016

Topic	Purpose of the measure	Number of companies		Status and results	Going forward
		Number of companies	Number of dialogue meetings		
Anti-corruption	Better understanding of the companies' procedures Make the companies aware of our expectations	12	18	Increased understanding of the companies' procedures Increased understanding of our expectations among the companies	Continue efforts in 2017

What are we doing?

The portfolio companies bear independent responsibility for protecting their businesses, assets and reputations against corrupt practices. Companies must identify, address and report on material risks.

To clarify our expectations of the companies, we have prepared a guide on anti-corruption work. This is available on ftf.no. We address corruption risk in our dialogue with the boards and management of the portfolio companies wherever relevant.

Developments in 2016

Corruption allegations were again made against companies in our portfolio in 2016. In three specific instances, we have initiated dialogue to improve our understanding of how the companies deal with such matters and of the steps they are taking to prevent similar incidents in future. In one case, we also sent a letter to the board chair requesting an account of the board's supervisory work in this area. As well as following up on individual matters, we have also engaged with companies concerning how they approach anti-corruption work

HUMAN AND WORKERS' RIGHTS

In its capacity as an investor, Folketrygdfondet cannot accept involvement by portfolio companies in human and workers' rights violations, regardless of where the companies operate. That is why we expect the portfolio companies to avoid and prevent breaches of human and workers' rights. The appropriate measures depend on where in the supply chain the risk of such infringements arises.

Breach and violation of human and workers' rights has a negative impact on economic growth, promotes social inequality, and fosters political and civil unrest. For companies, breaches and violations may entail operational disruption due to delays, reduced productivity and lower quality. Companies may also suffer a reputational loss.

What do we hope to achieve?

We expect the portfolio companies to avoid and prevent breaches of human and workers' rights by adopting a careful approach and conducting necessary analyses to survey risk exposure.

What are we doing?

Responsibility for ensuring that fundamental human and workers' rights are respected throughout the organisation, and that respect for such rights is integrated into the corporate culture, rests with the boards and management teams of the portfolio companies. This entails assessing whether the business is at risk of involvement in human and workers' rights violations and where in the supply chain any such risks arise.

To clarify our expectations of the companies, we have prepared two guides, on human rights and workers' rights, respectively. These are available on ftf.no. We discuss risks associated with human and workers' rights in our dialogue with company boards and management wherever relevant.

Developments in 2016

In the fourth quarter of 2015, we arranged a workshop on human rights in cooperation with other Nordic investors. We invited companies with material exposure to human rights violations to attend. We maintained our dialogue with these companies in 2016, with a particular focus on understanding the systems and processes adopted by the companies to manage such risk.

Traditionally, the possibility of involvement in human and workers' rights breaches has been particularly relevant for companies with operations or supply chains in countries affected by poverty, weak public institutions or undemocratic political governance. However, rapid technological developments are increasing the risk of human rights violations in other types of businesses. For example, the risk of involvement in breaches of privacy has become more prominent in our portfolio, and is something we are addressing in our dialogue with the companies.

Responsible ship-breaking

We expect the portfolio companies to respect human and workers' rights throughout their supply chains

In 2016, we raised the issue of responsible ship-breaking with relevant companies in our portfolio. The reason for doing so is that the conditions under which such work is performed can present a considerable threat to both people and the environment. This is particularly true in the case of work done at yards in India, Pakistan and Bangladesh that employ the "beaching" method. With this method, ships are scrapped without fixed installations for the collection and management of hazardous and polluting waste. The method entails a considerable risk of human rights violations and environmental damage.

In 2015 and 2016, companies in our portfolio scrapped ships in a manner inconsistent with our expectations regarding responsible ship-breaking. This has been communicated to the companies in question. We expect companies to ensure that ships are scrapped responsibly, and to comply with the expectations expressed in the UN Guiding Principles on Business and Human Rights. Among other things, this means having in place appropriate guidelines and systems to ensure respect for and compliance with human and workers' rights, even when ship-breaking is handled by a third party.

FOLLOW-UP RELATING TO HUMAN AND WORKERS' RIGHTS IN 2016

Topic	Purpose of the measure	Number of companies		Status and results	Going forward
		Number of companies	Number of dialogue meetings		
Human and workers' rights	Know the companies' procedures Make the companies aware of our expectations and relevant international standards	13	15	Better understanding of the companies' maturity and procedures Increased understanding of our expectations among the companies	Continue efforts in 2017

WE ARE AVAILABLE TO THE COMPANIES

Our aim is to be perceived as constructive and professional owner by the companies. We will ask challenging questions about material issues, and will also be available to the companies.

In some cases, Folketrygdfondet will ask a company for an update, feedback, clarification or action on a specific matter, or in connection with a particular topic we consider to be highly important for the company. At the same time, companies expect their owners to relate to various topics and issues. We know that being a large shareholder carries responsibilities with it, and we give priority to being available to the companies in which we have invested.

Folketrygdfondet held 161 dialogue meetings last year, discussing key ownership issues with 61 Norwegian companies.

Such talks with board chairs and managers enable us to understand a company's strategy, operations, growth opportunities and risk profile, and thereby make us a better manager, not least because we can evaluate the companies' capital needs and strategic shifts.

Our company engagements often take place at a high

level. We give priority to this form of working in relation to our equity investments, and devote considerable time and resources to direct company dialogue. In our ownership capacity, we use such meetings to discuss both specific incidents in a company and key ownership questions, including capital structure and financial targets. When it is helpful to have technical experts present, for example when discussing specific environmental or social issues, both Folketrygdfondet and the company also provide staff with the right expertise.

The discussion of how Folketrygdfondet addresses material ESG risks (page 76) contains a more detailed account of some of these dialogues.

We apply the same active ownership principles to our Norwegian and Nordic equity investments. However, we distinguish between active ownership within and outside Norway. One reason for doing so is that we generally have smaller ownership interests in Nordic companies.

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.
- There must always be full transparency about the principles we apply and the methods we may use in our active ownership and exercise of creditor rights.

From Folketrygdfondets eierskapsutøvelse [Folketrygdfondet's active ownership], November 2015.

Exercise of creditor rights

The role of bondholder differs from that of shareholder, not least because a creditor has no ownership rights. Creditors-issuer relations are governed by the loan agreement. As long as the company meets their obligations, the bondholder has no reason to demand changes by the company. As a result, company dialogue is not a priority instrument for responsible management in this area. However, company meetings and presentations do form part of ordinary portfolio follow-up. We report on our exercise of creditor rights as part of our ordinary dialogue reporting. Several challenging cases relating to the exercise of creditor rights arose in 2016 as a result of current difficulties in the oil service industry. The dialogue topics have included mergers, changes to loan agreements and financial restructurings.

TOPICS AT FOLKETRYGDFONDET'S 161 DIALOGUE MEETINGS WITH 61 COMPANIES IN 2016

Topic	Objective	Number of dialogue meetings at which the topic was raised	Number of companies	Result	Company progress
Capital structure, financial targets and strategy	Long-term value creation by the companies	39	27	Improved understanding of the companies' approach	Increased knowledge of our expectations
Board composition	Board composition that promotes long-term value creation	22	18	Feedback to relevant nomination committees and input in relevant processes	Increased knowledge of our expectations
Operations and market development	Satisfactory profitability in the short and longer term	88	45	Improved understanding of the companies' approach	Increased knowledge of our expectations
Executive remuneration	Performance-based schemes that encourage long-term value creation	6	6	Feedback on the design of executive remuneration	Increased knowledge of our expectations
Climate change	Reduce climate risk in the portfolio	23	16	Improved understanding of the companies' procedures	Increased and improved management
Aquaculture	Sustainable development and growth in the industry	19	5	Improved understanding of the companies' procedures	Increased knowledge of our expectations
Human rights and workers' rights	Reduce the risk in the portfolio of human and workers' rights violations	15	13	Improved understanding of the companies' procedures	Increased knowledge of our expectations
Anti-corruption	Reduce corruption risk in the portfolio	18	12	Improved understanding of the companies' procedures	Increased knowledge of our expectations
Changes to loan agreements		10	9		
Financial restructurings		4	4		
Mergers		2	2		

WE PROTECT SHAREHOLDER INTERESTS

General meetings are a key arena for Folketrygdfondet's active ownership. In 2016, we voted against proposals put forward by the boards of eight Norwegian companies because we considered that the interests of shareholders were being downgraded.

Voting at the general meetings of the portfolio companies is a central aspect of Folketrygdfondet's approach to active ownership. We try to attend the general meetings of all Norwegian companies in person.

What is the purpose?

All active ownership has the overarching purpose of supporting maximum value creation over time. In the vast majority of cases, we vote for board proposals at general meetings because we find them to be well-founded and consistent with company strategy.

In some instances, however, we see that a board proposal challenges shareholder interests and recognised good corporate governance principles. Folketrygdfondet considers it an important task to be a strong representative of minority shareholders in Norwegian listed companies. It is of fundamental importance to us that all shareholders are treated equally. Along with other minority shareholders, we have a clear interest in compliance with the rules and protection of the interests of all shareholders.

From a longer-term perspective, good corporate governance is also about preserving public confidence in the Norwegian stock market.

What do we achieve?

Our general impression based on the 2016 general meeting season is consistent with findings in previous years: general meetings are rarely arenas for confrontation and dispute.

Over time, shareholders, including Folketrygdfondet, have successfully presented their views on the design and scope of executive remuneration schemes and board authorisations. Controversial pay and authorisa-

tion proposals were more common before, but are now the exception.

Generally speaking, recent years have also seen an improvement in the dialogue between company boards and shareholders. This has improved the ability of boards to take account of shareholder signals before proposals are presented, thereby reducing the number of surprises and confrontations at general meetings.

Our procedures for

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.
- Prior to a general meeting, we conduct a thorough review of the agenda and vote in accordance with our principles, guidelines and assessments.
- Our starting point is that we wish to vote as proposed by the board. If we disagree with a board proposal, we seek to explain our position before the general meeting.
- If we vote against a board proposal, we normally publish a voting statement on our website after the general meeting.
- Our aim is to help secure broad agreement on the general meeting agenda, and we consider pre-general meeting dialogue with the company a positive measure in this regard.

From Folketrygdfondets eierskapsutøvelse [Folketrygdfondet's active ownership], November 2015.

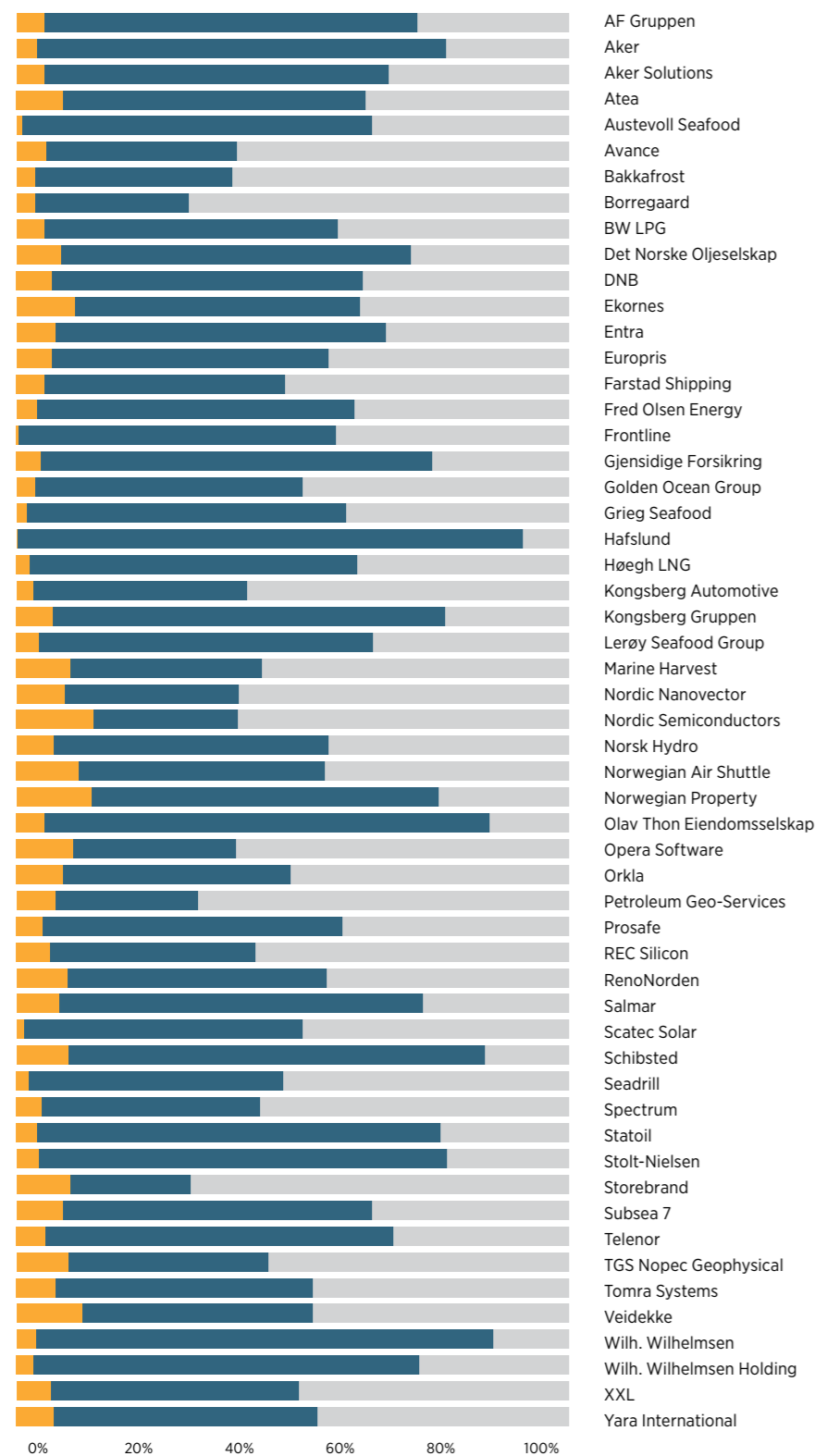
NORWEGIAN COMPANIES WHERE FOLKETRYGDFONDET VOTED AGAINST BOARD PROPOSALS

All proposals were adopted despite Folketrygdfondet's vote.

Company	Type of case Why we voted against	Percentage of votes	
		Folketrygdfondet	Total
Frontline Ltd.	Board composition <i>Reason:</i> Folketrygdfondet voted against election of the company's CEO as board chair. Our priority is to have a board that is independent of company management.	0.6	3.4
Seadrill Ltd.	Board composition <i>Reason:</i> Folketrygdfondet voted against election of the company's CEO as board chair. Our priority is to have a board that is independent of company management.	4.5	17.4
Höegh LNG	Board composition <i>Reason:</i> Folketrygdfondet voted against election of the company's board chair as chair of the nomination committee. Our priority is to have a nomination committee that is independent of the company's board.	3.8	3.9
Spectrum	Execution remuneration statement and authorisation to issue shares Item 10 The board's statement on setting of pay and other remuneration for senior executives <i>Reason:</i> Folketrygdfondet takes the view that the executive remuneration statement is unspecific, and that it is difficult to evaluate the measures applicable to the scheme. The scheme is also considered to be unreasonably large in scope. Item 12 Board authorisation to increase the company's share capital – option programme <i>Reason:</i> Folketrygdfondet takes the view that the company's employee option programme is unreasonably large in scope. Item 14 Authorisation to acquire own shares <i>Reason:</i> Folketrygdfondet considers that the option programme is unreasonably large in scope, and is therefore voting against the proposal to authorise the acquisition of own shares in connection with the employee option programme.	10.4	11.3
Stolt-Nielsen Ltd	Board composition <i>Reason:</i> Folketrygdfondet voted against election of the company's CEO as board chair. Our priority is to have a board that is independent of company management.	5.0	7.1
Norwegian Air Shuttle ASA	Executive remuneration, buy-back authorisation and authorisation to issue shares Item 8 Execution remuneration statement and option programme <i>Reason:</i> The board's proposal for Norwegian's option programme was not described in the general meeting notice, and no resolution was proposed for the scheme. It was therefore difficult to evaluate and make a decision on the programme. Due to the lack of a description, Folketrygdfondet voted against the board's execution remuneration policy statement. Item 13 Authorisation to buy back own shares <i>Reason:</i> Folketrygdfondet voted against a buy-back of own shares because this authorisation could be used in the option programme we voted against under Item 8. Item 14 Authorisation to issue shares <i>Reason:</i> Folketrygdfondet voted against the authorisation to issue shares because it could be used in the option programme we voted against under Item 8.	20.2	27.3
Scatec Solar ASA	Executive remuneration <i>Reason:</i> The board's proposal regarding Scatec Solar's option scheme equated to approximately 5 percent of the company's share capital, but the option scheme is not capped. It is therefore difficult to foresee the consequences of the programme. Due to the scope and lack of a cap on the scheme, Folketrygdfondet voted against the board's executive remuneration statement.	2.5	2.9
Subsea 7 S.A.	Board composition <i>Reason:</i> Folketrygdfondet voted against election of the company's CEO as board chair. Our priority is to have a board that is independent of company management.	13.0	14.9

ATTENDANCE 2016 – NORWEGIAN COMPANIES

Ordinary general meetings which Folketrygdfondet has attended.



Folketrygdfondet attended a total of 56 ordinary general meetings in 2016, as well as 12 extraordinary general meetings.

- Folketrygdfondet
- Other shareholders
- Not represented

The attendance rate for all ordinary general meetings attended by Folketrygdfondet was 58.9 percent, with a variation from 31.1 percent to 91.5 percent.

VOTED AT 87 GENERAL MEETINGS

In 2016, Folketrygdfondet voted at a total of 87 general meetings of companies listed on stock exchanges in Sweden, Denmark and Finland.

In total, we voted against or abstained from voting on 40 proposals put forward by the boards of Swedish, Danish or Finnish companies. Most of the board proposals we have voted against in Nordic portfolio companies relate to executive remuneration statements and incentive schemes. 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.

In a total of 12 instances, all related to the same Swedish company, we have voted against indemnification of the board of directors based on the fact that the company is under investigation. In four cases involving Swedish, Danish and Finnish companies, we

have voted against or abstained from voting on auditor fees and/or auditor reappointment because the fees for non-audit services exceeded the fees for audit services. Auditors are supposed to perform a control function, and their independence from the company is put at risk if they provide extensive advisory services in addition to auditing.

As in previous years, we have found that shareholders are submitting various proposals to the general meetings of the Nordic portfolio companies. We have not observed a corresponding trend in relation to companies listed in Norway. Many of these proposals concern issues falling outside the shareholders' remit as defined by the general principles governing the distribution of roles in listed companies.

VOTING RELATED TO COMPANIES LISTED IN DENMARK, FINLAND AND SWEDEN IN 2016

	Sweden	Denmark	Finland	Total
Total number of general meetings voted at	53	17	17	87
Total number of matters voted on	973	259	174	1,406
Board proposals				
• Against	32	6		38
• Abstained from voting		2		2
Board proposals voted against, by topic				
• Executive remuneration statement	10	2		12
• Board/board remuneration	3	1		4
• Auditor fees/reappointment of auditor		2		2
- Abstained from voting for auditor fees/auditor reappointment		2		2
• Board indemnity	12			12
• Authorisation to issue shares/buy-back of own shares	6	1		7
• Nomination committee	1			1
Shareholder proposals				
• Against	194	4	1	199
• For	2	1		3
• Abstained				

INVOLVED IN SEVEN NOMINATION COMMITTEES

Folketrygdfondet is represented on seven nomination committees in Norwegian companies. We also participated in four corporate assemblies in 2016.

Folketrygdfondet considers it important to help ensure that the boards of the portfolio companies have the requisite expertise and the right composition. Folketrygdfondet expects the companies in which it invests to have a nomination committee.

Company boards are becoming more professional, and it is crucial that boards collectively possess the necessary skills. 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 Corporate Governance Board (NUES).

Our top priority is to make sure that the portfolio companies have reliable processes in place for the composition of competent boards. We also involve ourselves in board elections, and give high priority to participation in nomination committees in some of the companies in which we have invested. However, the number of nomination committees has to be limited due to the time-consuming nature of the work involved.

Folketrygdfondet does not hold directorships, but was involved in several corporate assemblies in 2016, in addition to the various nomination committees.

REPRESENTATIVES ON NOMINATION COMMITTEES AND GOVERNING BODIES

Corporate assemblies

Norsk Hydro ASA	Executive Director Equities Nils Bastiansen	Member
Statoil ASA	Executive Director Equities Nils Bastiansen	Deputy chair
Telenor ASA	CEO Olaug Svarva	Deputy chair
Aker BP ASA	Portfolio Manager Ole Jakob Hundstad	Member

Nomination committees

Yara ASA	Deputy Director Equities Ann Kristin Brautaset	Member
Schibsted ASA	Deputy Director Equities Ann Kristin Brautaset	Member
Storebrand ASA	CEO Olaug Svarva	Member
TGS-NOPEC ASA	General Counsel Christina Stray	Member
Veidekke ASA	CEO Olaug Svarva	Member
Marine Harvest ASA	Executive Director Equities Nils Bastiansen	Member
Gjensidige Forsikring ASA	Portfolio Manager Joakim Gjersøe	Member

CONTRIBUTING TO WELL-FUNCTIONING MARKETS

Folketrygdfondet participates in external initiatives to develop good practice and standards for commercial activity. We consider this an important instrument for ensuring both well-functioning markets and good long-term returns.

Folketrygdfondet participates in various forums to exchange information and experience with other investors and to support the development of new regulations and standards. Good long-term returns can only be achieved in well-functioning markets. Good standards for commercial activity are a further prerequisite. Cooperation with other investors is important for the adoption of best practice and commercial standards.

We participate in Norwegian and international initiatives, and also cooperate on a case-by-case basis when we see that this serves our financial interests.

What are we doing?

In 2016, we sought to promote good standards through the external initiatives in which we are engaged. For example, as a representative of the Norwegian Forum for Responsible and Sustainable Investment (Norsif), we participated in a working group developing the Oslo Børs guidance on the reporting of corporate responsibility. We also submitted comments in public consultations on topics of relevance to us, such as updated

corporate responsibility reporting requirements in the Accounting Act. Our consultation comments are available on ftf.no. In accordance with our management mandate, we have been communicating clear expectations as to the handling of ownership issues and environmental and social conditions for several years. To make our dialogue with companies as effective as possible, we have developed guidance documents on

- financial targets and capital structure
- anti-corruption
- executive remuneration schemes
- climate issues
- human rights
- workers' rights
- environmental issues

In our view, proper management of such issues can reduce risk and help maximise value growth in our portfolio. We continued to develop our guidance documents in 2016. The result of these efforts is a brochure called Folketrygdfondet's expectations. The purpose of

Reporting and transparency are important

“We expect the portfolio companies to follow the Oslo Børs guidance on the reporting of corporate responsibility.”

Folketrygdfondet is the largest financial investor on the Oslo Stock Exchange, and has a long-term investment philosophy. Our guiding principle is that good long-term returns are dependent on sustainable development in an economic, environmental and social sense. Accordingly, we expect companies to report material risks and opportunities in the area of social responsibility. The Oslo Børs guidance contains an example of how companies can identify material corporate responsibility issues. The guidance also states that important topics should be integrated into performance management. Principles describing what company reports should contain are also presented. Companies are encouraged to report in a manner that is:

- Accurate
- Comprehensive
- Timely
- Balanced
- Comparable
- Reliable


The Oslo Børs guidance on the reporting of corporate responsibility is in line with Folketrygdfondet's expectations in this area, and we support the conclusion that different risk factors relating to corporate responsibility may influence companies' opportunities to generate long-term shareholder value. We therefore expect the companies in which we invest to follow the Oslo Børs guidance on the reporting of corporate responsibility. The guidance is available at https://www.oslobors.no/ob_eng/obnewsletter/download/f8b3c357e81dc71257e715b9552ef0f6/file/file/oslo_bors_english.pdf.

the brochure is to provide the companies in which we invest, and other interested parties, with a clear overview of our priorities and expectations. The brochure with our expectations towards companies is available on ftf.no

What do we hope to achieve in 2017?

In 2017, we will continue to promote robust standards through the external initiatives in which we are actively engaged. We also intend to provide feedback in public consultations and other input wherever relevant.

Folketrygdfondet's expectations



We have expectations as to how company boards and management teams should handle ownership issues and environmental and social issues. To make our dialogues as effective as possible, we have gathered our guidance documents in a brochure, which is available on ftf.no.

PARTICIPATION IN EXTERNAL INITIATIVES IN 2016

Initiative*	Purpose	FTF appointments
Norwegian Institute of Directors	To promote value creation through good corporate governance. Promote the development of best practice standards for board work	<ul style="list-style-type: none"> CEO Olaug Svarva, board member General Counsel Christina Stray, member of the capital markets technical committee
Norwegian Society of Financial Analysts	To promote: <ul style="list-style-type: none"> public understanding of the function and importance of the capital market in the Norwegian economy the provision of high quality financial analysis the efficient functioning of the capital market within appropriate operating parameters high ethical standards in financial analysis, asset management, advisory services and trading in financial instruments 	<ul style="list-style-type: none"> General Counsel Christina Stray, board member and member of the equity committee Deputy Director Equities Ann Kristin Brautaset, committee for the award of the Stockman Prize Deputy Managing Director Lars Tronsgaard, member of the portfolio committee Portfolio Manager Hege Kristine Huse, member of the bond committee
Norwegian Corporate Governance Board (NUES)	To keep the Norwegian Code of Practice for Corporate Governance updated and to promote the code both in Norway and internationally	<ul style="list-style-type: none"> General Counsel Christina Stray, representative
Eierforum group of institutional investors	To promote corporate governance best practice in Norway and drive further development of best practice. The forum is represented in NUES	<ul style="list-style-type: none"> Executive Director Equities Nils Bastiansen
Norwegian Forum for Responsible and Sustainable Investment (Norsif)	To promote and contribute to the development of the field of responsible investment in the Norwegian financial industry and among other stakeholders	<ul style="list-style-type: none"> General Counsel Christina Stray, member of the nomination committee Senior analyst for responsible investments Tine Fosslund, chair of the group on ESG integration in company analysis Senior analyst for responsible investments Tine Fosslund, representative on the working group on the Oslo Stock Exchange's guidance on the reporting of corporate responsibility
CDP (formerly known as the Carbon Disclosure Project)	To prevent climate change and protect natural resources	<ul style="list-style-type: none"> Senior analyst for responsible investments Tine Fosslund, representative
The UN-supported Principles for Responsible Investment (PRI)	To promote understanding of the investment and asset management implications of environmental, social and governance (ESG) factors	<ul style="list-style-type: none"> Senior analyst for responsible investments Tine Fosslund, representative

A CHALLENGING HIGH-YIELD MARKET

Difficult times in the oil service industry resulted in a number of financial restructurings in 2016. Comprehensive loan documentation is important, as is the constructive involvement of all stakeholders.

Difficult times in the oil service industry resulted in a number of financial restructurings in 2016. Comprehensive loan documentation is important, as is the constructive involvement of all stakeholders.

Bonds are an important source of capital for banks and businesses, and a key investment option for investors. Folketrygdfondet is a large, long-term investor in the Nordic bond market, and attaches great importance to its proper functioning.

The Norwegian high-yield market has its own loan agreement standard, which has proven to function satisfactorily. Loans agreements make extensive use of so-called "maintenance covenants", i.e. undertakings by the bond issuer to comply with pre-defined financial ratios.

In the aftermath of the oil price crash, it became clear that various companies in the oil service sector would be unable to fulfil these covenants. This led to a sharp fall in bond prices for many companies, a clear indication that the companies would be unable to meet their obligations. This created considerable difficulties for owners, banks and bondholders. In 2016, various companies therefore had to renegotiate their loan agreements and implement financial restructurings. We have sought to contribute as constructively as possible in all such processes in which we have been involved. The steps taken include deferral of interest and instalments, write-downs of nominal bond values and the conversion of bond debt into new equity. Other creditors and owners have also contributed in varying degrees to ease the financial situation of affected companies.

These restructuring efforts have been both time-consuming and complicated, but our objective throughout has been to help find good solutions. In our experience, bondholders have in many cases played a pivotal role in the development of solutions acceptable to all stakeholders.

The Nordic markets

The high-yield markets in the other Nordic countries have grown and developed in recent years. This is par-

THE PATH TO RENEGOTIATION OR RESTRUCTURING



1. A company finances new investment through equity (shares, etc.) and debt (bank loans and bonds). Debt is accompanied by both loan documentation and obligations.



2. The prices of the company's goods/services fall. Share and bond prices drop due to anticipated lower profitability and higher credit risk.



3. The company finds it difficult to fulfil agreed loan obligations, and has to initiate a dialogue with creditors. Topics of discussion may include:

- Modification of the loan conditions
- Deferment of instalments
- Extension of the maturity period
- Conversion of debt into equity (shares)

The solution will depend on the company's situation and what serves the financial interests of creditors in the long run.

ticularly true of the Swedish market. The high-yield segments of the Nordic bond markets are becoming increasingly relevant to Folketrygdfondet. Our integrated management of the Norwegian and Nordic fixed-income portfolio is helping to diversify the overall portfolio of investments.

Folketrygdfondet will also give priority to supporting positive development of the Nordic high-yield bond markets, with a particular focus on clear loan agreements and a well-functioning trustee system.

Well-functioning market

Since Folketrygdfondet is such a major player, how we act affects the market. We seek to promote the proper functioning of, and transparency in, the bond market by engaging in public debates and following up on specific measures through suitable forums. Among other things, we are involved in the development of standard loan agreements and measures to make these more transparent for investors. We are also participating in an initiative to foster more efficient implementation of restructuring processes.

Nordic Bond Pricing has helped make prices more transparent and accessible, greatly benefiting market liquidity. Further development of relevant indices promises to bring additional improvements in this regard.

In 2016, guidelines were introduced that provide that only institutions licensed for the purpose may publish

company ratings. In the Norwegian market, most brokerages prepared such ratings. Many smaller and medium-sized issuers in the Nordic markets are not rated by the international rating companies, and such "broker ratings" were therefore an important contribution to market transparency and thereby to the proper functioning of the markets. The establishment of alternatives capable of providing reliable, clear company ratings is therefore crucial.

Folketrygdfondet supports measures to make the Norwegian bond market more attractive to both issuers and investors.

Folketrygdfondet also considers that companies must publish more information relevant to the capital market. We encourage companies to detail compliance with loan clauses in all accounting reports. The purpose is to discipline the companies to provide reliable, constructive information for the benefit of both equity investors and bondholders.

ESG in credit assessments

Folketrygdfondet has developed a strategy for responsible fixed-income management. In our view, how an issuer deals with ESG matters is an indicator of credit risk. That is why we are constantly seeking to improve the integration of ESG analyses into ongoing credit assessment, to ensure that ESG evaluations form part of the basis for our investment decisions.

VOTED AT 16 BONDHOLDER MEETINGS

Folketrygdfondet takes a solution-focused approach to bond loan renegotiations. In 2016, we voted at 16 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 consider such involvement to be important both to protect the value of the individual bond and for the market in general.

In 2016, Folketrygdfondet voted at a total of 16 bondholder meetings. Ten of the matters involved amendment of loan agreements, two concerned mergers and four related to restructurings.

At the end of 2016, three issuers of bonds in the fixed-income portfolio were in default. All three issuers are members of the same group of companies. In addition, one issuer had announced engagement of a financial adviser.

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 restructuring processes.
- We are aware of our responsibility to contribute to solutions acceptable to all parties.

From Folketrygdfondets eierskapsutøvelse
[Folketrygdfondet's active ownership], November 2015

THE HIGH-YIELD PORTFOLIO

As at 31 December 2016

Total number of loans	62
Total number of issuers	52
• Number of loans containing "maintenance covenants"	54
• Number of loans containing "incurrence covenants"	5
• Loans containing other types of clauses	3
Number of loans incorporating collateral security	16

The design of the loan agreement is an important aspect of the investment decision. As shown in the table, our high-yield portfolio (unsecured loans) contains clearly prioritised loans where the agreements ensure compliance with key financial ratios – the "maintenance covenants". With "incurrence covenants", the requirement to comply with specified ratios only applies if the company intends to take special steps, for example take up further debt or pay a dividend.

Table 25

BONDHOLDER MEETINGS IN 2016

Total number of bondholder meetings attended by Folketrygdfondet (all in the high-yield segment)	16
• Financial restructuring cases	4
• Changes to loan agreements	10
• Mergers	2

Number of issuers affected by bondholder meetings 13

A bondholder meeting is the supreme body for the owners of a bond loan. Decisions made at a bondholder meeting are binding on all investors in the loan in question.

Table 26

Responsible management is enshrined in our mandate

The management mandate states that the primary goal of Folketrygdfondet's active ownership is to safeguard the financial interests of the Government Pension Fund Norway.

The mandate also specifies that active ownership shall be based on

- the UN Global Compact
- the OECD Principles of Corporate Governance
- the OECD Guidelines for Multinational Enterprises

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

- the UN-supported Principles for Responsible Investment (PRI)
- the Norwegian Code of Practice for Corporate Governance (NUES)

Folketrygdfondet seeks to contribute actively to the development of robust national standards in the area of responsible investment.