

# Responsible investments

SRI Report December 2010



# We want dialogue!

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# About KLP

## ➔ KLP as a financial services company

Kommunal Landspensjonskasse (KLP) is one of Norway's largest life insurance companies. The company provides pension, financing and insurance services to the local government sector and state health enterprises, as well as other businesses both in public and private sectors.

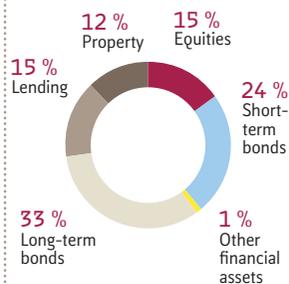
KLP's main product is occupational pensions and pension fund services. More than one in eight Norwegians have their pensions with KLP. The company also provides insurance services both to individuals and the public sector. KLP Eiendom is one of the largest property managers in Norway. KLP provides a wide range of lending services and has established its own bank in 2009, KLP Banken.

The mutual ownership model of the parent company, in which a customer is also an owner, means that KLP must always supply products and solutions in consultation with its customers. KLP was founded in 1949 and has a total of 750 employees.

## ➔ Asset classes

The KLP Group manages 267.3 Billion Norwegian kroner, divided between several asset classes.

KLP Kapitalforvaltning and KLP Fondsforvaltning are responsible for all of KLP's internal asset management, while KLP's Finance Department controls asset allocation in the common portfolio.



Investments in the main portfolio (the common portfolio) by asset class (September 30, 2010).

## ➔ Assets under management

KLP Kapitalforvaltning and KLP Fondsforvaltning, both subsidiaries of KLP, manage around 182 Billion Norwegian kroner in financial instruments for KLP (September 31, 2010), and its subsidiaries, as well as other institutional and private customers. In total, we have 5.300 customer relationships in our funds. KLP Fondsforvaltning is Norway's third largest fund management company.

## ➔ Both active and passive management

We provide both active and passive equity and fixed income funds, as well as hedge funds. All funds comply with KLP's Policy for Responsible Investments.

KLP Fondsforvaltning is Norway's leading index fund provider. We offer global and regional index funds in the US, Europe and Asia within the MSCI World Developed Universe. We also have a Norwegian index fund which tracks the Oslo Børs Benchmark Index.

Our index management takes advantage of a secure and automatic system. Our effective management and economies of scale, allow us to provide low-cost asset management. **Annual management fees are as low as 0.10 percent.**

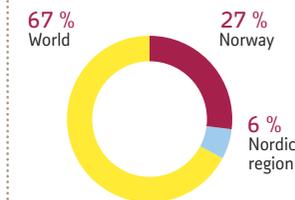
## ➔ The KLP mutual funds

Fixed income funds:

KLP Aktiv Rente  
KLP Rentefond II  
KLP Pensjon I-II  
KLP Obligasjon I  
KLP Obligasjon Global I-II  
KLP Statsobligasjon

KLP AksjeNorge  
KLP AksjeNorge Indeks I-II  
KLP AksjeNorden  
KLP AksjeEuropa Indeks I-II  
KLP AksjeGlobal Indeks I-IV  
KLP AksjeUSA Indeks I-II  
KLP AksjeAsia Indeks I-II

Please read more about our funds on [www.klp.no](http://www.klp.no).



Regional distribution of KLP's equity investments by market value (September 29, 2010).

## ➔ Other management

Private equity

KLP invests in private equity (including venture capital), mainly through private equity funds. These investments are long-term commitments. KLP's private equity program is still in an early stage of development. As one of the larger Norwegian investors, KLP is often represented in these funds' investor committees. These committees function as a link between the funds and its investors.

External management

In addition to private equity, KLP has also invested in other external equity and fixed income funds, which are mainly used in areas where KLP does not have internal expertise.

Microfinance

KLP has made a commitment to invest 75 Million Norwegian kroner in the Norwegian Microfinance Initiative (NMI) over the coming years.

**All of KLP's investments are subject to KLP's Policy for Responsible Investments.**

# Dear reader,

The market for responsible investments has grown - in Norway, in the Nordic region, in Europe and globally. In Norway almost 80 per cent of all capital is managed using criteria for responsible investment. Since the establishment in 2006 of the UN's principles for responsible investment, 835 investors, representing more than USD 22 Trillion, have signed the principles. We are one of them.

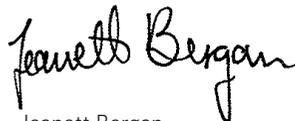
Responsible and sustainable investment as a phenomenon has come to stay. There is an enormous development in the area and we are constantly presented with new products and management strategies that in one way or another take account of the environment, people and society. Unfortunately there are many investment strategies that are not yet good enough, but with the enormous quantity of assets now being invested with this somewhat novel perspective, it will be exciting to watch developments.

We have also witnessed increasing general interest in the subject. More and more people are interested in how the assets they represent are being managed and what the money is doing out there in the world at large. To date this year, we have contributed to or participated in panel debates at no less than 18 different events. The Federation of Norwegian Commercial and Service Enterprises (HSH), the Norwegian Ministry of Foreign Affairs, the Ministry of Trade and Industry, the University of Agder, the United Nations Association of Norway, and the University of Oslo are amongst those who have focused attention on responsible investment or allied themes. We are pleased

about this and we believe it is important - we are looking forward to strong interest during 2011 as well.

At the same time as the launch of this report we are also introducing a new tool for dialogue with our stakeholders. On our new blog: [blogg.klp.no](http://blogg.klp.no) (in Norwegian), we want to share with you our thoughts, ideas, dilemmas, challenges and opportunities. We very much welcome input and comments on our work and hope that together we can create an engaging and fruitful debate on subjects that are important for the future. If you follow our blog you will be amongst the first to know about our activities, analyses and investment decisions. Hope to hear from you!

Happy reading!



Jeanett Bergan  
Head of Responsible Investments

# For the days to come.

# How to be a responsible investor

Our first and foremost responsibility is to meet our financial obligations. KLP manages 267 Billion Norwegian kroner and more than a half of a million Norwegians have their pensions with KLP. It is our responsibility to enhance long-term value. However, we are not indifferent as to how we achieve this goal.

There are two rationales for KLP having a strategy for responsible investments. First, we do not want to contribute to violations of international norms. We want companies to comply with the minimum standards that the international community has agreed upon.

Second, we assert that sustainable business practices will reap long-term rewards. Pension fund providers, such as KLP, are long-term investors, and as such, we gain little from companies' short-term returns, if they damage long-term performance. To operate responsibly and sustainably is also an effective risk management strategy.

## Conduct based and product based criteria

Our engagement and exclusions address a sustainable business conduct in line with international norms and conventions in the following areas:

- Human rights
- Labour rights
- Environmental degradation
- Corruption
- Business ethics

- The rights of individuals in situations of war or conflict
- Other fundamental ethical norms

KLP engages in dialogue with companies in breach of these conduct based criteria.

KLP also have product based exclusion criteria. KLP do not invest in companies producing:

- Weapons violating humanitarian principles (e.g., nuclear weapons, landmines and cluster bombs)
- Tobacco

We use three tools for influencing companies and society towards sustainable development. These are active ownership and engagement, exclusion, and sustainable investments.

## Active ownership and engagement

In addition to dialogue on the areas mentioned above, we are working with a number of initiatives in which KLP engages with companies. The purpose of these initiatives is to promote a responsible business conduct that is sustainable in the long-term.



## KLP's responsible investment strategy

- ➔ Active ownership and engagement
- ➔ Exclusions
- ➔ Sustainable investments

- > *Sustainable Value Creation*
- > *Controversial Countries Engagement*
- > *Carbon Disclosure Project (CDP)* (page 12)

Also read about:

- > *Dialogue, observation and exclusion* (page 18)

A direct way for a shareholder to influence a company is voting at annual general meetings.

- > *KLP's and the KLP mutual funds' voting activities* (page 15–17)
- > *Greater opposition from the owners* (page 8)

## To sell the stocks – the last resort

KLP will not compromise ethics for profits. In 2002, KLP was the first Norwegian life insurance company to establish a comprehensive ethical investment policy which encompasses its entire financial investment universe.

Divestment will be a last resort when violations are severe or systematic, and companies seem unwilling to change or

- improve their behaviour.
- > *Reasons for exclusion* (page 25)

## Sustainable investments

KLP believes in combining profit with other gains. By considering the environment, people and communities, investment risk can be reduced and/or a higher profit can be created.

- > *Norwegian Microfinance Initiative*

## International norms

Our strategy is based on internationally recognized principles. KLP is a member of the UN Global Compact and our exclusions will primarily be due to complicity with UN conventions or the OECD's Guidelines for Multinational Enterprises.

KLP is also a signatory of the UN Principles for Responsible Investments (UNPRI) and has made the commitment to incorporate environmental, social and governance issues into our investment decision-making processes and ownership practices. Our implementation of the PRI is rated every year.



THE GENERAL MEETING SEASON

# Greater opposition from the owners

Shareholders on the Oslo Stock Exchange protested most about salaries and remuneration at this year's annual general meetings, a KLP study shows. But still only half the owners participate in general meetings.

It is the second time KLP has examined shareholders' voting at the general meetings of the Oslo Stock Exchange listed companies in which KLP holds shares. Of the 108 general meetings at which KLP has voted, there were 17 companies in which more than 20 per cent of the shareholders opposed board and election committee proposals. This is a doubling of the numbers from last year.

A study by International Shareholder Services (ISS) shows that Norway, with the companies in the OBX 25 Index, is in the top three in Europe when it comes to resolutions not approved or approved with major opposition.

## Bonuses and options

Opposition to board and management remuneration is what comes up in the majority of general meetings. More than one in three instances where more than 20 per cent of shareholders voted against resolutions, involved salaries, bonuses, share options and bonus programmes, KLP's study shows.

Many companies have room for improvement in regard to remuneration, both in the formulation of the schemes and the way in

which it is reported. Rewarding extraordinary performance associated with long-term added value, instead of more or less automatic bonuses, is something in which KLP sets great store. Remuneration, and particularly share-based incentive programmes, should be set up so they provide a real long-term incentive effect that reflects the company's long-term results, in combination with individual performance and target achievement.

## Only half vote

Average participation in this year's general meetings, 52 per cent, is at the same level as last year. It is significantly lower than the average attendance in Europe which is at 62 per cent, according to ISS. Amongst the companies with the lowest participation this year were Sevan Marine and Rocksource with 12 per cent, and Blom with 19 per cent attendance.

In those instances where there is the time and opportunity we contact the company in regard to particular matters in advance of the general meeting. We are pleased that more companies have chosen to accommodate KLP's and other investors' views and have for example reduced lavish options programmes and excessive capital increases.

➔ See what KLP and KLP's mutual funds voted for these agenda items at [www.klp.no](http://www.klp.no)

## Items with strongest shareholder opposition, the 2010 voting season

Company	Agenda Item	Result	Voted against or abstained
DNO International	Amendments to the articles of association: reduced notice period of extraordinary general meeting	Not approved	76 %
Norse Energy (extraordinary general meeting)	Approval of merger plan	Approved	70 %
North Energy	Election of Board Members	Approved*	68 %
	Election of Nomination Committee	Approved*	58 %
Prosafe Production	Election of Board Members	Approved	40 %
	Election of Board Members	Approved	40 %
	Re-appointment of auditors	Approved	39 %
TGS-NOPEC Geophysical Comp.	Remuneration for senior executives	Approved	37 %
Norwegian Property	Remuneration for senior executives	Approved	36 %
TGS-NOPEC Geophysical Comp.	Director's Fee	Approved	35 %
	Stock option plan	Not approved	35 %
Atea	Increase the share capital in connection with the fulfilment of the share option programme	Approved	31 %
Acergy	Election of Board Members	Approved	31 %
Vizrt (extraordinary general meeting)	Election of Board Members	Approved	29 %
BWG Homes	Increase the share capital	Approved	27 %
Vizrt (extraordinary general meeting)	Director's Fee	Approved	27 %
Sevan Marine	Increase the share capital	Approved	25 %
DNO International	Share based bonus scheme	Approved	24 %
	Remuneration for senior executives	Approved	24 %
Opera Software	Option scheme to the board.	Approved	24 %
Norwegian Energy Company	Remuneration for senior executives	Approved	24 %
Tomra	Amendments to the articles of association: reduced notice period of extraordinary general meeting	Approved	23 %
Schibsted	Acquire company's own shares	Approved	23 %
DNO International	Acquire treasury shares	Approved	23 %
	Election of Board Members	Approved	23 %
Atea	Remuneration for senior executives	Approved	23 %
TGS-NOPEC Geophysical Comp.	Acquire company's own shares	Approved	22 %
Bouvet	Remuneration for senior executives	Approved	22 %
	Increase the share capital by share issues in connection with share scheme for employees	Approved	22 %
Sevan Marine	Increase the share capital	Approved	20 %
Opera Software	Election of Nomination Committee	Approved	20 %

\* A new proposal for Board Member was presented at the general meeting and was approved instead of the nomination committee's proposal.



# A growing market for responsible investments

The Norwegian market for responsible investments has grown. Norway is among the European countries with the highest share of capital managed with responsible investment criteria.

Norsif (Norwegian Forum for Sustainable and Responsible Investment) has, with support from KLP Fondsforvaltning and Danske Capital, performed the first in-depth market research study on responsible and sustainable investments in Norway.

The research revealed that the responsible investment market was valued at €411 Billion at the end of 2009, this represents approximately 80 percent of all capital under management in Norway. In the Nordic region, Sweden ranked second with €306 Billion in SRI assets under management, Denmark third (€242.2 Billion), and Finland ranked fourth (€89.4 Billion). The main explanation for Norway's high numbers is the Norwegian Government Pension Fund. The establishment of the fund's ethical guidelines has been an important driver for stimulating other actors, and as a consequence, it can explain the high market share of responsible investing in Norway. Investment strategies are dominated by norm-based or values-based exclusions and engagement.

– The Nordic and the Norwegian model for responsible investments, in particular, have been criticized from time to time. These numbers prove that the model works and it represents a method for mainstreaming responsible investments. Public exclusions of companies have generated widespread awareness of the importance of responsible

investments, says Jeanett Bergan, head of responsible investments in KLP.

The report shows that there has been growth in responsible fixed income products, as well as responsible investments products in emerging markets and hedge funds.

– We see an increased interest. In Norway, having a responsible investment strategy is imperative for doing business with certain customer groups. That, in itself, demonstrates the success of the field, says Morten Rasten, CEO of Danske Capital in Norway.

– The report provides valuable information on the size of the Norwegian SRI Market, strategies and asset allocation. The results clearly show that responsible investing is the main stream in Norway, reports Sarita Bartlett, Project Leader of the Norsif Initiative.

The Norwegian research is based on in-depth interviews with asset owners that have managed capital of over €100 million, and large asset managers. A total of 67 organizations were interviewed. 52 of these incorporate Responsible Investment. The survey had a 94 percent response rate.

Eurosif's survey shows that the European market has doubled from 2007. At the end of 2009, it amounts to €5 Billion.

## Proponent of country-by-country reporting

At the same time as country-by-country reporting is important for financial risk and value assessment, it can be one of the most important contributors to development in poor but resource-rich countries.

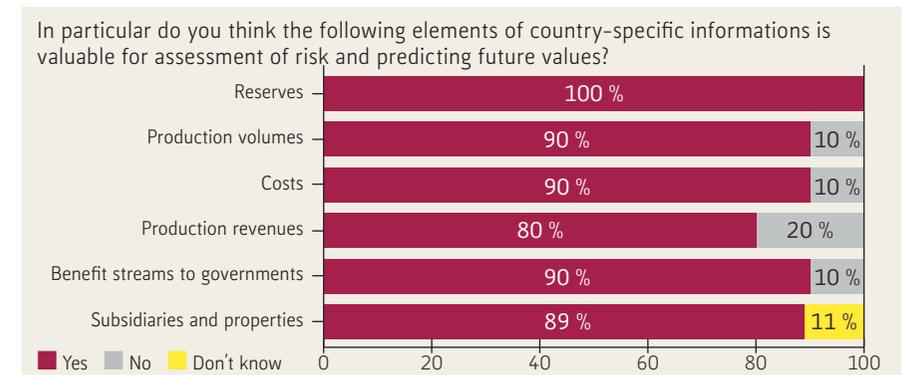
In recent years there has been a process going on to develop a new accounting standard (IFRS) for extractive industries that includes requirements for reporting of reserves and resources, costs, revenues, ownership, taxes, duties and other payments to local authorities – all of these separately for each country in which the company operates. Authorities and companies will be held to account through openness and the rights of the inhabitants will be safeguarded to a greater extent. As a side-effect such reporting could also help to combat corruption and wanton unethical use of tax havens.

A lot has happened during 2010: both the Hong Kong stock exchange and American authorities have set up requirements for this type of reporting, and the EU is now conducting consultation. Even though we believe introduction of country-by-country reporting will have positive social consequences, the

principal argument ought to be financial: namely, that the information is important for risk and value assessment of companies and therefore important to investment decisions.

KLP has sent a questionnaire to almost 50 analysts who monitor companies in the extractive industries, to chart their opinion on the value of this information. The survey received a response rate of 17 percent, but more importantly all respondents were positive towards country-by-country reporting. The arguments were that this was important information for risk and value assessment.

KLP has engaged in this process because we believe that this may be one of the most important contributors to development in poor but resource-rich countries. We encourage others to provide inputs to the EU consultation.





# Improvement in climate reporting

The number of Nordic companies reporting to Carbon Disclosure Project continues to rise – and finally also in Norway.

Each year, the 4.500 largest publicly traded companies are asked a number of climate strategy and emissions related questions through the CDP.

This year's Nordic results point to some good news:

- 89 percent of companies report that the highest level of responsibility for climate change lies within a Board committee or other executive body, compared with 77 percent in 2009. This also compares favourably with the results from the world's 500 largest companies (84 percent).
- Incentives to encourage attainment of GHG targets are becoming more common: 44 percent of Nordic respondents now provide incentives for the management of climate change issues, up from last year's 30 percent.
- 69 percent of respondents have a current emissions reduction target or are in the process of developing one, compared to 70 percent for the 500 largest companies globally.

Overall, this year's results show that companies' commitment to transparency and accountability is embedded in business strategy, despite the fact that many expected the opposite due to the recession and lack of global agreement on climate change.

The two key drivers of emissions reduction strategies according to the responding companies are incentives to cut carbon, energy and fuel costs and thus reduce exposure to regulatory risks. Second, the companies state the desire to establish a climate-friendly reputation. Firms see concrete benefits (or avoidance of costs) in terms of the value of brands, prospects for sales and market share, employee loyalty and the cost of capital – and are taking concrete actions as a result.

## Half of the firms are reporting

Although Norway is still a laggard in the Nordic region in terms of response rate, the number of reporting companies has grown. Of the 49 Norwegian companies in the Nordic selection, 49 percent (24 companies) responded. This is a significant increase from previous years. By way of comparison, the response rate was 35 percent last year. The overall response rate in the Nordic region was 66 percent, split between Denmark, Finland and Sweden at 73, 65 and 74 percent.

Seven of the Norwegian respondents are newcomers: Arendals Fossekompani, Cermaq, Frontline, Royal Caribbean Cruises, Schibsted, Seadrill and Yara. Last year KLP did a risk analysis in which nine companies with a relatively high emissions level and limited

## TOP NORDIC COMPANIES RECOGNIZED ON THE CARBON PERFORMANCE LEADERSHIP INDEX

Danisco	Denmark
Nokia Group	Finland
Novo Nordisk	Denmark
SEB	Sweden
Stora Enso	Finland
See definition for Carbon Performance Leadership at <a href="http://www.cdproject.net">www.cdproject.net</a>	

## LARGEST NON-RESPONDERS BY MARKET CAPITALISATION

Sampo plc	Finland
REC Group	Norway
Hexagon	Sweden
Elisa Corporation	Finland
Aker	Norway
Securitas	Sweden
Lundbergs	Sweden
Marine Harvest Group	Norway
YIT Group	Finland
Fred. Olsen Energy	Norway

Last year KLP did a risk analysis where companies with a relatively high emissions level and limited reporting were identified. One year later, the reporting has improved.

COMPANY	REPORTING LEVEL IN 2009	REPORTS TO CDP IN 2010
Golden Ocean Group	Limited	✗
Acergy	Limited	✗
Bonheur	Limited	✗
Fred Olsen Energy	Limited	✗
Royal Caribbean Cruises	Medium	✓
Cermaq	Medium	✓
Stolt-Nielsen	Medium	✗
Marine Harvest	Medium	✗
Seadrill	Medium	✓

reporting were identified. We are pleased to see that three of these, Cermaq, Frontline and Royal Caribbean Cruises, now are reporting. In addition, some Norwegian companies have improved their reporting significantly, such as Salmar and Subsea 7.

As the best performing Norwegian company, Norske Skog remains in the Nordic top twenty on the Carbon Disclosure Leadership Index on reporting, and within the top ten on this year's Carbon Performance Leadership Index.

The CDP reports are available at [www.cdproject.net](http://www.cdproject.net)

**Why KLP support CDP**

- Climate emissions will increasingly represent a cost for corporations in the future.
- Energy efficiency constitutes a cost reduction in itself.
- KLP's analyses shows that Oslo Børs is a carbon intensive stock exchange compared to other markets.
- Through measuring and reporting their emissions, corporations will be better positioned to act and target emissions reductions.
- The threat of climate change enforces all of us to contribute to reduce the emissions.
- CDP is supported by a large number of investors all over the world (534 institutional investors investor with USD 64 trillion in assets under management). By cooperating on these issues, the effort is more effective and efficient.

# Responsible investments from a low-cost leader.

## We exercise our voting rights



The general meeting is an important arena for dialogue between corporate management and shareholders. As owner in many listed companies, KLP and KLP's mutual funds use their voting rights actively - both in Norway and abroad.

KLP and KLP's mutual funds have established their own guidelines for voting at general meetings. These guidelines are published on the homepage, and are based on the *Norwegian Code of Practice for Corporate Governance*.

The voting decisions in Norwegian companies are discussed internally, meeting for meeting. For our shares abroad, we vote by proxy through our service provider Institutional Shareholder Services (ISS). The international voting is based upon international best practice for corporate governance. This way, we ensure that we vote consistently and in consensus with other international investors.

Our voting activity shall protect our interests as owners - not only with regards to traditional corporate governance and financial issues, but also with regards to companies' environmental and social impacts. We vote in favour of resolutions that are considered to enhance a long-term, sustainable value creation for shareholders and other stakeholders.

As of today, KLP votes in the following 17 markets: Australia, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Switzerland, the UK and the USA.

### THE NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE

Adherence to the Code of Practice is based on the "comply or explain" principle whereby companies must either explain how they comply with each of the recommendations or explain why they have chosen an alternative approach. The Code of Practice in detail is available on [www.nues.no](http://www.nues.no). The code addresses the following issues:

1. Implementation of the Code of Practice for Corporate Governance
2. Business
3. Equity and dividends
4. Equal treatment of shareholders and transactions with close associates
5. Freely negotiable shares
6. General meetings
7. Nomination committee
8. Corporate assembly and board of directors: composition and independence
9. The work of the board of directors
10. Risk management and internal control
11. Remuneration of the board of directors
12. Remuneration of the executive management
13. Information and communications
14. Take-overs
15. Auditor

## Voting internationally

	As of October 31, 2010	2009	2008
Number of general meetings	1 666	1 803	1 792
Number of items	16 349	19 851	19 748
Percent of items KLP and KLP's mutual funds voted against management	11 %	21 %	21 %

## Management resolutions

Themes	No. of items as of October 31, 2010	Against the board or abstain	No. of items 2009	Against the board or abstain
Directors related	10 454	8 %	11 862	14 %
Routine/business	2 657	4 %	3 491	26 %
Capitalization	1 121	13 %	1 798	28 %
Non-salary compensation	1 030	21 %	1 243	29 %
Mergers and re-organizations	240	5 %	585	17 %
Preferred/bondholder meetings	25	0 %	30	3 %
Anti-takeover related	222	21 %	116	45 %
<b>Total</b>	<b>15 479</b>	<b>9 %</b>	<b>19 125</b>	<b>19 %</b>

## Shareholder resolutions

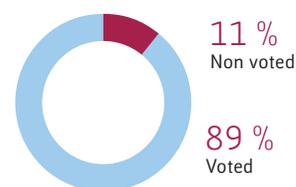
Themes	No. of items as of October 31, 2010	Against the board or abstain	No. of items 2009	Against the board or abstain
Directors related	208	62 %	297	70 %
Compensation	133	87 %	156	79 %
Routine/business	62	81 %	50	78 %
Corporate governance	40	80 %	43	60 %
Health and environment	82	76 %	72	75 %
General economic issues	1	100 %	4	75 %
Human rights	14	100 %	17	94 %
Anti-social proposals	8	13 %	5	20 %
Other	52	90 %	82	66 %
<b>Total</b>	<b>600</b>	<b>75 %</b>	<b>726</b>	<b>73 %</b>

## Voting in Norway

	As of April 30, 2010	2009	2008
Number of general meetings	108	123	29
Number of items	946	1 004	274
Percent of items KLP and KLP's mutual funds voted against management	10 %	13 %	1 %
Percent of items KLP and KLP's mutual funds abstained	1 %	2 %	- %

## Resolutions

Themes	No. of items as of October 31, 2010	Against the board or abstain	No. of items 2009	Against the board or abstain
Routine/business	504	1 %	499	2 %
Director related	198	8 %	207	11 %
Capitalization	124	22 %	158	18 %
Non-salary compensation	99	50 %	118	62 %
Mergers and reorganizations	14	21 %	8	25 %
Shareholder resolution	7	29 %	13	23 %
Anti-takeover related	0	- %	0	- %
<b>Total</b>	<b>946</b>	<b>7 %</b>	<b>1003</b>	<b>15 %</b>



KLP and KLP's mutual funds have voted at approximately 89 percent of the Norwegian general meetings they have had voting rights at January 1 - October 31, 2010.

➔ Check which general meetings KLP and the KLP mutual funds have voted at on our web-site [www.klp.no](http://www.klp.no). Here you can also read our argument for voting against a resolution.

# Dialogue, observation and exclusion

KLP engages in dialogue both with excluded companies and companies that are under observation. The goal in both cases is improvement in policies and practices.

KLP's experience is that the synergy between dialogue and exclusion is an effective way of influencing companies. Exclusion will always be a last resort, but adds credibility to our engagement activities. The dialogue will continue also after we have divested from a company, with the goal to re-invest in the company in the future.

KLP also has companies under observation. We hope to influence these companies in order to avoid exclusions and to prevent similar situations in the future.

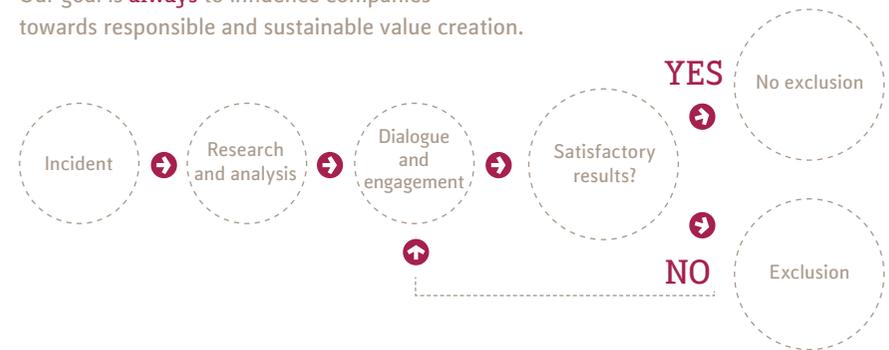
In all engagement processes, with excluded companies and with companies under observation, we have four criteria for improvement (see page 20).

## Sources and analyses

The almost 2,000 companies in KLP's investment universe are continuously monitored. KLP primarily utilizes the GES Investment Services' analysis as the foundation for our engagement and exclusions. In addition, we also follow decisions of the Norwegian Government Pension Fund – Global (NGPF).

GES screens 9,000 news sources. If a company is associated with unacceptable business conduct, the incident is investigated and the company is contacted. If the company does not show sufficient willingness to improve their practices, KLP will divest. All accusations require an official source, for instance the UN or a government, or must be confirmed by the company involved.

Our goal is **always** to influence companies towards responsible and sustainable value creation.



## Observation

Companies under observation are companies that KLP seeks to influence through dialogue. Divestment can be a last resort if we are not confident in the progress.

### British Petroleum and Anadarko Petroleum

The well blow-out at the BP operated oil prospect in the Gulf of Mexico resulted in the loss of eleven lives and the discharge of large quantities of oil (850 million litres) into the sea. The spill continued for 87 days before the flow was stopped. BP and Anadarko Petroleum are joint venture partners. There are several ongoing US Federal investigations; and reports are expected in the first half of 2011. KLP follows the developments and the companies' measures to reduce the risk for similar accidents in the future.

### DNO International

The company is under observation due to its sale of stocks from the company to Kurdish authorities in Iraq. Oslo Stock Exchange has fined the company over the action and the company is under investigation by The Norwegian National Authority for

Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM). KLP has established a dialogue with the company and is actively following it up in order to avoid similar situations in the future. DNO has been very responsive and is working continuously to improve and implement measures.

### Eutelsat Communications

In June 2008 Eutelsat discontinued the broadcast of NTDTV, a regime independent Chinese TV channel to China. Critics claim that there is evidence that the real reason is to gratify the Chinese regime in order to enter the Chinese market. The European Parliament has urged the company to resume the transmission.

### Exxon Mobil

The company has been under observation since May 2009. KLP has established a

### Company dialogue

1.6. - 31.10.2010

COMPANY	STATUS	TOPIC
Bridgestone	Excluded	Labour rights
DNO International	Observation	Business ethics
Exxon Mobil	Observation	Environment
Freeport	Excluded	Environment
Toyota	Excluded	Labour rights
Vedanta	Excluded	Environment and human rights

# Excluded companies

## Human rights

■ AES	USA	Power Producers and Energy Traders
■ Africa Israel Investment	Israel	Real Estate Operating Companies
■ Alstom	France	Electrical Equipment
■ China Mengniu Dairy	China	Food Products
■ Danya Cebus	Israel	Construction & Engineering
■ Dongfeng Motor Group	Hongkong	Automobile Manufacturer
■ Elbit Systems	Israel	Aerospace and Defence
■ FMC Corp	USA	Diversified Chemicals
■ Incitec Pivot	Australia	Fertilizers and Agricultural Chemicals
■ L-3 Communications*	USA	Aerospace and Defence
■ Potash Corp Saskatchewan	Canada	Fertilizers and Agricultural Chemicals
■ Sterlite Industries*	India	Metals and Mining
■ Vedanta Resources*	UK	Metals and Mining
■ Wesfarmers	Australia	Hypermarkets and Super Centers
■ Yahoo!	USA	Internet (Software and Services)

## Labour rights

■ Bridgestone	Japan	Tires and Rubber
■ Toyota Motor	Japan	Automobile Manufacturer
■ Wal-Mart Stores	USA	Hypermarkets and Super Centers

## Environment

■ Barrick Gold	Canada	Metals and Mining
■ Chevron	USA	Oil and Gas
■ Duke Energy	USA	Electric Utilities
■ Freeport McMoRan	USA	Materials
■ Norilsk Nickel	Russia	Metals and Mining
■ Rio Tinto	UK, Australia	Metals and Mining
■ Samling Global	Malaysia	Forest Products
■ Sterlite Industries*	India	Metals and Mining
■ Vedanta Resources*	UK	Metals and Mining

## Corruption

- No excluded company

## Weapons production

■ Alliant Techsystems	USA	Aerospace and Defence
■ BAE Systems	UK	Aerospace and Defence
■ Boeing	USA	Aerospace and Defence
■ EADS	Netherlands	Aerospace and Defence
■ Finmeccanica	Italy	Aerospace and Defence
■ GenCorp	USA	Aerospace and Defence
■ General Dynamics	USA	Aerospace and Defence
■ Hanwha Corporation	South Korea	Commodity Chemicals
■ Honeywell	USA	Aerospace and Defence
■ Jacobs Engineering Group	USA	Construction and Engineering
■ L-3 Communications*	USA	Aerospace and Defence
■ Lockheed Martin	USA	Aerospace and Defence
■ Northrop Grumman	USA	Aerospace and Defence
■ Poongsan Corporation	South Korea	Metals and Mining
■ Poongsan Holdings Corporation	South Korea	Metals and Mining
■ Raytheon	USA	Aerospace and Defence
■ Safran	France	Aerospace and Defence
■ Serco Group	UK	Environmental and Facilities Services
■ Singapore Technologies Engineering	Singapore	Aerospace and Defence
■ Textron	USA	Industrial Conglomerate

## Tobacco production

■ Alliance One International	USA	Tobacco
■ Altria Group	USA	Tobacco
■ British American Tobacco	UK	Tobacco
■ Gudang Garam	Indonesia	Tobacco
■ Imperial Tobacco	UK	Tobacco
■ ITC Ltd	India	Tobacco
■ Japan Tobacco	Japan	Tobacco
■ KT&G Corp	South Korea	Tobacco
■ Lorillard	USA	Tobacco
■ Philip Morris	USA	Tobacco
■ Reynolds American	USA	Tobacco
■ Souza Cruz SA	Brazil	Tobacco
■ Swedish Match	Sweden	Tobacco
■ Universal Corp VA	USA	Tobacco
■ Vector Group	USA	Tobacco

\* The company is excluded for several reasons.



4 requirements

- 1 The violation has ceased.
- 2 The company has adopted a responsible course of action.
- 3 The company has taken a proactive and precautionary approach to improve routines and prevent future violations.
- 4 The company's action points (point 1-3) are verifiable.

## Companies under observation, continue

dialogue and met with the company in 2009. KLP will continue the dialogue. The reason for observation is the Western Grey whale, listed as a critically endangered species, which has its feeding ground outside Sakhalin Island where Exxon is operating oil and gas projects.

Group is the parent company of PT Astra International TBK, which in turn is the parent company of PT Astra Agro Lestari TBK.

## Songa Offshore

Songa Offshore established a new incentive program in 2009. The program is in KLP's opinion in breach of the AGM's decision. In addition, it is not in line with the Norwegian Code of Practice for Corporate Governance and KLP's and the KLP Mutual Funds' own voting policy. KLP have met with the company and is following up on the issue in order to avoid similar situations in the future. The company has acted responsive and KLP will observe the company until a new incentive program is in place.

## Jardine Matheson

PT Astra Agro Lestari TBK is associated to the destruction of the rainforest habitat of the critically endangered orangutans in the Tripa peat swamp forest in the Aceh Province, Indonesia. The UNEP/UNESCO Great Ape Survival Programme lists Tripa as a priority site for the endangered orangutans and the area belongs to the Leuser Ecosystem, renowned for its biodiversity value. Jardine Matheson

## McDERMOTT REINSTATED IN OUR PORTFOLIOS

The American company McDermott has been excluded from our investments due to the provision of key products and services for nuclear weapons. Its subsidiary Babcock & Wilcox is operating two nuclear weapon plants. McDermott has in 2010 spun-off B&W and has not retain any ownership interest. Thus, KLP can invest in McDermott again. B&W is a publicly listed company, but is not within KLP's investment universe. McDermott International is an engineering, procurement, construction and installation company focused on offshore oil and gas projects.



Our goal  
is to influence  
companies  
towards  
responsible  
and sustainable  
value creation.

#### Four requirements for reinstatement

- 1 ✓ The reported incident has ceased.
- 2 ✓ The company has adopted a responsible course of action.
- 3 ✓ The company has taken a proactive and pre-cautionary approach to improve routines and prevent future violations.
- 4 ✓ The company's action points (point 1-3) are verifiable.

# Human rights

The Universal Declaration of Human Rights is an important pillar of worldwide human values. It is our responsibility as an investor and owner to support and promote adherence to this important declaration. As a consequence, 15 companies associated with human rights violations have been excluded from our investment universe.

Progress: **AES**  
 Excluded since: December 2008  
 Source: GES  
 Country: USA  
 Industry: Power Producer  
 Index: MSCI-WI, FTSE

AES operates the hydroelectric dam Chan 75 in Panama, which according to several UN Special Rapporteurs has been associated with violations of the human rights of the indigenous Ngöbe people. During the summer of 2008, urgent appeals were sent to the State of Panama from the UN, expressing concern over the arbitrary displacements, loss of housing, destruction of agricultural crops and the excessive use of force and detaining of members of the community that opposed to project. The construction of the dam can result in the flooding of the indigenous Charco la Pava community, but the community has not been consulted.

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Progress: **AFRICA ISRAEL INVESTMENT**  
 Excluded since: December 2010  
 Source: NGPF, GES  
 Country: Israel  
 Industry: Real Estate Operating Companies  
 Index: Not included in KLP's benchmark index

Africa Israel Investments is involved in the construction of Israeli settlements in the Occupied Palestinian Territory. In spring 2009, the company's subsidiary Danya Cebus completed housing construction projects in three settlements. According to international law, specifically the Fourth Geneva Convention, the Israeli settlements are illegal.

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Progress: **ALSTOM**  
 Excluded since: December 2007  
 Source: GES  
 Country: France  
 Industry: Electrical Equipment  
 Index: MSCI-WI, FTSE

Alstom is associated with complicity in human rights violations in a hydro-electric project in Sudan. In August 2007, a UN Special Rapporteur from the Human Rights Council called upon companies involved in the Merowe Dam project to halt the operations due to concerns over human rights violations in connection with large resettlements involving 50,000 people. Among the companies is Alstom, which is the main supplier of electrical equipment to the project. None of the companies has followed the recommendation from the UN Special Rapporteur.

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Progress: **CHINA MENGNIU DAIRY**  
 Excluded since: December 2008  
 Source: GES  
 Country: China  
 Industry: Food Products  
 Index: Not included in KLP's benchmark index

In September 2008, Chinese officials announced that infant milk powder produced in the country had been contaminated with the non-alimentary chemical melamine. The contamination led to the death of four infants and approximately 94,000 sickened with symptoms such as kidney stones and kidney failure. At the heart of the scandal stand some of the largest dairy companies in China, one of them being China Mengniu Dairy. Subcontractors have watered down the milk to increase the quantity, and in order to increase the protein level melamine has been added as it boosts nitrogen levels.

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Progress: **DANYA CEBUS**  
 Excluded since: December 2010  
 Source: NGPF, GES  
 Country: Israel  
 Industry: Construction & Engineering  
 Index: Not included in KLP's benchmark index

Danya Cebus is involved in the construction of Israeli settlements in the Occupied Palestinian Territory. In spring 2009, the company completed housing construction projects in three settlements. According to international law, specifically the Fourth Geneva Convention, the Israeli settlements are illegal.

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Progress: **DONGFENG MOTOR GROUP**  
 Excluded since: June 2009  
 Source: NGPF  
 Country: Hong Kong  
 Industry: Automobile manufacturer  
 Index: Not included in KLP's benchmark index

Dongfeng Motor Group sells military equipment to the government of Burma. The current sanctions of both the EU and the US towards Burma make sale, supply, transfer or export of arms and related materiel to Burma illegal. The exclusion of the company from our investment universe, is a consequence of the ethical guidelines of the Norwegian Government Pension Fund - Global, saying that investments in companies selling arms or military equipment to states which are on the list of countries whose government bonds are not investable, are to be avoided for the fund.

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Progress: **ELBIT SYSTEMS**  
 Excluded since: December 2009  
 Source: GES, SPU  
 Country: Israel  
 Industry: Aerospace and defense  
 Index: MSCI-WI

Elbit supplies a surveillance system that is part of the separation barrier being built by the Israeli government in the West Bank. The construction of parts of the barrier is considered to constitute violations of international law, and Elbit, through its supply contract, is thus helping to sustain these violations.

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Progress: **FMC CORPORATION**  
 Excluded since: June 2010  
 Source: GES  
 Country: USA  
 Industry: Chemicals  
 Index: MSCI-WI

FMC Corporation has confirmed to GES that its subsidiary FMC Foret is importing phosphate from Western Sahara. The company is thus indirectly funding Morocco's illegal occupation of the territory. In an opinion, issued in 2002, by the UN Under-Secretary General for Legal Affairs, the exploitation of natural resources in colonized territories, Western Sahara in particular, was declared illegal if it is not to the benefit of the people of the territory.

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Progress: **INCITEC PIVOT**  
 Excluded since: June 2009  
 Source: GES  
 Country: Australia  
 Industry: Fertilizers and Agricultural Chemicals  
 Index: MSCI-WI

The company is importing phosphate rock from Western Sahara. The region is occupied by Morocco and the International Court of Justice has ruled that Morocco has no legal claims to Western Sahara, and consequently Morocco is not entitled to exploit its natural resources. The exploitation of the natural resources of colonised territories, Western Sahara in particular, has also been declared illegal in an opinion issued by the UN Under-Secretary General for Legal Affairs.

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Progress: **L-3 COMMUNICATIONS**  
Excluded since: December 2005  
Source: GES  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

The US army's investigation about the conditions in the Abu Ghraib prison describes several instances and practices of human rights abuses where not only soldiers but also Titan employees allegedly were involved or present. In 2003-2004, the US army held hundreds of prisoners in various prisons in Iraq. Titan has been acquired by L-3 Communications, who is continuing to supply linguist and translator services to the US army and therefore should adopt a human rights policy addressing operations in sensitive countries such as Iraq and Afghanistan. See further reasons for exclusion of L-3 Communications under Weapons production.

Progress: **POTASH CORP SASKATCHEWAN**  
Excluded since: June 2010  
Source: GES  
Country: Canada  
Industry: Fertilizers & Agricultural Chemicals  
Index: MSCI-WI, FTSE

Potash Corp Saskatchewan has confirmed that a wholly owned subsidiary is importing phosphate from Western Sahara. The company is thus indirectly funding Morocco's illegal occupation of the territory. In an opinion, issued in 2002, by the UN Under-Secretary General for Legal Affairs, the exploitation of natural resources in colonized territories, Western Sahara in particular, was declared illegal if it is not to the benefit of the people of the territory.

Progress: **STERLITE INDUSTRIES**  
Excluded since: June 2010  
Source: GES, NGPF  
Country: India  
Industry: Metals and Mining  
Index: Not included in KLP's benchmark index

Sterlite Industries is a significant joint venture-partner in the Vedanta Resources controlled aluminium production complex currently being established in Orissa in India. See reason for exclusion for Vedanta.

Progress: **VEDANTA RESOURCES**  
Excluded since: December 2008  
Source: GES, NGPF  
Country: UK  
Industry: Metals and Mining  
Index: MSCI-WI, FTSE

Vedanta Resources is in the process of establishing an aluminium production complex consisting of a bauxite mine and alumina refinery in Orissa in India. In establishing its operation the company has reportedly contributed to human rights abuses, including forced relocations, and violence and intimidation against local residents. For instance, the proposed hilltop mine is one of the local tribe's most sacred sites. Furthermore the company has in this process, according to the local authorities, breached Indian environmental laws, misled authorities, and caused environmental degradation. Other accusations include illegal production expansions, irresponsible handling of hazardous waste, violations against tribal peoples, deplorable wages, and dangerous working conditions in the mines and factories.

Progress: **WESEFARMERS**  
Excluded since: December 2007  
Source: GES  
Country: Australia  
Industry: Hypermarkets and Super Centres  
Index: MSCI-WI, FTSE

Wesfarmers is associated with illegal exploitation of natural resources in Western Sahara, thus indirectly funding Morocco's illegal occupation of the country. The practice of importing phosphate rock from the concerned territory has been confirmed by the company. In 1975, the International Court of Justice ruled that Morocco has no legal claims to Western Sahara and consequently not to its natural resources. In 2002, the exploitation of the natural resources of colonised territories – Western Sahara in particular – was declared illegal in an opinion issued by the UN Under-Secretary General for Legal Affairs.

Progress: **YAHOO!**  
Excluded since: December 2005  
Source: GES  
Country: USA  
Industry: Internet (software and services)  
Index: MSCI-WI, FTSE

Yahoo stands criticised for having passed on Internet user information of a Chinese journalist to China's state security leading to a ten-year imprisonment for the journalist. The transfer of information is confirmed by Chinese court documents and company statements. The company has during 2008 launched a Business and Human Rights Program to raise the awareness on the issue within the company. It has also together with other information technology companies in the Global Network Initiative launched a set of principles that aim to protect freedom of speech and privacy in the information and communication technologies industry.

# Labour rights

Every employee has fundamental labour rights. The ILO set core standards governing freedom of association, forced labour, child labour and discrimination. Companies should apply these standards on a global basis. Three companies have been excluded from our investment universe associated with labour rights violations.

Progress: **BRIDGESTONE**  
 Excluded since: December 2006  
 Source: GES  
 Country: Japan  
 Industry: Tires and Rubber  
 Index: MSCI-WI, FTSE

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The UN Mission in Liberia has published a report on human rights conditions at rubber plantations, including a plantation owned by Firestone, a Bridgestone subsidiary. The report portrays child labour as a serious problem, supporting the allegations forwarded in a lawsuit against the company filed by the International Labor Rights Fund (ILRF), which is still ongoing. The company claims it has banned children from tapping trees, but workers say the ban is not enforced. Allegedly, children begin to work at the age of nine or ten in order to help their parents meet the quotas set by the company. The plantation is the largest plantation in the world, and the largest employer in Liberia. An important step forward is the collective bargaining agreement that was signed at the plantation in summer 2008 and updated in 2010.

Progress: **TOYOTA MOTOR**  
 Excluded since: December 2005  
 Source: GES  
 Country: Japan  
 Industry: Automobile Manufacturer  
 Index: MSCI-WI, FTSE

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The Toyota Motor Philippines Company Workers Association union alleges that the management of Toyota Motor Philippines has impeded the right to organise and collective bargaining and resorted to illegal dismissals of workers. The International Labour Organization's (ILO) Committee of Freedom of Association lists a number of actions taken by the company to challenge the certification of a union and to intimidate employees in their preference of union.

Progress: **WAL-MART STORES**  
 Excluded since: June 2003  
 Source: GES, NGPF  
 Country: USA  
 Industry: Hypermarkets and Supercenters  
 Index: MSCI-WI, FTSE

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A steady stream of media reports and law suits testify of Wal-Mart's notoriously bad labour practices. The company is criticised for regulatory and legal non-compliance in several areas related to labour rights. Specific incidents concern child labour, sweatshop conditions at factories, discrimination of women and anti-union behaviour. In 2008, Massachusetts' highest court ruled in favour for some 67,500 current and former employees of Wal-Mart who claimed the company systematically withheld their wages. The attorney on the case has more than 30 other similar cases pending against Wal-Mart in other states. The company is accused of systematic discrimination of women in a class action sought by 1.6 million employees and former employees.

# Environment

The environment is our common resource, and subsequently, our common responsibility. By excluding companies causing environmental degradation, KLP acts responsibly and wishes to signalize the importance of sound environment management. As a consequence, nine companies have been excluded from our investment universe.

Progress: **BARRICK GOLD**  
 Excluded since: February 2009  
 Source: GES, NGPF  
 Country: Canada  
 Industry: Metals and Mining  
 Index: MSCI, FTSE

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Barrick Gold, the world's largest gold producer, causes extensive environmental degradation by its operations in the Porgera gold mine in Papua New Guinea. The company makes use of a natural river system to transport and dispose of mine waste, which has a negative impact on the population's life and health, including both the residents of the actual mining area and people who live along the river downstream of the mine. The biggest threat is the heavy metals contamination, especially from mercury, produced by the tailings. The environmental damage that riverine disposal may cause are well known, but the company has not implemented any appreciable measures to prevent or reduce this damage.

Progress: **CHEVRON**  
 Excluded since: June 2004  
 Source: GES  
 Country: USA  
 Industry: Oil and Gas  
 Index: MSCI-WI, FTSE

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In 2004, a trial was initiated against Chevron in Ecuador. The company stands accused of systematically dumping billions of gallons of highly toxic, carcinogenic waste into pits dug into the earth. This happened in the Amazonas jungle where Chevron operated from the 1960s to the 1990s. The trial is ongoing, and both parties are doing scientific studies of the area. Chevron contests several of the studies made, saying that they are scientifically unreliable. However, in autumn 2008, an independent expert found that 42 out of 46 toxic waste pits inspected contain high levels of toxins, and that most of them were excluded from the remediation program that Chevron has agreed upon with the government of Ecuador.

Progress: **DUKE ENERGY**  
 Excluded since: December 2006  
 Source: GES  
 Country: USA  
 Industry: Electric Utilities  
 Index: MSCI-WI, FTSE

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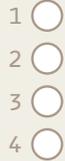
Duke Energy has chosen not to install pollution control equipment at several of its plants. This in combination with the age of the plants and their large quantity of emissions indicate that the company does not manage its most central environmental risks in an adequate way. The impacts of its operations are significant on the environment and public health. In 2006, the US Supreme Court granted permission for the Environmental Protection Agency to proceed with a lawsuit against Duke Energy under the Clean Air Act.

Progress: **FREEMPORT MCMORAN**  
 Excluded since: July 2006  
 Source: GES, NGPF  
 Country: USA  
 Industry: Metals and Mining  
 Index: MSCI-WI, FTSE

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Freeport McMoRan has received heavy criticism for polluting the surroundings of its Grasberg mine in Indonesia, the world's largest gold mine and second largest copper mine. It is one of the world's most criticized mining ventures. The main concerns relate to acid rock drainage and riverine tailings disposal. The company disposes 230,000 tonnes per day of heavy metal containing mine tailings into local rivers, a practice that has been widely outlawed. The government has accused the company of negligence and ordered it to take measures to minimise the effect on the environment.

Progress: **NORILSK NICKEL**  
Excluded since: December 2009  
Source: NGPF  
Country: Russia  
Industry: Metals and Mining  
Index: Not included in KLP's benchmark index



For many years, Norilsk Nickel's Polar Division has emitted large amounts of sulphur dioxide, nickel and heavy metals. Emissions have caused death or significant damage to vegetation up to 200 kilometers from the operations. Atmospheric emissions have also caused the local population significant health problems. Respiratory diseases and various forms of cancer are more prevalent here than in other regions in Russia. Even though the company has implemented measures in recent years to reduce metal emissions, current emission levels remain high. Additionally, SO2 emission levels are nearly unchanged. In the Council's opinion, it seems that the company fails to comply with national environmental regulations and, moreover, does not seem to plan to clean up the affected areas.

Progress: **RIO TINTO**  
Excluded since: December 2008  
Source: GES, NGPF  
Country: UK, Australia  
Industry: Metals and Mining  
Index: MSCI-WI, FTSE



Rio Tinto Group is a joint venture partner with Freeport McMoRan in the Grasberg mine in Indonesia, the world's largest gold mine and second largest copper mine. The mine discharges large amounts of tailings directly into a river; approximately 230,000 tonnes or more per day. The discharges will be increasing in future in line with expansion of the mine. There is a high risk that acid rock drainage from the waste rock and tailings dumps will cause lasting ground and water contamination. The mine is deemed to remain profitable until 2041, which is expected to result in severe long-term environmental degradation. There are no indications that these practices will be changed.

Progress: **SAMLING GLOBAL**  
Excluded since: December 2010  
Source: NGPF  
Country: Malaysia  
Industry: Forest Products & Papers  
Index: Not included in KLP's benchmark index



The Malayan forest company Samling Global has been excluded from the Norwegian Government Pension Fund Global on the grounds of illegal logging and severe environmental damage. The Council on Ethics has assessed the company's operations in Sarawak (Malaysia) and Guyana.

Progress: **STERLITE INDUSTRIES**  
Excluded since: June 2010  
Source: GES, NGPF  
Country: India  
Industry: Metals and Mining  
Index: Not included in KLP's benchmark index



Sterlite Industries is a significant joint venture-partner in the Vedanta Resources controlled aluminium production complex currently being established in Orissa in India. See reason for exclusion for Vedanta.

Progress: **VEDANTA RESOURCES**  
Excluded since: December 2007  
Source: GES, NGPF  
Country: UK  
Industry: Metals and Mining  
Index: MSCI-WI, FTSE



Vedanta Resources is establishing an aluminium production complex in the Indian state of Orissa. In this process the company has, according to local authorities, breached Indian environmental laws, misled authorities and caused environmental harm. These include the discharge of toxic alkaline and heavy metal laden water into rivers and groundwater. Several square kilometres of forest in one of India's most biodiverse regions will be cleared. Other accusations include illegal production expansions, irresponsible handling of hazardous waste and dangerous working conditions.

## Corruption

Corruption is one of the major economic challenges hindering economic and sustainable development in many countries. As an investor, KLP supports the international battle against corruption by excluding companies that are associated with severe or systematic corrupt activities.

No company associated with corruption is excluded as of December 1, 2010.

## Weapons production

Some weapons hit harder, and affect more civilians than others. KLP does not want to contribute to manufacture, sale or use of weapons that do not differentiate between civilian and military targets. As a consequence, 20 companies involved in the production or sale of landmines, nuclear or cluster weapons have been excluded.

**ALLIANT TECHSYSTEMS**  
Excluded since: December 2005  
Source: GES, NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: Not included in KLP's benchmark index

Alliant Techsystems has been involved in many weapon projects as a supplier of special components as well as main contractor for whole cluster munitions. The company currently has no cluster munitions products in production, but will follow the US policy concerning cluster munitions and produce if required. Alliant Techsystems is also associated to the provision of key products and services for nuclear weapons. The company is involved in updating the propulsion systems for the US nuclear deterrent programme.

**BAE SYSTEMS**  
Excluded since: January 2006  
Source: NGPF  
Country: UK  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

BAE Systems, Finmeccanica and EADS have together formed the joint venture MBDA. The ownership structure, according to EADS' homepage is 37,5 percent BAE, 37,5 percent EADS and 25 percent Finmeccanica. This is also confirmed on the homepages of BAE Systems and Finmeccanica. According to Jane's Air Launched Weapons, MBDA is under contract to develop and produce the ASMP-A missile for the French armed forces. ASMP-A is described as a "nuclear warhead air-to-surface missile".

**BOEING**  
Excluded since: January 2006  
Source: NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

The company is, according to its own home page a supplier of various forms of maintenance and upgrade services for the Minuteman III ICBM. ICBM, short for Intercontinental Ballistic Missiles, is the main element of the US land based strategic nuclear weapons.

### **EADS**

Excluded since: December 2005  
Source: GES, NGPF  
Country: Netherlands  
Industry: Aerospace and Defence  
Index: MSCI, FTSE

EADS (European Aero-Nautics Defence and Space Company) has confirmed that the company is part of the joint venture TDA. TDA produces, among other things, the artillery grenade PR Cargo, which the company describes as follows: "This is a submunition projectile for 120 mm rifled mortars. Equipped with dual effect-submunitions, it engages dismounted troops and light armored vehicles." According to Jane's Information Group's database InfantryWeapons, PR Cargo contains 16 bomblets each. This type of weapon is an "area-weapon" and is primarily used against personnel.

### **FINMECCANICA**

Excluded since: January 2006  
Source: NGPF  
Country: Italy  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

BAE Systems, Finmeccanica and EADS have together formed the joint venture MBDA. The ownership structure, according to EADS' homepage is 37,5 percent BAE, 37,5 percent EADS and 25 percent Finmeccanica. This is also confirmed on the homepages of BAE Systems and Finmeccanica. According to Jane's Air Launched Weapons, MBDA is under contract to develop and produce the ASMP-A missile for the French armed forces. ASMP-A is described as a "nuclear warhead air-to-surface missile".

### **GENCORP**

Excluded since: January 2008  
Source: GES, NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: FTSE. Not included in KLP's benchmark index

GenCorp has manufactured special components for cluster munitions and still markets the products on its website. The company markets propulsion systems and warheads for the cluster weapon systems GMLRS, MLRS and ATACMS. All three weapon systems fulfil the definition under the Convention on Cluster Munitions. Furthermore, GenCorp is assumed to be involved in the production of nuclear weapons. GenCorp's fully owned subsidiary, Aerojet, produces propulsion systems for missiles that have no function other than to deliver nuclear warheads.

### **GENERAL DYNAMICS**

Excluded since: December 2005  
Source: GES, NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

General Dynamics is associated to the provision of key products and services for nuclear weapons, part of the US nuclear deterrent programme. General Dynamics has also manufactured several cluster munitions and their components. In late 2010, the company states that no marketing, manufacture or stockpiling of these weapons is carried out by the company currently. However, the company has no policy related to cluster munitions and cannot guarantee that it would not produce the products again.

### **HANWHA CORPORATION**

Excluded since: January 2008  
Source: GES, NGPF  
Country: South Korea  
Industry: Commodity Chemicals  
Index: Not included in KLP's benchmark index

The company produces various forms of military equipment, among these different types of munitions. The company have confirmed the production, and cluster munitions are marketed on the company's website.

### **HONEYWELL INTERNATIONAL**

Excluded since: January 2006  
Source: NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

The company is, through its subsidiary Honeywell Technology Solutions Inc, responsible for repair, development, calibration, operations and maintenance of instrumentation and recording of data from simulated nuclear detonations at White Sands Missile Range in New Mexico.

### **JACOBS ENGINEERING GROUP**

Excluded since: June 2010  
Source: GES  
Country: USA  
Industry: Construction and Engineering  
Index: MSCI-WI, FTSE

Jacobs Engineering Group is associated to the provision of key products and services for nuclear weapons. The company's joint-venture, Atomic Weapons Establishment (AWE), is involved in manufacturing and maintaining warheads for the Trident II missile system, which is a part of the UK nuclear deterrent programme.

### **L-3 COMMUNICATIONS**

Excluded since: December 2005  
Source: GES, NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

L-3 Communications has confirmed to GES and to the Council on Ethics for the Norwegian Government Pension Fund (NGPF) that it produces components of cluster bombs. See further reasons for the exclusion of L-3 Communications under Human Rights.

### **LOCKHEED MARTIN**

Excluded since: December 2005  
Source: GES, NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

Lockheed Martin has developed and manufactured weapon systems for dispensing cluster munitions. The company markets components as well as three cluster munitions on its website. The company is also associated to the provision of key products and services for nuclear weapons. The joint-venture Atomic Weapons Establishment (AWE) is involved in manufacturing and maintaining nuclear warheads for the Trident II missile system, which is a part of the UK nuclear programme.

### **NORTHROP GRUMMAN**

Excluded since: January 2006  
Source: NGPF  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

The company is, according to its own press release, contractor for maintenance and upgrading of the US Air Force's Minuteman III ICBM. ICBM, short for Intercontinental Ballistic Missiles, is the main element of the US land based strategic nuclear weapons.

### **POONGSAN CORPORATION**

Excluded since: January 2007  
Source: GES, NGPF  
Country: South-Korea  
Industry: Metals and Mining  
Index: Not included in KLP's benchmark index

Poongsan produces various types of munitions for military use, including cluster bombs. On its website, the company describes three of these products. One shell is described as containing 88 "bomblets", i.e. small, explosive sub-munitions that characterize cluster munitions. Another is described as "used for blast, fragmentation, mining effects."

### **POONGSAN HOLDINGS**

Excluded since: January 2007  
Source: GES, NGPF  
Country: South-Korea  
Industry: Metals and Mining  
Index: Not included in KLP's benchmark index

Poongsan Holdings owns 32 percent of the shares in Poongsan. See reason for exclusion of Poongsan.

## RAYTHEON

Excluded since: December 2005  
Source: NGPF, GES  
Country: USA  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

The company produces, according to its own web-site, 3 JSOW (Joint Stand Off Weapon), and cluster munitions to these: "JSOW integrates the BLU-97 combined effects bomblets and the BLU-108 sensor fused weapon submunitions for area targets or armoured vehicles". These are considered as cluster weapons. This information is confirmed by Jane's Information Group.

## SAFRAN

Excluded since: January 2006  
Source: NGPF, GES  
Country: France  
Industry: Aerospace and Defence  
Index: MSCI-WI, FTSE

Safran is the mother company of companies Snecma and Sagem. In 2005, Jane's Missiles and Rockets wrote "EADS SPACE Transportation has signed a contract with the French armament procurement agency (DGA) for production of the M51 submarine-launched ballistic missile (SLBM) The contract covers series production of the M51 weapon system for a period of ten years. Worth more than EUR3 billion, it includes a fixed tranche and several conditional options. EADS SPACE Transportation is prime contractor for the programme, while SNECMA, SNPE, DCN, Thales and Sagem are the main subcontractors."

## SERCO GROUP

Excluded since: January 2008  
Source: NGPF, GES  
Country: UK  
Industry: Environmental and Facilities Services  
Index: MSCI-WI

According to information on the company's website, Serco Group is a partner in the company AWE Management limited (AWEML), which is the operating company to the British Atomic Weapons Establishment (AWE). AWE is a government owned company which produces and maintains the UK's nuclear weapons.

## SINGAPORE TECHNOLOGIES ENGINEERING

Excluded since: December 2001  
Source: GES, NGPF  
Country: Singapore  
Industry: Aerospace and Defence  
Index: MSCI-WI

The Ministry of Foreign Affairs in Thailand acknowledge to the International Campaign to Ban Landmines (ICBL) that a fully-owned subsidiary of Singapore Technologies Engineering continues to produce anti-personnel mines. The company confirms that mines are still being produced, however not for exports but "only for the defence of Singapore and only when we are asked to".

## TEXTRON

Excluded since: December 2008  
Source: GES, NGPF  
Country: USA  
Industry: Industrial Conglomerate  
Index: MSCI-WI

Textron develops and markets cluster munitions and their submunitions, which are prohibited according to the Convention on Cluster Munitions. The company confirms that it still offers e.g. the cluster munitions CBU-105 and it has developed and is manufacturing the submunition BLU-108, which is not in compliance with the convention. The company says that a redesign of the weapon in order to be compliant with the convention would be one possible solution, but the company is not "convinced that this would be the best solution for eliminating the unacceptable risk to civilians".

# Good performance of ethical investments

Last year it paid to be a responsible investor. Also in the long term, we assert that responsible investing is the best for our customers' returns. We balance our portfolios in order to minimize the effect of the exclusions. At the same time, KLP is working systematically to influence the excluded companies in order to reinstate them into our investment portfolios.

KLP World is a customised benchmark index where companies which have been excluded are removed from the index. This index is rebalanced so that the industrial group's weighting corresponds with MSCI World. This method of industrial group neutralisation is utilised because the difference in return between the two indexes is expected to be minor.

### Positive deviation for KLP World

So far this year, KLP's benchmark index KLP World has a level of return that is 0.04 percent lower than the MSCI World. Last year, KLP World outperformed with 1 percent. Note that this is a quantitative analysis of the potential influence on the KLP World

Index only. When we exclude a company, it is excluded from all portfolios within all relevant asset classes, and the excluded securities will be replaced with higher weights in others within the same industry group. Consequently, the real effect is difficult to measure. There might also be differences between the effects on different regions. Nevertheless, the largest effect on the deviation will be the weight of the single excluded security (index weight) and its performance relative to its peers within a certain period of time.

However, it is a too short time period to draw any solid conclusions about the long-term financial effects.

### Monthly return deviation, KLP World and MSCI World

The figure shows the variation between a portfolio of global stocks with negative screening and a global portfolio without exclusions (December 2002 – September 2010).



### Annual return deviation, KLP World and MSCI World

2003	2004	2005	2006	2007	2008	2009	As of September 30, 2010
-0.31 %	0.09 %	0.84 %	-0.69 %	-0.29 %	-0.82 %	1.00 %	-0.04 %

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