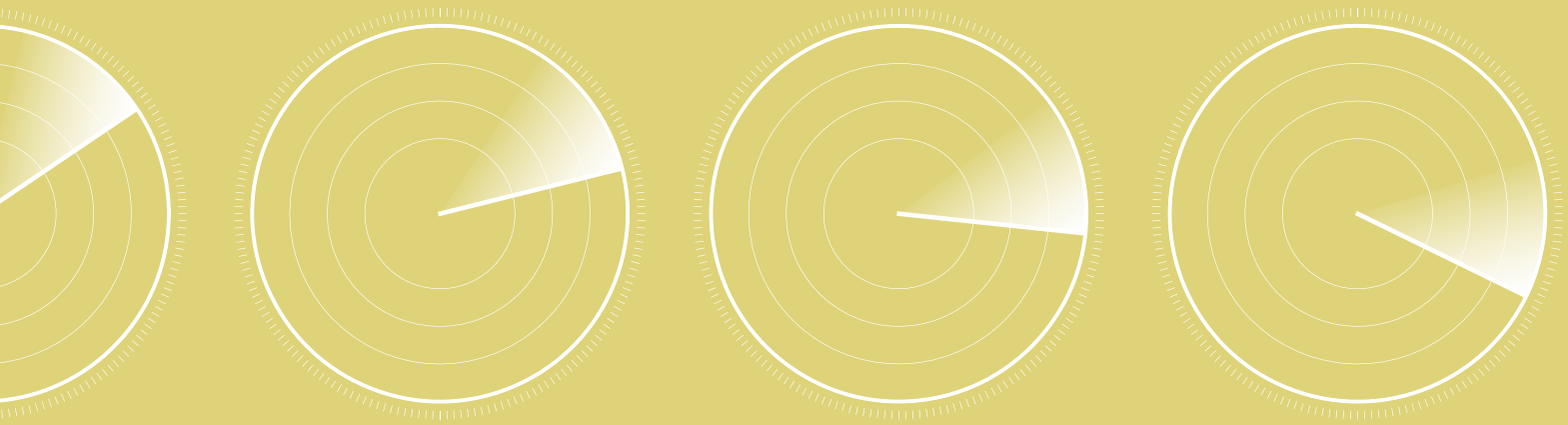


Council on Ethics

for the Norwegian Government Pension Fund Global



Annual Report 2016



**The Council on Ethics gives recommendations
to Norges Bank on observation and exclusion of
companies from the Norwegian Government
Pension Fund Global**

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Annual Report



The Chair's report

The Council on Ethics has been busier than ever in 2016, though I am pleased to note that this has not resulted in a record number of exclusions. For we have seen that companies are increasingly keen to avoid being excluded. During the course of their dialogues with us, several of them have altered their management systems and business practices, or have improved their level of compliance with their own guidelines. This has made us more confident that the risk of future ethical non-compliance, which is what we have been tasked with assessing, has been reduced.

The criterion we have devoted the most resources to this year is corruption. This is primarily a consequence of the sectoral studies we have performed. While the majority of these processes have been concluded, we are now opening up an investigation into the pharmaceuticals sector. We have also spent a great deal of time and resources on potential human rights violations in the textiles industry. It has proved more difficult than we initially anticipated to determine which abuses are serious enough and systematic enough to result in exclusion from the GPF. We find many examples of working conditions that do not comply with what seem to be broadly agreed labour standards. The challenge for the Council has been to draw a line beyond which such working conditions become unacceptable.

The Council has also looked at companies with operations in Qatar, where reports have emerged of working conditions that may be characterised as forced labour. While working conditions seem to have improved in some areas, the Council's investigations have uncovered a recruiting practice that may place workers in an inescapable position, in that recruitment firms demand a fee from job seekers and provide incorrect information about wages and working conditions. The Council considers that companies which make extensive use of migrant workers are responsible for the recruitment activities performed on their behalf.

With regard to the climate criterion, which is new this year, we have come quite a long way in our efforts to identify industries and associated enterprises that produce unacceptable emission levels. The coal criterion, which is also new, grants Norges Bank the autonomy to exclude companies on the grounds that they base more than 30 per cent of their operations on thermal coal. The phasing in of this criterion has gone well and has, furthermore, enabled the Council on Ethics to divert resources to the other criteria. Collaboration with Norges Bank is good, and is constantly being developed.

Naturally enough, our communications activities are limited. But in addition to our recommendations, we do attempt to increase the public's understanding of our work in general terms. This means, among other things, explaining that even though we say that we are aware of a case, or confirm that we have received a report of some kind, it does not necessarily mean we will be issuing a recommendation for exclusion. Apart from this, we do not make any pronouncements on the status or progress of individual cases. Some cases may be handled relatively quickly, while others can take several years. We understand that this can be challenging for some active parties, but it cannot be otherwise, given the normative effect that a recommendation has.

Looking ahead, I am particularly concerned that the combination of new technological possibilities and a new global security situation could encourage companies to produce new weapons systems that could fall within the scope of the weapons criterion. This potentially includes both autonomous weapons and a new generation of nuclear weapons. It is a trend which may require heightened vigilance on the part of the Council on Ethics.



Johan H. Andresen
Chair



Members of the Council and the Secretariat

The Council on Ethics



Johan H. Andresen (Chair of the Council on Ethics)

Andresen holds an MBA from Rotterdam School of Management, and is the owner and chairman of Ferd. His previous positions include that of Product Manager for International Paper Co. in the US and partner at the Tiedemann Group. He is a member of various boards, including SEB – Skandinaviske Enskilda Banken, NMI - Nordic Microfinance Initiative and Junior Achievement Europe.



Hans Christian Bugge (Vice Chair of the Council on Ethics)

Bugge holds a doctorate in law from the University of Oslo and is currently Professor Emeritus at the Department of Public and International Law at the University of Oslo, focusing on national and international environmental law issues. He has previously held various civil service positions at the Ministry of Environment and Ministry of Finance, and been Director of the Norwegian Pollution Control Authority, Secretary General of Save the Children Norway and State Secretary in the Ministry of Development Cooperation.



Cecilie Hellestveit

Hellestveit is a lawyer by background, specialising in international human rights, international law and company law. She holds a doctorate in humanitarian law and a Master's degree focusing on Middle Eastern studies and Arabic. She is currently a senior adviser at the International Law and Policy Institute in Oslo, and has previously collaborated with various research institutions, including PRIO, SMR, NUPI and IKOS. She has earlier held an appointment with the Immigration Appeals Board (UNE) and been a member of medical and health research ethics committees under South-Eastern Norway Regional Health Authority. She is vice chair of the Norwegian Refugee Council's board of directors, and is a regular columnist in the financial newspaper Dagens Næringsliv.



Arthur Sletteberg

Sletteberg holds a Master's degree in business administration from NHH – Norwegian School of Economics and a Master's degree in economics from Institut für Weltwirtschaft. He is currently CEO of Nordic Microfinance Initiative, and a member of the boards of Entra ASA, Arctic Securities AS and Satin Creditcare, an Indian microfinance company. Sletteberg was previously Executive Vice President at Ferd AS, Chief Investment Officer at Oslo Pensjonsforsikring AS, an investment director at Storebrand Asset Management, an assistant director at DNB Markets and an executive officer at Norges Bank.



Guro Slettemark

Slettemark holds a law degree from the University of Oslo, with specialist studies at Aix Marseille University. She is currently Secretary General of Transparency International Norway and a member of the Board of the University of Oslo. Her previous appointments include those of senior legal adviser at the Norwegian Data Protection Authority, member of the board at the Norwegian Institute for Children's Books and political adviser to former Minister of Justice Odd Einar Dørum.

The Secretariat

The Council has a Secretariat that investigates and prepares cases for the Council. The Secretariat has the following employees:

- Eli Lund, Executive Head of Secretariat (Economist)
- Magnus Bain (Cand. jur.)
- Lone Dybdal (MPhil.)
- Erik Forberg (Cand. scient)
- Pia Rudolfsson Goyer (Cand. jur)
- Hilde Jervan (Cand. agric)
- Irmela van der Bijl Mysen (Cand. jur)
- Aslak Skancke (Graduate Engineer)



The work of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global (GPF) is an independent body that makes recommendations to Norway's central bank, Norges Bank, to exclude companies from the GPF or place them under observation. The Council assesses a company's operations on the basis of guidelines determined by the Norwegian Ministry of Finance. The guidelines contain both product-based exclusion criteria, such as the production of tobacco or certain types of weapons, and conduct-based exclusion criteria, such as gross corruption, human rights violations and environmental damage. The Council has five members and a secretariat with a staff of eight. The Council publishes all its recommendations on its website as soon as Norges Bank has announced its decision.

Activities in 2016

With effect from January 2016, the Ministry of Finance added a new conduct-based criterion, such that companies may be excluded if their operations lead to unacceptable levels of greenhouse gas emissions. The Council on Ethics is working hard to operationalise this criterion, and has so far collected greenhouse gas emission data from companies producing some types of oil, cement and steel.

With regard to the other conduct-based criteria, companies are identified by means of portfolio monitoring, systematic reviews of problem areas and reports received from third parties. Every day, a firm of consultants searches through many news sources in several different languages for relevant articles on companies in the portfolio. The Council receives quarterly reports from the consultants, and investigates those companies where the risk of future violation of ethical norms seems high. Reviews of problem areas are conducted in accordance with a long-term plan, based on the risk of guideline infractions. In 2016, the Council on Ethics also received several communications from organisations requesting it to assess a particular company or issue.

The Council on Ethics assesses companies irrespective of their size and country of origin, or the GPF's shareholding. The Council does not perform an

overall evaluation of a company's operations, but assesses the risk that it may commit serious violations of ethical norms on the basis of specific incidents. Large companies may be excluded because of a fairly small part of their operations, while the same violation may account for a large proportion of a small company's business. As far as possible, the Council treats similar infractions in a similar manner. In 2016, the Council made recommendations to the bank relating to companies in which the GPF had invested amounts ranging from NOK 140 million to NOK 7 billion.

With effect from February 2016, the Ministry of Finance added a new product-based criterion, under which mining or power companies with 30 per cent or more of their operations associated with thermal coal may be excluded from the GPF. With respect to this criterion, Norges Bank may exclude companies without the recommendation of the Council on Ethics. So far, Norges Bank has excluded 59 companies with reference to the coal criterion, while a further 11 have been placed under observation.

With regard to the other product-based criteria, the Council on Ethics must maintain an overview of all the companies in the GPF that may have operations which qualify for exclusion. A firm of consultants identifies companies with operations that contravene the criteria, and submits its report to the Council every quarter. The report also

includes relevant new information about companies that have already been excluded from the fund. The Council then examines each of these companies in more detail.

The Council on Ethics gathers information from research centres, as well as international, regional and national organisations, and often engages external consultants to investigate suspected breaches of its guidelines. The companies in the portfolio are also themselves important sources of information. An in-depth dialogue is often conducted with the companies during the assessment process.

The Council on Ethics made nine recommendations to Norges Bank in 2016. These related to 11 companies in all. Five companies were excluded during the year and one was readmitted. Several of the recommendations relate to companies that have been excluded for the same cause. For example, Kosmos Energy and Cairn Energy were both excluded as a result of their oil exploration activities off the coast of Western Sahara, which they operated through a *joint venture*. The companies that have been excluded since the last annual report are described at the end of this report.

Table 1. Overview of the Council on Ethics' activities

Year	2014	2015	2016
No. of limited companies in the GPFG at year-end (approx.)	9 000	9050	9000
Total no. of companies excluded at the recommendation of the Council on Ethics at year-end	60	64	66*
No. of companies placed under observation at the recommendation of the Council on Ethics	1	1	2
No. of recommendations made	12	8	9
No. of companies excluded through the year	3	4	5
No. of companies readmitted through the year	3	0	1
No. of companies the Council has contacted	39	42	86
No. of companies the Council has had meetings with	18	11	22
No. of new cases the Council has looked into	30	69	64
Total no. of companies under review during the year	150	184	162
Total no. of company assessments concluded during the year	85	73	53
No. of Council meetings	9	11	12
Secretariat (no. of staff)	8	8	8
Budget (NOK million)	13,5	14,8	15,9

Table 1 summarises the scale of the Council on Ethics' investigations into companies in 2016, compared with 2014 and 2015. Note that companies which Norges Bank has decided to exclude from the GPFG under the coal criterion, without the recommendation of the Council on Ethics, have not been included in the table.

* Unlisted subsidiaries are as of 2016 not counted as excluded companies.

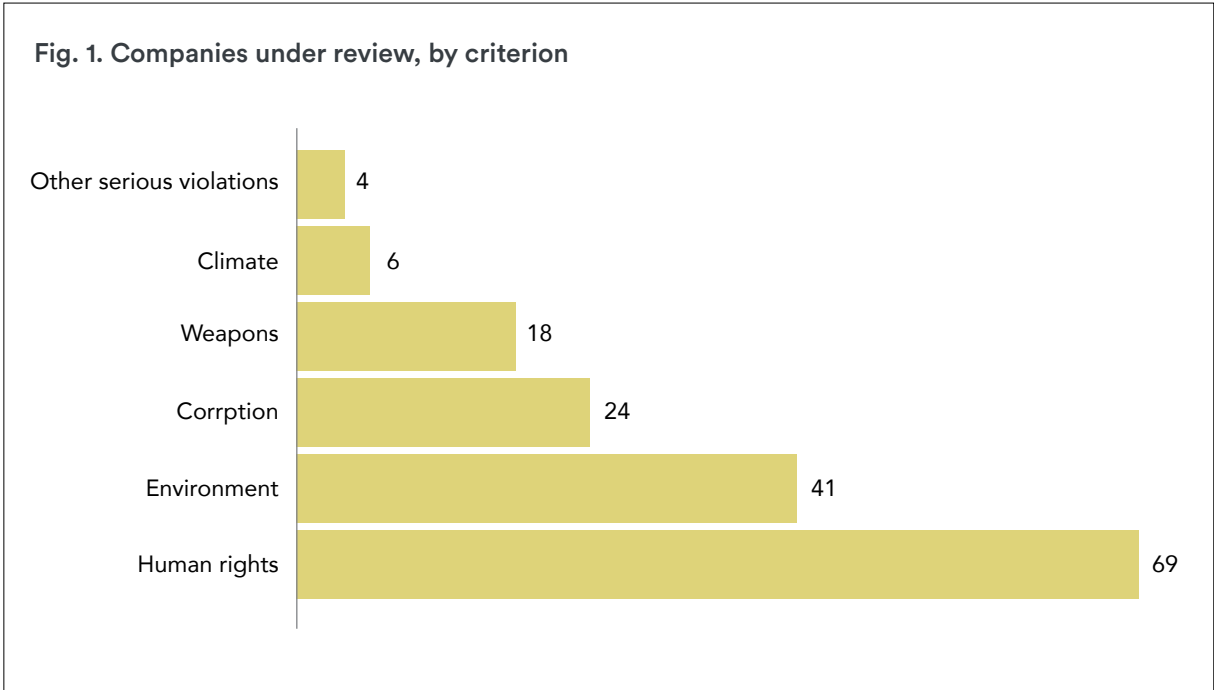


Fig. 1 shows the number of companies under review under each criterion for exclusion in 2016.

During the year, the Council has looked into 162 companies. Of these, 64 assessments were initiated in 2016 whereas 53 have been completed.

Most of the cases under review in 2016 related to human rights violations. This is because the Council was just embarking on a series of wide-ranging investigations into labour rights, in connection with which it contacted a large number of companies. Investigations of this kind are not prompted by information about specific non-compliances in the companies being studied, but the risk of non-compliances occurring in their operations. As the investigations proceed, the initial pool of companies under review will be whittled down to a small number of enterprises where the Council has found such serious or systematic violations of ethical norms that they ought to be excluded from the GPF.

Contact with companies

In 2016, the Council on Ethics had contacts with 86 companies, and met with 22 of them. The Council contacts companies which it wishes to assess in more detail, following its initial inquiries. The Council first writes a letter to the company concerned, asking questions and requesting documentation that may provide a basis for assessing the company's operations. This may include emission data, information on working conditions or its anti-corruption systems. Later, it may be expedient to meet company representatives. Companies are always given the opportunity to comment on the grounds for exclusion before the Council makes its final recommendation to Norges Bank. The Council's recommendations are fairly detailed, in part to let the companies concerned know the factual basis on which the Council

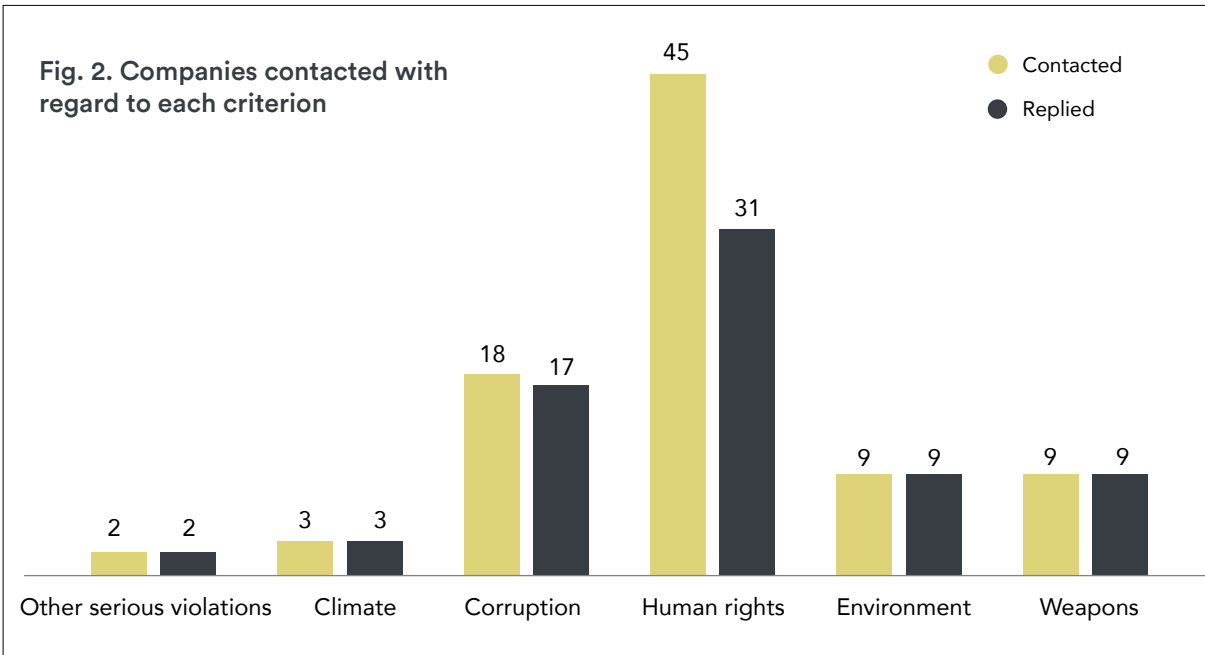


Fig. 2 shows how many companies the Council on Ethics has been in contact with in 2016, which criterion for exclusion these companies are being assessed under, and how many of the companies have responded to the Council's questions. In the same way as last year, the majority of companies have been contacted in connection with investigations into working conditions, including almost 40 enterprises with textiles production in Southeast Asia.

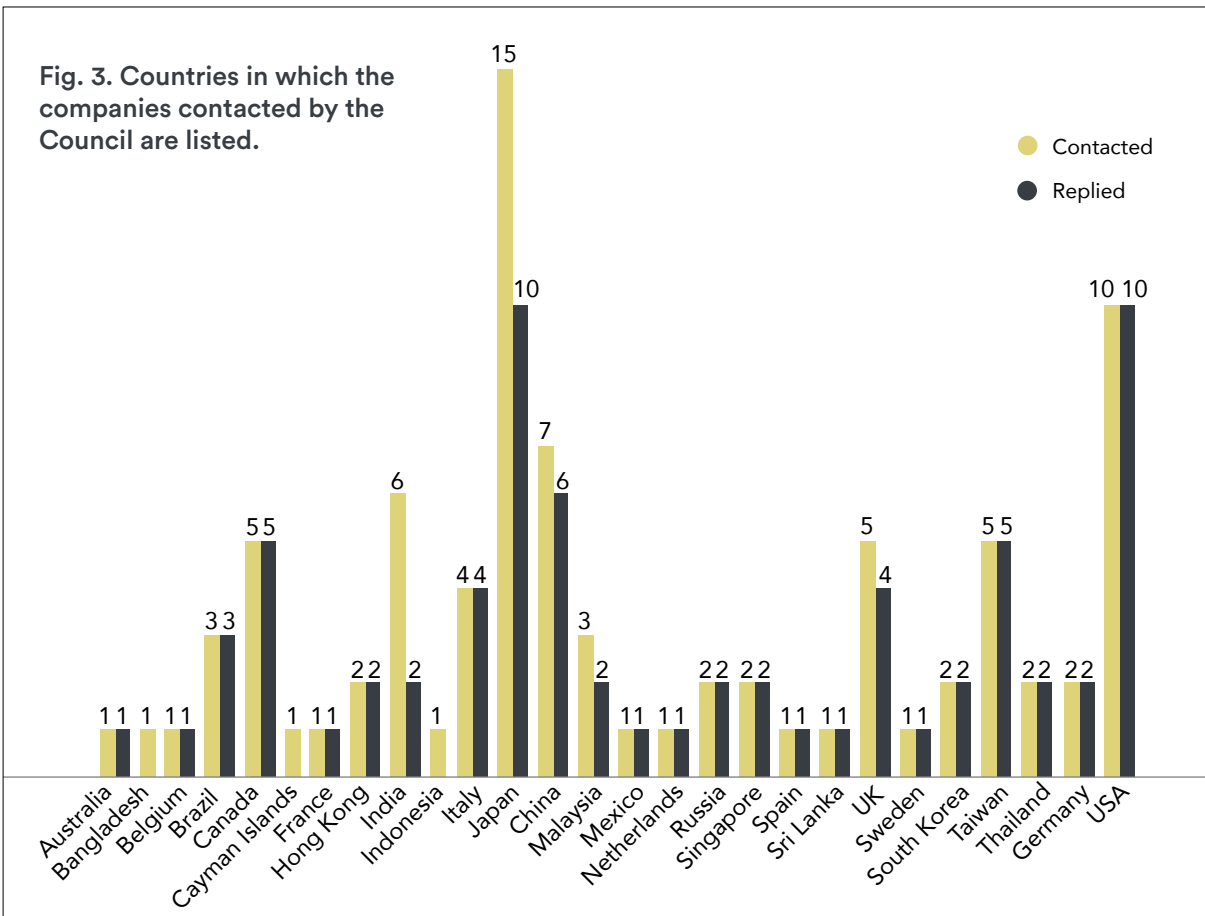


Fig. 3 shows where the companies that the Council on Ethics has had contacts with in 2016 are listed, and whether they have replied to the Council's questions. There is a relatively broad geographic distribution, but the majority of companies are from Asia. This is due to the Council's investigation into working conditions in the textiles industry. So far, the Council has contacted companies that produce textiles in Cambodia, Vietnam, India and Bangladesh, the bulk of which are Asian enterprises.

rests its decision, and to allow them to refute any claims made.

More than 80 per cent of the companies that the Council has contacted in 2016 have responded. This is a higher response rate than in previous years, and may be due to the fact that the Council had come a fairly long way in its assessment of a number of companies. The vast majority of companies avail themselves of the opportunity to comment on the Council's draft recommendations to exclude them or place them under observation,

though fewer companies respond to questions of a more general nature. The Council accords weight to information provided by the companies, and considers any failure to supply specific and verifiable information about their operations to be a risk factor.

As in 2015, the majority of the Council's meetings with companies in 2016 have focused on corruption. Companies' systems for preventing and uncovering corruption play a key role in the Council's assessment of future corruption risk.

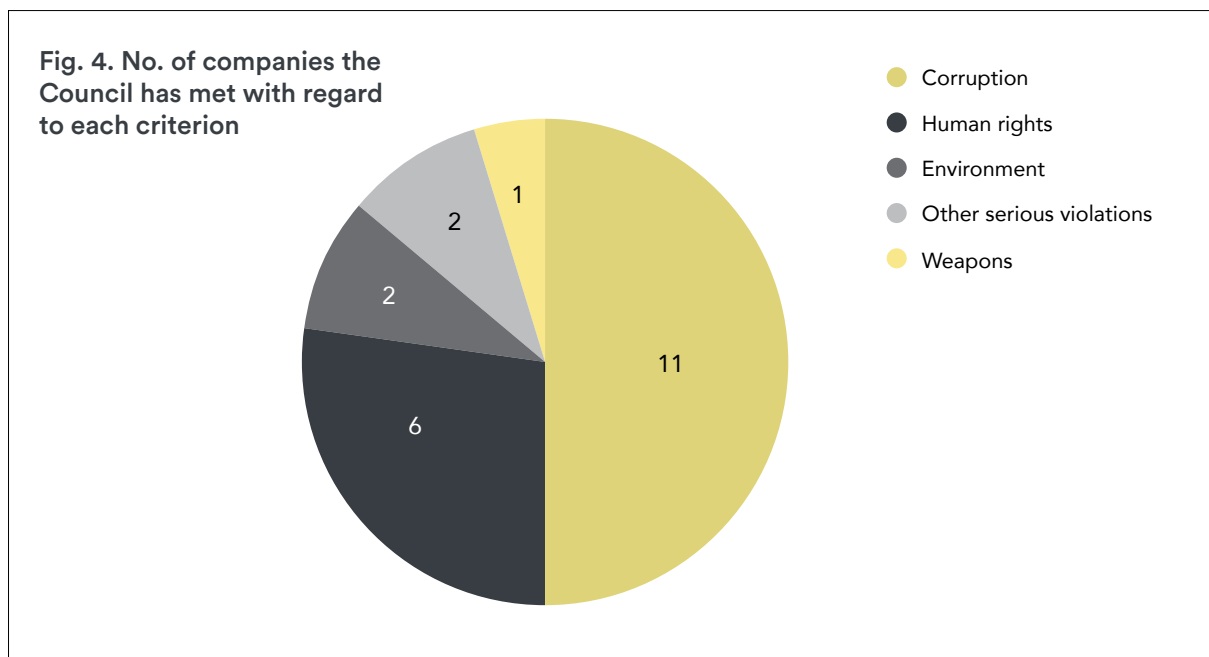


Fig. 4 shows that the Council met with 22 companies. The term "meetings" here includes face-to-face meetings, videoconferences and teleconferences. The purpose of the meetings is to gather information that will enable the Council on Ethics to determine whether there are grounds to exclude a company. When evaluating future risk, which is the topic of its assessment, the Council attaches importance not only to previous violations of ethical norms, but also to how the company handles any situation that has arisen and the steps it takes to prevent any new infractions.

Through meetings with companies, the Council attempts to assess whether such systems are not mere formalities, but are complied with in practice.

Reassessment of excluded companies

A company is not excluded for a specific period of time. It may be readmitted to the fund as soon as the grounds for exclusion no longer exist. Every year, the Council makes a cursory examination of

all excluded companies, by checking whether they are still operating the businesses that led to their exclusion or whether their operations have changed materially. Some companies are investigated more thoroughly, for example at the request of the company concerned or if there are indications of major change. If a company has implemented measures that have led to sufficient improvements in the matters on which exclusion was based, the

Council makes a recommendation to rescind its exclusion. Any such improvements must be observable in practice and not just in the company's strategies and plans.

The Council also investigates whether there are factors other than the original grounds for exclusion which would indicate that a company should remain excluded from the GPF. The Council does not normally issue a new recommendation if the original grounds for exclusion cease to exist but the company still qualifies for exclusion under the same criterion for exclusion. The Council will issue a new recommendation only if the new grounds for exclusion are radically different from the original ones. When the assessment process has been concluded, companies that have provided the Council with information will be notified of the outcome. In 2016, the Council performed a particularly thorough assessment of Vedanta Resources, which has been excluded since 2007, but concluded that grounds for exclusion continue to exist.

Ongoing and new investigations

The Council on Ethics has embarked upon a wide-ranging effort to identify companies which may have operations that do not comply with its climate criterion, and will devote considerable resources to this work in 2017 as well. Please see page 16 for further details.

Since 2010, the Council has systematically reviewed the GPF's investments in certain types of business operations that may cause serious environmental damage. With the exception of fisheries that are particularly harmful to the environment, the Council is in the process of concluding this work, in accordance with the 2010 plan. Nevertheless, the Council continues to monitor whether companies in which the fund invests start up operations that have previously led to exclusion, for example the establishment of plantations in the rainforest or the dumping of mine tailings in rivers. The Council also continuously reviews cases that are picked up on via the portfolio monitoring scheme.

In 2013, the Council studied certain sectors and companies where the risk of forced labour was considered to be particularly high. This study has formed the starting point for the Council's systematic reviews in the human rights area. For example, its work on textiles production in some Asian countries and companies with construction activities in the Gulf states was prompted by this study. These investigations continue in 2017. Please see page 14 for further details.

Previous exclusions enable the Council to identify similar new cases more easily. If more companies start producing hybrid seeds in India, for example, the Council will investigate whether these companies may also employ child labour, since it is already aware that child labour is widespread in this business. The Council also continues to monitor areas where the laws of belligerent occupation may apply, as well as companies engaged in the extraction of natural resources in contested areas.

The Council will also be taking a closer look at shipping companies which have sold vessels for scrapping in Bangladesh, India and Pakistan. Here, the ships are run onto the beach, where they are broken up by hand. This can be problematic with regard to both the human rights and the environmental criteria. Furthermore, the Council has been informed that certain companies in which the GPF invests have been accused of using labour hired out by the North Korean authorities. The Council will be investigating these matters in 2017.

The Council has a risk based approach to corruption cases, and studies companies in countries and sectors which, according to international rankings, are particularly at-risk of corruption. In 2016, the Council has concentrated on the oil and gas, defence and telecommunications sectors. The Council intends to start investigating the pharmaceuticals industry in 2017. Please see page 19 for further details on corruption risk.



Observation

A company may be placed under observation when there is doubt about whether the conditions for exclusion are met or about developments further ahead in time, or where it is deemed appropriate for other reasons. The length of time companies remain under observation is determined on a case by case basis. The Council on Ethics may recommend that the company be excluded or removed from the observation list at any time during the observation period.

Being placed under observation by the Council on Ethics signals that a company has come very close to exclusion from the GPF. The Council will keep a watchful eye on developments in the company's operations. Should any new violations of ethical norms be uncovered, or the company fails to implement effective measures to reduce the future risk of non-compliance, the condition for recommending its exclusion from the GPF may be met. The Council takes the position that it is up to the company to substantiate that it is working systematically to prevent violations which may lead to exclusion from the fund.

During the observation period, the Council submits an annual assessment of the company to Norges Bank. The Council obtains information from open

sources and, in some cases, also through investigations performed by consultants. This information forms the basis for the discussions the Council has with the company concerned. A draft of the report to Norges Bank is also sent to the companies for their comments.

Two companies are currently under observation. In 2016, the Council on Ethics recommended that a further two companies be placed under observation. However, Norges Bank has yet to make a decision on these recommendations.



The Council's work under the human rights criterion

Section 3 of the guidelines states that “Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for serious or systematic human rights violations...”

The Council on Ethics bases its assessment of what constitutes a violation of the human rights criterion in its ethical guidelines on internationally recognised conventions and authoritative interpretations thereof. Although the Council examined many different issues relative to this criterion in 2016, investigations into the textiles sector in Southeast Asia and companies engaged in the construction and service sectors in Qatar provided its main focal points.

The Government Pension Fund Global (GPF) has investments in a large number of textiles companies, ranging from spinning mills to major fashion brands in many different countries. The Council focuses on companies with their own textiles production. With respect to the Council's mandate, determining a buyer's contribution to human rights violations could be a complex matter. In contrast, there is no doubt that a company is responsible for any such violations taking place within its own operations. For this reason, the Council considers that the threshold for what may be accepted in violations of norms in a company's own operations is lower than in cases where a company is linked to such violations committed by a third party. As the employer, a company has an independent responsibility for its employees and for preventing any infringement of their rights.

Of the approximately 500 textiles-related companies in which GPF invests, over 100 operate their own production facilities. As a result, around 30 companies with factories and businesses in countries in which textile factories are reported to offer extremely poor working conditions have been selected for closer examination. From the summer of 2015 until the close of 2016, 12 factories in Cambodia and Vietnam have been investigated. Several more investigations remain ongoing.

The investigations into working conditions at the factories have been conducted by consultants, partly through interviews with employees and sometimes also through individual factory inspections. The investigations have shown that working conditions at the factories are generally poor. Forced overtime, illegal wage deductions, discrimination and the harassment of workers are not uncommon. In certain factories there are indications of hazardous working conditions, due to high dust concentrations, noise, chemicals and heat. Management at several of the companies have taken steps to prevent workers from unionising. While child

labour is rarely found, some of the factories employ workers under the age of 18, without any account being taken of their particular need for protection.

On the basis of these investigations, draft recommendations to exclude around 10 companies have been drawn up. Subsequent to this, several of the companies have contacted the Council and initiated measures to improve working conditions. Assessing the threshold for what constitutes serious and systematic human rights violations in the textiles sector, as well as evaluating future risk, represents a major challenge. The Council has previously concluded that a small number of human rights violations can be sufficient if they are serious, while individual violations do not have to be as serious if they are systematic. The systematic violation of ethical norms indicates a pattern of behaviour on the part of the company in which norm breaches are a normal feature of the company's operations. In such situations, it would not be enough for a company to remedy the violations that have been uncovered, unless it can also substantiate that it has management systems in place and has introduced measures which will result in a permanent improvement in working conditions. In other words, it must have done what was necessary to reduce the risk of the company being responsible for future violations of ethical norms.

The Council will continue to work with these textiles producers in 2017, and will expand its investigations to encompass companies with operations in India and Bangladesh as well.

In 2016, the Council on Ethics has also examined companies in the construction and service sectors in Qatar. In the Gulf States, almost all of those working in these sectors are migrants from, for example, Nepal, Bangladesh, India and Pakistan. Some workers seem to be the victims of forced labour, in that they must get into debt to pay recruitment fees. Moreover, during the recruitment process, the workers are often misled about pay and working conditions. As a result, they become completely dependent on their employer. The workers in general know little about their rights. The Council has identified several GPF companies where the risk of complicity in human rights violations is particularly high. So far, five companies have been investigated. The Council will continue its efforts to identify and investigate companies in the Gulf States in 2017.



The Council's assessments under the criteria covering severe environmental damage, coal and greenhouse gas emissions

Serious environmental damage is one of the criteria that the Council on Ethics has focused on since its inception. The criteria covering coal and greenhouse gas emissions were introduced in 2016.

The criterion on environmental damage

Section 3 of the ethical guidelines states that *“Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for severe environmental damage...”*

Since work on operations linked to *illegal logging and other particularly destructive logging practices* began, the Council has made 10 recommendations to exclude, and one recommendation to place companies under observation. The Council will continue to pursue its ongoing dialogues with individual plantation companies in 2017.

For several years, the Council has assessed whether any companies in which the Government Pension Fund Global (GPF) invests have operations that could damage *areas of high conservation value*. The threats to conservation areas are linked to the exploitation of resources and the construction of infrastructures, in particular. So far, three recommendations have been made. In 2016, several companies associated with world heritage areas in Asia, Africa and South America have been assessed. The evaluation of some of these has been concluded because the business does not seem to pose an unacceptable risk of impairment to the conservation value of the world heritage area, while other companies have been divested from the fund's portfolio of reasons unrelated to the ethical guidelines. In the Council's experience, few fund companies have operations that could threaten such areas. Were this situation to change, however, the Council would investigate the companies concerned.

The Council has continued its assessment of companies involved in *illegal fishing and other fishing activity that is particularly harmful to the environment*. In particular, the Council has examined the extent to which companies are involved in illegal, unreported or unregulated fishing (IUU fishing), and the extent to which they catch globally endangered species. This includes not only companies which are themselves engaged in catching the fish, but also those which buy seafood from suppliers. So far, the Council has recommended the exclusion of one fishing company. In 2016, the

Council has investigated in more depth, and has engaged in dialogues with, four fishing and seafood companies, which it considers may be complicit in IUU fishing or fishing for endangered species. This dialogue seems to have prompted two of these companies to change their procedures and introduce measures which indicate that the future risk of complicity in IUU fishing may be reduced. Several companies, however, have provided little information to the Council, in which case the basis for assessment will often be limited. A lack of transparency with regard to a company's operations, could be an indication that it is contributing to severe environmental damage.

The climate criterion

The greenhouse gas criterion is a conduct-based criterion, and reads as follows: *“Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions.”*

The wording of the greenhouse gas emission criterion is relatively general. Unlike the majority of other criteria, there are no regulatory frameworks or internationally accepted norms for what is acceptable. At the same time, the preparatory works and the White Paper state that interpretation of this criterion must be developed over time. The Council on Ethics has therefore been very conscious that the work it is now doing in this field may, to some extent, become normative. For this reason, it has been necessary to spend some time to ensure that the interpretations on which its decisions rest may be used across different sectors and companies.

This work is hampered by the fact that the most relevant data, such as the companies' greenhouse gas emission figures, are frequently unavailable at the company level. The Council is therefore of the opinion that it will be necessary to base its assessments not only on emission figures, where these exist, but also on other indicators, such as the choice of technologies and raw materials, and on the companies' plans. It would be unfortunate if the Council were to adopt a practice that limits

its investigation to only those companies which voluntarily report their emissions.

Even where emission figures do exist, comparing companies will be challenging in complex industrial sectors. However, the Council takes the position that companies whose emissions are large in absolute terms and which, in addition, have specific emissions that are significantly higher than the industry average, may, nevertheless, be considered for exclusion. It could also be of significance for the Council's assessment if a company has high emission levels but no relevant plans to reduce them. In 2016, the Council began evaluating the production of oil, steel and cement, sectors where emission levels are high and where the specific emissions vary considerably between companies.

The coal criterion

The coal criterion is a product-based criterion, and reads as follows: "(2) *Observation or exclusion may*

be decided for mining companies and power producers which themselves or through entities they control derive 30 per cent or more of their income from thermal coal or base 30 per cent or more of their operations on thermal coal."

In addition, importance must be attached to the companies' plans to reduce their dependence on coal. The criterion does not encompass the companies' green bonds.

Responsibility for identifying GPFG companies that fall within the scope of the coal criterion is divided between Norges Bank and the Council on Ethics. Norges Bank has initiated a systematic review of the portfolio, which has so far resulted in the exclusion of 59 companies, while 11 have been placed under observation. The bank has also given notice of a further round of exclusions before its current portfolio assessment is complete. To avoid duplication of effort, the Council has provisionally put work on the coal criterion to one side.



The Council's assessment of future risk in corruption cases

The guidelines' section 3 (1) states that "Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for gross corruption." The Council considers both active and passive corruption with reference to the corruption criterion.

Since 2013, the Council on Ethics has not only assessed companies when allegations of widespread corruption are picked up by its news monitoring activities, but has also reviewed companies in countries and sectors where the risk of corruption is presumed to be particularly high, according to international indexes. The sectors in which the Council on Ethics has so far evaluated, and is to some extent still evaluating, companies are the building and construction, oil and gas, defence and telecommunications industries. This sectoral approach affords not only a good starting point for the identification of corruption risks and challenges, but also provides a basis for comparison in order to assess which companies are the worst offenders and which do not exercise good corporate governance, thereby constituting a potential risk of corruption in the future.

Initially, the Council on Ethics performs a thorough examination of the corruption allegations that have been made against a company. This includes contacting experts and relevant public bodies, and employing consultants with in-depth expertise of the relevant professional field. The Council then assesses whether there is a risk that those companies which seem to be involved in gross corruption will continue with such practices in the future. This assessment is critical for determining whether the Council will recommend that the company concerned be excluded from the GPFG.

The Council's assessment of future risk rests on a combination of factors. First and foremost, the Council attaches importance to the way in which the company responds to the corruption allegations and whether individuals who knew or should have known what was going on are removed from their positions. Several companies that the Council has examined and engaged in a dialogue with in recent years have made wide-ranging changes in the composition of their boards of directors and executive management teams after the corruption allegations became known. Such a move is prompted partly by a desire to signal both internally and externally a willingness to change course. Some companies have also established new governing bodies to ensure better internal controls, while others have even relocated their operations or ceased doing business in countries with a particularly high risk of corruption.

Furthermore, the Council on Ethics places considerable emphasis on the anti-corruption procedures a company has established and how these are in fact implemented. These measures are brought together in the company's anti-corruption programme, which normally accounts for an important element of its overall internal control system (*Compliance Programme*).

The Council's assessment of companies' anti-corruption programmes

The objective of a company's anti-corruption programme is to detect, prevent and respond to violations of internal policies and external laws and regulations. The anti-corruption programme can therefore say something about the risk of non-compliant actions continuing in the future. International standards and best practice form the starting point for the Council's assessment of a company's anti-corruption programme, with particular emphasis being placed on how the programme is implemented.*

According to international standards and best practice, the systematic mapping and assessment of risks is a prerequisite for an effective anti-corruption programme, and lays the foundations for future work in this area. In the Council's experience, those companies which seem to make good assessments about how corruption can effectively be uncovered and prevented have implemented extensive in-house inquiries into the corruption allegations with the assistance of consultants who have been given sufficient resources and autonomy to bring to light what actually went wrong and why. Qualified staff have then been tasked with assessing the specific corruption risk that the company faces. In addition to an assessment of the company's size, local and regional factors, the sector in which the company operates and its specific business model, the company's engagements in business areas where the risk of corruption is greatest are investigated in depth. In large companies, in particular, risk is mapped and assessed on a regular basis, and especially at-risk parts of the business are followed up continuously.

The formal framework for an anti-corruption programme comprises a series of governing documents whose provisions are based on the outcome of the previously performed risk assessment. The company's business ethics are often

reflected in internal guidelines, typically a *Code of Conduct*. Here, management communicates the company's policy on corruption and mandated behavioural norms to both its own employees and external business partners. Here, management highlights the ethical standards prevailing in the company's corporate culture. In the Council's experience, those companies that are capable of effectively implementing their anti-corruption programmes also have managements that employ every opportunity to communicate their attitude to corruption, both internally and externally. There is a clear "tone from the top". However, for the tone from the top to be credible, it seems that management must also point to specific examples of former employees – irrespective of position or role – being sanctioned for non-compliance, as evidence that the same rules apply to everyone.

All of the companies with which the Council has engaged in a dialogue have established online training programmes covering the *Code of Conduct* and other relevant governing documents, and communicating management's attitudes and their expectations with regard to the workforce. Online training programmes often contain dilemma training and specific examples that reflect non-compliances that have actually occurred in the company. Some companies find that it is far more effective if this form of training is given in groups, since this allows employees to ask questions and jointly discuss the issue raised. Equally important is the development of a training programme that is given individually to executives, middle managers and employees who are particularly exposed to the risk of corruption. In several companies with which the Council has communicated, face-to-face training is also given to agents and important third parties. Some companies have found it most effective to provide classroom tuition in small groups offering sufficient opportunity for lively debate. Based on the dialogue that the Council has had with certain companies, an absolute precondition for a good educational programme is that the company evaluates the extent to which employees feel that the training they have been given enables them to handle the situations they may encounter.

All of the companies with which the Council has engaged in dialogues over recent years have experienced that the use of third parties is associated with a substantial risk of corruption. For this reason, considerable resources are often devoted

to in-depth assessments of counterparty risk, so called *integrity due diligence*. This occurs particularly in connection with contracts where the risk of corruption is, for various reasons, deemed to be especially high.

International standards and best practice also presume the establishment of an unambiguous and transparent procedure for the reporting of non-compliances, for the method by which such reports are registered and investigated, and for how defects in the system can be remedied at regular intervals. The disciplinary steps that will be taken against those who fail to comply with internal guidelines, statutory provisions and other regulations must also be made crystal clear to all concerned.

A channel should be established whereby all employees can report any perceived non-compliances anonymously and without risk of reprisal. The Council presumes that, ideally, employees should feel comfortable reporting their concerns both through anonymous whistleblowing channels and directly to their immediate superior. Once reported, any non-compliances must be logged, investigated and dealt with effectively.

International standards also stipulate that the anti-corruption programme should be monitored, evaluated and regularly improved on the basis of in-house experience and external factors such as new legislation and regulations.

With regard to the way the anti-corruption effort is organised, it is considered best practice for multinational companies of a certain size to have an independent compliance department, which is responsible for all regions and divisions, and which has sufficient resources and an adequate budget. The head of this department (the *Chief Compliance Officer* or equivalent) reports to group management and the board. This compliance function is normally responsible for the overlapping compliance efforts relating to corruption and competition law issues, and there is normally a close collaboration and exchange of information between the *Compliance Department* and those responsible for other governing bodies. In order for corruption prevention to be effective, the allocation of roles and responsibilities in the *Compliance Department* should be determined by the *Chief Compliance Officer*, and this individual should draw up the

necessary governing documents, including anti-corruption procedures, on the basis of the previously performed risk assessment. Subsequent monitoring and assessment of the programme will provide the foundation for further improvements. The *Compliance Department* should also be responsible for setting targets for the various parts of the company, and for advising on how measures for their achievement should be implemented in the organisation.

The Council on Ethics has engaged in dialogues with several multinational companies that have elected to organise their compliance activities in different ways, but that find the solution they have chosen to be the best. The most important factor with respect to the Council's assessment will be that the company has made a conscious determination of what is the most effective method of organisation for its particular circumstances, whether, on the basis of their qualifications and previous work experience, the *Chief Compliance Officer* will be capable of properly performing their job, and whether sufficient resources have otherwise been allocated to the *Compliance Department*. Nevertheless, the fact that the *Chief Compliance Officer* has a direct reporting line to the board and that other internal control bodies, both within the administration and the board of directors, work together towards a common goal does seem to be a prerequisite for an effective anti-corruption programme.

For the effective prevention of corruption and an optimal use of internal resources, there should be a clear allocation of roles between all group functions. The Council has the impression that in the "best" companies there is a close collaboration between the *Compliance Department*, the *Legal Affairs Department*, the *Internal Control Department* and *HR* on all matters relating to compliance – a collaboration that is evaluated at regular intervals. Reports on the work being undertaken are also presented frequently to group management and the board.

Information underpinning the Council's assessment of anti-corruption programmes

The Council on Ethics examines all publicly available information about the anti-corruption programme of those companies it has under evaluation, and asks for copies of relevant governing documents, as well as documents describing procedures and control mechanisms. In addition,

the Council meets company representatives to learn how the written documents and control mechanisms are actually implemented.

The Council normally asks for specific examples and copies of documents. Companies involved in corruption cases must be able to communicate convincingly that they have drawn up a plan for their anti-corruption efforts, that resources have been allocated to this work, and that the plan will be implemented. Only if the company substantiates that its anti-corruption efforts are organised and implemented in a sufficiently effective manner can the Council conclude that the future risk of corruption has been reduced to the extent that the company should not be excluded from the GPFG.

Companies that, in the period 2014–2016, the Council has recommended be placed under observation or excluded from the GPFG

The Council on Ethics has recommended that some of the companies which it has assessed in the years 2014–2016, and which have made extensive changes in their anti-corruption activities, be placed under observation and not excluded from the GPFG. In these cases, the Council has been uncertain whether formal changes in the companies' internal control and anti-corruption programmes have been adequate, and whether they will be implemented effectively. Nor have these companies acknowledged that they have a history of corruption. The Council understands this position while ongoing investigations have yet to be concluded. At the same time, it considers that such an attitude makes it more difficult to achieve a change in corporate culture further down the line, and that the risk of similar actions taking place could therefore still exist.

In those cases that have resulted in a recommendation to exclude, the Council considered that there was an unacceptable risk that the company had been involved in gross corruption. When the Council concludes that there is a risk of such practices being repeated, it is either because the company has not responded to the Council's enquiries, or because the company has not substantiated that it has taken systematic steps in the right direction. In some cases, for example, no real attempts have been made to address the obvious corruption risk constituted by widespread use of agents in high-risk countries. In other cases, even after former senior executives have been convicted

of corruption, management has failed to implement sufficiently robust measures to improve the situation, for example, where non-compliance has had no consequences for managers who knew or should have known about the use of corrupt practices. In certain of these cases, the Council has gained the impression that the very basis for the anti-corruption programme is ill-founded, for which reason it is doubtful whether the company will be able to establish and implement an anti-corruption programme that is tailored to its actual risk profile. In all of these cases, moreover, the companies have failed to acknowledge that they have had a corruption problem, beyond admitting that individual employees have broken the rules.

The companies which have been the subject of wide-ranging corruption investigations, and which the Council on Ethics has examined but has, upon consideration, nevertheless decided to put aside, have been open about their challenges and have provided extensive information about what is being done to prevent corruption. In these cases, the companies have clearly demonstrated that they are doing what can reasonably be expected to detect, prevent and respond to corruption. In these cases, the Council has had access to all the written documentation it has requested. The Council will continue to follow up these companies, whose continued inclusion in the GPFG may be subject to reassessment should any new cases of corruption come to light.

* Guidelines to anti-corruption programmes

Useful guidance to what an anti-corruption programme could look like can be found, inter alia, in the UN's anti-corruption portal TRACK (*Tools and Resources for Anti-Corruption Knowledge*), available at <http://www.track.unodc.org/Pages/home.aspx>, *Global Compact: A guide for anti-corruption risk-assessment* (2013), available at <https://www.unglobalcompact.org/resources/411> and *The OECD's Good Practice Guidance on Internal Controls, Ethics and Compliance* (2010), available at <http://www.oecd.org/investment/anti-bribery/anti-briberyconvention/44884389.pdf>

The *Foreign Corruption Prevention Act (FCPA)* and the *UK Bribery Act* have contributed to the development of international standards for corruption prevention. This applies in particular, perhaps, to the FCPA and associated sanction procedures, which have been developed over time as corruption cases have been settled by means of agreement between the companies concerned and the US authorities. In 2012, the US Department of Justice (DoJ) and the US Securities and Exchange Commission (SEC) published a guide to what companies should do to avoid criminal liability under the FCPA. Entitled, *A Resource Guide to the U.S. Foreign Corrupt Practices Act*, it is available at <http://www.justice.gov/criminal/fraud/fcpa/guide.pdf>

This guide also refers to other relevant guidelines, such as *Business Ethics: A Manual for Managing a Responsible Business Enterprise in Emerging Market Economies*, published by the Department of Commerce, International Trade Administration, available at http://ita.doc.gov/goodgovernance/business_ethics/manual.asp

Furthermore, in its anti-corruption rules, the FCPA includes provisions on internal control and auditing. In 2011, the British Ministry of Justice published a guide to what companies should do to avoid criminal liability under the UK Bribery Act. The guide is available at <http://www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf>

In its *Business Principles for Countering Bribery*, Transparency International (TI) has listed a number of general recommendations for how to set up compliance systems. The recommendations can also be used as a benchmark for existing systems. TI's recommendations were initially published in 2003. They were revised in 2009 and most recently in 2013. The recommendations are available at http://www.transparency.org/whatwedo/publication/business_principles_for_countering_bribery

Furthermore, general principles for anti-corruption are set out in *The OECD Guidelines for Multinational Enterprises*, <http://www.oecd.org/daf/inv/mne/48004323.pdf>

Other relevant sources include The United Nations Global Compact (The Ten Principles), the Asia-Pacific Economic Council (*Anti-Corruption Code of Conduct for Business*), the International Chamber of Commerce (*ICC Rules on Combating Corruption*), the World Bank (*Integrity Compliance Guidelines*), and The World Economic Forum (*Partnering Against Corruption-Principles for Countering Bribery*).



Exploitation of natural resources in disputed areas

Particular issues may arise with regard to companies engaged in the exploitation of natural resources in disputed areas. The Council on Ethics considers such cases under the guidelines' general provision on particularly serious violations of fundamental ethical norms.

In 2005, the grounds given by the Council for its very first recommendation to exclude a company from the GPFG was that it had been exploring petroleum deposits off the coast of Western Sahara for the Moroccan government. This is a contested maritime zone, over whose natural resources Morocco has no legitimate, sovereign rights. In subsequent years, the Council has considered several cases relating to companies which, in various ways, have contributed to the exploration for and extraction of non-renewable natural resources in Western Sahara. This section summarises the key issues to which the Council has attached importance in its assessment of these cases.

Disputes over natural resources can lead to conflict. For this reason, international law lays down strict guidelines for the exploitation of natural resources in occupied or disputed territories. The fundamental principle is that a state may not enrich itself by extracting natural resources in such areas. At the same time, activities in contested or occupied areas may be maintained, not least because the area's inhabitants must be able to continue living there. The Council's starting point has therefore been that companies engaged in the exploitation of natural resources in contested or occupied areas must be expected to exercise particular caution.

Western Sahara is an area of land that borders Morocco, Algeria and Mauritania. Formerly a Spanish colony, the area's decolonisation has been problematic, and even after decades its final status remains unsettled. Morocco claims sovereignty over the majority of the territory, and has, in effect, annexed it, although this has not been recognised by any UN body or the international community at large. Western Sahara is included on the UN's list of non-self-governing territories, but unlike the world's other non-self-governing territories, it has no recognised administrator. The Council has taken no position on the area's status beyond acknowledging that it is non-self-governing, but has assessed companies' operations in Western Sahara as if Morocco were also, in fact, the area's recognised administrator. This is in line with the analogy underpinning a legal opinion written by the UN Legal Counsel in 2002. Another starting point for

the assessment of companies' operations in the area, for example an analogy with rights and obligations in occupied territories, would also have been possible, without this necessarily altering the outcome of the assessment.

The regulations provided by international law presume that the exploitation of natural resources in non-self-governing territories must be carried out in accordance with the local population's interests and wishes. In other words, natural resources in such an area may be exploited before its status is finally settled, as long as the interests and wishes of the local population are taken into account. This, in turn, raises the question of *who* the local population and its representatives are, and *which* interests and wishes are being referred to.

The Council has assessed companies involved in three forms of activity in Western Sahara: oil exploration offshore and onshore, and the purchase of phosphates mined in Western Sahara.

In 2005 and 2016, the Council has recommended the exclusion of companies engaged in oil exploration off the coast of Western Sahara at the behest of the Moroccan government. The Council considers this to be a serious violation of ethical norms because it has not been substantiated that this activity is being undertaken in accordance with the interests and wishes of the local population, and because exploration activities are helping to keep the situation in the territory from being resolved. Prior to making its recommendation in 2016, the Council engaged in extensive dialogues with the companies concerned.

For their part, these companies maintained that it is in the local population's interests and in accordance with their wishes that the area's resources be mapped out, and that the effect of exploration in the area can, in any case, not be equated with any future exploitation. The companies have also carried out a stakeholder survey among those living in the area, which examined various social and environmental aspects of their operations.

The issue of *which* interests shall be taken into account, has been a key factor in the Council's assessment. The companies have pointed to the positive impact that economic development deriving from a possible future oil industry could have on everyone who lives there. The underlying premise for this is that oil exploration and, potentially, oil production under Moroccan auspices may be carried out regardless, and that the issue of interests and wishes applies first and foremost to the distribution of the profits generated thereby. A more fundamental question regarding the local population's interests and wishes is whether Moroccan oil operations in the area are at all desirable in the present circumstances, the objection being that exploration activities in and of themselves are helping to keep the situation in the territory from being resolved, and that any discoveries and future petroleum production will further reinforce this.

In these cases, the Council considers that the companies have not substantiated that their operations are, in fact, in accordance with the interests and wishes of the local population. The local population's recognised representative, the *Polisario*, has not been consulted. The *Polisario*'s negative stance on exploration activities in the area is, however, a matter of public record. An extensive consultation process to verify this point of view seems unnecessary. In 2016, the Council reaffirmed the view it had in 2005 that, in this context, it would be unnatural to distinguish between exploration for and exploitation of natural resources. Here, the Council refers to the United Nations Convention on the Law of the Sea, which places both these forms on an equal footing with regard to operations in disputed waters.

In 2005 and 2016, therefore, the Council recommended the exclusion of companies engaged in oil exploration off the coast of Western Sahara at the behest of the Moroccan government, and these recommendations have been acted upon. However, the process leading up to the Council's recommendation in 2016 was more extensive and took longer than that in 2005, since it included a number of meetings with the companies concerned as well as other stakeholders. This illustrates how the Council's working methods have evolved over the past decade, in that engagement with companies

have become more wide-ranging and often more protracted. The primary objective of the Council's dialogue with companies has, however, not changed. It is still to gather information to provide a basis for assessing the risk that the company may be contributing to the violation of ethical norms, either now or in the future. Prior to the cases in 2016, the Council chose to maintain its dialogue with the companies over a relatively long period of time, to see whether their processes, including the stakeholder survey, would be sufficient to satisfy the requirement to take account of the local population's interests and wishes. However, looking back on how this process played out, it has become clear to the Council that the situation in the area is such that no meaningful consultation with the local population's representatives seems possible. In future, should the GPFG have investments in any other companies engaged in exploration activities in the same area, it is not given that the Council will find such protracted dialogues to be worthwhile.

In 2015, the Council on Ethics also recommended the exclusion of a company engaged in *onshore* oil exploration in Western Sahara at the behest of the Moroccan government. Whether oil operations take place onshore or offshore is of little consequence for the Council's deliberations, and its assessment of this case coincided largely with its conclusions regarding companies engaged in offshore oil exploration. Nor was it natural in this case for the Council to distinguish between oil exploration and oil production, since the objective of the exploration process was undoubtedly production. In this case, too, the Council found it unsubstantiated that sufficient account had been taken of the local population's interests and wishes, and concluded that it was helping to keep the situation in the territory from being resolved.

Another matter associated with Western Sahara, relates to companies which buy phosphates mined in the area. In 2010 and 2014, the Council recommended the exclusion of two such companies. These cases differ in several ways from those relating to oil exploration. The companies concerned here are chemicals and fertiliser producers, which use phosphates in their own manufacturing processes. They do not themselves have operations in the contested area. Phosphates from Western

Sahara are mined by the state-owned Moroccan enterprise OCP, which then sells it to the companies concerned under long-term contracts. The starting point for the Council's assessment was the same as that underpinning its assessments of companies engaged in oil exploration, namely that Morocco has no sovereign rights to Western Sahara's natural resources. The exploitation of natural resources in the area may be acceptable if it is carried out in accordance with the interests and wishes of the local population. The Moroccan authorities have assured the Council on several occasions that this condition has been met, since Morocco takes care of everyone's interests in the area through democratic processes. It must also be noted here that a large number of Moroccans have migrated to the area since its *de facto* annexation by Morocco. Morocco reckons these people to be part of the area's population, whose interests must be taken into account. However, the Council has attached importance to the fact that, in connection with the matter of phosphate mining, the recognised representative of the area's local population, the *Polisario*, has neither been consulted nor otherwise taken into consideration. Furthermore, the Council has attached importance to the fact that the OCP's operations are helping to keep the situation in the territory from being resolved, and draining an already resource-poor area of the little it has in the way of valuable resources.

The underlying ethical violation in the phosphate cases is that OCP mines phosphates in Western

Sahara, as stated above. A key factor in these cases is that the companies whose exclusion the Council has recommended not only knew where the phosphates originated, but specified in the contract with OCP that they would only buy phosphates deriving from OCP's mine in Western Sahara. This is because these phosphates have particular properties. Under these circumstances, the Council deems the companies' purchasing of phosphates as contributing to a serious violation of ethical norms. The issue relates exclusively to the special situation in Western Sahara. Companies to which OCP sells phosphates not mined in Western Sahara have not been assessed for exclusion.

The Council's task has always been to assess the operations of companies in which the fund invests against the GPF's ethical guidelines, not the actions of states or other actors. In some cases, however, these two issues will be closely linked. The cases relating to Western Sahara are all examples of violations of ethical norms that have been facilitated by or performed on behalf of a state. However, companies have an independent responsibility to take due care. This applies in particular to operations in disputed territories.

The Council will continue to monitor developments in Western Sahara carefully. It will keep a particularly close watch on whether fund companies are involved in the exploitation of non-renewable natural resources in that or other disputed territories.

List of excluded companies by 1 March 2017*

Cluster Munitions

- General Dynamics Corp.
- Hanwha Corp.
- Poongsan Corp.
- Textron Inc.

Nuclear Weapons

- Aerojet Rocketdyne Holdings Inc. (formerly GenCorp Inc.)
- Airbus Group Finance B.V. (formerly EADS Finance B.V)
- Airbus Group N.V. (formerly EADS Co.)
- Boeing Co.
- BWX Technologies Inc. (formerly Babcock & Wilcox Co.)
- Honeywell International Corp.
- Jacobs Engineering Group Inc.
- Lockheed Martin Corp.
- Northrop Grumman Corp.
- Orbital ATK Inc (after merger with Alliant Techsystems Inc.)
- Safran SA
- Serco Group Plc.

Tobacco

- Alliance One International Inc.
- Altria Group Inc.
- British American Tobacco BHD
- British American Tobacco Plc.
- Grupo Carso SAB de CV
- Gudang Garam Tbk. PT
- Huabao International Holdings Ltd.
- Imperial Tobacco Group Plc.
- ITC Ltd.
- Japan Tobacco Inc.
- KT&G Corp.
- Philip Morris Int. Inc.
- Philip Morris Cr. AS
- Reynolds American Inc.
- Schweitzer-Mauduit International Inc.
- Shanghai Industrial Holdings Ltd.
- Souza Cruz SA
- Swedish Match AB
- Universal Corp. VA
- Vector Group Ltd.

Production of coal or coal-based energy

- Aboitiz Power Corp.
- AES Corp./VA
- AES Gener SA
- ALLETE Inc.
- Alliant Energy Corp.
- Ameren Corp.
- American Electric Power Co. Inc.
- Capital Power Corp.
- CESC Ltd.
- China Coal Energy Co. Ltd.
- China Power International Development Ltd.
- China Resources Power Holdings Co. Ltd.
- China Shenhua Energy Co. Ltd.
- Chugoku Electric Power Co. Inc./The
- CLP Holdings Ltd.
- Coal India Ltd.
- CONSOL Energy Inc.
- Datang International Power Generation Co. Ltd.
- DMCI Holdings Inc.
- Drax Group PLC
- DTE Energy Co.
- Dynegy Inc.
- E.CL SA
- Electric Power Development Co. Ltd.
- Electricity Generating PCL
- Emera Inc.
- Empire District Electric Co.
- Exxaro Resources Ltd.
- FirstEnergy Corp.
- Great Plains Energy Inc.
- Guangdong Electric Power Development Co. Ltd.
- Gujarat Mineral Development Corp. Ltd.
- Hokkaido Electric Power Co. Inc.
- Hokuriku Electric Power Co.
- Huadian Power International Corp. Ltd.
- Huaneng Power International Inc
- IDACORP Inc.
- Inner Mongolia Yitai Coal Co. Ltd.
- Jastrzebska Spolka Weglowa SA
- Lubelski Wegiel Bogdanka SA
- MGE Energy Inc.
- New Hope Corp. Ltd.
- NRG Energy Inc.
- NTPC Ltd.
- Okinawa Electric Power Co. Inc./The
- Peabody Energy Corp.

- PNM Resources Inc.
- Public Power Corp. SA
- Reliance Infrastructure Ltd.
- Reliance Power Ltd.
- Shikoku Electric Power Co. Inc.
- Tata Power Co. Ltd.
- Tenaga Nasional Bhd.
- TransAlta Corp.
- WEC Energy Group Inc.
- Westar Energy Inc.
- Whitehaven Coal Ltd.
- Xcel Energy Inc.
- Yanzhou Coal Mining Co. Ltd.

Human Rights Violations

- Wal-Mart Stores Inc.
- Wal-Mart de Mexico SA de CV
- Zuari Agro Chemicals Ltd.

Violations of the Rights of Individuals in Situations of War or Conflict

- Africa Israel Investments Ltd.
- Shikun & Binui Ltd.

Environmental Damage

- Barrick Gold Corp.
- Daewoo International Corp.
- Duke Energy Corp.
(including the below wholly-owned subsidiaries)
 - Duke Energy Carolinas LLC.
 - Duke Energy Progress LLC.
 - Progress Energy Inc.
- Freeport McMoRan Copper & Gold Inc.
- Genting Bhd.
- IJM Corp. Bhd.
- Lingui Development Ltd.
- MMC Norilsk Nickel
- POSCO
- Rio Tinto Plc.
- Rio Tinto Ltd.
- Samling Global Ltd.
- Ta Ann Holdings Berhad
- Vedanta Ltd. (previously called Sesa Sterlite, into which Madras Aluminium Company and Sterlite Industries Ltd. - both excluded 31 October 2007- were merged)

- Vedanta Resources Plc.
- Volcan Compañía Minera SAA
- WTK Holdings Berhad
- Zijin Mining Group Co. Ltd.

Corruption

- ZTE Corp.

Other Particularly Serious Violations of Fundamental Ethical Norms

- Cairn Energy Plc.
- Elbit Systems Ltd.
- Kosmos Energy Ltd.
- Potash Corp. of Saskatchewan
- San Leon Energy Plc.

List of companies under observation as per 1. March 2017

Production of coal or coal-based energy

- CMS Energy Corp.
- EDP Energias de Portugal SA
- Endesa SA
- Glow Energy PCL
- Kyushu Electric Power Co. Inc.
- OGE Energy Corp
- Pinnacle West Capital Corp.
- SCANA CORP
- Southern Co./The
- Talen Energy Corp.
- Tohoku Electric Power Co. Inc.

Environmental damage

- PT Astra International Tbk.

Corruption

- Petroleo Brasileiro SA

* An updated list can be found at ibim.no/en/responsibility/exclusion-of-companies/



Recommendations on exclusion and observation

Published recommendations and observation letters

Overview of recommendations published since the previous annual report

Company	Recommendation	Date published	Norges Bank's decision	Criterion
San Leon Energy Plc.	Exclusion	4 March 2016	Exclusion	Other serious violations
Cairn Energy Plc.	Exclusion	28 June 2016	Exclusion	Other serious violations
Kosmos Energy Ltd.	Exclusion	28 June 2016	Exclusion	Other serious violations
Duke Energy Corp.	Exclusion	7 September 2016	Exclusion	Environment
- Duke Energy Carolinas LLC	Exclusion	7 September 2016	Exclusion	Environment
- Duke Energy Progress LLC	Exclusion	7 September 2016	Exclusion	Environment
- Progress Energy Inc.	Exclusion	7 September 2016	Exclusion	Environment
Singapore Technologies Engineering Ltd.	Readmission	30 September 2016	Readmission	Landmines
Raytheon Co.	Readmission	24 January 2017	Readmission	Cluster munitions

Since the previous annual report, five recommendations have been published with respect to a total of nine listed companies. Norges Bank has acted upon all these recommendations.

San Leon Energy, Cairn Energy and Kosmos Energy were excluded because of their oil exploration activities, either onshore or off the coast of Western Sahara, with the agreement of the Moroccan government. Western Sahara is a disputed territory, and Morocco has no legitimate sovereign right to exploit its natural resources. Under international law, the exploitation of natural resources in such areas may be acceptable if it takes place in accordance with the interests and wishes of the local population. However, the Council on Ethics considers that this has not been substantiated in these cases.

Duke Energy, along with three subsidiaries, was excluded because the company's coal-fired power plants have contaminated the water in their surrounding areas. As such, the case was assessed under the environment criterion, and not under the coal criterion. Over many years, the companies

have repeatedly experienced environmentally hazardous discharges from a large number of ash repositories at their coal-fired power plants in North Carolina, USA. Several court cases have resulted in the companies being ordered to remove or seal the coal-ash repositories. In its assessment, the Council attaches importance to the fact that the companies' planned remedial measures will not be completed until 10–15 years from now. The Council also finds their persistent and extensive violations of US environmental law to be a significant risk factor.

The exclusion of Singapore Technologies Engineering, which had been in effect since 2002, was rescinded on the grounds that the company has published a statement declaring that it will manufacture neither antipersonnel mines nor cluster munitions. The 2005 exclusion of Raytheon Co was rescinded, since the company no longer produces cluster munitions.

In addition, the observation letter on PT Astra International is included in this annual report.

Overview of recommendations published since the previous annual report

SAN LEON ENERGY PLC.
Submitted 21 December 2015



The Council on Ethics recommends that San Leon Energy Plc. be excluded from the Government Pension Fund Global (GPF) on the grounds that it is contributing to serious violations of ethical norms by prospecting for petroleum in Western Sahara at the behest of the Moroccan government.

Western Sahara is a non-self-governing territory with no recognised administrator. In its assessment, the Council takes as its starting point the UN Charter's Article 73 on non-self-governing territories and other sources of law that interpret the UN Charter's provisions. Under international law, the exploitation of natural resources in such areas may be acceptable if it is carried out in accordance with the interests and wishes of the local population.

San Leon considers that its exploration activities in the area cannot be equated with any future exploitation of oil resources there. Furthermore, the company presumes that its operations in the area are in accordance with the local population's interests and wishes.

For its part, the Council considers that, in this context, it is not possible to distinguish between exploration and exploitation. No such distinction may automatically be inferred from the UN Charter's Article 73. States cannot freely prospect for oil and gas in tracts of land outside their own sovereign territory. Morocco's objective with respect to this exploration is undoubtedly to exploit any petroleum deposits found, and San Leon is contributing to this future objective, irrespective of whether the company itself wishes only to engage in exploration activities or take part in any future production in the area as well.

Furthermore, the Council does not deem it to have been substantiated that the activity is being carried out in accordance with the interests and wishes of the local population. The company has made it clear that it has not engaged in any dialogue with the Polisario, and claims that the Polisario cannot be considered the legitimate representative of the local population. However, the UN does consider the Polisario to represent the area's local population, and Morocco confers with the Polisario when, from time to time, negotiations regarding the territory's future status take place. Although it is true that the company has consulted some other stakeholders, it seems hard to make any assumptions about the local population's interests and wishes as long as their recognised primary representative has not been consulted. On the other hand, it is public knowledge that the Polisario deems San Leon's activities in the area to be unlawful.

The Council attaches further importance to the fact that the exploration activity is helping to keep the situation in the territory from being resolved. The UN Charter declares that any exploitation of natural resources in non-self-governing territories must be carried out in conjunction with the populations concerned. This is precisely because disagreements about access to natural resources may be a driver for conflict. Given that no political solution has been agreed with regard to the territory's status, and one of the parties has, moreover, expressed its opposition to the exploration activity and has warned that it could lead to an escalation of the conflict, it is reasonable to conclude that this activity is contributing to keep the situation in the territory from being resolved, and may even cause it to deteriorate.

KOSMOS ENERGY LTD. AND CAIRN ENERGY PLC.
Submitted 8 February 2016



The Council on Ethics is recommending the exclusion of Kosmos Energy Ltd. and Cairn Energy Plc from the Government Pension Fund Global (GPF) because there is an unacceptable risk that their oil exploration activities off the coast of Western Sahara contribute to serious violations of fundamental ethical norms.

Western Sahara is a non-self-governing territory with no recognised administrator. In its assessment, the Council takes as its starting point the United Nations Convention on the Law of the Sea, the UN Charter's Article 73 on non-self-governing territories and other sources of law that interpret the UN Charter's provisions. Under international law, the exploitation of natural resources in such areas may be acceptable if it is carried out in accordance with the interests and wishes of the local population.

The council has engaged in extensive dialogues with these companies over the past year. It has also had meetings with the Moroccan authorities and representatives of the local population in Western Sahara. Partly based on a consultation process, the companies believe that their activities are in accordance with the local population's interests and wishes. The companies also point out that they are not engaged in production at the present time, but are merely mapping potential petroleum resources in the area. In the companies' opinion, such a mapping exercise may be beneficial for the parties' ability to reach an agreement on Western Sahara's future status.

For its part, the Council considers that, in this context, it is not possible to distinguish between exploration and exploitation. No such distinction may be inferred from the United Nations Convention on the Law of the Sea. Morocco's objective with respect to this exploration is undoubtedly to exploit any petroleum deposits found, and the companies are contributing to this future objective, irrespective of whether they themselves wish only to engage in exploration activities or take part in any future production in the area as well.

Furthermore, the Council does not consider it substantiated that the activity is being carried out in accordance with the interests and wishes of the local population. The companies have made it clear that they have not engaged in any dialogue with the Polisario, which the UN considers to represent the local population. Although it is true that the companies have consulted some other stakeholders, it seems hard to make any assumptions about the local population's interests and wishes as long as their recognised primary representative has not been asked. On the other hand, it is a matter of public record that the Polisario deems the companies' activities in the area to be unlawful.

The Council considers that the exploration activity is helping to keep the situation in the territory from being resolved. The UN Charter declares that any exploitation of natural resources in non-self-governing territories must be carried out in conjunction with the populations concerned. This is precisely because disagreements about access to natural resources may be a driver for conflict. Given that no political solution has been agreed with regard to the territory's status, and one of the parties has, moreover, warned that it could lead to an escalation of the conflict, it is reasonable to conclude that this activity is helping to keep the situation in the territory from being resolved.

**DUKE ENERGY CORP., DUKE ENERGY CAROLINAS LLC,
DUKE ENERGY PROGRESS LLC AND PROGRESS ENERGY INC.**
Submitted 5 April 2016



The Council on Ethics recommends the exclusion of Duke Energy Corp. (Duke) and its wholly owned subsidiaries Duke Energy Carolinas LLC, Duke Energy Progress LLC and Energy Progress Inc. because there is an unacceptable risk that these companies are responsible for severe environmental damage. Over many years, the companies have repeatedly experienced environmentally hazardous discharges from a large number of coal-ash repositories at their power plants in North Carolina, USA. Numerous court cases have resulted in the companies being ordered to remove or seal these repositories. In its assessment, the Council attaches importance to the fact that the companies' planned remedial measures will not be completed until 10–15 years from now. The Council also considers their persistent and extensive violations of US environmental law to be a significant risk factor.

The companies own and operate coal-fired power plants in six US states. Ash mixed with water is stored in porous landfills, and a large number of these coal-ash repositories leach metal and other compounds into their surroundings. All told, over 100 million tonnes of coal-ash have been accumulated in North Carolina alone. The companies have been extremely reluctant to implement remedial measures, and have still not drawn up binding plans for the removal of all the coal-ash repositories. The companies have been fined repeatedly for effluent seepage and pollution.

The Council understands that, unless they are properly secured, the contents of the ash ponds are hazardous to health and to the environment. Seepage can damage the environment at the individual, species and ecosystem levels. Such damage will be long-lasting due to the heavy metals' capacity for bioaccumulation.

In 2014, a pipe running beneath a repository established at the Dan River Steam Station in 1955 collapsed. Large quantities of environmentally hazardous ash spilled out into the Dan River, spreading at least 100 km downstream. The collapse was due to a lack of maintenance and monitoring. Warnings about the need for maintenance and monitoring were ignored over a period of several decades. Following legal proceedings, the companies admitted culpability.

Duke has admitted illegally pumping out large volumes of ash-contaminated water from a repository at the now closed Cape Fear power plant in North Carolina. For many years, the company's own inspectorate, external consultants and public authorities reported defects and the need for maintenance at the site, before the environment authorities uncovered the extensive and illegal dumping of waste in 2014. The company has admitted responsibility and has been ordered to pay more than USD 100 million in fines and damages for this and other related incidents.

The companies have admitted that, over a long period of time, they have experienced discharges of environmentally hazardous compounds from their ash repositories to watercourses, soil and groundwater at a large number of power plants. Some of these leaks have affected drinking water resources. Several lawsuits have been filed in connection with the leaks, although these have not reached a final conclusion in the legal system.

Since 2000, Duke has contested the federal authorities' claims that the company's emissions of sulphur dioxide from several of its converted power plants have been too high. The US Supreme Court upheld the environmental authorities' standpoint in 2007, but it was not until 2015 that Duke agreed a settlement whereby the company undertook to install the necessary scrubbing equipment and pay a total of USD 5 million in fines and other measures. This means that the company has had illegally high sulphur dioxide emissions for all these years.

The Council has communicated with Duke on several occasions, and the company has submitted its comments on a draft recommendation to exclude the companies. Duke stated that changes have been made in the way the coal-ash is dealt with in recent years, and that substantial investments have been made. In a teleconference with the Council on 19 February 2016, Duke stated that it had removed 4 million tonnes of ash in the past year, and that it plans to implement adequate safeguards at its repositories in North Carolina over the course of the next 10–15 years. In a subsequent letter, the company has also underlined that it has pledged to comply with the new federal regulations for ash management, such that all repositories that do not meet the authorities' requirements will be closed within a period of 15 years – also those in other states.

It is the Council's understanding that the measures now planned largely coincide with the court's orders. If the measures are not implemented, the ash repositories will violate, or will be in danger of violating, public regulations.

Although the authorities' follow-up and the company's planned measures contribute to reducing the risk of severe environmental damage, the Council still considers the risk to be unacceptable. The Council attaches importance to the fact that Duke's companies have, over a long period of time, failed to respond adequately to several of the environmental challenges that their operations represent. Drinking water in many locations has been polluted or threatened with pollution. A large pond has collapsed, causing a major spillage. Watercourses have been polluted. The companies have failed to comply with national laws and have admitted numerous violations of environmental regulations. Extensive and persistent violations of environmental law constitute a significant risk factor. The measures which the companies are now implementing will not eliminate the environmental problems concerned for another 10–15 years. To this must be added the risk that other coal-ash ponds have not been adequately secured against acute discharges.

Following a comprehensive assessment, the Council has therefore concluded that the four companies' extensive failure to implement measures to reduce the significant environmental risk associated with many of their facilities constitutes an unacceptable risk of severe environmental damage, and that the companies should be excluded from the GPFG.

SINGAPORE TECHNOLOGIES ENGINEERING LTD.
Submitted 21 December 2015



The Council on Ethics recommends that Singapore Technologies Engineering Ltd. be readmitted to the Government Pension Fund Global (GPFG). This company was excluded in 2002 because of its production of antipersonnel landmines. Since this production has now been discontinued, there are no longer any grounds to exclude the company.

RAYTHEON CO.
Submitted 22 August 2016



The Council on Ethics recommends that Raytheon Co. be readmitted to the Government Pension Fund Global (GPFG). This company was excluded in 2005 because of its production of cluster munitions. Since this production has now been discontinued, there are no longer any grounds to exclude the company.

To Norges Bank

Oslo, 16 December 2016

The Council on Ethics' annual report to Norges Bank regarding its observation of PT Astra International Tbk.

On the basis of the Council on Ethics' recommendation of 23 June 2015, Norges Bank decided on 13 October 2015 to place PT Astra International Tbk. (Astra) under observation due to the risk that the company, through its subsidiary PT Astra Agro Lestari Tbk. (AAL) may be responsible for severe environmental damage. The Council will observe Astra for a period of four years, and will evaluate the implementation of the company's strategy for sustainable plantation management. The most important issue is whether the measures implemented by the company are sufficient to protect biodiversity and important ecological values in the company's concession areas. Should the company's initiatives prove inadequate, the Council on Ethics will consider whether there are grounds for exclusion from the GPFG even before the observation period expires.

Each year, the Council must report to Norges Bank on the status of its observations. This is the first such report.

Background

On 11 June 2015, AAL announced that the company would halt all logging and land conversion while a new sustainability strategy was being worked out. The company also said that, in future, it would avoid deforestation. The moratorium indicated a change for the better in the way Astra would be managing its plantations going forward. In the Council's opinion, the company had done little to mitigate the environmental damage associated with the conversion of forest to plantations until its announcement of the moratorium.

Development since the recommendation was made in June 2015

In September 2015, AAL published its sustainability strategy. The strategy covers all current and future operations, all subsidiaries and the company's suppliers/subcontractors. The sustainability strategy rests on three principles:

- No deforestation
- No conversion of peatlands
- Respect for human rights¹

The Council's evaluation relates to the first two points.

AAL's principle of "no deforestation" contains an obligation to refrain from establishing plantations in areas with a high carbon content, so-called *High Carbon Stock (HCS) forests*, or in areas whose protection is environmentally important (*High Conservation Value Areas*). In addition, the company undertakes not to use fires to clear forest land in order to establish plantations (*Zero Burn policy*).

In July 2016, the Council wrote to Astra requesting specific information about how these principles would be implemented in practice, and an update on the status and progress of the work. The company has also been given the opportunity to submit its comments on a draft of this letter.

Astra and AAL have informed the Council that they have engaged a "*Consortium of Resource Experts (CORE)*" to provide technical assistance in the implementation of the sustainability strategy and related reporting, and to help in the development of an action plan. CORE comprises two internationally recognised firms of consultants and an NGO with experience of sustainable plantation management in Indonesia.² According to Astra, this action plan will "serve as a roadmap for AAL's activities the following several years to ensure effective adoption of the Policy throughout our supply chains". In its letter to the Council,

1 <http://www.astra-agro.co.id/images/stories/Article/Sustainability%20Policy%2019%20Sep%202015.pdf>

2 Astra's letter to the Council on Ethics, 12 August 2016, and AAL's letter to the Council on Ethics, 30 November 2016

Astra writes that the action plan will be announced in the course of the first quarter 2017, and that AAL will publish reports on the progress being made in its implementation at least quarterly.

In one such report from November 2016, AAL writes on its website that CORE is in the process of performing a preliminary evaluation of AAL's progress, and is planning a process for the development of the action plan. "This process will include intensive periods of field-based assessments and consultation with key stakeholders that will inform the development of a comprehensive and feasible Action Plan".³

In September 2016, the NGO Aidenvironment published an evaluation of Astra's practices with regard to deforestation, forest burning and the development of peatlands.⁴ The evaluation was based partly on analysis of satellite images and covered the period from June 2015 to August 2016. According to the report, Astra has not cleared any new peatlands or forests for the development of plantations in its concession areas. However, in the period from July to October 2015, more than 650 fire hotspots were recorded inside Astra's concession areas, which led to several square kilometres of forest and oil palm plantations being destroyed by fire.

In its letter to the Council, AAL writes that none of these fires was set by AAL or was linked to the establishment of plantations. It also stated that the fires were caused by sparks from areas surrounding the plantations. All the fires have been reported to the Indonesian authorities. Since October 2015, AAL has implemented further improvements to prevent fires and has established damage-limitation procedures in accordance with the authorities' requirements. The company does not elaborate on what this involves.

The Council's assessment

The Council notes that up until August 2016 Astra does not seem to have opened up new areas of peatlands or forest in its concession areas, and that the moratorium announced by the company in June 2015 therefore seems to be effective.

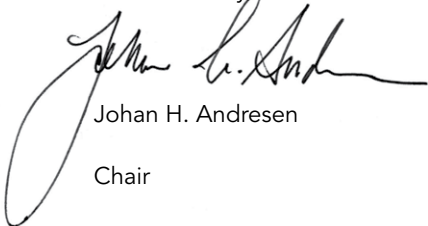
The Council approves of the fact that AAL has sought expert technical advice in its efforts to implement its sustainability strategy, and that the company intends to draw up an action plan for this work.

Nevertheless, the Council considers that Astra has not provided sufficient information for it to be able to evaluate the progress the company has made in implementing its sustainability strategy. This applies, for example, to the company's zero burning policy. The large number of fire hotspots in its concession areas could indicate that the company, at least until October 2015, has not done enough to prevent the outbreak of fires in AAL's concession areas. Although the company writes that improvements have been made, AAL provides little substantive information about which measures have actually been implemented.

When AAL once again opens new areas for the cultivation of plantations, it will be necessary for the company to provide specific information about how the natural forest, biodiversity and areas of high conservation value will be protected in the concession areas. This means information on how high conservation value areas are identified, and how they are to be managed and monitored.

The Council will continue to keep Astra's efforts to implement its strategy for sustainable plantation management under observation.

Yours faithfully,



Johan H. Andresen

Chair

³ <http://www.astra-agro.co.id/index.php/en/media-center-section/49-news-a-updates/1277-astra-agro-lestari-moving-forward-to-develop-plan-to-implement-sustainability-policy>

⁴ Aidenvironment 2016: An update on Astro Agro Lestari. One year after its new sustainability policy. Commissioned by Rainforest Foundation, Norway, KKI Warsi, Yayasan Merah Putih (YMP) and Mighty, available at <http://d5i6is0eze552.cloudfront.net/documents/Publikasjoner/Andre-rapporter/Update-on-Astra-Agro-Lestaris-sustainability-policy-implementation-ID-31605.pdf?mtime=20160927135648>.



Guidelines for observation and exclusion from the Government Pension Fund Global

This translation is for informational purposes only. Legal authenticity remains with the original Norwegian version. The Norwegian version, *Retningslinjer for observasjon og utelukkelse fra Statens pensjonsfond utland*, can be found on lovdata.no.

Guidelines for observation and exclusion from the Government Pension Fund Global

Section 1. Scope

(1) These guidelines apply to the work of the Council on Ethics for the Government Pension Fund Global (the Council on Ethics) and Norges Bank (the Bank) on the observation and exclusion of companies from the portfolio of the Government Pension Fund Global (the Fund) in accordance with the criteria in sections 2 and 3.

(2) The guidelines cover investments in the Fund's equity and fixed-income portfolios.

(3) The Council on Ethics makes recommendations to the Bank on the observation and exclusion of companies in the Fund's portfolio in accordance with the criteria in sections 2 and 3, and on the revocation of observation and exclusion decisions; cf. section 5(5) and section 6(6).

(4) The Bank makes decisions on the observation and exclusion of companies in the Fund's portfolio in accordance with the criteria in sections 2 and 3, and on the revocation of observation and exclusion decisions; cf. section 5(5) and section 6(6). The Bank may on its own initiative make decisions on observation and exclusion and on the revocation of such decisions; cf. section 2(2)-(4).

Section 2. Criteria for product-based observation and exclusion of companies

(1) The Fund shall not be invested in companies which themselves or through entities they control:

a) produce weapons that violate fundamental humanitarian principles through their normal use

b) produce tobacco

c) sell weapons or military materiel to states that are subject to investment restrictions on government bonds as described in the management mandate for the Government Pension Fund Global, section 3-1(2)(c).

(2) Observation or exclusion may be decided for mining companies and power producers which themselves or through entities they control derive 30 per cent or more of their income from thermal coal or base 30 per cent or more of their operations on thermal coal.

(3) In assessments pursuant to subsection (2) above, in addition to the company's current share of

income or activity from thermal coal, importance shall also be attached to forward-looking assessments, including any plans the company may have that will change the share of its business based on thermal coal and the share of its business based on renewable energy sources.

(4) Recommendations and decisions on exclusion of companies based on subsections (2) and (3) above shall not include green bonds issued by the company in question where such bonds are recognised through inclusion in specific indices for green bonds or are verified by a recognised third party.

Section 3. Criteria for conduct-based observation and exclusion of companies

Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for:

a) serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour

b) serious violations of the rights of individuals in situations of war or conflict

c) severe environmental damage

d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions

e) gross corruption

f) other particularly serious violations of fundamental ethical norms.

Section 4. The Council on Ethics

(1) The Council on Ethics consists of five members appointed by the Ministry of Finance (the Ministry) after receiving a nomination from the Bank. The Ministry also appoints a chair and deputy chair after receiving a nomination from the Bank. The Bank's nomination shall be submitted to the Ministry no later than two months prior to the expiry of the appointment period.

(2) The composition of members shall ensure that the Council on Ethics possesses the required expertise to perform its functions as defined in these guidelines.

(3) Members of the Council on Ethics shall be appointed for a period of four years. Upon the

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initial appointment, the Ministry may adopt transitional provisions.

(4) The Ministry sets the remuneration of the members of the Council on Ethics and the Council on Ethics' budget.

(5) The Council on Ethics has its own secretariat, which administratively is under the Ministry. The Council on Ethics shall ensure that the secretariat has appropriate procedures and routines in place.

(6) The Council on Ethics shall prepare an annual operating plan, which shall be submitted to the Ministry. The operating plan shall describe the priorities set by the Council on Ethics for its work; cf. section 5.

(7) The Council on Ethics shall submit an annual report on its activities to the Ministry. This report shall be submitted no later than three months after the end of each calendar year.

(8) The Council on Ethics shall evaluate its work regularly.

Section 5. The work of the Council on Ethics on recommendations concerning observation and exclusion

(1) The Council on Ethics shall continuously monitor the Fund's portfolio, cf. section 1(2), with the aim of identifying companies that contribute to or are responsible for production or conduct as mentioned in sections 2 and 3.

(2) The Council on Ethics may investigate matters on its own initiative or at the request of the Bank. The Council on Ethics shall develop and publish principles for the selection of companies for closer investigation. The Bank may adopt more detailed requirements relating to these principles.

(3) The Council on Ethics shall be free to gather the information it deems necessary, and shall ensure that each matter is thoroughly investigated before making a recommendation regarding observation, exclusion or revocation of such decisions.

(4) A company that is being considered for observation or exclusion shall be given an opportunity to present information and opinions to the Council on Ethics at an early stage of the process. In this context, the Council on Ethics shall clarify to the company what circumstances may form the basis for observation or exclusion. If the Council on Ethics decides to recommend observation or exclusion,

its draft recommendation shall be presented to the company for comments; cf. section 7.

(5) The Council on Ethics shall regularly assess whether the basis for observation or exclusion still exists. In light of new information, the Council on Ethics may recommend that the Bank revoke an observation or exclusion decision.

(6) The Council on Ethics shall describe the grounds for its recommendations to the Bank; cf. sections 2 and 3. The Bank may adopt more detailed requirements relating to the form of such recommendations.

(7) The Council on Ethics shall publish its routines for the consideration of possible revocation of an observation or exclusion decision. Excluded companies shall be informed specifically of these routines.

Section 6. Norges Bank

(1) The Bank shall make decisions on observation and exclusion in accordance with the criteria in sections 2 and 3 and on the revocation of such decisions, after receiving recommendations from the Council on Ethics. The Bank may on its own initiative make decisions on observation and exclusion in accordance with section 2(2)-(4) and on the revocation of such decisions.

(2) In assessing whether a company is to be excluded under section 3, the Bank may consider factors such as the probability of future norm violations, the severity and extent of the violations and the connection between the norm violation and the company in which the Fund is invested. The Bank may also consider the breadth of the company's operations and governance, including whether the company is doing what can reasonably be expected to reduce the risk of future norm violations within a reasonable time frame. Relevant factors in these assessments include the company's guidelines for, and work on, safeguarding good corporate governance, the environment and social conditions, and whether the company is making a positive contribution for those who are or have been affected by the company's conduct.

(3) Before making a decision on observation and exclusion in accordance with section 6(1), the Bank shall consider whether other measures, including the exercise of ownership rights, may be more suited to reduce the risk of continued norm violations, or whether such alternative measures may be more appropriate for other reasons. The Bank shall

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consider the full range of measures at its disposal and apply the measures in a coherent manner.

(4) Observation may be decided when there is doubt as to whether the conditions for exclusion are met or as to future developments, or where observation is deemed appropriate for other reasons.

(5) The Bank shall ensure that sufficient information is available before making a individual observation, exclusion or revocation decision.

(6) The Bank shall regularly assess whether the basis for observation or exclusion still exists.

Section 7. Exchange of information and coordination between the Bank and the Council on Ethics

(1) To help ensure the most coherent use of measures possible in the context of promoting responsible management, the Bank and the Council on Ethics shall meet regularly to exchange information and coordinate their work.

(2) Communication with companies shall be coordinated and aim to be perceived as consistent. The Bank shall exercise the Fund's ownership rights. The Bank shall seek to integrate the Council on Ethics' communication with companies into its general company follow-up. The Bank shall have access to the Council on Ethics' communication with companies, and may participate in meetings between the Council on Ethics and companies.

(3) The Council on Ethics may ask the Bank for information on matters concerning individual companies, including how specific companies are dealt with in the context of the exercise of ownership rights. The Bank may request the Council on Ethics to make its assessments of individual companies available.

(4) The Bank and the Council on Ethics shall establish detailed procedures for the exchange of information and coordination to clarify responsibilities and promote productive communication and integration of the work of the Bank and the Council on Ethics.

Section 8. Publication

(1) The Bank shall publish its decisions pursuant to these guidelines. Such public disclosure shall be in accordance with the management mandate for the Fund, section 6-2(4). When the Bank publishes its decisions, the Council on Ethics shall publish its recommendations. When the Bank on its own

initiative makes decisions in accordance with section 6(1), the grounds for the decision shall be included in the publication.

(2) The Bank shall maintain a public list of companies excluded from the Fund or placed under observation pursuant to these guidelines.

Section 9. Meetings with the Ministry of Finance

(1) The Ministry, the Bank and the Council on Ethics shall meet at least once a year. The information exchanged at such meetings shall be part of the basis for the reporting on responsible management included in the annual report to the Storting (the Norwegian parliament) on the management of the Fund.

(2) The Ministry and the Council on Ethics shall meet at least once a year. The following matters shall be discussed at the meetings:

- a) activities in the preceding year
- b) other matters reported by the Ministry and the Council on Ethics for further consideration.

Section 10. Power of amendment

The Ministry may supplement or amend these guidelines.

Section 11. Entry into force

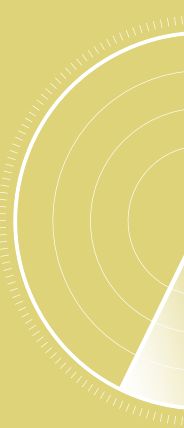
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Section 12. Transitional provisions

(1) Recommendations from the Council on Ethics which the Ministry has received, but not finally processed, by 1 January 2015 shall:

- a) where the matter concerns a company in the Fund's portfolio, be sent back to the Council on Ethics for consideration of further handling in accordance with these guidelines
- b) where the matter concerns a company not included in the Fund's portfolio, be taken note of by the Ministry. Such recommendations shall be made public.

(2) The Bank may make decisions on the exclusion of securities that are not in the investment portfolio on 1 February 2016 and that fall under section 2(2)-(4). In such cases, decisions and the grounds for such decisions shall be made public in accordance with section 8.





Council on Ethics for the Government Pension Fund Global
Postboks 8008 Dep, N-0030 Oslo Norway

[etikkradet.no](https://www.etikkradet.no)