NORGES BANK
INVESTMENT MANAGEMENT

RESPONSIBLE INVESTMENT

GOVERNMENT PENSION FUND GLOBAL

REPORT
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Our mission is to safeguard and build financial wealth for future generations

Content

2015

4

STANDARD SETTING

5

OWNERSHIP

6

RISK MANAGEMENT

Yngve Slyngstad

CEO of Norges Bank Investment Management

Long-term expectations

Clear and long-term expectations to the companies we invest in, based on internationally recognised principles, form the foundations for our work on responsible investment.

We use a set of approaches in our work on responsible investment. We promote international standards and principles, we express expectations towards companies, and we exercise ownership through our voting and interaction with companies.

We expect companies to address a broad array of risks in their investment plans, risk management, and reporting. In 2015 we published revised expectation documents for children's rights, water management, and climate change. We have focused on climate change for a decade, and in 2015 a large number of companies announced plans to substantially reduce their carbon emissions and use more renewable energy.

We expect companies to address a broad array of risks in their investment plans, risk management, and reporting.

We use our voting rights to safeguard the fund's investments. This includes voting to promote sustainable development and good corporate governance. In 2015, we began publishing our voting intentions in advance of the annual shareholder meetings on selected issues.
We also started to publish position papers of selected aspects of corporate governance. The aim is to be clear on what we expect and where we stand on specific issues, and to be open about the reasoning behind our voting.

The operations of the companies we invest in have impact on the world around them, and this may have long-term financial consequences both for the society at large, and for the more than 9000 companies that we own shares in. We divested from 73 companies in 2015 following an assessment of environmental and social risk factors. We expect companies to report on their operation's impact on the outside world, and on matters that could affect long-term profitability. Greater transparency will provide a basis for the development of better strategies. We strive to obtain high-quality data on the risk associated with our investments. In 2015 we launched several research projects for these purposes.

We urge the companies we invest in to think long-term. They should build sustainable strategies and business models that are profitable over time. As a long-term investor, we strive to preserve value for future generations.

Oslo, 4 February 2016

Yngve Slyngstad
CEO of Norges Bank Investment Management

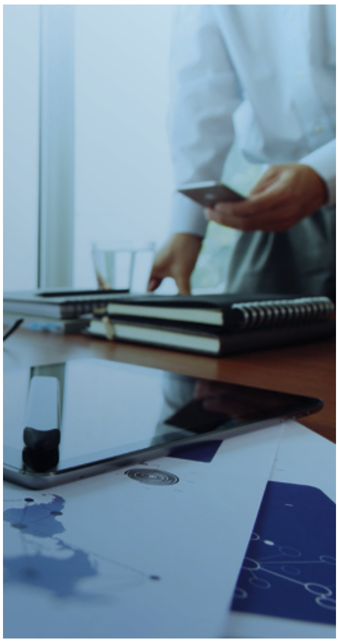
Main pillars

STANDARD SETTING

We aim to contribute to the development of market practices that will benefit the long-term interest of the fund. These include standards for corporate governance, sustainable business practices and the functioning of financial markets. Our principles and expectations build on internationally recognised standards. Research increases understanding of factors that can affect future returns.

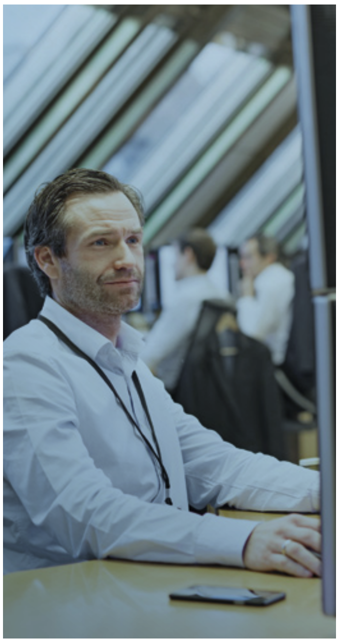
OWNERSHIP

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



RISK MANAGEMENT

We monitor and analyse risks relating to environmental, social and governance issues. Risk assessments may lead to adjustments to the portfolio. We follow up selected issues across companies in the portfolio and emphasise the development of high-quality data.



CHILDREN'S RIGHTS

The long-term legitimacy of sectors and markets may in some cases be dependent on operations and products that are ethically acceptable. We publish expectations, analyse and engage with companies. We expect companies to respect children's rights in line with the United Nations Guiding Principles and incorporate children's rights in strategic planning, risk management and reporting. We have been assessing companies with activities or supply chains in sectors with a high risk of child labour since 2008.

WATER MANAGEMENT

How companies manage water risks and capitalise on opportunities, may drive long-term returns for us as a shareholder. Externalities from unsustainable water use may in itself present a risk to the portfolio's long-term value. We publish expectations, analyse and engage with companies. We expect companies to incorporate potential water risks in strategic planning, risk management and reporting. We have been assessing companies exposed to water risk since 2010.

CLIMATE CHANGE

Climate outcomes may affect company and portfolio return over time. Climate change may also give rise to business opportunities. We publish expectations, analyse and engage with companies. We expect companies to plan for relevant climate scenarios, and incorporate potential climate risks in strategic planning, risk management and reporting. We have been assessing companies exposed to climate risk since 2010.

Promote the fund's long-term interests

Our mission is to safeguard and build financial wealth for future generations. We manage the fund responsibly in order to support the fund's objective of the highest possible return with a moderate level of risk. Responsible investment is therefore an integrated part of our investment process.

Norges Bank Investment Management manages the fund with the objective to achieve the highest possible return within the framework set out in the management mandate. Responsible investment management supports the objective of the fund by furthering the long-term economic performance of our investments and reducing financial risks associated with the environmental, social and governance practices of companies we have invested in. We work along three pillars: standard setting, ownership and risk management. Through our work we seek to promote good governance and well-functioning, legitimate and efficient markets.

LONG-TERM RETURN

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

Our management mandate establishes that we shall integrate responsible investment into the management of the fund. We see it as a matter of managing the nation's financial wealth responsibly and efficiently. We have an inherently long investment horizon. Our investment management takes account of environmental, social and governance issues that could have a significant impact on the fund's performance.

We work with international bodies on standards and principles and communicate our expectations to companies. We support academic research to improve the theoretical and empirical foundations for our work. We vote and engage directly with companies and

HOW WE WORK. A CLIMATE CHANGE EXAMPLE

Climate change has been a focus area in the management of the fund for many years. In 2015 this focus led to a diverse set of activities, illustrative of how this topic is integrated in our investment strategy. As part of our efforts to contribute to standards and practices, we delivered submissions on industry standards and disclosure and updated our expectations to companies. As part of the latter process we contacted NGOs, analysts and companies we knew had thought carefully about the issue of climate change and collectively could provide wide-ranging input on climate change.

We identified relevant companies for this informal consultation through our annual climate change disclosure assessments, our active ownership analysis and our portfolio managers with fundamental knowledge about company strategy. Existing carbon emissions and divestment analyses have provided us with an understanding of aspects of climate change risks, such as the potentially unsustainable reliance on a particular business model. This knowledge enabled us to assess other relevant external contributors and their input. Input we received through the expectations revision process also motivated us to contact coal miners and utilities about their long-term strategy with regards to exposure to coal assets, as part of our active ownership work.

We have divested from a number of companies due to climate change related risk over the last few years. To gain a better understanding of the fund's potential exposure to financial risk from climate change, we have analysed greenhouse gas emissions from the companies in our equity portfolio. In this work, we have identified certain analytical challenges, including limited data coverage and lack of reporting consistency. Furthermore, such analysis gives a current snapshot of emissions, and does not take account of companies' strategies or industry structure. In 2015, these insights have motivated us to support reporting initiatives, comment on the development on new disclosure initiatives for climate change risk and participate and fund conferences on this topic. We have also decided to initiate research on financial risk from climate change and commissioned an external report which looks specifically on environmental risks and thermal coal. Such academic research and external analysis may provide us with a better theoretical and empirical basis for our own prioritisations and strategies.

their boards. We also manage and monitor various types of risk in our portfolio. We make additional investments in environmental technology through our environment-related mandates. Finally, we may also divest from individual companies following risk assessments.

OUR PRIORITIES

We engage in dialogue with stakeholders, regulators, industry partners and academics. We aim to contribute to standards and practices that will benefit the long-term interest of the fund.

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 vote at nearly every general meeting, but we cannot have extensive or in-depth knowledge of every company in the portfolio. We therefore emphasise good corporate governance and the role of the board, and concentrate our ownership efforts on topics and companies where we believe there is the greatest potential to create value for the fund.

At the same time, managing the environmental, social and governance risk in the portfolio is an important aspect of safeguarding our investments. We take a systematic approach to risk monitoring. Our approach means that we perform general assessments before going into specific issues in greater depths. In our analysis we are dependent on data on environmental, social and governance issues. The development of databases for such information is therefore prioritised.

Finally, we have chosen to focus particularly on three areas of sustainability in our work: children's rights, climate change and water management. These focus areas give us a basis for continued effort within these topics over time. They are also areas where a number of companies provide cases of advanced strategic thinking and operational implementation. Our ambition is to use our tools to contribute to good market practices in these areas and to provide clear expectations to companies.

This report concentrates on responsible investment management, within the mandate's objective to maximise financial return, as operationalised by Norges Bank Investment Management. The mandate states that Norges Bank shall integrate its responsible management efforts into the management of the fund. The Ministry of Finance has also issued guidelines on the observation and exclusion of companies. The guidelines are part of the formal framework for Norges Bank's management of the fund and have an ethical motivation. A separate Council of Ethics is established by the Ministry of Finance to give advice based on these guidelines. In our responsible investment management, we aim to contribute to a coherent and consistent operationalisation of the guidelines.

> The Norwegian people own the fund. Norges Bank Investment Management's mission is to safeguard and build financial wealth for future generations.

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 30 November 2015. The Office of the Auditor General of Norway supervises the Ministry, The Supervisory Council, which is appointed by Stortinget, oversees the Bank's activities and ensures that the rules governing the Bank's operations are observed.

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 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 BANK

Executive Board principles
Investment mandate
CEO job description

NORGES BANK INVESTMENT MANAGEMENT

Policies
The CEO delegates investment mandates and job descriptions

International standards

The development of international principles, and market and industry standards, is important for the management of the fund. We provide input to regulators to promote good practices and well-functioning markets.

As a market participant, Norges Bank Investment Management aims to contribute to the development of standards that will benefit the long-term interest of the fund. We believe that good international standards and effective market regulation over time lead to better market practices and well-functioning markets. Standards can take the form of regulation, listing requirements, codes of best practice, norms, formalised standards or observed market practice. We promote sound market practices through interaction with regulators, other standard setters or other market participants. We also participate in relevant international fora and discussions of issues concerning the formation and setting of standards.

In 2015 we submitted 11 responses to consultations on international standards, industry or market standards and market regulation. In this chapter we discuss our interaction with various standard setters and give examples of some of our 2015 submissions. All submissions are published on our website www.nbim.no.

INTERNATIONAL STANDARDS

Norges Bank Investment Management recognises a set of key international principles and standards, which we, as a starting point and where appropriate, base our practice on. We participate in the further development of such standards and expect the companies we invest in to strive to observe them. The G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises, and the UN Global Compact are examples of such standards, and are explicitly mentioned in our management mandate. We have also signed a statement in support of the United Nations Guiding Principles for Business and Human Rights.

We engaged with the OECD on various topics concerning the OECD Guidelines for Multinational Enterprises in 2015. The OECD undertakes work to create practical sectorial applications for the recommendations in the OECD Guidelines. We aim to support this effort. In April 2015 the OECD published a draft due diligence guidance for stakeholder engagement in the extractives sector for public consultation. As investors in the extractives sector, Norges Bank Investment Management has an interest in such guidance. In a letter to the OECD we highlighted that the practical guidance could address how regulatory regimes, laws, government structure, and the institutional capacity of the country where extractive companies operate will have significant implications for appropriate stakeholder engagement. We also emphasised the importance of transparency and communication about due diligence and stakeholder engagements. Finally we highlighted that the guidance document could refer to existing sector initiatives and standards, such as conflict free gold standard from the World Gold Council, as well as the International Council on Mining and Metal's community development toolkit.

In July 2015 we joined an OECD Advisory Group on responsible business practices and the financial sector. This group is the primary body for multi-stakeholder dialogue and coordination for the OECD Responsible Business Conduct in the Financial Sector project. Participants include representatives of governments, asset owners, asset managers, banks, unions and NGOs. The project aims to support multinational enterprises in the financial sector that apply the guidelines. It will seek to elaborate practical and relevant approaches on how the different types of financial institutions may integrate the OECD guidelines into their existing practices, in a manner that reflects regulations, corporate governance and other characteristics of different parts of the financial sector.

INDUSTRY AND MARKET STANDARDS

We also work with standards covering sectors, specific markets or topics such as corporate disclosure or corporate governance, as well as other standards that are narrower in scope. Such standards can aid in the promotion of good company practices. In 2015 we have made submissions to various consultations on existing or proposed industry or market standards.

> We made submissions to various consultations on existing or proposed industry or market standards

Some standards are new or under development. In March 2015 we wrote to the World Resources Institute's following the publication of a draft methodology for quantifying and reporting the potential greenhouse gas emissions from the fossil fuel reserves held by coal, oil and gas companies. In our submission, we welcomed the development and voluntary disclosure of consistent and objective data on current and potential future greenhouse gas emissions, reported according to well-defined and transparent methodologies. We also wrote that we considered the draft methodology to be a useful starting point for the promotion of voluntary reporting of high-quality and standardised data on the potential future emissions from the fossil fuel reserves held by coal, oil and gas companies. We highlighted the importance of industry involvement to secure the relevance and practicability of the proposed methodology.

An example of a global disclosure initiative we support is CDP, formerly known as the Carbon Disclosure Project. CDP is an independent organisation that gathers and publishes information on companies' greenhouse gas emissions, water and deforestation to help improve corporate reporting. CDP has separate programmes for climate change, water, supply chains and forests. Norges Bank Investment Management is a member of CDP, CDP's forests programme and a lead sponsor of CDP's water programme.

In September 2015 we wrote a letter to CDP in response to CDP's consultation on changes to its climate change questionnaire. In our letter we expressed support for the proposed changes, which were aimed at simplification, consistency, and improved data quality and relevance to investors. We emphasised that taking a sector specific approach to some reporting will facilitate a deeper and richer understanding of the operational challenges and risks for companies. We also underlined how reporting on energy transition aspects through the inclusion of, for example, low carbon products and renewable energy consumption targets in the questionnaire, may provide useful information to investors.

We have since 2012 been one of the main sponsors of the Asian Corporate Governance Association, which aims to promote effective corporate governance practices in Asian markets and companies. During the year we have given written input to their advocacy

RECOGNISED PRINCIPLES AND STANDARDS

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

The G20/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 for our own positions and interaction 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 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 applicable 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 United Nations Guiding Principles on Business and Human Rights are a global standard. The principles were unanimously endorsed by the United Nations Human Rights Council in 2011. The guiding principles encompass three pillars outlining roles and responsibilities for states and businesses with regards to human rights: the state duty to protect human rights, the corporate responsibility to respect human rights and access to remedy for victims of adverse impacts.

work in Japan and Hong Kong, we have attended meetings where specific topics, markets and actions have been discussed and we have had discussions on their strategy for the period leading up to 2020.

As part of our effort to develop relationships to standard setters in emerging markets, we entered into a sponsorship contract to support the African Corporate Governance Network in December 2015. The network was established in 2013 and is still in a build-up phase. This is a continent wide umbrella network for national institutes of board directors and is committed to the improvement of corporate governance practices through codification, education and capacity building. We support the administrative function of the African Corporate Governance Association.

FINANCIAL MARKET REGULATION

As a long-term owner the fund is affected by the regulation of financial markets. Therefore, we engage with regulators and participate in consultations on new rules where we believe this is appropriate for the fund from the viewpoint of well-functioning markets. We have previously published an analysis of the basis for well-functioning financial markets and why well-functioning markets are important for achieving the long-term objective for the management of the fund. In 2015 we launched our Asset Manager Perspective series. In these papers we express views and reflections on issues topical for the financial industry intended for the benefit of all market participants. The papers also provide a basis for our views on certain financial market regulatory topics.

We responded to various consultations from the European Securities and Markets Authority in 2015. In March we supported the Authority's focus on competition, choice and conflicts of interest in the credit rating industry, as part of an European Securities and Markets Authority Call for Evidence. We wrote, for example, that as a large institutional investor, we utilise information provided by credit rating agencies on a daily basis. Our overall use of such information has decreased in recent years as we have developed internal competency and capacity. Generally, we find that the methodology papers for sectors and instruments are more detailed and, in some cases, more transparent now than before 2010. However, transparency can and still should increase.

In August 2015 we wrote to the European Securities and Market Authority about the Impact of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis, reiterating our support for the efforts taken by the authority the area of voting research. In September we wrote a response to the US Securities and Exchange Commission (SEC) about audit committee reporting and whether the audit committee should provide more qualitative disclosures on how it has fulfilled its oversight function.

We also submitted a consultation response to Hong Kong Exchanges and Clearing on their consultation on the reporting guide on environmental, social and governance. In our response we expressed support for the comply or explain approach. We discussed the importance of aligning the board's overall responsibility for the strategy for environmental, social and governance issues and reporting with the board's responsibility concerning the corporate governance code. Finally we recommended requiring reporting on environmental, social and governance issues ahead of the annual general meeting to ensure that recent and relevant information is available to shareholders in a timely manner.

SUBMISSIONS

Recipient	Topic	Submitted
CDP	Consultation on proposed changes to 2016 CDP climate change questionnaire	21/09/15
Hong Kong Exchanges and Clearing	Response to the consultation on review of the ESG reporting guide	18/09/15
Swedish Corporate Governance Board	Revisions to the code of corporate governance in Sweden	01/09/15
US Securities and Exchange Commission (SEC)	Response to the SEC concept relase on possible revisions to audit committee disclosures	07/09/15
European Securities and Market Authority (ESMA)	Impact of the best practice principles for providers of shareholder voting research and analysis	17/07/15
International Finance Corporation (IFC)	Code of best practices of corporate governance in Brazil	17/07/15
OECD	Due diligence guidance for meaningful stakeholder engagement in the extractives sector	26/05/15
European Securities and Market Authority (ESMA)	ESMA's call for evidence - the credit rating industry	27/03/15
World Resources Institute	Potential greenhouse gas emissions in fossil fuel reserves	11/03/15
European Securities and Market Authority (ESMA)	ESMA's MIFID II/ MIFIR Consultation Paper	02/03/15
Financial Services Agency of Japan	Japan's Corporate Governance Code	30/01/15

MEMBERSHIPS

Name	Purpose	Participation
CDP Water Program	The program collects and makes available information on companies' water management and water related risks	Lead sponsor
CDP Climate Change Program	The program collects climate-related data for institutional investors to facilitate the use of climate and emissions data in investment analysis and decisions	Member
CDP Forest Program	The program collects information on agricultural commodities responsible for deforestation, including timber, palm oil, cattle and soy	Member
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 working together to improve openness and accountable management of revenues from natural resources	Signatory
African Corporate Governance Network	Promote knowledge sharing, codification and capacity building regarding corporate governance	Sponsor
International Corporate Governance Network (ICGN)	Facilitates global corporate governance debate, guidance, advocacy and networking	Member
Council of Institutional Investors (CII)	Promotes good corporate governance and debate in the US	Member
Harvard Law Institutional Investor Program on Corporate Governance	Fostering policy relevant research	Advisory Council member

CONFERENCES

Conferences	Purpose	Participation
The fund's climate strategy	Breakfast seminar arranged by CICERO in Oslo	Speaker
Equal Treatment of Shareholders	Academic seminar arranged at Norges Bank's premises in Oslo	Organizer and speaker
Nordic Conference on Green Investments and Nordic Pension Funds	Conference arranged by the Nordic Council of Ministers in Oslo	Speaker
FESE conference	Conference for European stock exchanges focusing on regulation in Oslo	Speaker
Sovereign Investment Workshop	Workshop on corporate governance arranged in Milan	Speaker
Corporate Governance in Sweden	Swedbank's seminar at Almedalsveckan, Gotland	Speaker
1st Global Conference on Stranded Assets	Conference at The Queen's College in Oxford	Lead sponsor and speaker
Moving towards a sustainable economy	Joint-conference arranged by amoung others Innovation Norway and the Norwegian embassy in London	Speaker
Cutting the ties between business and deforestation	Conference arranged by the Rainforest Foundation in Oslo	Speaker
Corporate Governance in Japan	Arranged conference for 180 Japanese companies in Tokyo	Speaker
World Federation of Exchanges' Annual Meeting	Conference in Doha	Speaker
CDP 2015 Global Water Forum	Conference in Tokyo	Sponsor and speaker

Conferences	Purpose	Participation
FT Water Summit	Conference in London	Sponsor and speaker
Global Child Forum	Conference arranged at The Royal Palace in Stockholm	Speaker
Workshop on water risks associated with mining	Arranged at Columbia University in New York	Lead sponsor and speaker
Transition to a green investment world	Conference arranged by Nordic Council of Ministers and OECD at COP21 in Paris	Speaker
Energy for Tomorrow	Conference arranged by International New York Times during COP21 in Paris	Speaker

Our principles and expectations

We have established a set of principles and expectations for our responsible investment management. These form the basis for our priorities and activities.

The Executive Board has laid down principles for responsible investment management in Norges Bank. Norges Bank Investment Management, in turn, expresses expectations and priorities in multiple forms, such as expectations directed at companies, voting guidelines, or positions on single issues.

EXECUTIVE BOARD PRINCIPLES

Following the update to the management mandate by the Ministry of Finance at the start of the year, the Executive Board issued new principles for responsible investment management in Norges Bank. The principles clarify that responsible investment management shall support the objective of the fund by furthering the long-term economic performance of our investments and reducing financial risks associated with the environmental and social practices of companies in which we have invested. The principles constitute Norges Bank Executive Board's expectations for Norges Bank Investment Management's responsible investment management.

> The principles clarify that responsible investment management shall support the long-term financial objective of the fund

EXPECTATION DOCUMENTS

Since 2008, we have published expectation documents and discussion notes to support our ownership work. The expectation documents were revised in 2015. We also initiated work on an expectation document on human rights and published our first position papers.

The purpose of our expectation documents is to set out how Norges Bank Investment Management, as a financial investor, expects companies to address specific topics in their business practices. The expectations serve as a starting point for our interaction with companies on climate change, water management and children's rights issues, and cover both relevant risks and opportunities facing companies. The expectations form part of a broader set of strategies and activities we employ within our responsible investment management.

Our expectations are primarily directed at boards. Our underlying expectation is that boards must assume responsibility for corporate strategy related to climate change, water management and children's rights. The board should also ascertain that relevant measures are implemented, and that responsibilities are clearly defined within the organisation. They should effectively guide, monitor, and review company management.

Another important premise for our expectations is appropriate company transparency. As investors, we analyse risks and opportunities to investments. To do this well we depend on timely information of high quality from companies. We therefore emphasise company reporting, in line with applicable internationally accepted reporting standards or initiatives.

REVISION OF EXPECTATIONS IN 2015

Occasional revisions are a natural part of our ongoing attention to the expectation documents' topics. In 2014 we initiated a process to update and revise the expectation documents. The first updated document, on climate change, was published in February 2015. Later in the year we published updated versions of the water and children's rights documents.

For each set of expectations we have observed changes and developments since the documents were first published. The main objective for the 2015 revisions was to incorporate such changes in the documents. We have aimed to reinforce their relevance in the company context, with a set of operational expectations concerned with strategic planning, risk management, reporting and transparency. We have also sought to structure them around a clear purpose, to serve as a starting point for our interaction with companies, and a clearer context, based on our role as a financial investor.

The 2015 revision of the expectation documents followed a step-by-step process of review from internal and external experts. Internally, portfolio managers and sector specialists, as well as risk, governance and topical experts, were involved in this process. Externally we involved a wide group, including portfolio companies, investor initiatives, academics, NGOs, unions and industry analysts. We received written feedback and further input through follow-up meetings. For the revision of the children's rights expectations we engaged the Oslo based International Law and Policy Institute (ILPI) to provide comprehensive subject advice and input.

Children's rights

The main objective of the revision was to reflect a broad perspective on children's rights, as well as child labour, more clearly in the document. We also wanted to align the expectations with the United Nations Guiding Principles, which were published after the original document was written in 2008.

The United Nations Guiding Principles establishes a normative basis for company strategy on among others children's rights. In the revised expectations we emphasise how companies should respect children's rights in their own operations, as well as in supply chains and business relationships. Respecting children's rights is in our view an inherent part of good business practice and risk management.

Respecting children's rights is in our view an inherent part of good business practice and risk management.

Our revised expectations imply that companies should make a commitment, and where relevant, define a strategy and adopt policies, regarding the respect of children's rights. We also expect companies to have adequate processes in place to assess and address the risk of adverse impacts from their operations on children's rights. They should publicly disclose information on the company's children's rights strategy, policies, risk and impact assessments, as well as engagements with policy makers.

Water management
Since the water expectations were first published in 2009 the significance of water stress as an environmental risk has received increased attention. Water stress is a growing global concern that could impact countries' economic prospects. How companies manage water risks and opportunities may drive long-term returns.

In the revised expectations, we set out how boards should incorporate water management considerations into strategy, investment planning, and risk management. We emphasise that companies should take an integrated approach to water issues, and that company reporting of data to internationally recognised reporting initiatives should be sufficiently detailed. This will enable investors to better analyse water data at the portfolio level.

Water resources for industry are rarely priced to reflect that it is often a scarce resource. Such implicit subsidies are unlikely to be sustainable in the long term. To address this type of risk, we have a general interest in sustainable water management and efficient water regulation across different sectors and geographies. In the revised expectations we therefore also highlight the opportunities for company support of efficient regulations and the potential for corporate participation in collective initiatives from various water users in a basin.

> How companies manage water risks and opportunities may drive long-term returns.

Climate change
The scientific understanding of climate change is constantly progressing. The potential implications for industries and companies of particular future climate change scenarios, have also become better understood. In the company context, the discussion has widened from an emphasis on necessary disclosure, to a broader discussion about how business implications of climate change should be an integrated part of investment planning and risk management.

The solutions to climate change are in a large part reliant on good policy measures. The global and long-term consequences of climate change nevertheless give Norges Bank Investment Management a clear rationale to promote efficient and credible strategic responses to climate change from companies. In our revised climate change document we emphasise the potential sensitivity of long-term business strategy to future climate scenarios, including a "2-degree scenario".

We also highlight the relevance of research and development to a well-founded corporate response to climate change challenges and opportunities. We draw attention to risk adaptation and mitigation measures, for example, improved energy and resource efficiency, increased use of less carbon-intensive raw materials, optimisation of logistics and distribution, protection of high carbon stock landscapes, business restructuring, or measures to increase the resilience of operations. Finally, we emphasise reporting to recognised reporting initiatives and the importance of transparency on interaction with policy makers on climate change legislation.

VOTING GUIDELINES
We have developed principle and position-based guidelines as the foundation for our voting decisions. These guidelines provide companies with the rationale for our vote decision making. These guidelines state, among other things, that we will vote at all general meetings unless there are significant practical obstacles to do so, and that we will publish our voting decisions. We seek to vote in keeping with the fund's long-term interests, and as a responsible investor we take account of long-term value creation, sustainable business practices, board accountability, shareholder rights, equal treatment of shareholders and transparent corporate communication.

POSITION PAPERS
We issued two position papers that publicly clarified our stance on selected corporate governance issues. Both dealt with procedures for board elections for the purpose of strengthening the accountability and quality of boards. Our positions have a bearing on questions concerning individual companies as well as the development of wider market practices.

> We suggested an improved right for shareholders to propose competing candidates

Proxy access at US companies
In the paper Proxy access at US companies we suggest an improved right for shareholders to propose competing candidates in director elections. Candidates for election to the board proposed under proxy access would appear on the company's proxy statement alongside candidates nominated by the incumbent board. In the absence of such proxy access, the existing alternative for dissident shareholders is to wage a costly proxy contest. In a proxy contest the dissident shareholder must distribute an alternative proxy statement to shareholders and this way solicit enough proxy votes to have the candidates elected at the shareholder meeting. The position is in line with our proposals for bylaw changes at specific US companies in 2012 and 2013. Proxy access rules vary by company. Typically, shareholders must hold at least three percent of the shares of the company for three years to be eligible to propose candidates through this procedure. Only a limited number of candidates can be proposed, often between one and three.

Individual vote count in board elections
In the paper Individual vote count in board elections, we address how shareholders' votes are collected and registered. In most advanced markets shareholders will be invited to vote on each board candidate before the annual general meeting. In markets such as Brazil, Chile, Finland, Indonesia, Sweden and Turkey, shareholders are routinely only allowed to vote on the entire board slate, due to the way the voting procedure is set up. By requiring individual voting and disclosure of the vote tally, we seek to increase the transparency on the shareholder support for the composition of the board. The position was promoted towards the Swedish corporate governance board and a set of Swedish companies and investors, with whom we entered into dialogues on the issue.

Responsible investment research

Academic research can increase the understanding of issues that can affect future return. We initiate and support research projects, and collaborate with academic institutions to obtain independent analyses of high quality.

We promote research to increase knowledge and understanding of relationships between governance, social and environmental issues, and financial risk and return.

The Norwegian Finance Initiative (NFI) is one possible channel for supporting such research. The NFI Scientific Advisory Board is an independent committee of internationally renowned professors of financial economics, providing independent, credible and impartial recommendations on academic matters. The committee is chaired by Professor Annette Vissing-Jørgensen. The other members are Professors Thierry Foucault and Laura Starks. Starks joined the committee in 2015. Her research focuses on mutual funds, corporate governance, institutional investors and environmental and social issues.

Through the NFI Research Programme, we aim to facilitate for research of the highest international standard on topics of particular relevance for the long-term management of the fund, such as asset pricing and portfolio theory, market micro structure, corporate finance, corporate governance and responsible investment management. We may also initiate and fund specific research projects outside the NFI.

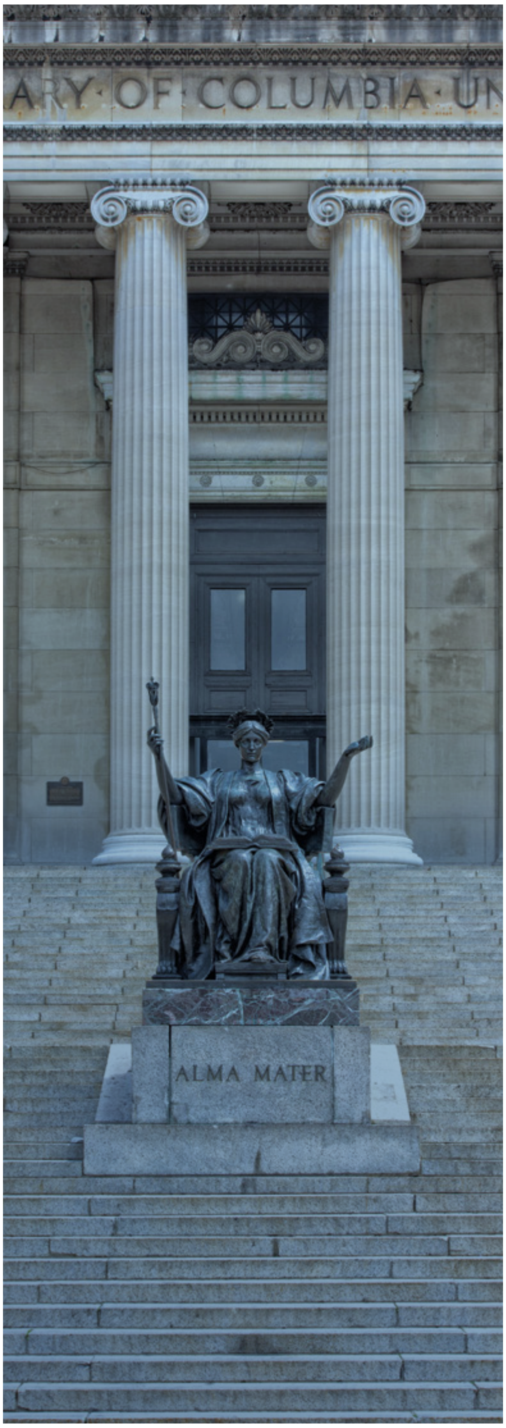
In addition to funding academic research, we work with academic institutions because this gives us access to independent and established expertise, along with processes for quality assurance.

CURRENT RESEARCH PROJECTS

The NFI has established engaged ownership as a topic under the NFI Research Programme. Through the programme, Norges Bank has awarded research funding to a three-year project lead by Professor Julian Franks at London Business School and Professor Marco Becht at Solvay Business School at Université libre de Bruxelles (ULB). The research will look at an institutional shareholder's interactions with companies in its portfolio. The researchers seek to establish how effective such interaction may be in terms of achieving the objectives of the investor and increase the returns on the investment in the company.

Columbia University was awarded the contract for an academic research project on water-related environmental and regulatory risks in mining in 2014. The project is headed by Professor Upmanu Lall at the Columbia Water Centre. The project research team is drawn from several institutes and departments at Columbia, including the department for Industrial Engineering and Operations Research and the Columbia Center on Sustainable Development.

The research team studies whether and how various environmental, social and regulatory factors may influence profitability in the mining industry across different types of mining operations and geographies. The research approach requires consultations with mining industry experts, academia, and mining companies in order to better understand industry dynamics and collect relevant



datasets. The research emphasises water scarcity and financial, social, legal, and pollution risk factors.

As part of the project, the research team has conducted two workshops in 2015. The purpose of the workshops was to gather data, input and feedback on methodology from mining companies and industry experts, as well as peer academics. The research team has also engaged with a few selected companies on a more ongoing basis.

Several working papers, a literature review and a synthesis report were published in 2015. These explain the approach and modelling methodologies used, and outline the challenges in accessing relevant datasets.

In 2015 we initiated several research activities to shed more light on potential long-term risks from climate change for financial investors. One such activity was our sponsorship of the 1st Global Conference on Stranded Assets, held at The University of Oxford in late September.

In August 2015 we asked the University of Oxford Smith School of Enterprise and the Environment to write a report on various aspects of risks facing coal-fired power utilities, thermal coal miners, and coal-based energy processing companies. The analysis includes a forward-looking assessment of environment-related risk, such as air pollution, environmental regulation, carbon pricing, water stress and technological change, which coal companies face. The report forms part of our efforts to analyse various elements of climate change risk.

As part of the analysis for the report, the Smith School of Enterprise and the Environment, gathered selected specialists in London in November 2015 for a workshop to discuss the

implications of climate, technology and regulatory changes for the coal-to-liquid energy utilities. This sector has historically not received much analytical attention. The work on the report has also included the collection, structuring and analysis of data to complement the Smith School's coal database.

In June 2015 we contacted three Norwegian higher education institutions in order to collaborate on an academic workshop to evaluate current thinking and theory on climate change in financial economics, and discuss relevant future research questions. We hoped to capture insights from relevant literature, results from on-going research and ideas for future studies.

In September 2015 we agreed to finance a workshop on this topic organised by the economics department at the University of Oslo. The aim of the workshop is to gather a select group of scholars from finance, macroeconomics, environmental and resource economics, and other relevant fields, to explore the potential impact of climate change, including policies to mitigate such change, on financial markets and hence implications for asset management. The workshop was held in January 2016.

There will be a published report from the workshop. Norges Bank Investment Management has also funded a University of Oslo literature review to assess the current state of academic research on the topic more broadly. Our ambition is that the findings of the workshop and the literature review can establish a good starting point for further academic research in this area.

In parallel with our initiatives with the universities of Oxford and Oslo, we have included the topic the "financial economics of climate change" under the NFI Research Programme. A call for proposals on the topic was announced in November 2015.

In December 2015 we invited a number of universities to submit proposals to research the relationships between observed financial performance and data in our focus area non-financial datasets. These non-financial datasets have been gathered over time as a part of our annual focus area assessments. In addition to analysing the data, the institution that is awarded the contract, will be invited to propose how the non-financial datasets can be enhanced going forward.

ACADEMIC OUTREACH

In May we hosted an academic seminar in Oslo on the equal treatment of shareholders. In addition the Norwegian Finance Initiative sponsored an academic conference on corporate governance hosted by BI Norwegian Business School.

Norges Bank Investment Management is a contributing participant of the Harvard Law School Program on Corporate Governance and an Advisory Council member of the programme's Institutional Investor Forum.

The Program on Corporate Governance seeks to contribute to policy, public discourse and education in the field of corporate governance. It advances this mission by bridging the gap between academia and practice and by fostering policy-relevant research.

During 2015 the Harvard programme supported published research on corporate governance and convened three roundtable conferences on shareholder engagement, corporate governance and executive compensation.

NBIM TALKS

NBIM Talk is a breakfast meeting that we arrange on a quarterly basis. The purpose of NBIM Talk is to invite external and internal speakers to discuss topics of importance to us as a long-term financial investor. We arranged two NBIM Talks on topics on responsible investment management in 2015.

> We invite external and internal speakers to discuss topics of importance to us as a long-term investor.

In February we hosted an NBIM Talk on our investments in environment-related technologies and companies. The emphasis was on investment strategies and opportunities to be found in the transition to a less carbon-intensive economy. In May we hosted an NBIM Talk on opportunities and challenges to effective corporate governance. The May talk was held in conjunction with BI Norwegian Business School's Centre for Corporate Governance Research.

Voting

During 2015 we voted at 11,562 shareholder meetings globally. Voting is one of the most important tools at our disposal for exercising our ownership rights.

Norges Bank Investment Management exercises its voting rights in order to safeguard the fund's assets, as described in our voting guidelines. This includes voting to promote sustainable development and good corporate governance. We seek to vote at all shareholder meetings.

We have established voting guidelines that provide a principled basis for our voting decisions. These guidelines are anchored in the revised G20/OECD Principles of Corporate Governance and are applied on a case-by-case basis to cater to the specific circumstances of individual companies.

G20 / OECD PRINCIPLES	NORGES BANK INVESTMENT MANAGEMENT VOTING GUIDELINES
Institutional investors, stock markets and other intermediaries	We will vote in a principled and consistent manner to maximise the long term profitability of the companies we are invested in - Vote in a principled and consistent manner - Vote in order to support return objective of the fund - Transparency on our voting
Ensuring the basis for an effective corporate governance framework	Encourage companies to create long-term value - Accommodate market specific practices and regulations - Accommodate company specific circumstances
The responsibilities of the board	Hold company boards accountable for decisions and outcomes - Board composition - Director commitment and board renewal - Board accountability - Executive remuneration
The rights and equitable treatment of shareholders and key ownership functions	Seek to enhance shareholder rights and work for equitable treatment of shareholders - Protection of shareholder rights - Equal rights within share classes - Equitable treatment of shareholders - Pre-emption rights
Disclosure and transparency	Promote timely, adequate and transparent company communication - Annual report and accounts - Discharge of directors and accounts - Compliance with local corporate governance codes - Non-audit fees
The role of stakeholders in corporate governance	Promote sustainable business practices - Risk management - Reporting of environmental and social risk - Shareholder proposals

THE VOTING PROCESS IN NORGES BANK INVESTMENT MANAGEMENT

Pre-meeting

- Receive notification with supporting documents concerning upcoming AGMs from companies via custodian network.
- All general meeting related information is uploaded to a web-based system accessible to Norges Bank Investment Management.
- Initial voting recommendations are issued based on global voting guidelines and positions.
- Selected companies analysed and escalated for possible pre-AGM disclosure.
- Integration of company-specific factors and investment team knowledge on a case-by-case basis.
- Vote decisions are made by Norges Bank Investment Management and instructions are sent to companies via our custodian network.

MEETING

Post-meeting

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

THE VOTING PROCESS

We aim to vote at general meetings of all the companies we invest in. In line with the G20/ OECD Principles of Corporate Governance and best practice, most companies now permit shareholders to vote at general meetings without attending in person. This is known as voting by proxy. Under such a procedure a shareholder can appoint a representative to attend the meeting and vote as instructed on its behalf. As the fund holds shares in more than 9,000 companies, Norges Bank Investment Management cannot attend all these meetings in person. The system of proxy voting enables us to exercise our voting rights at thousands of companies worldwide.

Norges Bank Investment Management continuously works to improve the voting process. An emphasis in 2015 has been on companies' delivery of meeting documentation to shareholders in a timely manner to give the fullest opportunity to make an informed voting decision. A second focus has been to reduce the opportunity for unexpected proposals to be presented during a shareholder meeting. In such instances Norges Bank Investment Management and all other investors that choose to vote by proxy are disenfranchised of the ability to vote.

A significant initiative introduced in 2015 was a strategy that enables us to publish voting intentions and rationales prior to annual or extraordinary general meetings (pre-AGM or EGM).

Publication of vote decisions prior to annual or extraordinary general meetings

The objective of pre-AGM vote disclosure is to further increase the level of transparency of our voting decisions and to enhance shareholder influence. During 2015 we considered 25 companies for pre-AGM disclosure. A process of analysis and internal escalation was followed to determine the suitability of candidate companies for disclosure. 16 companies were escalated internally for detailed consideration and from this group, 12 companies met the eligibility criteria set for disclosure. Each company was contacted by Norges Bank Investment Management and we entered into dialogue regarding the rationale for our voting intention. We withdrew from pre-AGM disclosure when we considered dialogue to be productive and our voting concerns were addressed, or if there was a commitment to change corporate governance practices. In other cases, company specific events such as the cancellation or postponement of the general meeting led to our withdrawal of pre-meeting disclosure. In all we withdrew nine cases from pre-AGM disclosure.

Pre-AGM candidate selection → Investment and ownership consideration → Candidate meets criteria for further escalation → Company action changes our voting intention → Public Pre-AGM disclosure

On the basis of the pre-AGM process we published pre-AGM disclosures for meetings in three companies in 2015: BP, Royal Dutch Shell and AES. It was encouraging that in each case the resolution was passed in line with our pre-AGM disclosed direction.

Integrating investment knowledge into voting decisions

While the majority of our voting decisions fall within the scope of our public voting guidelines, there are cases where our global voting guidelines are less relevant due to the nature of the resolution. Some resolutions may be contentious or simply fall outside the general voting guidelines framework. In such cases, we analyse the agenda items individually and vote on the basis of what is in the best long term interest of the company and the fund. One common example of such cases is an extraordinary general meeting to vote on a merger, acquisition or capital issuance.

Voting decisions at 429 companies were taken in conjunction with our investment managers in 2015. These companies accounted for 42 percent of the equity portfolio's market value. We have an integrated voting process where the portfolio managers for the fund's most significant holdings provide investment knowledge that is incorporated into the final voting decision. By incorporating the insights of investment teams we are in a position to consider company factors on a case-by-case basis.

When our voting decisions are finalised, the instructions are sent to companies via our voting intermediaries and our custodian network. As part of our ongoing efforts to strengthen the reliability and predictability of the voting process, in 2015 Norges Bank Investment Management attended six selected shareholder meetings in the UK, Sweden, Italy, France and US to spot check procedures.

Post meeting disclosure

All our voting decisions are publicly disclosed on the day subsequent to the meeting conclusion and made available on our web site www.nbim.no.

OUR VOTING DECISIONS

We voted on 112,601 resolutions at 11,562 general meetings in 2015. 98 percent of the resolutions were proposed by the companies themselves, and 2 percent by shareholders. We seek to vote at all meetings. In many companies we are recognised as a significant shareholder and our voting decisions are important.

In all we voted at 98 percent of general meetings in 2015. Reasons for the fund being unable to vote at meetings in 2015 include share blocking or the unavailability of the shares over the record date.

We voted in line with the board's recommendation on 92 percent of these resolutions. When we vote against the board's recommendation, this is generally driven by our voting guidelines, established positions and analyses of the company, but may also reflect the integration of company-specific investment considerations.

Of the resolutions voted against management recommendation, 61 percent related to the election of directors. This is a consequence of factors tied closely to our global voting guidelines. A further 15 percent of against votes were driven by our opposition to business items such as amendments to bylaws that we considered not in shareholder interest or where reporting was weak.

Chart 1 Distribution of the fund's voting rights in companies. Share of market value of our equity investments. Percent

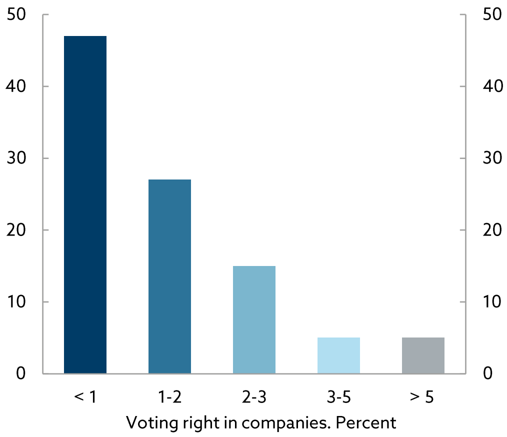


Chart 2 Distribution of votes against. Percent

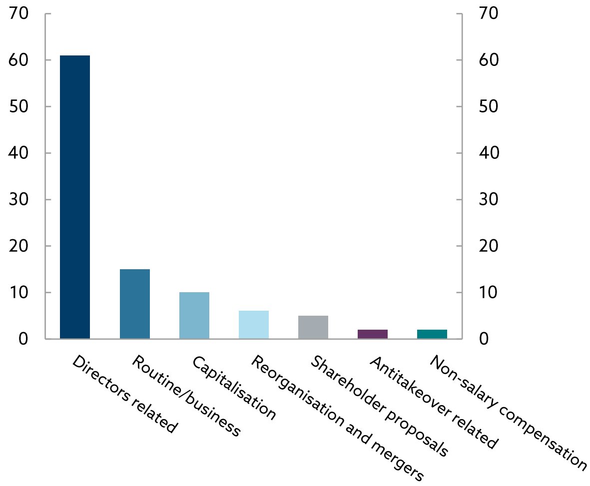


Table 1 Voting per region

	2015			2014		
Region	General meetings	Voted	Voted Percent	General meetings	Voted	Voted Percent
Africa	254	170	66.9	242	171	70.7
Asia	5,118	5 092	99.5	4,498	4,486	99.7
Europe	2,779	2 682	96.5	2,528	2,467	97.6
Latin America	591	573	97.0	531	520	97.9
Middle East	228	216	94.7	194	185	95.4
North America	2,478	2 478	100.0	2,311	2,309	99.9
Oceania	352	351	99.7	382	381	99.7
Total	11,800	11,562	98.0	10,686	10,519	98.4

DIRECTOR ELECTIONS

50 percent of the resolutions we voted on in 2015 concerned the election of directors. We voted in line with the board's recommendation on 91 percent of such resolutions.

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

VOTING IN THE TOP 25 HOLDINGS

In 2015 there were nine companies in the top 25 holdings where we had reason to vote against management recommended resolutions. In line with the analysis for the full fund, director-related resolutions is where we saw most of the against votes. In the case of five of the nine companies, the re-election of a combined Chairperson and CEO was the cause of an against vote.

SHAREHOLDER RESOLUTIONS

Shareholder resolutions accounted for 2 percent of the resolutions we voted on in 2015. Governance issues accounted for about 94 percent of these resolutions, and sustainability for around 6 percent. The most common shareholder resolutions on corporate governance concerned election of shareholder nominated candidates, proxy access and enhanced reporting. Sustainability resolutions included climate change disclosure, political contribution disclosure and pollution control oversight. We voted in favour of 45 percent of shareholder resolutions concerning sustainability and 15 percent of those concerning governance.

2015 was notable for a high level of shareholder activism. This was particularly the case in the US but the increase was also notable in companies in Asia and Europe. There were 22 general meetings in the US that were contested by activist investors seeking, among others, to install board candidates in competition to management proposed candidates. Norges Bank Investment Management supported seven of these 22 proxy contests.

Table 2 Voting related to our guidelines in 2015

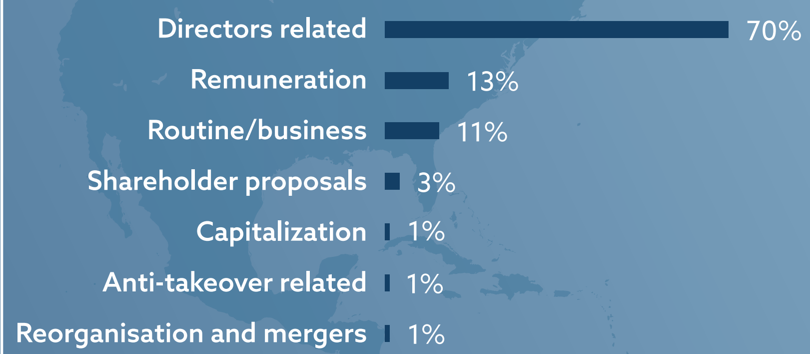
Our voting guidelines	Resolution category	Our votes for Management. Percent	Our votes against Management. Percent
Encourage companies to create long-term value Promote sustainable business practices	Shareholder proposals	83	17
Seek to enhance shareholder rights and work for equitable treatment of shareholders	Anti-takeover related Capitalization Reorganisation and mergers	91	9
Promote timely, adequate and transparent company communication	Routine/Business	96	4
Hold company boards accountable for decisions and outcomes	Directors-related Remuneration	92	8

Table 3 Votes against board recomendation among the fund's top 25 holdings

Company	Portfolio rank	Country	Resolutions against	Total resolutions	Subject of resolution(s)
Apple Inc.	2	US	1	12	Proxy access
Exxon Mobil Corporation	11	US	3	22	Proxy access, separation of the roles of CEO and chairperson
Wells Fargo & Company	12	US	1	20	Separation of the roles of CEO and chairperson
Johnson & Johnson Inc.	13	US	2	16	Separation of the roles of CEO and chairperson
Anheuser-Busch InBev SA	16	Belgium	1	32	Remuneration arrangements
Sanofi SA	18	France	1	25	Equal treatment of shareholders
Toyota Motor Corp.	19	Japan	4	21	One-share-one-vote, over-committed board members, audit committee independence
General Electric Company	21	US	1	23	Separation of the roles of CEO and chairperson
JPMorgan Chase & Co.	25	US	3	20	Right to call a special meeting, separation of the roles of CEO and chairperson

112,601 resolutions globally

North America – Distribution of resolutions

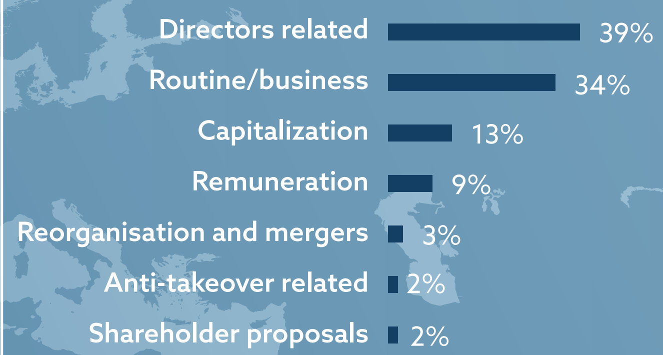


Main drivers for voting against directors

Combined CEO/Chairperson

By-law amendments without shareholder approval

Europe – Distribution of resolutions

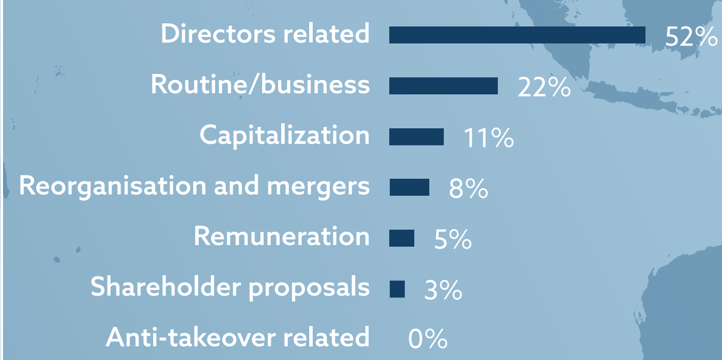


Main drivers for voting against directors

Board independence

Over-committed board members

Asia – Distribution of resolutions



Main drivers for voting against directors

Board independence

Independent auditor board/committee

Interaction with companies

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

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 that they communicate their views based on their own analyses. We held 3,520 meetings with companies in 2015.

We encourage the companies we invest in to show a culture of openness in their public disclosures and communication. This may contribute to efficient markets and equal treatment of shareholders. Two of 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

Table 4 Company meetings by sector in 2015. FTSE classification

Sector	Company meetings	Share of portfolio weight. Percent
Consumer Goods	444	11
Consumer Services	276	6
Basic Materials	317	4
Health Care	174	7
Financials	1,061	18
Industrials	579	7
Oil & Gas	183	4
Utilities	205	2
Technology	78	5
Telecommunications	203	3
Total	**3,520**	**67**

meetings or through 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.

DIALOGUE WITH COMPANIES

We prioritise contact with companies on the basis of holding value, ownership share, specific pre-defined themes and companies that present particular challenges.

Given the size of the fund, we will often be one of the largest shareholders in a company. At the end of 2015, we held 3 percent or more of the voting rights in 268 companies.

For 2015 we prioritised five themes for our predefined interaction with companies. These were board nomination processes, equal treatment of shareholders, Japanese governance reform, corruption and sustainability. We also engaged on the basis of event-driven cases when considered material to the fund. In addition to the predefined themes for 2015 and the event-driven cases, we engaged with selected companies under the Guidelines for observation and exclusion from the fund.

Monitoring and measuring progress of company dialogues

We record company interactions centred on company specific ownership goals. This enables us to document company engagement goals before the start of the activity and measure progress over the duration of the company engagement. Progress is measured and registered systematically.

Table 5 Priority themes for company dialogue in 2015

Theme	Issue	Country/sector/topic	Number of companies	Share of equity portfolio. By value. Percent
Board nomination and election processes	Director election	Sweden	35	1.6
	Director proposals (proxy access)	US	69	7.6
Equal treatment of shareholders	Double voting rights	France	12	1.5
	Opt out provisions	Switzerland	7	0.1
	Minority shareholder protection	Volkswagen AG	1	0.1
Corporate reform	Corporate governance code	Japan	180	4.1
Corruption	Remediation/oversight of corruption risk	Company specific	14	2.9
Sustainability	Transition to low carbon economy	Mining and power generation	20	2.0
	Focus area	Weak disclosure	19	1.1
Other	Event driven	Company specific	34	2.2
	Pollution control	Cases under Guidelines for observation and exclusion	3	0.7

PROXY ACCESS

Norges Bank Investment Management	US market
2006 - 2009 We write three letters to the SEC seeking a universal rule for proxy access. We have one meeting with SEC Chairman Cox	
	2010 SEC implements rule 14a-11 as part of Dodd-Frank Act giving proxy access to shareholders with 3 percent held for 3 years
2011 We send letter co-signed by peer investors to the SEC	**2011** US Court of Appeals rules against SEC eliminating mandatory proxy access requirements
2012 We submit shareholder proposals with 1 percent / 1 year thresholds at four companies	
2013 We submit shareholder proposals with 1 percent / 1 year thresholds at three companies	**2013** Western Union settles with Norges Bank Investment Managment, introducing proxy access into their bylaws
2014 We engage with 25 companies to adopt proxy access and voted in support on all shareholder proposals with reasonable thresholds	**2014** NYC Comptroller launches Board Accountability Project
	January 2015 SEC withdraws no action relief for Whole Foods Market and suspends rule 14a-8(i)(9)
	February 2015 General Electric proactively implements proxy access into bylaws
March 2015 We publish position paper on proxy access and intention to vote in favour of a shareholder proposal asking for proxy access at AES Corp	
	July 2015 Shareholder proposals receive majority support at 48 of 82 companies with an average support of 54 percent
October 2015 We send letters to 27 companies seeking proxy access implementation before next AGM	
December 2015 We support 82 shareholder proposals on proxy access in 2015. Companies representing over 25 percent of our total US equity holdings implemented proxy access into their company bylaws or charters during 2015	**December 2015** 108 companies implement proxy access into their company bylaws or charters with ownership thresholds of 3 percent held for 3 years or less during 2015. 92 of these companies are in the S&P 500 index

BOARD NOMINATION AND ELECTION PROCESSES

We believe shareholders in publicly listed companies are best served by delegating managerial issues to the company. To be effective, however, shareholders should monitor boards and have the opportunity to hold boards accountable. For this reason board accountability is a priority for Norges Bank Investment Management.

Director elections in US (proxy access)

During 2015 we have maintained our emphasis on improving the right for shareholders in the US to propose competing board candidates through the introduction of proxy access by-law provision.

Proxy access refers to the formal right of shareholders to propose their own director candidates alongside the candidates nominated by the incumbent board. Such a right provides greater director and board accountability.

Throughout the year we applied a number of governance tools towards our proxy access engagement objective. These included company dialogue and letter writing with a wide range of companies, and collaboration with peer investors. Norges Bank Investment Management offered guidance and recommendations to the Council for Institutional Investors (CII) to develop common implementation terms for proxy access.

Proxy access was one of the most significant governance related developments in the United States during the year. 108 companies implemented proxy access with ownership thresholds in line with our position paper, into their bylaws during 2015. These 108 companies represent 25.5 percent of our total US equity holdings. The rate at which companies adopted proxy access accelerated during 2015. We are very encouraged that some of the fund's largest holdings adopted proxy access in 2015, including Bank of America, Prudential Financial, Microsoft, Citigroup and General Electric.

Individual vote count in Sweden
The fund is one of the biggest investors in the Swedish stock market, holding equities worth 96.7 billion kroner as at end of 2015. During the year we commenced an initiative to engage with a number of Swedish companies with a goal to secure individual vote count in Swedish board elections. Sweden is among the few remaining advanced markets where director elections are effectively bundled for shareholders voting by proxy, such as most foreign investors. Only by attending in person has a shareholder the opportunity to call for individual vote count.

Effective relations between a board and its shareholders is dependent on a mechanism by which shareholders can hold board members accountable. That requires a mechanism to withhold votes on individual board members, or express an against vote. Bundling of all nominated directors into a single resolution deprives shareholders of the right to use their voting rights adequately and effectively in board elections. In support of this goal we published a position paper on individul vote count, consulted with the Swedish Corporate Governance Board and the Swedish Shareholders' Association, and wrote to the chairpersons of 35 leading Swedish companies. Responses to our letters confirm that a debate is underway on the issue of board election.

EQUAL TREATMENT OF SHAREHOLDERS
The fund's return is dependent upon the long-term profitability of the companies in the portfolio, and that each shareholder receives a reasonable and proportionate share of this profit. Since the distribution to shareholders is a residual claim, minority shareholders are vulnerable to agency costs and return leaks. Unequal treatment of shareholders is a weakness against which the law does not always offer shareholders sufficient protection.

Double voting rights in France
French corporate governance regulation permits double voting rights for shares based on ownership tenure. This is typically two years, but extends to ten years in the case of Pernod Ricard. We consider such voting rights distortions problematic as shareholders' interest is no longer proportional to capital invested. This has the added potential to create conflicts of interest and asymmetric influence.

We have for several years, through dialogue with companies, sought to change this practice. A new law adopted on 29 March 2014, the Florange Act, automatically extends double voting rights to any registered shares held by the same shareholder for at least two years, unless the company prohibits double voting rights in its articles of association. This must be done by shareholder vote. We vote in support of all such company proposals to amend bylaws that enshrine the right to one-share-one vote.

During 2015 we engaged the boards of directors of 12 large companies that did not have double voting rights prior to the Florange Act to request that the company propose an amendment of the articles of association to retain unitary voting rights.

Of the 12 companies we engaged with, 11 sought shareholder support at their 2015 annual general meetings to amend the articles of association. We are encouraged that ten companies gained the necessary shareholder support and will retain equal voting rights for all shareholders. These include Air Liquide, BNP Paribas and Veolia Environment.

Opt-out provisions in Switzerland
The Swiss Act on Stock Exchanges and Securities Trading includes a mandatory offer obligation whereby the acquirer of one third of the voting rights in a company must make an offer to buy out all other shareholders. However, the act allows companies to choose to apply an opt–up provision that increases the offer threshold up to 49 percent of the voting rights, or to opt-out of the mandatory offer obligation. As a result, a large shareholder holding more than one third of voting rights can sell its holding to an acquirer without the acquirer having to make a public offer to all shareholders.

We consider that such exceptions to the mandatory offer rule exposes Norges Bank Investment Management and all other minority shareholders to the risk of change of control without the right to equal terms.

We engaged with seven Swiss companies including Schindler Holding, OC Oerlikon and Helvetia Holding to encourage the removal of the opt-out or opt-up provisions from their respective articles of association. In the absence of the by-law being removed, we sought each company to commit to protect minority shareholder rights in the case of a controlling shareholder change or significant transaction.

Minority shareholder protection at Volkswagen
Norges Bank Investment Management has for a number of years identified the governance structure of Volkswagen as complex and problematic. Volkswagen is a global company with a significant weighting in the German equity index. We have therefore monitored the company closely, and through dialogue requested a better governance structure. The alternative course of action would have been to sell our shares on grounds of unacceptable corporate governance risk if little improvement is in sight.

Over the past seven years we have used a range of the ownership tools at our disposal, including exercise of voting rights, working with peer investors and national regulators and direct engagement with the company's management and board. The problems in Volkswagen were illustrated by the disclosure that the company has provided incorrect emissions data. This has led to management and board changes, and it has prompted the board to announce its intention to improve corporate governance behaviours and practices.

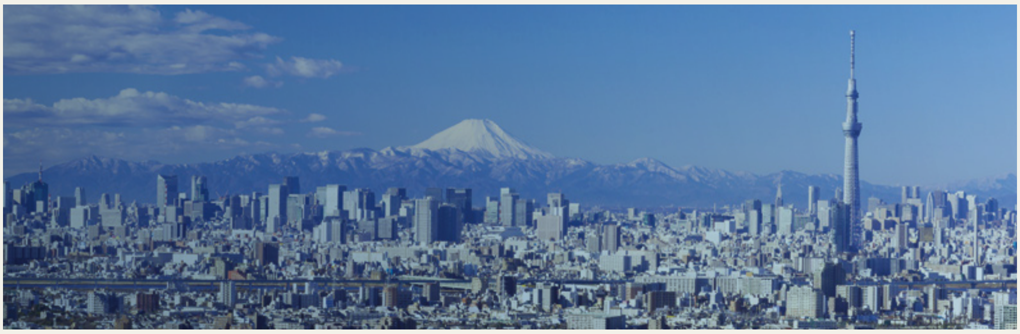
We remain engaged with the company and utilise the ownership tools at our disposal to safeguard the value of the fund's holding in Volkswagen. Our expectation is that Volkswagen should conform to acceptable corporate governance standards, including an adequate provision of fully independent directors, and commit to equitable treatment of shareholders.

CORPORATE GOVERNANCE REFORM IN JAPAN
In Japan, significant reforms to corporate governance regulation have taken place in recent years. These include a Corporate Governance Code for companies and a Stewardship Code for investors. We recognise the potential such reforms can have to improve business practices and profitability. During 2015 we convened a company seminar in Tokyo to set out our governance and ownership expectations. Demonstrating a long-term, constructive approach to the adoption of the key provisions in the Corporate Governance Code, will benefit most of the companies and their shareholders.

COMPANY DIALOGUE WITH VOLKSWAGEN AG

	Norges Bank Investment Management	Volkswagen AG
2008	Vote against board members and discharge of management and board	Porsche SE discloses near complete financial control of Volkswagen by holding 74.1 percent of voting shares
2009	Vote against board member	Porsche SE in near insolvency following takeover attempt of Volkswagen
	Letter to Volkswagen on concerns of lack of equal treatment in transactions with Porsche SE	Volkswagen letter asserting minority shareholder interests are safeguarded
	Open letter to Volkswagen on lack of information regarding transactions with Porsche SE	Porsche SE and Volkswagen agree merger and holding pyramid structure
	Vote against issuance of capital convertible into non-voting shares and discharge of directors	
2010	Vote against issuance of capital convertible into non-voting shares and discharge of directors	Special audit of Porsche SE requested by Norges Bank Investment Management and peer investors
2011	Vote against board members and discharge of director	Special audit request withdrawn subject to extraordinary dividend and commitment to good corporate governance
		Porsche SE issues statement where the controlling owners commit to good corporate governance
2012	Vote against board members and discharge of director	
2013	Vote against board member and related party transactions	Porsche and Piech families once again sole holders of Porsche SE voting shares
2014	Vote against discharge of directors and issuance of non-voting shares without preemption rights	Volkswagen cancels vote on issuance of non-voting shares
2015	Vote against board members and issuance of non-voting shares	US authorities reveal that they have detected manipulations related to diesel car emissions

Voting event | Legal action | Notable company event | Communication with board or management



Corporate governance in Japan

Japan is the third largest market in the equity portfolio and represents approximately 9.5 percent of the fund's equity investments. The market value at year end of the around 1,400 Japanese equity holdings was 433.4 billion kroner. Our average ownership in Japan is 1.1 percent. During 2015 Norges Bank Investment Management's focus on supporting corporate governance reform in Japan, led to a diverse set of activities.

Japan has embarked on a series of reforms to stimulate the economy. An overhaul of Japanese corporate governance practices is seen as a key component of the reform plan to enhance productivity and raise the level of sustainable profitability of Japanese companies.

Over the last two years, progress has been made to establish a corporate governance code for Japanese listed companies and a stewardship code for investors.

Norges Bank Investment Management has been involved in the development of the codes. We have engaged with standard setters, peer investors and expert groups to formulate our expectations on the evolving corporate governance framework in Japan. In January 2015 we submitted our recommendations to the drafting committee of the corporate governance code. The code came into force in June 2015, and we have had dialogue with a number of Japanese companies on the code's implementation in 2015.

In September, a company seminar was organised in Tokyo with representatives from 180 companies participating. The objective of the seminar was to communicate early support for company and domestic shareholder efforts to embrace the corporate governance and stewardship codes, to strengthen our links to key standard setters and peer investors, and to introduce the fund to a broad range of Japanese holdings.

There is no guarantee that companies will adopt best practice and bring about any associated long-term improvement in corporate profitability. However, we are encouraged by the progress made in a short period of time.

CORRUPTION

Legislation and widely accepted standards and principles, provide key frameworks to prevent corruption. The board of directors of companies have a general responsibility to ensure that companies follow the law, and operate according to accepted practices.

Corruption by companies, their agents, or, more widely, in the capital markets, undermines efficiency and is detrimental to shareholder value. Companies disadvantaged by corruption see their returns reduced. Bribe-paying companies may gain illicit financial benefit in the short term, but they expose themselves to potential legal, reputational and financial damage. Poor anti-corruption practices may also indicate other control, accountability or weaknesses in corporate culture.

During 2015 we expanded our dialogue with companies to better understand their safeguards and compliance programmes to detect and prevent corruption. Our review of board oversight of corruption risk is integrated into company and sector analysis and the risk may be a theme in our meetings with companies. In addition to this dialogue, during the year we engaged with 14 companies specifically on the topic of corruption risk mitigation. Through these dialogues we sought to clarify the board's oversight of anti-corruption policies and prevention measures.

SUSTAINABILITY

We raised environmental, social or governance issues at 1,582 meetings in 2015. This constituted 45 percent of our meetings with companies during the year. Meeting with company executives and experts gives us an opportunity to deepen our understanding of companies' operations, prospects and corporate governance practices. 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 strategy, ownership and operational issues. We consider it important that environmental, social and governance issues are managed by a company and integrated into its reporting.

We consider it important that environmental, social and governance issues are managed by a company and integrated into its reporting.

Transition to low carbon economy in the mining and power generation sectors

As a long term investor we recognise that climate change and regulations may affect company and portfolio returns over time. We believe that boards should recognise the necessity of integrating climate change related challenges and opportunities in investment planning, risk management and reporting, and ensure that ensuing responsibilities are clearly defined within the organisation.

In the first quarter of 2015 we started dialogues with a number of electricity producers about their plans for transitioning to less emission-intensive energy systems, and with mining companies requesting their views on a possible move in the industry towards spinning off coal-mining operations.

We set a list of objectives for our programme. We sought board recognition of the necessity of integrating climate change related challenges and opportunities in investment planning and risk management. We emphasised transparency on defined responsibilities for climate change planning within the organisation. We also wished to see companies identify scenarios for climate regulation, carbon pricing, and future environmental conditions, and stress-test the sustainability of operations under different market environments. Finally, we asked for an outline of what climate change scenarios the board is working with and the assessments it is making.

For electricity producers we also asked for public reporting that demonstrates companies' approach to managing the business towards a less emission-intensive energy system. Similarly for mining companies, we sought public reporting that demonstrates companies' approach to divesting from, or spinning off, coal assets.

The programme began with letters to company chairpersons in the selected companies. Company responses indicated there to be a range of approaches to climate change strategy setting. Transparency on scenario planning varies considerably, and companies highlight aspects such as investing in low-emissions technology.

Following the letter responses, we have had further correspondence and a selected series of meetings. We are encouraged that companies appear to take the initiative to set carbon transition plans and scenarios out to a wider audience. For instance, in September, we joined a scenario planning seminar hosted in London by BHP Billiton. We also welcome the publication of a position statement on climate change by Anglo American.

FOCUS AREAS

Annually we assess companies' reporting within our focus areas. Some companies do not respond to our request for information. We follow up such companies through dialogue. The dialogue follows a procedure where we initially request a response from the company's chairperson. In the absence of a response, or if the response is incomplete, we will follow this up further.

In 2015, we continued this programme of engagement, and escalated 32 cases to vote against the re-election of directors on grounds that the company had demonstrated an unwillingness to engage and failed to respond to our letters.

EVENT-DRIVEN COMPANY DIALOGUE

In addition to the five preselected themes undertaken during 2015 we monitor the ongoing corporate governance and sustainability developments of companies in the top 500 holdings. We will respond actively in cases where corporate governance practices appear to be deteriorating or problematic and where fund value may be compromised. In such cases we will enter dialogue with management or board members, and as appropriate apply a range of additional active ownership engagement tools including voting, collaboration with peer investors, consultation with regulators or other standard setters, and legal action.

> We monitor the ongoing corporate governance and sustainability developments of companies in the top 500 holdings

During the year 34 company events were considered sufficiently material to warrant engagement.

SELECTED COMPANY ENGAGEMENTS

In 2013 the Ministry of Finance requested Norges Bank 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. The Ministry also asked us to follow up the environmental impact of AngloGold Ashanti's mining operations through active ownership over a five-year period.

Eni and Royal Dutch Shell

The fund has invested 7 billion kroner in the equity of Eni and 26.1 billion kroner in the equity of Royal Dutch Shell. We commenced formal engagement with Eni and Royal Dutch Shell in October 2013 with the mandate to include oil spills and the environmental conditions in the Niger Delta in our ownership dialogue.

Over time, we wish to see a reduction in the number and volume of oil spills, and effective remediation of spills.

Oil spills due to sabotage, theft and operational failures continues to be a concern for onshore oil production and pipelines in the Niger Delta. These spills are primarily derived from events of sabotage and theft but also from operational failures. We have noted that both Eni and Royal Dutch Shell have reported progress in reducing the number of events and related oil spill volumes. The spills are the main source of environmental damage in the Niger Delta and results in many thousands of barrels of lost production.

During 2015 we have raised the topic with senior members of Eni's management and the board of Royal Dutch Shell. We are being reassured that our goals are a priority for the companies. We will continue to monitor the developments.

AngloGold Ashanti

The fund has invested 216 million kroner in the equity of AngloGold Ashanti. Norges Bank Investment Management entered into formal dialogue with AngloGold Ashanti to raise issues about mining-related environmental damage at its Obuasi mine in Ghana. The mining activities are recognised as responsible for severe environmental damage and contribute to serious and systematic human rights violations.

We have defined two goals for the dialogue with the company. We expect the Obuasi mine to be operated to generally accepted environmental standards once tailings storage facility, water processing and other infrastructure have been modernised. Furthermore, AngloGold Ashanti must tackle the pollution stemming from the mining legacy in the Obuasi area.

At the end of 2014, AngloGold Ashanti converted Obuasi to limited operations, ceasing underground production and reducing the workforce. It continued to process tailings and started a feasibility study on the redevelopment of the mine.

AngloGold Ashanti has committed to modernise the Obuasi mine to industry-standard environmental performance, as well as to resolve legacy environmental issues. The feasibility study has nevertheless taken longer than expected. Norges Bank Investment Management has yet to see material progress towards our goals, and we note the termination of a joint venture to redevelop the mine. We will continue to monitor the developments.

SELECTED COMPANY DIALOGUES

	Company	Sector	Purpose
Board nomination and election processes	**Blackrock Inc**	Financials	Board accountability and shareholder influence
	Apple Inc	Technology	Board accountability and shareholder influence
	Industrivärden AB	Financials	Shareholder right to vote
	Investor AB	Financials	Shareholder right to vote
Equal treatment of shareholders	**Volkswagen AG**	Consumer Goods	Equal treatment of shareholders
	Schindler Holding AG	Industrials	Equal treatment of shareholders
	Renault SA	Consumer Goods	One share one vote
	Air Liquide SA	Basic Materials	One share one vote
Corporate reform in Japan	**Fanuc Corp**	Industrials	Improved corporate disclosure
	Toshiba Corp	Industrials	Board accountability and shareholder influence
	Nissan Motor Co Ltd	Consumer Goods	Minority shareholder protection
	Sony Corp	Consumer Goods	Capital decision making
Governance of sustainability	**BHP Billiton Plc**	Basic Materials	Transition to a low carbon economy
	Anglo American Plc	Basic Materials	Transition to a low carbon economy
	SSE Plc	Utilities	Transition to a low carbon economy
	Duke Energy Corp	Utilities	Transition to a low carbon economy
Corruption risk	**Teliasonera AB**	Telecom-munications	Board oversight of corruption risk
	Petroleo Brasileiro SA	Oil and Gas	Board oversight of corruption risk
	Rolls-Royce Holdings Plc	Industrials	Board oversight of corruption risk
	Saipem SpA	Oil and Gas	Board oversight of corruption risk
Event driven	**Barclays Plc**	Financials	Board governance practices
	Samsung C&T Corp	Industrials	Related party transactions
	EI Du Pont de Nemours & Co	Basic Materials	Shareholder activism
	Deutsche Wohnen AG	Financials	Strategy

Primary goal	Start	Progress goal Percent	Status
Shareholder right to propose board candidates (proxy access)	2014	75	Open
Shareholder right to propose board candidates (proxy access)	2014	75	Closed
Individual vote count in director elections	2015	25	Open
Individual vote count in director elections	2015	0	Open
Increase board independence and shareholder-friendly capital allocation	2008	0	Open
Revision of buy-out provision in articles of association	2015	25	Open
Amendment to articles of association to maintain unitary voting rights	2014	0	Open
Amendment to articles of association to maintain unitary voting rights	2014	100	Closed
Increased transparency and shareholder-friendly capital allocation	2015	100	Closed
Higher accounting and board governance standards	2015	25	Open
Corporate governance reform with controlling shareholder	2015	25	Open
Increased transparency and shareholder-friendly capital allocation	2015	25	Open
Scenario planning for climate change	2015	50	Open
Scenario planning for climate change	2015	50	Open
Long-term capital allocation to coal as energy source	2015	75	Open
Scenario planning for climate change	2015	0	Open
Board oversight of corruption identified in subsidiaries	2015	50	Open
Board oversight of corporate corruption investigation	2014	25	Open
Board oversight of anti-bribery policies	2015	25	Open
Anti-corruption procedures and mitigation policies	2015	25	Open
Strategy, board composition and succession planning	2015	50	Open
Safeguard minority shareholder interests in transactions with controlling shareholder	2015	25	Closed
Safeguard long-term interest of the fund	2015	75	Closed
Secure best strategic outcome	2015	50	Open

Engaging with boards

We held meetings during the year with the chair or board committee chairs of the companies where we have our largest investments. The emphasis was on the companies' long-term strategy.

The chairperson and other directors of a company are often 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 to account, and understand the views of shareholders. The chairperson is responsible for ensuring a well-functioning board. We therefore hold various meetings with company chairpersons to discuss the board's working culture and dynamics. We also discuss how chairpersons ensure useful debate and safeguard the quality of the board's work.

Serving as the chairperson of a large company is a demanding task. It is therefore important to us that the chairperson has sufficient time to fulfill this role. At the same time, we note a number of occasions where chairpersons sit on several boards. If their workload appears particularly heavy, we will discuss the challenges this may present. Similarly, we consider it to be in the fund's interest that CEOs are not overly burdened by competing outside interests from complex and time-consuming non-executive directorships.

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 succession and nomination processes.

In addition to the chairperson or senior independent director we will, when appropriate, request to engage directly with the chair of key committees.

CHAIRMANSHIP AND GOVERNANCE OF EUROPEAN BANKS

In 2015 we organised a programme of dialogues with 12 chairpersons of European banks. European banks represent 5 percent of the equity portfolio of the fund. The sector is undergoing a period of reform and adjustment, and this extends to the corporate governance standards expected by shareholders. We have engaged with European banks on a range of issues in 2015 including succession planning, governance of ring-fencing, capital adequacy and allocation, strategy setting and execution, succession planning and board effectiveness.

NOMINATION COMMITTEES IN SWEDEN

In Sweden we may participate in nomination processes by serving on nomination committees. We accepted positions on the nomination committees at Volvo and Svenska Cellulosa in Sweden in 2015. We first accepted these positions in 2013 and 2014. For a number of other companies where we are significant shareholders, but not on the nominating committee, we will communicate in private with the chair of the committee to share our views and considerations.

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

Agenda for bank Chairperson dialogues

- Strategy development
- Risk oversight
- Competitive positioning
- Capital allocation
- Regulation and supervision
- Board culture
- Board composition
- Director time commitment
- Succession planning
- Remuneration

CORPORATE GOVERNANCE ADVISORY BOARD

Norges Bank Investment Management established a Corporate Governance Advisory Board in 2013 to strengthen the long-term ownership work. In 2015 the advisory board focused on bank governance, our engagement with companies and the role of the board.

The Corporate Governance Advisory Board is an external body that provides advice on our long-term active ownership strategy. It also offers tactical recommendations on our ongoing ownership efforts.

The advisory board held four meetings in 2015. In addition to the scheduled meetings the advisory board members were available and called upon between meetings to provide specific advice.

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.

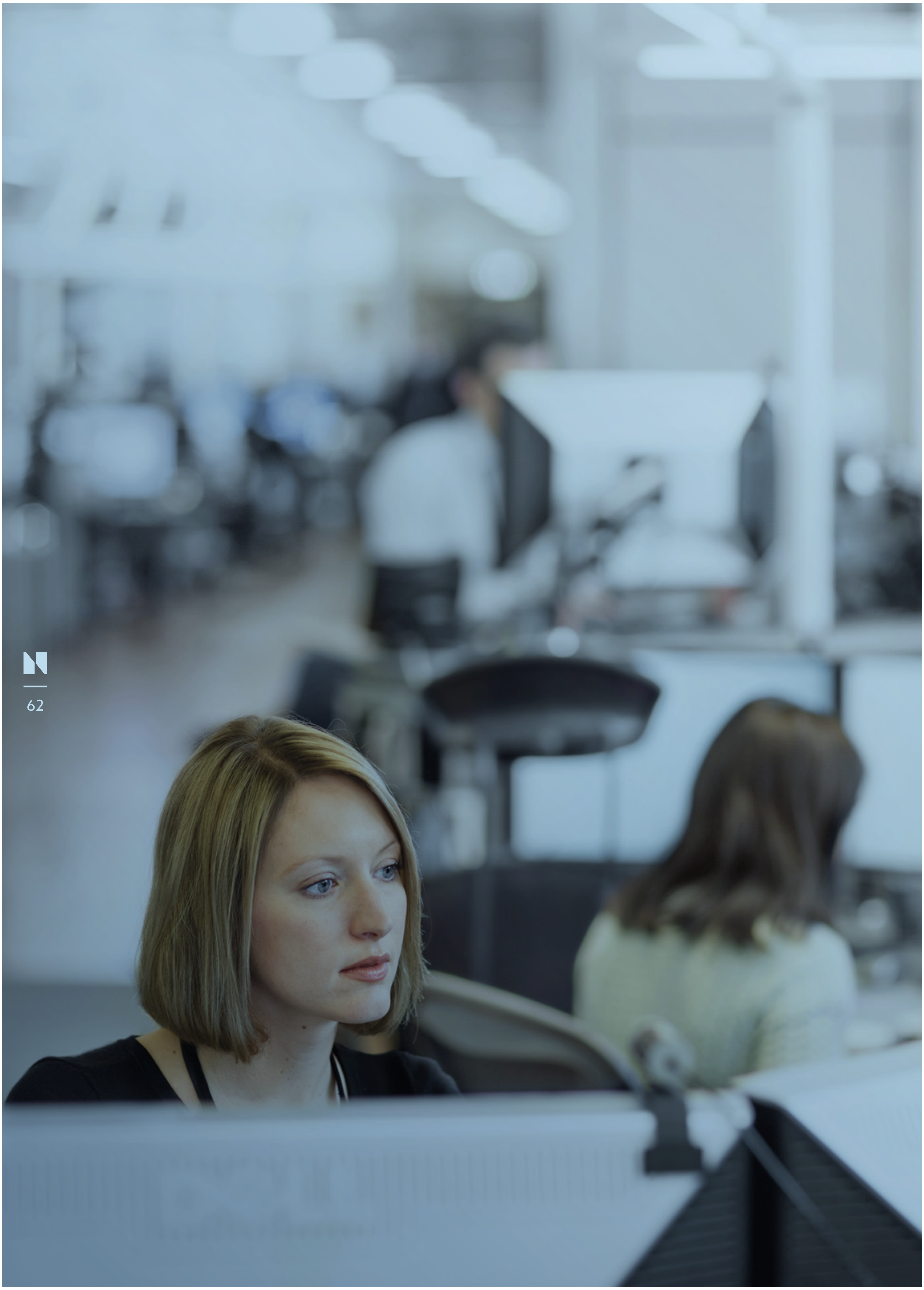
John Kay is a visiting professor of economics at the London School of Economics and a fellow of St John's College, University of Oxford, the British Academy and the Royal Society of Edinburgh. He chaired the Kay Review of the UK equity markets and long-term decision-making. Professor Kay is a Non-Executive Director of Scottish Mortgage Investment Trust and the Investor Forum.

Anthony Watson is senior independent director of Lloyds Banking Group Plc, and Witan Investment Trust and Chairman of the Lincoln's Inn Investment Committee. He has previously served as Chief Executive of Hermes Pensions Management, member of the Financial Reporting Council, Chairman of the Marks and Spencer Pension Trust and Non-Executive Director of Vodafone Group.

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 ICGN.

ACTIVITIES CONDUCTED BY THE ADVISORY BOARD IN 2015

Theme	Activities of the Corporate Governance Advisory Board
Ownership policies	Revision of internal policies and procedures in relation to our corporate governance agenda
Academic research	Advice on prioritisation for academic collaborations
Position papers	Review and revision of draft Position Papers
Voting	Review of global voting guidelines Advice on setting revised Norges Bank Investment Management remuneration voting policy for portfolio companies. Tactical advice on the use of pre-AGM voting decisions
Governance of banks	Detailed examination of current trends and future outlook of global banking reforms Input on role of board directors in shaping corporate bank culture
Board composition	Advice on value of industry experience
Company dialogue	Guidance on effective dialogue and engagement approaches
Board dialogue	Information on chairmanship and role of chairman succession planning
Executive remuneration	Guidance on Norges Bank Investment Management analysis methodology for executive remuneration Advice on framework for planned executive remuneration position paper
Non-executive remuneration	Discussion on competitive remuneration and incentives for non-executive directors
Corruption risk oversight	Engagement strategies for board corruption risk oversight
Family controlled listed companies	Consideration of company governance of family controlled listed companies
Board nomination	Advice on board nomination activities in Sweden, US, UK and Italy
Company specific input	Case-by-case advice on company actions and strategies Guidance on company engagement strategies



Monitoring risk

We analyse risks relating to environmental, social and governance issues. Such risks are considered as an integrated part of the fund risk analyses and contribute to give an overview of the total fund risks.

Norges Bank Investment Management aims to get the highest return possible on the fund's investments, with a moderate level of risk. To do this, we must identify, measure and manage the risks it faces, using various models and analyses. Monitoring environmental, social and governance risks in the portfolio is an important aspect of Norges Bank Investment Management's responsible investment management. We take a systematic approach to risk monitoring. Our approach means that we perform general assessments before going into specific issues in greater depth. Risk is assessed at the market, sector and company level. The assessments contribute to a greater understanding of risk in the portfolio.

Once risks are identified, they are then analysed, monitored and considered for ownership activity or activity directed at market standard setters. Aggregated risk assessments can lead to adjustments to the portfolio, or restrictions affecting specific markets, sectors, or groups of companies. Over time, we have structured our gathering and use of environmental, social and governance information, and expanded our databases on non-financial data.

We continued to enhance our work on monitoring risk of portfolio holdings and performed 2,517 documented risk assessments related to environmental, social and governance issues in 2015. This includes companies evaluated as part of sector analyses, company reports and focus area analyses. In addition, we continuously monitored the risk of the portfolio.

COUNTRY AND SECTOR RISK

In 2015 we continued to improve our understanding of risk concerning environmental, social and corporate governance issues at the country and sector levels. We have included additional factors such as child labour risk, management of human capital, climate change vulnerability, water stress and waste management to supplement the existing risk framework.

In addition to enhanced and more detailed non-financial data at the country or market level, we have corresponding data for different sectors' exposure to the same risks. This means that we can analyse and assess environmental, social and governance risks at the country and sector levels, as well as look at overlapping risks between countries and sectors. Such assessments facilitate the identification of high-risk areas of the portfolio, either on a stand-alone basis or based on a particular theme, and help us identify companies which warrant further analysis.

SECTOR ANALYSIS

Our general approach to risk monitoring also helps us identify sectors with elevated exposure to environmental, social or governance risks. When doing sector analysis we are concerned with risks that companies may be exposed to, and with the performance of the companies in managing these risks compared to their sector peers. Elevated risk exposure may warrant further analysis of a particular sector.

By overlaying our risk framework against the portfolio, we were able to identify a number of sectors with high risk exposure to specific issues. Based on this, we conducted 14 sector assessments covering a total of 235 companies during 2015. We also continued to assess companies in a number of the sectors which were identified in 2014.

The sector assessments conducted in 2014 included several segments of the mining sector as well as cement production, power production, paper production and oil sands, as these sectors have environmental challenges associated with their operations. In 2015 we expanded our assessments to include additional sectors. These were building materials, heavy construction, clothing and accessories, footwear and toys.

In addition to introducing new sector assessments, we expanded the scope of the assessments to include social issues such as health and safety and human capital, as well as corruption.

COMPANY ANALYSIS

Our ongoing risk monitoring also includes producing reports and briefs at the company level. We produced 132 company assessments looking at environmental, social and governance issues in 2015. We divide these assessments into three categories.

Material ownership reports

We analyse companies where the fund has a significant ownership share. In these analyses, we aim to identify and evaluate both short and long-term risk exposures. A total of 11 such reports were prepared in 2015.

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 incident evaluation, companies are chosen for further analysis in an incident brief. We prepared 36 of these briefs in 2015, covering incidents such as alleged corruption, fraud, violations of human rights, emissions and environmental damage. The incident briefs are sometimes followed by more extensive company analysis.

Company reports

Sector assessments and incident briefs sometimes uncover a need for further analysis of individual companies. Company reports look in more detail at business drivers and risk factors for the specific company. We assess whether and how environmental, social and governance issues could affect the company. We prepared 85 such reports in 2015.

NON-FINANCIAL DATA

Investors' interest in and use of corporate non-financial data is increasing. This is driven by efforts to incorporate environmental, social, governance and other non-financial information with traditional financial analysis, in order to achieve a more comprehensive and representative assessment of companies' risk exposure. Our work with non-financial data includes statistics and data concerning country and sector assessments and data on specific topics such as corporate governance, water, climate and child labour.

Norges Bank Investment Management strives to improve our understanding of potential links between environmental, social and governance issues and portfolio risk and return. To do this, we depend on access to extensive qualitative and quantitative non-financial information.

Some of this information is reported by companies. Academic institutions, financial service providers and other third party organisations such as NGOs and the media, also provide relevant information.

We have access to information from external data providers who specialise in non-financial data and analysis. Offerings from such providers are steadily increasing, both in terms of number of companies and markets covered, as well as data quality. Our selection of data providers concentrates on the underlying data methodologies, operational platform as well as data quality and the robustness of the product offering.

The result of this is that we now have comprehensive databases of non-financial data that span a number of factors at country, sector and company level. These data are integrated in relevant analyses and processes including analyses of individual companies and sectors and at the portfolio level.

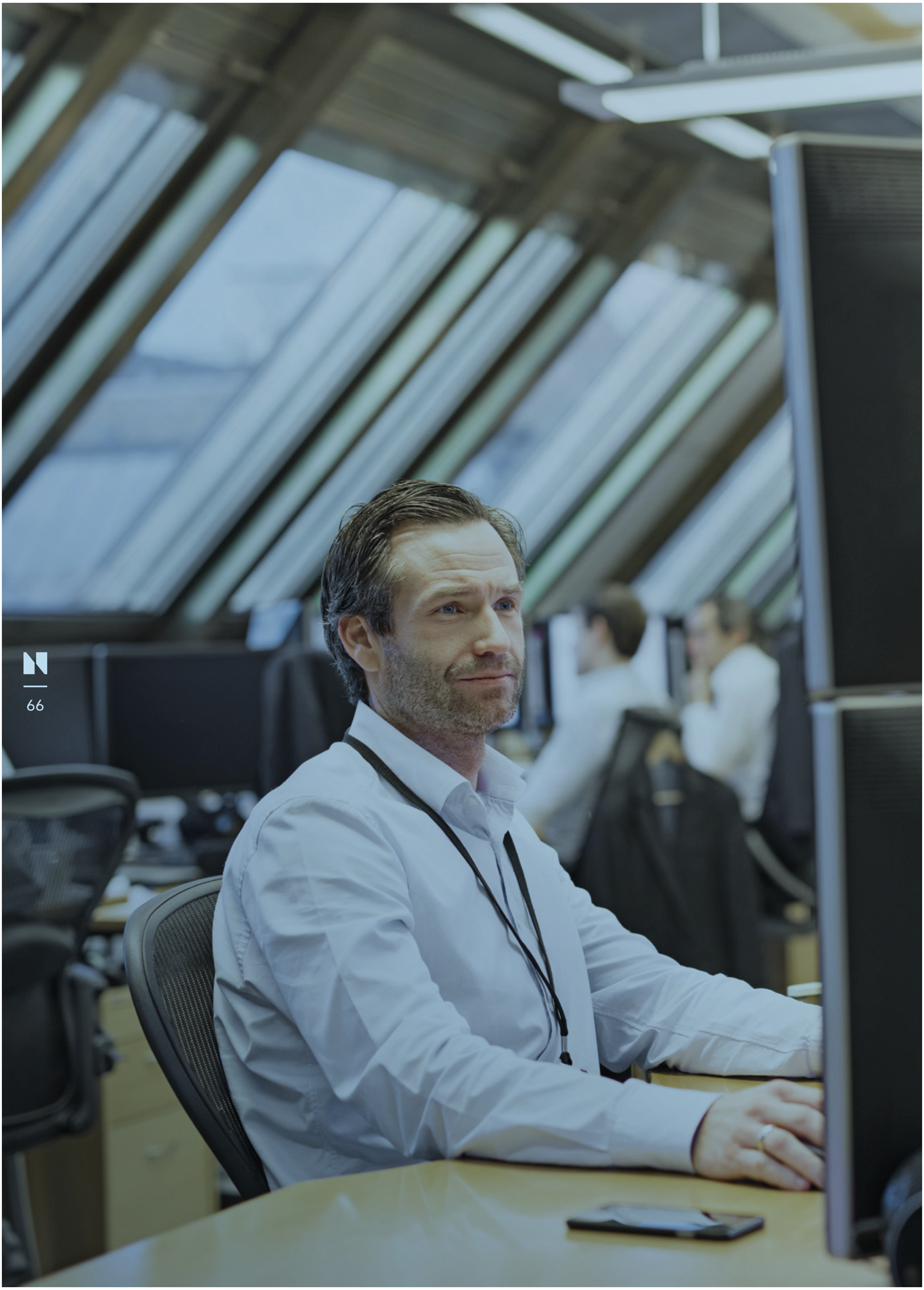
Non-financial data have both qualitative and quantitative dimensions. Qualitative information typically relates to assessments from independent sources of policies, organisational controls, structures, risks and controversies. Quantitative data relates to values that measure operational inputs, outputs and risks.

EXAMPLES OF NON-FINANCIAL DATA

Theme	Qualitative information	Quantitative metric
Biodiversity	✓	✓
Carbon	✓	✓
Climate change	✓	✓
Waste	✓	✓
Water	✓	✓
Child labour	✓	✓
Corruption	✓	✓
Health & Safety	✓	✓
Human capital	✓	✓
Fossil fuel reserves	✗	✓
Green revenue	✗	✓
Utility plant specifics	✗	✓

Table 6 Company risk analysis by topic

Topic	Number of companies
Corporate governance, including tax issues	17
Human rights and international law	8
Labour rights and occupational safety	4
Corruption, accounting practices and fraud	11
Environmental risks	35
General analysis of environmental, social and governance risks	57
Total	132



RISK MONITORING AND EXTERNAL MANDATES

Our risk monitoring activities concerning environmental, social and corporate governance issues apply to all fund holdings. Ensuring that external managers are aware of our responsible investment priorities, and that they integrate environmental, social and governance considerations in their investment activities, is part of our process when selecting new managers. For established mandates, such aspects are part of the annual qualitative assessment of external managers and is a topic of discussion at the regular meetings we have with managers throughout the year.

In 2015 we assessed our own practices for ensuring that external mandates are managed in line with Norges Bank's Principles for responsible investment management. We also evaluated, based on publicly available information, how other large asset owners approach environmental, social and governance issues in the selection and monitoring of external managers.

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

To gain a better understanding of the fund's total climate risk, we analyse greenhouse gas emissions from all the companies in our equity portfolio. High emission levels at the individual company level may result in financial 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. Not all companies report sufficiently standardised data. Our analyses are therefore based on extensive use of modelling by specialised data providers.

The companies in the equity portfolio at the end of 2015 released approximately 4.3 million tonnes of CO_2 equivalents during the year, weighted by the value of our holdings. This corresponds to 128 tonnes per million dollars revenue.

These figures correspond to companies' direct emissions only, also known as Scope 1. It is also possible to perform calculations that include emissions of greenhouse gases in companies' supply chains, for example from purchased electricity and heat. 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 at the portfolio level. In our analyses of individual companies and sectors, it may nevertheless be relevant also to look at greenhouse gas emission intensity measures that include purchased electricity and steam.

When comparing the carbon footprints of companies operating in the same sector, we will look at both direct and indirect CO_2 emissions. When analysing the business models of individual companies, we may also include an assessment of the lifecycle emissions of a company's operations and products to get a full picture of climate-related risks and opportunities at the company level.

> We will look at both direct and indirect CO_2 emissions

Our analysis was based on the most recently available emission data from our suppliers and on our holdings at the end of 2014 and 2015. There is a delay before emission figures are reported, and so the analysis largely draws on emission data for 2014 together with more up-to-date information for those companies that have made it available.

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.

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

Both the equity portfolio and the reference index experienced decreases in their carbon intensity values. The portfolio carbon intensity decreased by 19 percent while the reference index carbon intensity decreased by 10 percent. In both cases, decreases were driven by the utilities, oil and gas, industrials and basic materials sectors.

Our calculations highlight aspects of companies and sectors that can be relevant in further analysis. It is worth noting, however, that our analysis provides only a snapshot and does not take account of companies' strategies, industry structure and other factors. The carbon emissions calculations as such, do not provide a complete picture of the climate risk that companies in the portfolio may be exposed to. The analysis of carbon emissions is often best assessed in combination with information on aspects such as water intensity, air pollution, age of generation units emitting CO_2 and, where applicable, carbon capture and storage.

Method

Calculation methodologies for greenhouse gases are varied. 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 tonnes of CO_2 equivalents.

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.

Some suppliers have therefore 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 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 work closely with our data providers to ensure that we get the best possible coverage for the portfolio and reference index. We have mainly used data from Trucost in our analyses.

Categorisation of emissions

The Greenhouse Gas Protocol has set a standard for the categorisation of emissions that is used by both authorities and companies. This 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 the portfolio calculations.

Carbon risk in oil and gas companies

In 2015 we expanded the analyses of potential fund climate risks. One of the analytical enhancements relates to estimations of the sensitivity of different oil and gas exploration and production (E&P) companies to scenarios for carbon pricing. These sensitivities were then overlaid against the portfolio in order to assess the potential financial risk at different carbon prices. The analysis included the sourcing of field level data for 32 of the largest E&P companies. These data were then combined with sources of carbon lifecycle emissions estimates. Together such data give an indication of asset-level greenhouse gas emissions intensity. To these intensities we attributed a carbon tax based on two scenarios, one of which is consistent with the International Energy Agency (IEA) 450 scenario and modelled these costs against the asset's free cash flow. From that we were able to classify projects as weak, normal or strong in terms of their financial resilience to our modelled carbon pricing. Our preliminary findings were that financial resilience was due to a combination of field level economics and carbon emissions. Further, LNG, oil sands and tight oil and gas are the project categories that are most affected by the implied carbon pricing. Our analysis also flagged some issues concerning data and assumptions.

Table 7 Emissions by sector

Sector	Equity portfolio Share of portfolio market value. Percent*	Tonnes CO_2 equivalents	Reference index Tonnes CO_2 equivalents
Basic Materials	5.1	7,799,601	9,542,099
Consumer Goods	14.5	1,288,226	1,366,667
Consumer Services	11.0	922,702	792,771
Financials	23.4	853,294	1,008,966
Health Care	10.7	285,320	287,135
Industrials	13.6	2,609,547	2,861,204
Oil & Gas	5.4	34,631,005	37,582,329
Technology	9.0	184,078	182,365
Telecommunications	3.4	312,255	318,483
Utilities	3.3	32,397,138	39,323,667
		4,319,659	5,019,170

* Does not total to 100 percent because cash and derivatives are not included

Table 8 Emissions in the equity portfolio and reference index in million tonnes CO_2 equivalents

	31/12/2015	31/12/2014
Equity portfolio	4,319,659	5,616,635
Reference index	5,019,170	6,058,353
Difference	-699,510	-441,718

Table 9 Average emissions intensity in the equity portfolio and reference index, weighted by market value of fund holdings. Tonnes CO_2 equivalents per million US dollar in sales revenue

	31/12/2015	31/12/2014
Equity portfolio	128	159
Reference index	155	172
Difference	-27	-13

Table 10 Average emissions intensity by sector, weighted by market value of fund holdings. Equity portfolio and reference index

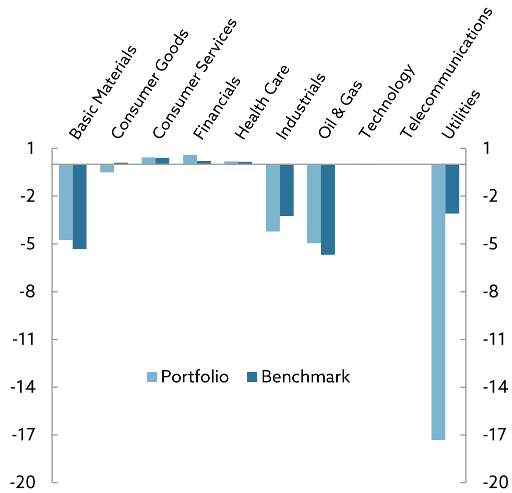
	Equity portfolio		Reference index
Sector	Share of portfolio market value. Percent*	Tonnes CO_2 equivalents per million US dollar sales revenue	Tonnes CO_2 equivalents per million US dollar sales revenue
Basic Materials	5.1	357	414
Consumer Goods	14.5	41	40
Consumer Services	11.0	59	50
Financials	23.4	12	10
Health Care	10.7	15	15
Industrials	13.6	199	204
Oil & Gas	5.4	287	298
Technology	9.0	12	11
Telecommunications	3.4	5	6
Utilities	3.3	1,421	2,096
Total		128	155

* Does not total to 100 percent because cash and derivatives are not included

Table 11 Contribution of tonnes of CO_2 equivalents per million US dollar between allocation and selection

Sector	Allocation	Selection	Total
Basic Materials	1.0	-3.0	-2.0
Consumer Goods	-0.8	0.1	-0.7
Consumer Services	-0.3	1.1	0.8
Financials	-0.5	0.4	-0.1
Health Care	1.3	0.0	1.3
Industrials	0.4	-0.6	-0.3
Oil & Gas	-0.5	-0.6	-1.1
Technology	0.8	0.1	0.9
Telecommunications	0.6	0.0	0.6
Utilities	-3.7	-22.6	-26.3
	-1.8	-25.2	-27.0

Chart 3 Changes in contribution to carbon footprint of the fund



Industry initiatives

We prioritise selected issues across the companies in the portfolio, through thematic or industry initiatives. Topics include our focus areas children's rights, water management and climate change.

Our work on industry initiatives has three main angles: we wish to develop and improve the information available to investors, we wish to support initiatives that can help companies manage risk, and we wish to contribute to improved industry practices. These initiatives are typically closely related to our efforts within standard setting and ownership.

WATER AND MINING DATA INITIATIVE

In 2014 we initiated a water and mining data initiative. The purpose of the initiative was to expand and improve non-financial data about these sectors in a consolidated database. This year, Columbia University has worked on building a database with non-financial information. Such information is not easily available. Norges Bank Investment Management has therefore invited mining companies, industry experts, and mining industry associations to contribute to the development of the data. The database is built in an open-source format and will be made available for further research.

REPORTS ON CHILD LABOUR

In 2015 we asked the Oslo-based International Law and Policy Institute (ILPI) to write reports on the cottonseed sector in India, and the cocoa sector in West Africa. These sectors have previously been topics of industry initiatives. Our motivation for commissioning the ILPI studies was to get a better understanding of the current status of child labour in the sectors. In the case of the Indian hybrid cottonseed sector, ILPI points to the overall trend of decreasing child labour in India, which is also in evidence on many cottonseed farms. Initiatives undertaken by major multinational companies and a few local companies appear to have had some positive impact in reducing the number of working children. However, their efforts have only had a limited impact on the overall magnitude of child labour in the sector. Child labour remains a significant problem with a quarter of the total workforce on these farms made up of children below 14 years of age.

In the case of the West African cocoa sector, ILPI reports that the number of child labourers is estimated to have increased by 18 percent between 2008/09 and 2013/14. This is despite both Côte d'Ivoire and Ghana having ratified the key ILO conventions and introduced new laws and regulations on this issue. This gap between implementation and policy may be explained by low enforcement capacity, informal economies and political instability. The increased international attention on child labour has nevertheless had an impact on the major companies in the cocoa sector, which have initiated measures to address child labour in their supply chains.

A general finding of the reports concerns a lack of data and information available on child labour in the sectors. ILPI writes that even when there is documentation and data available it offers two distinct challenges. Firstly, there are often diverging findings and results with regard to child labour. Different actors come to different conclusions. The second challenge concerns source bias and reliability. Much of the material in the public realm concerning child labour is produced by actors who could be said to have a vested interest.

Focus areas

Through our focus areas, we work on selected issues that are relevant across multiple sectors. We have three focus areas dealing directly with environmental and social issues: children's rights, water and climate change.

Each year, we assess whether companies disclose guidelines, strategies, business plans and reports that suggest that they are well equipped to manage these risks. The assessments cover sectors that we consider especially relevant and are used to identify companies with good reporting and those that need to improve their disclosure. An important general issue is to move from words to numbers, so that investors can evaluate companies' efforts.

We carried out 2,113 company assessments under the focus areas in 2015, of which 1,163 concerned climate change, 470 water management and 480 children's rights. The companies assessed accounted for 45 percent of the equity portfolio's market value at the end of the year.

CHILDREN'S RIGHTS

The long-term legitimacy of sectors and markets may in some cases be dependent on operations and products that are ethically acceptable. We publish expectations, analyse and engage with companies. We expect companies to respect children's rights in line with the United Nations Guiding Principles and incorporate children's rights in strategic planning, risk management and reporting. We have been assessing companies with activities or supply chains in sectors with a high risk of child labour since 2008.

WATER MANAGEMENT

How companies manage water risks and capitalise on opportunities, may drive long-term returns for us as a shareholder. Externalities from unsustainable water use may in itself present a risk to the portfolio's long-term value. We publish expectations, analyse and engage with companies. We expect companies to incorporate potential water risks in strategic planning, risk management and reporting. We have been assessing companies exposed to water risk since 2010.

CLIMATE CHANGE

Climate outcomes may affect company and portfolio return over time. Climate change may also give rise to business opportunities. We publish expectations, analyse and engage with companies. We expect companies to plan for relevant climate scenarios, and incorporate potential climate risks in strategic planning, risk management and reporting. We have been assessing companies exposed to climate risk since 2010.

CHILDREN'S RIGHTS

We have assessed selected companies exposed to child labour risks since 2008. The companies in question have activities or supply chains in high-risk sectors. In 2015 we covered additional sectors with high-risk of child labour, and a wider selection of companies within each sector. We assessed 480 companies in the basic materials, branded goods, garment production, retail, technology hardware and equipment and food and beverage sectors. The assessments are based on the companies' most recently reported information.

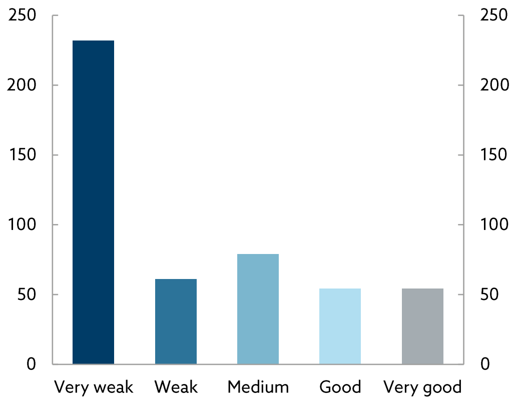
The companies' reporting was evaluated against ten indicators. The number of companies assessed that had guidelines for managing child labour risk varied from 74 percent in the technology sector to below 50 percent in the food and beverage sector. Companies generally had lower scores for other indicators such as systems for monitoring child labour in the supply chain and interaction and collaboration with other stakeholders on the issue of child labour. Our findings also revealed variations from sector to sector, and that a large number of companies did not report on the management of child labour risk at all.

We identified 54 companies that showed very good results on our ten indicators in 2015.

We identified 54 companies that showed very good results on our ten indicators in 2015. 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 in various sectors
Adidas AG
Anglo American Plc
Bayer AG
Coca-Cola Co
Danone SA
Hennes & Mauritz AB
Intel Corp
Mondelez International Inc
Nestlé SA
Next Plc

Chart 4 Results for companies we assessed within children's rights in 2015. Number of companies



HENNES & MAURITZ

As a global clothing retailer, Hennes & Mauritz is at risk of supply chain child labour. We have included the company in our annual children's rights disclosure assessments since 2008. Hennes & Mauritz has consistently been ranked by Norges Bank Investment Management as one of the best performers in its sector.

Strategy and business planning

The company has a clear policy regarding the prevention of child labour, referring to the UN Convention on the Rights of the Child and the International Labour Organization. Its Code of Conduct prohibits child labour. Twice a year, the CEO, the CFO and the Head of Sustainability review progress. With the same frequency, performance against key sustainability indicators is reported to the board of directors. The company emphasises collaboration with its suppliers, governments and stakeholders in its efforts to prevent the incidence of child labour

Risk management and reporting

The company identifies a wide range of specific children's rights risks and describes risk management strategies and action plans to cope with the identified risks. The strategies are integrated into the company's business planning.

Hennes & Mauritz publishes an annual sustainability report, which addresses key environmental, social and governance issues, including responsible sourcing, community relations and environmental impact. The company discloses the names of its first-tier suppliers, and any subcontracted factories these might use, covering close to 100 percent of the organisation's production volume. In addition they disclose the most important second-tier suppliers of fabrics. Hennes & Mauritz states suppliers must undergo an initial screening process and sign the Code of Conduct. Subject to a supplier passing the initial screening their auditors will conduct an in-depth audit.

Hennes & Mauritz also conducts regular audits including inspections of factories, management interviews, document checks and interviews with workers. In 2014, 84 percent of their supplier factories were audited at least once, of which 70 percent were unannounced audits. Hennes & Mauritz also works with suppliers to help them improve their management systems and train workers and management. Their aim is to work together with suppliers on improvements rather than terminating relationships. Termination, is nevertheless a last resort response to supplier non-compliance.

WATER MANAGEMENT

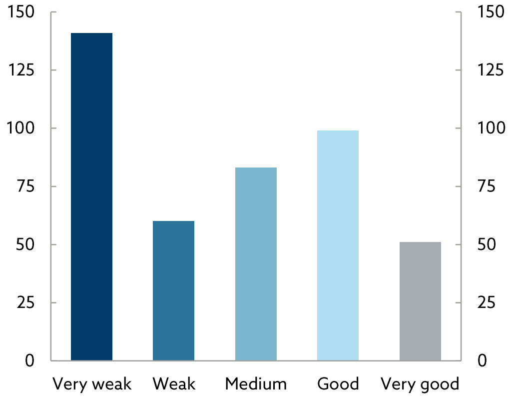
We have assessed companies exposed to water risks since 2010. In 2015, we assessed 470 companies in the consumer goods, pulp and paper, mining and utilities sectors. The assessment was based on the companies' most recently reported information.

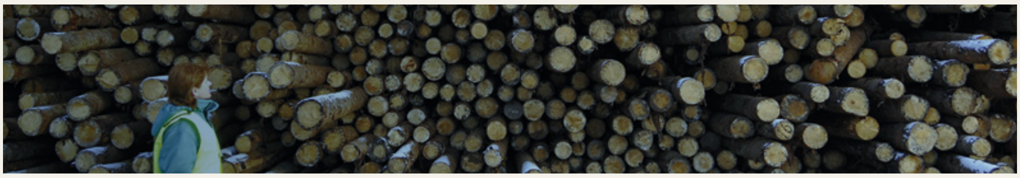
The companies' reporting was evaluated against five main indicators. There was considerable variation in the level of reporting. The number of companies that had published analysis of water risks ranged from 60 percent in the mining sector to 78 percent in the electricity and water utilities sectors. There were major differences between companies in terms of information on risk assessments and ensuing actions. The results also varied from sector to sector. Our analysis showed that around 11 percent of companies provided no relevant information on the management of water risks.

We identified 51 companies that showed very good results on our five main indicators in 2015. Across sectors, consumer goods companies had the best reporting on water risks.

Best results in water management in various sectors
Nestlé SA
Diageo Plc
Anglo American Plc
Newmont Mining Corp
Exelon Corp
Enel SpA
Mondi Plc
UPM-Kymmene OYJ
Pepsi Co Inc
Coca-Cola Amatil Ltd

Chart 5 Results for companies we assessed within water management in 2015. Number of companies





UPM-KYMMENE

UPM-Kymmene (UPM) manufactures wood-based products for various end uses. Products include magazine, newsprint and fine papers, labelling materials, pulp, plywood, timber and energy. The company has also developed new sustainable products, such as biofuels, biocomposites and biochemicals. UPM operates globally with production in 13 countries and sales network on six continents.

Water is important for UPM's pulp and paper production, and hydropower generation. The company's ambition is to minimize the impacts of operations on local water resources and safeguard the natural water cycle in forests. Over the last ten years, UPM has decreased the process wastewater volume per tonne of paper by 25 percent.

UPM uses water as a cooling agent and as a transport medium. Small compounds from wood fibers dissolve during manufacturing, and a small proportion of the chemicals and other raw materials used in the process solute to the water. The process water is treated in wastewater treatment plants in all UPM's pulp and paper mills. The quality and amount of effluents as well as the possible environmental impacts to the receiving watercourses are monitored.
The company's overall water risk management disclosure and reporting is comprehensive compared with sector peers.

Strategy and business planning

The company notes the relevance of water risk analysis to the company's business strategy and operational footprint, and reports board oversight of water management. For example, high-quality fresh water is necessary for high-quality paper products. The company reports several water-related investment programmes to improve energy and water efficiency, and natural resource management.

Risk management and reporting

UPM has mapped all of its 22 pulp and paper mills on the Water Stress Index (WSI) maps and reports water stress risk exposure per mill. UPM reports on water risks in its supply chain.
The company discloses several water performance indicators at corporate and mill levels. The indicators include volume of process wastewater, as well as process wastewater per unit of output. UPM discloses a wastewater volume reduction target of 15 percent, and a 20 percent reduction target in Chemical Oxygen Demand load, by 2020. A third party audits data.

CLIMATE CHANGE STRATEGY

We have assessed selected companies exposed to climate risk since 2010. In 2015, we assessed 1163 companies in eight sectors with particularly high climate risks: basic resources, building materials, chemicals, oil and gas, power generation, auto, transport and real estate. The assessment was based on data reported to CDP in 2015 and selected supplementary data from Trucost, a supplier of environmental data. It was the first year we assessed listed real estate companies as part of the climate change analysis.

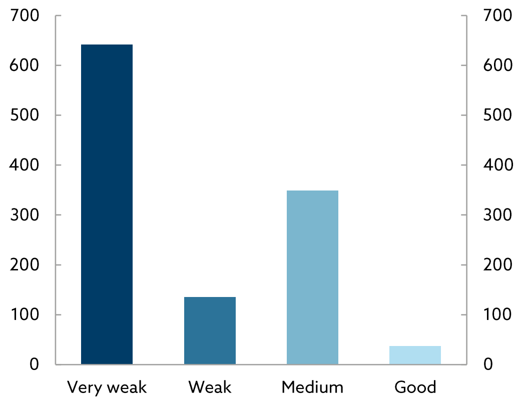
The companies were measured against five main indicators. The indicators included companies' approach to climate risk in their governance structure and reporting, as well as changes in actual emissions. There was considerable variation in the level of reporting of climate risk between both companies and sectors. The number of companies that published analyses of exposure to climate risk ranged from 35 percent in the utilities sector to 56 percent in the chemicals sector.

We identified no companies that showed very good results on our climate indicators. 30 companies showed good results.

In 2015 we identified no companies that showed very good results on our climate indicators. 30 companies showed good results. These were in the chemicals and transport sectors. 46 percent of the companies in the selected sectors did not provide information or did not report data to CDP.

Best results in climate change strategy in various sectors
Gecina SA
Johnson Matthey Plc
Saint-Gobain S.A
Mitsui O.S.K. Lines Ltd
Nissan Motor Company Ltd
Gamesa Corporación Tecnológica, S.A.
EDP - Energias de Portugal, S.A.
Centrica Plc
Anglo American Platinum Ltd
Teck Resources Ltd

Chart 6 Results for companies we assessed within climate change in 2015. Number of companies



JOHNSON MATTHEY

Johnson Matthey is a specialty chemicals company manufacturing catalysts, pharmaceuticals materials and pollution control systems. The company has operations globally. Although the group is involved in some carbon intensive lines of business, including precious metals recycling, the company has committed to a high emission reduction target, and the pace of reduction is high. In addition, a number of the company's products and technologies enable its customers to reduce their carbon footprint. The company has consistently been ranked as one of the top performers in its sector in our framework, achieving a high score on sustainability reporting and transparency.

Strategy and business planning

The company has a carbon management strategy with plans to reduce operational and downstream emissions, transparent energy efficiency targets, and a 50 percent emission reduction target by 2017 versus a 2006 baseline.

The company has developed a strategy built on new technologies to find solutions that optimise the use of natural resources and protect the environment. Emission controls technologies and process technologies aiming at reducing emissions and improving air quality, account for more than 60 percent of total revenues. The company has invested into a new business area in battery technologies, supporting the electrification of vehicles.

Risk management and reporting

Johnson Matthey has an annual review process covering all manufacturing and R&D facilities and conduct audits to optimise energy use at its different facilities. The company exhibits detailed carbon disclosure and participates in the annual CDP survey.

Environment-related mandates

Through our environment-related investment mandates we make additional allocations to environmental technologies. 53.8 billion kroner was invested in such mandates at the end of 2015.

Environment-related mandates have been part of our investment strategy since 2009. The mandates are managed internally and externally, and have the same risk and return requirement as the overall fund. The mandate laid down by the Ministry of Finance for Norges Bank's management of the fund requires investments into the environmental space to fall within a range of 30 to 60 billion kroner.

We have invested 53.8 billion kroner in listed equities through the environment-related mandates at the end of 2015. 34.5 billion kroner of these investments were managed internally, and 19.3 billion kroner were managed externally. The investments were spread across 224 companies. The equity portfolios in aggregate returned 1.1 percent in 2015, and since inception in 2010 annualised return has been 2.8 percent.

For the internal investment mandates, we have a framework which aids us in the definition of the environmental investment universe, and in portfolio construction. Over time, the portfolio and universe has had a higher risk compared to the wider equity market. We have to expect a relatively small group of companies such as this to show greater return volatility over time than the broad equity market. The environmental investment universe is still nascent and sensitive to the development of new technologies, business models and government regulation.

Table 12 Historical key figures as at 31 December 2015. Annualised data. measured in the fund's currency basket. Percent

	Last 12 months	Last 3 years	Since 01/01/2010
Return on environment-related mandates	1.1	14.5	2.8
Standard deviation on environment-related mandates	15.1	12.8	14.1
Return on the FTSE Environmental Technology 50 Index	5.4	17.6	3.0
Return on the MSCI Global Environment Index	-0.3	11.2	6.9

ENVIRONMENTAL UNIVERSE CATEGORIES, GROUPS AND DEFINITIONS – INTERNAL DEFINITIONS

Categories:	Groups	Definitions
Companies that provide solutions to climate change and pollution	Low-emission Energy & Alternative Fuels (LEAF)	Providers of energy, infrastructure, and energy solutions for transport, buildings, and industry
	Clean Energy & Efficiency Technology (CEET)	Providers of technology, equipment and services lowering emissions through clean and efficient generation and consumption of energy
Companies that provide solutions contributing to efficient usage of natural resources and pollution	Natural Resource Management (NRM)	Providers of technology, equipment, infrastructure and services lowering environmental impact through clean and efficient consumption and reuse of natural resources

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 33 currencies at the end of 2015. Unless otherwise stated in the text, results are measured in the fund's currency basket.

Table 13 Top twenty holdings in the environmental portfolio

Company name	Country	FTSE Global Sector	Environmental industry segment	Value holding Million kroner	Portfolio Percent
NextEra Energy Inc	US	Utilities	Renewable & Alternative Energy	2,245	4.2
Sempra Energy	US	Utilities	Renewable & Alternative Energy	1,760	3.3
Iberdrola SA	Spain	Utilities	Renewable & Alternative Energy	1,478	2.8
Johnson Controls Inc	US	Consumer Goods	Energy Efficiency	1,342	2.5
Linde AG	Germany	Basic Materials	Environmental Support Services	1,203	2.3
Xylem Inc/NY	US	Industrials	Water Infrastructure & Technologies	1,109	2.1
Eaton Corp Plc	US	Industrials	Energy Efficiency	992	1.9
Waste Connections Inc	US	Industrials	Waste Management & Technologies	975	1.8
National Grid Plc	UK	Utilities	Renewable & Alternative Energy	936	1.8
Schneider Electric SE	France	Industrials	Energy Efficiency	935	1.8
Ecolab Inc	US	Basic Materials	Water Infrastructure & Technologies	921	1.7
Keyence Corp	Japan	Industrials	Energy Efficiency	900	1.7
American Water Works Co Inc	US	Utilities	Water Infrastructure & Technologies	843	1.6
Roper Technologies Inc	US	Industrials	Water Infrastructure & Technologies	810	1.5
Delphi Automotive Plc	US	Consumer Goods	Energy Efficiency	803	1.5
Daikin Industries Ltd	Japan	Industrials	Energy Efficiency	768	1.5
Tesla Motors Inc	US	Consumer Goods	Energy Efficiency	753	1.4
Veolia Environnement SA	France	Utilities	Water Infrastructure & Technologies	734	1.4
Koninklijke Philips NV	Netherlands	Industrials	Energy Efficiency	724	1.4
DS Smith Plc	UK	Industrials	Waste Management & Technologies	692	1.3
				20,924	39.5

INVESTMENT UNIVERSE AND PORTFOLIO

We approach the investment process in two main steps, each involving a degree of judgement and analysis. First, we define the investment universe, which in itself has no clear cut or objective definition. Our framework allows for the identification of companies involved in providing solutions to decrease the environmental impact of economic activity.

> Through company analysis we aim to identify the companies we expect will deliver good long-term returns

Companies involved in environmental activities can be found in many different industries, which may have very different characteristics and dynamics. In addition, some environment-related companies are part of larger conglomerates. We include some conglomerates in our investment universe. Conglomerates often have more capital and resources to develop and implement new solutions.

Our environmental-related investments can be categorised as investments in either low-emission energy and alternative fuels, clean energy and efficiency technology, and natural resource management. The first two categories include investments in companies that can contribute to solutions to climate and pollution problems. The third consists of companies that contribute to a more efficient use of natural resources.

For a company to be included in our environmental universe, it needs to pass a positive screening that requires at least 20 percent of its business in one or more of our defined environmental segments, low emissions energy and alternative fuels, clean energy and efficiency technology and natural resource management. We also consider the companies' investment plans. Finally we perform a negative screening relating to coal, and oil and gas production.

Successful management of environmental investments requires knowledge and understanding of what will drive policies, regulation, technology and environmental progress. Through company analysis we aim to identify the companies we expect will deliver good long-term returns.

LOW EMISSION ENERGY AND ALTERNATIVE FUELS

The power generation and transport sectors are major contributors to greenhouse gas emissions. Technological advances in these areas can significantly reduce global greenhouse gas emissions. Within electricity production, the development of renewable energy sources and energy sources with low emissions is particularly important. Companies are today increasingly developing capacity for the production of renewable energy from wind, solar, hydro, geothermal and waste. Infrastructure to link these sources with consumers is also an important aspect of developing lower greenhouse gas intensive energy systems.

Within the transport sector, hybrid and electric cars have been an important recent development. New technology is also being developed based on alternative fuels such as hydrogen. To invest directly in the energy transition through these companies presents challenges, as the most relevant projects are often only a small part of a company's overall business.

Companies operating in these segments include Iberdrola and NextEra Energy.

CLEAN ENERGY AND EFFICIENCY TECHNOLOGY

Investments in solutions to climate change have traditionally been made mainly in energy production, and concentrated on clean and renewable energy. Opportunities on the demand side have recently begun to attract more attention. Various political initiatives have also focused on demand for energy, such as the EU's emissions standards for transport. Energy efficiency is often mentioned as the cheapest solution to lowering environmental impact where possible.

The transport sector is making progress, partly by producing more efficient traditional combustion engines. Improvements are made through innovations such as dual-clutch transmissions, start-stop battery systems, turbochargers to increase engine output, lightweight materials, low-friction tyres, catalytic converters and improved lubricants that enhance engine performance.

Progress is also made for electric vehicles. The cost of producing batteries still remains one of the biggest challenges in this field.

Demand for energy efficiency technology for buildings has increased. Substantial reductions in energy consumption can be achieved through better insulation, heating and ventilation systems and lighting, as well as solutions that control these processes.

Companies operating in these segments include BorgWarner, Tesla and Johnson Controls.

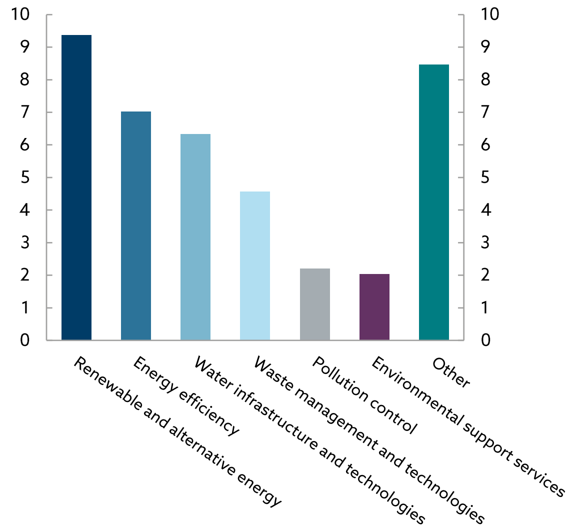
NATURAL RESOURCE MANAGEMENT

Efficient utilisation of natural resources is important for water management, waste management, recycling, agriculture and forestry. Meeting the world's need for high-quality water in an efficient manner, is a global challenge. The infrastructure to achieve this requires large investments, particularly in a situation where demand for water is expected to grow substantially. In areas with scarce water resources, it is important to have solutions that allow recycling of water through treatment processes and efficient pumping, measurement and control solutions.

Recovering energy from waste and making good use of organic materials exemplify how waste can be a resource. Providing services for recycling, waste management and the use of technology, also improves use of waste material.

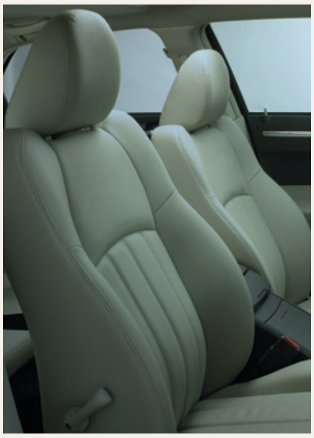
Companies operating in these segments include Xylem, Waste Management and Ecolab.

Chart 7 Environment-related mandates. Holdings by FTSE environmental sectors. Billion kroner



Iberdrola

Iberdrola is an example of a traditional energy provider, which have moved to take advantage of the need for more renewable energy. In addition to its hydro power plants, it is building a global portfolio of wind and solar power, and thereby becoming one of the world's largest generators of wind power. Iberdrola has closed several of its thermal power plants and has set a target to cut CO_2 intensity in its electricity production by 50 percent from 2007 to 2030.



Johnson Control

Johnson Control is a conglomerate, which provides equipment and solutions to improve energy efficiency, in addition to energy storage solutions. Its energy efficiency segments include automotive and building energy usage. Currently it also has operations in the more conventional car seat segment, automotive experience, but plans to spin this segment off during 2016. If completed, this will further increase Johnson Control's focus on energy efficiency.

Xylem

Xylem is an innovative company, which provides turnkey water treatment and transport solutions. Xylem is specialised in the design, manufacturing, and application of engineered technologies for the water industry. The company is a leading equipment and service provider for water and wastewater applications for the collection, distribution and use of water, and then returning it to the environment.

EXTERNALLY MANAGED ENVIRONMENT-RELATED INVESTMENTS

Norges Bank Investment Management has awarded environmental-related mandates to external managers since 2009 to complement our in-house capabilities. The environmental-related investment space consists of companies in very many different industries and with many different business models. Therefore, Norges Bank Investment Management has split its environment-related mandates between different managers, each with specialist knowledge of a particular segment of the environment-related investment universe. The mandate structure has ensured coverage of most segments of the universe. These include mandates for renewable investments, water, clean technology and infrastructure, as well as broader mandates. The external portfolios are complementary with low overlap on individual investments, however the themes of resource efficiency and cleaner transportation are common areas of investments.

GREEN BONDS

In 2014, we established our first portfolio dedicated to green bonds. The portfolio contains green bonds denominated in euros and issued by supranationals, agencies and local authorities. The reference portfolio is based on a sub-segment of the Barclays MSCI Green Bond Indices. Independent evaluation of each security is carried out by leading providers of environmental, social and governance research to determine whether the bond will be eligible for the green bond index or not. Typical areas covered are alternative energy, energy efficiency, pollution prevention, sustainable water, and green buildings. In recent years the green bond market has increased notably. This development has continued in 2015, and there is now a broader market both in terms of size, sectors and issuers.

Risk-based divestments

We have divested from a number of companies in recent years following assessments that include the consideration of environmental, social and governance related risk factors. In 2015, we divested from 73 companies.

Our approach to responsible investment management may in some cases lead to divestments from companies where we see elevated long-term risks. Divestment decisions are carried out by Norges Bank Investment Management, within the management mandate. They differ from the ethically motivated exclusions under the guidelines for exclusion and observation, as decided by the Executive Board after recommendation from the Council on Ethics.

The decision to reduce our exposure to individual sectors or companies is based on an analysis of environmental, social and governance risk factors. Where we have substantial investments in a company, dialogue may be a more suitable approach than divestment. Generally we have better analytical coverage and contact with our largest investments.

We identify companies that may be candidates for risk-based divestment by overlaying our risk framework for identifying environmental, social and governance risks against the portfolio. Once we have identified a sector as having particularly high exposure to risk factors, we find individual companies with such exposure to identify potential candidates for risk-based divestment.

When assessing companies' activities we take into consideration the companies' exposure to significant environmental, social or governance risks and the performance of the companies in managing such risks. We also consider the potential impact of such risks on the business model. In addition we identify companies with a concentrated geographic footprint, and where the companies' revenues from a particular business segment exceed a certain threshold in percent of the total. The threshold can vary depending on the assessed risk of a given issue.

Utilising risk-based divestment within responsible investment management is an approach we have been developing in recent years, beginning with selected cases in 2012 and 2013 and expanding to cover a number of sectors in 2014. The sectors were selected on the basis that they all have considerable environmental challenges associated with their operations, primarily concerning greenhouse gas emissions, deforestation and water use. The sector assessments and subsequent risk-based divestments conducted in 2014 included several segments of the mining sector as well as cement production, power production, paper production and oil sands.

Using our updated risk framework we were able to identify several new sectors to assess in 2015. We also revisited the sectors considered for risk-based divestment in previous years. Sector assessments and company analysis were carried out for these sectors, and we divested from 73 companies. This included screening the portfolio to identify any additional candidates for divestment based on the established criteria, and also to identify any companies who no longer meet the criteria and therefore may be candidates for reinvestment.

GREENHOUSE GAS EMISSIONS

As part of our focus on climate change, we have looked at risks associated with greenhouse gas emissions from companies in the portfolio. Companies with particularly high greenhouse gas emissions, as a result of their own operations or through their value chains, may be exposed to risk from regulatory or other changes, leading to potentially increased operating costs or a fall in demand.

Cement production

In 2014 we initiated our analysis of cement production and the challenges it presents in terms of greenhouse gas emissions. In addition to being carbon-intensive to produce, cement is expensive to transport, and production takes place in many different parts of the world. Therefore, the domestic regulatory environment has been considered as a risk factor for cement producers.

RISK-BASED DIVESTMENTS

Our approach to risk-based divestments is based on analysis of a combination of environmental, social and governance factors. Non-financial data is collected at a country, sector and company level from a number of different sources. Based on this data, we have built a framework that allows us to identify areas of high risk at the country and sector level individually, as well as being able to look at the overlap between countries and sectors to identify the risk exposure of a company operating in a specific sector and geography.

In 2015 we worked to further develop our analytical model and expanded the country-sector environmental, social and governance risk framework to include additional sectors and themes. The framework now comprises several themes. Each theme contributes to the environmental, social or governance score at the country and sector level. The environmental score is comprised of themes related to greenhouse gas emissions, water scarcity, waste, climate change and biodiversity. The social score is comprised of themes related to child labour, human capital and health and safety. The governance score is driven by the corruption theme. These themes are then weighted to derive an environmental, social and governance score. The scores are then aggregated to calculate a score at the country and sector level. The country score can be multiplied with the sector score in order to get a view of the environmental, social and governance risk at the combined sector and geography level.

When conducting risk-based divestments from a sector, we will analyse the individual companies' activities, their business models, and indicators of how well they manage relevant risks. These factors will be evaluated against a set of sector-specific criteria. Companies who are identified as having high risk exposure, and who meet certain sector-specific criteria, will be candidates for risk-based divestment.

In 2015 we extended our carbon emission analysis of cement production to a broader set of companies in the building materials sector. In addition to being energy and emissions intensive, this sector has risk exposure to other environmental issues such as biodiversity and toxic waste, as well as social issues such as health and safety. The sector faces both regulatory and operational challenges concerning such issues, and there is an increased focus on traceability in supply chains for building materials. Companies in this sector may have a competitive advantage against peers if they are able to show that they produce materials in a way that is both socially and environmentally responsible. When reviewing this sector, we looked at indicators of environmental and social performance such as carbon emissions intensity, and health and safety performance, among other relevant environmental and social indicators. When considering companies for divestment we focused on a selected set of criteria. First we identified companies with exposure to high-risk markets, and thereafter those that had a relevant business mix allocated to cement production, estimated CO_2 emissions intensity higher than peers and indications of insufficient risk management related to environmental and social issues in general. As a result of this assessment, we divested from eight companies in the sector in 2015. We divested from two cement producers in 2014.

Companies may have a competitive advantage against peers if they are able to show that they produce materials in a way that is both socially and environmentally responsible

Coal-fired power generation
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. When considering companies for divestment we focused on those with a relevant business mix allocated to electricity production and where coal represented a relevant percentage of the fuel-mix. As a result of our assessment of this sector, we divested from 16 companies in 2015.

Coal extraction towards power production
Mining companies that produce coal for electricity generation could encounter challenges related to new regulations aiming to reduce greenhouse gas emissions from the power sector. When considering companies for divestment we focused on those with a relevant percentage of business operations in high-risk markets, with a relevant business mix allocated to thermal coal extraction.

Based on our assessment of this sector, we divested from 11 companies in 2015. We divested from 14 companies based on similar assessments in 2014. Mining companies focusing on metallurgical coal that can be used in the production of steel were retained in the portfolio.

SOCIAL AND GOVERNANCE ISSUES
In 2015 we expanded the scope of our assessments to include an increased focus on social and governance issues such as health and safety, human capital and corruption. Failure to manage risks related to social and governance issues could result in operational disruptions, financial penalties, loss of contracts and reputational damage to companies. We have taken a risk-based approach to assessing

social and governance issues, focusing on sectors with high inherent risk exposure to key issues.

Garments and toys
Based on an assessment of inherent risk exposure to key social issues, we chose to look at companies operating in the clothing and accessories, footwear and toys sectors. There has been considerable attention to poor management of working conditions and health and safety in these sectors in recent years. Such issues pose not only a reputational and operational risk to companies, but can also influence companies' abilities to secure and maintain business contracts. When analysing this sector and assessing potential candidates for risk-based divestment, we looked at company performance and concrete incidents relating to key social issues. In assessing the companies in this sector we were confronted with the challenge of having incomplete data coverage at the company-level in the markets identified as having the highest exposure to relevant environmental, social and governance risks. We therefore decided not to divest from any companies in this sector in 2015, but rather to continue to work on securing access to more complete data sets to support future analysis and divestment decisions.

Heavy construction
Our assessment of social and governance risk exposure identified the heavy construction sector as high-risk when it comes to health and safety and labour management, as well as corruption. As with companies in the building materials sector, companies involved in heavy construction must manage this risk exposure adequately, for example, in order to gain access to new markets, and retain or gain potential business partners, contracts and investors. In reviewing this sector we focused on companies' performance in relation to the issues mentioned above. Incidents of corruption, labour rights abuses or poor health and safety performance over time were viewed as an indication of substandard company management of material environmental, social and governance issues. When considering companies for divestment we focused on those with exposure to high-risk markets, a relevant business mix allocated to heavy construction activities and indications of insufficient risk management related to social and governance issues. As a result of this assessment, we divested from nine companies in 2015.

Corruption
We conducted an assessment of corruption risk across nine sectors identified as having elevated risk exposure at both the country and sector level. Corruption was also a topic in dialogues with companies in 2015. Analysis and risk-based divestment provides a method of reducing exposure to companies with high inherent corruption risk and indications of poor management of such risk. When considering companies for divestment we focused on those operating in high-risk sectors with exposure to high-risk markets and indications of insufficient risk management related to corruption and corporate governance. As a result of our assessment of corruption risk, we divested from five companies in 2015.

DEFORESTATION
Deforestation caused by human and business activities is an issue with significant social and environmental consequences. Forests provide a number of so-called ecosystem services such as maintaining biodiversity, storing carbon and producing oxygen. In some regions deforestation is among the main sources of

greenhouse gas emissions and may also pose a threat to human and indigenous rights.

Palm oil production

The production of palm oil in Malaysia and Indonesia is a major contributor to tropical deforestation. When considering companies for divestment we focused on those operating palm oil plantations in Malaysia and Indonesia and with a relevant business mix allocated to palm oil production. We also looked at the companies' Roundtable of Sustainable Palm Oil (RSPO) certification status and plans around future certification. In 2015, we divested from two companies that were considered to produce palm oil unsustainably. In 2012 and 2013 we divested from 27 palm oil companies based on similar assessments.

Pulp and paper

Another assessment of risk related to deforestation dealt with paper production, with the focus on sustainable forestry practices and certification schemes. When considering companies for divestment we focused on those with activities in high-risk countries. We also considered the FSC certification status of the companies. FSC certification ensures that products come from responsibly managed forests that provide environmental, social and economic benefits. As a result of our assessment of this sector, we divested from four companies in 2015.

Coal mining in India

Coal production often has substantial local environmental impact, while contributing to the more general challenge of greenhouse gas emissions. One such impact is the contribution to deforestation since coal is often produced by first removing trees and topsoil. When considering companies for divestment we focused on those with coal or lignite reserves in coal fields in Central and Northern India as well as planned future business activity reliant on said coal reserves. We divested from one company in 2015. We divested from five companies based on similar assessments in 2014.

WATER

Water is an input in a number of processes for many sectors. Companies depend on water in their direct operations or through their supply chains or products' lifecycle. Economic and population growth are expected to increase future water demand from agriculture, households and industry. This may put water resources under increasing stress. Water pollution and climate change may introduce additional challenges. Water stress may affect companies through operational disruptions, loss of market access or capital expenditure risks. It might also change the competitive landscape or market demand.

General mining and precious metals

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 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. We analysed companies' exposure to high-risk areas, asset diversification and quality, and positioning on the sector cost curve. When considering companies for divestment we focused on gold mining companies where costs associated with environmental externalities such as CO_2 emissions, water use and waste production were estimated at being above a relevant percentage of revenues. In addition, we focused on companies where there was a lack of sufficient disclosure on water management. In 2015, following a comprehensive evaluation of the risk associated with water and conflicts, we divested from nine companies in the general mining and precious metals sectors. We divested from 17 companies based on similar assessments in 2014.

RISK-BASED DIVESTMENTS IN RECENT YEARS

Category	Theme	Criteria	Number of companies divested 2015	2014 and earlier
GHG Emissions	Oil sands production	Footprint: Oil sands operations in Canada Relevant business mix allocated to oil sand production	0	5
	Coal extraction towards electricity power production	Owners and operators of mines Jurisdictions: High-risk markets Relevant business mix allocated to thermal coal extraction"	11	14
	Cement production	Footprint: Exposure to high-risk markets Relevant business mix allocated to cement production Estimates of CO_2 emissions intensity higher than peers Evidence of insufficient risk management related to environmental and social issues	8	2
	Coal-fired power generation	Footprint: Global Relevant business mix allcoated to electricity-production Coal at relevant percentage of fuel-mix	16	1
	Other		7	0
Deforestation	Palm oil production in Malaysia and Indonesia	Footprint: Plantations in Malaysia and Indonesia Relevant business mix allocated to palm oil RSPO certification status and plans	2	27
	Coal mining in Indonesia	Footprint: Coal mines in Indonesia Relevant business mix allocated to coal mining	0	11
	Coal mining in India	Footprint: Coal or lignites reserves in 13 coal fields Central and Northern India Future business activity reliant on coal reserves	1	5
	Pulp and paper	Footprint: Exposure to relevant markets FSC certification status	4	0
Water	Gold mining	Estimates of environmental externalities above a relevant percent of revenues (emission, water and waste) Norges Bank Investment Management water management measurement shows lack of sufficent disclosure	0	16
	General mining and precious metals	Elevated risk of conflict in selected countries. Relevant business mix allocated to a single commodity Single mining asset greater than a relevant per cent of firm value	9	17
	Mountain-top removal	Footprint: coal or lignites mines in US Appalachia, Russia MTR mining operations primary coal production activities	0	2
Social and Governance	Social and governance issues in heavy construction	Footprint: Exposure to high-risk markets Relevant business mix allocated to heavy construction Indications of insufficient risk management related to social and governance issues	9	0
	Corruption	Footprint: Exposure to high-risk markets Indications of insufficient risk management related to corruption and corporate governance	5	0
	Other		1	14
			73	114

Observation and exclusion

Based on recommendations from the independent Council on Ethics, Norges Bank excluded seven companies in 2015 and put one company under observation. One exclusion decision was revoked and the observation of one company ended.

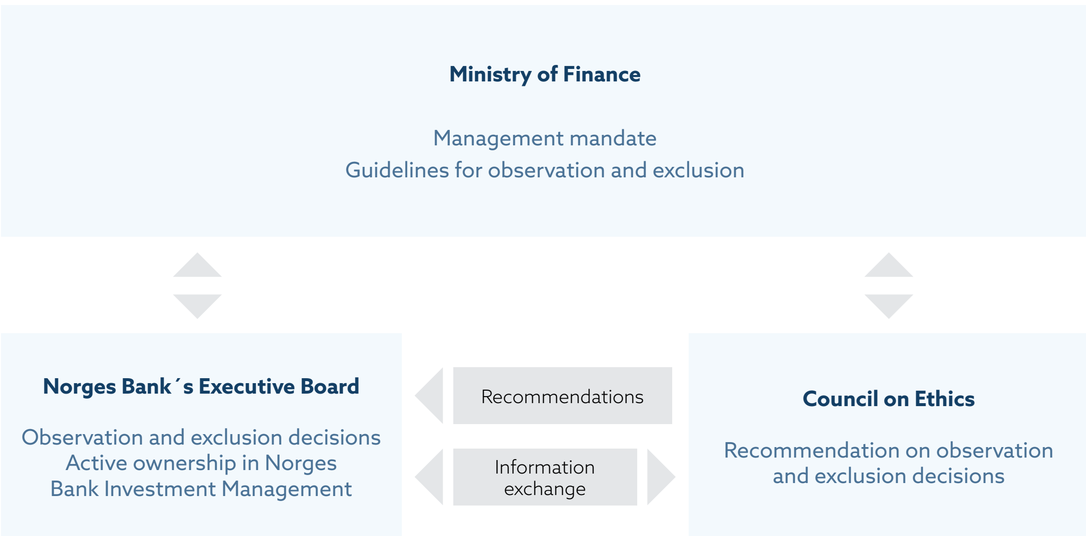
The criteria for observation and exclusion have been endorsed by the Storting – the Norwegian parliament. These criteria relate to specific product types and entail that the fund must not invest in companies which themselves, or through entities they control, produce weapons that violate fundamental 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 conduct that is considered grossly unethical. From 2016 there will be two new exclusion criteria under the guidelines: one on coal mining and energy production from coal, and one conduct-based criterion on unacceptable contributions to climate change.

The Ministry of Finance has appointed the Council on Ethics for the Government Pension Fund Global, an independent council established to research and evaluate companies and provide recommendations on exclusion or observation. The Council on Ethics has five members and a secretariat.

A new version of Guidelines for observation and exclusion took effect on 1 January 2015. From this year, the Executive Board of Norges Bank decides on observation and exclusion of individual companies, based on a recommendation from the Council on Ethics. The Executive Board bases its decision on an assessment of the probability of future norm violations, the severity and extent of the violations and the connection between the norm violation and the company the fund is invested in. The Executive Board may also consider the breadth of the company's operations and governance, including whether the company is doing what can reasonably be expected to reduce the risk of future norm violations within a reasonable time frame. Before company exclusion is decided by the Executive Board, the bank considers whether other measures, such as the exercise of ownership rights, may be more suited to reduce the risk of continued norm violations, or whether such alternative measures may be more appropriate for other reasons.

In 2015 the Executive Board of Norges Bank established an ownership committee, serving as a preparatory and advisory committee for the Executive Board on decisions on observation and exclusion of companies, among other issues. The Executive Board also laid down Principles for responsible investment management at Norges Bank, including observation and exclusion. Based on recommendations from the Council on Ethics, Norges Bank excluded seven companies in 2015 and put one company under observation. One company has been re-included in the fund in 2015, and the observation of one company was ended.

Norges Bank and the Council on Ethics regularly share information about activities vis-à-vis portfolio companies and coordinate company contact. Norges Bank also submits matters to the Council on Ethics for their consideration.



TOTAL COMPANY OBSERVATION AND EXCLUSIONS AS PER 31 DECEMBER 2015

Issue		Number of companies
Product-based exclusions	Production of tobacco	21
	Production of specific weapon types	18
Conduct-based exclusions	Serious or systematic human rights violations	3
	Severe environmental damage	17
	Gross corruption	1
	Other fundamental ethical norms	2
	Serious violations of the rights of individuals in situations of war or conflict	3
Observation	Severe environmental damage	1

OVERVIEW OF CONTACT BETWEEN NORGES BANK AND THE COUNCIL ON ETHICS IN 2015

Activity	Number
Letters from Norges Bank Investment Management to the Council on Ethics secretariat with information on individual companies	16
Regular information sharing meetings between Norges Bank Investment Management and the Council on Ethics secretariat	4
Other meetings between Norges Bank Investment Management and the Council on Ethics secretariat	1
Meeting between Norges Bank Executive Board Ownership Committee and the Council on Ethics	1
Annual meeting between the Ministry of Finance, Norges Bank and the Council on Ethics	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 30-60 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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