

Responsible investments

SRI Report June 2010





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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.

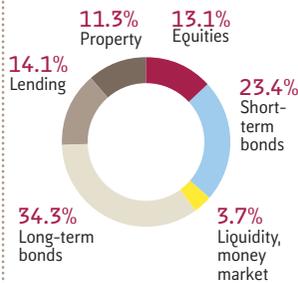
KLP's main product is occupational pensions and pension fund services. More than one in eight Norwegians have their pensions with KLP. The company also provides insurance services both to individuals and the public sector. KLP Eiendom is one of the largest property managers in Norway. KLP provides a 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 700 employees.

➔ Asset classes

The KLP Group manages 258.1 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 (March 31, 2010).

➔ Assets under management

KLP Kapitalforvaltning and KLP Fondsforvaltning, both subsidiaries of KLP, manage around 175 Billion Norwegian kroner in financial instruments for KLP (March 31, 2010), and its subsidiaries, as well as other institutional and private customers. In total, we have 3.600 customer relationships in our funds. KLP Fondsforvaltning is Norway's third largest fund management company.

➔ Both active and passive management

wKLP 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.**

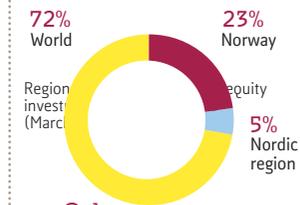
The KLP mutual funds

Fixed income funds:
KLP Aktiv Rente
KLP Rentefond II
KLP Pensjon I-II

➔ KLP Obligasjon I
KLP Obligasjon Global I
KLP Obligasjon Global 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.



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,

During the past six months, we have travelled to China and to the oil sand areas in Canada to learn more about the challenges and opportunities faced by Norwegian companies in China and about the extraction of oil from the tar sands. This report includes travel logs from these trips.

During the spring, we have also focused on strategy development. We work in a relatively new field – responsible investments – for which there are very few established standards, research or traditions which clearly define what has to be done, how to do it, how much to do and what performance to expect. Consequently, KLP and like-minded organisations are constantly striving to develop this field and we are to a large extent playing a role in setting the standard for responsible investments.

One result of this work is the introduction of a new criterion for exclusion and dialogue which we have defined as breaches of business ethics. The new criterion is based on the fact that we often face expectations as shareholders to react to actions or behaviour which are considered censurable, irresponsible or immoral. This issue does not involve the environment or social problems however, but shareholder discrimination, insider trading, unacceptable competition restriction etc.

With this new criterion, our aim is not to exclude more companies, but to enter into discussions with companies, hoping to encourage them to change their behaviour and prevent similar situations in the future.

We were extremely proud to hear in April this year that KLP is one of six finalists nominated for the Nordic Council's Nature and Environment Prize. The reason for KLP's nomination is our initiative to develop the Sustainable Value Creation project. The decision as to who will win this prestigious prize is being made at the time of writing.

The fundamental concept behind Sustainable Value Creation is a collaboration between investors in order to achieve the initiative's goal. As such, if KLP were to win the prize, it would be shared with numerous Norwegian and Swedish investors who have supported and played a part in developing Sustainable Value Creation (Bærekraftig verdiskaping in Norwegian and Hållbart värdeskapande in Swedish).

In conclusion, we would like to thank all our business colleagues for their efforts and hope you keep on 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 258 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)*

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)*

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*
- > *Active management and sustainable growth (page 11)*

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 rating results are published at www.klp.no.



KLP as an environmentally responsible developer

A model project for collaboration and the environment, was the jury's conclusion as they named KLP Eiendom's "Miljøbygget" in Trondheim Building of the Year 2009.

Competing with over 100 completed building projects, KLP Eiendom's 16,400 square metres building came out top of the class. This takes KLP a step closer to achieving their vision of creating a techno-city; a main hub for research, education and business development connected to the Norwegian University of Science and Technology (NTNU), the National Institute of Standards and Technology, Sintef and St. Olavs Hospital, focusing on the fields of medicine, health and technology.

Innovation

KLP Eiendom has traditionally been a company founded on safe and proven quality buildings, but decided in the winter of 2006 to enter into cooperation with Enova.

"Our target when entering into this cooperation was to develop first class projects in terms of energy-saving initiatives. This required us to change our approach to our projects, becoming more innovative,"

confirms Director of Quality and Environment in KLP Eiendom, Knut Helge Sandli. "The high-tech centre or Teknobyen in Trondheim now covers almost 40,000 square metres of environmentally friendly buildings. We have additional plans for around 35,000 square metres more," explains Mr. Sandli.

Building for the future

"KLP Eiendom's aim is to build environmentally friendly office buildings for the future. This is an important element of KLP's corporate responsibility. We constantly assess potential improvements and enhance our positive contribution to society via our business activities," confirms Eli Bleie Munke-lien, Vice President CR.

Environmental concerns is a key aspect in property development.

"Our responsibility towards the external environment and climate has now become a

KLP EIENDOM

KLP Eiendom is one of the largest property management companies in Norway, with over 1,300,000 square metres of property, comprising office and commercial premises, shopping centres, hotels, homes and leased land.

NORWAY'S MOST EFFICIENT OFFICE BUILDING

KLP Eiendom's "Miljøbygget" in Trondheim was named Building of the Year 2009. The jury's conclusion included the following statement: "The jury believes that the capacity of this project to involve all parties, including builders, has been a significant factor in achieving the extremely high environmental qualities and low energy requirement for the building. With an estimated annual requirement for energy purchases of 83 kW/hour m² per year, the building is today Norway's most energy efficient office building."

CERTIFICATION

KLP Eiendom achieved an ISO 14001 certificate from Det norske Veritas in 2009. This involves a commitment to make continuous improvements to environmental factors and to fulfil all requirements from the authorities and in-house requirements.

Our parent company KLP (Kommunal Landspensjonskasse) was granted an Eco-Lighthouse certificate in 2009.

natural part of our activities and is fully integrated in daily operations," states Mr. Sandli.

The company has prepared an vivid environmental policy with which to help reduce its impact on the environment and climate and to promote new behavioural patterns, products, services and technical systems

which can reduce environmental impact and CO₂ emissions.

"We enter into collaboration projects to help motivate our lessees and other partners to reduce their impact on the environment and climate," concludes Mr. Sandli.

HELP US FIGHT CORRUPTION!

The NGO Publish What You Pay (PWYP) has managed to convince the International Accounting Standards Board (IASB) to discuss their proposal in a consultative document regarding the new international accounting standard (IFRS) for the extractive industries. The goal is to ensure that they report payments to authorities, reserves, production volumes, production income, costs and assets on a country-by-country basis. This reporting standard may help counteract corruption and promote responsible business conduct and responsible management of resources in poor countries which often have bountiful resources.

KLP remains involved in this process. As an investor, KLP is of the opinion that this will provide investors and users of financial reports

with relevant and useful information taken from a risk, value assessment and opportunity perspective. Moreover, the reports will have positive repercussions such as fighting corruption, ensuring fair competition, making the flow of money and values to and from authorities transparent, and combating tax havens.

In 2008, KLP sent a letter to the IASB, expressing our support for the PWYP proposal. We intend to send a similar letter during this phase of the process and encourage other investors and relevant organisations and companies to do the same. We would be happy to help in the wording or format of your letter, or to answer any questions. Please contact us at jeb@klp.no. Send your letter now!



Finalist in environment prize

KLP is nominated to the Nordic Council's Nature and Environment Prize 2010. The prize will be awarded to an institution which has made an impact on the financial markets and encouraged them to integrate sustainability into their asset management.

"We are delighted of course for the nomination, it is a great acknowledgement. We have invested considerable resources over the past decade towards ensuring that the ownership and asset management represented by KLP can be utilised to make the world a better place," confirms CEO of KLP, Sverre Thornes.

"With our pension funds, we manage more than NOK 200 billion. We want our customers, municipal employees and health sector employees to feel safe in the knowledge that their pension funds are managed in an ethical and environmentally safe manner," he adds.

According to the Nordic Council secretariat, the prize will be awarded to an individual, company, organisation or medium, which has made an impact on the financial markets, the asset management industry, banks or consultants, and encouraged them to adopt a long-term perspective and integrate sustainability into their asset management.

The background for KLP's nomination is their initiative Sustainable Value Creation, a collaboration project between a group of the largest institutional investors in Norway and Sweden. The aim is to influence companies listed on the stock exchange towards a

sustainable development and long-term value creation. For more information on this initiative and the results of the study, go to www.svcinitiative.com.

KLP's investments in other companies are governed by ethical minimum requirements based on central UN conventions. In practice, this implies that KLP, for example, may exclude companies in breach of international environmental conventions. One important element in this strategy is to maintain active discussions with the excluded companies in order to help them improve their practices.

KLP's partnership in the Carbon Disclosure Project (CDP) is yet another factor in KLP's efforts to increase awareness of environmental and climate-related problems within the investment industry and among companies. CDP is a project working for the improvement of reporting and understanding of risks related to greenhouse gases among the world's largest listed companies.

The original 15 nominations for the prize have been whittled down to six for the final round. Three of the finalists are from Norway (KLP, Storebrand and Cultura Sparbank), two from Sweden (Ekobanken and GES Investment Services) and one from Denmark (Merkur Andelskasse).

Active management and sustainable growth

Sustainable business management goes hand in hand with KLP's long-term investment philosophy, according to Niklas Hallberg, the Head of KLP's actively managed mandates.

KLP's commitment to influence companies towards responsible and sustainable business management is in perfect harmony with our long-term investment philosophy.

– We are constantly seeking companies with business models which are viable over time. This is based on the realisation that up to 80-90 percent of the price of a company is determined by its earnings generated after the "estimate period", which is most often the next couple of years after investment. With this time-frame in mind, we expect the companies in which we invest to assume an active attitude to all significant factors which may have an impact on future value creation, says Niklas Hallberg.

As active managers, we will also constantly consider the pricing of the company in

relation to its potential and the risks we identify. Our job is to detect potential areas for growth which have not been recognised by other players in the market and which are therefore not considered in the market price. Environmental issues can have an impact on both risk and return projections and are a perfect example of this type of "undetected" market element.

Recently, we have increased our focus on the correlation between a company's CO² emissions and its share prices. We have analysed external studies and carried out our own internal study within the boundaries of our Nordic investments. The resulting picture is somewhat mixed. We did find a correlation however in certain industries and this is information we intend to apply to our business management.

SPEAKING ON BEHALF OF OUR SHARES

KLP and KLP's mutual funds vote at practically all general meetings in the Norwegian publicly listed companies in which we are shareholders. This year, we have summarized our corporate governance policy in a new document: KLP's and the KLP mutual funds' voting guidelines. In this document we outline, among other things, how we think that remuneration programs should be structured.

During the first half of 2010 we have sent letters to almost 60 companies to give the grounds for our voting decisions at their general meetings, and to inform about our voting guidelines.

The guidelines are published at www.klp.no. You can also check which general meetings we have voted at and, in the cases where we have voted against a resolution, read our reasoning.



Impressions from China



In February this year, we took a trip to Beijing and Shanghai to visit Norwegian companies operating in these two cities. Norwegian companies are proud of their foreign business and are more than willing to show Norwegian investors around.

We paid a visit to the Norwegian embassy in Beijing, Det norske Veritas and Stolt Nielsen's terminal on the outskirts of Beijing. In Shanghai, we visited the Orkla company Sapa and their aluminium production plant, DnB NOR and Aker Solution's rig construction activity at one of China's major shipyards.

The China we visited is a country with enormous growth and vast potential. It is difficult to comprehend the size of the country, and the challenges and opportunities presented by its geography and size. The Chinese government is strong and plays a dominant role. This also applies to business and commerce, where the government is recognized as an ambitious business partner.

China appears to be strictly governed but at the same time unpredictable and not always convincing in all aspects. It appears that success is not attainable without a local representation and knowledge of the country and culture.

As we travelled in China, we focused on the challenges and opportunities faced by the companies in relation to employee rights, human rights, environment and corruption

in addition to health, safety and the working environment. The attitudes in China towards some of the above-mentioned areas differ from those in Norway. On the environmental front, China has at times had a poor reputation. However, they are in the process of developing their environmental legislation and the companies we visited reported an increase in requirements and expectations. The country is aware of the challenges faced by climate change, and its development towards a more sustainable society is moving at a rapid pace.

The authorities' reactions to unsatisfactory behaviour can be crucial, creating a disciplinary effect. One example of this is corruption which, in the most severe cases, has incurred the death penalty. The scandal created by the dairy products being contaminated with melamine (see reasons for exclusion of China Mengniu Dairy) resulted in death sentences for those responsible.

However, China is a country of vast differences, a fact that clearly marks also the areas of corporate responsibility.

Focus on oil sand



Numerous oil companies have chosen to invest in Canada's oil sand. Concerns relating to the projects have been discussed at several general meetings this year. The projects are associated with high risk financially and in terms of the environment.

KLP visited Alberta in Canada to meet with companies, authorities, researchers and other experts in addition to representatives from the indigenous populations.

The main concerns regarding oil sand are centred on the environmental impact. Extraction is connected with emissions to air, water and ground along with a high consumption of water and energy. The oil extracted from oil sand is very energy-intensive and causes higher CO₂ emissions than extraction of most other types of oil. Criticism also relates to the effects of oil sand extraction on biological diversity, potential health-related consequences and the indigenous people's rights to the land.

At the same time, the oil companies have identified vast opportunities in the extraction of what are today the world's second largest oil reserves. The companies also rely on improvements to technology which reduce water consumption, environmental impact and CO₂ emissions.

A report from Ceres and RiskMetrics concludes that the risk related to oil sands is extremely high and that the potential for financial return is on the decline. In line with the increase in environmental requirements

in both Canada and abroad, the report states that oil sand extraction will most probably only be profitable if oil prices exceed USD 65 per barrel, and maybe as high as 95. The report states however that an excessive price – USD 120 to 150 per barrel – will probably result in movement in the market and make other forms of energy more profitable.

BP and Shell

The oil sand projects have been on the agenda of several annual general meetings. KLP voted in favour of the proposal made during the AGM for BP, Shell, Conoco Phillips and Exxon Mobil. The proposals stated that the companies should submit reports on the risks related to oil sand investments.

Statoil

A shareholder proposal that Statoil should withdraw from its oil sand project has also been filed. KLP and the KLP mutual funds have chosen not to support it. We will continue to apply pressure on the company and have stated our expectation that the company does its utmost to extract the oil in a responsible manner, in line with international standards for the environment. We have communicated our position in meetings with the company and in a statement to the general meeting in 2009.

Responsible investments from a low-cost leader.

Vote for the majority of our holdings

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 RiskMetrics Group. 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. 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 April 30, 2010	2009	2008
Number of general meetings	544	1 803	1 792
Number of items	4 591	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 April 30, 2010	Against the board or abstain	No. of items 2009	Against the board or abstain
Directors related	2 617	8%	11 862	14%
Routine/business	966	4%	3 491	26%
Capitalization	364	5%	1 798	28%
Non-salary compensation	309	24%	1 243	29%
Mergers and re-organizations	66	2%	585	17%
Preferred/bondholder meetings	18	0%	30	3%
Anti-takeover related	67	16%	116	45%
Total	4 407	8%	19 125	19%

Shareholder resolutions

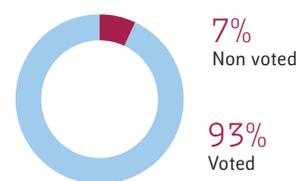
Themes	No. of items as of April 30, 2010	Against the board or abstain	No. of items 2009	Against the board or abstain
Directors related	73	75%	297	70%
Compensation	46	91%	156	79%
Routine/business	16	81%	50	78%
Corporate governance	17	82%	43	60%
Health and environment	19	95%	72	75%
General economic issues	1	100%	4	75%
Human rights	1	100%	17	94%
Anti-social proposals	2	50%	5	20%
Other	9	100%	82	66%
Total	184	84%	726	73%

Voting in Norway

	As of April 30, 2010	2009	2008
Number of general meetings	40	123	29
Number of items	312	1 004	274
Percent of items KLP and KLP's mutual funds voted against management	7%	13%	1%
Percent of items KLP and KLP's mutual funds abstained	0%	2%	-

Resolution

Themes	No. of items as of April 30, 2010	Against the board or abstain	No. of items 2009	Against the board or abstain
Routine/business	175	1%	499	2%
Director related	61	5%	207	11%
Capitalization	40	18%	158	18%
Non-salary compensation	29	35%	118	62%
Mergers and reorganizations	5	20%	8	25%
Shareholder resolution	2	0%	13	23%
Anti-takeover related	0	0%	0	10%
Total	312	7%	1004	15%



KLP and KLP's mutual funds have voted at approximately 93 percent of the Norwegian general meetings they have had voting rights at January 1 - April 30, 2010.

➔ Check which general meetings KLP and the KLP mutual funds have voted at on our web-site www.klp.no. Here you can also read our argument when 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 be able to 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.

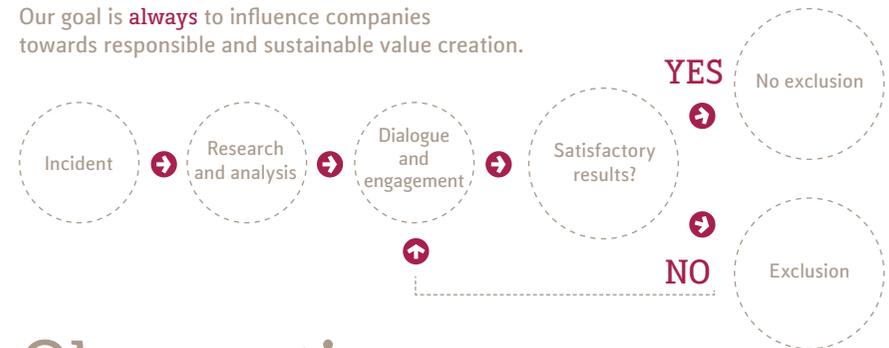
In all engagement processes, with excluded companies and with companies under observation, we have four criteria for improvement (see page 20).

Sources and analyses

The almost 2,000 companies in KLP's investment universe are continuously monitored. KLP's primarily utilizes the GES Investment Services' analysis as the foundation for our engagement and exclusions. In addition, we also rely on 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.

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 have been very responsive and is working continuously to improve and implement measures. Read more on page 20.

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 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.

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

Company dialogue

15.11.2009–31.5.2010

COMPANY	STATUS	TOPIC
AES	Excluded	Human rights
Barrick Gold	Excluded	Environment
DNO International	Observation	Business ethics
Eutelsat	Observation	Human rights
Exxon Mobil	Observation	Environment
G4S	Reinstated June 2010	Labour rights
Songa Offshore	Observation	Business ethics
Toyota	Excluded	Labour rights
Vedanta	Excluded	Environment and human rights

- 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.

4
requirements

Companies under observation, continue

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.

DNO ABOUT ITS WORK ON CORPORATE RESPONSIBILITY

DNO has continued its focus and development of CR Management in line with industry and stakeholder expectations. During 2009 we improved significantly in the way we manage risk and govern our business as we continued our implementation strategy. DNO have further to this developed consistent CR documentation and plans from the corporate level throughout our Business Units. This plan reflects important learning influenced by the KLP initiatives and screenings. During 2009 the company also established important relationships to Transparency International and EITI.

The program has lead DNO to a revision and update of the company's CR-policy (February 2010), a revision and update of the Code of Conduct (February 2010), discussions with and training of management and business units on important CR-issues, and started the process of working with EITI in Norway, Yemen, Mozambique and Kurdistan. DNO will commence a road-show during this spring in order to secure implementation of our CR plans by July this year. The program has a specific focus on anti-corruption as this is of relevance to the countries we operate in.

Learning points established during 2009, lead us to develop a separate CR competence development program, which has been approved by the CEO. This program has a focus on:

- Anti-corruption and integrity
- Legal framework
- Industry standards and framework
- Management of third parties
- Transparency and reporting
- Dilemma training
- Corporate governance and code of conduct

DNO has continued to develop the relationship to local stakeholders whilst applying company standards with sensitivity to the local environment.

Success is to us fully dependant on recognition, internally as well as externally and our plans will this year be verified by a third party. As the industry framework and we evolve, we continue to consider developing an annual sustainability report.

TWO COMPANIES REINSTATED

Improved labour relations

Since G4S was excluded it has demonstrated substantial improvements in its management of labour relations. G4S is now reinstated in our portfolios.

Being one of the world's largest employers with more than 595,000 employees operating worldwide in more than 110 countries, it is clear that labour issues are at the core of G4S' business. KLP chose to divest because our concerns about G4S' frequent association to labour rights disputes. The accusations included e.g. denial of freedom of association, unlawful dismissal of workers, breaches of collective agreements and harassment of trade unionists.

The last two years, G4S has demonstrated substantial improvements in its global management of employee relations and labour rights. The company has signed a global agreement with the labour organization UNI, and has presented a structured approach to handle labour

GROUP 4 SECURICOR

Excluded since: June 2008
Source: GES
Country: UK
Industry: Security and Alarm Services
Index: MSCI

Progress:

- 1 2009
- 2 2009
- 3 2010
- 4 2010

issues responsibly, including global training programs and mechanisms for monitoring compliance. G4S has established a board committee for corporate responsibility and released its first-ever corporate responsibility report. The company has also demonstrated an excellent approach to investor dialogue with KLP and other investors during the process.

United Technologies was excluded because of its involvement in nuclear weapons production. The company upgraded and tested engines for the US' MX ICBM system. Following disarmament of the US nuclear arsenal, this weapons system has been dismantled and upgrades of the system no longer take place. The grounds for exclusion are therefore no longer valid.

UNITED TECHNOLOGIES GROUP

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

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.

Excluded companies

Human rights

■ AES	USA	Power Producers and Energy Traders
■ Alstom	France	Electrical Equipment
■ China Mengniu Dairy	China	Food Products
■ Dongfeng Motor Group	Hongkong	Automobile Manufacturer
■ Elbit Systems	Israel	Aerospace and Defence
■ FMC Corp	USA	Diversified Chemicals NEW
■ Incitec Pivot	Australia	Fertilizers and Agricultural Chemicals
■ L-3 Communications*	USA	Aerospace and Defence
■ Potash Corp Saskatchewan	Canada	Fertilizers and Agricultural Chemicals NEW
■ 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
■ 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 NEW
■ L-3 Communications*	USA	Aerospace and Defence
■ Lockheed Martin	USA	Aerospace and Defence
■ McDermott International	USA	Industrial Conglomerates NEW
■ 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 NEW
■ Altria Group	USA	Tobacco
■ British American Tobacco	UK	Tobacco
■ Gudang Garam	Indonesia	Tobacco NEW
■ Imperial Tobacco	UK	Tobacco
■ ITC Ltd	India	Tobacco NEW
■ Japan Tobacco	Japan	Tobacco
■ KT&G Corp	South Korea	Tobacco NEW
■ Lorillard	USA	Tobacco
■ Philip Morris	USA	Tobacco
■ Reynolds American	USA	Tobacco
■ Souza Cruz SA	Brazil	Tobacco NEW
■ Swedish Match	Sweden	Tobacco
■ Universal Corp VA	USA	Tobacco NEW
■ Vector Group	USA	Tobacco NEW

* The company is excluded for several reasons.

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, 13 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

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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.

Progress: ALSTOM

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

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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.

Progress: CHINA MENGNIU DAIRY

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

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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.

Progress: DONGFENG MOTOR GROUP

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

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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.

Progress: **ELBIT SYSTEMS**
 Excluded since: December 2009
 Source: GES, SPU
 Country: Israel
 Industry: Aerospace and defense
 Index: Not included in KLP's benchmark index

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.

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.

NEW

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 colonized territories, Western Sahara in particular, has also been declared illegal in an opinion issued by the UN Under-Secretary General for Legal Affairs.

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.

NEW

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: **WESFARMERS**
 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 colonized 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.

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 case is under scrutiny by a Philippine court and by the International Labour Organization's (ILO) Committee of Freedom of Association. The ILO 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.

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, eight 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



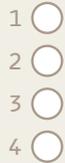
Rio Tinto Group is a joint venture partner with Freeport McMoRan in the Grasberg mine in Indonesia, the world's largest gold mine and second largest copper mine. The mine discharges large amounts of tailings directly into a river; approximately 230,000 tonnes or more per day. The discharges will be increasing 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: **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 June 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, 21 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. It still markets some of them on its website. The company has for instance produced the cluster bomb CBU-87/B, which contain 202 pieces of BLU-97 explosive devices. This is one of the most commonly used air-delivered cluster weapons. This information is verified by Jane's Information Group.

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

The company acknowledged in 2005 that the company produces key components in cluster bombs. Yet, in 2008 the production is in abeyance and the weapon programs that the components were intended for have been terminated. However, the company is still marketing cluster bombs on its website and has no corporate policy related to its involvement in cluster munitions.

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.

MCDERMOTT INTERNATIONAL

Excluded since: June 2010
Source: GES
Country: USA
Industry: Industrial Conglomerates
Index: MSCI-WI



McDermott International is associated to the provision of key products and services for nuclear weapons. The company's subsidiary, Babcock & Wilcox Company, operates two nuclear weapon plants, Y-12 National Security Complex and the Pantex Plant, on behalf of the US government.

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
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
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
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
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 0.24 percent higher 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 – April 2010).



Annual return deviation, KLP World and MSCI World

							As of April 30,	
	2003	2004	2005	2006	2007	2008	2009	2010
	-0.31%	0.09%	0.84%	-0.69%	-0.29%	-0.82%	1.00%	0.24%

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