



# Decision to exclude Russian companies

February 2022

## Introduction

As per February 2022, KLP and the KLP mutual Funds (KLP) have decided to freeze investment in Russia. This means that 22 Russian companies will be excluded from KLP's investment portfolios, to which end we are working to divest our investments in these companies. KLP and the KLP mutual funds' total investments amount to just under NOK 500 million. The decision represents a due diligence-based exclusion, since there is an unacceptable risk that the companies' operations are contributing to the violation of KLP's guidelines.

## KLP's assessment

According to KLP's Guidelines for KLP as a Responsible Investor, "KLP shall perform due diligence assessments in the investments and may decide on due diligence-based exclusions from companies if there is an unacceptable risk of contributing to the violation of KLP's guidelines based on a combination of country, sector and company risk."

KLP has assessed whether the companies could represent an unacceptable risk of violating KLP's guidelines, including contributing to serious violations of the rights of individuals in situations of war and conflict.

The risk of violations relates to Russia's ongoing military invasion of Ukraine, which commenced on 24 February. The conflict between Russian and Ukraine has lasted for many years. In March 2014, Ukraine's Crimean Peninsula was annexed by Russia. This action was deemed to contravene international law and prompted sharp international condemnation and the imposition of a number of sanctions.

Through its invasion, Russia has violated two totally fundamental norms in the United Nations Charter relating to the rights of states to self-government, the norm of national sovereignty and the prohibition on wars of aggression. The abuse of the civilian population due to the invasion constitutes an unacceptable and serious threat in Ukraine, where respect for fundamental human rights has been entirely set to one side. As the situation is now, the scale of such abuses could increase further.



As a result of the invasion, the USA and EU have imposed significant sanctions on the Russian State and on Russian interests at home and abroad. Several Russian banks have recently been excluded from the international payments system SWIFT. The objective is to limit access to capital and impact the financial system, which will lead to major economic consequences for the country.

In light of the sanctions that have been imposed, the Norwegian government decided to freeze the investments that the Government Pension Fund Global (GPF) has in Russia and start the process of withdrawing the fund from the Russian market. This is a clear signal from the government that, due to the current situation, investments in Russia do not meet expectations regarding responsible and sustainable value creation.

As a responsible investor, KLP does not wish to contribute directly or indirectly to serious violations of the rights of individuals in situations of war and conflict. The State has large shareholdings in many of the Russian companies which KLP is now excluding, and the Russian State could use these companies to provide direct or indirect support to its warfare in Ukraine, for example through dividend payments made to the Russian State in its capacity as shareholder. There is a major risk that the companies are being used to supply energy or materials to the Russian armed forces, or in other ways finance the war. In addition, Russia's head of state has strong control of the country and can, in principle, use all available means to drive through disproportionate decisions. A lack of independent control mechanisms constitutes a significant risk.

KLP and the KLP mutual Funds do not exclude investments at the country level, and assessments must be linked to the specific companies. However, there are extraordinary circumstances linked to the risk of rights violations in situations of war and conflict, the introduction of a wide-ranging sanctions regime and the Norwegian government's decision to divest the GPF's investments which, assessed as a whole, mean that we have decided to exclude all investments in Russia.

## Conclusion

On the basis of the above, all investments in Russia have been frozen and 22 companies will be excluded from investment by KLP and the KLP Funds with effect from February 2022.

- GAZPROM
- LUKOIL
- SBERBANK OF RUSSIA
- NOVATEK
- YANDEX
- POLYUS



- TCS GROUP HOLDING-GDR
- ALROSA
- NOVOLIPETSK STEEL
- MAGNIT
- POLYMETAL INTERNATIONAL PLC
- ROSNEFT OIL CO
- MOBILE TELESYSTEMS PUBLIC
- PHOSAGRO
- UNITED CO RUSAL INTERNATIONAL
- X 5 RETAIL GROUP
- SURGUTNEFTEGAS-PREFERENCE
- MOSCOW EXCHANGE MICEX-RTS
- VTB BANK
- OZON HOLDINGS PLC
- VK CO LTD
- PETROPAVLOVSK PLC