



NORWEGIAN MINISTRY
OF TRADE AND INDUSTRY

Meld. St. 13 (2010–2011) Report to the Storting (white paper) Summary

Active ownership

– Norwegian State ownership in a global economy





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Contents

1	Introduction	5	4.3	The OECD's outward-oriented work	34
2	Scope and development of the State's direct ownership	7	4.4	Some administration models	34
2.1	Scope	8	4.4.1	Sweden	35
2.1.1	The State's various ownership in companies	8	4.4.2	Denmark	35
2.1.2	Historical overview of the State's direct ownership	9	4.4.3	Finland	36
2.1.3	The scope of the State's direct ownership	10	4.4.4	France	36
2.2	Developments linked to the State's direct ownership since 2006	12	4.4.5	Great Britain	36
2.2.1	Transactions and changes in the State's ownership	12	5	The government's ownership policy	38
2.2.2	Return on investment and development in the value of the State's portfolio since the previous ownership report	15	5.1	Background and introduction	38
2.2.3	Developments in industry and within ownership administration ..	16	5.2	Why the State should own – the objectives behind State ownership	39
3	The State's ownership administration	24	5.2.1	General justifications for State ownership	39
3.1	The various roles of the State	24	5.2.2	The objectives behind the shareholding in each company – categorisation of companies in the direct ownership	42
3.2	Framework for the State's ownership administration	24	5.3	What the State should own	45
3.2.1	Constitutional framework	24	5.3.1	Relevant changes within industry	46
3.2.2	The minister's mandate within the company	25	5.3.2	The government's experiences and practice	46
3.2.3	Administration of the company	26	5.3.3	Need for flexibility within the existing company portfolio	47
3.2.4	Other frameworks	26	5.3.4	Changes in the State's shareholdings	49
3.2.5	How owner control is influenced based on different shareholdings	27	5.3.5	Establishment of new State ownership	50
3.3	Corporate governance principles	29	5.4	Exercise of ownership	52
3.3.1	The State's principles for good ownership	29	5.4.1	The government's expectations concerning dividends and return on investment	54
3.3.2	The Norwegian Code of Practice for Corporate Governance	29	5.4.2	The government's expectations concerning corporate social responsibility	57
3.3.3	The OECD's guidelines for State-owned companies	30	5.4.3	The government's expectations relating to research, development, innovation and expertise	68
3.4	Contact with the companies	31	5.4.4	The government's expectations concerning the remuneration of senior executives	70
4	State ownership in other countries	33	5.4.5	Composition of the board and the government's expectations of the board	72
4.1	General	33	5.4.6	The government's expectations as regards diversity and equality	74
4.2	The OECD's work relating to the development of State ownership ..	33			

5.4.7	The State's principles for corporate governance	76
5.4.8	Transparency concerning the State's ownership	76

5.4.9	Organisation of the State's ownership	78
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*Recommendation of 1 April 2011 by the Ministry of Trade and Industry,
approved by the Council of State on the same day.
(The Stoltenberg II Government)*

1 Introduction

The State plays a key role in the development of Norwegian industry. The interaction between a competitive and innovative industry and an actively participating State is a central aspect of the Norwegian social model. We have had more success than many other countries, where the State plays a more withdrawn role.

Extensive State ownership is an important contributory factor in the positive development of industry in Norway. State ownership must be administered in an active and professional manner, with long-termism, predictability and corporate social responsibility as characteristics of a strategy for increased value creation, industrial growth and secure jobs, both in Norway and internationally.

There is broad engagement to the State ownership policy. This is both understandable and beneficial, primarily because the State is such an important owner within Norwegian industry. *Why* the State owns, *what* the State owns and *how* the State administers its ownership is continually being assessed by professional environments, analysts, politicians and the media.

In its capacity as owner, the State administers substantial assets for the common good. The value of the State's shareholdings in the companies discussed in this report is estimated at

around NOK 600 billion as at the end of 2010. The State-owned companies that are listed were valued at around NOK 500 billion. This corresponds to about one third of the value of the assets listed on Oslo Stock Exchange.

These companies create considerable value and employ many people. The broad commitment to the ownership policy is therefore also of benefit, as it intensifies the exercise of ownership and imposes demands on the State as owner.

It is four years since the government launched Report no. 13 (2006–2007) to the Storting Active and Long-term State Ownership. This report¹ continues the key aspects of the previous report. The State's principles for good exercise of ownership are firmly established, with the distribution of responsibility between board and owners as an underpinning element. The government will continue to express clear goals for the ownership of each company in order to create predictability as regards the corporate governance with respect to both the companies and other shareholders.

¹ This report concerns the State's shareholdings in most companies that are administered directly by the ministries. See Report no. 3 (2009–2010) to the Storting The State accounts 2009, which gives a complete overview of the State's direct ownership.

However, changes have also taken place in recent years which necessitate the updating of the State's ownership policy. This report is based on the sound principles from the previous report, the experience that we have gained and changes that have taken place since then.

The consequences of globalisation, changes in best practice for corporate governance and corporate social responsibility are themes which will be touched upon in more detail in this report.

Internationalisation, tougher competition and clearer expectations concerning corporate social responsibility impose requirements on the further professionalisation of the ownership administration. This report therefore gives notice that the State's ownership administration will be strengthened.

This report assesses the need for more flexibility within State ownership. The State shall be a professional and long-term owner that contributes to the profitability and industrial growth of the companies. At the same time, like good private sector owners, the State must also be a dynamic owner. State ownership must reflect the company's development and the owner-related resources that are required. The ownership must be assessed in the light of whether State ownership is a suitable instrument for fulfilling relevant social tasks.

The government believes that the State should remain a major shareholder within key Norwegian companies and will maintain the State's ownership at around the current level. The State shall continue to contribute to the positive and stable growth of Norwegian industry. With the steps that are taken in this report – greater professionalisation within the ownership administration, flexibility in ownership and a broad review of the ownership policy – the government is aiming to administer the State's ownership in an optimal manner.

As an owner, the State has clear expectations that the companies will fulfil their corporate social responsibility and take the lead in their respective fields. The government believes that the fulfil-

ment of corporate social responsibility will contribute to the profitability of the companies in the long term. In this report, the government is aiming to clarify and strengthen the expectations relating to corporate social responsibility.

This report also gives notice of a tightening of the guidelines concerning the pay conditions of senior executives within the companies in which the State has a shareholding. At a general level, the salaries of senior executives in the companies in which the State has a shareholding have not developed in line with the government's goal of moderation. This report therefore imposes a requirement for greater transparency surrounding the determination of salaries within the wholly owned companies through reporting requirements and a requirement for presentation to the annual general meeting, requirements to which public limited liability companies are currently subject. In addition, restrictions are introduced concerning the pension benefits that the companies should include in their agreements with senior executives.

Chapter 2 presents an overview of the scope and development of the State's ownership in recent years, together with a description of development trends within industry and corporate governance globally. Some of the topics addressed are of particular relevance to the State's ownership in companies which primarily have commercial objectives (commercial companies in Categories 1–3), while other topics are also relevant for the companies with goals relating to sectoral policy (Category 4). Chapter 3 reviews the way in which the ownership administration is organised, the framework that follows from applicable legislation and role distribution and the corporate governance principles to which the government attaches importance in its execution of ownership. Chapter 4 outlines the State ownership in a number of other countries. Chapter 5 presents the government's ownership policy based on why the State owns, what the State should own and how the State will own.

2 Scope and development of the State's direct ownership

Table 2.1 presents an overview of the companies discussed in the report. These companies primarily consist of all the commercial companies, together with the largest companies with sectoral

policy objectives. The companies concerned are the same as those covered annually in the Norwegian State ownership report.

Table 2.1 The companies discussed in the report

Ministry of Fisheries and Coastal Affairs	Shareholding	Ministry of Trade and Industry	Shareholding
Eksportutvalget for fisk AS	100%	Aker Holding AS	30%
Nofima AS	56.8%	Argentum Fondsinvesteringer AS	100%
		Bjørnøen AS	100%
Ministry of Health and Care Services	Shareholding	Cermaq ASA	43.5%
AS Vinmonopolet	100%	DnB NOR ASA	34%
Helse Midt-Norge RHF	100%	Eksportfinans ASA	15%
Helse Nord RHF	100%	Electronic Chart Centre AS	100%
Helse Vest RHF	100%	Entra Eiendom AS	100%
Helse Sør-Øst RHF	100%	Flytoget AS	100%
Norwegian Center for Informatics in Health and Social Care (KITH) ¹	70%	Innovation Norway	51%
Norsk Helsennett SF	100%	Kings Bay AS	100%
		Kongsberg Gruppen ASA	50%
Ministry of Local Government and Regional Development	Shareholding	Mesta AS	100%
Kommunalbanken AS	100%	Nammo AS	50%
		Norsk Hydro ASA	34.3%
Ministry of Culture	Shareholding	Norsk Eiendomsinformasjon AS	100%
Norsk Rikskringkasting AS	100%	SA AB	14.3%
Norsk Tipping AS	100%	Secora AS	100%
		SIVA SF	100%
Ministry of Education and Research	Shareholding	Statkraft SF	100%
Norsk Samfunnsvitenskaplig Datatjeneste AS	100%	Store Norske Spitsbergen Kulkompani AS	99.9%
Simula Research Laboratory AS	100%	Telenor ASA	54%
Uninett AS	100%	Yara International ASA	36.2%
University Centre in Svalbard (UNIS)	100%		
Ministry of Agriculture and Food	Shareholding	Ministry of Petroleum and Energy	Shareholding
Statskog SF	100%	Gassco AS	100%
Veterinærmedisinsk Oppdragscenter AS	39.9%	Gassnova SF	100%
		Petoro AS	100%
		Enova SF	100%
Ministry of Transport and Communications	Shareholding	Statnett SF	100%
Avinor AS	100%	Statoil ASA	67%
BaneTele AS	100%		
NSB AS	100%	Ministry of Foreign Affairs	Shareholding
Posten Norge AS	100%	Norfund	100%

¹ The Ministry of Labour and Social Inclusion also owns a 10.5% shareholding in KITH AS.

2.1 Scope

2.1.1 The State's various ownership in companies

The State also has investments in companies in Norway and abroad beyond the direct ownership covered in this report. The most important institutions and administrative environments for the State's asset investments in companies are Norges Bank (Government Pension Fund Global (SPU)), the National Insurance Scheme Fund (Government Pension Fund Norway (SPN)) and the Government Bond Fund) and the direct State ownership administered by the various government ministries. The policy discussed in this report only applies to the direct State ownership.

As shown in Figure 2.1, the ownership administered through the Government Pension Fund Global (SPU) and the Government Pension Fund Norway (SPN) represents almost 85% of the State's ownership in companies, whilst the direct ownership that is administered by the government ministries accounts for the remainder.

The reasons behind the State's investments through SPU and SPN, and the direct ownership administered by the government ministries differ considerably. These forms of ownership have different goals and different State institutions administer the ownership. The State's investments through SPU are financial investments administered by Norges Bank as part of the administration of Norway's petroleum assets. These investments are limited to foreign companies and the maximum shareholding in a company is 10 per cent. Investments through SPN are also finan-

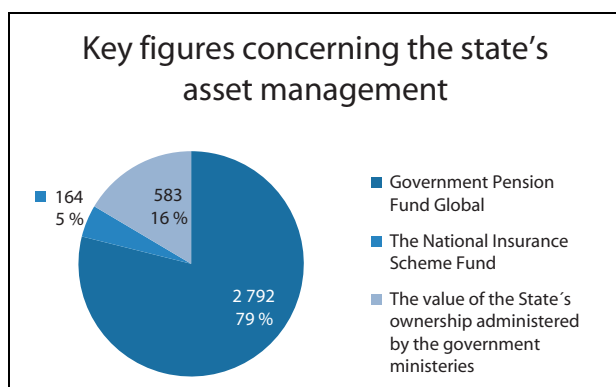


Figure 2.1 Key figures concerning the State's asset management as of 30 June 2010. NOK billion and per cent.

Source: The Government Pension Fund Global, the National Insurance Scheme Fund and the Ministry of Trade and Industry

cially motivated and are administered by the National Insurance Scheme Fund. SPN is subject to restrictions which require it to invest in the Nordic region and not to have shareholdings in excess of 15 per cent in any company in Norway or in excess of 5 per cent in any company in the Nordic region.

The State's direct ownership which is administered by the government ministries largely comprises strategic holdings in Norwegian companies. These holdings are not administered from a financial portfolio perspective, but from a strategic and industrial perspective in commercial companies and on the basis of sectoral policy goals for other companies. The ownership varies from major shareholdings in many of the company's largest listed companies, through fund-based companies such as Argentum Fondsinvesteringer AS and Investinor AS¹, wholly owned infrastructure companies with sectoral policy objectives and virtual monopolies such as Avinor AS and Statnett SF, to smaller sectoral policy companies with a special remit such as Kings Bay AS and Norsk Samfunnsvitenskapelig Datateneste AS (NSD).

Ownership in Norwegian industry today

Little research has been carried out recently into the scope of the State ownership viewed in the context of the private sector ownership in Norway. Only a few of the limited companies in Norway are listed on Oslo Stock Exchange. Most analyses that have been carried out only cover the listed companies. However, a recently published book entitled "Eieren, styret og ledelsen. Corporate Governance i Norge"² analyses around 94,000 Norwegian limited companies. The book notes that three-quarters of the assets and around 90 per cent of the jobs in the limited companies covered by the survey are in companies that are not listed on the stock exchange. Two-thirds of the companies analysed are owned by families with a shareholding of more than 50 per cent.

There are no recent figures for the total value creation within Norwegian industry broken down according to ownership. Figures from 2003³ estimate the value of companies in Norwegian industry to be NOK 2,700 billion. Of this, the State's

¹ Indirectly as a subsidiary of Innovation Norway.

² Øyvind Bøhren, "Eieren, styret og ledelsen. Corporate Governance i Norge", Fagbokforlaget 2011.

³ Erik W. Jakobsen, Leo Grünfeld: "Hvem eier Norge? Eierkap og verdiskaping i et grenseløst næringsliv", Universitetsforlaget 2003.

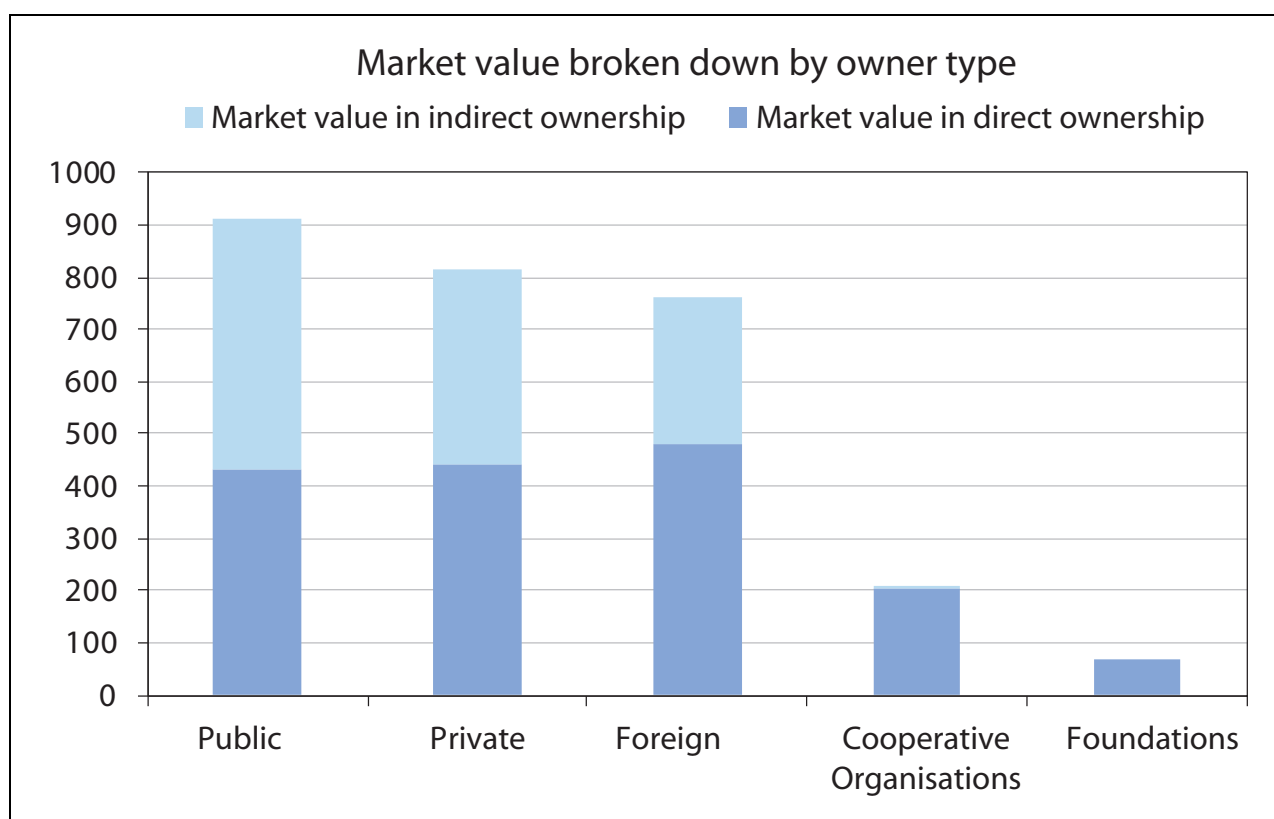


Figure 2.2 Ownership of Norwegian industry broken down by owner type (NOK billion).

Source: Erik W. Jakobsen, Leo Grünfeld: *Hvem eier Norge? Eierskap og verdiskaping i et grenseløst næringsliv*, Universitetsforlaget 2003.

ownership accounted for approximately 33 per cent, while privately owned companies accounted for 30 per cent. The rest of industry was owned by foreign capital (28 per cent), cooperative organisations (7 per cent) and foundations (2 per cent).

Figures for shareholdings on Oslo Stock Exchange indicate a transition from public ownership to foreign ownership during the period 2003 to 2010. During the period from the end of 2003 to the end of 2010, public sector owners and companies reduced their shareholdings on the stock exchange from 42 per cent to 35 per cent, whilst the proportion of foreign owners increased from 28 per cent to 35 per cent. Other owner groups have collectively remained at around 30 per cent. The public sector, including State-owned companies, is one of the largest owner groups in Norwegian industry. The State's ownership is particularly visible in the listed companies in which the State's shareholdings (including minor holdings owned by local authorities and State companies) accounted for 35.3 per cent of the equity instruments on Oslo Stock Exchange at the end of 2010. As the above estimates show, there is also widespread private sector ownership in Norway which

plays a key role in the growth of Norwegian industry and value creation.

2.1.2 Historical overview of the State's direct ownership

Since the end of the Second World War, the State has had substantial direct ownership in Norwegian companies. The reasons behind the State ownership in Norwegian companies have varied as society and the political landscape has changed. A common thread in the State ownership has often been the desire to safeguard certain social or political considerations. Within this framework, certain companies have often been State-owned as a result of time-specific assessments and decisions linked to the individual companies concerned.

For a certain period of time after the Second World War, access to capital from abroad was limited, partly as a result of capital restrictions between countries. A limited private capital market in Norway and a political desire to bring about industrial growth led the State to contribute long-term capital with the aim of encouraging indus-

trial development. The role of the State in the industrial recovery that has taken place since the Second World War must be viewed in light of this. The State's involvement in companies such as Årdal og Sunndal Verk (1947), Olivin⁴ (1948) and Norsk Jernverk (1955) was justified through the failure of the capital market with regard to new developments and risk investments.

When the production of oil and gas began in the 1970s, the desire for a stronger stake in the extraction of natural resources lay behind the State's ownership of Statoil and its decision to increase its holding in Norsk Hydro. Subsequently, Petoro AS was also established in order to administer the State's direct financial interest in the petroleum sector, whilst Gassco AS was established to act as operator for gas pipelines and transport-related gas processing facilities.

During the banking crisis in the 1990s, the State's take-over of shares in many banks was essential in order to avoid the bankruptcy of socially critical financial institutions. Most of these were subsequently privatised by being sold off, but the State has retained a shareholding of 34 per cent in DnB NOR ASA.

A political desire to promote national industrial growth and safeguard enterprises that were considered to be of strategic importance has resulted in substantial State involvement within widely differing enterprises. Security and contingency considerations lay behind the State's involvement in Raufoss Ammunisjonsfabrikker (later Raufoss ASA, which in 1998 divested the ammunition operation and formed the Nordic ammunition group Nammo), Kongsberg Våpenfabrikk (wound up in 1987, except for the company's defence operation, which was continued and is now part of the Kongsberg Gruppen) and Horten Verft (composition with creditors 1987). Norsk Jernverk (converted in 1988) and Norsk Koksverk (closed down in 1988) are further examples of a desire to build up national industry.

The relationship to the State of enterprises has also changed over time, partly in that State administrative enterprises have been set up as independent companies and adapted to markets with competition. This has manifested itself in the divestment of State agencies to companies. Important company formations include the conversion of Televerket to Telenor AS in 1994 and the creation of the State enterprises Statkraft and Statnett in 1992. Other examples of such company formations are Flytoget AS divested from NSB, Entra

Eiendom AS divested from Statsbygg, Cermaq ASA against the background of the State's grain business, the conversion of the administrative company Postverket into the current Posten Norge AS, Mesta Konsern AS⁵ divested from the National Public Roads Administration and Secora AS⁶ divested from the National Coastal Administration.

In many cases, the State has chosen to become a stakeholder in enterprises for sectoral policy reasons. This is one of the reasons behind the State take-over of the hospitals. The aim is to lay the foundations for the holistic management of the specialist health service, partly through the establishment of a clear statutory State responsibility. The State ownership in this field is also intended to facilitate more efficient utilisation of the resources that are allocated to the sector, thereby ensuring the provision of better health services to the population.

The discussion above illustrates that the State's direct ownership during the post-war period has been linked to various objectives and needs relating to social and political development.

2.1.3 The scope of the State's direct ownership

As mentioned above, the State's ownership that is administered by the government ministries largely comprises strategic shareholdings that are not administered on the basis of a financial portfolio perspective, but from a strategic and industrial perspective in the case of commercial companies and from a sectoral policy perspective as regards other companies. The ownership varies from major shareholdings in many of the country's largest listed companies to wholly owned companies with a purely sectoral policy remit. In terms of company law, these enterprises are organised as limited companies, public limited companies, State companies, healthcare enterprises and other types of company founded under a particular act of legislature. Every year, the State's ownership report is published. This report presents an overview of the State's direct ownership which is administered by the government ministries⁷.

The State has different objectives behind its ownership of the various companies. To clarify the objectives behind the State's shareholding in each

⁴ A company which extracted the mineral olivine.

⁵ A contractor company within road construction, management and maintenance.

⁶ A maritime contractor company.

⁷ www.eierberetningen.no.

of the companies, in the 2006 State's ownership report, the government placed all the companies in one of four categories, a categorisation which is also used here:

1. Companies with commercial objectives
2. Companies with commercial objectives and national anchoring of their head office
3. Companies with commercial and other specifically defined objectives
4. Companies with sectoral policy objectives

Administration of the companies with commercial objectives (Categories 1–3)

One of the key aims behind the State management of the companies in Categories 1–3 is to maximise the value of the State's shares and to contribute to the positive industrial development of the companies. In addition, the State's ownership of some of these companies has other primary aims, such as national anchoring of the head office or certain other specific objectives.

As part of the professionalization of the execution of State ownership, there has been a conscious strategy to ensure that the administration of the companies for which one of the primary objectives behind the State ownership is commercial operation, is generally handled by the Ownership Department of the Ministry of Trade and Industry.

At the end of 2010, the Ministry of Trade and Industry, via the Ownership Department, administered the State's shareholdings in a total of 21 companies⁸. The other companies where administration of the State's ownership has been transferred to the Ministry of Trade and Industry, via the Ownership Department, are Secora AS (2008, from the Ministry of Fisheries and Coastal Affairs) and Norsk Eiendomsinformasjon AS (2010, from the Ministry of Justice and the Police). Administration of the shareholdings in these companies was transferred as the companies had progressed a long way in their development as commercial enterprises and the State no longer had any sectoral policy objectives behind its ownership.

The State shareholdings in the other companies for which one of the primary objectives is commercial operation are administered by the Ministry of Local Government and Regional Development (Kommunalbanken AS), the Ministry of Agriculture and Food (Veterinærmedisinsk

Oppdragscenter AS), the Ministry of Petroleum and Energy (Statoil ASA) and the Ministry of Transport (Baneservice AS, NSB AS and Posten Norge AS).

In terms of their value, the State's shareholdings in the listed public limited companies Statoil ASA, Telenor ASA, Norsk Hydro ASA, Yara International ASA, Kongsberg Gruppen ASA, Cermaq ASA, DnB NOR ASA and SAS AB represent a substantial part of this group of commercially oriented companies. The State's shares in these companies collectively had a value of around NOK 504 billion at the end of 2010. Of the unlisted companies in Categories 1–3, Statkraft SF is the most valuable company. Today, the company is one of Norway's largest companies measured in terms of value.

Administration of the companies with sectoral policy objectives (Category 4)

The sectoral policy companies are companies with a State shareholding which have sectoral policy and social objectives, where the primary goals of the State ownership are non-commercial. These companies are administered by the various government ministries which are responsible for sector policy in the different areas. For example, the State holdings in Statnett SF and Statskog SF are administered by the Ministry of Petroleum and Energy and the Ministry of Agriculture and Food respectively. Examples of the objectives behind the State ownership in the sectoral policy companies are to own, manage and develop a nationwide network of airports (Avinor AS), to limit the availability of alcoholic beverages (AS Vinmonopolet) and to provide good and uniform specialist health-care services to anyone who needs them (the regional healthcare enterprises).

Although the sectoral policy companies do not primarily have commercial objectives, financial results and efficient resource use are nevertheless pivotal considerations for these companies. The financial results of these companies must be balanced against sectoral policy goals. As owner, the State aims to achieve the relevant sectoral policy and social goals as resource-efficiently as possible.

The degree of commercial orientation varies between the sectoral policy companies. For example, NRK AS operates in markets that are exposed to competition, whilst AS Vinmonopolet administers a monopoly.

In terms of size, the regional healthcare enterprises are dominant amongst the non-commercial

⁸ Of these, the State has sectoral policy objectives for its stakeholdings in Bjørnøen AS and Kings Bay AS.

enterprises. These healthcare enterprises employ around 110,000 people and receive over NOK 100 billion in income per year.

2.2 Developments linked to the State's direct ownership since 2006

2.2.1 Transactions and changes in the State's ownership

Mergers

In December 2006, the boards of Statoil ASA and Norsk Hydro ASA announced that they had agreed to recommend the merger of Norsk Hydro's petroleum business and Statoil ASA. Behind the merger lay a desire to establish a strong international player with solid technological expertise. The government presented the matter to the Parliament in Bill to the Storting no. 60 (2006–2007). The Parliament adopted the recommendations in June 2007 and gave the Ministry of Petroleum and Energy and the Ministry of Trade and Industry a mandate to vote for the transactions at the companies' extraordinary general meetings, which were held on 5 July 2007. The merger was implemented with effect from 1 October 2007. Following the merger, the State owned 62.5 per cent of the shares in the new company *StatoilHydro ASA*. The State purchased shares in StatoilHydro ASA on the market during the period 2 June 2008 to 5 March 2009, and has owned 67 per cent of the company since then. In total, shares worth around NOK 19.3 billion were acquired. The company was renamed Statoil ASA in 2009.

Nofima AS was founded on 1 January 2008 through the merger of the former Akvaforsk AS, Fiskeriforskning AS, Matforsk AS and Norconserv AS; cf. Bill to the Storting no. 69 (2006–2007). The State owns 56.8 per cent of the merged company.

Sale of shares

After SIVA SF sold its 49 per cent shareholding in *Veterinærmedisinsk Oppdragssenter AS* (VESO AS) to Aquanova Invest AS, the State decided to give the new owners the option to acquire a majority shareholding in the company. This was done in order to enable VESO to take advantage of opportunities for industrial growth in the future. A private placement was therefore carried out, which resulted in Aquanova Invest AS' shareholding reaching 60.1 per cent; cf. Bill to the Storting no.

22 (2008–2009). As a result of a previous agreement, the State's shareholding in 2010 was reduced to 34 per cent.

In November 2008, the State exercised its right to sell its remaining 50 per cent shareholding in *BaneTele AS* to the Broadband Alliance; cf. Bill to the Storting no. 35 (2008–2009).

In 2010, the State's 53.4 per cent shareholding in *ITAS amb AS* was transferred to Industri Lambertseter AS; cf. Bill to the Storting no. 20 (2005–2006).

Share purchases

In 2007, the State entered into an agreement with Aker ASA, Investor AB and SAAB AB concerning a joint shareholding in Aker Solutions ASA through *Aker Holding AS*; cf. Bill to the Storting no. 88 (2006–2007). The State's share of the stake in Aker Holding AS is 30 per cent. Aker Holding's only business is to own shares in Aker Solutions ASA. The aim behind the purchase was to secure a long-term strategic ownership in the technology and industrial group Aker Solutions ASA.

After Kommunekreditt was acquired by KLP in the spring of 2009, it was considered appropriate for the State to acquire KLP's share of 20 per cent in *Kommunalbanken AS*; cf. Bill to the Storting no. 79 (2008–2009). The State, via the Ministry of Local Government and Regional Development, carried out the purchase of the shares in June 2009 at a price of NOK 531 million. As a result, Kommunalkbanken AS became wholly owned by the State.

Owner transactions linked to the companies' buy-back of their own shares are discussed in section 5.4.1.

Equity expansions

Norfund is financed by capital grants via the State budget, and the fund's equity has been strengthened through annual contributions via the State budget during the period 1997–2011. In total, Norfund's equity has been boosted by around NOK 6.3 billion during this period.

In 2007 and 2008, *Kommunalbanken AS* received equity totalling NOK 100 million because the bank had experienced strong lending growth for a number of years and its tier one capital adequacy ratio had therefore decreased. If its equity had not been strengthened, Kommunalkbanken would have been forced to reduce its lending growth.

At the beginning of 2009, a share capital expansion of NOK 1.2 billion was carried out by *Eksportfinans ASA*, in which the State participated on a pro rata basis with its holding of 15 per cent and subscribed to shares equivalent to NOK 180 million; cf. Bill to the Storting no. 33 (2007–2008). This came about as a result of the turbulence in the international capital markets, which caused *Eksportfinans* to suffer an unrealised price loss in the securities portfolio.

In February 2009, *SAS AB* presented its new strategy, Core SAS. This new strategy involved the strengthening of the company's capital situation, and in April 2009, a share capital expansion of approximately SEK 6 billion was carried out in *SAS AB*. The State participated on a pro rata basis with its holding of 14.3 per cent and subscribed to new shares equivalent to NOK 709 million. The matter was considered by the Parliament on 12 March 2009; cf. Bill to the Storting no. 41 (2008–2009). As an extension of its new strategy, Core SAS, the board of *SAS AB* proposed a further share capital expansion in the company in February 2010. The board also decided to ask the general meeting for a mandate to take out a convertible bond loan of up to SEK 2 billion. The State participated in the capital expansion on a pro rata basis with its holding of 14.3 per cent, subscribed to new shares equivalent to NOK 583 million and supported the proposal to give the board a mandate to take up a convertible bond loan; cf. Bill to the Storting no. 79 (2009–2010) and Bill to the Storting no. 89 (2009–2010). The board issued a convertible bond loan in April 2010 of SEK 1.6 billion. If the loan were to be converted to shares in its entirety, which cannot be done until 2015, the Norwegian State's holding could be reduced by around 1.5 per cent, and the total State holding (Sweden, Denmark and Norway) could be reduced from 50 per cent to 45 per cent.

In the spring of 2009, *Argentum Fondsinvesteringer AS* received NOK 2 billion in new equity for investments in private equity funds; cf. Bill to the Storting no. 37 (2008–2009). This represented one of a number of initiatives launched by the government in connection with the international financial crisis.

In accordance with the proposal from the board of *DnB NOR ASA*, in autumn 2009 the company carried out a share capital expansion of NOK 13.9 billion through a guaranteed rights issue. The State participated on a pro rata basis with its holding of 34 per cent and subscribed to shares equivalent to NOK 4.7 billion. The matter was con-

sidered by the Parliament on 17 November 2009; cf. Bill to the Storting no. 22 (2009–2010).

In June 2010, the State participated in the amount of NOK 4.4 billion in a share capital expansion carried out by *Norsk Hydro ASA* in connection with the acquisition of Vale S.A.'s aluminium operation; cf. Bill to the Storting no. 131 (2009–2010). In connection with the transaction, a private placement aimed at Vale S.A. was also approved, which resulted in the dilution of the State's holding as set out in Bill to the Storting no. 131 (2009–2010). As a result of the implementation of the take-over as of 28 February 2011, the State's holding was reduced to 34.26 per cent. The government aims to increase its holding up towards 40 per cent. The transaction alters *Norsk Hydro*'s strategic position and gives the company the raw material-based resource base that appears necessary in order to take an active role in the rapidly growing aluminium industry.

In connection with the re-balancing of the State budget for 2010, the equity in *Statkraft SF* was increased by NOK 14 billion; cf. Bill to the Storting no. 24 (2010–2011). The strengthening of the capital situation provides a robust financial basis on which the company can continue its offensive initiative within environmentally friendly renewable energy in the future, both in Norway and internationally.

Reorganisation at group level

Mesta Konsern AS was founded on 21 May 2008 as part of the demerger of *Mesta AS*. The operation was organised into the parent company *Mesta Konsern AS* and eight subsidiaries. The new corporate structure was introduced on 1 September 2008.

New establishments

Gassnova SF was established by a Royal Decree of 29 June 2007. Ownership was assigned to the Ministry of Petroleum and Energy. Prior to this, *Gassnova* was an administrative body.

In the State budget for 2008, the government proposed the establishment of a new State investment company with equity of NOK 2.2 billion. *Statens Investeringselskap AS* was founded on 21 February 2008 as a subsidiary of Innovation Norway. The company has since been renamed *Investinor AS*.

Norsk Helsenett SF was founded on 1 June 2009, with ownership being assigned to the Ministry of Health and Care Services; cf. Bill to the

Storting no. 67 (2008–2009). Later the same year, the company took over the entire operation of Norsk Helsenett AS and associated rights and obligations. Until then, Norsk Helsenett AS had been owned by the four regional healthcare enterprises.

Winding-up proceedings

In June 2007, the Parliament decided to wind up *Statskonsult AS*. From 1 January 2008, a new administrative body, the Agency for Public Management and eGovernment, was established, consisting of employees of Statkonsult AS, Norge.no and the Norwegian e-Procurement Secretariat. This formed part of an initiative to strengthen the work relating to renewal, ICT, management, organisation and reorganisation, information policy, procurement policy and competence development.

At the ordinary general meeting of *Venturefondet AS* in April 2007, it was decided to reduce the company's equity by NOK 75 million. This reduction in capital formed part of the strategy to wind up the company; cf. Recommendation to the Storting no. 163 (2006–2007). At the ordinary general meeting on 16 April 2009, it was decided to dissolve *Venturefondet AS*; cf. Bill to the Storting no. 1 and Recommendation to the Storting no. 5 (2010–2011). All items in the company's portfolio have now been wound up.

Other ownership

Raufoss ASA was delisted from Oslo Stock Exchange in spring 2004 and it was decided to wind up the company in the same year. Before the decision was made to wind up the company, all existing fixed assets were sold to industrial owners, who have largely continued Raufoss's operations. Raufoss ASA is still in the process of being wound up.

Report to the Storting no. 46 (2003–2004), *Om SIVAs framtidige virksomhet*, proposed an increase of NOK 150 million in *SIVA*'s equity over the course of a few years, to be repaid to the public purse; cf. Recommendation to the Storting no. 30 (2004–2005). In line with this, the conversion of NOK 50 million from debt to the public purse to invested capital was carried out in 2005, 2006 and 2007.

Eksportutvalget for fisk AS (EFF) was converted to a limited company as of 1 September 2005. EFF is the joint marketing organisation for the fisheries and aquaculture industry. Operation

of the company is fully financed by the fisheries and aquaculture industry through a marketing fee, pursuant to the Act on export duty on fish products.

In June 2007, *Store Norske Spitsbergen Kulkompani AS* received NOK 250 million in the form of a subordinated loan. The loan was linked to the consequences of the fire in the Svea Nord mine in 2005 and the clarification of the associated insurance settlement; cf. Bill to the Storting no. 69. The loan has since been repaid; cf. Bill to the Storting no. 29 (2006–2007).

In 2008, a mandate was granted for the State to participate in the amount of NOK 750 million in a portfolio guarantee agreement for *Eksportfinans ASA*; cf. Bill to the Storting no. 62 (2007–2008). A majority of the shareholders decided to participate in this agreement in order to protect the company from further falls in the value of the securities portfolio.

The State undertook to provide a loan on market conditions to *Eksportfinans ASA* until 31 December 2010; cf. Bill to the Storting no. 32 (2008–2009). This was linked to the challenges that the company was facing in gaining access to long-term financing due to the financial crisis. Access to the loan was granted in order to ensure that Norwegian export companies could continue to receive offers concerning the financing of export contracts which qualify for State-supported loans from *Eksportfinans*.

In 2009, NOK 150 million was awarded to *Avinor AS* as part of a package of initiatives; cf. Bill to the Storting no. 91 (2008–2009). This package of initiatives involved State support, zero dividends and deferred repayment for State loans in order to help the company make the necessary security investments. In order to contribute further to this, the one-off award of a NOK 50 million State loan with deferred repayment and zero dividends was granted; cf. Bill 1 S (2009–2010).

In May 2007, in connection with the consideration of Report to the Storting no. 12 (2006–2007) *Regionale fortrinn – regional framtid*, the Parliament gave its approval of the government's proposal to split the ownership of *Innovation Norway* between the State and the county councils; cf. Recommendation to the Storting no. 166 (2006–2007). The necessary statutory amendments were sanctioned in January 2009. The change in ownership was implemented with effect from 1 January 2010; cf. Bill to the Odelsting no. 10 and Recommendation to the Odelsting no. 30 (2008–2009). Prior to this change, *Innovation Norway* was wholly owned by the State.

Table 2.2 Overview of the development of the value of the State's holdings in listed companies 31.12.05–31.12.10 (NOK million).

Company	State share-holding 31.12.10	Value of State's share-holding 31.12.05	Value of State's share-holding 31.12.10	Increase in value for State	Realised for State during the period ¹	Accumulated dividend to State during the period ²	Net growth in value for State during the period ³
Cermaq ASA	43.54%	2 205	3 624	1 419	-	397	1 817
DnB NOR ASA	34,00%	32 727	45 356	12 629	108	6 417	19 154
Kongsberg Gruppen ASA	50.00%	1 860	7 980	6 120	-	348	6 468
Norsk Hydro ASA ⁴	43.82%	78 644	30 205	-48 439	-992	8 315	-41 116
SA AB	14.29%	2 045	917	-1 129	-1 294	-	-2 423
Statoil ASA	67.00%	238 035	296 104	58 069	-16 857	71 712	112 925
Telenor ASA	53.97%	61 013	84 816	23 803	2 113	9 429	35 345
Yara International ASA	36.21%	11 198	35 299	24 101	1 101	1 910	27 112
Total for listed companies		427 727	504 301	76 574	-15 821	98 529	159 282

¹ Total from the purchase/sale of shares, capital invested and/or settlements for deleted shares for the State.

² Including dividend provision for the State for the 2009 accounting year, paid in 2010.

³ Including changes in shareholdings.

⁴ The value line for Norsk Hydro ASA 2010 was calculated using the number of shares that applied after the rights issue.

On 4 June 2010, *Mesta Konsern AS* repaid NOK 129 million to the State as a result of a ruling by EFTA's Monitoring Body that the company had received funds in breach of the regulations concerning State aid.

Reorganisation within the regional healthcare enterprises

In January 2007, the government decided to merge the former healthcare regions Helse Sør and Helse Øst; cf. Bill to the Storting no. 44 and Recommendation to the Storting no. 167 (2006–2007). The reason behind the decision was the need to improve the utilisation of resources and the coordination of the specialist healthcare service between the two health regions, particularly in the region of the capital. The new regional healthcare enterprise *Helse Sør-Øst RHF* was established with effect from 1 June 2007.

2.2.2 Return on investment and development in the value of the State's portfolio since the previous ownership report

Listed companies

The value of the State's assets on Oslo Stock Exchange directly administered by the government ministries at the end of 2010 was NOK 504 billion and compares with NOK 428 billion at the end of 2005, representing an increase of NOK 76 billion during the period; cf. Table 2.2⁹. During the same period, the State received NOK 98.5 billion in dividends from the listed companies, in addition to NOK 15.8 billion net invested in the form of the purchase/sale of shares, capital invested and/or settlements for deleted shares for the State¹⁰. Collectively, this gives a return on the State's combined portfolio of 37.2 per cent, equivalent to an average annual return of 6.5 per cent.¹¹

⁹ The figures for 2010 do not include the State's indirect holding in Aker Solutions ASA, through Aker Holding AS.

¹⁰ As part of the programme of a number of companies to buy-back shares and delete them, the State has deleted shares on a pro rata basis in order to maintain its holding percentage.

¹¹ The calculation assumes that the dividend is not reinvested.



Figure 2.3 The value of the State's shares in Yara International ASA increased by 315 per cent during the period 2005–2010.

Photo: Yara International ASA and Sebastian Braum

The return on the State's portfolio has therefore been higher than on the main Oslo Stock Exchange index, which by 32.2 per cent during the same period rose, corresponding to an average annual return of 5.7 per cent.

Other companies with commercial objectives

Table 2.3 presents a selection of other companies with commercial aims, as well as some of the largest companies with sectoral policy objectives. These companies are not valued on the capital market. For the sake of simplicity, the valuation estimates for the companies were determined using the company's book equity minus minority interests¹².

The State's total assets in these companies amounted to NOK 87.2 billion as of 30 June 2010, compared with NOK 60.7 billion as of 31 December 2005. During the same period, the State received NOK 36.3 billion in dividends from these companies, as well as NOK 7.4 billion net invested in the form of the purchase/sale of shares, capital invested and/or settlements for deleted shares. In total, this gives a return of 91.3 per cent based on accounting sizes, corresponding to an average annual return of 13.9 per cent.

2.2.3 Developments in industry and within ownership administration

The discussion in this section is particularly linked to the holdings in the commercial companies. For companies that have largely sectoral policy objectives, an inter-ministerial working group

has been set up to look in more detail at governance forms with regard to these companies. This work is expected to be completed in 2011.

The State has traditionally been the owner of Norwegian companies which have operated in Norway and where the companies' strategic, financial and industrial development within the framework of the objectives established by the State for its ownership has been in focus.

In recent years, many of the companies with commercial objectives have become more international in their operations as a result of increasingly global trading patterns and an ever-increasing pace of technological and industrial development. Examples of problems that have attracted attention in the wake of these developments are principles for corporate governance, corporate social responsibility and pay and incentive schemes. A common characteristic of these problems is that they are considered to be important to the financial development of the companies in both the short and the long term, and as such they represent a development where owners have gained a broader perspective on what contributes to the industrial and financial development of the companies.

This is not a new development since the previous ownership report was presented in 2006, but the pace of change has accelerated in recent years and influenced the way in which owners, including the State, manage their ownership.

On behalf of the Ministry of Trade and Industry, the consultancy firm McKinsey & Co has prepared a report on the general characteristics of international developments within corporate governance for both State and private players, as a starting point for the further development of the State's owner follow-up¹³. The report highlights key, global development characteristics:

- A faster pace of development within industry in the form of technological development and internationalisation is making it more demanding for both owners and boards to contribute to value creation for their company. More frequent changes and more demanding requirements for reorganisation necessitate an active owner which supports the company's development by being able to take fast decisions. It is becoming increasingly important for an owner to have a dynamic perspective on value development within each individual company. Owners must define how they wish to create value

¹² The most recently available figures are as of 30 June 2010.

¹³ McKinsey & Company: Statlig eierskap, Report to the Ministry of Trade and Industry, 2011.

Table 2.3 Overview of developments in the value of the State's holdings in selected non-listed companies 31.12.05–30.06.10 (NOK million).

Company	State share-holding 30.06.10	Value of State's share-holding 31.12.05	Value of State's share-holding 30.06.10	Increase in value for State	Realised for State during the period ¹	Accumulated dividend to State during the period ²	Net growth in value for State during the period ³
Aker Holding AS ⁴	30%	–	1 006	1 006	-4 819	238	-3 575
Argentum							
Fondsinvesteringer AS	100%	3 080	5 679	2 599	-2 000	384	983
Baneservice AS ⁴	100%	163	164	1	–	27	28
BaneTele AS ⁵	0%	131	–	-131	715	–	584
Eksportfinans ASA	15%	387	733	346	-180	155	321
Electronic Chart Centre AS	100%	12	19	7	–	4	11
Entra Eiendom AS	100%	7 170	6 518	-652	–	519	-133
Flytoget AS	100%	734	969	235	–	269	504
Kommunalbanken AS ⁶	100%	809	3 925	3 116	-963	302	2 455
Mesta AS	100%	2 252	1 341	-911	129	77	-705
Nammo AS	100%	306	1 435	1 129	-62	282	1 349
NSB AS ⁴	100%	6 176	6 572	396	–	1 214	1 610
Posten Norge AS	100%	4 739	5 819	1 080	–	1 085	2 165
Secora AS	100%	52	61	9	–	2	11
Statkraft SF	100%	34 061	51 524	17 463	–	31 326	48 789
Store Norske Spitsbergen							
Kulkompani AS	100%	518	1 434	916	-329	385	972
Venturefondet AS ⁷	0%	96	–	-96	100	–	4
Veterinærmedisinsk Oppdragscenter AS ⁴	40%	18	7	-11	–	12	1
Total non-listed companies		60 704	87 205	26 501	-7 410	36 281	55 372

¹ Total from the purchase/sale of shares, capital invested and/or settlements for deleted shares for the State.

² Including dividend provision for the State for the 2009 accounting year, paid in 2010.

³ Including changes in shareholdings.

⁴ Aker Holding AS, Baneservice AS, NSB AS and Veterinærmedisinsk Oppdragscenter AS do not compile half-yearly figures. The value as of 31 December 2009 was therefore used.

⁵ In autumn 2006, a private placement of NOK 625 million was carried out, which gave the Broadband Alliance a 50 per cent holding in BaneTele AS. In November 2008, the State exercised its right to sell the remainder of the company to the Broadband Alliance.

⁶ After Kommunekreditt had been acquired by KLP in spring 2009, the State, via the Ministry of Local Government and Regional Development, acquired KLP's 20 per cent share in Kommunalbanken. As of 26 June 2009, Kommunalbanken AS was wholly owned by the State.

⁷ The aim behind the State's ownership of Venturefondet in recent years has been to wind up the fund. In connection with this, NOK 75 million was reversed in 2007 through a capital reduction, whilst in 2010, a wind-up dividend of NOK 24.7 million was paid.

in their role as owner. This requires the considerable input of resources, partly to secure an adequate level of knowledge concerning each individual company in the portfolio and the market in which it operates.

– An increase in the number of passive institutional owners with a small shareholding in a large number of companies has resulted in many companies being seen as “owner-less”. This creates scope for and expectations con-

cerning active ownership from major owners, regardless of whether they are in the State or the private sector. An important implication for a State owner with a substantial shareholding is that, in addition to developing its own strategic analysis for each company and using this analysis in its dialogue with the company, it must ensure competent and effective boards through a professional process for evaluation and selection.

- Since the Enron and WorldCom scandals, amongst others, there has been a focus on the importance of correct corporate governance. The weaknesses in this area, which were once again demonstrated during the financial crisis, reinforced this focus further. Companies with management or owners which the market believes do not meet the requirements for good corporate governance are penalised in the market and have their value reduced. To safeguard the legitimacy of State ownership, it is vital that the State ownership fulfils generally accepted requirements for good corporate governance and that the ownership is organised in a way which clearly separates the role of owner from the State's other roles with respect to the companies it owns. There must also be complete transparency surrounding the objectives behind the State ownership.

Each of these points is discussed in more detail below. A discussion is also presented of the way in which different types of owner seek to maximise the development of their companies. This presentation is based on McKinsey's report.

2.2.3.1 *Faster global industrial and technological development*

Faster global changes as regards technology and innovation are reducing expectations as regards the lifetime of companies and making it more difficult for companies to maintain strategic positions over time. Companies must change rapidly. A strong position today is less of a guarantee of a strong position tomorrow than it used to be.

New technology is winning market share at an ever-increasing pace. While it took about 60 years from the launch of the telephone until 60 per cent penetration was achieved amongst possible users, and almost 130 years until 100 per cent penetration, the mobile telephone took just 25 years to reach a similar level of penetration; cf. figure 2.4, which shows how much faster new technology reaches consumers today.

Trade barriers are increasingly being eliminated as international competition increases in many industries. This means that companies that only produce for the national market are also

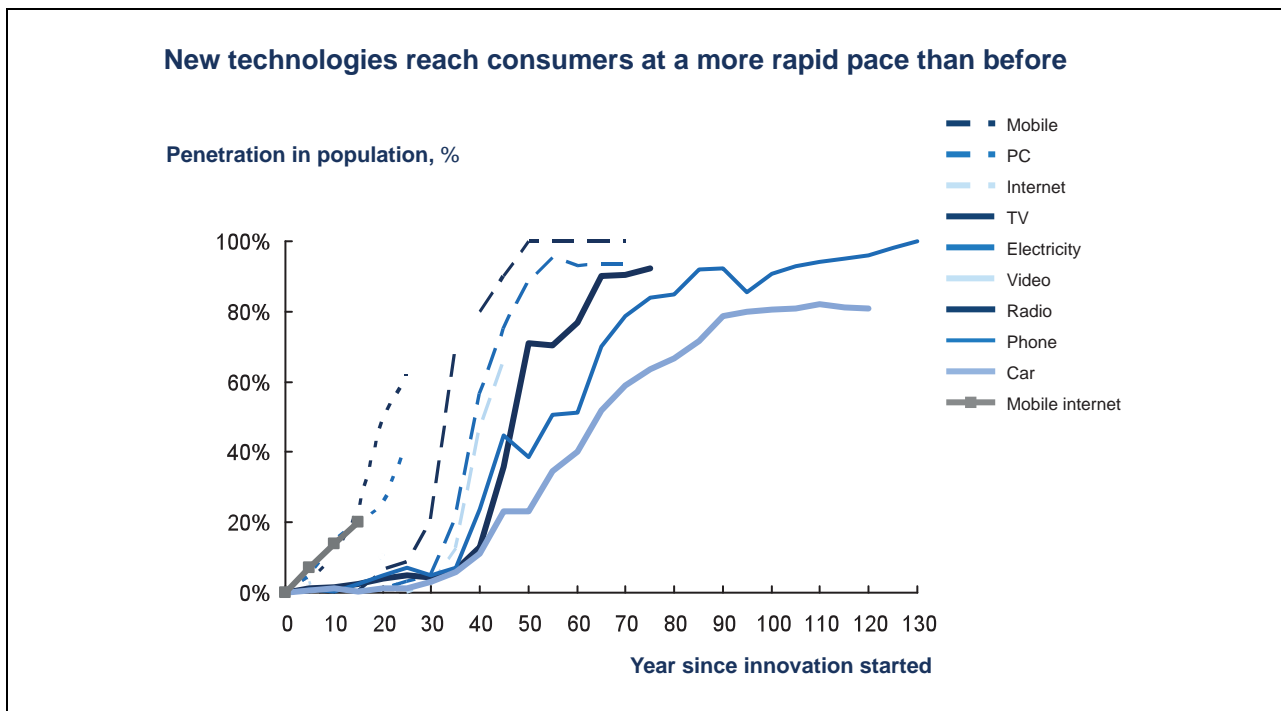


Figure 2.4 New technology – penetration amongst the population per year after the innovation was launched (per cent).

Source: Corporate Angels, <http://www.corpangels.com/blogs/innovation/corporate-america-designed-to-fall-part-1/>

being exposed to international competition. Indirectly, changes in cost levels in exporting countries could therefore also affect the competitiveness of companies that only produce for a national market. Finally, an increasing proportion of value creation globally is taking place in emerging economies. This is illustrated by Figure 2.5.

These forces do not affect all companies to the same extent. Some industries remain largely national and the pace of change is also not as great in all industries. Nonetheless, the majority of the companies in the Ministry of Trade and Industry’s portfolio are exposed to these trends to some degree. It will become increasingly important for many companies to actively relate to emerging economies. Having a knowledge and experience of traditional core markets is no longer sufficient. These development characteristics have major implications for the management, boards and owners of the companies.

The companies must be adaptable and able to take fast decisions as and when commercial opportunities arise. For the day-to-day management of the companies, this will necessitate ongoing assessments and studies of potential strategic decisions. A good management team must therefore have a focus on external developments and trends, in addition to their focus on daily opera-

tions. International experience and networks are becoming increasingly important.

Boards must at all times have an active view of strategic issues and changes in competition preconditions. This requires a fundamental understanding of the company’s operations, the markets in which the company operates and the trends that affect the company. The appointment of a CEO will remain as important a task as it always has been. An appropriately composed board is therefore vital. The board should possess expertise that is relevant to the company’s current operations. This also means a knowledge of related industries which could shape the company’s development to a significant degree. International experience and insight represented on the board is also becoming extremely important for an increasing number of companies.

McKinsey notes that owners must expect to have to make decisions concerning major strategic realignments and investments more frequently than was previously the case. So as not to abandon the company’s own assessments, this will require owners to develop their own perspectives concerning the key developments and opportunities for their own companies. Owners must have their own perspectives on their company’s development even if they do not wish to be an active owner in relation to the company’s indus-

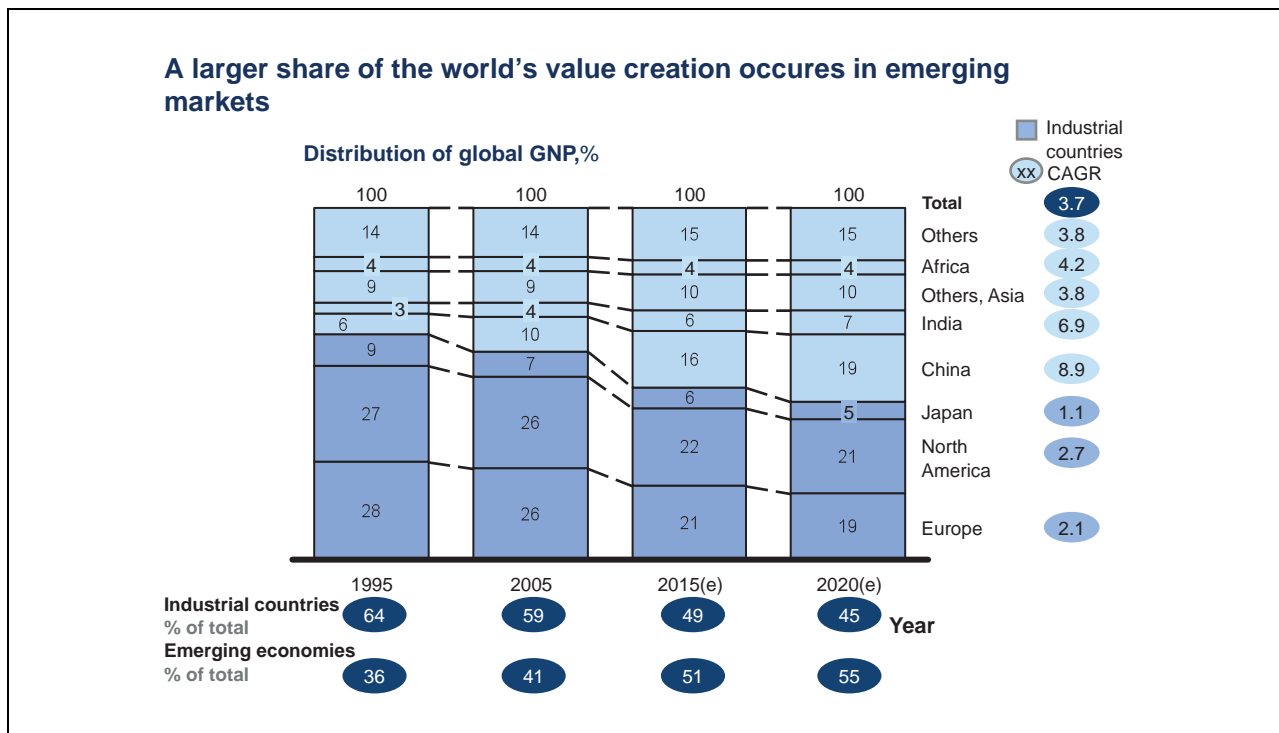


Figure 2.5 Developments in the distribution of value creation globally in different markets (per cent).

Source: McKinsey Global Insight; McKinsey analysis.

trial and strategic development. Without such perspectives, it would be difficult to make decisions concerning key owner issues, such as acquisitions and share issues, quickly and in an appropriate way. In spite of this, given the complexity of decisions and the pace of reorganisation, owners will become increasingly dependent on the support of a competent and independent board.

As substantial changes in value must be anticipated between companies, with some companies increasing sharply in value and others falling sharply, it will also become increasingly difficult for an owner to have a static perspective on his ownership. Owners that actively buy and sell holdings in a large number of companies, known as ‘portfolio managers’, will seek owner exposure with respect to future winners whilst at the same time reducing their capital binding in companies and industries that are not considered to be future-proof. For their part, owners with a more long-term perspective on their ownership must ensure that they act as a driving force behind the company’s development rather than as a brake. Relevant issues could include the right timing and form of internationalisation, acquisitions or mergers with other companies. In spite of a long-term perspective on the actual holding in a company, it would be difficult to justify a static view of the company’s objectives. McKinsey also points out that long-term owners should have a strategy as regards what they want to achieve through their holding in each individual company.

2.2.3.2 *More fragmented ownership in major listed companies*

In most private listed companies, ownership is spread between a large number of institutional investors. The Government Pension Fund Global for example had an average holding in each of its companies of approx. 1 per cent in 2009 and yet is still frequently amongst the companies’ 20 largest shareholders. On average, the ten largest shareholders in each company on the stock exchanges in New York and London own 29¹⁴ per cent and 30¹⁵ per cent of the ten largest companies respectively; cf. figure 2.6.

¹⁴ This figure includes the family-owned company Wal-Mart, of which the ten largest owners own 56 per cent of the companies on average.

¹⁵ This figure includes the Royal Bank of Scotland and Lloyds banks, of which the ten largest owners own 73 and 48 per cent of the companies on average. In both these banks, the British government has become the largest shareholder as a result of essential support during the financial crisis.

Institutional owners, such as pension funds and collective investment funds, have typically spread their investments between a large number of companies and are therefore relatively inactive with respect to individual companies as regards the follow-up of strategic and financial development. They vote passively “with their feet” and sell their holdings in companies that they do not believe will generate an attractive return. This development has led many people to refer to such companies as “owner-less”. This ostensible absence of active ownership, which could have acted as a counterbalance to company management teams with potentially short-term financial incentives, is highlighted as a possible explanation of the financial crisis.

The government-appointed Walker Committee in the United Kingdom discussed these issues and proposed the imposition of greater demands on owners and boards as appropriate tools. In the opinion of the committee, board members should be encouraged and expected to challenge the company management’s strategy proposals. In large, complicated companies, the role of board chairman is described as a role which requires two-thirds of a full-time post. The board should carry out a periodic self-evaluation and publish the results of this evaluation.

The imposition of requirements concerning active ownership on owners with very small shareholdings in a company is far from uncomplicated. Even Norges Bank, as administrator of the Government Pension Fund Global, one of the largest funds in the world, would find it difficult to allocate substantial resources to active ownership in all its approximately 8000 company investments. On the other hand, the problem of the “free rider” (or “freeloader”) is an obvious one if requirements are not imposed on all shareholders. As the owner of a 0.5 per cent share in a company for example, one could in an extreme case bear the entire cost of active ownership, yet receive only 0.5 per cent of the profit.

Another response to the phenomenon of “owner-less” companies is the emergence of very active owners, e.g. the group that is often referred to as ‘Private Equity owners’. Such owners focus on a limited number of companies and actively influence those companies. There is empirical evidence to suggest that the best of these owner environments are succeeding in creating added value by practising active ownership.

There seems to be a trend towards polarisation, where owners become either entirely passive with regard to a large number of companies in a

The ownership in the largest listed companies are fragmented

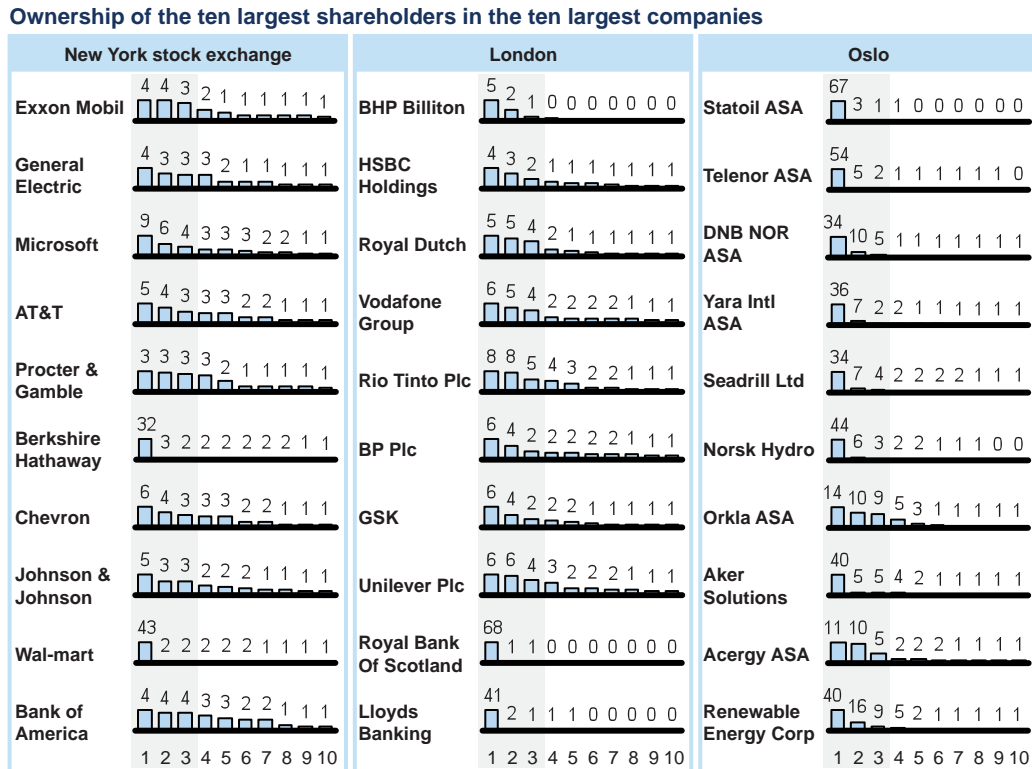


Figure 2.6 Ownership for the ten largest shareholders in the ten largest listed companies on selected stock exchanges (per cent).

Source: The 2008 Institutional Investment Report, Bloomberg.

broadly diversified portfolio or very active with regard to a limited number of companies in which they have a major shareholding.

The consequence of the fragmentation of the owner structure is that owners with substantial shareholdings, which the State usually has in its direct ownership, will not be able to expect the other owners to exercise active ownership to any significant degree. If the State does not exercise such ownership itself, it will therefore risk becoming entirely dependent on the company’s management and board taking decisions in line with the owners’ interests with regard to development of the company, the risks within the company and the return on equity. Unless the State has an active approach to the companies, it could put itself in a position where an owner vacuum is created in companies in which it is a major owner. This situation could be open to criticism by smaller shareholders who do not have the same influence or opportunity to exercise active ownership. Therefore, as the owner of substantial share-

holdings, the State should, according to McKinsey, develop its own perspectives on the companies in which it has invested. These perspectives should form the basis for an assessment of suitable board compositions and of when and how one as owner should challenge the companies’ management teams. When the State succeeds in its active ownership, it could constitute an advantage compared with companies that only have institutional, passive owners.

2.2.3.3 Stronger focus on Corporate Governance

The debate surrounding corporate government accelerated in the wake of the company and accounting scandals in the late 1990s and early 2000s. These events led to requirements concerning the strengthening of internal controls and reporting within companies, a greater degree of transparency linked to the companies’ management-related circumstances (including remuneration of the management team), requirements con-

cerning better accounting information, and requirements linked to independence and controls with the companies' auditors. The requirements resulted in comprehensive framework legislation in some countries and many non-binding recommendations, including the OECD's principles for corporate governance from 2004. In retrospect, the financial crisis has further reinforced the focus on this theme.

In 2004, the Norwegian Corporate Governance Board (NGCB) prepared the Norwegian Code of Practice for Corporate Governance, which has since been updated on a number of occasions. The recommendations are based on, and largely in accordance with, the most important corresponding international initiatives, and have amongst other things helped to clarify the distribution of roles between shareholders, boards and general management over and above that which follows from applicable legislation. The State has developed and published its own principles for its corporate governance, but it has also supported the NUES recommendations.

The strong focus on corporate governance has resulted in owners who fail to follow the recognised principles being subject to considerable criticism and the value of companies in which such owners have substantial shareholdings will very probably be adversely affected; cf. figure 2.7.

If the State is not seen as an owner which follows the rules for good corporate governance, it could not only adversely affect the value of the companies that the State owns; given the size of the State in the Norwegian stock market, the level of trust in the Norwegian stock market could also be weakened with a resultant fall in the market as a whole. It is therefore of great importance that the State as owner fully adheres to established principles for good corporate governance.

Strategies for different types of ownership

Different owners perform their role as owner in different ways. One of the distinguishing factors is the degree of active involvement and the way in which the owner becomes involved. McKinsey

Willingness to pay amongst investors in order to comply with established principles for good corporate governance

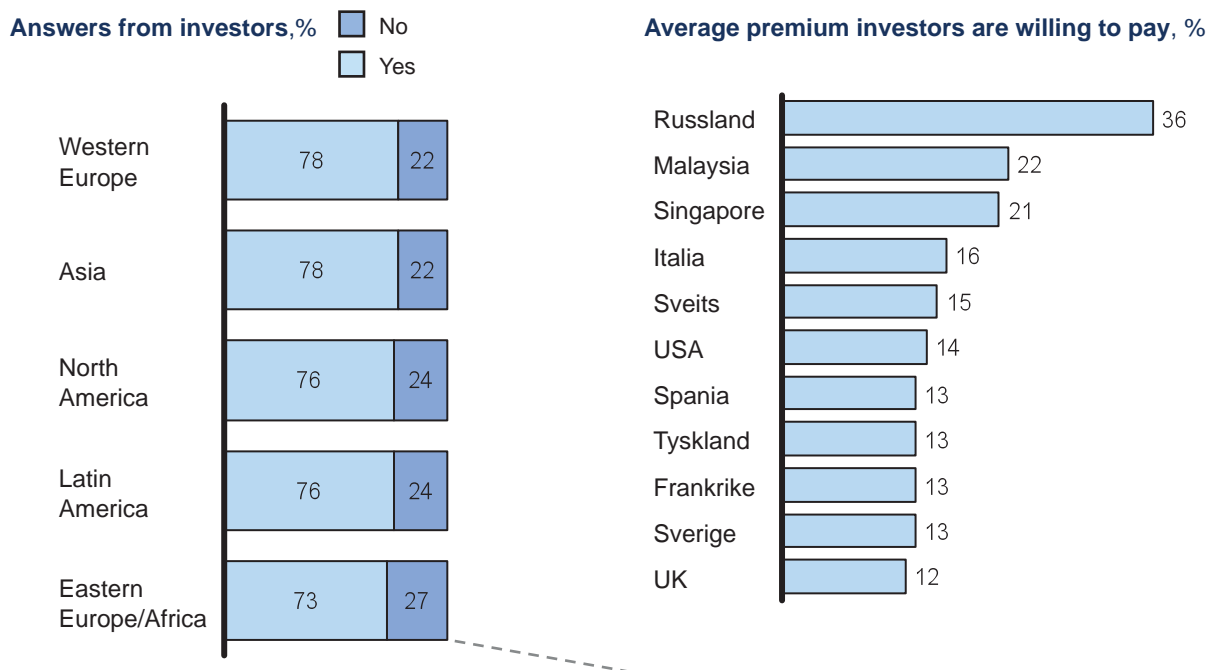


Figure 2.7 Willingness to pay amongst investors in order to comply with established principles for good corporate governance (proportion willing to pay a premium and average percentage premium).

Source: McKinsey Global Investor Opinion Survey on Corporate Governance, 2002

notes that, at a general level, three principal categories of owner can be distinguished: institutional and predominantly passive owners (such as Yale and Hermes), long-term strategic investors (such as Investor (Sweden, private) and Temasek (Singapore, State)) and owners with a focus on operational involvement (such as Private Equity companies). There are many examples of owners being successful within each of these models. Each category of owner has different methods for contributing to value creation.

Institutional investors generally focus on investment strategy and governance and are thus relatively passive owners, often with many small shareholdings in a large number of companies. The best of these institutions create value by distributing their investments based on specialist expertise and insight, clear guidelines for governance in the portfolio companies and by selling holdings that do not meet the owners' expectations. This type of investor can actively influence companies in which they are one of the biggest shareholders by, for example, voting at the annual general meeting and maintaining a dialogue with the board chairman in connection with structural changes and other events of importance to future financial returns.

Long-term strategic investors often have a portfolio with a number of core companies – often with large shareholdings – which they monitor closely, partly so that they can also develop an industrial sector in a long-term perspective. Some of these owner environments exert considerable strategic influence and take the initiative to influence important strategic decisions and acquisitions. Owners often actively strive to pursue a merger-

and acquisition-oriented agenda and establish and follow up financial objectives. Such owners are heavily involved in the appointment of the board and operate with a network of professional company managers and board members. McKinsey points to Investor, the State entities Temasek (Singapore) and Khazanah (Malaysia), Orkla, Industrivärden and Kinnevik as examples of long-term and strategic owners.

Owners with a focus on operational involvement become actively involved both in the strategic agenda and with regard to operational changes in collaboration with the company's management. They often become heavily involved in the value creation process within each individual company and exploit economies of scope between companies in the portfolio, e.g. within corporate services and IT. Examples of owners with an active operational involvement are General Electric (GE) and many of the Private Equity ("PE") funds, such as Blackstone. The PE funds' investment managers for the individual companies usually sit on the boards of the companies in order to follow the agenda and developments within the companies on an ongoing basis.

McKinsey notes that the State as owner could benefit greatly from individual strategies that are used by highly capable institutional investors or long-term strategic investors in order to develop their corporate governance. Nevertheless, it is important to be clear about the board's role and responsibilities and the fact that the cabinet ministers and ministry are not responsible for commercial decisions taken by the board. The government ministries are therefore not represented by their own members on the boards.

3 The State's ownership administration

3.1 The various roles of the State

The State performs many different roles in society. It is important to have a conscious attitude to the differences between the State's roles as a policy maker, market regulator and exerciser of authority and the role that the State performs as owner. The State must be clear over its role and the fact that different opportunities and limitations lie within the various roles. The State normally exercises its authority through legislation (statutes and regulations), by imposing conditions on concessions authorised by law, by granting licences, by signing contracts and by making executive decisions in individual cases. A related form of authority exercising is the use of economic instruments such as the procurement of services and levying of taxes and duties. The State is also able to exert its influence through dialogue with both public and private sector companies, with regard to expectations concerning corporate self-regulation and corporate social responsibility for example. The State also performs the roles of supervisory body and appeal body within society. These roles are often separate from other authority tasks in order to create more trust in the decision-making process.

The government believes that this separation is important in order to secure the legitimacy of these roles and to create trust in the State as owner. If sector-regulating authority, responsibility for sector supervision and ownership of companies were to be placed under the same ministry, this would create an opportunity to pursue a holistic policy. However, it could also increase the risk of roles becoming mixed. Centralisation of the aspect of corporate governance where the aim behind the State ownership is largely commercial, combined with transparency within the administration, has helped to reduce the conflict in roles, and makes the corporate governance more refined, effective and professional. The majority of the State's commercial shareholdings are currently administered by the Ministry of Trade and Industry. There are important exceptions, such as Statoil ASA and Posten Norge AS, which for differ-

ent reasons are administered by the sector ministries.

Within the companies with commercial objectives, the State exercises its role of owner through the annual general meeting whilst respecting the distribution of roles between owner, board and general management on which company legislation is based. The key principles for the State's corporate governance are described in 5.4.7.

For many of the companies in which the State has a shareholding, sectoral policy goals are however important. Many of these companies are given responsibility for natural monopolies (Avinor AS, Statnett SF) or regulatory monopolies (AS Vinmonopolet, Norsk Tipping AS). Other companies are entirely financed via the State budget (Enova SF, Petoro AS) or via separate charges (NRK AS). In such cases, where the element of market control is more limited and where non-financial goals are linked to the requirement for efficient resource use, more complex governance problems can arise, and separating the role of political sector administrator from that of owner can be more problematic. Nevertheless, the decision to place these companies in their own legal entities (limited companies, State agencies) outside the administration indicates that the principles for corporate governance (cf. 5.4.7) must also form the basis for corporate governance here¹.

3.2 Framework for the State's ownership administration

3.2.1 Constitutional framework

Article 3 of the Constitution of the Kingdom of Norway prescribes that executive power is vested in the King, which in practice means the Government. However, the Storting has a mandate to

¹ An inter-ministerial working group has been set up under the Ministry of Government Administration and Reform to look more closely at the use of governance forms with regard to companies that largely perform sectoral policy tasks. The framework for the use of corporate governance is a pivotal theme for the working group, which is expected to complete its work by the end of June 2011.

issue general guidelines and to instruct the Government in individual cases by means of plenary resolutions of the Storting or enactments of bills.

State ownership of enterprises is also regulated by Article 19 of the Constitution:

”The King shall ensure that the properties and prerogatives of the State are utilised and administered in the manner determined by the Storting and in the best interests of the general public”.

It is thus the Government that administrates the State’s shares and exercises a proprietorial role in State-owned enterprises and special law companies etc. This provision expressly gives the Storting a mandate to instruct the Government in matters pertaining to State ownership.

Pursuant to Part 3 of Article 12 of the Constitution, administration of State ownership is delegated to the ministry under which the company sorts. The minister’s administration of ownership is exercised under constitutional and parliamentary responsibility.

The Parliament’s funding mandate means that the consent of the Storting must be obtained in the event of changes in the State’s shareholdings in a company (buying and selling of shares) and decisions concerning capital increases.

State companies will normally be able to buy and sell shares in other companies and acquire or dispose of parts of companies when this represents a natural part of the process of adapting the company’s object-specific operations, without needing to obtain the consent of the Storting. However, in State limited companies (companies where the State is the sole shareholder), the consent of the Storting must be obtained in respect of decisions which would significantly change the State’s commitment or the nature of the business. In part-owned companies, issues are occasionally considered which must be brought before the shareholders’ general meeting (e.g. mergers or demergers). Depending on the State’s shareholding in the company, it may be necessary to submit such matters to the Storting; cf. Recommendation to the Storting no. 277 (1976 – 1977).

The Office of the Auditor General conducts audits of the minister’s (ministry’s) administration of State ownership and reports on the outcome of its audits to the Storting.

3.2.2 The minister’s mandate within the company

The legal basis for the minister’s proprietorial mandate in a State limited company is Article 5-1 of the Limited Liability Companies Act, which reads:

”Through the general meeting, the shareholders exercise supreme authority in the company.”

A similar provision applies to public limited companies, State-owned enterprises and special law companies. In relation to State-owned enterprises, the term “general meeting” is replaced by “corporate assembly”, but is in effect identical. The term “general meeting” is used hereinafter as a common term to refer to both forms of meeting.

A general meeting is a meeting that is held in accordance with detailed rules laid down in company law. The company’s general manager, board members, any members of the corporate assembly and the company’s auditor must be summoned and have the right to attend and speak at the general meeting. The chair of the board and general manager have a duty to attend. In addition, the Office of the Auditor General is notified of general meetings and is entitled to attend such meetings. Minutes must be taken of the general meeting. Any general manager, member of the board or member of the corporate assembly who disagrees with a decision made by the person(s) representing the company’s shareholders shall require his/her dissent to be recorded in the minutes.

The rules regarding minute-taking and notification of the Office of the Auditor General provide the basis for constitutional supervision of the administration of the State’s ownership.

Provisions in Article 5-1 of the Limited Liability Companies Act/Public Limited Companies Act entail that the minister, through the general meeting, has supremacy over the board in State limited companies and may issue instructions by which the board is bound. These may consist of general instructions or special instructions concerning an individual matter. The State has traditionally been cautious about instructing companies with regard to individual matters. This is firstly linked to the fact that it breaks with and undermines the distribution of roles and responsibilities set out in company legislation; cf. 3.2.3. An instruction at a general meeting could result in the board resigning instead of acceding to the instruction. Secondly, active use of the instruction mandate at a general meeting could clash with the constitutional

responsibility that the government has with respect to the Storting in that the government would take more responsibility for appropriations which would normally rest with the boards of the companies. Active use of the instruction mandate could also clash with any liability to pay compensation to third parties.

Another consequence of Article 5-1 of the Limited Liability Companies Act/Public Limited Companies Act is that the minister, in the capacity of the general meeting, has no authority within the company if the general meeting form is not utilised.

In part-owned companies, there are, in addition to those referred to above, additional restrictions out of consideration for the other shareholders and the principle of parity in the Limited Liability Companies Act; cf. Article 5-21 of the Limited Liability Companies Act/Public Limited Companies Act. This means that, even if it is the majority shareholder, the State may not serve its own interests at the expense of the other shareholders in the company. The requirement regarding the equal treatment of shareholders imposes a restriction for example on access to the free exchange of information between the company and the ministry. The company legislation also prescribes clear guidelines regarding the State's management dialogue with listed companies. However, this does not prevent matters outside the ordinary owner dialogue that are in the public interest from being addressed in the ownership dialogue that the State pursues with the company, as it does with other shareholders and other stakeholders generally.

3.2.3 Administration of the company

The companies' management consists of the board of directors and a general manager. The corporate form of limited company and the other corporate forms utilised for State-owned enterprises are based on a clear-cut division of roles between the owner and the corporate management. According to Article 6-12 of the Limited Liability Companies Act/Public Limited Companies Act and similar provisions in legislation governing companies, administration of the company is vested in the board and the general manager, i.e. the company's management. This means that the commercial management of the company and the responsibility for this is vested in the corporate management. The board and general manager are required to practise their administration in the best interests of the company and the owners.

Within the general and special frameworks prescribed by the Storting for the company, the State as owner safeguards its interests through the annual general meeting/corporate assembly. In connection with their administration of the company, the members of the board and the general manager are personally liable under compensation and criminal law as set out in applicable company legislation.

3.2.4 Other frameworks

Besides the frameworks that ensue from the Constitution, general public administration legislation and company legislation, the exercising of ownership is chiefly governed by company legislation, competition legislation and stock exchange and securities legislation which impose requirements on corporate governance. Other central legal frameworks ensue from EEA regulations, including the rules regarding State aid.

Public ownership and the EEA Agreement

The EEA Agreement is essentially neutral on the question of public and private sector ownership; cf. Articles 125 and 59 (2). The ban on State aid in Article 61 (1) of the EEA Agreement thus also applies to public undertakings. This bars the Government from favouring non-commercial interests in the exercising of State ownership. In order to determine when public funds with which an enterprise is furnished constitute aid, the European Court of Justice and the European Commission have devised the so-called "market investor principle". If the public sector invests capital subject to conditions that differ from what a comparable private investor could be expected to impose, it may indicate that the investment results in a financial advantage for the enterprise concerned, which could be in breach of the rules concerning public sector aid. This means that the State is required to demand a normal market return on capital invested in an enterprise operating in competition with others. The EFTA's Surveillance Authority (ES) monitors Norwegian compliance with the rules regarding State aid.

The competition regulations

As a general rule, changes in State ownership may also cover circumstances that will be considered by Norwegian or other competition authorities. This applies for example to enterprise cooperatives which the competition authorities must

supervise in accordance with the competition rules for enterprises. In such cases, the government will propose to the Storting that reservations be issued concerning the consideration of such issues by such authorities, so that they are not considered in any special way as a result of the State ownership².

Regulations for Financial Management in Government

Article 10 of the Regulations for Financial Management in Government state that:

“Undertakings with executive responsibility for State limited companies, State-owned enterprises, special law companies or other independent legal entities wholly or partly owned by Government shall produce written guidelines on the manner in which control and supervisory authority shall be exercised vis-à-vis each company or group of companies. A copy of the guidelines shall be filed with the Office of the Auditor General.

The State must, within applicable laws and rules, administrate its ownership interests in conformance with general principles of good corporate governance with special emphasis on ensuring:

- a. that the corporate form, the company's articles of association, financing and composition of the board are appropriate for the company's objects and ownership*
- b. that exercise of ownership guarantees the equal treatment of all shareholders and underpins a clear division of authority and responsibility between the owning parties and the board*
- c. that goals set for the company are achieved*
- d. that the board functions satisfactorily*

Management, monitoring and supervision and associated guidelines must be made commensurate with the State's shareholding, the characteristics of the company, risk and significance.”

An important principle with regard to limited companies, State-owned companies and special law companies is that the State's financial liability is limited to subscribed equity.

3.2.5 How owner control is influenced based on different shareholdings

Once the Storting has decided that the State is to engage on the owner side in an undertaking organised as an independent legal entity, there will be consequences for the way in which political policies and other aims are to be communicated and how and to what extent interference may be allowed in the company's operations.

The management of a State-owned enterprise, limited company or special law company is distinct from the that of entities within the State administrative system. The owners (including the State as a shareholder) must respect the statutory division of roles between the general meeting/corporate assembly, the board and general management. By organising companies as independent legal entities, as State-owned companies or limited companies, the State essentially waives its options for influencing day-to-day operations.

Through its involvement in nomination processes and election to governing bodies, determination of the company's objects clause and other articles of association, and by laying down frameworks for the undertaking at the general meeting, the State as owner can however still exercise an influence over the company's operations. Such influence will depend on the size of the State's shareholding.

A discussion is presented below of what a shareholder achieves in the way of influence in a company with a number of relevant shareholdings and how this affects corporate governance.

3.2.5.1 Wholly owned companies

Limited companies wholly owned by the State are referred to as State limited companies (*statsaksjeselskaper*) or State public limited companies (*statsallmennaksjeselskaper*)³. The ordinary rules of Norwegian company law also apply to State limited companies. In addition, certain special rules are prescribed which provide the State with extended control of its ownership; cf. Articles 20-4 to 20-7 of the Limited Liability Companies Act/Public Limited Companies Act. A number of wholly owned State companies are also organised as State-owned companies or special law companies. The State-owned companies are to all intents and purposes regulated in the same way as State limited companies.

² The Ministry of Government Administration, Reform and Church Affairs is responsible for the cross-sector instruments used in competition policy, including the competition legislation applicable to enterprises and regulations concerning State aid. The ministry is also the appeal body for cases relating to competition policy linked to both private sector and State companies.

³ The State currently has no State public limited companies.

The main differences for State limited companies as compared with ordinary limited companies is firstly that the general meeting appoints shareholder-elected members to the board even if the company has a corporate assembly; cf. Article 20-4(1) of the Limited Liability Companies Act/Public Limited Companies Act⁴. Furthermore, the King in Council of State is granted access to review the decisions of the corporate assembly/board with regard to matters where significant public interests may call for a reversal of the decision; cf. Article 20-4(2) of the Limited Liability Companies Act/Public Limited Companies Act. In State limited companies, the general meeting is also not bound by the board's or the corporate assembly's proposal for the distribution of dividends; cf. Article 20-4(4) of the Limited Liability Companies Act/Public Limited Companies Act.

There is an obligation for both genders to be represented on the boards of State limited companies and their wholly owned subsidiaries; cf. Article 20-6 of the Limited Liability Companies Act. There is a corresponding obligation on State companies and public limited companies generally; cf. Article 19 of the Act relating to State-owned enterprises and Articles 6-11a and 20-6 of the Public Limited Companies Act. The Office of the Auditor General also has an extended right to audit the minister's administration of the State's share interests; cf. Article 20-7 of the Limited Liability Companies Act/Public Limited Companies Act.

In the case of wholly owned companies, shareholders may, through resolutions made by the annual general meeting, impose obligations on the company which could adversely affect the company's financial results without conflicting with Article 5-21 of the Limited Liability Companies Act/Public Limited Companies Act (misuse of the annual general meeting's powers), cf. also Article 6-28 of the Limited Liability Companies Act/Public Limited Companies Act (misuse of position in the company etc.).

The State's financial liability with regard to limited companies, State-owned companies and special law companies is generally limited to subscribed equity. However, if an owner exceeds its power of control over the company with regard to commercial matters, creditors could raise a claim against the State by invoking law of tort or the doctrine of corporate law concerning piercing of the corporate veil. It is partly for this reason that it

is a precondition that companies must be compensated if they are instructed to make investments or undertake other activities which their board does not consider to be commercially sound. This must take place within the framework that is established through relevant legislation and other regulations.

3.2.5.2 *Part-owned companies*

In cases where the State is a joint shareholder in a company, company law imposes restrictions on the types of resolutions that may be passed at the annual general meeting; cf. Article 5-21 of the Limited Liability Companies Act/Public Limited Companies Act (misuse of the annual general meeting's powers). The purpose of the provision is to safeguard the rights of minority shareholders in relation to the majority. The provision prohibits the general meeting from passing any resolution that is likely to give certain shareholders or others an unreasonable advantage at the expense of other shareholders or the company. In most companies in which it has owner interests, the State is a dominant shareholder and is unable to exercise its part-ownership of the companies without taking into consideration the interests of the minority shareholders. This is of particular relevance in the case of companies where the State's ownership may be justified on the basis of non-commercial objectives and also where the State imposes tasks on companies that do not naturally fall within the remit of the company. Whether or not the realisation of other State objectives constitutes an unreasonable advantage over other shareholders in the company will rest on a comprehensive assessment that must take into account many considerations. The point of departure is therefore the existence of explicit limits to what political aims may be furthered through the corporate governance of part-owned companies.

Depending on the size of the State's shareholding, it will still be possible to pursue a number of important objectives, such as safeguarding the functions of headquarters, control over natural resources, etc.

The following shareholding limits are key in the company legislation:

9/10

If a shareholder has nine-tenths of the share capital and voting rights in a limited company, this majority interest can acquire the remaining shares by way of a compulsory buyout of the other shareholders in the company.

⁴ The State currently has no corporate assembly in State limited/public limited companies.

2/3

A shareholding of more than two-thirds of the share capital affords control over decisions requiring a corresponding majority in conformance with company legislation. Resolutions to amend a company's articles of association require a majority of at least two-thirds of the votes/shares. The same applies to decisions concerning mergers or demergers, the raising/reduction of share capital, the raising of convertible loans, conversions and winding up. This is a key threshold if it is important to ensure control over such resolutions.

1/2

A shareholding of more than half of the votes ensures control over resolutions that require an ordinary majority at the general meeting. These include resolutions such as approval of the annual accounts and resolutions concerning the distribution of dividends. Election of members to the board and corporate assembly also require an ordinary majority. However, the board will be elected by the corporate assembly if such a body exists.

1/3

A shareholding of more than one third of the votes and the capital gives so-called negative control over decisions requiring a two-thirds majority. A shareholding of this size ensures that the holder can oppose significant decisions such as the relocation of headquarters, the raising of share capital, amendments to the articles of association etc., cf. the section on a two-thirds majority.

3.2.5.3 Bid obligation

According to Article 6-1(1) of the Securities Trading Act⁵ any person who through acquisition becomes the owner of shares representing more than one third of the voting rights in a Norwegian listed company is obliged to offer to purchase the remaining shares in the company. Any party who through acquisition becomes the owner of shares representing 40 per cent or more of the company will become subject to another such obligation. The same will apply again at 50 per cent or more⁶. This means that any decision to increase the State's shareholding in a company above these thresholds would trigger the bid obligation, with the result that the State could acquire an unintentionally large shareholding.

⁵ Act No. 75 of 29 June 2007 on securities trading

⁶ Article 6-6(1) of the Securities Trading Act.

3.3 Corporate governance principles

Good corporate governance is vital for the nation's overall economic efficiency and competitiveness. The principles of good corporate governance entail, among other things, a clear distinction between roles and ensure the transparency of decision-making processes. Good corporate governance helps to reduce the risks to which the company is exposed and is of importance as regards the market's confidence and trust in the companies. Long-term value creation within companies is best achieved through sound, transparent processes between the management, board and shareholders where the parties are aware of their roles and responsibilities.

The State is a major shareholder in Norway and companies with State shareholdings constitute a considerable proportion of the Norwegian capital market and Norwegian value creation. The manner in which the State acts as an owner can therefore have a strong influence on public and investor confidence in the Norwegian capital market.

3.3.1 The State's principles for good ownership

The State has formulated its own main principles for good corporate governance. These principles are aimed at all State-owned companies, whether wholly or part-owned. These principles are in line with generally accepted corporate governance principles. The principles concern key aspects such as the equal treatment of shareholders, transparency, independence, composition and role of the board, etc. Reference is also made to the discussion in section 5.4.7.

3.3.2 The Norwegian Code of Practice for Corporate Governance

The Norwegian Corporate Governance Board (NCGB)⁷ is a board which consists of various stakeholder groups for owners, share issues and Oslo Stock Exchange⁸. The aim of the board is to prepare and regularly update a code of practice for corporate governance which can help to maximise

⁷ www.nues.no

⁸ Aksjonærforeningen i Norge, Den norske Revisorforening, Eierforum (where the Ministry of Trade and Industry are represented), Finansnæringens Fellesorganisasjon, Norske Finansanalytikeres Forening, Pensjonskasseforeningen, Næringslivets Hovedorganisasjon, Oslo Børs og Verdipapirfondenes Forening

Box 3.1 The State's principles for good ownership

1. All shareholders shall be treated equally.
2. There shall be transparency in the State's ownership of companies.
3. Owner decisions and resolutions shall be made at the general meeting.
4. The State may set performance targets for each company, together with other owners. The board will be responsible for meeting these targets.
5. The capital structure of the company shall be appropriate given the objective of the ownership and the company's situation.
6. The composition of the board shall be characterised by competence, capacity and diversity and shall reflect the distinctive characteristics of each company.
7. Compensation and incentive schemes shall promote the creation of value in the companies and generally be regarded as reasonable.
8. The board shall exercise independent control of the company's management on behalf of the owners.
9. The board shall adopt a plan for its own work and work actively to develop its own competencies. The board's activities shall be evaluated.
10. The company shall recognise its responsibility to all shareholders and stakeholders in the company.

value creation within listed companies to the benefit of shareholders, employees, other stakeholders and other interests within society. The Code of Practice is intended to strengthen confidence in Norwegian companies and the Norwegian stock market. On 21 October 2010, the NCGB presented a revised version of the Norwegian Code of Practice for Corporate Governance.

Oslo Stock Exchange requires companies that are listed on Oslo Stock Exchange to annually prepare a report in accordance with the Norwegian code of practice. The report must be based on a principle of "comply or explain", which means that the individual points in the code of practice must either be followed or an explanation must be given as to why the company has adopted a different approach. As owner, the State expects listed companies with a State shareholding to adhere to the principles set out in NCGB.

Box 3.2 The Norwegian Code of Practice for Corporate Governance

The Code of Practice provides recommendations concerning the following:

1. Statement of policy on corporate governance
2. Business
3. Equity and dividends
4. Equal treatment of shareholders and transactions with close associates
5. Freely negotiable shares
6. General meetings
7. Nomination committee
8. Corporate assembly and board of directors; composition and independence
9. The work of the board of directors
10. Risk management and internal audit
11. Remuneration of the board of directors
12. Remuneration of the executive management
13. Information and communications
14. Company take-over
15. Auditors

Source: www.nues.no

3.3.3 The OECD's guidelines for State-owned companies

In 2005, the OECD published guidelines for State-owned companies⁹. The Ministry of Trade and Industry actively contributed to the preparation of these guidelines. The guidelines were prepared on the grounds that good corporate governance of State companies leads to stronger financial growth and it was considered that a common standard for good practice for State corporate governance would be appropriate. In 2010, the OECD followed this up with a practical guide to the guidelines in selected areas¹⁰.

The primary aim behind the guidelines was to help to ensure that State-owned companies have a clearer legal status and form of governance equivalent to corresponding private undertakings. Another important aim is to distinguish between the various roles of the State as a political author-

⁹ OECD 2005 "Guidelines on Corporate Governance of State-Owned Enterprises"

¹⁰ OECD 2010 "Accountability and transparency – a guide to state ownership".

ity, supervisory/control body and as the owner of companies. A third aim was to reinforce the role of the board within State companies, where competence and integrity are pivotal. Transparency concerning the ownership and respect for minority shareholders are also key areas that are covered by the guidelines.

3.4 Contact with the companies

The remit of the ministries exercising State ownership involves monitoring the companies' financial results and general status. The monitoring of companies with sectoral policy objectives will also cover whether financial resources are being used effectively in relation to frameworks and objectives, but will often have a broader focus linked to each individual company's sectoral policy objectives and tasks.

Regular meetings with the company's executive management are a key aspect of the monitoring process within most ministries exercising State ownership. As regards the Ministry of Trade and Industry, quarterly meetings are held, along with annual meetings concerning social responsibility with all the companies. The issues considered at these meetings with the companies may concern the appraisal of financial trends, communication of the State's expectations regarding return on investment and dividends, briefings concerning strategic issues involving the companies and problem areas relating to social responsibility. Such meetings with a company's executive management take place along similar lines to those usually held between listed companies and major investors. The meetings are conducted within the framework prescribed by company and securities legislation, particularly as regards the criterion for the equal treatment of all shareholders.

The external frameworks for corporate governance do not prevent the State, like other shareholders, from raising matters that should be considered by the companies in relation to their business and growth. The opinions expressed by the State at such meetings are to be regarded as 'input' for the company's administration and board. The board is responsible for managing the company in the best interests of all shareholders and is required to undertake specific deliberations and decisions. Matters that require the endorsement of shareholders must be raised at the gen-

eral meeting and be decided on through shareholder democracy in the normal manner.

The State as shareholder is generally not privy to more information than is publicly available to other shareholders. However, in extraordinary circumstances where the State must contribute to the execution of transactions such as divestments, mergers, etc., it will on occasions be necessary to give the ministry inside information. The provision of such information must be based on an assessment by, and at the initiative of, the company. In such instances, the State is subject to the ordinary rules in the legislation relating to securities regarding the treatment of such information.

Special considerations concerning the follow-up of corporate social responsibility

In Report to the Storting no. 13 (2006 - 2007) Active and Long-term Ownership, the government set out a number of general expectations regarding the work of companies relating to corporate social responsibility, as well as expectations within nine specific areas referred to as 'cross-cutting considerations'. This was done on the basis of a belief that in the long term these factors would influence the company's opportunities for growth and profitability, as well as the shareholders' return on investment. The State's position as regards corporate social responsibility in the case of companies in which the State is a shareholder is expressed as expectations rather than absolute requirements.

The State has not used the annual general meeting or corporate assembly of companies as an arena for considering matters relating to corporate social responsibility. It is considered more appropriate for the government's expectations in this area to be monitored and communicated in the owner dialogue which the ministries exercising State ownership pursue with companies in which the State is a shareholder. The work of the companies relating to corporate social responsibility forms a natural part of the monitoring of companies in which the State has a shareholding, which is in addition to the attention directed at financial results and commercial growth. The Ministry of Trade and Industry has established a practice whereby, in addition to the discussions concerning such matters at ordinary quarterly meetings, a separate annual meeting is also held which concentrates on the follow-up of corporate social responsibility.

The State's guidelines concerning executive salaries

The applicable guidelines which set out the State's position as regards executive salaries were adopted and published in December 2006. They express the State's position concerning executive salaries in companies in which the State has a shareholding. On 1 January 2007, the Ministry of Trade and Industry distributed the new guidelines concerning the State's position on executive salaries to all companies in which the ministry administers shareholder interests. At the annual general meetings and corporate assemblies in spring 2007 of the wholly owned companies administered by the Ministry of Trade and Industry, additions to the minutes were adopted in connection with the consideration of the annual accounts for 2006 which noted that the government had prepared guidelines concerning the position of the State with regard to executive salaries and that these guidelines had been distrib-

uted to the companies concerned in January 2007. The additions to the minutes stated that the guidelines are intended as guidance to the companies' boards as regards the policy for executive salaries that the State as owner wishes to see applied by the companies.

As a result of the trends in executive salaries in recent years as well as other factors, the government revised the State's guidelines concerning executive salaries with effect from 1 April 2011. The formal status of the new guidelines is that they are still intended as guidelines to the companies' boards as regards the policy for executive salaries that the State as owner wishes the companies to apply.

The ministries administering State ownership follow up the State's guidelines concerning executive salaries in connection with the preparations for and holding of the annual general meetings and corporate assemblies of companies in which the State has a shareholding.

4 State ownership in other countries

4.1 General

Substantial assets have been built up by the State over the past decade in a significant number of countries. This has been possible due to large trading surpluses, either as a result of oil exports, as in the case of Norway, or through more general trading surpluses, as in the case of China.

McKinsey's Global Institute (MGI) has published a number of analyses of 'Sovereign Wealth Funds' as a rapidly emerging power factor in international capital markets¹. Many State investment and pension funds have a long-term owner perspective and expansive agendas. Some States also use their ownership and financial assets as an instrument for safeguarding national interests. State-owned companies in the Middle East use their financial resources partly to promote industrial growth in their own country, partly to protect shareholder interests in global leading companies and partly to safeguard access to strategic resources. Singapore is investing in industrial clusters and allocating substantial resources to building up a strong pharmaceutical and biotechnology industry. Through the State-owned company Temasek, the authorities in Singapore are actively working on the operational and strategic development of a number of key Singapore companies. In scenarios for economic development in the global economy, this trend is expected to continue.

In many OECD countries, the value creation in State-owned companies accounts for between 5 and 25 per cent of the country's gross national product (GNP) and up to 10 per cent of employment. In Norway, there has long been relatively broad political support for retaining a substantial State holding in what are considered to be strategically important companies. Many Eastern European States have a substantial portfolio of State-owned commercial companies, as a result of nationalisation and developments since the Second World War. Many of these countries, such as

Poland, have initiated privatisation processes in recent years.

In many countries outside the OECD, State-owned companies dominate industry. In many places, their share of the value creation is greater than in the OECD countries. In Asia, State-owned undertakings account for over 30 per cent of all share capital, which means that the standard of corporate governance will be of interest to a large number of minority shareholders. China has substantial State shareholdings and most listed companies have the State as a shareholder. Both central and regional authorities also own a large number of companies. For example, China secures some of its access to raw materials through international acquisitions by State-owned companies. In countries such as Brazil and India, State ownership is also substantial. In Russia, the State is a major owner, particularly within industrial manufacturing and the banking sector. The total shareholdings of federal and regional authorities amount to approximately 25 per cent of all activity in these sectors. Limited information is available concerning State ownership in countries outside the OECD, making it difficult to obtain a satisfactory overview of what the States own overall and how their shareholdings are administered. The OECD and the States themselves have a focus on how States in these countries exercise their ownership with the aim of improving the administration of State ownership.

The following sections give an account of how State ownership is exercised in certain OECD countries.

4.2 The OECD's work relating to the development of State ownership

The OECD has long worked to develop and influence corporate governance in its member countries. The Ministry of Trade and Industry is involved in this work through the OECD's *Corporate Governance Committee* and its working group linked to State ownership: *Working Party on State Ownership and Privatisation Practices*. The

¹ McKinsey & Company: *State ownership*, Report to the Ministry of Trade and Industry.

ministry has financially supported the work of the working group for many years. The ministry has also contributed to the OECD's outward-oriented work concerning the provision of specialist assistance to various regional networks in order to improve corporate governance.

The privatisation of such State shareholdings was long considered a priority area within the OECD, both to improve the efficiency of these undertakings and because the selling off of significant shareholdings of economic importance became an important part of the work to improve the budget balance in a number of countries. Since the turn of the millennium, many countries, particularly the Nordic countries, have stated that they will not privatise all commercial State operations as a matter of course. This is because the companies represent an important part of the countries' industry and have good earnings. Economic and national considerations may also indicate that the State should retain substantial shareholdings in key national companies. The working group's remit was therefore expanded to cover the good corporate governance of State-owned companies and guidelines were prepared for the administration in this field. The guidelines were completed and adopted by the OECD's Council in the spring of 2005².

4.3 The OECD's outward-oriented work

In spring 2005, the OECD presented guidelines for the administration of State companies, which were approved by the OECD's supreme body. These guidelines were received with positive interest in many countries outside the OECD. A number of countries outside the OECD have an important commercial State sector and are consequently interested in the field. Groups have therefore been set up to work on corporate governance issues in Russia, Asia and Latin America, as well as in southern and northern Africa and the Middle East.

The so-called 'BRICS countries' (Brazil, Russia, India, China and South Africa) all have major economies in a global context, and several of these countries are potential OECD members. They have been given the opportunity to participate in OECD meetings concerning State corporate governance. State-owned commercial undertakings represent an important industrial element

² OECD Guidelines on Corporate Governance of State-Owned Enterprises.

in these countries, whilst the overall extent of State ownership is difficult to assess, partly because such ownership is administered by both central and regional State authorities.

The working group has now begun the work to assess the scope and composition of State companies in both the OECD and other countries (*State-Owned Enterprises in the World Economy*). This is a demanding task, as the available information is of variable quality. The development of national pension funds/investment funds in some countries (*Sovereign Pension/Wealth Funds*) is also leading to definition problems.

In recent years, Norwegian authorities have frequently received visits by study groups from the central Chinese administrative body *The State-owned Assets Supervision and Administration Commission of the State Council* (SASAC). Through visits to the Ministry of Trade and Industry and to Norwegian companies with State shareholdings, they have studied the Norwegian model for administering State shareholdings.

4.4 Some administration models

The organisation of State-owned direct ownership varies quite extensively within the OECD area. However, following regulatory reforms aimed at promoting competition and globalisation of the economy over time, there has been a trend towards the centralisation of corporate governance within the State administration of each country. This section presents a brief description of the administration in a number of selected countries within the OECD³.

Sweden and Finland share many similarities with Norway in terms of the extent of State ownership, the objectives behind the ownership and the organisation of the corporate governance. Denmark also has many similarities with Norway, but the extent of the State's direct ownership is less. In France, the State also owns extensive assets, but the administration model differs from that used in Norway. Great Britain has gone a long way towards reducing the State's ownership, but still has substantial commercial undertakings under State administration.

³ OECD publication "Corporate Governance of State-Owned Enterprises". A Survey of OECD Countries from 2005 presents a collective overview of trends in State ownership within the OECD area. Although substantial changes have taken place in the administration in many countries since this report was published, the publication still gives a good overview of key trends and developments.

All countries have prepared common guidelines for corporate governance and established a central coordination and competence body for corporate governance in the State. In Norway and Great Britain, this body is affiliated to the Ministry of Trade and Industry, in Denmark and Sweden, it is affiliated to the Ministry of Finance, whilst in Finland, the Office of the Prime Minister administers assets both directly and indirectly through a separate holding company. In France, a special body has been set up to cover State ownership that is linked to the Ministry for Finance, Industry and Employment.

4.4.1 Sweden

The State is a major shareholder in Sweden and as of September 2010 had shareholdings in 57 companies. The company portfolio covers 43 wholly owned and 14 part-owned companies, of which three are listed: Nordea, SAS and TeliaSonera. The value of the assets was estimated at SEK 620 billion in May 2010. For the 2009 financial year, SEK 20.8 billion was paid out in dividends, compared with SEK 21.8 billion during the previous year⁴.

Most of the expertise and resources in the State ownership administration is consolidated in a separate ownership department under the Ministry of Finance. The unit was transferred from the Ministry of Industry in 2010. The unit for State ownership was established in 1998 and administers a total of 33 companies. The department has around 30 employees.

The Swedish State's Ownership Policy states that the government shall actively monitor and manage State-owned assets in order to achieve optimum growth in value and, where appropriate, the furtherance of the interests of society. This is achieved by establishing, monitoring and evaluating financial objectives, including national socio-economic objectives and other special objectives. In the same way as in Norway, emphasis is accorded to the distinction between companies which operate under market conditions and which are thus exposed to competition and companies which have a specifically defined social remit with associated socio-economic and special objectives.

The Minister for Finance has a coordinating responsibility to ensure the coherent administration of State-owned assets and the nomination of

board members to companies in which the Swedish State is a shareholder. The Swedish State is represented on a number of company boards by civil service departments and politicians. However, this does not apply to the listed companies. Sweden follows the same practice as Norway as regards participation in nomination committees in listed companies.

4.4.2 Denmark

The Ministry of Finance and the Ministry of Transport are the largest ministries exercising State ownership and administer thirteen and seven companies respectively. Six companies are administered by four other ministries.

Eleven of the companies are State limited companies, which means that the State owns more than 50 per cent of the shares. In the other companies, the State owns between 1 and 50 per cent. Three companies are listed (København Lufthavne, SAS and Skælskør Bank). In addition, there are two companies that are known as 'independent public undertakings' (DSB, Energinet.dk), which are wholly owned by the State and two stakeholder companies that are jointly owned by local authorities⁵. As regards economic significance, there are a few companies which dominate. DONG Energy, Danske Spil, Finansiell Stabilitet and DSB (Danske Statsbaner) accounted for 87 per cent of the total turnover of the State limited companies and independent public undertakings in 2009. Most of the capital is also tied up in three of these companies (DONG Energy, Finansiell Stabilitet and DSB) and in Sund og Bælt Holding and Energinet.dk. In the other companies in which the State is a shareholder, København Lufthavne, Posten Norden and SAS dominate the picture both economically and as regards the number of employees.

The governance model is generally the same for all companies⁶. The companies are managed in a way which means that in principle it is possible for private parties to become shareholders. The companies are managed according to the "arm's length principle". The board is responsible for the operation of the undertaking and, as in Norway,

⁵ This information was taken from "Statens selskaper 2010" on the Danish Ministry of Finance's website: <http://www.fm.dk/>.

⁶ The governance model is described in two publications: *Statslige aktieselskaper: Tilsyn, ansvar og styring* (2003) and *Staten som aktionær* (Ministry of Finance, Ministry of Transport and Ministry of Economic and Business Affairs, 2004).

⁴ This information was taken from "Verksamhetsberättelse för företaget med statlig ägande 2009": The Ministry of Finance's website at: <http://www.regeringen.se>.

politicians and civil servants cannot be elected to the boards of the companies.

4.4.3 Finland

The State's corporate governance is authorised in a special Corporate Governance Act, which entered into force in early 2008. This Act regulates the State's exercising of its ownership in all companies, both listed and unlisted. The Act establishes full equality as regards norms and framework conditions between companies with the State as owner and other companies with a different ownership base in Finland.

The corporate governance department affiliated to the Office of the Prime Minister was established on 1 May 2007. The central unit for the State's corporate governance was previously affiliated to the Ministry of Trade and Industry. At the end of 2009, there were a total of 52 companies with shareholdings under State administration. Most of these companies are administered by the corporate governance department, whilst eight non-strategic shareholdings in listed companies were incorporated into a newly established wholly owned holding company (Solidium Oy). A total of 15 companies with a special remit are administered by other ministerial bodies⁷. The corporate governance department has 22 employees.

At the beginning of 2010, the market value of the State's listed share portfolio amounted to EUR 18.2 billion, up from EUR 14.1 billion at the corresponding time during the previous year. The market value of the State's shares in the three listed companies which the State administers directly was EUR 10.4 billion, whilst the shares owned indirectly through Solidium Oy were worth EUR 7.8 billion.

4.4.4 France

With effect from 2004, a special body was established – Agence des participations de l'État (APE) – under the French Ministry of Finance. The agency was created in order to discharge the role of shareholder within the frameworks of French regulations and in conformance with the government's guidelines. The principal task is to optimise the value of the State's assets.

⁷ This information was obtained from the 2009 "Annual Report of the Ownership Steering Department in the Prime Minister's Office", which has been published on the following website: <http://www.stateownership.fi/>.

APE administers a varied State portfolio, which encompasses minority shareholdings and large State-controlled companies. APE cooperates with other ministries, coordinates strategies and guidelines for the State as a shareholder and act as the chief adviser to the ministry in all matters pertaining to the State's role as a shareholder.

The responsibility covers key issues such as strategy, investments and financing, mergers and acquisitions (M&A) and equity transactions.

APE is active on the boards of companies and represents the government at their annual general meetings. In 2008, APR's administration responsibility covered 55 undertakings. The State ownership is most extensive within the defence, media, transport and energy sectors and comprises assets with a total value of EUR 539 billion (31.12.08)⁸. APE has around 60 employees.

4.4.5 Great Britain

The State's central body for corporate governance, The Shareholder Executive, was set up in September 2003. The body was initially organised as a unit under the Office of the Prime Minister and was subsequently transferred to the Ministry of Trade and Industry in 2004.

The central body's remit is consultative and in 2009 covered a total of 28 undertakings ranging from major organisations such as the Royal Mail to smaller institutions such as the UK Hydrographic Office. The Shareholder Executive has 64 employees.

The total value of the portfolio amounts to approximately GBP 21 billion. The State received a total of almost GBP 5.5 billion in dividends and other capital transfers from the companies during 2009⁹.

The Shareholder Executive has been assigned three roles:

- Executor of the role of owner (Executive role), 13 undertakings
- Advisor for other State owner administrators (Advisory role), nine undertakings
- Executor of the role of owner together with other State owner administrators (Joint role), six undertakings

⁸ This information was obtained from "French State as a shareholder" 2009 Report: <http://www.ape.minefi.gouv.fr/>.

⁹ This information was obtained from The Shareholder Executive, HM Government. Annual Report 2008-09: <http://www.bis.gov.uk/shareholderexecutive>.

The body also acts as project manager for Asset Management & Sales, which forms part of the government's Operational Efficiency Programme, in cooperation with HM Treasury. In 2009, this programme covered nine assets across the ministries, of which five lay within the central body's domain. A Property Unit has also been established, affiliated to the central body, which gives advice across the ministries relating to the

assessment and sale of superfluous property assets.

When the State became a major shareholder in a number of British banks during the financial crisis, a separate State company, UK Financial Investments Ltd., was established which administers these separate share interests on a temporary basis.

5 The government's ownership policy

5.1 Background and introduction

The government believes that the State should practise active ownership characterised by long-termism, predictability and clarity. The State's ownership administration shall be exercised in a professional and contemporary manner by taking account of the key developments in the Norwegian and international economy and society. Companies are best served by good and active owners. It is particularly important that the State, with its extensive ownership, is a good and active owner.

It is four years since this government launched Report to the Storting no. 13 (2006–2007) Active and Long-term Ownership. The State's principles for corporate governance are firmly established, with the division of responsibility between board and owners as an underpinning element. Clear goals must be established for the shareholding in each individual company. In this way, the companies and other shareholders have a predictable situation to relate to.

However, the ownership policy must also be developed further. A faster pace of change within industry and new requirements concerning the execution of ownership have given rise to the need for greater flexibility in the State ownership. The State must have a dynamic approach to its ownership, so that the instruments that are used are at all times appropriate for the goals behind the State's ownership. The proportion of a company that the State should own is linked to the question of whether State ownership is an appropriate instrument for achieving relevant social objectives and bringing about the growth of the company, as well as the sector in which it operates and structural considerations.

Whilst the government gives notice in this report of greater flexibility in the State's ownership, the government is also clear that the total level of State ownership will be maintained at around the current level. This does not mean that the State must maintain the same shareholding in each individual company that it currently holds. Notwithstanding this, there are some companies where the government believes that it is particu-

larly important to maintain its shareholding, including companies which have commercial objectives. The government will maintain the State shareholdings in Telenor, Norsk Hydro, DnB NOR and Statoil, amongst others, and companies such as Statkraft, Statnett and Statskog will remain wholly owned by the State. A proposal is also put forward for the Ministry of Trade and Industry to be given a mandate to participate in possible equity expansions if such expansions are proposed by Yara International and Kongsberg Gruppen in order to maintain the State's shareholdings.

The requirements concerning the corporate social responsibility of companies have developed both in Norway and internationally in recent years. Within this field, Norway and Norwegian companies are well advanced and have an excellent basis on which to lead the way. Strategic and appropriate corporate social responsibility helps to strengthen the long-term position and enhance the competitiveness of the companies. A State owner with clear expectations in this field will help to further professionalise such work.

Moderation in the pay conditions of senior executives was one of the goals in the previous ownership report. The government has contributed to this, partly by stopping the share option programmes of certain companies, which have on occasions had unacceptable consequences. Overall, the trend in senior executive remuneration did not however meet expectations concerning moderation. This particularly applies to the senior executives of the wholly owned State companies. In recent years, senior executives of these companies have seen their pay rise faster than their contemporaries elsewhere in industry, according to surveys carried out by the Office of the Auditor General and others. The government is therefore tightening the guidelines concerning senior executive pay by requiring wholly owned companies to make the process for determining remunerations more transparent. This will be achieved through stricter requirements concerning reporting and presentation to the annual general meeting, in line with the restrictions that currently apply to public

limited liability companies. In addition, the companies will be expected to reign in the pension benefits that the company offer in their agreements with their senior executives.

Wherever possible, the State's ownership policy will be coordinated with the government's other policies, e.g. those linked to the environment and research and development. However, there must be no doubt as to what role the State will play at any one time, whether as regulator, supervisory authority or owner. The State will therefore be restrained in its use of corporate governance instruments in cases where the same effect can be achieved using other instruments, e.g. legislation, tax and duty policy, concessions or the purchase of services.

The State's ownership execution will be developed further and further professionalised. This will involve the strengthening of the corporate governance and a stronger collaboration between the owner environments in the various ministries. As part of this, the Ministry of Trade and Industry's role as a competence and resource environment for State corporate governance will be reinforced.

5.2 Why the State should own – the objectives behind State ownership

5.2.1 General justifications for State ownership

The government believes that it is both right and important that the State contributes to industrial development in Norway through substantial and active shareholdings in Norwegian industry. State ownership gives predictability and the opportunity to invest in long-term industrial development and value creation. State ownership also means a lot for a strong Norwegian ownership. The only owner environments that are large enough to take over the State's shareholdings will often be foreign. In many cases, privatisation of the State's shareholdings will therefore also involve the shareholdings being sold abroad.

The government stresses that there must be clarity as regards why the State has a shareholding in individual companies. This will clarify the State's ambitions behind each shareholding and make it easier for the companies concerned to relate to the State's interests as a shareholder. Clarity concerning the State's objectives also makes it easier to communicate the State's expectations concerning the companies and to follow up

these expectations as part of the corporate governance process.

As the historical review in section 2.1.2 shows, there are various justifications which lie behind the development of the State ownership and the State's direct owner portfolio as it stands today. The review also shows that over time the State has been willing to adjust its ownership in cases where other instruments are better suited to contributing to the achievement of the State's objectives behind the ownership.

The government will refer to a number of general principal justifications as to why the State should be a major direct shareholder in companies, in addition to long-term value creation.

National anchoring of important companies and key expertise

The government will pursue an industrial policy that promotes an innovative, knowledge-based and sustainable industry across the country. State ownership will play an important role and be a positive contributor to the development of Norwegian industry as a whole. Through State ownership, the government will therefore help Norwegian companies, technology and enterprises to survive and develop further in Norway. In order to succeed in this aim, it is essential that companies which represent industries and key expertise of national importance maintain their anchoring in Norway and their centre of gravity in Norway.

With a shareholding of at least one third, the State as a shareholder can ensure that a company retains its head office, and therefore key head office functions, in Norway. The government believes that, in this way, State ownership will promote long-termism and national anchoring of the ownership within some of the major Norwegian industrial concerns.

Decisions with consequences for the commercial development of the company are generally taken by the head office and by the company's board or corporate assembly. The national anchoring of head office functions is therefore a key issue, both in Norway and in many other countries. Ensuring that companies of strategic importance have their head office in Norway can help to safeguard and promote specialised industrial, technological and financial expertise. The head office is also an arena for the development and training of managers who then move on to other areas of Norwegian industry. The government believes that the interaction between the head office environment and national institutions is

Box 5.1 The Kongsberg Group – An example of a technology environment with national anchoring and State ownership

Kongsberg Gruppen ASA

Kongsberg Gruppen ASA is an international, knowledge-based group which supplies high technology systems and solutions to customers in the oil and gas industry, the commercial shipping fleet, the defence sector and the space industry. The Kongsberg Group has three main business areas: Kongsberg Maritime, Kongsberg Defence Systems and Kongsberg Protech Systems. Kongsberg Oil & Gas Technologies is an initiative area which reports under other operations. The most important areas of expertise are signal processing, cybernetics, software development and system integration.

The company is listed on Oslo Stock Exchange, with the State as the largest shareholder with a holding of 50 per cent. Private shareholders and institutional investors own the remaining shares. In 2010, the company recorded operating income of NOK 15.5 billion and had 5,681 employees in more than 25 countries. Markets outside Norway account for an increasing proportion of the group's income, with the share now being over 80 per cent of total turnover. Of the employees, approximately 70 per cent work in Norway, and the head office is situated in Kongsberg.

The Kongsberg Group has industrial traditions stretching 200 years back in time. The group places an emphasis on technological innovation, long-termism, knowledge and research as a basis for the development, construction and delivery of advanced products, which in many cases are global leaders. The group works closely with customers and leading research environments. Much of the company's expertise, including the research and development environments, have traditionally been linked to the company's head office. Strategically important decisions, including those relating to social responsibility at corporate level, will always be handled by the company's governing bodies, which are normally affiliated to the head office.

The Kongsberg Group is a cornerstone company in the Kongsberg region and has a long tradition of good schemes and organisation within working life. This is often a characteristic of undertakings with a high concentration of skilled workers, something that is reinforced by a strong element of highly educated employees. Kongsberg currently has a strong industrial environment which comprises many knowledge-based companies, such as the Kongsberg Group, FMC Technologies, Kongsberg Automotive, Volvo Aero Norge, Dresser Rand, Esko Artwork and Kongsberg Devotek. Many of these companies are global leaders within the subsea technology, offshore, maritime, automotive, aviation, defence and aerospace sectors. Many of the companies arose from the former civilian divisions of the armaments factory, Kongsberg Våpenfabrikk AS. Many of them are based at Kongsberg Technology Park, which hosts companies that operate internationally and develop world-class high technology solutions. The companies at the industrial park employ 5,500 people, of which 70 per cent have a college or university education. The 40 companies at the park have an annual turnover of approximately NOK 30 billion.



Figure 5.1

Photo: Kongsberg Gruppen ASA

Source: Ministry of Trade and Industry and Kongsberg Gruppen ASA

vital for the development of industry within certain sectors in Norway and helps to strengthen regional industrial environments.

Management of and the return from shared natural resources

In certain areas, other public sector instruments are not sufficient to maintain control over and income from the country's major natural resources, particularly within the field of energy. The government believes that State ownership is necessary in these cases. Statoil ASA, Petoro AS, Statkraft SF and Statskog SF are examples of State ownership being used as an instrument in connection with the exploitation of natural resources in the best interests of society.

The objective of having revenues from natural resources benefit the whole population is achieved through the tax system and other means. Nevertheless, the State's ownership of energy companies is an important component in the government's policy of revenues from natural resources benefiting the common good insofar as is possible. In addition, State ownership of this type of company provides an excellent opportunity to control the framework for the companies' operations through the determination of the companies' objects and other articles of association.

Sectoral policy considerations

The government believes that certain tasks are so fundamentally important that they should be carried out by public bodies or companies that are not governed by commercial interests. This encompasses tasks linked to sectoral policy relating to the health sector, the transport sector and other infrastructure critical to society, amongst other things. AS Vinmonopolet for example plays an important role in the implementation of a responsible alcohol policy.

As described in Chapter 3 on the various roles of the State, the State as policy formulator and exerciser of authority has a special responsibility to provide good national infrastructure, including main roads, railways, airports, a national electricity grid and networks for the provision of electronic communication services (e-com services), etc. As regards e-com services, this is explicitly expressed in the E-com Act, which has the aim of securing users across the country good, reasonably priced and future-proof electronic communication services through the efficient use of society's

resources by facilitating sustainable competition and promoting industrial development and innovation.

Although State companies with sectoral policy goals must not be governed by commercial interests, it is important that they are managed efficiently.

Production in the event of market failure and the administration of monopolies

For society, there are certain products and services that are best produced outside a market with unrestricted competition. This could for example be the case in connection with the production of collective goods or production in areas in which there are natural monopolies. This justification for State ownership must be viewed in context with the desire to safeguard sectoral policy considerations (cf. the discussion above) and, in each individual case, consideration should be given as to whether State ownership in the form of a company is the most appropriate means, compared with other means and changes in market conditions.

The State has therefore split off State undertakings in order to establish markets for operations which were previously managed as a State monopoly, where the market does not work or where the market is characterised by incomplete competition. Such companies will normally be managed on commercial conditions and have a strong focus on achieving a high level of competitiveness. The reorganisation of the State body Televerket into Telenor in 1994 is an example of the establishment of both a company and a market, in this case for telecom services.

Long-term ownership in the Norwegian capital market

The government believes that, as an owner with a long-term approach and capital strength, the State is an important contributor to the reinforcement of long-term ownership in the Norwegian capital market. Together with other long-term investors, the State can contribute to stability within the ownership and promote the industrial growth of Norwegian companies and the development of Norwegian expertise over time. The State aims to promote the economic growth of the companies and the requirements for such development in the short term. However, as an owner, the State has a long-term perspective on its ownership which emphasises the strong development of the companies over time.

Box 5.2 Example of a company with sectoral policy objectives – Avinor AS*Avinor AS*

Avinor was established in 2003 through the conversion of the administration company, the Norwegian Civil Aviation Authority, into a State limited company. Avinor is classified as a Category 4 company, i.e. a company whose State shareholding has been established for sectoral policy reasons. In line with the sectoral policy objectives, the administration of the shareholding rests with the Ministry of Transport.

Avinor's *social remit* is to provide a national network of airports for civil aviation and a national air navigation service to both civil and military aviation. The company is responsible for 46 airports across the country. Only four of these airports regularly record a profit. It is a goal for Avinor's operations to be self-financing. Considerable cross-subsidisation takes place within Avinor through transfers from the profitable airports to the unprofitable ones.

Approximately half of Avinor's revenue originates from payments for services that Avinor provides to airlines. These fees are set by the Ministry of Transport and Communications in its capacity as aviation authority. The rest of Avinor's income originates from commercial operations relating to the airports (car parking, hotel accommodation, leasing of land and duty-free sales).

As owner, the Ministry of Transport and Communications also imposes a number of so-

called *socially oriented commitments*. This covers the preparation of statistics, planning and investigations, e.g. in connection with the work relating to the National Transport Plan. Avinor is also responsible for keeping the airports open to ambulance flights outside ordinary opening hours. Avinor must also provide for people with disabilities, work to provide public transport links with the airports, contribute to the national work relating to safety and preparedness, and assist the rescue services.

Like the other companies with a State shareholding, Avinor must be a leader with regard to the work relating to *social responsibility*.

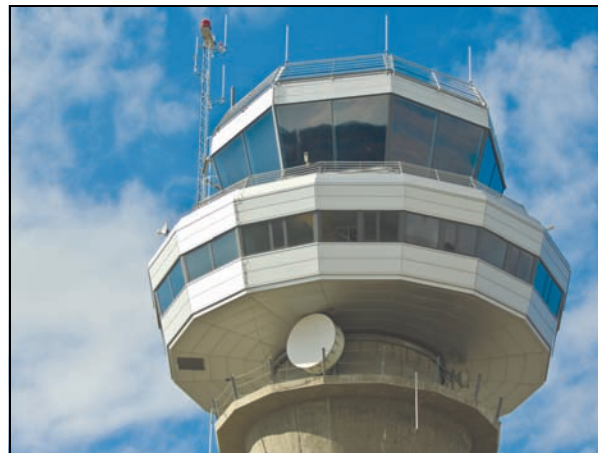


Figure 5.2

Photo: Gaute Bruvik/Avinor

Source: Ministry of Transport and Communications

5.2.2 The objectives behind the shareholding in each company – categorisation of companies in the direct ownership

Against the background of the general reasons for direct State ownership (cf. the discussion in 5.2.1), and a desire to clarify the ownership, the government clarified the goals behind the State ownership explicitly for the first time in Report no. 13 (2006–2007) to the Storting Active and Long-term Ownership. The companies were divided into four categories based on the State's goals behind the shareholding in each company. The government believes that it has been beneficial to make it clear

that the State has a number of objectives behind the shareholding in this way and will continue this practice.

The State's specific objectives behind the shareholding in each company are set out in the company discussion in Chapter 6 (Norwegian version). These objectives will also be relevant factors if the government should subsequently assess the size of the State's shareholding in the company.

The government has decided to revise the categorisation of two companies. This concerns Cermaq ASA (reassigned from Category 2 to Category 1) and Veterinærmedisinsk Oppdragscenter AS (from Category 3 to 1). Norsk Eiendomsinfor-

masjon AS will continue in Category 4, but will be transferred to Category 1 when the transitional arrangement to safeguard the operation, maintenance and system development of the register of deeds is wound up.

The four categories that form the basis for the State's owner involvement in the various undertakings are:

1. Companies with commercial objectives
2. Companies with commercial objectives and national anchoring of their head office functions
3. Companies with commercial and other specifically defined objectives
4. Companies with sectoral policy objectives

Category 1 – Companies with commercial objectives

For the companies in this category, the objective behind the State ownership is commercial profitability, a high level of value creation and the highest possible return on investment over time. This means for example that the companies will not be

issued with instructions which would weaken their long-term value creation or competitiveness.

For some of the companies in Category 1, changes in the State's shareholding may be appropriate if they would help to promote the company's industrial and commercial development and safeguard the State's assets. In relevant cases, possible initiatives could include the State selling off some of its shareholding, support for industrial solutions or other measures which reduce or eliminate the State's shareholding in a company. There may also be situations which indicate that the State's shareholding should be increased or that the State should contribute capital in connection with an acquisition or merger in order to maintain the State's percentage shareholding.

Category 2 – Companies with commercial objectives and national anchoring of head office functions

The State's ownership in this category of companies is motivated purely by commercial interests, but with the added dimension that it ensures



Figure 5.3 Rockheim is the national museum for pop and rock in Norway situated in Trondheim. The building is owned by Entra Eiendom AS, which is wholly owned by the State. The company is categorised under Category 1.

Photo: Rockheim/Geir Mogen

national anchoring of the company's head office and associated functions such as research, innovation and technological development. The government believes that the national anchoring of head office functions helps to ensure and promote specialised industrial, technological and financial expertise, and also provides an important arena in which to develop and train managers, who subsequently move on to other areas within Norwegian industry. The government believes that the interaction between head office environments and national institutions is important for industrial development within certain sectors in Norway. Head office and associated central decision-making mandates in Norway help companies to exploit production and investment opportunities in Norway with the resultant positive effects that this has for industrial development and R&D. This leads to close collaboration with business partners elsewhere within industry and with research and education institutions and presents the companies with the opportunity to establish a close dialogue with public authorities.

Through demand for services and expertise, head offices can have important indirect effects in

terms of value creation. The presence of a number of head offices can promote the development of different types of specialist services.

It is assumed that the companies will develop entirely on a commercial basis, operating from their head office in Norway. It is thus assumed that the companies' acquisition, sale, start-up and winding-up of businesses in both Norway and abroad would be carried out on a commercial basis. These are also issues that naturally fall within the remit of the corporate management pursuant to Norwegian company legislation

Corporate governance for these companies will be the same as for Category 1. The only added for these companies is the dimension that the companies must locate their head office functions in Norway. This is ensured through a shareholding of more than one third.

The State's shareholdings in companies in Category 2 shall remain unchanged, unless it is considered appropriate to adjust the shareholding in extraordinary circumstances. Examples of such circumstances include a merger or a share issue in order to facilitate international growth through an international acquisition for example.



Figure 5.4 Statoil ASA is categorised under Category 2. The photograph was taken from the helicopter deck on Kvitebjørn.

Photo: Kjetil Alsvik/Statoil

Category 3 – Companies with commercial and other specifically defined objectives

Over time, the safeguarding of specifically defined objectives through the ownership of companies has been increasingly replaced by general regulatory instruments such as laws and regulations and concession rules and through commercial State acquisitions from the companies. However, the defining trait of Category 3 is that it embodies objectives beyond commercial profitability which must also be achieved through State ownership. For some companies, the situation may be very similar to that of Category 2 in the sense that there is no need for special follow-up within the ownership administration in order to realise specifically defined objectives. These objectives are realised through the company managing its business on a commercial basis within the sector concerned. This would for example apply in cases where the aim of the ownership is to monitor the sustained production of products and services of importance for national security or to safeguard national sovereignty. The same applies where the objective behind the State ownership is to safeguard the national ownership of natural resources and a desire to correct the failure of the capital markets through contributing to competition, capital, etc.

Companies in Category 3 will not normally be distinct from the commercial companies in Categories 1 and 2 with regard to the exercising of good corporate governance, and execution of the ownership.

The State's shareholdings in companies in Category 3 should normally remain unchanged. In



Figure 5.5 Posten Norge AS is categorised under Category 3. The photograph shows post distribution.

Photo: Stine Gabrielsen



Figure 5.6 Kings Bay AS is categorised under Category 4. The photograph shows Ny-Ålesund on Spitsbergen, where the company is based.

Photo: Aina Holst

extraordinary circumstances, it may however be considered appropriate to adjust the shareholding. Such circumstances could for example include situations where the objectives in an area can be achieved more effectively by replacing ownership with regulatory measures as an instrument.

Category 4 – Companies with sectoral policy objectives

The State's shareholdings in companies in this category primarily have sectoral policy objectives. Qualitative or quantitative objectives for such companies should be adjusted to the objective behind the shareholding in each company. This will require issues to be prioritised and assessments to be made, which must be carried out by the political authorities responsible. The objectives should be achieved in an efficient manner. As owner, the State will focus on ensuring that the sectoral policy objectives are achieved as efficiently as possible and with the coverage of costs, and on ensuring that financial surpluses are possible.

The State's shareholdings in the companies in Category 4 shall remain unchanged, unless it is considered appropriate to adjust the shareholding in extraordinary circumstances. In practice, such circumstances will rarely arise.

5.3 What the State should own

As described above, there are various reasons why the State has shareholdings in key Norwegian companies. The government believes that it is right that the State should continue his shareholdings in most companies that the State currently owns. The government furthermore believes that the overall extent of the State's ownership should remain at approximately the current level. Within this framework, it is not neces-

sarily appropriate for the State's shareholdings in each company to remain unchanged in perpetuity. Assessments must be carried out at regular intervals to determine whether the justification for the State's shareholding remains valid. An assessment must also be made as to whether an increase in the State's shareholding or the injection of State capital would be appropriate in some cases.

5.3.1 Relevant changes within industry

Rapid global changes within the fields of technology and innovation and an increase in global trading are making it challenging for companies to sustain their strategic positions over time. Companies must be both willing and able to adapt in order to maintain or improve their value creation. As discussed in more depth in section 2.2.3, a strong position today is less of a guarantee of a strong position in the future than it used to be. The elimination of trade barriers is leading to an increase in competition across national borders within many industries. This is inevitably affecting the companies that operate globally and have extensive international activity. However, companies which produce for the national market which have traditionally been protected are also increasingly encountering tougher competition.

The faster pace of change within industry will require companies to consider rapid and comprehensive changes to a greater extent than previously. Such readjustments require the involvement of the shareholders, e.g. through the investment of capital, in connection with acquisitions, mergers and disposals, etc. The government believes that the State as owner must be able to act so that companies can exploit their development and commercial opportunities, whilst at the same time safeguarding the State's shareholder values in an appropriate manner. This means that the State must be able to adopt a position with regard to proposals that are put forward by companies and that decisions must be taken sufficiently quickly to enable companies to realise relevant initiatives assuming that the Parliament gives its consent.

5.3.2 The government's experiences and practice

In Report no. 13 (2006–2007) to the Storting, the government stated that "through its ownership, the State shall contribute to the long-term growth and industrial development of the companies". Changes in owner structure and financing form a

natural part of a company's development. On the basis of this view, the government has decided to support and participate in many transactions in recent years. The examples below illustrate situations where the State has decided to contribute to development:

- In order to strengthen the financing of a company, it may be appropriate to invest new equity (for example SAS in 2009 and 2010, DnB NOR in 2009 and Statkraft in 2010). If the State does not participate in capital expansions carried out by the companies, the State's percentage shareholding could be reduced or the company may not be able to develop to its full potential.
- In connection with mergers with other companies, all or part of the settlement may be made in the form of shares. In such cases, the existing owners will reduce their shareholding (e.g. as in the case of Norsk Hydro's acquisition of the aluminium operation of the Brazilian company Vale in 2010/2011). This reduction in shareholding could be remediated through the State subsequently increasing its shareholding again. The thresholds for the triggering of a bid obligation impose certain limitations on the opportunities available. The State cannot increase its shareholding above such thresholds unless it submits a binding bid to purchase all the shares.
- The use of certain types of financial instrument such as convertible loans could involve the future issuing of new shares with the possibility of corresponding dilution (e.g. as in the case of SAS in 2010).
- Minor changes in shareholdings may arise through the issuing of new shares in connection with share programmes for senior executives and employees. However, such programmes are often carried out through the corresponding purchase of shares on the market, so that the shareholdings of shareholders who do not sell shares to the company for such a purpose will not be diluted.
- It may be appropriate for the State to buy or sell shares in companies on its own initiative. For example, it may be appropriate for a company at a certain stage in its development to gain private sector owners with sector expertise and industrial ambitions (as in the case of BaneTele in 2008) or for a company to be floated on the stock exchange in order to improve access to capital for example (as in the case of Telenor in 2000).

Table 5.1 The State's capital investment and buying and selling of shares, 2006–2011¹ (NOK million).

<i>2011</i>	
Norfund	1 010
<i>2010</i>	
Statkraft SF	14 000
SAS AB	583
Norsk Hydro ASA	4 350
Statskog SF	1 225
Norfund	629
<i>2009</i>	
DnB NOR ASA	4 763
Argentum Fondsinvesteringer AS	2 000
SAS AB	710
BaneTele AS	-715
Statoil ASA	2 162
Kommunalbanken AS	531
Norfund	585
<i>2008</i>	
Statoil ASA	17 137
Investinor AS	2 200
Kommunalbanken AS	373
Eksportfinans ASA	180
Norfund	485
<i>2007</i>	
Gassnova SF	10
SIVA SF	50
Kommunalbanken AS	59
Aker Holding AS	4 927
Norfund	485
<i>2006</i>	
Statkonsult AS	20
Nammo AS	62
Norfund	495
Total invested (– sales)	58 316

¹ The table does not include the State's proceeds from the deletion of shares in connection with buy-back programmes in listed companies.

Since 2006, the State has invested around NOK 58 billion, minus proceeds from the sale of shares, in order to maintain or increase the State's direct ownership. The other transactions are all referred to in Chapter 2 and illustrate how the government has actively contributed to the companies' industrial development in many cases.

5.3.3 Need for flexibility within the existing company portfolio

The government sees an increasing need for the State as owner to exercise flexibility in its ownership, not in order to reduce the collective State ownership, but to respond to changes and situations that require action. A good example of this is Norsk Hydro's acquisition of the aluminium operation of Vale S.A. The State's total shareholding increased, even though the State's percentage shareholding in Hydro fell. The government furthermore believes that the overall extent of the State's ownership should remain at approximately the current level.

The government believes that greater flexibility in this sense is only relevant in the case of companies with commercial objectives. The government will not consider adjustments to its shareholding in companies with sectoral policy objectives. These companies will continue to be wholly owned. The government will furthermore maintain its shareholdings in key companies such as Telenor ASA, Norsk Hydro ASA, DnB NOR ASA and Statoil ASA, and continue its policy of wholly owning Statkraft SF, Statnett SF and Statskog SF. Notwithstanding the foregoing, the government is presenting a proposal for the Ministry of Trade and Industry to be given a mandate to participate in potential equity expansions if such expansions are proposed by Yara International and Kongsberg Gruppen in order to maintain the State's shareholdings.

The government proposes that the State's shareholding in certain companies with commercial objectives should be reduced where appropriate in order to promote strong industrial development for the company and the justification for State ownership no longer applies. The government furthermore proposes that the State's capital investment in industrial activity in other areas be increased. The government has specifically assessed the need for mandates to maintain the State's shareholdings in certain companies in connection with potential equity expansions in these companies.

Share issues

Companies often obtain capital by carrying out share capital expansions (hereinafter ‘share issues’). There are various types of share issue, including (1) private placement – aimed at a defined selection/group of investors, (2) public share issue – aimed at everyone, (3) rights issue – aimed at existing shareholders, and (4) employee share issue – aimed at the company’s own employees. A company must have the permission of the shareholders’ general meeting in order to carry out a share issue.

The most frequently used form of share issue is a private placement. This is because such share issues can often be carried out quickly and under a mandate that has already been granted to the board. If the board does not have a special mandate, the matter must be put to the shareholders’ general meeting. A private placement is appropriate in cases where fast-track access to capital is needed in connection with strategic transactions. As there is no requirement for the preparation of a prospectus, such share issues can be implemented more quickly than share issues aimed at the shareholders or the general public.

Assessment of board mandates in State-owned companies

Shareholders in many private and listed companies have given their boards a mandate to issue shares beyond the limited access that is often provided for in share programmes for the company’s employees. Both the State and a number of other, especially institutional investors, have however been cautious in giving their boards a mandate to issue shares without a ruling by the general meeting and without the mandate being linked to a specific purpose. The government intends to continue the State’s policy in this area and will not vote for proposals at shareholders’ general meetings in State-owned companies which give the board a mandate to implement changes in capital which traditionally fall within the remit of the general meeting.

However, the government will continue to support the State in its participation in buy-back programmes (where the company buys back shares in the market and then deletes them, as a supplement to dividends) provided that the State’s shareholding in the company is not altered as a result of the buy-back).

Assessment of resolution mandates to the government

In accordance with Article 19 of the Constitution, it is the King (the government) who administers the State’s property (including shares); section 3.2.2. However, it does not fall within the mandate of the minister’s authority under Article 19 to buy or sell shares in companies with a State shareholding. This requires a special mandate from the Parliament. In connection with the consideration of Document no. 7 (1972–1973) of Recommendation to the Storting no. 277 (1976–1977), the Parliament established that it has the real decision-making authority in respect of decisions which would significantly affect the State’s involvement in companies where the State is the sole shareholder. It has been established that the practice described in Recommendation to the Storting no. 277 (1976–1977) also applies to part-owned companies.

In connection with Report no. 13 (2006–2007) to the Storting, the Parliament proposed the withdrawal of the unutilised mandates to sell shares which the government had been granted from previous parliamentary terms. The government must now present relevant and specific proposals concerning transactions to the Parliament as separate cases.

Through being the sole shareholder or through having a controlling interest in a company, the State has a decisive influence over nominations to the board, major investments, acquisitions/mergers or restructuring, injection of capital, dividend policy and capital structure. The State should contribute generally to an effective capital structure, so that the companies have the opportunity to bring about strong industrial growth or efficient operation. At the same time, the companies should however not be over-capitalised. This could result in less efficient operation, over-investment and poor returns on capital. Mergers and demergers, as well as other structural measures, within the commercial companies should be assessed on the basis of commercial objectives and evaluations. This indicates that the owners should participate in decisions concerning investments or transactions that are of importance to the company’s operations. The dynamics of business and industry dictate the need for decisions concerning the investment of capital or adjustments to shareholdings to be made with a certain speed. The financial crisis has shown that in certain situations companies must be able to act very quickly on the capital side in order to safeguard shareholder values or take advantage of industrial opportunities.

The government believes that the State as owner should facilitate the fast and efficient consideration of owner issues. However, the government does not believe that it is necessary to deviate from the principle that important shareholder issues should be subject to consideration by general meetings, or to alter the established mandate structure between the government and the Parliament with regard to ownership issues. Within the applicable framework, it is however the government's view that, in addition to mandates to participate in industrial restructuring processes within certain companies, the government can also be given a mandate by the Parliament to participate in share issues subject to certain conditions. Concurrently with this Report to the Storting, the government is presenting a Proposition to the Storting in which it proposes that the Ministry of Trade and Industry be given a mandate by the Parliament for the remainder of the current parliamentary term to potentially participate in possible equity expansions carried out by Yara International ASA and Kongsberg Gruppen ASA within a defined limited framework in order to maintain the State's shareholdings.

5.3.4 Changes in the State's shareholdings

Professional ownership is not simply about imposing expectations concerning a company's strategic development, capitalisation and corporate social responsibility; it is also about having an ongoing assessment of what the State should own and what it should not own. Certain companies in which the State has a shareholding may end up in a situation where owners with an industrial and commercial background would be able to contribute more to the development of the company than the State. The government believes that it would be appropriate to request a mandate from the Parliament to adjust the State's shareholding in selected companies. Concurrently with this Report to the Storting, the government is therefore presenting a separate Proposition in which it requests such a mandate for the sale of shares in SAS AB and Secora AS. The government will return to the shareholding reduction/floatation of Entra Eiendom AS after the properties have been reviewed.

SAS AB

SAS is categorised as a company in which the State only has commercial objectives.

The company also has an important role to play as part of the Norwegian transport infrastruc-



Figure 5.7 SAS AB – The photograph shows the ground service.

Photo: SAS Group

ture and, through the interaction between SAS and Widerøe, provides a seamless network of scheduled services both within Norway and between Norway and abroad. The consequences as regards transport policy were taken into account in the government's assessment in connection with the capital expansions in SAS AB in 2009 and 2010.

SAS still faces a significant number of challenges which the company can probably best overcome with an industrial partner on the owner side. The biggest challenge stems from increasing competition, but the company also has a smaller share of the intercontinental air travel market than is desirable from a commercial perspective. This increasing competition could force a process of consolidation within the industry. In connection with this, it is important to actively seek to identify an appropriate industrial solution for SAS, in which considerations relating to the company's assets, jobs and airline services in Norway will be important factors. The government believes that, in this situation, the State should be open to selling its shares in SAS AB to an industrial player which has a long-term perspective behind its investment and which can develop the company further in an appropriate way. The government assumes that the disposal of SAS would take place in a dialogue with our Nordic partners, in line with the tradition of Nordic cooperation as regards the ownership of SAS. In connection with this, the government will also assess how essential interests as regards transport policy should be safeguarded.

Secora AS

Secora AS is a maritime contractor that was established in 2005 through the separation of the production unit of the National Coastal Administration. Secora has around 115 employees and an annual turnover of over NOK 200 million. The company is categorised as a company in which the State only has commercial objectives.

The company operates in a market which is fully exposed to competition and the size and nature of the company are not such that it is of national strategic importance. Secora currently has a significant market share in Norway and possesses specialist expertise within the provision of maritime contractor services on hard substrates. However, Secora is facing a number of challenges in achieving adequate profitability over time. The government believes that the company's industrial and expertise base is too limited to enable the company to expand significantly without external assistance. There may be a need for stronger industrial owners in order to exploit the company's opportunities for growth and realise the full potential of Secora. It may be appropriate to bring the company into a wider environment that is better placed than the State to help the company develop. In a separate Proposition, the government has therefore asked the Parliament for a mandate to identify an appropriate and sustainable solution for Secora AS through a merger or the disposal of the State's shares. In connection with the assessment of opportunities, the government will emphasise the company's affiliation to North Norway.

Entra Eiendom AS

Entra Eiendom was established in 2000 through a parliamentary resolution to divest the buildings in Statsbygg's property portfolio that are most exposed to competition. The company has around 170 employees and accounting equity of NOK 7.0 billion. The company is categorised as a company in which the State only has commercial objectives.

Entra operates in an industry that is fully exposed to competition. The company believes that State undertakings are key customer groups which will continue to be well served even if Entra Eiendom gains new owners. The government shares the view that State lessees are central to the company's business model. Full State ownership is therefore not deemed necessary in order to secure access to premises.

Entra Eiendom may require more capital in order to exploit its development potential. As the company operates in a market that is exposed to full competition with other property companies, the government believes that it would be better for the company to finance its equity requirements linked to further growth through the private market. The company could benefit from new private sector owners who are demanding and aim to bring about development as regards the company's strategy and commercial solutions. An appropriate solution could be to reduce the State's shareholding as part of a structural transaction and/or floatation. Before any reduction in the State's shareholding is implemented, the government will consider whether certain buildings in Entra's portfolio should be taken over by Statsbygg on commercial conditions.

5.3.5 Establishment of new State ownership

The government believes that the State's direct ownership should remain at around the current level. The direct ownership must however be dynamic and contribute to the development of value creation within Norwegian industry. It is important that the ownership is not locked on the basis of historical considerations, but is aimed at companies and operations that are of importance for the value creation of tomorrow.

Traditionally, State ownership has been established through the conversion of a State undertaking into a company, through the establishment of a new company or through the acquisition of all or parts of an existing private undertaking. In most cases, State ownership has been established at an early stage in a company's history or as a result of a fundamental industrial change or crisis. The government considers it appropriate that, in future, the establishment of new State ownership should normally be carried out on the basis of commercial grounds, ideally in cooperation with private investors. If a different type of ownership is considered, such ownership must be based on considerations relating to socio-economic profitability or certain specified objectives, such as objectives relating to sectoral policy.

Challenges associated with changes in State ownership within the current structure

The government believes that, under the ministerial structure, establishing a body to actively and regularly work on the establishment of new strategic ownership would be a challenging process.

There are special challenges linked to the trading of shares in a company in which the State is or wishes to become a shareholder. These challenges are linked to the confidential handling of information and effective conduct in the market. Awareness of the presence of a major potential buyer or seller in the market will generally quickly have an impact on the market price of the shares. In connection with such assessments, this means that the State must generally exercise strict confidentiality, including with regard to the use of external consultants.

The ministries can often be in possession of information concerning processes relating to the framework conditions of Norwegian industry or particular sectors which is not publicly known. The State as a regulatory authority has authority over laws, regulations/concessions, supervision, public support/guarantees, public procurement of services, taxes, duties, etc. which impact on the financial and competitive circumstances of the companies. The challenges for the State as owner remain the same whether the issue concerns the buying or selling shares, and include the declaration of inside information, the use of independent consultants, procedures for safeguarding confidentiality, considerations relating to the equal treatment of shareholders, etc. However, these are circumstances which the State can manage within the current framework. In some cases, however, transactions may have to be deferred because the State as an authority has a unique knowledge that is of market-related significance.

Ownership with a view to the emergence of new industry

Through Investinor AS and Argentum Fondsinvesteringer AS, structures have been established for direct and indirect State shareholdings respectively in companies at an early stage. There are also State-supported seed funds. These companies were set up to contribute to the emergence of new industries and are pivotal instruments in the government's innovation policy.

As mentioned above, there may be special challenges linked to the trading of shares in companies in which the State either is or wishes to become a shareholder. The State's direct ownership administration is therefore not structured to handle the regular acquisition of shareholdings in new companies of particular importance in terms of industrial policy. This is handled by other State administrators such as Investinor. However, this does not prevent the State from buying shares in

new companies in individual cases through the direct ownership.

Innovation Norway is the lender for a total of 14 privately owned seed funds which were established during the period 1997–2008. The scheme was evaluated in 2009¹. The seed funds trigger private capital and expertise for projects at an early stage. The evaluation also indicates that they supplement Investinor AS and Argentum Fondsinvesteringer AS and meet a need at an earlier stage that is not covered by other public sector instruments. The seed funds account for over 90 per cent of the seed capital under administration. The government believes that this indicates a need for public sector involvement in this segment.

The capital in the existing seed funds has largely been invested in portfolio companies or allocated to administration and follow-up investments in these companies. Limited new investment is therefore anticipated in the future. The results of the funds during the period 2006–2008 seem to be better than those achieved by the funds during the period 1998–2000. It will be important for future seed funds to draw on the experience gained through previous funds.

In order to promote investment during the seed phase, and thereby the emergence of new companies, the government will present proposals to establish new national seed funds. For new seed funds, an assessment must be carried out as to how incentives can be established to promote the best possible administration of the State's assets. The government will return to the Parliament with a proposal for the appropriate organisation of the funds.

Investinor AS began operating in February 2008 with subscribed equity of NOK 2.2 billion. The aim of the investment company is to promote value creation by offering venture capital to internationally oriented competitive companies, primarily new establishments. Investinor will primarily invest in sectors in which Norway already has a strong position and in which there is considered to be potential growth. Investments from Investinor are in great demand. After just two years' operation, around two-thirds of the capital has already been allocated. The government will present a proposal for the provision of additional investment capital for Investinor to ensure that the company can continue to contribute to the emergence of new and internationally competitive

¹ MENON Business Economics. 2009. Veksthus eller såkorn til spille? Evaluering av ordningene for såkornfond under Innovasjon Norge, Menon publication, no. 5.

companies. Before such capital is provided, the ministry will conduct a review of Investinor.

In the long term, the recirculation of capital can release funds for new investment to a greater degree, through Investinor disposing of shareholdings in certain companies to other owners. If certain companies in which Investinor is to dispose of its shareholding should prove to offer unique potential or be of particular importance for other reasons, a decision may be taken in each individual case concerning the possible transfer of shareholdings directly to the State on commercial conditions where the State can be a good long-term owner. Such an acquisition of ownership will be submitted to the Parliament in the normal way.

5.4 Exercise of ownership

The government believes that the primary purpose behind the State's commercial ownership (the companies in Categories 1–3) is to contribute to the companies' long-term value creation, industrial development and profitability, with a view to ensuring the best possible return on the State's investments. Requirements concerning return on investment and expectations relating to the distribution of dividends will be a key part of the dialogue with the companies. There is a clear presumption that the companies must be competitive over time in order to maintain and develop their position. This will also lay the foundations for employment and secure jobs. The government believes that companies with sectoral policy objectives must also be managed as efficiently as possible, whilst at the same time achieving the sectoral policy objectives in the best possible manner.

The State administers substantial assets in Norwegian companies on behalf of society. The government believes that the demanding requirements that are imposed on the State as owner mean that the State must exercise its ownership in a professional manner. This is vital in order to safeguard the assets and thereby create trust in the State as a major owner, both amongst investors and players in industry and amongst the population in general by achieving a good return on the investments that society has made in the companies.

The government will administer the State's ownership in line with the State's established principles for good corporate governance. These principles are aimed at all State-owned companies, whether wholly or part-owned. The division of roles between the board and owner in accordance

with the company acts must form the basis for the State's ownership policy. The State's corporate governance principles have been formulated in line with generally accepted principles for corporate governance and deal with important issues such as the equal treatment of shareholders, transparency, independence, the composition of boards, the boards' role, social responsibility, etc. The State's principles for good corporate governance are supplemented by the Norwegian Code of Practice for Corporate Governance, which is aimed at listed companies, and by the OECD's guidelines for the corporate governance of State-owned companies. However, there may still be some differences in the way the State exercises its ownership of wholly owned and part-owned companies, particularly in the case of companies which have a specific social remit as part of sectoral policy and/or which are financed via the State budget. In such cases, it may be necessary to delimit the company's operations more clearly and to establish a somewhat narrower framework concerning the remit of the board without submitting matters to the owner.

The government will continue to pursue an active ownership policy which sets out expectations for the boards concerning high ambitions for the development of the companies. Increasing globalisation and the rapid pace of innovation and technological development mean that companies must continually consider operational readjustments. Together with clearer expectations concerning corporate social responsibility, this presents the boards and executive management of the companies with major challenges. However, it also imposes demands on the owners. They must be aware of the challenges as regards reorganisation faced by the companies and be able to adopt a position with regard to key strategic initiatives such as strategic investments, acquisitions or mergers. In connection with this, the composition and competence of the boards must be assessed and the owners must make changes as and when necessary. At the same time, the private sector ownership of many companies is fragmented, which results in less marked activity amongst the shareholders, particularly with regard to strategic issues. Within such companies, the board and senior management can easily lean towards the general market, which can often represent a more short-term perspective on the companies than the State has. In such a situation, more demanding requirements are imposed on the State as owner. The ministries must have the competence to maintain a real strategic dialogue with the compa-

nies, within the framework dictated by the division of roles between the owner, board and general management.

The government believes that the greater demands imposed on the State as owner (cf. the discussion in Chapter 2) will require the State to increase the capacity of its ownership administration in the future in order to ensure that the government's objectives behind the ownership are safeguarded through the initiatives that the board and the management of the companies submit for approval. In this also lies a need to establish a higher level of preparedness in order to make strategic decisions and to continually follow up the dialogue with the companies concerning their industrial and financial development. The government will ensure that the ministries that exercise State ownership have sufficient capacity to enable the State to understand both the challenges that the companies face and the way in which the State can actively contribute to the further development of the companies in an appropriate manner.

The government's expectations as regards State-owned companies are primarily described under the various themes covered in this chapter. Certain expectations are however more general or overarching in nature and are therefore described in this introductory section.

The government expects State-owned companies to have long-term strategies for the development of industry in Norway, in addition to international initiatives, which can positively contribute to employment and value creation in local communities. This particularly applies in regions where industry is based on local natural resources. Reorganisations in smaller local communities are particularly challenging and therefore necessitate a close dialogue with both employees and the local community. The State as policy formulator and exerciser of authority has a special responsibility to provide good national infrastructure, including trunk roads, railways, airports, a national electricity grid and networks for the provision of electronic communication services (e-com services), etc. As regards the latter infrastructure, this is explicitly stated in the E-com Act, which aims to secure users across the country good, reasonably priced and future-proof e-com services through the efficient utilisation of the country's resources by facilitating sustainable competition and promoting industrial growth and innovation.

The government will therefore:

- Expect State-owned companies, through the ownership dialogue, to give an account of their long-term strategies for the development of

industry in Norway, in addition to any international initiatives which can contribute to employment and value creation in local communities. This particularly applies in regions where industry is based on local natural resources. Furthermore, the State will, again through its owner dialogue, ask the relevant companies to provide information concerning the follow-up of Act No. 83 of 4 July 2003 on electronic communication.

In the work relating to international corporate social responsibility, the government expects companies in which the State has a shareholding to monitor and assess areas that are evolving. An example of this is the work being carried out to develop systems for country-by-country reporting (CCR). The government believes that this work is important and can help to raise awareness concerning how multinational companies and other organisations operate in developing countries. CCR is an initiative that is aimed at increasing transparency and means that multinational companies will be required to include operational information for the individual jurisdiction in which they are established in their annual reports. CCR is currently being considered by the OECD, amongst others, by bodies which establish international accounting standards in individual countries. The USA has introduced such a legal requirement for the mining industry, which will probably be implemented in 2012. The European Commission is also considering whether it would be appropriate to require listed companies to include key information in their annual reports concerning their operations in third countries. The government believes that it would be appropriate to consider developments in the EU, but will assess whether there could be a basis for introducing such rules in Norway, either as part of the process relating to possible new EU rules in the area or on an independent basis.

Another example where the companies could lead the development is linked to the UN's work relating to human rights. The UN Human Rights Council was presented with the framework "Protect, Respect and Remedy" in 2008. A draft has recently been put forward for guidelines concerning the operationalisation of the framework in the document "Guiding Principles for the Implementation of the United Nations' 'Protect, Respect and Remedy' Framework". These guidelines are not legally binding, but contain recommendations to authorities, industry and civilian society concern-

ing how challenges linked to human rights and business should be handled.

5.4.1 The government's expectations concerning dividends and return on investment

5.4.1.1 Return on investment

The value of the State's direct ownership in Norwegian industry is substantial. The State has invested in limited companies and State companies in the form of share contributions, invested capital and withheld surpluses within undertakings. The government has a long-term perspective on these investments and wishes to contribute to industrial growth, employment and positive value development. An important goal is for the companies to achieve a long-term return on invested capital. In the case of listed companies, this will often be measured through the return on the market value of the equity. For companies in which the State has a shareholding for commercial reasons, such a return is the key consideration, in the ownership execution. The shareholders can promote value creation within the companies partly by imposing clear requirements on the board concerning the return on investment.

Pursuant to the Regulations for Financial Management in the Government Administration, return targets must be established for companies in which the State is a shareholder. In this context, return target means the return that an investor can expect to receive on his shares in a company over time, given the risk to which the investor is exposed. Return targets are also known as 'reference returns', which are an expression of what an investor could expect from an investment in another share or portfolio with a similar systematic risk. The State has specific return targets for each company, i.e. expectations concerning the long-term return on its shareholdings in the form of dividends and increases in value. Such return targets also reflect a desire on the part of the government for the companies to have an appropriate capital structure, as this can also affect the return.

In the case of certain companies for which other specially defined objectives have been established, it may be appropriate to also consider the return in the light of these objectives. However, the EEA Agreement sets out the framework for the determination of return requirements to ensure that this does not hinder fair competition. The State must expect a normal market return on capital invested in an enterprise operating in com-

petition with others. For companies with sectoral policy objectives which do not operate in a market or administer a monopoly, a reference return will be of lesser importance. In this case, return requirements can be replaced by other targets, such as efficiency targets.

The government's expectations concerning the fulfilment of their corporate social responsibility will however not affect the return targets. The work of the companies in this area is expected to be carried out in a strategic manner, so that it forms a basis for a return that is as good or better in the long term and within the horizon during which the return targets apply.

A normal market return on invested capital should be determined on the basis of company-specific considerations and is the sum of risk-free interest plus a risk supplement for the company concerned. The State's return target should be in line with those of other investors.

A frequently used model for calculating return targets for companies with commercial objectives is the Capital Asset Pricing Model (CAPM); cf. box 5.3. The return requirement is particularly relevant in the assessment of the performance of companies over a number of years (typically three to five years) and may be of less relevance in the short term (one year). It should therefore be supplemented with other figures which show the company's development, results and key figures compared with others. The government expects the companies to be in an upper tier in such contexts.

The Capital Asset Pricing Model (CAPM) gives an indication of the return that should be expected from a company investment in relation to the risk that the investment imposes on the investor's portfolio.

The return will largely be determined by developments in market values. In the case of unlisted companies, no information on this is available in the market and specific analyses must be carried out based on available information. It may be difficult to find appropriate listed companies and sectors with which to draw comparisons, but valuations of the companies can be prepared. External financial consultants are generally used in connection with valuations. The values of the unlisted companies can be substantial and such valuations represent an important instrument for the State as owner in assessing financial developments within its portfolio.

An assessment of return must be made on the basis of an average over a number of years. The return targets that the State establishes normally

Box 5.3 Capital Asset Pricing Model (CAPM, before tax)

According to the CAPM, the return target can be expressed by the formula:

$$R_i = R_f + \beta_i (R_m - R_f).$$

The following are explanations of the elements in the model and the way in which the State normally calculates these elements.

R_i indicates the return target for company i and represents the return that can be obtained through an alternative investment of the capital in the asset with an identical systematic risk.

R_f indicates the risk-free interest rate. This represents the return that an investor can obtain from capital invested in a risk-free asset. The effective interest rate on Oslo Stock Exchange's index for State bonds with a term of five or ten years remaining can be used here. During periods when this interest rate is abnormally low or high, it may be appropriate to use a normalised risk-free interest rate of approximately five per cent.

β_i indicates the company's "beta value", which is the degree of co-variation between the return of company i and the return from the market portfolio. For listed companies, β_i is estimated on the basis of the change in a company's share price relative to the change in the market.

For Norwegian listed companies, the main Oslo Stock Exchange index is normally used. For non-listed companies, no information is available on the company's market value and β can then be estimated as an average of the β value of comparable listed companies, adjusted in relation to differences in debt level. In both cases, historical figures are assumed to give an accurate picture of future trends. In order to correct for historical measurement error and because β can have a tendency to move towards the market average over time, partly because companies measure themselves against each other, the estimated β can be normalised using the following formula: $\beta_{normalised} = (1/3) + (2/3)\beta$.

R_m indicates the annual return from the market portfolio. $R_m - R_f$ indicates the market's risk premium, i.e. the difference between the anticipated return from the diversified market portfolio and the anticipated return from the secure risk-free asset. The risk premium in the market can vary considerably. During periods when this premium is abnormally high or low, it may be appropriate to use a normalised market premium of approximately five per cent. This could for example take place in combination with the normalisation of the risk-free interest rate.

apply as an average over a period of three to five years and are normally revised every three to five years. It may also be appropriate to make adjustments more frequently, e.g. if the risk profile of the companies alters significantly. In the follow-up of the return targets, general market trends are also considered. In the case of listed companies, sector indices are also taken into consideration.

Return targets are not established for companies which are not based on commercial operations, or which are dependent on government aid in order to continue operating as a going concern. Instead, these companies adhere to the State's appropriation regulations in respect of appropriations and reporting. Nevertheless, the government expects the operation of such companies to be efficient.

5.4.1.2 Dividends

As owner, the State expresses views and expectations concerning each company's dividend policy.

The government will generally support a dividend policy which promotes long-term value creation within companies that have commercial objectives. The State's dividend expectations should reflect what the State as a shareholder regards as the right balance between dividends and retained profit in order to achieve the objective of the maximum possible value creation over time. Dividend expectations conveyed by the State to the individual company must be predictable and should normally be fixed for a term of several years. Over time, the company's situation may however change, making it appropriate to revise the dividend policy.

A key aspect in determining dividends is that the company should have equity commensurate with the company's goals, strategy and risk profile. Companies in which the State is a shareholder must be able to operate under the same framework conditions as the companies with which they compete. This means, among other things, that dividend expectations should be for-

mulated in such a way that they do not serve to give companies in which the State is a shareholder any competitive advantage or disadvantage compared with companies in private sector ownership.

Alongside their ordinary business operations, a number of State-owned companies have a sectoral policy remit involving commitments which may be unprofitable for the company. In such cases, the companies will normally be compensated separately for verified additional costs, rather than indirectly through reduced dividends from the company. Some sectoral policy companies have it laid down in their articles of association that dividends are not to be paid. Other companies which are dependent on subsidies/annual allocations do not normally pay any dividend.

The owner ministries responsible prepare long-term dividend expectations with regard to companies with commercial objectives. The owner ministry will communicate these expectations to the board. These expectations concern an average over a term of three to five years – or longer if deemed relevant. The State's long-term dividend expectations concerning an individual company are normally expressed as a percentage of the annual result after minority interests. For some companies, the annual result is corrected for certain items in order to calculate the basis for the dividend. This is of particular relevance in the case of companies where unrealised changes in the value of balance sheet items have a major impact on the annual result.

In connection with the determination of the State's long-term dividend expectations for an individual company, a systematic review is carried out of the following elements in particular:

- The company's strategy
- The company's maturity
- The state of the economy and sector considerations
- The company's capital structure and capital return
- The company's investment history
- The necessity of promoting capital discipline
- The company's competitors

In addition to the long-term dividend expectations, the owner ministries responsible will also draw up expectations concerning the annual dividend. As regards the annual dividend expectations, the same considerations as mentioned above will be reviewed with the aim of assessing how the dividend expectation for a particular year

should deviate from the long-term dividend expectations.

In connection with the determination of the State's annual dividend expectations, the following additional considerations must be assessed:

- Buy-back programme for the company's own shares
- Financial profitability
- Desire for a constant or constantly increasing dividend in Norwegian kroner per share
- The risk of possible unprofitable decisions within the companies
- Liquidity situation
- Known, profitable investment needs in the near future linked to the existing operation
- Other special considerations of particular importance for the ability of the company concerned to pay dividends

The owner ministry will pursue a dialogue with the company's executive management concerning the dividend expectations for a particular year, to ensure that the company's board is aware of the State's expectations before the board's proposal for the annual dividend is submitted to the annual general meeting and approved.

The State as a shareholder is not at liberty to determine the level of dividend in part-owned companies. Under the Limited Liability Companies Act/Public Limited Companies Act, the general meeting cannot decide to distribute a higher dividend than that proposed or approved by the board. With this proviso, the general meeting is able to set the maximum amount that can be paid. However, it is perfectly admissible for the State as a shareholder to express the expectations that are imposed regarding dividends, as well as the considerations on which these expectations are based.

Share buy-backs

The buying back by companies of their shares for subsequent deletion (buy-back of shares) combined with the payment of dividends can be an effective and flexible way of adjusting a company's equity to its requirements.

A buy-back programme is one way of employing a surplus and should be seen in the context of the company's capital situation. Equity that companies see no suitable use for is taken back into the stock market through owners who opt to sell their shares. As the shares which are bought back are permanently deleted, the underlying value of the remaining shares is not affected. In buy-back

programmes, the companies therefore have an instrument for optimising their capital structure.

Listed companies with State shareholdings should have the same opportunity as other companies to use share buy-backs as a supplement to their ordinary dividend policies. It is emphasised here that the State as owner considers buy-back agreements to represent a supplement to, rather than an alternative to, dividends. Enquiries from companies as to whether the State would consider participating in buy-back agreements are assessed on a specific basis in each individual case. In the case of companies in which the State is a shareholder, it is seen as desirable that the buy-back and subsequent deletion of the company's own shares should not bring about a change in the State's shareholding. In consultation with the companies concerned, a contractual basis has been drawn up for this in connection with the buy-back programmes of companies, according to which the State will maintain its shareholding by selling the appropriate number of shares to the company concerned. The agreements that are established must be publicly known, so that other shareholders receive the same information.

5.4.2 The government's expectations concerning corporate social responsibility

The State will be an active driving force in the work relating to corporate social responsibility and use the State ownership to ensure that the companies fulfil their social responsibility. The government has therefore presented a separate report to the Parliament on this, Report no. 10 (2008–2009) to the Storting: Corporate social responsibility in a global economy. In this Report to the Storting, the government sets out its understanding of corporate social responsibility as follows:

“Companies integrate social and environmental considerations in their daily operations and in relation to their stakeholders. Corporate social responsibility means what the companies do on a voluntary basis over and above complying with existing laws and regulations in the country in which they operate.”

The government wants this understanding of corporate social responsibility to apply to State-owned companies in the same way as it applies to every other company in Norway. The concept ulti-

mately concerns the responsibility that companies are expected to fulfil as regards the people, society and environment that are affected by the company.

The understanding of what lies in the term 'corporate social responsibility' and what it means for the operations of the companies concerned both in Norway and globally is evolving rapidly. Historically, many companies, especially those of a particular size, accepted a broad responsibility for their employees and their families, built homes, took responsibility for schools and provided healthcare services. As such provisions became the task of the public sector, gifts and support for humanitarian and cultural activities came more into focus. The trend in more recent times is for corporate social responsibility to be linked more to the company's own operations and supply chain.

The basic premise for the corporate social responsibility of State companies is that each company must be profitable over time and contribute to good and secure jobs, tax revenues and value creation. Corporate social responsibility also involves the development of goods and services, production methods and business practice which promotes sustainable growth. The government's expectations concerning corporate social responsibility do not involve special requirements which make it more difficult for the companies concerned to operate within the framework that follows from company legislation, corporate governance principles or other frameworks which apply to the companies. Companies that the State considers to be damaging should generally be regulated through laws and regulations or by using economic means that apply to all companies, and should not be regulated through State ownership.

Every company has a responsibility to fulfil their social responsibility and to integrate it into their operations and strategies. The government expects State-owned companies to take the lead and to work systematically with regard to their social responsibility and to be leaders within their respective fields. The government will clarify its expectations concerning the work of the companies relating to social responsibility in order to contribute to this. The government's expectations concerning corporate social responsibility cover all State-owned companies regardless of the State's objectives behind its shareholding.

The government believes that companies that fulfil their social responsibility in an appropriate and future-oriented way also demonstrate that they have a strategic approach to corporate social



Figure 5.8 The photograph shows the sale of Easypaisa, which is Pakistan's first financial service to be offered outside the branch networks of the banks by Telenor Pakistan.

Photo: Telenor Group

responsibility. The government believes that this will help to enhance each individual company's competitiveness over time and thereby contribute to achieving the best possible return for the State as owner. The government believes that such companies are able to seize the business opportunities that arise and that, through their sense of responsibility, they reduce the risk of unfortunate events which could weaken the company's market position and reputation. The government believes that such companies will be best placed to gain access to the most highly qualified labour and the most loyal customers, as well as to local communities who support the company. This will support value creation in the long-term, thereby ensuring a good return on investment for the State as owner.

Companies with sectoral policy objectives often have a social remit that goes beyond commercial goals. Such a social remit differs from what is termed corporate social responsibility. For example, the social remit of Posten Norge means that the company must work to fulfil the requirements concerning the provision of nationwide

postal services that are imposed through the Post Act and the company's concession conditions. These companies must also be aware of their social responsibility in connection with their operations, i.e. measures which extend beyond their social remit.

5.4.2.1 *Link between the expectations concerning the State's direct ownership and the expectations concerning investments through the Government Pension Fund*

It is the government's aim that the expectations of the State as a direct owner of the companies' work relating to social responsibility should be as compatible as possible with the expectations that are imposed on companies in which the State has a shareholding through the Government Pension Fund (the Government Pension Fund Global (SPU) and the Government Pension Fund Norway (SPN)). The government will clarify the expectations of the State with regard to its direct ownership of the companies' work relating to social

responsibility and build on the same platform as that used in the administration of the Government Pension Fund. This platform is derived from international conventions, principles and guidelines such as the United Nation's Global Compact, the OECD's guidelines for multinational companies and the ILO Conventions. However, there are significant differences between the administration of the State's direct ownership and the State's investment activity through the Government Pension Fund, which means that the government will not introduce uniform guidelines concerning the exercise of ownership in the various owner roles.

A key difference between the State's direct ownership and the State's investment activity through the Government Pension Fund is that, in the former case, the State is a strategic owner with substantial shareholdings in each company, whilst in the case of the latter, the State is, through the Government Pension Fund, a financial investor and minority shareholder. The underlying role of the owner affects the instruments that are available and how these instruments are used. Strategic owners carry considerable weight and have more opportunity to follow up and influence the companies through both governance and dialogue. In the role of a broadly diversified financial investor, there will be less scope to exert an influence on the portfolio companies.

SPU has investments in approximately 8000 companies and in most markets around the world. Norges Bank administers the SPU on behalf of the State via the Ministry of Finance. The Ministry of Finance has issued guidelines concerning responsible administrative practice and exercise of ownership as part of the Norges Bank's administration mandate. As the administrator of small shareholdings in many companies, Norges Bank focuses on selected areas which it considers to be of particular relevance for the long-term return, related both to good corporate governance and to corporate social responsibility, including the handling of environmental and social factors. As part of its ownership administration, Norges Bank has defined three key areas linked to corporate social responsibility within which they have prepared 'expectation documents': climate change, water management and children's rights. Norges Bank follows up these areas in its dialogue with companies that are considered to be particularly vulnerable to risk and/or have opportunities to make a difference within these areas. The Ministry of Finance has also issued guidelines concerning observation and exclusion from the Government Pension Fund Global's investment universe.

These guidelines mean that SPU must not be invested in companies which produce arms that breach fundamental humanitarian principles or which produce tobacco. Companies may also be placed under observation or excluded from the SPU as a result of grossly unethical conduct, including gross violations of human rights, severe environmental damage and gross corruption. The Ministry of Finance takes decisions concerning the observation or exclusion of companies based on the advice of the SPU's Ethics Council.

The National Insurance Scheme Fund administers the SPN on behalf of the State via the Ministry of Finance. The SPN invests in around 50 Norwegian and 100 Nordic companies. The National Insurance Scheme Fund's investment activities are regulated by guidelines issued by the Ministry of Finance. The National Insurance Scheme Fund bases its administration of the investment activities within the SPN on ethical principles. The National Insurance Scheme Fund assesses the companies' management of challenges linked to good corporate governance, human rights, corruption, the environment and other possible breaches of fundamental ethical norms. The National Insurance Fund assesses the guidelines that the company has itself established, the way in which these guidelines are followed up through specific measures and the way in which the company reports environmental and social matters.

As a direct owner, the State administers long-term shareholdings in around 50 Norwegian companies. This makes it possible to monitor each individual company in a more direct and regular manner than is possible in the Government Pension Fund's extensive portfolio, partly through a close owner dialogue with all the companies. Furthermore, it must be assumed that, because the State is such a major shareholder in the companies with direct ownership, the State's expressly stated expectations will be accorded considerable weight by the companies.

In the administration of the State's direct ownership and of the Government Pension Fund, the owner dialogue is used as the principal instrument with regard to issues relating to corporate social responsibility. The SPU also has other mechanisms linked to its administration which encompass the right to place a company under observation or to exclude a company where there is an apparent risk of grossly unethical conduct or if the owner dialogue appears unlikely to succeed. As regards the State's direct ownership, exclusion and observation cannot be used as instruments. There will therefore be natural reasons why the instruments that

are used, the breadth of the expectations that are imposed and the ways in which the administration monitors the companies differ.

5.4.2.2 *The government's expectations concerning the work of State-owned companies relating to corporate social responsibility*

The government expects all Norwegian companies to fulfil their social responsibility, regardless of whether they are privately or publicly owned and regardless of whether they operate in Norway or elsewhere. All companies should fulfil their social responsibility and this should be integrated in the companies' operations and strategies. Companies with a State shareholding must be leaders in the work relating to social responsibility within their respective fields. The companies are expected to apply best practice regardless of where they operate. As in all other areas, it is the companies' boards and executive management which must safeguard the companies' interests and make the best possible evaluations, including in areas linked to the company's priorities and work relating to corporate social responsibility.

The government has high expectations as regards how State-owned companies work with regard to their social responsibility, both because the government believes that doing so will produce a good return over time and because acting ethically has an intrinsic value in itself. There are however certain limits as regards what can and should be covered by the corporate governance of State-owned companies, particularly if the company is competing with other players. There will often be other public sector and general instruments, such as legislation, which are better suited to safeguarding these considerations. These instruments will apply to all companies and will therefore not hinder fair competition. Priorities linked to the competitiveness of the companies will therefore sometimes be necessary in order to safeguard the State's ownership in the best possible way.

The government has both general and more specific expectations concerning the companies with regard to corporate social responsibility. The general expectations are more universally applicable. State companies differ widely with regard to their operations, and the expectations of the companies within the field of corporate social responsibility will vary. The government therefore believes that it is appropriate to have expectations of the various companies or groups of companies

that are appropriate for their area of operation. The government furthermore believes that the approach of having different domains of expectations will contribute to the work to promote the profitability of the companies or achieve specific objectives, whilst at the same time ensuring that the operations of the companies are perceived as ethically reasonable.

The government's overarching and general expectations

The government's overarching and general expectations are aimed at all State-owned companies. The government's expectations regarding social responsibility underpin the goal of the highest possible return on the State's investments over time within the commercial companies. The government furthermore believes that State-owned companies can act as a source of inspiration for the rest of industry by being leaders within their field with regard to corporate social responsibility. The companies should actively comply with international norms, rules and practices within the field. The government's general expectations are therefore strongly linked to national and international standards, conventions and reporting norms, because they are perceived as being universally applicable.

The government aims to enable the companies to use the so-called 'comply or explain' principle linked to its work relating to corporate social responsibility. In this way, the companies can, in their communication and reporting relating to social responsibility, state the extent to which their work meets the expectations and guidelines that have been established, or which they use linked to their operations. The comply or explain principles involves, for example, small companies that only have operations in Norway adapting their work relating to corporate social responsibility in a different way than companies with international operations, whilst still complying with international standards and norms. Companies that operate in demanding markets abroad must be able to operate without being accused of breaching international conventions and principles. One example of this is companies which operate in countries in which labour union activity is suppressed. In such cases, it would not necessarily be better for the companies to withdraw; instead, they could explain what they are doing in order to safeguard the rights of the workforce in the country concerned. The government believes that the fact that the companies are transparent in such

cases and explain how they are handling the problem will help to drive developments forward, both nationally and internationally.

The government believes that official reporting concerning the work of the companies relating to social responsibility helps both to meet the needs of the public sector for information on how the State-owned companies are managed, and to structure and develop the work of the companies relating to social responsibility.

The government expects the work of the companies relating to social responsibility to be based in the boards that are responsible for the company. In order to make this clearer, the government expects the boards to be transparent as regards the work relating to corporate social responsibility, and in particular how this work is internalized within the organisation, in their annual reports.

The government expects State companies to develop appropriate systems for the notification of censurable circumstances, so that communications concerning notification are received and dealt with in a professional manner which safeguards the rights of the notifying parties². Notification covers circumstances such as corruption and financial circumstances, as well as circumstances relating to health, safety and work environment (HSE) and breaches of employment regulations and environmental circumstances.

The government expects:

- The companies to be leaders in the work relating to corporate social responsibility within their respective fields. The companies to actively monitor and contribute to the development of good business practice within areas that are of relevance to their operations.
- The companies to have, and make publicly available, ethical guidelines.
- The companies to prepare, and make publicly available, guidelines concerning their work relating to corporate social responsibility³.
- Companies with international operations to adhere to the United Nation's Global Compact and for companies with an international supply chain to consider doing the same.
- Companies with international operations or an international supply chain to familiarise them-

² Notification is referred to in Articles 2-4, 2-5 and 3-6 of the Work Environment Act.

³ Cf. Report to the Storting no. 10 and the Norwegian Code of Practice for Corporate Governance (NCPCG).

selves with and comply with the OECD's guidelines for multinational companies.

- Companies with international operations or an international supply chain to base their operations on the ILO's eight core conventions.
- The companies to develop key indicators linked to corporate social responsibility in a dialogue with their main stakeholders.
- Companies to report on their work relating to corporate social responsibility, including significant challenges, objectives and indicators for goal achievement. Companies of a certain size to use the internationally recognised reporting standard, the Global Reporting Initiative⁴.
- The work relating to corporate social responsibility to be anchored within the companies' boards and the boards to report on key areas in their annual report.
- The companies to have good notification procedures in their operations.

In addition to these general expectations, there are four areas which the government believes are so important for the development of the companies that special expectations have been formulated. The government also aims to enable companies to use the "comply or explain" principle here in order to adapt to their own operations.

The government's expectations relating to human rights

Public authorities have a vital responsibility to safeguard human rights. However, others can also contribute to the safeguarding of human rights. The government believes that this is also relevant to the companies, including State-owned companies. The government expects State-owned companies to respect fundamental human rights in everything they do, including the rights of children, women, minorities and indigenous people, as they are set out in international conventions. The companies are also expected to follow up this area with respect to their suppliers and business partners.

The government expects:

- Companies with international operations to integrate circumstances linked to human rights as they are set out in international con-

⁴ Small companies (cf. the definition in Section 1-6 first paragraph of the Accounting Act) are exempt from this expectation.

Box 5.4 The UN's Global Compact principles

The UN's Global Compact – ten principles

Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.

Labour standards

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. The effective abolition of child labour, and

6. the elimination of discrimination in respect of employment and occupation.

Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technology.

Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Ministry of Foreign Affairs

ventions in their guidelines concerning corporate social responsibility.

- Other companies, particularly companies which have international suppliers or business partners, to consider including this in their guidelines.

The government's expectations relating to labour rights and decent working conditions

Companies with a State shareholding, regardless of where they operate, are expected to respect and promote decent working conditions which safeguard fundamental labour standards and give workers a decent wage. The ILO's eight core conventions are considered to be fundamental to the field of working life and are deemed to represent a minimum standard. The core conventions cover fundamental principles and rights within working life: the freedom of association and the right to collective bargaining, the elimination of all forms of forced and slave labour, the elimination of child labour and the elimination of all forms of discrimination in working life.

Companies with extensive international operations may face different challenges to companies that operate in Norway. The Norwegian labour market is generally well regulated and there is widespread cooperation between employees and employers. Norwegian companies with international operations can contribute to the development of labour rights in other countries which

have not progressed as far within this field and to the establishment of global framework agreements with the union movement.

The government expects:

- Companies with international operations to integrate circumstances relating to workers' rights in their guidelines for corporate social responsibility.
- Other companies, particularly companies which have international suppliers or business partners, to consider including this in their guidelines.
- Companies with operations in Norway to act with a long-term and responsible approach to reorganisation processes and to carry out these processes in a dialogue with employees and local communities.
- Companies to be leaders as regards HSE covering both national and international operations, and for corresponding requirements to be imposed on suppliers and business partners.

The government's expectations relating to anti-corruption and transparency concerning monetary flows

Corruption is a major social problem and hinders democratic, social and economic development in certain parts of the world, particularly in developing countries. Various forms of corruption also

Box 5.5 The key elements in the OECD's Guidelines for multinational enterprises

The OECD's guidelines for multinational enterprises – Key elements

1. *Terms and principles:* The guidelines are voluntary, have global relevance and reflect good practice for all businesses.
2. *General policy-related guidelines:* The companies should give due consideration to the established policy in the countries in which they operate, respect human rights, encourage local capacity development and encourage suppliers and subcontractors to follow the guidelines.
3. *Publication of information:* The guidelines recommend the regular publication of information concerning the companies' operations, development, financial situation and results.
4. *Employment and relationship to the employees:* The companies should respect the union rights of their employees, cooperate with the employees' representatives, work against discrimination and contribute to the elimination of child and forced labour.
5. *Environmental protection:* Companies should take due account of the need to protect the environment and public health and safety. They should establish an environmental management system and have in place contingency plans to prevent, reduce and limit severe damage to the environment and health.
6. *Elimination of bribery:* The companies should not offer, promise, give or demand bribes or other unfair advantages either directly or indirectly in order to obtain or retain business or other undue advantages. They should contribute to the raising of awareness amongst employees of the company's anti-corruption policy.
7. *Consumer interests:* Businesses should follow good business, marketing and advertising practice and use measures to ensure that the goods and services they deliver are safe and of good quality. They should provide information about products to consumers and establish routines to resolve consumer disputes.
8. *Science and technology:* The companies should contribute to the transfer of technology and knowledge to the host country and to the development of the local and national capacity to innovate. If appropriate, they should carry out development work within science and technology in the host country.
9. *Competition:* The businesses should refrain from entering into or carrying out anti-competitive agreements between competitors and carry out all their operations in accordance with all applicable competition legislation.
10. *Taxation:* The businesses should contribute to the public sector finances in the host countries by making tax payments punctually.

Source: Ministry of Foreign Affairs

Box 5.6 The ILO's eight core conventions within working life

The ILO's core conventions

- Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87).
- Right to Organise and Collective Bargaining Convention, 1949 (No. 98).
- Forced Labour Convention, 1930 (No. 29).
- Abolition of Forced Labour Convention, 1957 (No. 105).
- Minimum Age Convention, 1973 (No. 138).
- Worst Forms of Child Labour Convention, 1999 (No. 182).
- Discrimination (Employment and Occupation) Convention, 1958 (No. 111).
- Equal Remuneration Convention 1951 (No. 100)

Source: Ministry of Foreign Affairs

Box 5.7 New ISO guidance for the work relating to social responsibility

ISO 26000 Guidance on social responsibility

NS-ISO 26000 gives guidance for all types of organisations and companies concerning the following:

- Concepts, terms and definitions related to social responsibility;
- Background, trends and characteristics of social responsibility;
- Principles and practices relating to social responsibility;
- Integrating, implementing and promoting socially responsible behaviour within its sphere of influence;

Source: Standard Norge

- Communicating commitments, performance and other information related to social responsibility.

The seven core subjects in the guidance are:

- organisational governance
- human rights
- labour practices
- the environment
- fair operating practices
- consumer issues
- community involvement and development

occur in the industrialised world and in Norway. Strict requirements concerning transparency and openness are effective instruments in the work to

combat corruption and also help to illuminate the various dilemmas that the companies may face in different contexts.

Box 5.8 Telenor's monitoring of suppliers following the incident in Bangladesh in 2008 – example of follow-up of human rights

After clear breaches of the regulations relating to HSE, child labour and the environment by subcontractors of Telenor's subsidiary Gramenphone were uncovered in 2008, Telenor immediately instigated a corporate project to improve the follow-up of the supply chain throughout the group.

After first clarifying the risks within the various markets through a series of inspections carried out by Det Norske Veritas (DNV) and self-assessments by the suppliers in 2008, Telenor began the process of detailing and formalising its follow-up regime, the principles of which are approved by Telenor's board. This regime is based on continuous improvement in the supply chain and was implemented in every country in which Telenor operates during 2009 and 2010. Telenor's 'Business Assurance' regime includes formalised requirements on suppliers and business contacts via binding agreements concerning principles for supplier conduct, as well as the ongoing follow-up of this through pre-announced and un-announced inspections.

Source: Telenor ASA

The systematic follow-up by Telenor through such a 'Business Assurance' regime has helped to give Telenor a distinct profile as a socially responsible player in its markets. By the end of 2010, Telenor had signed agreements concerning responsible business conduct with thousands of suppliers and systematically monitored both suppliers and subcontractors through contractually imposed requirements, pre-announced and un-announced inspections, as well as ongoing requirements concerning initiatives to bring about improvements as and when necessary.

Although major challenges remain in many of the countries in which Telenor operates at a general level and there will always be scope for further improvement, by the end of 2010 had Telenor had unequivocal information acquired through the measurement of key parameters to indicate that the actual situation in the global supply chain had improved since the situation in 2008.

Transparency concerning monetary flows is also important in order to fulfil the tax responsibilities of the companies in the various countries in which they operate. This is particularly relevant in certain developing countries where low tax revenues are important causes behind poverty. One of the reasons for low tax revenues is a lack of transparency in the global financial system.

The government expects:

- Companies with a State shareholding to integrate the work to combat corruption into their guidelines concerning corporate social responsibility.
- The companies to demonstrate the greatest possible degree of transparency linked to monetary flows, including tax.
- Companies with international operations to adhere to the OECD's guidelines relating to taxation and, as part of this, to endeavour to avoid using tax havens which do not follow Global Forum's standards concerning transparency and the effective exchange of information relating to tax matters and which refuse to enter into tax information agreements with Norway.

The government's expectations relating to environmental and climate-related initiatives

The government is aiming for Norway to be a pioneering country with regard to the environment and climate policy. In order for future generations to have access to a good environment, a stable climate and rich natural diversity, environmental considerations must permeate everything we do. This also covers the way in which businesses act. If the climate challenge is to be overcome, international cooperation, which is largely an public authority responsibility, will be necessary. Nevertheless, the involvement of companies in overcoming environmental and climate challenges is vital. Companies can contribute through more environmentally friendly and resource-efficient operation within their own business, as well as through the development of new technology, innovation and new environmentally friendly goods and services. The government's objective is for companies in which the State has a shareholding to be leaders in their sector with regard to low waste and the development of climate-friendly technology. The government believes that companies with a State shareholding should develop and take into use the best possible technology in order to reduce their

environmental and climate impact. The government believes that companies that are at the forefront of development as regards innovation and environmentally friendly resource use can achieve both financial and market advantages in the long term.

The government expects:

- Companies with a State shareholding to integrate the work relating to the environment and climate into their guidelines concerning corporate social responsibility.
- State-owned companies to be at the forefront in terms of environmental initiatives within their sectors.
- The companies to contribute to the development of and to use environmentally friendly technology within their respective fields. The major companies have a special responsibility in this regard.
- The companies to identify and report on key measurement parameters linked to their environmental and climate impact in a dialogue with key stakeholders.

5.4.2.3 The government's monitoring of corporate social responsibility

The government will use the owner dialogue to monitor the way in which the companies handle the established expectations. In order to do this appropriately, it is assumed that the owner ministries have sufficient information and the necessary expertise with regard to the key issues that the companies face. The government therefore believes that it would be beneficial for both the owner ministries and the companies to make use of the skills of the various voluntary organisations which have many years of experience of working within these areas. The government will take the initiative to ensure that annual stakeholder meetings are held between the owner ministries and the voluntary organisations to assess issues and to raise the level of knowledge of the companies and the challenges that they face. The Ministry of Trade and Industry will be delegated responsibility for coordinating such meetings.

The owner dialogue

The owner dialogue with the companies will remain the key instrument at the disposal of the owner administration in order to monitor the companies' work relating to social responsibility. This

Box 5.9 The way in which voluntary organisations work with industry within the field of corporate social responsibility

The cooperation between voluntary organisations and industry

The voluntary organisations possess considerable expertise and experience within social responsibility. By cooperating with companies, these organisations can help to develop the expertise and work of the companies in various areas relating to corporate social responsibility.

- *Bellona's cooperation programme with industry – B7*

Within B7, Bellona works with companies to develop environmentally friendly products, services and offers. Bellona defines its environmental priorities and objectives itself. Companies are then invited to participate within this framework. Bellona is particularly seeking to cooperate with companies which understand and take on board the consequences of future requirements concerning environmental responsibility and production and operating methods. Companies that participate in the B7 cooperation contribute their views and expertise, as does Bellona. Through a close professional dialogue and bilateral cooperation, work is under way to achieve political long-termism and predictability. This is done by developing instruments and incentives which ensure that environmentally friendly products and services gain competitive advantages. Companies that enter into a B7 cooperation with Bellona become a B7 partner. In order to bring about appropriate and future-proof environmental solutions, emphasis is placed on long-termism. B7 partners therefore undertake to participate in a cooperation which will last for at least three years. The company will also contribute an annual amount by agreement.

Source: Bellona, Red Cross and the Initiative for Ethical Trade

Statkraft, SAS, Yara and Clean Carbon are examples of partners.

- *Red Cross*

The Red Cross has developed various forms of collaboration with industry in order to promote social responsibility. When it becomes a main collaboration partner with the Red Cross, a company is guaranteed sector exclusivity, in addition to a close and professional follow-up of the industrial segment within the Red Cross. The Red Cross is seeking long-term partners and a main collaboration agreement lasts for at least three years. Together with a main collaboration partner, the Red Cross will identify joint projects and activities, customised for the company concerned. An emphasis is placed on mutual skills development, the involvement of employees and the development of knowledge and values.

DnB NOR, Telenor and Aker Solutions are some of the main collaboration partners, whilst Flytoget is a collaboration partner.

- *Initiative for Ethical Trade (IEH)*

The IEH is a resource centre and a driving force for ethical trade. The IEH is also a member organisation. The aim is collaboration relating to trade which promotes human rights, workers' rights, development and the environment. Members of IEH gain access to professional resources and a result-oriented collaboration between relevant parties with regard to issues relating to ethical trade. Members also gain access to a range of courses, seminars and other opportunities for the exchange of experience.

Entra Eiendom and Telenor are two members.

means that corporate social responsibility will continue to be brought up at the regular quarterly meetings and at the annual meetings concerning corporate social responsibility that are held with the companies. The division of roles between owner, board and the corporate management establishes the framework for this owner dia-

logue. The boards and the corporate management teams are responsible for assessing the government's expectations with regard to the expectations of other stakeholders and for safeguarding the company's assets in a holistic manner. The government expects the boards of the companies to assess and adopt an active approach to the

Box 5.10 Global Reporting Initiative

The Global Reporting Initiative (GRI) is a voluntary international network based on collaboration between companies, employee organisations, investors, auditors, voluntary organisations, academics and other stakeholders. The network is affiliated to the UN through its status as a collaborating institution with the UN's environmental programme, UNEP. The aim of GRI is for reporting on the three-fold bottom line, i.e. financial, environmental and social results, to be as widespread as ordinary financial reporting is

Source: Ministry of Foreign Affairs

today. GRI has developed principles and measurement parameters for such reporting and is the most widespread international framework of this type. The GRI guidelines are continually being developed and improved. Sector-based appendices have been developed to supplement the core guidelines. The framework is also aimed at small and medium businesses and a guide has been developed to simplify the reporting by these businesses.

expectations of the government with regard to the work of corporate social responsibility.

The owner dialogue is an instrument that is used to a greater or lesser extent by all types of owners, such as private institutional investors, private equity owners and Norwegian State-owned financial investors such as the Government Pension Fund. In its direct ownership, the State is in most cases either the sole or majority shareholder in the companies. In cases where the State is a

joint owner together with other parties, the interests of the minority shareholders must also be safeguarded. In the owner dialogue, the State expects companies to have guidelines, routines and operating procedures and follow-up in place in order to fulfil their social responsibility. The companies' boards and management are responsible for formulating and operationalising routines and guidelines and for ensuring that there is transparency concerning such routines and guidelines.

Box 5.11 How Simula contributes to R&D in Norway

Simula carries out fundamental and long-term research in selected areas within scientific computing, methods for software engineering and communication systems with the aim of contributing to innovation within industry. Simula was evaluated in 2009 and the conclusions show that the company is delivering world-class results and inspiring innovation within the Norwegian research system. Simula has also been voted the world's most productive research institution within software engineering, and both the world's most productive and fifth most productive researchers within the field are employees of Simula. The research environment at Simula is international and encompasses over 120 employees with diverse backgrounds from many different nations and cultures.

Simula owns a number of subsidiaries together with the local authority in Bærum and collaboration partners in industry, e.g. Statoil and Telenor. Since 2005, Simula has had a strate-

Source: Ministry of Education and Research

gic and long-term partnership with Statoil within exploration technology, and also works with companies such as Det Norske Veritas, Statkraft and Kongsberg Defence Systems. The University of Oslo is an important partner for the education of Ph.D. and Master's degree students.

In collaboration with the University of Oslo and Fraunhofer-Institut für Experimentelles Software Engineering (Germany), Esito AS, Schlumberger, Tandberg, Det Norske Veritas and Tomra Systems, Simula has developed The Certus Centre, which receives funding as the Centre for Research-based Innovation (SFI) by the Research Council of Norway. The main objective of the centre is to promote value creation within society by developing better methods and techniques for verifying and validating complex business-critical software systems and solutions. This will also have substantial social benefits, as a result of the increased importance of complex data systems for society.

Transparency concerning corporate social responsibility in the annual ownership report

The companies are responsible for relevant and accurate reporting of the company's operations with regard to both financial and other circumstances. In this Report to the Storting, the government expresses clear expectations concerning the reporting of the companies and boards with regard to corporate social responsibility. In the annual report regarding the State's direct ownership, the government will be transparent as regards the way in which the companies have been followed up during the year. In the discussion of each individual company, a general description will be given concerning the way in which the company has worked with regard to social responsibility during the past year. With regard to this, the need for transparency must be weighted against the consideration that processes have not been completed and the circumstances of the individual company.

The Ministry of Trade and Industry as an advisor and coordinator for the administration of companies by the ministries

The ownership administration is spread across a number of ministries that exercise State ownership, with companies with commercial objectives primarily being administered by the Ministry of Trade and Industry and the sectoral policy companies being administered by the sector ministries. The government also wants the Ownership Department of the Ministry of Trade and Industry to play an advisory and coordinating role with respect to the other owner ministries as regards the follow-up of expectations relating to corporate social responsibility. The Ministry of Trade and Industry will also contribute as and when necessary to ensuring that expectations linked to all the companies are formulated. Such expectations will be based on the expectations which are expressed in this Report to the Storting, but adapted to the individual company's operations and relevance.

The government expects State-owned companies above a certain size to report in accordance with the Global Reporting Initiative. For certain companies, both State and privately owned, the fact that the reporting norm is only available in English may represent an additional barrier. The government will therefore contribute to the translation of GRI into Norwegian, thereby making it more accessible for the whole of industry.

5.4.3 The government's expectations relating to research, development, innovation and expertise

The Government expects commercial companies with State shareholdings to manage their businesses according to what is in the best interests of the company and its shareholders in a long-term perspective. The development of a company is partly dependent on whether it has an innovating and long-term company culture. In the case of major international industrial and technology-based corporations, the ability to innovate will be a decisive factor in their future competitiveness. See the discussion of the reorganisation requirements in section 2.2.3.

Innovation has always been a pivotal source of value creation and in the development of the welfare society. Increased value creation primarily takes place when people utilise resources in new and smarter ways. By doing things in new ways or by developing new products and services, companies can produce things more cheaply and better or charge a higher price for what they produce, i.e. changes that increase the companies' profitability and at the same time reinforce the basis for the welfare society.

Access to people with specialist knowledge is becoming an increasingly important competitive factor for the companies, which is also taken into consideration when the companies decide where to locate their operations. International competition has long been an important stimulus for innovation and reorganisation. Norwegian industries are accustomed both to international work sharing and to adjusting to the effects of international competition.

When they encounter strong international competition, the companies cannot utilise more resources within production than is strictly necessary. In order to achieve a satisfactory level of income, the government expects companies with a State shareholding to continually monitor technological and market developments and to organise their operations as efficiently as possible, in the same way as other private companies.

The competitiveness of the companies depends on their ability to employ and develop new knowledge and new technological and organisational solutions through new knowledge. Investments in research and development will vary from company to company, partly depending on the sector and the company's lifecycle, size and strategy.

Table 5.2 Summary of R&D investments by Norwegian undertakings and ranking, 2009

			Investment in 2009 (NOK million)	
World ranking			EUR	NOK ¹
1	282	Statoil	250	2073
2	629	Telenor	88	730
4	648	DnB NOR	86	711
3	662	Norsk Hydro	83	690
5	762	Kongsberg Gruppen	69	574
6	881	Orkla	57	476
7	939	Eltek	53	439
8	1027	Tandberg (now part of Cisco Systems)	47	390
9	1066	Renewable Energy	45	369
10	1072	Kongsberg Automotive	44	366

¹ The annual costs in EUR have been converted to NOK at the exchange rate as of the end of 2009 (8.29 NOK/EUR).

Source: European Commission (2010 EU Industrial R&D Investment Scoreboard).

Relating to new knowledge and new technologies is of strategic importance for most companies. The Government has high ambitions with regard to R&D within business and industry, and also expects State-owned companies to have a considered approach towards their own R&D. The boards and corporate management are expected to work actively with regard to research, innovation and skills development in order to grow their businesses and facilitate the commercialisation of research internally within the company and through seeding. Companies should also pursue a conscious approach to communicating their own research results and commercialising the results of other research environments and companies. Companies also have access to the research policy instrument system, which can support their own initiatives.

Many of the companies with a State shareholding are leading industrial companies in Norway. These companies play an important role within Norwegian industry and business. It is important that these companies contribute to good technological development, the development of strong industrial clusters, seeding and increased value creation.

Companies in which the State has a large shareholding are amongst the leaders within R&D in Norway. In a new ranking by the European Commission of the world's companies by research activity, there are seven Norwegian companies among the thousand largest (Table 5.2), five of which have a substantial State shareholding.

There are now more Norwegian enterprises amongst the major players than ever before.

The ability of companies to develop and employ new knowledge and technology, and thereby enhance their competitiveness and adaptability, is closely linked to the skills that the employees possess. Norway generally has a highly educated population, and employees in both the public and the private sector possess a high level of competence generally. Sufficient expertise is partly ensured through each company having a considered and long-term recruitment policy. However, it is at least as important that the companies update and further develop their employees' skills, so that both the companies and the individual employees themselves are as well-equipped as possible to face new demands and the need for change.

The government expects companies with a State shareholding to have a conscious attitude towards the skills of their employees and to work continually and actively on competence development, so that their employees at all times have the knowledge and skills they need in order to develop the companies further.

Professional and vocational training represent an important aspect of the Norwegian education system. Industry's contribution, through training within the companies, is a pivotal aspect of professional and vocational training. Forecasts of labour requirements show an increase in the need for skilled workers. Similarly, the number of jobs which require only a compulsory school educa-

Box 5.12 Norsk Hydro – leaders in Europe within the field of modern and environmentally friendly construction systems

Hydro is a leading manufacturer of aluminium construction systems and the largest player in Europe. In 2009, the company had a turnover of some NOK 6 billion and just under 3,000 employees spread across 150 locations, primarily in Europe.

Hydro supplies advanced aluminium windows, doors and facades through three brands, Wicona, Technal and Domal/Alumafel, which are aimed at different market segments. Through a strong focus on research and technological development, Hydro has developed construction systems which significantly reduce energy consumption in buildings. Hydro estimates that around 40 per cent of the world's energy consumption is due to buildings, and more energy-efficient buildings therefore represent an important part of the solution to the climate challenge. Hydro's energy-efficient solutions can also be used in connection the refurbishment of existing buildings.

Aluminium products are used in modern energy-efficient buildings in many areas, as aluminium is strong and light and can be shaped, and is ideal for turnkey solutions for ventilation, solar blinds, heating and cooling.

In 2009, Hydro built a test centre in Germany which is equipped with a geothermal heat pump, solar panels and facades which regulate and utilise light, heat and ventilation efficiently. The building should be energy-neutral, but is currently generating far more electricity than it is consuming and power can be sold to the local grid.



Figure 5.9

Source: The photograph shows Vodafone's new Italian head office in Milan, for which Hydro has supplied the facade solution.

Source: Norsk Hydro ASA

tion as the highest level of education is set to fall. The government expects companies with a State shareholding to take responsibility for recruiting apprentices.

5.4.4 The government's expectations concerning the remuneration of senior executives

The government bases its policy on the Norwegian social model which has a good social safety net, relatively low differences in pay and extensive collaboration between employee and employer organisations. This will provide the best possible foundation for the development of the framework

conditions for the labour market and employment. It gives the companies flexibility, which facilitates reorganisation and also offers those affected by reorganisation a social safety net. The Norwegian model is also characterised by a dialogue between key players in society and a predictable economic policy. The tripartite collaboration between the employee and employer organisations and the authorities is a central arena for dialogue and contributes to economic development, even in markets that are exposed to competition. The collaboration helps Norway to achieve the most important objective of its economic policy, work for all. In turn, this contributes to a high level of value creation. In order for companies to maintain their

competitiveness, it is important that the pay of senior executives is linked to production increases and does not weaken Norway's competitiveness.

The government launched the current guidelines concerning the State's position on senior executive remuneration in State-owned companies in December 2006⁵. These guidelines were launched partly as the result of a desire on the part of the government to bring to a halt an undesirable trend in the pay of senior executives, which leading to a widening gap between the remuneration of senior employees and that of the rest of the workforce.

The government believes that these principles should also apply to senior executives. The trend in remuneration amongst the senior executives of State-owned companies is thus an area that the State as owner both can and wishes to influence. If moderation is expected from ordinary wage-earners, it is vital that the same responsibility also applies to senior executives. If senior executives fail to demonstrate moderation, it will be impossible to expect other groups to show such moderation.

The government has noted the Parliament's consideration of Recommendation to the Storting no. 246 (2010–2011) linked to the remuneration of senior executives and will follow this up in its further work.

Against the background of this and the trend in the remuneration of senior executives in recent years, the government will revise the guidelines with effect from 1 April 2011. The new guidelines are enclosed as an attachment to this Report to the Storting.

The guidelines apply to senior executives within State companies, regional healthcare enterprises and special law companies, as well as public limited companies and limited companies in which the State has a direct shareholding. The term 'senior executive' must be understood in the same way as set out in the Accounting Act⁶. The guidelines are intended to help protect the value of the State's shareholdings. They set out the considerations on which the State will place emphasis in its voting when the board's senior executive pay awards are considered by the companies' annual general meetings.

The guidelines are intended to provide guidance and form a basis for the boards of State-owned companies in connection with their adoption of principles for the pay and employment conditions of senior executives. The ministries that exercise State ownership will base their follow-up of the guidelines on a "comply or explain" principle. This means that the State will expect the companies to follow the guidelines and that any deviation from them must be justified with the entitlement to an exception in accordance with the guidelines. The follow-up of the guidelines will be carried out within the framework of applicable company legislation and in accordance with generally accepted principles for corporate governance. The Ministry of Trade and Industry will have a coordinating and professional responsibility in order to assist other owner ministries in following up the guidelines with regard to their respective companies.

The key principles from the current guidelines will be continued. There is however a need for the guidelines to be tightened with regard to certain points. The primary objective of the guidelines remains to ensure that senior executive remuneration levels within companies with a State shareholding are competitive, but not above those of other similar companies. The government also believes that the guidelines have not had the effect on the trend in senior executive pay amongst wholly owned State companies that was anticipated in 2006. The revised guidelines therefore explain that the government expects companies with a State ownership to contribute to moderation in the pay levels of senior executives.

The principal element in the remuneration of senior executives should be the fixed basic salary. Any remuneration schemes with variable salaries must be based on objective and measurable criteria and they must be transparent and time-limited. There must also be clear links between the objectives behind the variable salary and the objectives of the company. It is important that variable salaries are not seen as a reward for circumstances over which the senior executives have little or no influence. The guidelines state that the total variable salary component in any one year should not exceed six months' fixed salary, unless special considerations indicate otherwise.

Share options and other similar schemes must not be used by companies in which the State has a shareholding. However, if the guidelines permit the use of share programmes, i.e. programmes where salary components are paid in the form of company shares and where the shares cannot be

⁵ The government launched the applicable guidelines for the State's view of senior executive pay in State-owned companies in December 2006.

⁶ Act No. 75 of 17.07.98 56 on annual accounts, etc., Section 7-31b.

sold until the end of a fixed binding period, such programmes may be used if they are particularly well-suited to achieving long-term objectives for the company. Share-based remuneration must be formulated so that it encourages a long-term contribution to the company. There must be a final allocation of rights, so that the recipient bears the full risk as regards both profits and losses. There should be a binding period for the shares of at least three years. Such schemes may only be used within listed companies.

Pension conditions for senior executives must be on a par with the conditions accorded to the company's other employees. The total remuneration should not exceed 66 per cent of the pension-qualifying income. Consideration must be given to pensions that have been accrued through other positions. If it is necessary to offer senior executives a pension that is based on a pension qualifying income in excess of 12 base amounts (G), this must be arranged as a defined contribution scheme for a separate legal entity that is separate from the company with binding effect for the employer, limited to 30 per cent of the fixed salary in excess of 12 G. For companies that are either partly or entirely financed via the State budget, the general rule that the total pensionable salary should not exceed 12 G is being continued, unless competitive reasons require otherwise. In the case of advance agreements where a senior executive waives his or her entitlement to be covered by the dismissal protection provisions of the Working Environment Act, a severance payment may be agreed. Severance pay agreement should not be used in connection with voluntary resignation. The total salary during the period of notice plus the severance payment should not exceed 12 months' fixed salary.

As regards listed companies and companies that are not deemed a small business under the Accounting Act⁷, the government expects the board to establish a suitable remuneration committee to prepare matters relating to the remuneration of senior executives for consideration by the board.

The board must have an overview of the total value of each individual senior executive's remuneration and present this overview in a readily accessible form in the company's accounts.

The government places great emphasis on moderation with regard to the remuneration of senior executives in State companies. Greater

awareness of the government's expectations is desirable. Given the above, the government intends to impose an expanded reporting obligation concerning senior executive remuneration policy on the boards of wholly owned State companies and State-dominated companies that are not defined as small businesses. The aim is to achieve this through the introduction of a provision in the articles of association of the companies – similar to that which currently applies to public limited companies – which requires the boards to submit to the annual general meeting a statement concerning the determination of pay and other remuneration to senior executives; for an advisory vote or approval. This will probably heighten the boards' focus on the work relating to senior executive pay conditions and also give both the State as owner and the general public a better insight into senior executive pay levels within State-owned companies.

This will help to ensure that moderation with regard to senior executive remuneration rises is a prioritised task within the State's ownership administration. This is a fundamental position that boards will be expected to place great emphasis on in connection with the formulation of their company's senior executive remuneration policy. The follow-up of this will form part of the owner ministries' assessment of the boards.

5.4.5 Composition of the board and the government's expectations of the board

Administration of the company forms part of the board's remit. It must ensure the appropriate organisation of the company, appoint the CEO and supervise the company's day-to-day management and operations in general. The board must manage the company in the best interests of the company, the shareholders and the employees. The government believes that it is both vital and the State's most important task to ensure that companies have appropriately composed and competent boards which manage the responsibility for the common good.

Election to bodies of companies with a State shareholding takes place at the general meeting or corporate assembly. In certain public limited companies, the board is elected through the corporate assembly. The preparatory work for the nomination of board members in listed companies is carried out through separate nomination committees, where the State, in conjunction with representatives of the other shareholders, seeks to

⁷ Act No. 56 of 17 July 1998 on annual accounts, etc., Section 1-6.

achieve the best possible composition of the companies' governing bodies. Through its representatives on the nomination committees, the State will ensure that the boards possess diverse expertise and experience, have sufficient capacity to perform their duties and are composed in a manner that is appropriate for the objectives relating to long-term value creation and other objectives that the State has for its ownership. The same considerations that are given emphasis with regard to companies with external nomination committees will be given emphasis in connection with the nomination of boards of unlisted State-dominated companies.

The government's aim is for the board of a particular company to collectively represent the desired expertise based on the company's business area and challenges, the expertise of the elected people, and the State's objectives behind the ownership. With regard to companies with commercial objectives, emphasis will be placed on appointing representatives with a broad experience of business and industry and with expertise or experience within one or more of the following areas: management, sector experience, financial expertise, international experience, legal expertise, audit expertise, experience of mergers and acquisitions, experience of major reorganisation processes, social responsibility, social understanding, etc.

The government will place emphasis on differences in background experience in the composition of boards. A competent and relevant diversity will provide a broader decision-making basis, and the government believes that this will improve the quality of the work of the board. The government furthermore believes that scheme where one third of the board's members are appointed by and from amongst the employees have worked very well in Norway for many years. This scheme has strengthened the board's background experience and expertise and contributed to productive collaboration between the board, senior executives and employees.

The government will place emphasis on expertise, capacity and appropriate diversity when the State proposes people for election to boards and corporate assemblies. As part of these efforts, the State strives to achieve, as far as possible, equal representation of the sexes in election to the boards. As of the end of 2009, the proportion of women on the boards was 45 per cent within all the companies that are covered by this Report to the Storting. The government has an ambition for there to be more female board chairmen within

the State-owned companies. The government will also place emphasis on geographic, cultural and social diversity, as well as a good age composition when the board is composed. The government believes that all these factors will contribute to good discussions and a broad basis for decision-making. The government believes that this is vital for the companies' financial results and development.

For various reasons, it can be difficult to find candidates who fulfil these requirements. On occasions, such know-how must be built up through board work. There is therefore a need for continuity within many boards to ensure that expertise that is built up over time is not lost.

The Parliament has decided that Storting representatives should not be elected to positions within companies that are under the Parliament's control, unless it can be assumed that the representative will not stand for re-election. There is also an unwritten rule that ministers relinquish such positions when they enter government. The same applies to secretaries of state. In addition to these restrictions, it must be expertise of relevance to the board position that determines board appointments, not political affinity or activity. Political involvement and experience can be useful expertise in a board with a broad composition.

Provisions have therefore been established according to which government officials and civil servants employed within a ministry or elsewhere in the central administration which have issues which concern the company as their case area, or who are employed by a ministry or other central administrative body which regularly considers issues of importance to the company or the sector concerned, should not be proposed for election as a member of the board or similar within the company. CEOs should also not be elected as a member of the board.

Elections to the boards will normally take place for a period of two years, in accordance with the general rule in the Limited Liability Companies Act. The boards' work, expertise and challenges must however be assessed on an ongoing basis and replacements outside the period will therefore occur. The Ministry of Trade and Industry should play a coordinating role with regard to the other owner ministries in order to assist the owner ministries in finding candidates who fulfil these criteria.

Within the State's ownership, company forms such as limited companies, public limited companies, State companies and special law companies have been utilised. Under company legislation,

the executive management of the company falls within the remit of the board and general manager. The executive management of the company must be carried out in line with the interests of the company and shareholders. The development and reorganisation of the company's operations and business and the assessment of major projects and long-term strategy are important tasks for the board. The State as owner promotes its interests through the general meeting/corporate assembly. Board members have an important responsibility to ensure that the company is managed appropriately. This means that the board must be composed in a way which enables it to handle what are considered to be the company's key tasks and challenges. A broadly composed and competent board must be able to challenge the CEO and the company in order to ensure that appropriate decisions are taken. The board must handle the strategic management of the company within the framework that is set out by the owner, and as part of this must establish an appropriate balance between opportunities for growth and risk. In this role, the board should take the lead in the discussion concerning strategic paths for the company and pursue a dialogue with the senior management concerning such issues. On a more general level, a competent board should be an important discussion partner and support player for the company's senior management. The board must also monitor the work of the senior management on the basis of established objectives and must therefore also play an independent role in relation to the senior management. The board chairman has a special responsibility to ensure that the work of the board works well. The board is also responsible for appointing and, where required, discharging the CEO.

For its part, the State as owner must evaluate the performances of the boards. In the case of elections to the boards, the State will assess the measures that the boards have taken and whether the companies' results and the strategic challenges facing the companies indicate a need for changes to be made to the boards. The government expects the boards to evaluate their work with the aim of establishing a basis on which to develop the work of the board.

The government places emphasis on and wishes to see a good dialogue between the State as owner and the board in order to contribute to predictability and clarity as regards how the governance should collectively proceed within the framework of the essential commercial freedom.

5.4.6 The government's expectations as regards diversity and equality

The government believes that the introduction of the rule concerning gender representation on the boards of public limited companies, State limited companies and State companies has been successful. This has also been the practice within the State-owned special law companies. In 2009, the proportion of women on the boards of public limited companies in Norway was approximately 40 per cent. In 2003, before the quota rule was introduced, the proportion of women in Norwegian public limited companies was below 10 per cent, a level that had been virtually unchanged for many years. No other country has such a high proportion of women as Norwegian public limited companies do today. The government will now work to increase the proportion of female chair of the board. A number of other European countries have introduced or are considering various forms of board quota, precisely because the natural trend is progressing so slowly. France and Belgium have recently introduced legislation which ensures a balanced gender representation on boards.

Although the gender representation on the boards has been an essential step in order to ensure diversity, it is not sufficient to secure diversity at every level within the companies. There are still too few women in senior executive positions within Norwegian companies. This view is for example supported by figures from an annual survey conducted by the World Economic Forum⁸, which shows that Norwegian companies are not particularly well placed as regards women in senior executive positions. The proportion of female senior executives in Norwegian companies for example is just 12 per cent. The survey shows that women give the following two factors as the most important reasons why there are so few female senior executives: male-dominated company cultures and the lack of opportunities to acquire the necessary experience and responsibility within the company.

Women in Norway also account for over half of the places in higher education, and women are generally also well represented as employees within private industry. The government therefore believes that it is a paradox that there are not more female senior executives in Norway. It is vital that the best expertise is secured for such positions and the companies must therefore ensure that

⁸ World Economic Forum, The Corporate Gender Gap Report 2010

Box 5.13 The biggest obstacles barring access for women to senior executive positions

From the following list, please use a scale of 1 (least problematic) to 5 (most problematic) to rate the following barriers to women's rise to

positions of senior leadership in your company. Select N/A if the option is not a barrier.

Masculine/patriarchal corporate culture	3.27
Lack of opportunities for critical work experience and responsibility	3.21
Lack of role models	2.92
Lack of target-setting for participation of women	2.77
Lack of company leadership commitment to diversity	2.64
Lack of networks and mentoring	2.62
Lack of adequate work-life balance policies	2.36
General norms and cultural practices in your country	2.36
Lack of adequate information about existing diversity policies and practices	2.21
Lack of acceptance of the use of diversity policies and practices	2.08
Lack of monitoring of participation of women	2.00
Lack of adequate "re-entry" opportunities	1.93
Lack of flexible work solutions	1.75
Lack of childcare facilities	1.42
Lack of adequate parental leave and benefits	1.38
Inadequate labour laws & regulations in your country	1.17

Source: World Economic Forum

competition for senior executive posts is increased through more women applying for such posts. The government believes that the companies must find a new approach with regard to this.

Surveys conducted by the consultancy firm McKinsey & Company⁹ indicate a positive correlation between a company's performances and the proportion of women in the senior management. The McKinsey survey shows that companies with a senior management with a well-balanced proportion of both genders develop financially more strongly than other companies. McKinsey points out that this is because a balanced senior management is better able to understand the company's challenges and therefore also achieve better results. The government believes that we must consider equality within industry as a competitive advantage which can help companies to overcome global challenges. As an owner, the State believes that the companies must work purposefully on this.

The government believes that the goal of a good gender balance within the boards is an essential factor, but not in itself sufficient, to ensure the full utilisation of human resources in order to promote com-

petitiveness. A company that remains competitive in the long-term is an inclusive company within which diversity is valued and all employees are given opportunities to develop their skills and talents in relation to the company's values and strategies. In order to succeed in this, the company's senior management must take the lead, not just through policy formulations but also through their actions. As in many other areas, the attitude and signals given out by senior executives are vital for the development of the company culture.

The government believes that it is important that Norwegian industry uses the best resources available in order to taken on the ever-increasing international competition. As a high-cost country, Norway's comparative advantage is based not on cheap labour but on expertise and the ability to innovate. Given this, the best available expertise must be used at every level, including the senior management level. Norwegian companies should establish strategies for the way in which the best expertise can be employed within the companies, including the way in which women and minority groups can be recruited to senior management positions. As an owner, the government believes that this will help companies to achieve the best possible return and financial results over time.

⁹ McKinsey & Company: Women Matter 2 – Female leadership, a competitive edge for the future

The government expects companies with a State shareholding to prepare a strategy for the way in which the best expertise within the company can be utilised. The State expects the companies to develop positively and to report on initiatives and developments. This will be brought up in the owner dialogue with the companies.

5.4.7 The State's principles for corporate governance

The government believes that good corporate governance is of great importance for the nation's overall economic efficiency and competitiveness. The principles of good corporate governance imply, amongst other things, a clear distinction between roles and ensure a tidy decision-making processes. Good corporate governance reduces the risks to which the company is exposed and is of importance as regards the market's trust in the companies.

The State has substantial shareholdings within Norwegian industry. The manner in which the State acts as an owner therefore has a strong influence on public and investor confidence in Norwegian companies and the Norwegian capital market.

Like private companies, both public undertakings and State-owned companies must continually

adjust to changing requirements and circumstances. Goals and strategies must therefore be developed for the individual companies in response to changes in society. Far-reaching and successful structural changes in a number of wholly and part-owned companies, which were formerly part of public sector activities, testify to the State's adaptability and active support in such processes.

The State has formulated key principles for its corporate governance; cf. box 5.15. The principles are aimed at all State companies, regardless of whether they are wholly or partly owned, and are in line with generally accepted corporate governance principles prepared by the Norwegian Corporate Governance Board (NUES) and the OECD, amongst others. The principles concern important considerations such as equality, transparency, independence, board composition and the board's role, etc. and help to create predictability and a clear framework around the State's ownership.

5.4.8 Transparency concerning the State's ownership

Transparency is important in building confidence in State ownership. It fulfils a democratic consideration in that the general public gain access to

Box 5.14 DnB NOR's work relating to equality and diversity

One company that has established clear goals for its work relating to equality and diversity is DnB NOR ASA. In its 2010 annual report, the group states that the company's working environment must be characterised by diversity, respect and consideration. In 2010, a process was initiated to establish specific goals and measures to increase the employment and integration of people with a disability. Work was also started to develop a new employee policy, which will cover the areas of equality and diversity.

The company has stated that it aims to give men and women the same opportunities for professional and personal development, pay and promotion. The board of DnB NOR have established a goal for the company of the four most senior managerial levels within the group to consist of at least 30 per cent women. In order to achieve this, the group has established flexible schemes which help employees combine their career with their family life. In 2010, the propor-

tion of women within the corporate management was 40 per cent, which was unchanged from 2009. Within the fourth and fifth most senior management levels, the proportions of women were 27 and 33 per cent respectively.

The proportion of women within the group as a whole was 55 per cent.

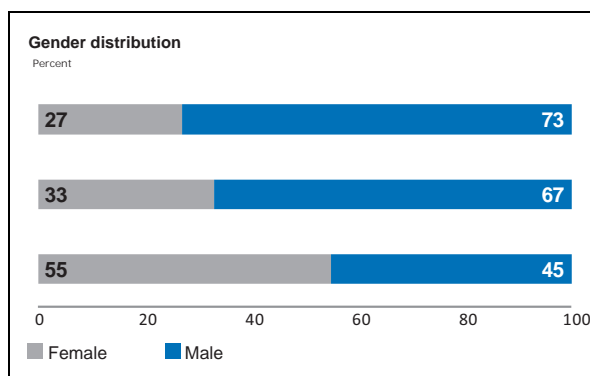


Figure 5.10

Source: DnB NOR's annual report for 2010

information. Transparency on the part of the companies also enables the State as an owner to continually assess results and developments within the companies as part of its professional corporate governance. This means that both the State as an owner and the companies have a responsibility to be transparent.

The principle of public access to documents in the work of the public administration and case documents is inscribed in Norwegian legislation and practice and regarded as a fundamental democratic principle. The requirement for public access was further strengthened through a new Freedom of Information Act¹⁰ in 2006.

The public right of access to the activities of the public administration, and therefore to be apprised of, to influence and inspect such activities serves to challenge and instil confidence in the public administration. This public right of access helps to ensure that the debate within society is as well-informed as possible. A high degree of transparency could limit possible misunderstandings and increase the predictability linked to the State's corporate governance. This could have a positive impact on the valuation of the State's shares.

In some contexts, it is necessary to except certain material from the public right of access in order to exercise the ownership in an appropriate manner. This would include sensitive information pertaining to the stock exchange and documents

with commercial content. There is also a requirement regarding the deferral of public right of access in cases being processed by the Office of the Auditor General. It is however a general rule that such exemption authorities are not exercised to a greater extent than is necessary.

All important matters concerning companies which pertain to the relationship between the Parliament and the government are reported on an ongoing basis in Storting publications. These are typically matters concerning changes in shareholdings, matters with budgetary consequences or matters of special political interest, including ownership strategies for certain wholly owned companies. In addition, it will be appropriate to establish separate guidelines for companies linked to socially oriented tasks and priorities.

The Ministry of Trade and Industry publishes an annual ownership report¹¹ on financial trends within the companies, key events and a survey of their boards, etc. Around 50 State-owned companies are covered by the ownership report, including all the companies that have commercial objectives, as well as key companies with sectoral policy objectives. A simpler interim report is also published, but is only available in an internet version.

The government has also prepared the government's owner policy document, which summarises and updates the government's policy with regard to ownership during the period between the Storting reports.

¹⁰ Act No. 16 of 19 May 2006 relating to public access to administration documents (Freedom of Information Act).

¹¹ www.eierberetningen.no.

Box 5.15 The State's principles for good ownership

1. All shareholders shall be treated equally.
2. There shall be transparency in the State's ownership of companies.
3. Ownership decisions and resolutions shall be made at the general meeting.
4. The State will establish result objectives for the companies, if appropriate in cooperation with other shareholders. The board is responsible for realising the objectives.
5. The capital structure of the company shall be consistent with the objective of the ownership and the company's situation.
6. The composition of the board shall be characterised by competence, capacity and diversity and shall reflect the distinctive characteristics of each company.
7. Compensation and incentive schemes shall promote the creation of value within the companies and be generally regarded as reasonable.
8. The board shall exercise independent control over the company's management on behalf of the owners.
9. The board shall adopt a plan for its own work and work actively to develop its own competencies. The board's activities shall be evaluated.
10. The company shall recognise its social responsibility.

In recent years, the Ministry has organised an annual ownership conference to which individuals with diverse standpoints and experience of Norwegian and foreign business and industry are invited to discuss current issues linked to ownership. These conferences will be continued.

Transparency surrounding key considerations linked to their operations is also something that the government expects from State-owned companies. The government expects the companies to have an open dialogue with the outside world concerning financial matters and the work relating to social responsibility and environmental issues. Both annual reports and the companies' websites are appropriate information channels in this context.

5.4.9 Organisation of the State's ownership

The administration of the direct State ownership is distributed between a number of ministries. Administration of the ownership of the commercial companies is largely delegated to the Ministry of Trade and Industry, whilst companies with sectoral policy objectives are administered by the relevant sectoral ministries.

The ownership that is administered directly by the ministries largely consists of strategic shareholdings. However, the State has also invested considerable sums of money on the Norwegian stock market through other sources. This particularly applies to the Government Pension Fund Norway, which is administered by the National Insurance Scheme Fund on behalf of the Norwegian State. Almost NOK 57 billion had been invested in Norwegian listed companies as of the end of June 2010. The National Insurance Scheme Fund has a mandate to buy and sell shares in individual companies, but has no shareholdings in excess of 15 per cent. State-owned Argentum Fondsinvesteringer, Investinor and various seed funds are also present in the market with purely commercial mandates.

For several years, processes have been under way for differentiating the State's role as owner and exerciser of authority. Companies such as Arcus AS, BaneTele AS, Cermaq ASA, DnB NOR ASA, ECC AS, Entra Eiendom AS, Flytoget AS, Grødegaard AS, Mesta AS, NOAH Holding AS, Norsk Eiendomsinformasjon AS, Norsk Medisinaldepot AS, SAS AB, Secora AS, SIVA SF, SND-Invest AS, Statkraft SF and Telenor ASA have been transferred from other ministries to the Ministry of Trade and Industry since the end of the 1990s. This is in line with the OECD's recommen-

dation to coordinate commercial ownership insofar as is possible. A number of these companies have since been part-privatised (Cermaq ASA, Telenor ASA) or sold in their entirety to private sector owners (Arcus AS, Bane Tele AS, Grødegaard AS, NOAH Holding AS, Norsk Medisinaldepot AS and SND-Invest AS).

The work to clarify an organisational divide between the various roles of the State and bring together the direct commercial, strategic ownership in one place within the central administration has helped to professionalise and strengthen the trust in the State's corporate governance.

The government believes that its shareholdings in commercial companies should continue to be administered by the central ownership, which currently rests with the Ministry of Trade and Industry, unless special considerations indicate that other solutions would be more appropriate. However, no changes are proposed in this Report to the Storting with regard to which owner ministry administers each company.

An inter-ministerial study is under way under the Ministry of Government Administration and Reform concerning the use of governing instruments with respect to companies that have a sectoral policy remit (including the use of regulation, financial instruments and corporate governance). These are companies in which the State as owner may have an interest in influencing the company's organisation, content and operation, and in which this takes place through the use of various instruments such as corporate governance, regulation and financing. The government will notify the Parliament of the recommendations and follow-up of these in an appropriate manner when the investigatory work has been concluded during 2011.

Substantial assets are administered through direct State ownership. As an example, the value of the shareholdings held by the Ministry of Trade and Industry as of 31 December 2010 is in excess of NOK 300 billion¹². By way of comparison, around NOK 40 million is spent on the administration of these assets. Compared with what other State and private shareholders spend on administering similar assets, this is a low figure¹³.

Fundamentally, the same requirement is imposed as regards professionalism in the exer-

¹² As a result of the shareholding in Statoil, the total assets administered by the Ministry of Petroleum and Energy are of the same order of magnitude.

¹³ McKinsey & Company: Statlig eierskap, Report to the Ministry of Trade and Industry, 2011.

cising of direct ownership as for the State's investment activity, which for example is administered through the National Insurance Scheme Fund (SPN) and Norges Bank (SPU).

Given the central development trends and a stronger focus on new areas within corporate governance, as described in section 2.2.3, the exercising of good ownership has become a more demanding process. The government believes that it is necessary to reinforce the work relating to corporate governance and will facilitate the further development and professionalisation of the State's corporate governance.

The ten fundamental principles for good State ownership will continue to form the basis of the government's exercise of ownership. However, the government believes there is a need to increase capacity within a number of areas:

- The strategic and financial follow-up of the companies should be strengthened, partly through markedly stronger analytical follow-up and partly through the development of clearer strategic understandings of the companies' development. This will provide a basis for a broader dialogue with the companies' senior management. The government believes that this does not breach the distribution of roles between owner, board and general manager or involve unreasonable contact between the State as owner and the company, even within listed companies. On the contrary, it is an entirely central to the government's ownership policy that the companies are managed in the best interests of the shareholders. For many smaller shareholders, the market will be represented through share prices and the assessments of analysts will act as a messenger between the shareholders and the company. The company often spends a considerable amount of time serving this market. However, this information does not necessarily reflect the interests or views of value creation for a long-term owner such as the State. It is therefore admissible for the State to have a broad contact with the companies in which it is a major shareholder, provided there is transparency surrounding this contact and provided it does not interfere with the board's decisions. For an individual company, there may be benefits in pursuing a strategic dialogue with a major and competent shareholder. Such a role

would be challenging and the government will facilitate this through the provision of greater capacity within corporate governance.

- The work to appoint and evaluate boards should be reinforced further. The State as an owner must have a clear understanding of the need for board expertise within each company. One aspect of this will be to reinforce the work relating to the recruitment of board members and to systematise the evaluation of the boards' work. This applies to all areas of the administration and the government will develop the expertise and the supporting role of the Ownership Department within the Ministry of Trade and Industry as regards the recruitment of board members.
- Good corporate governance helps to increase the value of companies. The State should be a leader as regards the promotion of good corporate governance and, in particular, the social responsibility of companies. See the review of this in section 5.4.2. As part of the establishment of more ambitious goals for the State's corporate governance, the government will strengthen the Ministry of Trade and Industry's role as an expertise and resource centre for State ownership administration and reinforce the inter-ministerial collaboration with regard to ownership issues by developing the coordinating role of the Ownership Department. The aim is to help to ensure that the collective owner expertise of the ministries is utilised optimally, so that the government's ownership policy is implemented appropriately. The State's principles for good ownership, guidelines for the formulation of return targets and dividend expectations and guidelines for procedures in connection with board appointments and the formulation of expectations of the boards within areas such as corporate social responsibility and senior executive pay are such important joint tasks where the Ownership Department will be responsible for formulation and coordination.
- Within such a model, the ownership of purely commercial companies will largely be administered by the Ministry of Trade and Industry, whilst the ownership of companies which have a largely sectoral policy remit will primarily be administered by the individual sector ministry.

Published by:
Norwegian Ministry of Trade and Industry

Internet address:
www.government.no

Cover photo: Statkraft (t.l.), Hydro (t.r.),
Telenor (b.l.), Aker Solutions (b.r.)

Printed by:
07 Aurskog AS 11/2011

