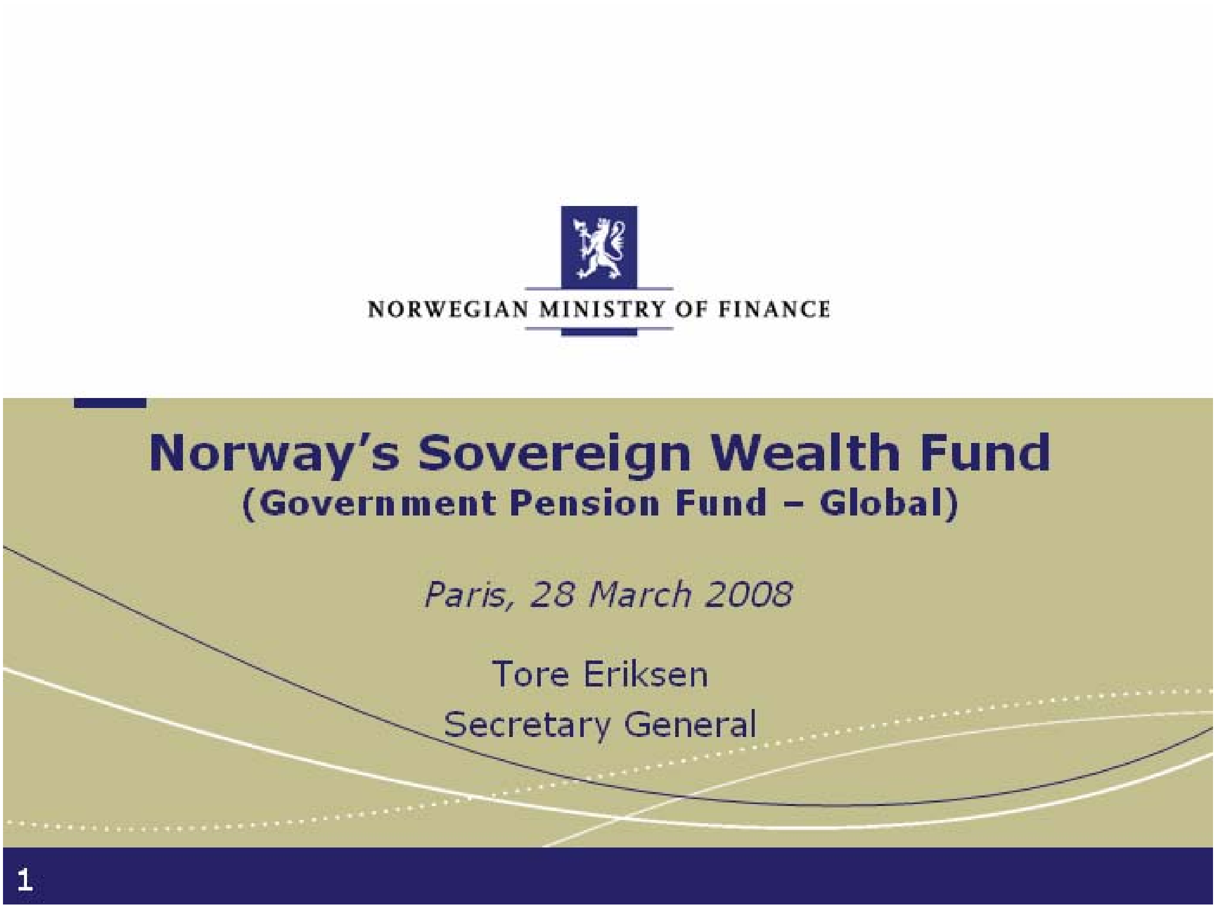
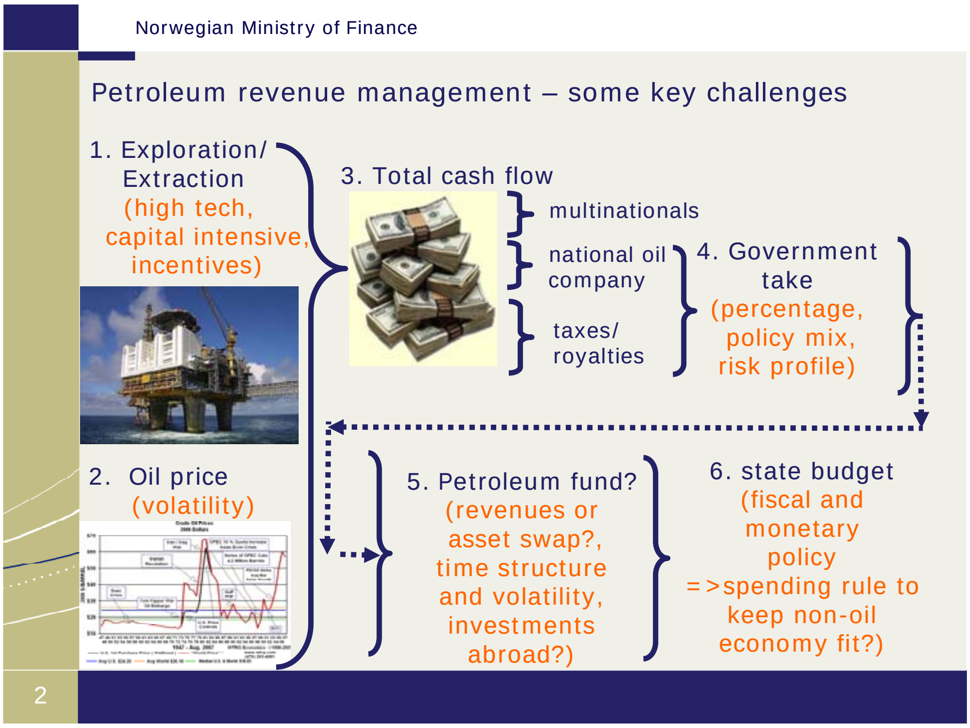
Secretary General Tore Eriksen's presentation in Paris 28th March 2008

Slide 1



- Thank you for inviting me to address such a distinguished audience on important issues concerning Sovereign Wealth Funds.
- Allow me to use this opportunity to provide you with a Norwegian perspective to the current debate on SWF.

Slide 2



- In the program for this EmNet Meeting, the following question is raised:
  - *Sovereign Wealth Funds: What role in the global economy?*

  Further, this roundtable is dealing with the potential positive effects that Sovereign Wealth Funds can have on developing countries.

- Before I comment on the financial investments that our Sovereign Wealth Fund is making in non-OECD countries, I would like to highlight the fact that the establishment of Sovereign Wealth Funds by oil exporting countries – many of which are developing countries – in itself can be an important policy tool for economic development.

- As a small economy with significant revenues from exportation of petroleum, Norway faces some of the same fiscal and monetary policy challenges that natural resources dependent developing countries do.

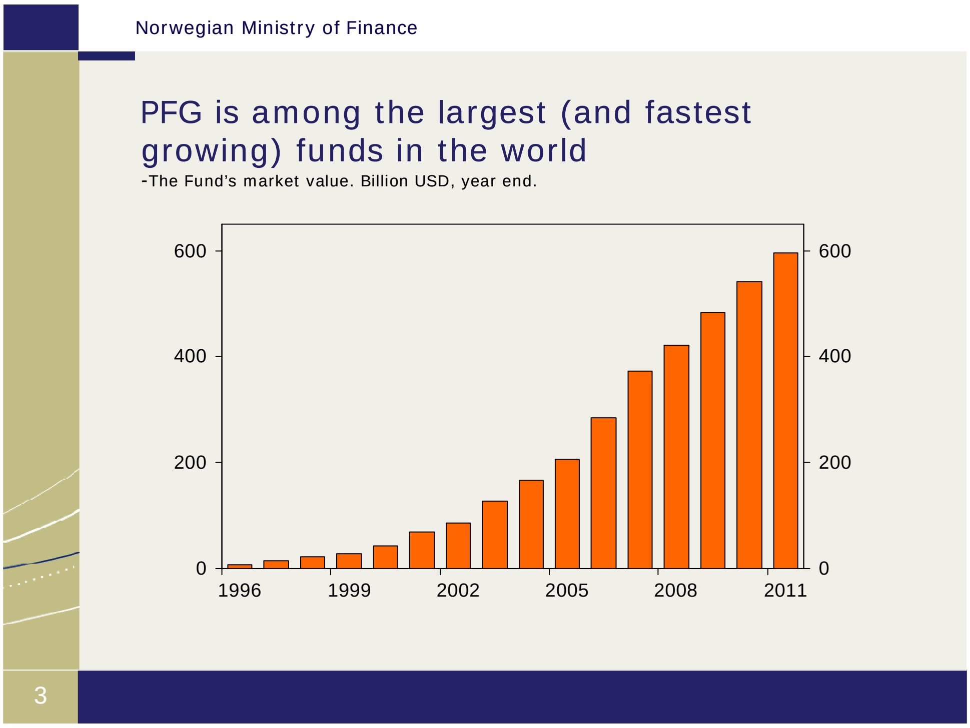
- My slide summarizes some of the key issues that need to be considered when designing a framework for public management of revenues from non-renewable natural resources. The time constraint does not permit me to go into details on this topic, but I want to highlight the following:

- The petroleum sector is both capital and know-how intensive. Profitability is normally very high (due to the natural resource rent) but revenues are volatile due to the high volatility of oil prices.

- The optimal government take of petroleum revenues is reached by balancing the need for a proper incentive structure for oil companies' investments into exploration and extraction (in order to maximize volume), and use of the extraordinary good possibilities to tax extraction of natural resources since this business is not international mobile.

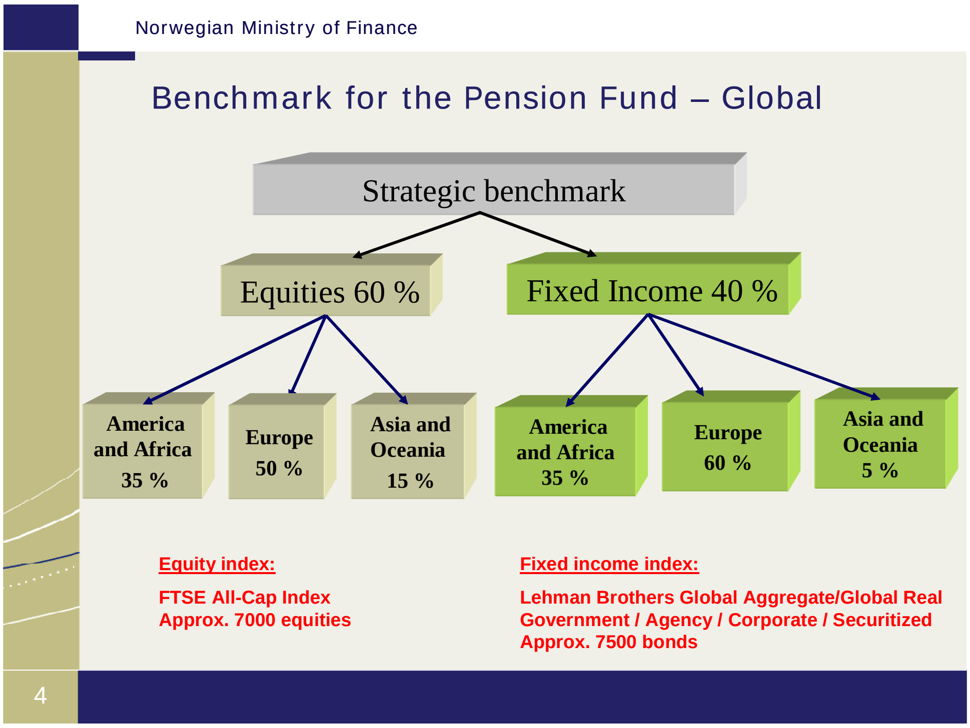
- The establishment of a Sovereign Wealth Fund helps the government to smooth volatile revenues, and – if the revenues are significant compared to the size of the domestic economy – international investments of the fund capital help to shelter the non-oil economy from this volatility.
- The accumulation of ownership in foreign companies through the Norwegian Sovereign Wealth Fund is not a goal in itself. It is just a consequence of our application of sound fiscal and monetary policies combined with a long term investment strategy that is optimized in respect of our risk/return-preferences.
- The existence of Sovereign Wealth Funds in natural resource rich developing countries indicates at least two positive news: I) These countries are able to get a significant government take of the resource rent and II) They are undertaking efforts to manage the volatility of these fiscal revenues.
- For several oil exporting developing countries, it is far more important for economical development to get these issues right than receiving transfers under development aid schedules.
- Norway assists several developing countries on these topics through a program called “oil for development”.

Slide 3



- The Norwegian Government Pension Fund – Global (PFG) was formally established in 1990 – under the name "The Government Petroleum Fund" – as a tool to support a prudent management of petroleum revenues.
- The Fund has a twofold purpose of smoothing out the spending of volatile oil revenues, and at the same time acting as a long-term vehicle allowing the Norwegian Government to accumulate financial assets in order to cope with large, future financial commitments associated with an ageing of the population.
- Since the first net transfer in 1996, the Fund has grown rapidly in size. The Fund currently holds assets of around USD 375bn, making it one of the largest single-owned funds in the world.
- The Fund is envisaged to grow substantially in coming years, and is estimated to reach approximately USD 600bn by the start of the year 2012, as the current slide illustrates.
- Despite these very large financial savings, calculations show that the projected steep rise in public pension expenditures will necessitate tighter fiscal policy in a few years' time.
- This calls for prudence in the spending of oil revenues over the state budget.

Slide 4



- The Fund is invested globally in a wide range of financial instruments, in order to get a broad diversification and achieve good investment returns with moderate financial risk. To effectively shield the non-oil economy from the effects of a volatile flow of foreign currency earnings from the oil sector, the Fund is only invested abroad.
- The strategic asset allocation is currently 60 pct. equities and 40 pct. fixed income. The Fund is a pure financial investor with small ownership shares in over 7 000 individual companies worldwide. The average ownership stake as of year end 2007 was approximately 0.6 pct.
- Within each asset class the Fund's investments are spread out across the world's financial markets according to the regional weights of the strategic benchmark and the weights of the various securities in the chosen market indices, FTSE All-Cap Index for Equities and Lehman Brothers Global Aggregate for Fixed income respectively.
- We believe the Fund has a positive influence on international financial markets through enhancing market liquidity and financial resource allocation. The Fund has a long investment horizon, no leverage and no claims for the imminent withdrawal of funds. The portfolio is rebalanced regularly, to bring actual portfolio weights in line with the stipulated strategic weights. The Fund will therefore generally be buying equities when equity prices are in relative decline, and vice versa. This also constitutes a stabilizing factor in financial markets.

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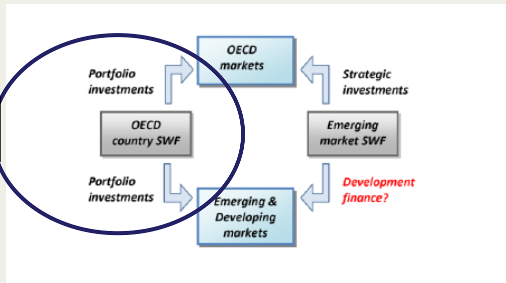
Norwegian Ministry of Finance

Actual Asset allocation year end 2007



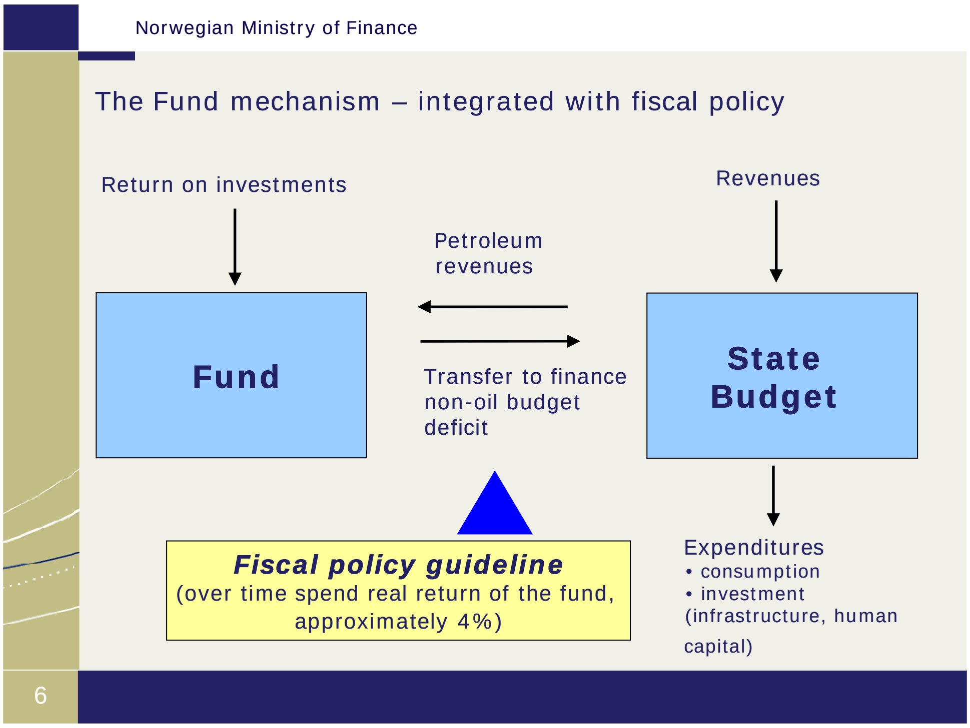
PFG's investment portfolio as of year end 2007

In bn USD	OECD	non-OECD
Equities	166	11
Bonds	192	4
Sum	358	15

5

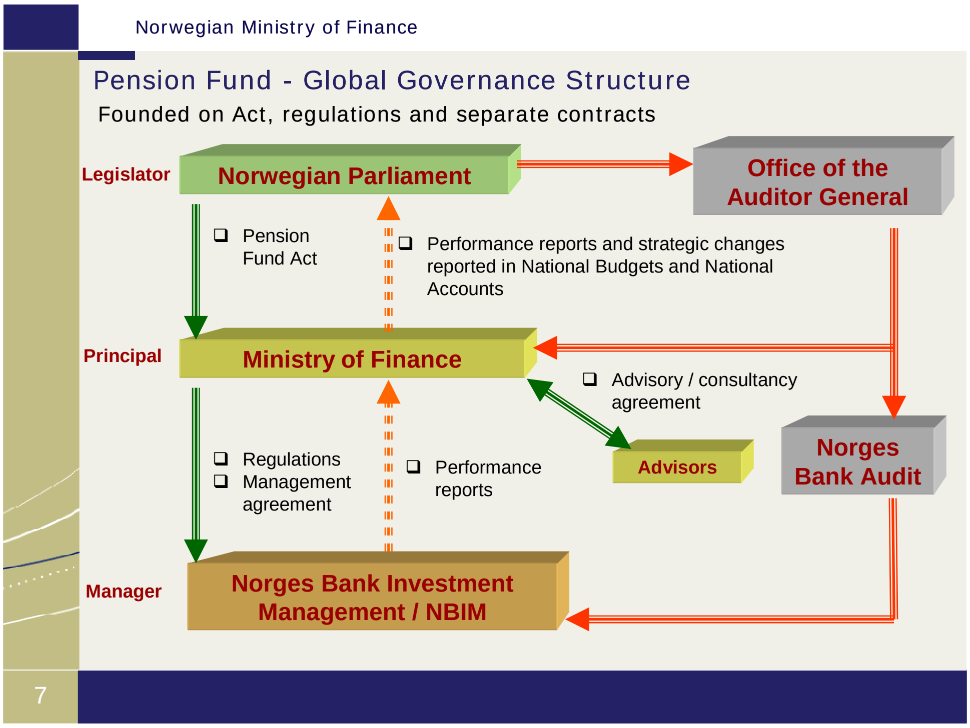
- A breakdown of the Pension Fund – Global's investment portfolio as of year end 2007 shows that most assets are held in OECD countries, but that the fund also has invested USD 15bn in non-OECD countries, mostly in equities.
- Within the Fund's investment universe all emerging bonds and equities markets are allowed with one exception: Myanmar (Burma).
- In the strategic benchmark portfolio for equities, currently 5 non-OECD countries are included (Brazil, South-Africa, Hong Kong, Singapore and Taiwan). The Ministry of Finance is currently considering an expansion of the benchmark portfolio for equities with up to 14 additional non-OECD countries. A decision on this issue can be expected in June 2008.

Slide 6



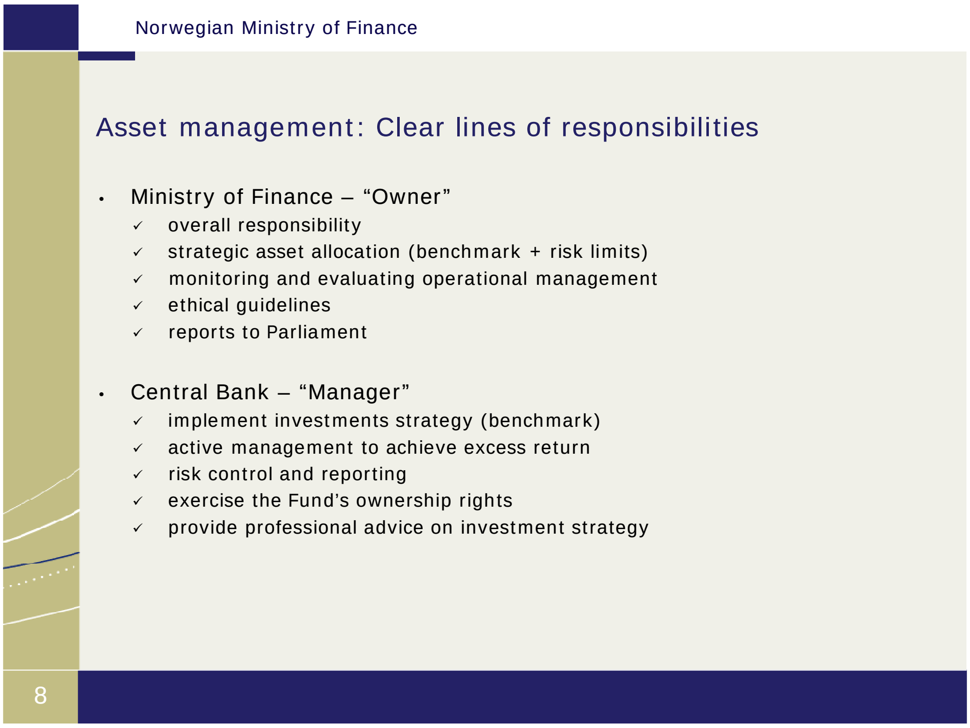
- The Pension Fund is an integrated part of the government finances, and the capital of the PFG may only be used for transfers to the central government budget pursuant to a resolution by the Norwegian Parliament.
- The accumulation of capital in the Fund consists of the net cash flow from petroleum activities plus the return on the Fund's assets.
- Furthermore, the Fund also plays a role in the fiscal guideline for the state budget. The expenditure of the Fund is a transfer to the Fiscal budget to finance the non-oil budget deficit.
- The budget policy guideline states that the structural oil-adjusted budget deficit shall over time correspond to the expected real return on the capital of the Fund. The aim is that we over time only withdraw from the Fund the expected real return, estimated at 4 pct.
- Consequently, the net allocation to the fund forms part of an integrated budgetary process, and renders visible the State's use of petroleum revenues. The fund accumulation thereby reflects the actual surplus of the Fiscal Budget.
- Increased government expenditure or lower tax incomes from mainland activities will result in smaller allocations to the Fund. This implies that net savings in the fund depend on how much Parliament decides to spend over the fiscal budget.
- It is therefore only through responsible fiscal policy that Government and Parliament can ensure that the Fund will be large enough to meet the rapid rise in public pension expenditures in the coming years.

Slide 7



- This slide provides you with an overview of the governance structure of the Pension Fund - Global
- The governance structure of the Fund is marked by a clear division of responsibilities between the political authorities and the operational management.
- Under the Pension Fund Act, the Ministry of Finance has the overall responsibility for the management of the Fund. However, all significant changes to the Fund’s investment strategy are in practice presented to Parliament before implementation as a way of ensuring broad political support for important strategic choices.
- The Ministry has formulated the investment strategy for the Fund by setting a clearly defined and transparent benchmark with risk limits. Within these limits, there is full delegation of operational management to Norges Bank (the central bank). Thus, Norges Bank determines the actual investment portfolio of the Fund.

Slide 8



- Key factors in the management of the Norwegian Fund include a high degree of transparency in all aspects of its purpose and operation, the Fund's role as a financial investor with non-strategic holdings, an explicit aim to maximise financial returns, and clear lines of responsibility between political authorities and the fund operational management.
- Norges Bank presents financial results for the fund every quarter. The Bank has also published its priorities in the field of corporate governance. A full list of every single asset held by the Fund is published annually, and with effect from 2007, a full list is also published of how the Bank has voted in every company where it has exercised this right, comprising almost 40 000 issues in more than 4 000 companies.
- The Ministry of Finance presents an annual report to Parliament, giving detailed information on returns and a broad discussion of issues related to investment strategy and the implementation of ethical guidelines. Most of the information is given both in Norwegian and in English. Other market participants will then be familiar with our investment strategy and circumstances, thereby facilitating financial markets. Furthermore, transparency provides a disciplinary effect on the fund management. As fund performance is subjected to public scrutiny, managers of sovereign wealth are met with pressure to deliver sound financial returns.

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- The Ministry of Finance established Ethical Guidelines for the Fund in 2004 based on a broad political consensus. The Ethical Guidelines' paramount objectives are sound financial returns, along with the obligation to respect fundamental rights of those who are affected by the companies in which the Fund invests. The Ethical guidelines are transparent and predictable, and are based on internationally recognized standards, such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises.
- Two policy instruments – the exercise of ownership rights and exclusion of companies – are prescribed as tools to promote the ethical commitments of the Fund. It is emphasized that ownership interests in the companies in which the Fund invests are exercised with a view to safeguard the long-term interests of the Fund.
- Institutional funds in general, and funds owned by governments in particular, face specific challenges. While individual shareholders may sell their holdings of individual assets or funds they do not find ethically acceptable, the citizens of Norway have to accept to be ultimate owners of the companies that the Fund invests in. To preserve the legitimacy of the Fund, it is important that the Fund's ownership in various companies is acceptable for most citizens. Hence, the Fund avoids investments in companies whose practices constitute an unacceptable risk that the Fund is or will be complicit in what is deemed as grossly unethical activities. The decision to exclude a company from the Fund's investment universe ultimately rests with the Ministry of Finance, but is based on publicly available recommendations from an independent Council on Ethics for the Fund. As of March 2008, the Ministry has excluded a total of 27 companies from the

investment universe of the Fund, primarily as a consequence of the exclusion of some forms of weapons production, for example cluster bombs, land mines and nuclear weapons.

Slide 10

- We support the ongoing work in the IMF and the OECD in studying the effects of SWF. Seeing that the work of the IMF and OECD in this area is complementary the coordination between the two organisations is important to ensure a consistent framework.
- Any work on the drawing up of best practice guidelines for SWF investments and recipient country conduct should be carried out by the IMF and OECD respectively, with the collaboration of relevant partners. A cooperative effort between investors and recipient countries is key in maintaining strong support for an open investment climate as well as appropriate voluntary guidelines for SWF-investments.
- Increased transparency on the part of the funds is in this respect important to alleviate some of the concerns that have been voiced in the debate on Sovereign Wealth Funds.
- We are of the opinion that recipient countries conduct on the matter of sovereign investments must, apart from restrictions applying to very limited cases concerning national security, respect freedom of investment and equal treatment of shareholders as a fundamental principle.
- In this respect, the work of the OECD in developing guidance for recipient countries is important to avoid unnecessarily restrictive policy responses to SWF investments, and Norway wants to contribute actively and constructively to this process.

- Furthermore, we see no cause for regulations that would restrict the present investment activities of our Fund, or any regulation imposing restrictions on SWF over and above those applying to non-SWF investors.
- It should also be noted that the separation of spending of petroleum revenues from the current revenue stream through a fund mechanism allows Norway – and other oil producing countries – to extract petroleum at a higher rate than would be advisable if all the proceeds were to be allowed into the domestic economy on a continuous basis.
- Conversely, if investments of oil-related SWFs in international financial markets are restricted, the relative attractiveness of saving in the form of keeping oil in the ground would increase. Hence, the petroleum funds do not just offer an attractive way of recycling the revenues of the oil producers in international financial markets; they can also have an indirect stabilizing effect on the oil market.

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