NORGES BANK
INVESTMENT MANAGEMENT

2014
RESPONSIBLE INVESTMENT

GOVERNMENT PENSION FUND GLOBAL


OUR MISSION IS TO SAFEGUARD
AND BUILD FINANCIAL WEALTH
FOR FUTURE GENERATIONS

CONTENT

Translated from original Norwegian version.

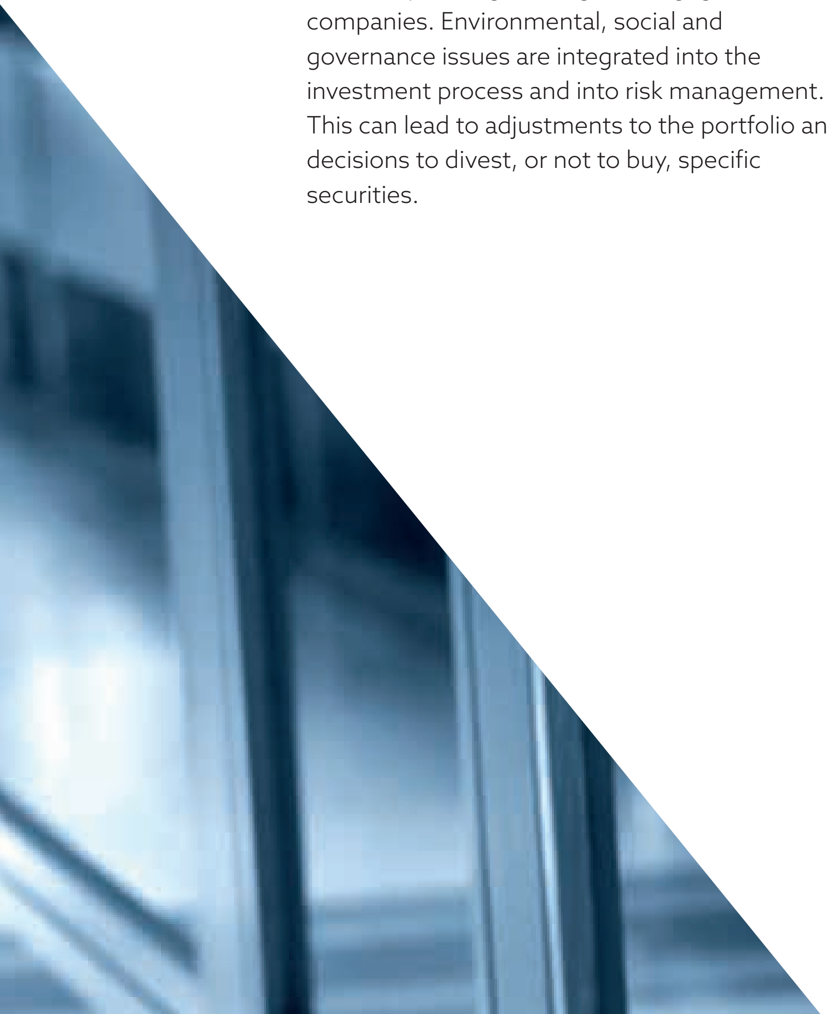
ØYSTEIN OLSEN, CHAIRMAN OF THE EXECUTIVE BOARD

A WORK IN PROGRESS

Work on responsible investment is an important part of Norges Bank's mandate and has evolved as the fund has grown.

The Government Pension Fund Global turns petroleum revenue into financial wealth that will benefit both current and future generations of Norwegians. The Ministry of Finance has delegated the task of managing the fund to Norges Bank and has issued general guidelines for its management. The objective is the highest possible return with an acceptable level of risk. Our work on responsible investment supports this objective. As a long-term financial investor, we stand to benefit from healthy and sustainable development of the companies and markets we invest in.

Norges Bank uses a variety of tools in its work on responsible investment. We promote international principles and standards, express expectations as an investor, and exercise active ownership through voting and engagement with companies. Environmental, social and governance issues are integrated into the investment process and into risk management. This can lead to adjustments to the portfolio and decisions to divest, or not to buy, specific securities.



Our work on responsible investment has evolved as the fund has grown. From 1 January 2015, Norges Bank has been assigned the task of taking decisions on the observation and exclusion of companies on the recommendation of the Council on Ethics. In such cases, the Bank may also consider using other tools in its ownership work. The aim is to establish a unified chain of available tools for responsible investment management.

The objective is the highest possible return with an acceptable level of risk. Our work on responsible investment supports this objective.

Through a consistent approach to responsible investment, we can support the overall goal of safeguarding the fund's assets for the long term.

Oslo, 5 February 2015

Øystein Olsen

ØYSTEIN OLSEN
Chairman of the Executive Board

"Our work on responsible investment is an integrated part of the investment process. The aim of this report is to provide an overview of the many areas we are working on.

YNGVE SLYNGSTAD, CEO OF NORGES BANK INVESTMENT MANAGEMENT

RESPONSIBLE MANAGEMENT TO SAFEGUARD VALUE

Norges Bank Investment Management has been entrusted with safeguarding and building financial wealth for future generations. Responsible investment is an integral part of our management mandate.

Our work on responsible investment has three pillars: improving industry standards, exercising our ownership rights responsibly, and monitoring and managing the risk in the fund's investments by integrating a range of factors.

We are a large international investor. It is therefore important for us to contribute to good business standards. Good standards are the best way of safeguarding our investments and assets in the longer term. Our efforts to promote high standards of corporate governance and responsible investment build on the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises. It is important for us to start from internationally recognised principles when developing our own principles and expectations. One element in this work is supporting research and expanding the body of data relevant to responsible investment.

We are a minority shareholder in more than 9,000 companies. As part of our ownership work, we vote at general meetings and engage directly with the companies' board and management. We have to set priorities so that our efforts have the greatest possible impact. This means that we focus on the companies where the fund has its largest investments by market value, and on companies that operate in particularly high-risk sectors.

We are working on improving the monitoring of risk across all of our holdings. The risk picture is complex, and our assessments need to be forward-looking and have a long horizon. We have chosen to focus part of this work on certain areas: children's rights, climate change management and water management. We have also developed criteria for what we do and do not want to invest in. There may be companies in specific sectors and countries that we choose not to invest in as a result of challenges related to the long-term profitability of business models or the external impacts of companies' activities. There may also be situations where we choose to sell out of companies altogether. In 2014, we divested from 49 companies after an assessment of environmental and social risks. We also stepped up our environment-related investments during the year. These are investments in areas such as renewable energy, energy efficiency and natural resource management, all subject to the same return requirements as the rest of the fund.

Our work on responsible investment is an integrated part of the investment process. The aim of this report is to provide an overview of the many areas we are working on. We recognise that there is still much to be done, and that we will encounter further challenges in the years ahead. Our role is to think long-term and protect value for future generations.

Oslo, 5 February 2015

YNGVE SLYNGSTAD
CEO of Norges Bank Investment Management

IN BRIEF

STANDARD SETTING

Our principles and expectations build on internationally recognised principles. It is important for us to promote good standards of corporate governance in order to safeguard our investments. Research helps increase understanding of factors that can affect future returns.

OWNERSHIP

We are an active owner and use our voting rights to safeguard the fund's investments. As a large, long-term investor, we engage directly with companies' board and management.

RISK MANAGEMENT

We analyse risks relating to environmental, social and governance issues. We follow up selected issues across companies in the portfolio and attach importance to developing and improving the available data.

We have formulated expectations for how companies should manage risk and report on their activities.

CHILDREN'S RIGHTS

We expect companies to protect children's rights in their operations. They should have adequate systems in place and report on their activities. We have been assessing selected companies with activities or supply chains in sectors with a high risk of child labour since 2008.

WATER MANAGEMENT

Limited supplies of water are a growing risk for many companies. We expect those in particularly high-risk industries to have a clear strategy for water management. We have been assessing companies exposed to water-related risk since 2010.

CLIMATE CHANGE

We expect companies to analyse how the challenges of climate change will impact their operations and to develop plans and targets for managing climate risk. We have been assessing selected companies exposed to climate risk since 2010.

As part of our responsible investment activities, we work on standard setting, ownership and risk management.

THE PURPOSE OF RESPONSIBLE INVESTMENT

PROMOTE THE FUND'S LONG-TERM INTERESTS

We aim to invest the fund responsibly in order to support the fund's objective of the highest possible return with an acceptable level of risk.

We aim to contribute to both current and future generations so that they may benefit from Norway's oil wealth by investing the fund responsibly and for the long term.

The objective of the highest possible return with an acceptable level of risk is laid down by the Ministry of Finance in the mandate for the management of the fund. Our work on responsible investment supports this objective.

LONG-TERM RETURN

The fund is owned by the people of Norway. Our mission is to safeguard and build financial wealth for future generations. To do so, we aim to exploit the fund's unique characteristics. We are a large, global investor with a long-term investment horizon. The fund is invested in most markets, sectors and countries in order to capture global value creation and diversify risk.

Responsible investment is an integral part of our management task. We see it as a matter of managing the nation's financial wealth responsibly and efficiently. We enhance our investments through long-term management, and aim to contribute to market practices that benefit capital markets in the long term. Our management therefore takes account of environmental, social and governance issues that could have a significant impact on the fund's value.

We work with international standards and principles and communicate our expectations to companies. We are an active owner that votes and engages directly with companies and their boards. We also monitor various types of risk in our portfolio. We make additional investments in environmental technology through our environment-related mandates. We may also decide to divest from individual companies following risk assessments.

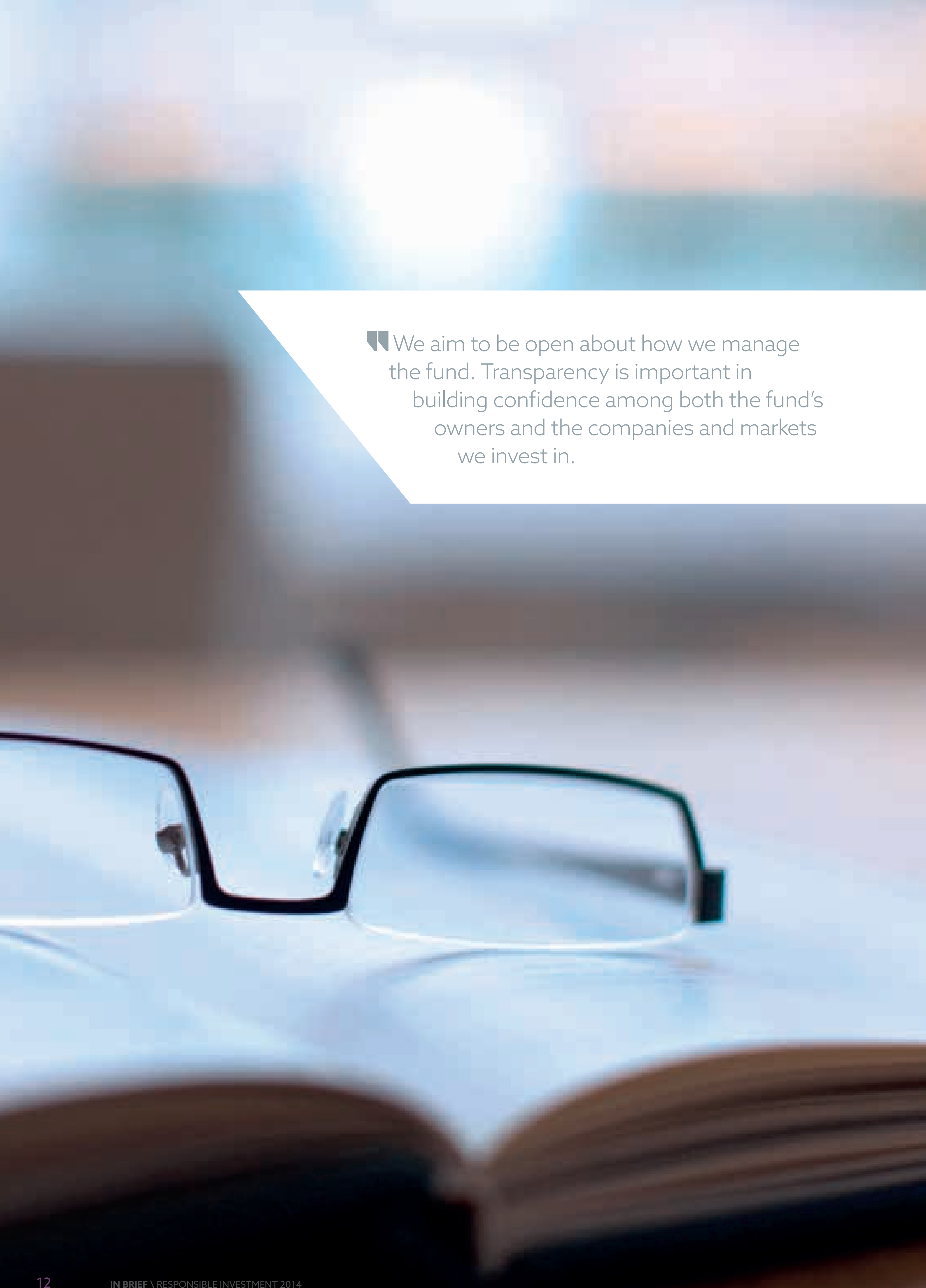
Part of the fund's investment strategy is to distribute investments widely across companies, sectors and countries. With holdings in more than 9,000 companies, we cannot have an in-depth knowledge of every company. We therefore concentrate on companies where we believe there is the greatest potential to create value for the fund. Our analyses include financial modelling and evaluations of companies' economic prospects. Environmental, social and governance issues are integrated into these assessments.

The Ministry of Finance has issued guidelines on the observation and exclusion of companies. The criteria for observation and exclusion have been endorsed by the Storting – the Norwegian parliament. These criteria relate to specific product types and entail that the fund must not invest in companies which themselves, or through entities they control, produce weapons that violate fundamental humanitarian principles through their normal use, produce tobacco, or sell weapons or military material to certain countries. Companies may also be excluded if there is an unacceptable risk of behaviour that is considered grossly unethical. An independent Council on Ethics has been set up by the Ministry of Finance to advise on the observation and exclusion of companies from the fund's portfolio.

OUR LONG-TERM WORK

As part of our responsible investment activities, we work on standard setting, ownership and risk management. This report provides an overview of our work in these areas in 2014.

The fund helps develop standards by engaging with regulators and standard setters. We expect companies to comply with applicable laws and regulations in the countries and markets they operate in. Our expectations and principles build on international standards, which place the responsibility for a company's strategy and operations in the hands of its board and management. We will enter into dialogue with a company's representatives but do not intend to micro-manage companies.



"We aim to be open about how we manage the fund. Transparency is important in building confidence among both the fund's owners and the companies and markets we invest in.

Another important part of our responsible investment activities is contributing to research. Research is particularly useful where there is considerable uncertainty and a need to evaluate problems both theoretically and empirically.

Our active ownership helps lay the foundations for long-term profitable business practices and safeguarding the fund's investments. It is therefore dependent on a good knowledge of the companies, sectors and markets we invest in.

Voting is an important instrument in exercising our ownership rights and is therefore a prioritised activity for us. By voting, we can express support for well-functioning boards, and we can also hold boards accountable for their actions. We aim to vote at all general meetings. The voteing is based on our voting principles, but also takes account of individual companies' unique characteristics.

Engaging directly with companies is a natural part of our management of the fund. We prioritise ownership activities where the chances of positive effects on the portfolio are highest. The size of our investments in individual companies varies widely. We generally have direct dealings with companies where we have a large investment by market value or ownership share.

We take a risk-based approach to responsible investment, performing risk assessments at company, sector and country level. We also have selected various focus areas to guide our work. To gain a better understanding of portfolio companies' emission intensity, we conducted an analysis of greenhouse gas emissions from the companies in our equity portfolio in 2014.

We make additional investments in environmental technology through our environment-related mandates. The Ministry of Finance requires these investments to amount to between 30 and 50 billion kroner. We have also made a number of risk-based divestments in recent years. Some sectors present particular environmental and social challenges. In 2014, we continued our work on deforestation, mining and greenhouse gas emissions. Based on these analyses and other factors, during the year we chose to divest from 49 companies for which we considered there to be high levels of uncertainty about the sustainability of their business model.

Our responsible investment activities are an integrated part of the investment process. This was reinforced in 2014 by bringing together our ownership staff and integrating the ownership strategies resources within the equities strategies department.

TRANSPARENCY

We manage the fund on behalf of the people of Norway. We aim to be open about how we manage the fund. Transparency is important in building confidence among both the fund's owners and the companies and markets we invest in. Transparency helps support the fund's legitimacy as a financial investor.

Table 1 The largest and smallest single investments in the equity portfolio

	Number of companies	Market value of holdings Billion kroner	Share of equity portfolio's market value. Percent
Holdings above 5 billion kroner	141	1,539	39.1
Largest holding (Nestlé SA)	1	48	1.2
Number of small holdings equalling largest holding in market value	3,275	48	1.2

GOVERNANCE MODEL

The fund's governance model builds on clear delegation of duties and an effective system for control and supervision. The Storting has laid down the framework for the management of the fund in the Government Pension Fund Act. The Ministry of Finance has formal responsibility for the fund and has issued general guidelines for its management by Norges Bank in the Management Mandate for the Government Pension Fund Global of 8 November 2010 (most recently amended with effect from 1 January 2015). Norges Bank's Executive Board in turn has delegated the operational management of the fund to Norges Bank Investment Management. The Bank's Internal Audit unit conducts oversight and supervision on behalf of the Executive Board. The Supervisory Council oversees the Bank's activities and ensures that the rules governing the Bank's operations are observed.

The Ministry has also issued Guidelines for the Observation and Exclusion of Companies from the Government Pension Fund Global's Investment Universe, which set out the criteria and processes for observation and exclusion. A Council on Ethics for the Government Pension Fund Global has been established by the Ministry to monitor the portfolio and advise the Bank's Executive Board on the observation and exclusion of companies. The final decision rests with the Executive Board.

STORTINGET (Norwegian parliament)

Government Pension Fund Act

MINISTRY OF FINANCE

Management mandate
Guidelines for observation and exclusion

NORGES BANKS EXECUTIVE BOARD

Excecutive Board principles
Investment mandate
CEO job description

NORGES BANK INVESTMENT MANAGEMENT

Policies
The CEO delegates investment mandates and job descriptions

STANDARD SETTING

INTERNATIONAL STANDARDS

The development of broad, international principles and industry-specific standards is important for the fund. We provide input to regulators to help markets function as efficiently as possible.

We believe that international standards and effective market regulation lead to better solutions and a well-functioning market over time. The companies we invest in are affected by various forms of regulation, international standards and industry standards. The development of standards will often contribute to positive developments at the companies we invest in. The fund is also affected more directly through our participation in financial markets. Well-functioning financial markets are therefore important in achieving the objective for the management of the fund.

INTERNATIONAL STANDARDS

We support the ongoing development of selected international standards. Some are issued by international bodies, such as the OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises, and the UN Global Compact. We participate in the further development of these standards and expect the companies we invest in to observe them. In 2014, we focused especially on the OECD Guidelines for Multinational Enterprises and their relevance for the financial sector. Among other things, we contributed to the OECD's annual Global Forum on Responsible Business Conduct. We aim to be actively involved in the evolution of these voluntary guidelines. We also provided input to the OECD on the development of its Principles of Corporate Governance.

INDUSTRY STANDARDS

We also work with standards covering specific sectors, companies in specific countries or specific topics such as corporate disclosure, as well as other standards that are narrower in scope. These standards can help companies manage their operations more appropriately. They are often developed by trade associations or companies, but may also be produced in partnerships between companies, authorities, investors and non-governmental organisations.

We aim to contribute to the development of best practices and therefore participate in consultations by regulators and other organisations on the development of various standards. In 2014, we submitted nine consultation responses on international standards and market regulation. All were published on our website www.nbim.no. We

PRINCIPLES AND STANDARDS ISSUED BY THE OECD AND UN

The principles and standards published by the OECD and the UN are voluntary, non-statutory recommendations that express expectations for good corporate governance and sound business practices when it comes to environmental and social issues.

The OECD Principles of Corporate Governance mainly concern effective corporate governance, such as shareholder rights and key ownership functions, equitable treatment of shareholders, disclosure and transparency, and the responsibilities of the board. The principles form a natural starting point when formulating our own position and when engaging with companies and other organisations.

The OECD Guidelines for Multinational Enterprises are a set of government-endorsed recommendations for companies that operate internationally. The aim is to support sustainable development through responsible business conduct, trade and investment. The voluntary nature of expect the companies we invest in to comply with laws and regulations in the countries they operate in. We also expect them to comply with broadly supported international standards.

We are a member of CDP (formerly known as the Carbon Disclosure Project), an independent organisation that gathers and publishes information on companies' greenhouse gas emissions to help improve corporate reporting on climate risk. In addition, we are lead-sponsor of CDP's water programme, which aims to improve reporting on water-related risk. In 2014, we also became a member of CDP's forests programme. The information we gain access to through initiatives such as CDP is useful in our management of the fund.

In 2014, we submitted a response to the Climate Disclosure Standards Board (CDSB), which is developing a reporting framework for climate-related risk. The framework aims to help companies integrate environmental information into their ordinary reporting, and also now includes risks relating to water and deforestation. The development of the framework will impact CDP's annual collection of data on climate, water and deforestation risks.

We are a member of the International Corporate Governance Network (ICGN). In 2014, we submitted comments on the ICGN's draft proposal to revised Global Governance Principles. ICGN is a network of investors that aims to promote effective standards of corporate governance and publishes guidelines and standards to contribute to the development of market practices.

Some initiatives are limited to activities in a specific geographical area. In Asia, for example, we submitted a consultation response to Hong Kong Exchanges and Clearing on share classes with different voting rights, and we are one of the main sponsors of the Asian Corporate Governance Association (ACGA), which aims to promote effective corporate governance practices in Asian markets and companies.

In 2014, we also contributed to a discussion of companies' foreign direct investment by supporting the annual international investment conference at Columbia University in New York. The theme in 2014 was Columbia University International Investment Conference on Sustainable Development. Participants included representatives of companies, civil society, academia, authorities and the OECD. Debate of this kind helps identify the benefits and limitations of international standards and make them more relevant.

For several years, we have worked specifically on supporting standards that promote children's rights, such as the UNICEF Children's Rights and Business Principles. We also signed the investor statement in support of the UN Guiding Principles on Business and Human Rights when they were introduced in 2011.

the guidelines means that compliance cannot be legally enforced, but there is an expectation that companies will apply the guidelines to the extent that they are relevant to their business. Companies themselves are to assess how this can best be achieved.

The UN Global Compact sets out ten general principles derived from the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development. Among other things, the principles require companies to respect human rights, avoid complicity in abuses of these rights, uphold the freedom of association and the right to collective bargaining, and eliminate all forms of forced labour, child labour and discrimination in the workplace. The main aim of the Global Compact is to mainstream the ten principles in business activities around the world and catalyse actions and partnerships in support of the UN's Millennium Development Goals. The Global Compact is the world's largest corporate social responsibility initiative with almost 12,000 participants, including more than 8,000 companies from more than 145 countries.

MARKET REGULATION

As a financial investor and a participant in securities markets, the fund is affected by the regulation of financial markets. We engage with regulators and participate in consultations on new rules where we believe this is appropriate for the fund. We have previously published an analysis of the basis for well-functioning financial markets and the reason why such markets are important for achieving the long-term objective for the management of the fund.

In 2014, we responded to a number of proposals from the European Securities and Markets Authority (ESMA) for new financial market regulation. We support the development of harmonised rules across markets and submitted consultation responses on the draft new rules on central securities depositories and settlement services. Our position was that the objectives and many of the proposals were appropriate, but that some of the proposals were unnecessarily complex.

We also responded to ESMA's consultation on the central clearing of certain fixed-income derivatives, expressing support for the proposals. Central counterparties can help reduce systemic risk in financial markets. In our letter, we also stressed that the introduction of requirements for central counterparties cannot be expected to eliminate all systemic risk in financial markets. In addition, we responded to ESMA's consultation on the implementation of the Markets in Financial Instruments Directive (MiFID). High-frequency trading was one of the topics covered. In our letter, we stressed the need for a framework that is robust but also sufficiently flexible to accommodate different future scenarios. Finally, we provided comments on ESMA's proposed new rules to combat market abuse.

SUBMISSIONS

RECIPIENT	TOPIC	SUBMITTED
Basel Committee on banking supervision	Revised corporate governance principles for banks	30.12.14
OECD	Revision of OECD Principles of Corporate Governance	30.12.14
Hong Kong Exchange and Clearing	Weighted voting rights	30.11.14
ESMA	Market abuse regulation	15.10.14
	Central clearing of Interest Rate Swaps	18.08.14
	Financial market directive (MiFID II and MiFIR)	31.07.14
	Settlement and Central Securities Depositories	22.05.14
Climate Standards Disclosure Board	Disclosure standards related to climate, forests and water	27.05.14
International Corporate Governance Network	Corporate governance principles	15.05.14

MEMBERSHIPS AND OTHER SUPPORT

NAME	PURPOSE	PARTICIPATION
CDP Water Program	The program collects and makes available information on companies' water management and water related risks. The purpose is to increase the understanding of water-related business risks and opportunities for investors	Lead sponsor
CDP Climate Change Program	The program collects climate-related data for 767 institutional investors in order to facilitate the use of climate and emissions data in investment analysis and decisions.	Member
Columbia University International Investment Conference on Sustainable Development	The purpose is to support the development of knowledge about international investments and sustainable development	Sponsor
Asian Corporate Governance Association	The investor network promotes corporate governance standards in Asian markets	Foundation sponsor
Principles for Responsible Investment	The investor network assists signatories in integrating responsible investment	Founding member
Investors Statement on the Extractive Industries Transparency Initiatives (EITI)	A global coalition of governments, companies and civil society working together to improve openness and accountable management of revenues from natural resources	Signatory
Investors' Statement in support of the UN Guiding Principles for Business and Human Rights	Express support to the UN Guiding Principles for Business and Human Rights	Signatory
Chairman's Forum policy on independent chairmanship	A peer exchange for independent board leaders	Endorsed
UNICEF's Children's Rights and Business Principles	UNICEF is tasked with promoting the UN Convention on the Rights of the Child. We participate in a working group advicing UNICEF on how companies can apply the UNICEF's Children's Rights and Business Principles.	Working Group member

OUR EXPECTATIONS AND PRINCIPLES

We express our expectations towards the companies the fund invests in through publicly communicated documents and by engaging directly with companies.

As a large, international investor, it is natural for our expectations and principles to build on international standards. A company's board and management are responsible for its strategy and operations. It is therefore appropriate for minority shareholders to engage in dialogue with the company's representatives, without attempting to micro-manage the company. A shareholder may nevertheless raise questions and elaborate on expectations through regular company meetings. Since 2008, we have published expectations documents and discussion notes to support our ownership work. In these documents, we explain what we expect of companies and present the background to our interest.

We have published expectations documents on climate change management, water management and children's rights. The documents set out our expectations for how companies should manage risk in these areas. We are particularly interested in companies' governance processes and disclosures. Each year, we assess the extent to which companies in industries with high exposure to these risks meet these expectations. The survey is used partly as a basis for feedback and dialogue with individual companies. The results of the 2014 survey are presented in the section on focus areas.

We have also published a discussion note looking more closely at why we attach importance to equal treatment of shareholders and to board accountability. The note presents our expectations for companies and boards in these areas and builds on academic literature and input from selected chairmen, investors and other market players. We expect a company's board to treat all shareholders equally and to justify any departures from this practice. Shareholders must also be able to hold the board accountable for its decisions and their consequences.

ELABORATION OF EXPECTATIONS

We have prepared five papers on the composition and function of company boards. Each looks at concrete issues and forms a basis for discussion with companies and standard setters.

We have prepared positions on various topics concerning the boards of companies where the fund is a shareholder. We have looked at the board's role and composition, and stressed the importance of the chairman's role. For example, we believe that a chairman needs to allow sufficient time for the task and therefore should not sit on numerous different boards. We also explore issues concerning the board's structure, working processes and remuneration.

OUR VOTING PRINCIPLES

Voting is an important channel for shareholder influence. We have developed principles to form a basis for our voting. These principles state, among other things, that we are to vote at all general meetings unless there are significant practical obstacles, and that we are to publish how we voted. We are to vote in keeping with the fund's long-term interests, and as a responsible investor we must take account of long-term value creation, sustainable business practices, board accountability, shareholder rights, equal treatment of shareholders and transparent corporate communication.

Voting is based on our voting principles but also takes account of individual companies' unique characteristics. We base our voting on publicly available information but will also enter into dialogue with a company where necessary.

KEY FEATURES OF THE EXPECTATIONS DOCUMENTS ON CHILDREN'S RIGHTS, WATER MANAGEMENT AND CLIMATE CHANGE MANAGEMENT

Children's rights
We expect companies to protect children's rights in their operations and supply chains. Companies should demonstrate that they have adequate systems in place to manage the risk of violations of children's rights.

Read more on page 55.

Water management
Limited supplies and quality of water are a growing risk for many companies. We expect those in particularly high-risk industries to have a clear strategy for water management. These companies should also have adequate governance systems that ensure that this risk is managed.

Read more on page 57.

Climate change management
We expect companies to analyse how the challenges of climate change will impact their operations and to develop plans and targets for managing climate risk. Companies' boards should integrate climate change into their general responsibility for risk management, and we also want companies to publish information that enables investors to assess whether companies are meeting the targets they set.

Read more on page 59.

COOPERATION WITH ACADEMIC RESEARCH INSTITUTIONS

Selected partners

COLUMBIA UNIVERSITY

Topic: Financial impact of mining and water related risks

Start year: 2014

HARVARD LAW SCHOOL

Topic: Corporate governance

Start year: 2012

STANDARD SETTING

RESPONSIBLE INVESTMENT RESEARCH

Research will help increase understanding of issues that can affect future returns. We collaborate with academic institutions to obtain independent analyses of high quality.

Research is particularly useful in areas where there is considerable uncertainty and a need to evaluate problems both theoretically and empirically. In our work on responsible investment, there are many unanswered questions, such as the relationship between sustainability and profitability. We have an interest in learning more about these areas and have therefore commissioned research in this field.

We work with academic institutions because this gives us access to independent and established expertise, along with processes for quality assurance. We also aim to integrate expertise from industry and NGOs to strengthen the research projects. The results of the projects are taken into account in the operational management of the fund wherever relevant.

CURRENT RESEARCH PROJECTS

In 2014, we launched a research project with Columbia University and various other academic institutions looking at how sustainability factors impact corporate profitability, with emphasis on gold and copper mining. The research project will explore how factors such as water management, deforestation, land rights and social and regulatory issues impact profitability in the mining industry.

We also participated in the Harvard Institutional Investor Forum, which aims to contribute to debate and exchange of information between research bodies, institutional investors, companies and public bodies. This helps ensure that the fruits of academic research come to benefit our management activities.

DISCUSSION NOTES

By the end of 2014, we had published a total of 29 discussion notes relevant to various aspects of our management. The aim of these papers is to summarise recent academic research and its relevance for the management of the fund in order to contribute to discussion of targets and strategies. The discussion notes are reviewed by external academics before publication in order to ensure high standards of quality and external input. We have published two discussion notes on corporate governance: "Board appointment practices – an international overview" and "Corporate governance".

OWNERSHIP

VOTING

We voted on 105,228 resolutions at 10,519 general meetings in 2014. Voting is one of the most important tools at our disposal for exercising our ownership rights.

We exercise our voting rights in order to safeguard the fund's assets, which includes promoting sustainable development and good corporate governance. Voting is an important formal opportunity to express views, support or hold boards accountable and influence companies.

We have established a set of voting principles to provide the basis for our voting. The principles are based on the fund's strategy for responsible investment and help ensure that our voting is consistent and in keeping with the fund's long-term strategy. Our voting also extends to shares managed by external managers.

It is important for companies to establish governance structures tailored to their particular business, and so we also take account of company-specific factors in our voting decisions.

OECD PRINCIPLE

Ensuring the Basis for an Effective Corporate Governance Framework	The Role of Stakeholders in Corporate Governance	The Rights of Shareholders and Key Ownership Functions	The Equitable Treatment of Shareholders	Disclosure and Transparency	The Responsibilities of the Board

OUR VOTING PRINCIPLES

Encourage companies to create long-term value	Promote sustainable business practices	Seek to enhance shareholder rights	Work for equal financial and equitable treatment of shareholders	Promote timely, adequate and transparent company communication	Hold company boards accountable for decisions and outcomes
We expect that the primary objective of the companies in which we invest is to maximize shareholders' long term value	We believe sustainable business practices can improve the long term performance of companies	Shareholders should have the right to approve fundamental changes affecting the company. To ensure this, companies are expected to establish mechanisms to accommodate the full and free exercise of shareholder rights	We expect the board to demonstrate that it has considered the interest of all shareholders in its decision making and actions	The board should ensure adequate and honest information to the market and shareholders. Reporting should aim at building trust	As shareholders we have entrusted the board to manage capital on our behalf. Consequently, we will hold company boards accountable for outcomes of their decisions

> We exercise our voting rights in order to safeguard the fund's assets, which includes promoting sustainable development and good corporate governance.

THE VOTING PROCESS IN NORGES BANK INVESTMENT MANAGEMENT

PRE-MEETING

We receive notification with supporting documents concerning upcoming annual general meetings from companies via our custodian's network.

All annual general meeting related information, including meeting agenda and external meeting specific analysis, is uploaded to a web-based system accessible to Norges Bank Investment Management.

Initial voting recommendations are issued based on our voting principles.

Vote decisions are made by Norges Bank Investment Management and instructions are sent to companies via our custodian network.

POST-MEETING

Voting instructions are made available on our web site www.nbim.no

THE VOTING PROCESS

We aim to vote at all general meetings of companies we invest in, provided that this is practically feasible. As we hold shares in more than 9,000 companies, it is not appropriate for us to attend all of these meetings in person. Most companies now allow a shareholder to vote without attending in person. This is known as voting by proxy or 'proxy voting'. This normally means that a shareholder appoints a representative to attend the meeting and vote on its behalf. The representative has the same rights as the shareholder to vote at the meeting. This system enables NBIM to exercise our voting rights at thousands of companies worldwide.

All voting decisions are published on our website www.nbim.no the day after the meeting.

BEFORE VOTING

Many of the resolutions proposed by the companies themselves recur from year to year and are not contentious. This means that we can use our voting principles as the basis for many of our voting decisions.

There are, however, cases where our voting principles are less relevant due to the nature of the proposals. One example is an extraordinary general meeting to vote on a merger or acquisition. Contentious resolutions may also require additional analysis. In such cases, we analyse the agenda items carefully and then decide how we will vote.

Where we conduct an in-depth analysis, we aim to include all relevant company information and assessments in our final voting decision. In 2014, voting decisions at 380 companies were taken in conjunction with our investment managers covering these companies. These companies accounted for 39 percent of the equity portfolio's market value.

We seek assistance from a number of sources in obtaining information on matters to be considered at general meetings. For example, we include analyses by our external managers in our voting decisions. All external managers are encouraged to provide opinion and information on the companies they manage on our behalf ahead of general meetings. This information is included in the decision-making process before we vote.

In some cases, our voting decision is the result of a lengthier process involving the company and shareholders. It is common – and in some jurisdictions a requirement – that a company will discuss key agenda items with its largest shareholders ahead of the general meeting.

EXAMPLE: TESCO PLC

NORGES BANK INVESTMENT MANAGEMENT

JANUARY 2014
We revised our global voting to incorporate market reforms, revisions to international principles of best practice and any changes to our own ownership principles.

FEBRUARY–MAY 2014
We met with Tesco three times, including a one-on-one meeting with the Chairman.

24. MAY 2014
Voting ballot created in our web based voting system.

13. JUNE 2014
Internal voting analysis was published on voting platform and shared with internal analysts and portfolio managers.

20. JUNE 2014
Our investment teams review AGM resolutions in context of our ownership considerations and voting guidelines. Company considerations discussed. Vote decision finalized.

23. JUNE 2014
Voteing instructions sent out to the company via the voting chain.

28. JUNE 2014
Our votes was published on our web site www.nbim.no

JULY–OCTOBER 2014
One meeting with the Tesco chairman.

OCTOBER 2014
One meeting with the Tesco chairman and senior independent director.

DECEMBER 2014
We met with the senior independent director.

TESCO

22 FEBRUARY 2014
2014 fiscal year-end for Tesco.

9 MAY 2014
Tesco 2014 Annual Report and Notice of Annual General Meeting published.

27 JUNE 2014
Date of Tesco shareholder meeting.

PUBLICATION BEFORE THE MEETING

In 2014, we announced plans to publish our voting intentions ahead of general meetings at selected companies. We will do this at companies where we believe this advance notice could affect the final outcome of the vote, starting in 2015.

OUR VOTING

In 2014, we voted on 105,228 resolutions at 10,519 general meetings. 97 percent of the resolutions were proposed by the companies themselves, and 3 percent by shareholders. We voted in line with the board's recommendation on 85 percent of these resolutions.

49 percent of the resolutions we voted on were related to the election of directors. We voted in line with the board's recommendation on 84 percent of such resolutions. When we vote against the board's recommendation, this is generally driven by our voting principles, expectations of the company and specific analyses.

We believe that the chairman plays a key role in a company's long-term strategy and value creation. We will therefore pay particular attention to resolutions concerning the chairman and the composition of the board.

Table 2 Voting per region

	2014			2013		
Region	Meetings	Voted	Voted Percent	Meetings	Voted	Voted Percent
Africa	242	171	70.7	241	167	63.9
Asia	4,498	4,486	99.7	4,114	4,099	99.6
Europe	2,528	2,467	97.6	1,989	1,950	98.0
Latin America	531	520	97.9	504	498	98.8
Middle East	194	185	95.4	214	212	99.1
North America	2,311	2,309	99.9	2,314	2,310	99.8
Oceania	382	381	99.7	347	347	100.0
Total	**10,686**	**10,519**	**98.4**	**9,723**	**9,583**	**98.6**

Table 3 Votings related to our principles in 2014

Our voting principles	Item category	Our votes for management. Percent	Our votes against management. Percent
Encourage companies to create long-term value Promote sustainable business practices	Shareholder proposals	84	16
Seek to enhance shareholder rights	Anti-takeover related	74	26
Work for equal financial and equitable treatment of share-holders	Capitalization Reorganization	78	22
Promote timely, adequate and transparent company commu-nication	Routine/Business	94	6
Hold company boards accountable for decisions and out-comes	Remuneration Directors related	83	17

VOTING ON MATTERS OF PRINCIPLE

Some resolutions are given special attention because of the company's size or because they concern a matter of principle. In 2014, we voted against the re-election of the joint chairman and CEO at both JP Morgan Chase & Co. and Goldman Sachs Group, Inc. It is our view that there should be a clear division of responsibilities between the chairman of the board and executive management. We believe such a division will ensure better supervision of management and a balance of power in the governance of the company. We also voted against the issue of new preference shares by Bayerische Motoren Werke AG (BMW). Ordinary shares carry voting rights, whereas preference shares do not. In keeping with our view that all shareholders should be treated equally, we believe that the company should instead issue ordinary, voting shares.

SHAREHOLDER RESOLUTIONS

Shareholder resolutions accounted for 3 percent of the resolutions we voted on in 2014. Governance issues accounted for about 95 percent of these resolutions, and sustainability for around 5 percent. We voted in favour of 45 percent of shareholder resolutions related to sustainability.

DIRECTOR RELATED RESOLUTIONS

VOTING PRINCIPLE

Norges Bank Investment Management will hold company boards accountable for their decisions and outcomes

GOAL

Chairmanship	Independence	Effective committees	Expert knowledge	Commitment

NORGES BANK INVESTMENT MANAGEMENT'S POSITION

The roles of CEO and Chairman are fundamentally different	A board should be comprised of individuals with independent and diverse perspectives	Key board committees should be fully independent	A board should have at least one outside director with direct industry knowledge	Directors should not become over committed to other public and private roles

ACCOUNTABILITY MEASURE

We may vote against re-election of a combined CEO/Chairman	We may vote against the re-appointment of non-independent directors until the board is balanced	We may vote against the re-election of the chairman of the nominating committee	We may vote against the re-election of the nomination committee	We may vote against the re-election of an over-boarded director

SHAREHOLDER PROPOSALS

CEO/CHAIRMAN SEPARATION

We supported shareholder proposals for the separation of the roles of CEO and Chairman at five US banks.

SUSTAINABILITY REPORTING

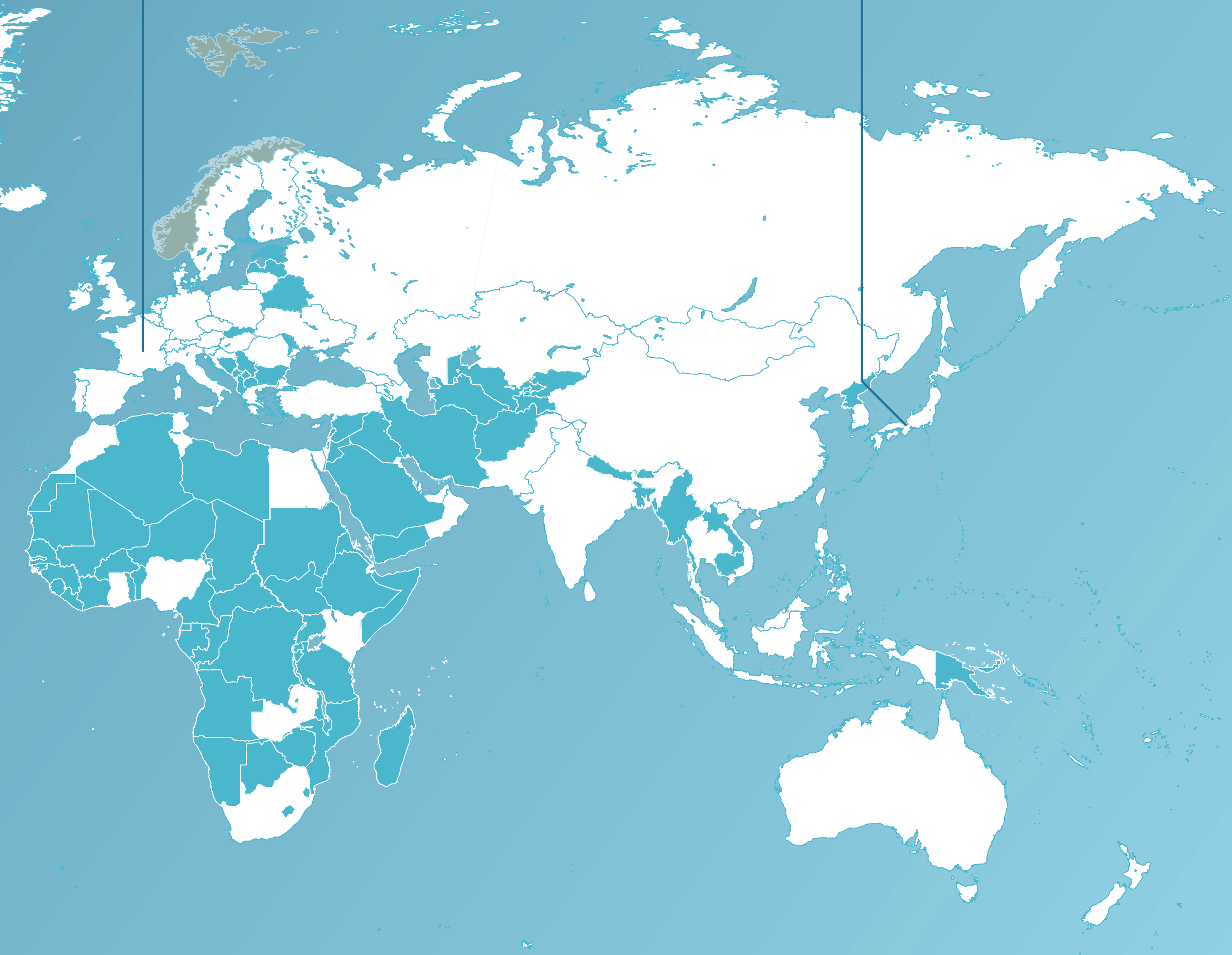
Supported four shareholder proposals in the consumer goods sector that requested a report on how they identify and analyse human rights risks in their direct operations and supply chain.

SHAREHOLDER RIGHTS

Supported an outside director appointed by minority ordinary shareholder representative of Petroleo Brasileiro SA. It has not been common practice for companies in Brasil to disclose the name of the board nominee appointed by minority holders in advance of the meeting date, hence making it difficult for international investors to make an informed decision. Petroleo Brasileiro SA timely disclosed this in advance of their 2014 meeting.

EQUAL TREATMENT
We voted against both management- and shareholder proposals in France asking to allow loyalty dividends to long-term registered shareholders.

BOARD INDEPENDENCE
We supported a shareholder proposal at East Japan Railway Co asking for an amendment to the company's articles to require at least three outsiders on the board of directors.



THE FUND'S GLOBAL INVESTMENTS ARE MARKED IN WHITE

OWNERSHIP

INTERACTION WITH COMPANIES

As a large, long-term investor, we have an opportunity to engage in dialogue with companies. Our holding size gives us direct access to senior management and specialists at the companies we invest in.

In 2014, we held 2,641 meetings with companies. We met some companies several times.

> As a shareholder, we have an interest in companies' decision-making processes and operations.

As a shareholder, we have an interest in companies' decision-making processes and operations. We perform financial analyses, monitor performance and engage in dialogue with the companies. We believe it is important for companies that shareholders have an insight into a company's operations and communicate their views based on their own analyses.

We encourage the companies we invest in to be open in their public disclosures as this contributes to efficient markets and equal treatment of shareholders. Companies' main communication channels are their public reports and their websites. Another important channel is investor meetings, which can take place in connection with public events such as general meetings or open conference calls. There are also other occasions where company representatives and investors can engage in dialogue, such as meetings with individual investors, group meetings and site visits.

COMPANY MEETINGS IN 2014

We raised environmental, social and governance issues at 623 – almost a quarter – of our meetings with companies in 2014. Meeting company executives and experts gives us an opportunity to learn about companies' operations, prospects and governance. These meetings are also a good opportunity to present our views on ownership, sustainable business practices and reporting expectations.

It is generally our own investment managers who meet companies' senior managers, investor relations officers and other specialists directly involved in their operations, strategy and ownership issues. We consider it important that environmental, social and governance issues are managed by the company and integrated into its reporting.

Table 4 Company meetings by sector in 2014. FTSE sector classification

Sector	Company meetings	Share of portfolio weight. Percent
Consumer Goods	385	8.8
Consumer Services	223	4.0
Basic Materials	220	3.5
Health Care	52	2.9
Financials	726	16.2
Industrials	462	6.5
Oil & Gas	190	4.0
Utilities	142	2.7
Technology	122	3.3
Telecommunications	119	2.8
Total	**2,641**	**54.7**

ISSUES ADRESSED WITH KEY GROUPS

Chairman
Strategy and ambition
Company culture
Shareholder relations
Succession planning
Shareholder meeting agenda
Sustainability issues

Management
Strategy implementation
Operations
Financials and budget
Organizational structure
Shareholder dialogue
Risk controls
Sustainability

Board members
Company governance
Audit process and policy
Executive remuneration
Shareholder meeting agenda
Capital allocation

Specialists
Market/product
Supply chain
Research and development
Finance, audit & risk
Sustainability issues

Company secretary
Company administration
Board administration
Communication between board and shareholders
Shareholder meeting agenda

Investor relations
Communications
Strategic management
Matters for Annual general and extraordinary meetings
Sustainability issues

> Given the size of the fund, we will often be one of the largest shareholders in a company in terms of the percentage of voting rights held.

CONTACT WITH PRIORITY COMPANIES

In our ownership work, we prioritise contact with companies on the basis of holding value, ownership share, specific issues and companies that present particular challenges. We do this to safeguard the fund's assets.

The fund's 50 largest investments by market value had a combined value of 885 billion kroner and accounted for 23 percent of the market value of the fund's equity portfolio at the end of 2014. Given the size of the fund, we will often be one of the largest shareholders in a company in terms of the percentage of voting rights held. At the end of 2014, 10 percent of the fund's equities were invested in companies where we had more than 3 percent of the votes.

PRIORITY ISSUES

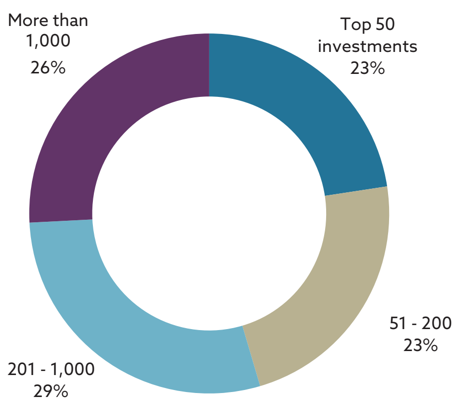
We prioritised a number of issues in our interaction with companies in 2014. These included shareholder rights, board composition and reporting on carbon emissions and other sustainability aspects.

During the year, we engaged in dialogue with companies that we believed to be industry leaders. We also had a dialogue with companies whose operations presented challenges in the local environment. In addition, we looked at a number of company-specific incidents that occurred during the year. We include this knowledge of industry standards and challenges in our other work.

Shareholder rights

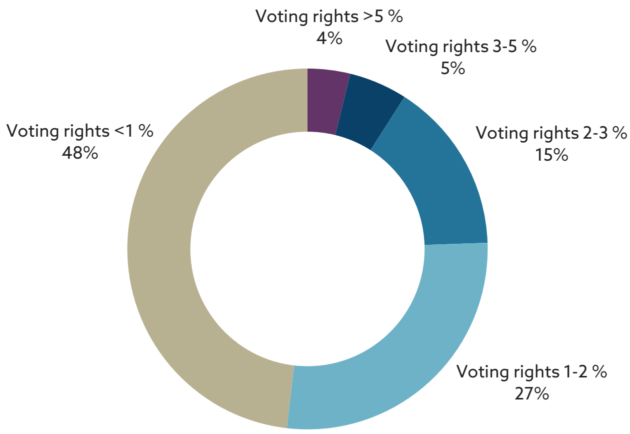
We aim to strengthen shareholders' rights and promote equal treatment. If shareholder rights are not protected, we become exposed to unfair or unpredictable distributions of capital rights. Weak shareholder rights can lead to a loss of value in the fund. In keeping with the OECD Principles of Corporate Governance, we believe that companies should apply the principle of "one share, one vote" so that a shareholder's voting rights and dividend entitlements reflect the size of his holding. Shareholders should have the right to nominate and dismiss directors at general meetings, receive adequate information in good time, file shareholder resolutions at general meetings, and approve significant changes to a company's bylaws and capital structure.

Chart 1 Equity investments by size. Share of market value of total equity investments. Percent



* Total may not sum to 100 due to rounding

Chart 2 Distribution of voting rights in equity portfolio holdings. Share of market value of total equity investments. Percent



EXAMPLES OF COMPANY DIALOGUE IN 2014

COMPANY	SECTOR	PURPOSE OF DIALOGUE
The board's decision process		
Astra Zeneca Plc	Health Care	The board's assessment of potential acquisition
Renault S.A.	Consumer Goods	The board's nomination process
BG Group Plc	Oil and Gas	Management succession planning
Veolia Environnement S.A.	Utilities	Corporate governance and strategy development
Equal treatment of shareholders		
Air Liquide S.A.	Basic Materials	Upheld principle of one share one vote
BMW AG	Consumer Goods	Issuance of preference shares
KPN NV	Telecommunications	Protection of minority shareholders
Novartis AG	Health Care	Voting cap
Proxy access		
The Coca-Cola Co	Consumer Goods	The right to nominate board candidates
Apple Inc	Technology	Input to the board's assessment of the right to nominate board candidates
Whole Foods Market Inc	Consumer Services	The board's unreasonable conditions for the right to nominate baord candidates
Pfizer Inc	Health Care	The right to nominate board candidates
Independent chair person		
Merck & Co Inc	Health Care	Separation of roles upon next leadership succession
JP Morgan Chase & Co	Financials	Chairperson independent of company management
Bank of America Corp	Financials	Bylaw change on election of chairperson
The Southern Co	Utilities	Separation of roles upon next leadership succession
The board's qualifications		
Tesco Plc	Consumer Services	Board composition and industry experience
Daimler AG	Consumer Goods	Industry experience and board renewal
Royal Dutch Shell Plc	Oil and Gas	The board's process for selection of chair person
Barclays Plc	Financials	Chair person succession planning

Proxy access
We have filed resolutions on a number of occasions to give shareholders in US companies the right to nominate directors at annual general meetings on the company's own ballot, known as proxy access. This helps give shareholders greater influence over the composition of the board.

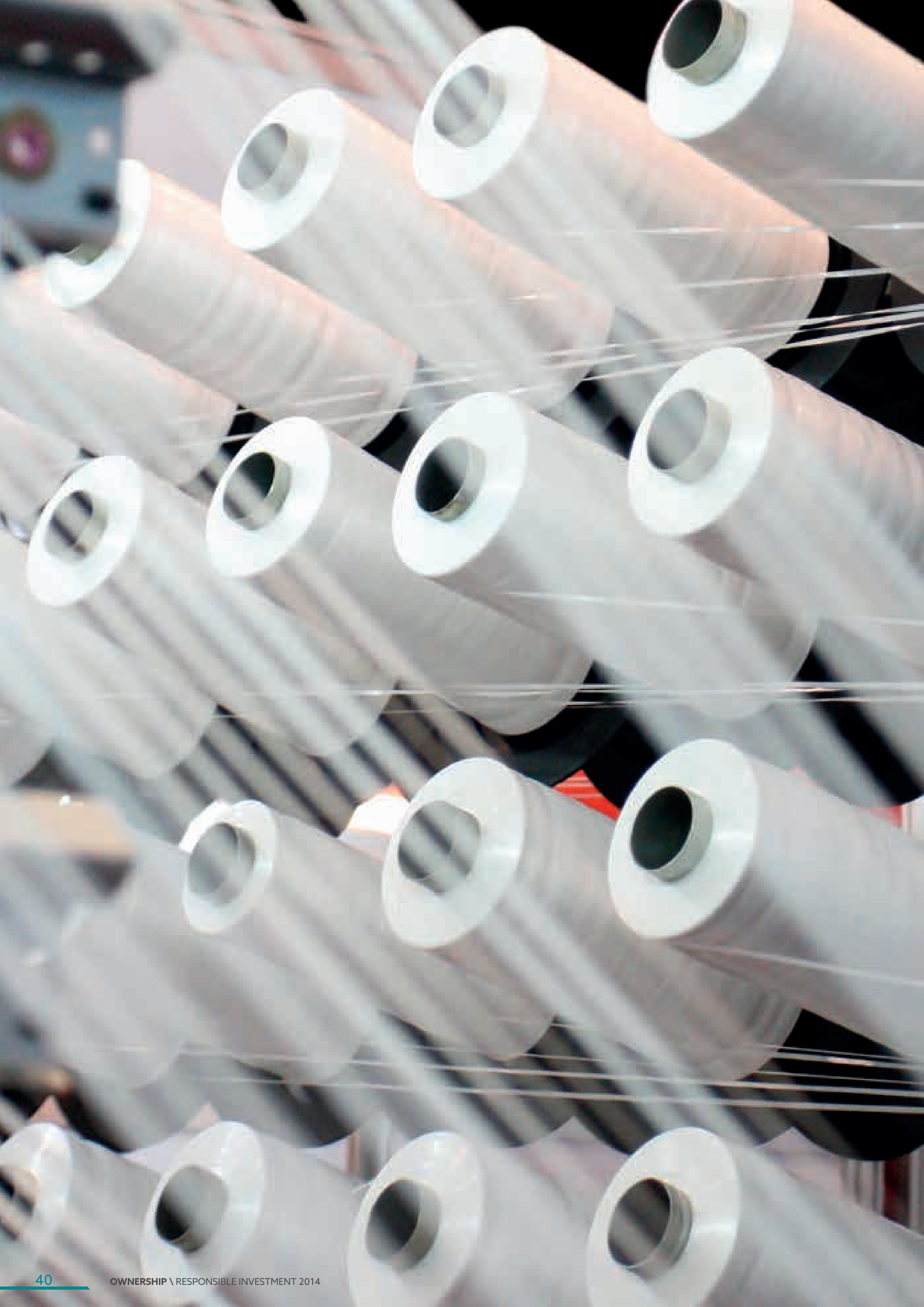
We engaged in dialogue with 25 companies believed to have considerable influence in their respective industries. The main aim was to encourage boards to support proxy access reforms and introduce proxy access in their bylaws.

Equal treatment of shareholders
We raised the principle of "one share, one vote" with 27 companies, including a number of our largest European equity investments, mainly in France, the Netherlands, Germany and Switzerland. A well-functioning shareholder democracy is best achieved when shareholders' influence corresponds to the capital they have invested.

The board's decision-making process
We contacted 38 companies concerning the board's decision-making process. The board of a company consists of shareholders' elected representatives, and we therefore delegate authority to the board. Consequently, it is important for us to enter into dialogue to reach a better solution if we believe that the outcome of the board's decision-making process is not in the interests of minority shareholders, or if we are uncertain about the strategic choices that have been made.

Independent chairman
We contacted 21 companies about the role of chairman. The chairman should be independent of a company's management. We believe that this ensures better supervision of management and a balance of power in the governance of the company. The roles of chairman and CEO of a company are very different and very demanding, and are therefore best fulfilled by two separate people. This is particularly relevant in the financial sector and for systemically important institutions.

The board's skills and composition
We had a dialogue with 50 companies concerning the board's skills and composition. We believe that directors should have skills that meet the companies' needs. The board's ambition must be to create value for the company and shareholders, and so it should regularly review and define the different roles that its members are to fulfil. Shareholders should have the right to nominate, elect and dismiss directors at general meetings.



Standards of sustainability reporting

We have published expectations documents setting out what we expect of companies when it comes to children's rights, climate change management and water management. We regularly evaluate how the companies we invest in live up to these expectations. The results are used as a basis for contact with companies with weak or non-existent reporting.

This dialogue follows a procedure where we initially contact the company's chairman and request a formal response. In the absence of a response, or if the response is incomplete, we follow up. If our expectations are not met, we may vote against the re-election of directors.

In 2012, we wrote to 60 companies urging them to improve their reporting in these areas. We believe that this can also help inspire other companies in the same industry to follow suit.

In 2013, we informed companies that had not responded to our letters or reminders that we would be considering the consequences of this lack of response for our voting at future general meetings. We also sent out letters to a further 295 companies about their reporting.

In 2014, we engaged in dialogue with a selection of companies that had responded to our letters. 30 companies that had neither answered our letters nor improved their reporting received a new letter urging them to improve their disclosures and informing them of the possible consequences for our voting.

For example, we encouraged the textile company Far Eastern New Century Corp. , the retailer Sports Direct International plc and the food producer Viscofan S.A., among others, to improve their reporting on children's rights. We also asked the oil & gas companies Rosneft OAO, Whiting Petroleum Corp., Oil India Ltd. and HollyFrontier Inc. to improve their reporting on climate change, and urged the mining companies Torex Gold Resources Inc. and Argonaught Gold Inc. and the utilities company Kyushu Electric Power Co. Inc. to improve their reporting on water management. These companies reported little information on these topics between 2012 and 2014.

ENGAGING WITH BOARDS

We held a series of meetings during the year with the chairmen of the companies where we have our largest investments. The focus was on the companies' long-term strategy.

The chairman and other directors of a company are the most important points of contact for us as shareholder. The board is responsible for the company's long-term strategy. It should hold management accountable and communicate the view of shareholders. The chairman is responsible for ensuring a well-functioning board. We therefore hold various meetings with company chairmen to discuss the board's working culture and dynamics. We also discuss how chairmen ensure useful debate and safeguard the quality of the board's work.

Serving as the chairman of a large company is a demanding task. It is therefore important to us that the chairman has sufficient time to fulfil this role. At the same time, we note that many chairmen sit on numerous boards. If their workload appears particularly heavy, we will discuss the challenges this may present.

We are also interested in succession planning for companies' CEOs and directors. We look at the knowledge and experience required of future executives and assess the structures companies have in place for nomination processes.

NOMINATION COMMITTEES IN SWEDEN

We prioritise participation in a number of nomination processes by serving on nomination committees or having a direct dialogue with the chairman of the board. In 2014, we sat on the nomination committees at Volvo AB and Svenska Cellulosa AB (SCA) in Sweden. In such contexts, we seek advice from our Corporate Governance Advisory Board.

The main role of Swedish nomination committees is to nominate candidates for the company's board, including the chairman. In addition, they make recommendations on the remuneration of directors and possibly also on the choice of auditor. The nomination committee also assesses whether the proposed chairman can be considered independent not only of the company and management but also of the majority of shareholders.

CORPORATE GOVERNANCE ADVISORY BOARD

NBIM set up a Corporate Governance Advisory Board (CGAB) in 2013 to strengthen its long-term active ownership work. In 2014, the CGAB focused on our engagement with companies.

The CGAB is an external body that provides strategic advice on our long-term active ownership work. It also offers tactical recommendations on our ownership work.

The CGAB held five meetings in 2014 where it presented its input. Its members also attended a meeting with Norges Bank's Executive Board to discuss corporate governance and the CGAB's work, and were called upon between scheduled meetings to provide advice.

CHAIRMAN MEETINGS IN 2014

THEME	CONSIDERATIONS
Approach to chairmanship	Style, focus, tone, commitment
Strategy setting	Working with the CEO and management
Role of board members	Commitment, competence, collective dynamics
Nomination of directors	Selection and evaluation process
Shareholder consultation	Approach, input, the approach to open dialogue
Accountability	Avoid entrenchment / open for changes
Corporate governance	Structural and behavioral considerations
Sustainable business practices	Long term and strategic decision making

MEMBERS OF THE CORPORATE GOVERNANCE ADVISORY BOARD

The Corporate Governance Advisory Board consists of three acknowledged experts with international reputations in the corporate governance field: John Kay, Anthony Watson and Peter Montagnon.

John Kay is an economist and writer focusing on the relationship between business and economics. He is a visiting professor of economics at the London School of Economics and a Fellow of St John's College, Oxford, the British Academy and the Royal Society of Edinburgh. He chaired the Kay Review of the UK equity markets and long-term decision making.

Anthony Watson is a director of Lloyds Banking Group, Hammerson and Witan Investment Trust. He has previously served as chief executive at Hermes Pensions Management, a member of the Financial Reporting Council, chairman of the Marks & Spencer Pension Trust and a member of Norges Bank's Executive Board's advisory committee on the supervision of investment management.

Peter Montagnon is associate director of the Institute of Business Ethics and a board member of Hawkamah, the Institute for Corporate Governance. He was previously Head of investment affairs at the Association of British Insurers and a journalist at the Financial Times. He has also served as a member of the European Commission's Corporate Governance Forum and chairman of the International Corporate Governance Network.

CORPORATE GOVERNANCE ADVISORY BOARD ACTIVITIES IN 2014

TOPIC	ACTIVITY
Policy	Review of internal policies and procedures relating to our corporate governance strategies
Principles	Advice on ownership principles within an investment context Recommended additions to our position papers
Voting	Review of global voting guidelines Input on sector and market adjustments
Company interaction	Strategic guidance on prioritisation Handling company expectations Advice on engagement strategies
Remuneration	The role of shareholders in defining remuneration schemes Best practice advice
The role of the Board	Detailed consideration on board composition and board succession
Company cases	Strategic advice on contentious company cases

RISK MANAGEMENT

MONITORING RISK

We analyse risks relating to environmental, social and governance issues. Our risk assessments and surveys covered more than 1,533 companies in 2014.

We enhanced our work on monitoring risk of portfolio holdings during the year. We looked at 917 companies as part of our focus area analysis, 481 companies were analysed as part of nine sector assessments, and 135 companies in various types of company reports. Through our analyses of environmental, social and governance issues, we seek to to identify, assess and report on risk. The aim is to contribute greater insights on companies and portfolio risks. We look at issues that could have a significant impact on an individual company or on the fund's overall investments. Risk is analysed at country, sector and company level. The assessments are integrated with other fundamental company analysis and form part of our efforts to gain more knowledge of companies and sectors.

Our risk-based approach means that we perform more general, overarching assessments before going into specific issues in greater depth. In some cases, we follow this up by contacting companies or adjusting the portfolio. International standards such as the OECD's Guidelines for Multinational Enterprises have been useful in the development of our risk framework.

COUNTRY ANALYSIS

When analysing country risk, we look at the risk of violent conflict, violations of human rights and political terror. We also assess the legal system, the protection of property rights and the risk of corruption. We are currently in a phase where we are increasing investments in emerging markets, and we are therefore attaching importance to analysing new markets in the investment universe.

In specific cases, there may be a need for further analyses. In 2014, for example, we analysed a number of Nigerian companies. In these company analyses, we focused on business models and drivers, as well as environmental, social and governance risks.

SECTOR ANALYSIS

We conducted nine sector assessments during the year, covering a total of 481 companies. We assessed risks that companies in the same sector may be exposed to. This included analysis of business models and sectors' growth drivers, as well as environmental and social issues and their possible impacts on financial returns.

Three of the sector assessments covered segments of the mining sector: coal mining, general mining and the production of gold, platinum and other precious metals. The analysis focused particularly on the environmental operational challenges of these industries. Specific mines may present environmental and social challenges, and there may also be systematic risks in specific geographical areas.

We also took a close look at cement production and the challenges it presents in terms of greenhouse gas emissions. Cement is expensive to transport, and production takes place in many different parts of the world. Therefore, the domestic regulatory environment is the most relevant factor for cement producers.

Two sector assessments looked at power production and oil sands. Greenhouse gas emissions from power production depend on the fuel mix. We focused particularly on coal-fired power plants. The analysis of oil sands explored the challenges related to water resources and greenhouse gas emissions.

Another sector analysis dealt with paper production, with the focus on sustainable forestry practices and certification schemes. We also produced sector assessments as part of our work related to our focus areas.

Table 5 Sector analysis

Sector	Number of companies
General mining	85
Platinum and precious metals	18
Coal mining	37
Conventional electricity	149
Multiutilities	30
Pulp and paper	50
Construction and materials	52
Oil and gas producers	31
Various sectors in Indonesia, Malaysia and India	29

MATERIAL IMPACT

As part of our risk monitoring, we assess what could have a material financial impact on companies. This is done through quantitative and qualitative analyses based partly on companies' financial reporting. To assess whether parts of a company's activities are material, we often consider the percentage of revenue they generate. Some regulators and accounting standards require circumstances affecting more than 5 percent of a company's revenue to be communicated to investors as this may be relevant for their assessment of the company.

COMPANY REPORTS

In 2014, we produced 135 company reports looking at corporate governance, environmental and/or social issues. We divide these assessments into three categories:

Material ownership reports: We analyse companies where the fund has a significant investment, in terms of both ownership share and market value. In these analyses we aim to identify and evaluate exposures and potential risks in both the short and the long run. We assess factors that could impact these companies' operations and profitability. A total of 14 such reports were prepared in 2014.

Incident briefs: We monitor companies and markets using various information systems and global media monitoring to capture incidents that may be relevant for the portfolio. After an initial evaluation, incidents and companies are selected for further analysis in an incident brief. We may then need to perform a more in-depth company analysis. We prepared 41 company briefs in 2014, covering incidents such as alleged corruption, fraud, violations of human rights, emissions and environmental damage.

Company reports: Some of the sector assessments and incident briefs uncovered a need for further analysis of individual companies. Company reports analyze in more detail business drivers and risk factors for a specific company. We assess whether and how environmental, social and governance issues could affect the company and the value of our investment. We prepared 80 such reports in 2014. These included reports on companies in particularly challenging countries, issues related to corporate taxation, and a variety of environmental and social issues.

Table 6 Company risk analysis by topic

Topic	Number of companies
Corporate governance, including tax issues	35
Human rights and international law	24
Labour rights and occupational safety	11
Corruption, accounting practices and fraud risk	9
Environmental risks	7
Regulatory risk	3
General analysis of environmental, social and governance risks	46
Total	135

POLLUTION

In October 2013, the Ministry of Finance requested Norges Bank to follow up the environmental impact of AngloGold Ashanti's mining operations through active ownership over a five-year period. The Ministry also asked us to include environmental issues in the Niger delta in our active ownership work with Royal Dutch Shell and Eni for a period of five to ten years.

MINING IN GHANA

Ghana is one of the world's largest gold producers. AngloGold Ashanti operates two mines in Ghana, including one at Obuasi. The area around the Obuasi mine is polluted, and studies show that both ground and surface water locally contains elevated concentrations of various heavy metals due to mining activities. The mine provides employment in the local area, but also impacts local communities through pollution and displacement.

We met representatives of the company's management on several occasions in 2014, and AngloGold Ashanti began to modernise parts of its Obuasi operation during the year to make it more sustainable. This will be a long-term process.

THE NIGER DELTA

Nigeria is Africa's largest oil producer. Companies involved in onshore oil production in the Niger delta have been criticised for pollution from oil spills and gas flaring and violations of human rights.

The Council on Ethics looked at oil spills in its recommendation. It found that the Niger delta is an unusually complex area to operate in.

We met representatives of both companies on several occasions during the year and were informed about further progress in their work and how it will be measured. This will be a long-term process.

Royal Dutch Shell and Eni are working on reducing operational incidents and emissions and reporting on them openly. During the year, Royal Dutch Shell and Eni announced the sale of some of their onshore activities in the Niger delta through their joint venture SPDC following a strategic review.

Gold mining at Obuasi in Ghana

The Niger delta

RISK MANAGEMENT

INDUSTRY INITIATIVES

We review selected issues across the companies in the portfolio. We also attach importance to developing and improving the available data.

Our work on industry initiatives has two main angles: we wish to develop and improve the information available to us as an investor, and we wish to support initiatives that can help companies manage risk.

The volume and availability of data remain a challenge, especially when it comes to environmental and social issues. This may be particularly challenging in certain countries and regions. To monitor risk and enhance our understanding of companies and sectors, we depend on structured information of high quality. We are therefore working on further developing our information systems and collaborating with external service providers and researchers to improve access to information and data.

In 2014, we launched a broad-based initiative to collect and structure quantitative information on environmental, social and regulatory issues with an emphasis on the mining sector. Partners include Columbia University, World Resources Institute and the Rights and Resources Initiative.

We also support initiatives that can help companies deal with special environmental and social challenges. Sector-specific challenges may

be difficult for companies to tackle individually, making coordination useful. Government plans can be coordinated with initiatives on the companies' part, and investors can lend their support. Industry standards, for example, can help companies manage systematic challenges consistently.

We have helped launch various initiatives, such as the industry standard to combat child labour in India's cottonseed sector. We believe that it is most appropriate that companies themselves and their trade associations to take a leading role in such initiatives. When companies are in the driving seat, the initiatives will often have more credibility and a greater chance of success. Shareholders can offer support and sometimes also play an advisory role.

Some industries operate certification schemes, such as the RSPO standard for sustainable palm oil production and the FSC standard for sustainable forestry. Certification may be particularly relevant in industries where there are information asymmetries between producers, customers and investors. The use of certification schemes can help markets function more efficiently.

INDUSTRY INITIATIVES

INDUSTRY	Mining	Sectors particuarly exposed to water risks	Mining	Palm oil production	Cocoa suppliers and chocolate manufactures	Cotton-seed
TOPIC	Collecting and structuring quanti-tative information related to environ-mental, social and regulatory factors relevant for mining companies. Multi-stakeholder initiative	Granularity of data on water related risks, dialogue with CDP Water	Possible standard for conflict-free mining	Tropical deforestation in South East Asia. Existing standard for responsible palm oil	Action plan against child labour in Western Africa	Industry standard for efforts against child labour in Indian cottonseed production.

FOCUS AREAS

Through our focus areas, we work on selected issues that are relevant across multiple sectors. Each year, we assess corporate reporting on children's rights, water management and climate change.

We have three focus areas dealing directly with environmental and social issues: children's rights, water management and climate change. We have formulated expectations in each of these areas for how companies should manage risk and report on their activities.

Each year, we assess whether companies have guidelines, strategies, business plans and reporting that suggest that they are well prepared to manage these risks. These assessments cover specific sectors that we consider especially relevant. The annual focus area assessments are used to identify companies with good reporting practices and those that need to improve their disclosure on these issues and on their risk mitigation strategies.

We performed 917 company assessments in 2014, of which 415 were related to climate change management, 269 to water management and 233 to children's rights. The companies assessed accounted for 25 percent of the equity portfolio's market value at the end of the year.

In 2014, we also assessed the greenhouse gas emission intensity of companies in the equity portfolio and made adjustments to the portfolio, which contributed to a reduction of the fund's overall emission intensity. Our calculations showed that overall emission intensity was lower than for the fund's equity benchmark index.

We have three focus areas dealing directly with environmental and social issues: Children's rights, water management and climate change.

CHILDREN'S RIGHTS

We expect companies to protect children's rights in their operations. They should have adequate systems in place and report on their activities. We have been assessing selected companies with activities or supply chains in sectors with a high risk of child labour since 2008.

WATER MANAGEMENT

Limited supplies of water and water quality are a growing risk for many companies. We expect those in particularly high-risk industries to have a clear strategy for water management. We have been assessing companies exposed to water-related risk since 2010.

CLIMATE CHANGE

We expect companies to analyse how the challenges of climate change will impact their operations and to develop plans and targets for managing climate risk. We have been assessing selected companies exposed to climate risk since 2010.

> Large companies in the branded goods and garment production sectors, showed the best reporting on children's rights.

CHILDREN'S RIGHTS

We have been assessing selected companies exposed to child labour risks since 2008. The companies in question have activities or supply chains in high-risk sectors. In 2014, we assessed 233 companies in the basic resources, consumer goods, garment production, retail, technology hardware & equipment and food & beverage sectors. The assessment was based on the companies' most recently reported information.

The companies' reporting was evaluated against ten indicators. The number of companies assessed that had guidelines for managing child labour risk varied from 100 percent in the retail sector to 59 percent in the basic resources sector. Companies generally had lower scores for other indicators such as procurement of raw materials, systems for monitoring child labour in the supply chain and reporting on the results of work to combat child labour. Our findings also revealed variations from sector to sector, and that a number of companies did not report on the management of child labour risk as set out in our expectations document.

We also identified 60 companies that showed very good results on our ten indicators in 2014. Reporting on children's rights was best among large companies in the branded goods and garment production sectors. Many of these companies have globally recognised brands and supply chains in countries with a high risk of child labour.

Best results in children's rights. Examples from various sectors
Anglo American Plc
Bayer AG
Coca-Cola Co
Danone SA
Nestle SA
Adidas AG
Next Plc
Hennes & Mauritz AB
Telefonaktiebolaget LM Ericsson
Intel Corp

Chart 3 The fund's holdings in companies we have assessed within children's rights in 2014, by sector. Billion kroner

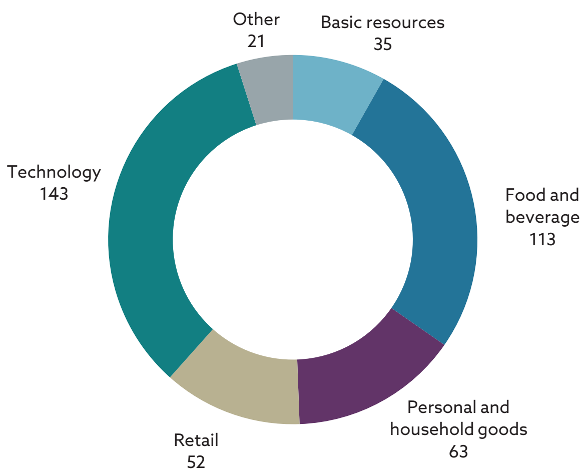
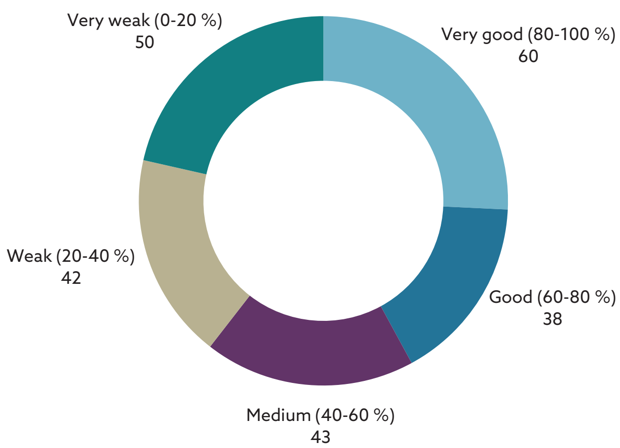
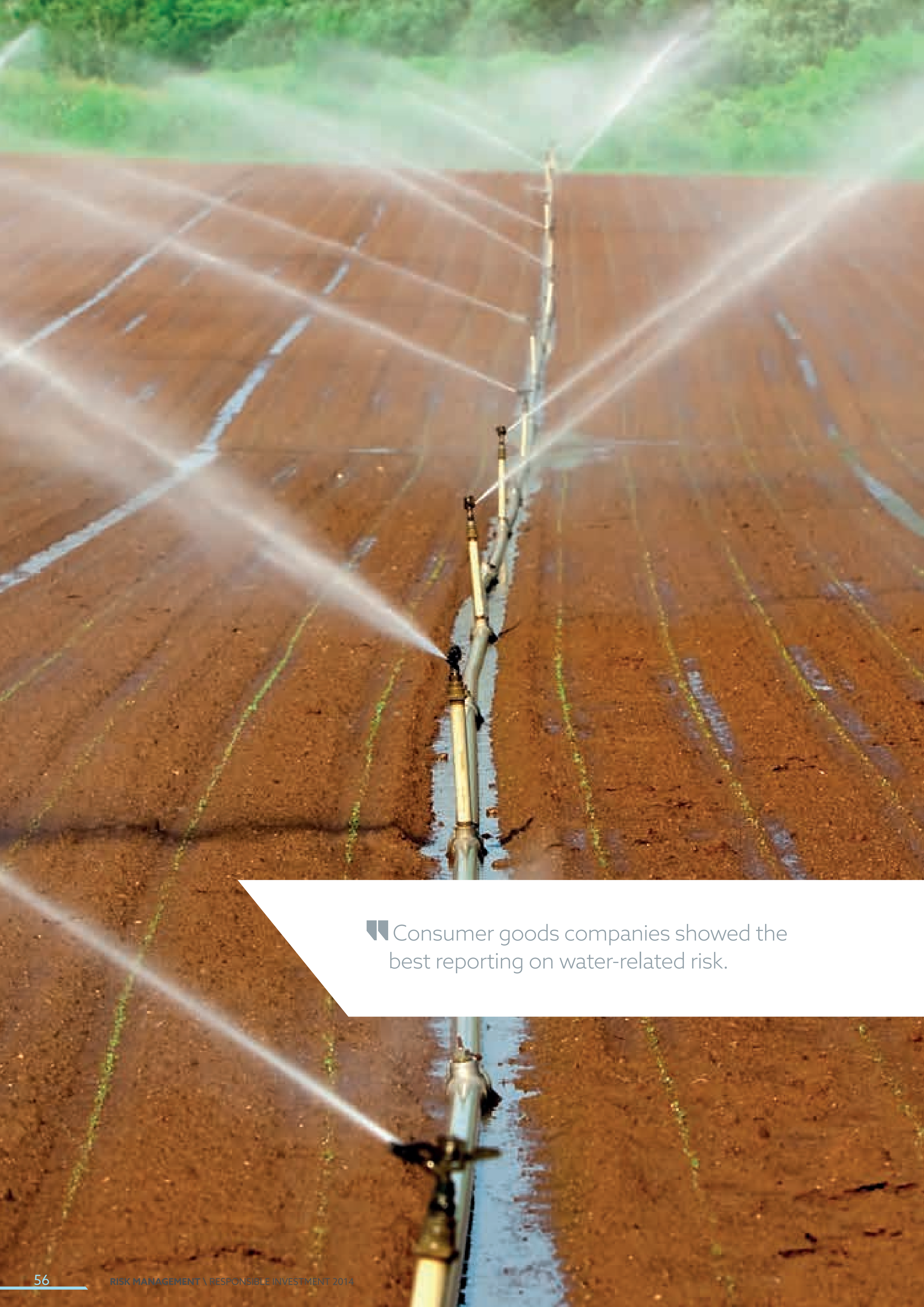


Chart 4 Results for companies we assessed within childrens rights in 2014. Number of companies





> Consumer goods companies showed the best reporting on water-related risk.

WATER MANAGEMENT

We have been assessing companies exposed to water-related risk since 2010. In 2014, we assessed 269 companies in the consumer goods, pulp and paper, mining and utilities sectors. The assessment was based on the companies' most recently reported information.

The companies' reporting was evaluated against five main indicators. There was considerable variation in the level of reporting of water-related risk. The share of companies that had published information related to water management ranged from 63 percent in the mining sector to 89 percent in the electricity and water utilities sectors. There were major differences between companies when it came to information on risk assessments and risk mitigation strategies. The results also varied from sector to sector. Our analysis showed that around 10 percent of companies provided no relevant information on water-related risk.

We also identified 36 companies that showed very good results on our five main indicators in 2014. Consumer goods companies had the best reporting on water management, likely reflecting that water is an important input in farming and food production.

Best results in water management. Examples from various sectors
Danone SA
SABMiller Plc
Anglo American Plc
Anglo American Platinum LTD
Exelon Corp
EDP - Energias de Portugal SA
Mondi Plc
UPM-Kymmene OYJ
Pepsi Co Inc
The Coca-Cola Co

Chart 5 Fund's holdings in companies we have assessed within water management in 2014, by sector. Billion kroner

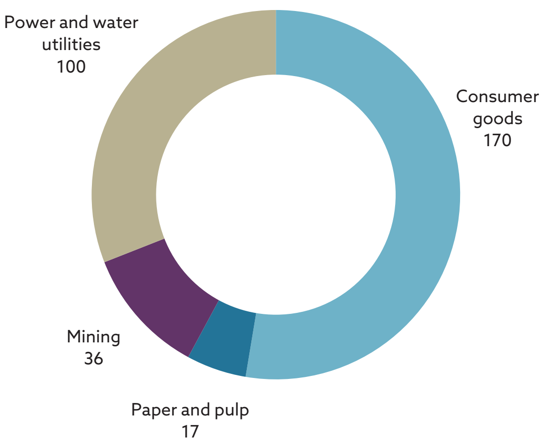
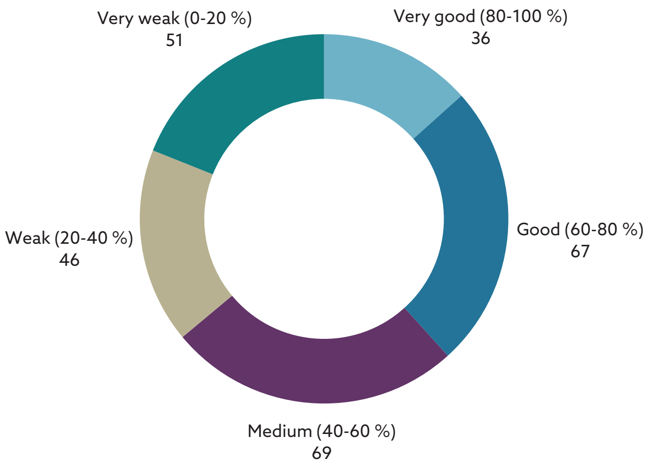


Chart 6 Results for companies we assessed within water management in 2014. Number of companies



Power companies showed the best reporting on emissions, while oil & gas companies reported the largest reduction in emission intensity relative to the previous year.

CLIMATE CHANGE MANAGEMENT

We have been assessing selected companies exposed to climate risk since 2010. In 2014, we assessed 415 companies in six sectors with particularly high climate risks: basic resources, building materials, chemicals, oil & gas, power generation and transport. The assessment was based on data reported to CDP in 2014 and selected supplementary data from Trucost, a supplier of sustainability data.

The criteria in the assessment included companies' management of climate risk in their governance structure, reporting and changes in actual emissions. There was considerable variation in the level of reporting of climate risk between both companies and sectors. The number of companies that published analyses of exposure to climate risk ranged from 49 percent in the oil & gas sector to 82 percent in the utilities sector. Power companies were the best at reporting on emissions, while oil & gas companies reported the largest reduction in emission intensity relative to the previous year.

In 2014 we identified two companies that showed very good results on our climate indicators. These were in the oil & gas and transport sectors and showed both the best reporting and the largest reductions in carbon intensity.

25 percent of the companies in the selected sectors did not respond to our request to provide information on climate risk in their governance structure and report data to CDP's climate change programme.

Best results in climate change. Examples from various sectors
Woodside Petroleum Ltd
SAS AB
National Grid Plc
Oil Search Ltd
Encana Corp
Air Products & Chemicals, Inc.
E.ON SE
Kawasaki Kisen Kaisha, Ltd.
Canadian National Railway Company
Taiheiyo Cement Corp

Chart 7 Fund's holdings in companies we have assessed within climate change in 2014, by sector. Billion kroner

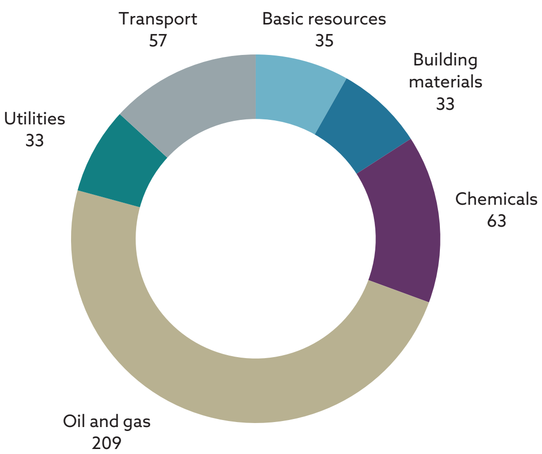
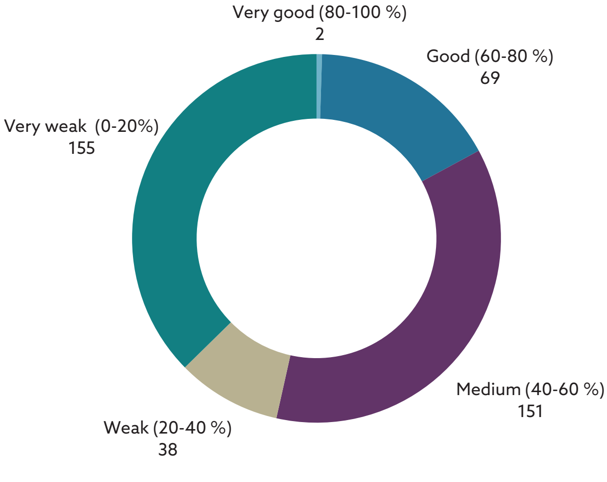


Chart 8 Results for companies we assessed within climate change in 2014. Number of companies



GREENHOUSE GAS EMISSIONS FROM COMPANIES IN THE FUND'S EQUITY PORTFOLIO

To gain a better picture of the fund's climate risk, we analyse greenhouse gas emissions from the companies in our equity portfolio. High emission levels at the individual company level can result in climate risk, for example, via future regulatory changes and technological advances. We believe that a good starting point is to assess greenhouse gas emissions relative to a company's size. Our analyses are based on extensive use of modelling by specialized data providers, because not all companies report sufficiently standardised data.

The companies in the equity portfolio at the end of 2014 released approximately 5.6 million tons of CO_2 equivalents during the year on average, weighted by the value of our holdings. This corresponds to 159 tons per million US dollars of revenue, which is slightly lower than the estimate for the fund's equity benchmark index. It is also possible to perform calculations that include emissions of greenhouse gases in companies' supply chains – from purchased electricity and heat, for example. However, since our portfolio is so large and diversified, it may be more appropriate to look at direct emissions in order to avoid double counting. In our analyses of products and individual companies and sectors, it may nevertheless be relevant also to look at greenhouse gas emission intensity measures that include purchased electricity and steam.

Our analysis was based on the most recently available emission data from our suppliers and on our holdings at the end of 2013 and 2014. There

Table 7 Average emissions intensity in the equity portfolio and reference index, weighted by market value of fund holdings. Tonnes CO_2 equivalents per million USD in sales revenue

	31.12.2014	31.12.2013
Equity portfolio	159	164
Reference index	172	165
Difference	-13	-1

Table 8 Average emissions intensity by sector, weighted by market value of fund holdings. Equity portfolio and reference index

	Equity portfolio		Reference index
Sector	Share of portfolio market value (percent)	Tonnes CO_2 equivalents per mill. USD sales revenue	Tonnes CO_2 equivalents per mill. USD sales revenue
Basic materials	5.9	399	446
Consumer goods	14.2	46	42
Consumer services	10.6	58	49
Financials	22.5	9	9
Health care	9.9	15	15
Industrials	14.0	227	223
Oil and gas	7.1	296	316
Technology	8.6	13	12
Telecommunications	3.4	5	6
Utilities	3.8	1,703	2,038
	100.0	159	172

is a delay before emission figures are reported, and so the analysis largely draws on data for 2013 together with more up-to-date information for those companies that have made it available. The increased gap in overall emission intensity between the equity portfolio and the benchmark index from the end of 2013 to the end of 2014 is due partly to risk-based divestments.

Some sectors have higher emissions in relation to revenue than others. For example, emission intensity is high in the utilities sector, which has to be seen in conjunction with the power companies supplying energy to other sectors. Emission intensity in isolation does not provide a complete picture of a company's financial climate change risk.

The gap in estimated emission intensity between the portfolio and the benchmark index is due primarily to our individual investments in these sectors having a somewhat lower intensity compared to the benchmark. In particular, our investments in basic materials, oil & gas and utilities have a lower emission intensity than the benchmark index.

Our calculations highlight aspects of companies and sectors that can be used for further analysis. It is worth noting, however, that our analysis provide only a snapshot and do not take account of companies' strategies, industry structure and other factors. The calculations do not therefore provide a complete picture of the climate risk that companies in the portfolio are exposed to. In addition, there are methodological differences and some data uncertainty.

Method

Our calculations were based on methods presented in the UNEP Finance Initiative's July 2013 Investor Briefing on measuring carbon intensity. Our data supplier has estimated greenhouse gas emissions for each individual company in the equity portfolio based on reported numbers of tons of CO_2 equivalents.

Table 9 Fuel mix of the ten largest power production companies in the equity portfolio

Company	Renewable* Percent	Coal Percent	Other** Percent	Holdings at 31.12.2014 Million NOK
Enel SpA	33	29	38	5,346
SSE PLC	19	56	24	7,412
GDF Suez	18	22	59	7,907
NextEra Energy, inc	17	4	80	3,645
E.ON SE	12	32	56	5,392
Electricite de France	11	9	80	2,268
Duke Energy Corp	9	40	52	3,349
RWE AG	6	61	32	2,486
Dominion Resources Inc	3	26	71	2,491

* Includes among other wind, solar, geothermal and wind power
** Includes among other nuclear and oil and gas based power generation

To draw comparisons between companies and sectors, it is appropriate to view emissions in relation to the companies' size. To analyse companies in different sectors, a common variable is required, and revenue is often used. The result is an expression of companies' greenhouse gas emission intensity, or emissions per unit of revenue.

To calculate overall greenhouse gas emission intensity for all of the fund's investments, we multiplied emission intensity at the individual company by the value of the fund's investment in the company as a percentage of the portfolio's total value, and then added up all of the fund's positions. This makes it possible to compare the portfolio with the benchmark index.

The use of revenue to calculate emission intensity has certain limitations. For example, power companies include companies that not only produce electricity but also trade electricity. Those that are heavily involved in power trading, or operate in markets where energy is relatively expensive, will have lower intensity scores. In this sector, emissions per unit of power produced (e.g. kWh) will probably give a better indication of companies' greenhouse gas emission intensity and provide a better basis for comparison between companies.

Data

Information on companies' greenhouse gas emissions is often based on companies' self-reported data, either in their ordinary reporting or submitted to, for example, CDP. Such data are not available for all companies in the fund's equity portfolio. Where relevant data had not been reported, our data suppliers estimated CO_2 equivalents using models.

Some suppliers have developed their own models for assessing the quality of companies' self-reported data or calculating emissions for companies that have not reported any themselves. Suppliers use different strategies to model emissions from companies for which they do not have data. These models often use peer

CATEGORISATION OF EMISSIONS

The Greenhouse Gas Protocol has set a standard for the categorisation of emissions that is used by the authorities and companies and divides emissions into three types:

Scope 1 (direct emissions): Emissions from companies' own production.
Scope 2 (indirect emissions): Emissions from consumption of purchased electricity, heat and steam.
Scope 3 (indirect emissions): Emissions from the production of purchased goods and services.

We have investments in more than 9,000 companies in a variety of sectors and regions. When performing greenhouse gas calculations for the equity portfolio as a whole, it can therefore be assumed that many of the scope 2 emissions from companies in the portfolio are also included in the scope 1 emissions from power producers in the portfolio. To avoid double counting, we have decided only to aggregate scope 1 emissions in our calculations.

averages for such companies, which can be a source of error if the average does not accurately reflect the individual company's business. There are differences between suppliers in both methods and results. We have mainly used data from Trucost in our analyses, but we also assessed data from MSCI as a comparison.

There is reason to believe that information on emissions in companies' supply chains is more uncertain than information on emissions from companies' own operations. A comparison of data from Trucost and MSCI reveals a greater spread in the estimates when purchased electricity and district heating are included rather than just companies' direct emissions.

We will continue our efforts to improve our analysis of the fund's climate risk in 2015. There is a need for further analyses of climate risk at both company and sector level and for financial markets as a whole.

ENVIRONMENT-RELATED MANDATES

Through our environment-related investment mandates, we make additional allocations to environmental technology. A total of 42 billion kroner was invested in such equity mandates at the end of 2014.

In connection with its review of the ethical guidelines for the fund in 2008-2009, the Ministry of Finance decided to establish separate environment-related investment mandates. The decision was incorporated into the management mandate from the Ministry. Since 2009, we have accordingly set up internal and external management mandates focusing on companies that help alleviate environmental problems. These investments come within the same risk limits and are subject to the same profitability requirements as the fund's other investments.

The investment universe for environment-related mandates is restricted to investments in listed shares and green bonds. To date, we have invested mainly in listed companies. A separate mandate for investments in green bonds was established in 2014. 59 percent of environment-related equity investments and all environment-related bond investments were managed internally at the end of 2014.

The portfolio of environment-related equity investments had a market value of 42 billion kroner and was invested in 220 companies at the end of 2014. The portfolio returned 5 percent in 2014 and has produced an annualised return of 3.2 percent from inception.

These investments form part of the fund's overall portfolio, and risk and return are measured against the fund's benchmark index. The decision to make additional allocations to environment-related companies increases the fund's overall exposure to such companies. Put simply, we invest more in these companies than passive replication of the fund's benchmark index would imply. In general, this means higher levels of ownership in environment-related industries.

The risk in this segment of the market is particularly associated with rapid technological change, a rapid influx of new players and an unpredictable policy framework, for example, changes in public subsidies and regulation. This risk, measured as return volatility, has historically been higher in this segment than for the wider equity portfolio. The mandate laid down by the Ministry of Finance for Norges Bank's management of the fund requires that environment-related investments normally amount to between 30 and 50 billion kroner.

Our analyses show that investments in this market segment fluctuate differently to the broad equity market as approximated by the fund's benchmark index. Relatively few companies have environmental technology as their main business, and most of these are in renewable and alternative energy. We have to expect this relatively small group of companies such as this to show greater return volatility over time than the broad equity market.

The period since the establishment of environment-related mandates has coincided with a global financial crisis, which increased the volatility in the segment and adversely affected investors' risk appetite. Although the sector is more mature now than in 2009, technology risk and the risk of changes in regulatory conditions could result in major volatility in future returns.

INVESTMENT UNIVERSE

The environment-related investment universe is complex with no clear-cut definition. Defining what types of business activity are environment-related is to some extent a matter of judgement. For example, some classify nuclear power as clean energy despite the challenges of dealing with waste. Battery technology may make an important contribution to reducing emissions from the transport sector, but there are challenges with the batteries' constituents, which include environmentally hazardous metals and chemicals.

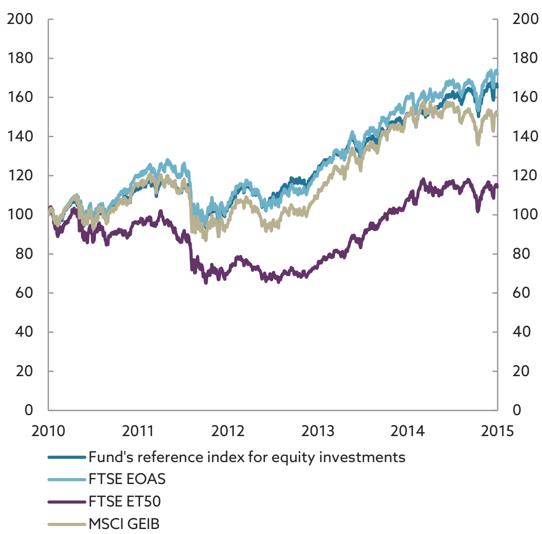
Environment-related companies can be found in many different industries, each of which may have very different characteristics. In addition, some environment-related companies are part of large multinational conglomerates. Whether such a conglomerate's environment-related business is, or will become, big enough for the conglomerate to be classified as environment-related is a matter of judgement.

Companies in the environmental universe are often categorised as either companies with a single business purpose or as a conglomerates. We want to invest in both types of company. By investing in conglomerates, we gain exposure to environmental technologies that would sometimes otherwise not be accessible.

Table 10 Historical key figures as of 31 December. Annualised data, measured in the fund's currency basket. Percent

	Last 12 months	Last 3 years	Since 31.12.2009
Return on environment-related equity mandates	5.03	17.29	3.19
Standard deviation on environment-related mandates	11.72	10.95	13.96
Return on the FTSE Environmental Technology 50 Index	5.60	17.34	2.66
Return on the MSCI Global Environment Index	-0.50	16.39	8.47

Chart 9 Return of the equity portfolio reference index and selected environmental indices. Measured in USD. Indexed 31.12.2009 = 100



Source: Bloomberg, Norges Bank Investment Management

THE FUND'S CURRENCY BASKET

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. The fund's currency basket consisted of 34 currencies at the end of 2014. Unless otherwise stated in the text, results are measured in the fund's currency basket.

EXAMPLES OF OUR ENVIRONMENT-RELATED INVESTMENTS

We look particularly at companies that offer energy solutions with low emissions or alternative fuels, energy efficiency and natural resource management. The first two areas include investments in companies that can contribute to solutions to climate and pollution problems. The third includes companies that contribute to a more efficient use of natural resources.

LOW EMISSION ENERGY AND ALTERNATIVE FUELS

Power production and transport currently result in considerable greenhouse gas emissions. Technological advances in these areas may therefore help reduce global greenhouse gas emissions. When it comes to power production,

the development of renewable energy sources and energy sources with low emissions is particularly important. Many companies are developing capacity for the production of renewable energy from sources such as the wind, sun, water, geothermal energy and waste. Examples include Iberdrola, NextEra Energy, MidAmerican Energy Co, China Longyuan, EDP Renovaveis and Sempra Energy.

In the transport sector, recent years have seen the development of hybrid and electric cars. New technology is also being developed based on alternative fuels such as hydrogen. Hydrogen has a high energy density and can be produced from water and electricity through electrolysis. It can be transported and does not result in greenhouse gas emissions when it is eventually used in a fuel cell engine. Companies in the automotive sector that are working on this technology include Toyota, Hyundai and Honda, which launch their first hydrogen fuel cell vehicles in 2014 and 2015, and other car makers are expected to follow suit in the next few years. Electrolysis equipment for the production of renewable hydrogen is made by the likes of Hydrogenics, ITM Power and Siemens. Other companies are involved in developing a network of filling stations for hydrogen vehicles.

Investing directly in the energy revolution to which these companies are contributing is a challenge, because the most relevant projects are often only a small part of a company's overall business. For example, none of the large car makers has yet had a positive net income stream from investments in fuel cell vehicles. It is easier to invest in renewable energy, even though many of the companies in this area also produce large amounts of power from fossil sources.

Table 11 Top ten holdings in the enviroment related equity mandates

Company name	Country	FTSE Global Sector	Environmental industry segment	Holding value Million kroner	Environmental equity mandates Percent
Pentair Plc	USA	Industrials	Water Infrastructure & Tech	1,239	3.0
LKQ Corp	USA	Consumer Goods	Waste Management & Tech	963	2.3
Enel Green Power SPA	Italy	Utilities	Renewable & Alternative Energy	851	2.1
Covanta Holding Corp	USA	Industrials	Renewable & Alternative Energy	850	2.1
Waste Connections Inc	USA	Industrials	Waste Management & Tech	837	2.0
BorgWarner Inc	USA	Consumer Goods	Energy Efficiency	815	2.0
Progressive Waste Solutions	Canada	Industrials	Waste Management & Tech	806	2.0
Itron Inc	USA	Industrials	Energy Efficiency	682	1.7
Mueller Water Products Inc	USA	Industrials	Water Infrastructure & Technologies	669	1.6
Xylem Inc	USA	Industrials	Water Infrastructure & Technologies	645	1.6
Total				8,356	20.4

ENERGY EFFICIENCY

Investments in solutions to climate challenges have traditionally been made mainly in energy production, and focus has been on clean and renewable energy. Opportunities on the demand side have recently begun to attract more attention. Various political decisions have also focused on demand for energy, such as the EU's emissions standards for transport.

The transport sector is making progress, partly by making traditional combustion engines more efficient. This makes possible the production of vehicles that meet stricter global emission requirements. Improvements are being made through innovations such as dual-clutch transmissions, start-stop battery systems, turbo chargers to increase engine output, lightweight materials, low-friction tyres, catalytic converters and improved lubricants that enhance engine performance. Companies operating in these areas include Borgwarner, Tenneco and Johnson Controls.

Progress is also being made in electric vehicles. The cost of producing batteries remains one of the biggest challenges in this field. Companies operating in this area include Johnson Controls, Polypore and Tesla, which not only produces cars but is also developing battery technologies.

Demand for technology to increase the energy efficiency of buildings has increased. Substantial reductions in energy consumption can be achieved through better insulation, heating & ventilation systems and lighting, as well as solutions that control these processes. The sector includes conglomerates such as Emerson Electric, Eaton and Johnson Controls.

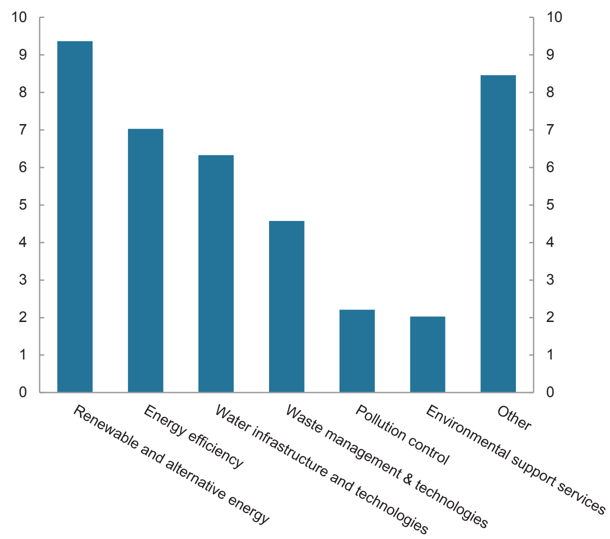
Johnson Controls is mentioned repeatedly in the examples above, this illustrates how some companies can be leaders in more than one sector and technology.

NATURAL RESOURCE MANAGEMENT

Efficient utilisation of natural resources is also important for water management, waste management, recycling and agriculture. Meeting the world's need for high-quality water in an efficient manner is a global challenge. The infrastructure required to achieve this is expensive, and demand for water is expected to grow substantially. In areas with scarce water resources, it is important to have solutions that allow the recycling of water through treatment processes and efficient pumping, measurement and control solutions. Examples of companies in this field are Xylem, Danaher and Ecolab.

Recovering energy from waste and making good use of organic materials exemplifies how waste can be a resource. Companies such as Waste Management, Republic Services and Waste Connections are involved in recycling and waste management and use technology to make the best possible use of waste.

Chart 10 Environment related mandates. Holdings by FTSE environmental sectors. Billion kroner



"As part of our focus on climate change management, we have looked at emissions of greenhouse gases at companies in the portfolio.

RISK MANAGEMENT

RISK-BASED DIVESTMENTS

We have divested from a number of companies in recent years following broad financial assessments that include environmental and social factors. In 2014, we divested from 49 companies.

Our risk-based approach means that we select sectors and areas where we see elevated levels of risk to our investments in the long term, and where adjusting the portfolio may be an appropriate solution. Where we have substantial investments in a company, divestment will normally not be the most suitable approach, as we generally have better analytical coverage and dialogue with such companies. Our assessment of whether a company's business model is sustainable in the long-term includes an evaluation of changes in the regulatory environment.

We monitor relevant sectors and companies. For example, companies may make changes to their business model, implement new standards or improved processes, or become more open about their risk management and plans. If our risk assessment changes, we may decide to re-invest in these companies. In 2014, we decided to reinvest in a few companies after they moved their operations and their plans in a more sustainable direction.

We take a systematic approach to risk-based divestments. We assess geographical exposure, which sectors are the most relevant, and whether the activity accounts for the majority of a company's business. We attempt to identify factors that affect business development in the different sectors. Environmental and social factors are integrated into a broader financial assessment.

GREENHOUSE GAS EMISSIONS

As part of our focus on climate change, we have looked at greenhouse gas emissions from companies in the portfolio. Companies that rely on value chains with particularly high greenhouse gas emissions may be exposed to risk from regulatory or other changes, leading to a fall in demand. Companies that produce coal for electricity generation could, for example, encounter such challenges. We divested from 14 companies in the coal-mining sector in 2014, paying particular attention to how heavily these companies were exposed to the energy markets. Mining companies focusing on metallurgical coal that can be used in the production of steel were retained in the portfolio.

The production of oil from oil sands may be exposed to risk in the event of climate-related regulatory changes or a fall in demand. There are also risks associated with local environmental effects. In 2014, we divested from five companies involved in oil sands operations, taking account of how much of each company's overall business and reserves related to oil sands. Cement production can result in high greenhouse gas emissions. Carbon dioxide is released through the chemical production process and through the combustion of fuels. The choice of production technology plays a role in emission intensity. In 2014, we divested from two companies in cement production. In this process, we assessed whether these companies may be particularly vulnerable to future climate-related regulatory changes, as well as other factors.

Electricity production from coal is an area that may face particularly high risk in connection with regulatory changes in selected markets. A number of countries and regions have introduced targets to reduce greenhouse gas emissions from the power sector. In 2014, we divested from one power producer following an assessment of this risk. This was motivated partly by the proportion of the company's power production that is coal-fired.

COAL MINING AND LOCAL ENVIRONMENTAL IMPACTS

Coal production often has substantial local environmental impact, while contributing to the more general challenge of greenhouse gas emissions. At Kalimantan in Indonesia, coal is often produced by first removing trees and topsoil, which contributes to tropical deforestation. The coal is generally of low quality and high carbon intensity, making it particularly vulnerable to regulatory changes in buyer markets or other reductions in demand. In 2013, we divested from 11 companies that mainly own or operate coal mines in Indonesia or supply significant services to these mines.

In 2014, we continued our review of coal mining, looking especially at mining that is causing particular environmental damage in India and the US. We divested from seven companies involved in such mining.

GOLD MINING

Gold production can present particular environmental challenges. Large amounts of energy and chemicals are generally required, and mining may result in toxic waste. Local land and water resources may be negatively affected by this, with long-term effects on the local community. On the other hand, gold mining can have major positive effects both locally and regionally by generating tax revenue, developing infrastructure and creating employment. In 2013, we divested from 16 gold-mining companies based on a comprehensive assessment that included the risk of environmental costs and transparency in reporting of water-related risks.

GENERAL MINING AND PRECIOUS METALS

The production of other minerals and metals can also present challenges. Mining often has a substantial local footprint, both through the mines themselves and through the associated infrastructure for processing and transport. For a number of years, we have been looking especially at the challenges associated with water. Water is a key input in the recovery and

Table 12 Risk-based divestments recent years

Category	Theme	Number of companies	Year
Deforestation	Palme oil production in Malaysia and Indonesia	27	2012 and 2013
	Coal mining in Indonesia	11	2013
	Coal mining in India	5	2014
Water	Coal mining	16	2013
	Generell mining and precios metals	17	2014
	Mountain-top removal	2	2014
GHG emissions	Oil sands production	5	2014
	Coal extraction towards electricity power production	14	2014
	Cement production	2	2014
	Coal fired power generation	1	2014
Other	Other	3	2012
	Other	8	2013
	Other	3	2014
Sum		114	

processing of minerals and metals. This can often lead to conflicts of interest in the use of water resources, as other sectors and households are also dependent on water.

Mining companies may also own and operate mines in countries with particularly weak governance and may be exposed to conflict risks. Mines themselves can also lead to conflicts, for example over the ownership and exploitation of resources or compensation for the local populace. In 2014, following a comprehensive evaluation of the risk associated with water and conflicts, we divested from 17 companies in the general mining and precious metals sectors. We analysed companies' exposure to high risk areas, asset diversification and quality, and positioning on the sector cost curve.

PALM OIL

The production of palm oil in Malaysia and Indonesia is a major contributor to tropical deforestation. In 2012 and 2013, we divested from 27 companies that were considered to produce palm oil unsustainably. We based this partly on whether these companies had signed up to the Roundtable on Sustainable Palm Oil (RSPO) certification scheme and on analyses of their operations.

Work on risk-based divestments will continue. We have gradually increased the scope of this work, both geographically and in terms of the issues explored. For example, we have looked in greater depth at specific topics where we believe this to be relevant. In total, we have divested from 114 companies in recent years.

OBSERVATION AND EXCLUSION

We have sold some companies upon the decision of the Ministry of Finance, based on recommendations from the Council on Ethics for the Government Pension Fund Global. Until the end of 2014, it was the Ministry that took the decisions on observation and exclusion, based on the applicable guidelines and the advice of the Council on Ethics. Following the Storting's consideration of the annual parliamentary report on the fund, it was decided in 2014 to retain these guidelines but with a number of amendments. One change is that Norges Bank's Executive Board will now take the decisions on the observation and exclusion of individual companies. It will still be the Council on Ethics that makes recommendations on observation and exclusion. This is intended to result in more consistent management of the fund and a more cohesive chain of instruments for responsible investment. The change entered into force on 1 January 2015. The new framework allows Norges Bank to submit matters to the Council on Ethics for consideration more systematically.

Table 13 The number of companies that are excluded or on observation as of 31.12.2014. Distributed by category

Issue		Number of companies
Product based exclusions	Production of tobacco	21
	Production of specific weapon types	18
Conduct based exclusions	Human rights	3
	Severe environmental damages	13
	Other fundemantal ethical norms	2
	Serious violations of the rights of individuals in situations of war or conflict	3
Observation	Other fundemantal ethical norms	1

RESPONSIBLE INVESTMENT IN THE MANAGEMENT MANDATE

CHAPTER 1.
General provisions

Section 1-3. The management objective

(1) The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio's currency basket, see section 4-2, first paragraph, and within the applicable management framework.

(2) The Fund shall not be invested in companies excluded pursuant to the provisions in the Guidelines for observation and exclusion from the GPFG.

(3) The Bank shall integrate its responsible management efforts into the management of the GPFG , cf. chapter 2. A good long-term return is considered dependent on sustainable development in economic, environmental and social terms, as well as on well-functioning, legitimate and efficient markets.

CHAPTER 2.
Responsible management

Section 2-1 Responsible management efforts

The Bank shall seek to establish a chain of measures as part of its responsible management efforts.

Section 2-2 Responsible management principles

(1) The Bank shall establish a broad set of principles for the responsible management of the investment portfolio.

(2) In designing the principles pursuant to the first paragraph, the Bank shall emphasize the long-term horizon for the management of the investment portfolio and that the investment portfolio shall be invested widely in the markets included in the investment universe.

(3) The principles shall be based on the considerations of good corporate governance and environmental and social conditions in the investment management, in accordance with internationally recognised principles and standards such as the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises.

(4) The principles and the use of measures to support them shall be published, cf. section 2-1 and section 6-1, seventh paragraph.

(5) In its management of the real estate portfolio, the Bank shall, within the environmental field, consider, among other matters, energy efficiency, water consumption and waste management.

Section 2-3 Contribution to research and development relating to international standards for responsible management

(1) The Bank shall contribute to research within responsible management with the aim of developing greater knowledge of matters relevant to the investment portfolio's risk and return in the long term.

(2) The Bank shall actively contribute to the development of relevant international standards in the area of responsible management.

Section 2-4 Environment-related investments

The Bank shall establish environment-related mandates within the limits defined in section 3-5. The market value of the environment-related investments shall normally be in the range of 30-50 billion kroner.

Section 2-5 Decisions on exclusion and observation

The Bank shall make decisions on the observation or exclusion of companies, and on the revocation of such decisions, in accordance with the Guidelines for observation and exclusion from the GPFG.

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