NBIM Quarterly Performance Report
Second quarter 2007

Government Pension Fund – Global
Norges Bank's foreign exchange reserves
- Investment portfolio
- Buffer portfolio

Government Petroleum Insurance Fund

Norges Bank
Norges Bank is the central bank of Norway. Its primary responsibilities are monetary policy, financial stability and investment management. Norges Bank Investment Management (NBIM) is responsible for investment management activities. NBIM manages the Government Pension Fund – Global (previously the Government Petroleum Fund) on behalf of the Ministry of Finance, the Government Petroleum Insurance Fund on behalf of the Ministry of Petroleum and Energy, and the investment and buffer portfolios which represent the bulk of Norges Bank's foreign exchange reserves.

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1. Introduction and key figures

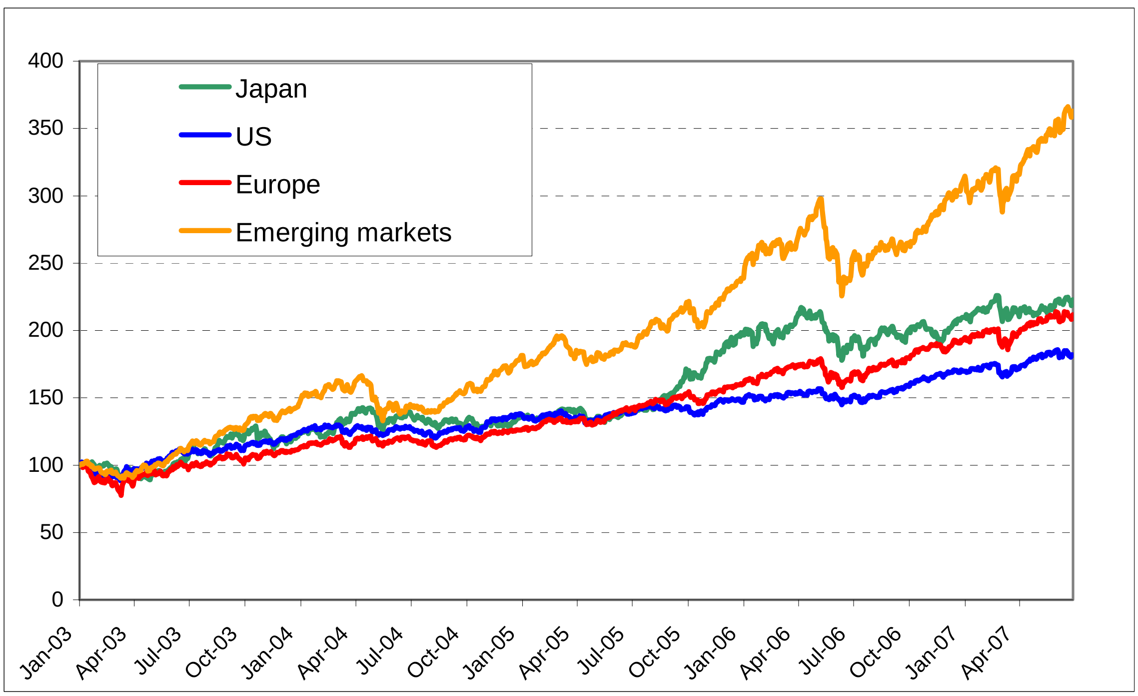
1.1 Upswing in equity markets

The upswing in global equity markets in the second quarter of 2007 contributed to a positive return on both the Government Pension Fund – Global and the investment portfolio in Norges Bank's foreign exchange reserves. Both generated a return in international currency of just over 2.2 per cent. The Government Petroleum Insurance Fund, which is invested only in fixed income instruments, generated a return of -0.54 per cent. In the first half of 2007, the return on the two largest portfolios (the Government Pension Fund – Global and the investment portfolio) was 3.7 per cent, while the return on the Government Petroleum Insurance Fund was 0.3 per cent.

The upswing in global equity markets which began in spring 2003 continued in the second quarter of 2007, interrupted by a slight drop in prices in the second half of June (see Chart 1-1). The price of oil and other raw materials rose during the quarter, and companies in the Oil & Gas and Basic Materials sectors saw the strongest gains. However, there were positive returns in all the main sectors.

Since the beginning of 2003, the Japanese, European and US markets have gained 123, 112 and 82 per cent respectively. An index of equities in 24 emerging markets rose 263 per cent in the same period.

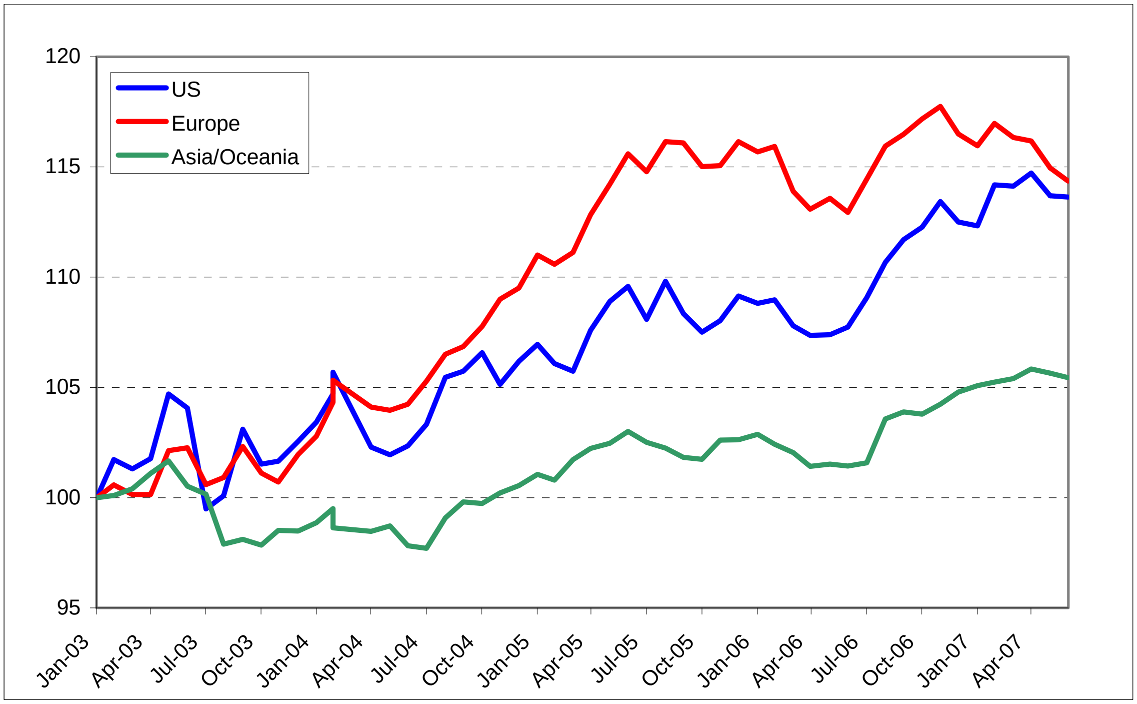
Chart 1-1: Movements in equity prices since 2003 (01.01.03=100)



The return on global bond markets was slightly negative in the second quarter of 2007. Chart 1-2 shows returns on the bond markets since 2003 measured as the change in the

Lehman Global Aggregate government bond indices. The indices for Europe, America and Asia/Oceania rose by 14.4, 13.6 and 5.4 per cent respectively during the period.

Chart 1-2: Movements in the bond markets since 2003 (01.01.03=100)



<u>Return of 2.23 per cent on the Government Pension Fund – Global</u>
The return on the Government Pension Fund – Global in the second quarter of 2007 was 2.23 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. The return on the equity portfolio was 7.40 per cent, and the return on the fixed income portfolio was -1.19 per cent. The return on the Pension Fund's portfolio was 0.29 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Finance. The market value of the portfolio at the end of the quarter was NOK 1,939.5 billion.

<u>Return of 2.28 per cent on the investment portfolio</u>
The return on the investment portfolio in Norges Bank's foreign exchange reserves in the second quarter of 2007 was 2.28 per cent measured in terms of the currency basket corresponding to the composition of the portfolio's benchmark portfolio. The return on the equity portfolio was 7.14 per cent, and the return on the fixed income portfolio was -1.16 per cent. The return on the investment portfolio was 0.20 percentage point higher than the return on the benchmark portfolio defined by Norges Bank's Executive Board. The market value of the portfolio at the end of the quarter was NOK 224.0 billion.

<u>Return of -0.54 per cent on the Government Petroleum Insurance Fund</u>
The return on the Government Petroleum Insurance Fund in the second quarter of 2007 was -0.54 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. The return on the Petroleum Insurance Fund's portfolio was

0.04 percentage point lower than the return on the benchmark portfolio defined by the Ministry of Petroleum and Energy. The market value of the portfolio at the end of the quarter was NOK 15.7 billion.

1.2 Total assets under management NOK 2,183 billion

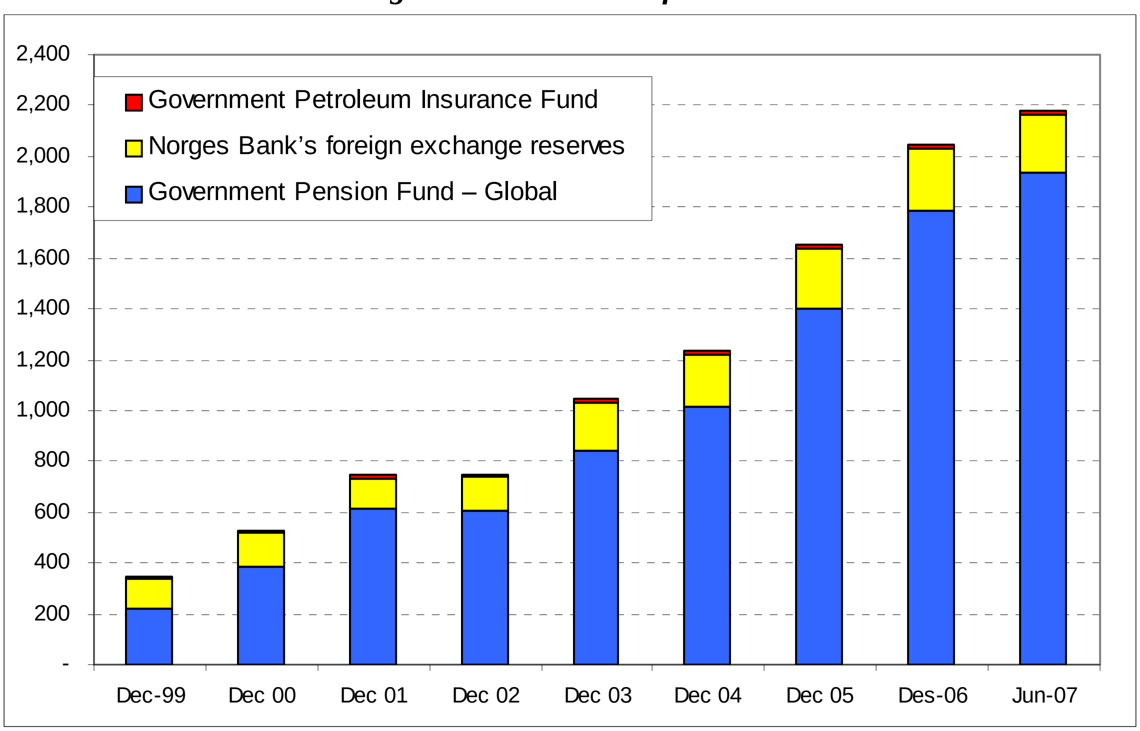
Transfers of NOK 67.5 billion were made to the Government Pension Fund – Global in the second quarter, and there was a return on investment of NOK 41.6 billion, while a stronger krone in relation to the investment currencies reduced the market value of the portfolio by NOK 45.9 billion. Assets under management totalled NOK 2,183 billion at the end of the second quarter of 2007 (see Table 1-1).

Table 1-1: Return in the second quarter and market value on 30 June 2007

	Return in currency		Return in NOK			NOK
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return	Market value in billions
Government Pension Fund – Global	2.23	1.94	-0.19	-0.48	0.29	1 939
Investment portfolio	2.28	2.08	-0.13	-0.32	0.20	224
Government Petroleum Insurance Fund	-0.54	-0.51	-2.72	-2.68	-0.04	16
Total						**2 183**[1]

Chart 1-3 shows growth in total assets under management since the end of 1999.

Chart 1-3: Assets under management. In billions of NOK



[1] The value of the buffer portfolio, which amounted to about NOK 3.5 billion on 30 June 2007, is included in the total.

1.3 Excess return of NOK 5.9 billion in the second quarter

NBIM's management is measured against benchmark portfolios defined by its clients. One important goal for its management is to generate a slightly higher return over time on the actual portfolios than on the benchmark portfolios. In the second quarter, the Government Pension Fund – Global and the investment portfolio both generated an excess return. The aggregate excess return on the portfolios managed by NBIM was NOK 5.9 billion.

Chart 1-4 shows the cumulative excess return since the formation of NBIM in January 1998. The aggregate excess return during the period is NOK 39.0 billion. This breaks down into NOK 36.2 billion on the Government Pension Fund – Global, NOK 2.6 billion on the investment portfolio, and NOK 0.1 billion on the Government Petroleum Insurance Fund.

Chart 1-4: Cumulative gross excess return from 1 January 1998 to 30 June 2007. In millions of NOK

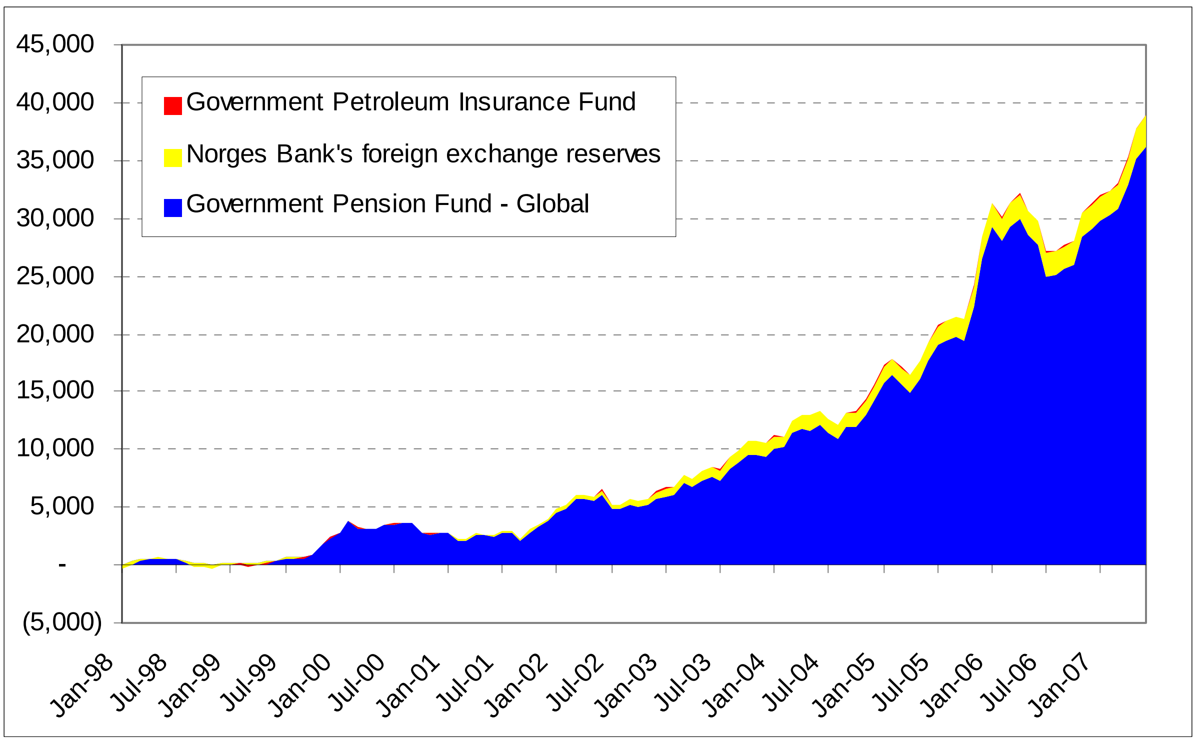


Table 1-2 provides an overview of risks and returns since 1 January 1998 for the portfolios managed by NBIM.

Table 1-2: Risks and returns to 30 June 2007. Per cent. Annualised

	Last 12 months	Last 3 years	Last 5 years	Since 01.01.98
Return/excess return[2]				
Pension Fund	8.96	5.98	6.96	5.57
Benchmark portfolio	8.49	5.38	6.44	5.08
Excess return	0.47	0.60	0.52	0.50
Investment portfolio	8.89	5.00	6.63	5.35
Benchmark portfolio	8.56	4.76	6.34	5.14
Excess return	0.33	0.24	0.29	0.21
Insurance Fund	1.97	0.41	4.88	2.85
Benchmark portfolio	1.93	0.30	4.77	2.78
Excess return	0.04	0.11	0.11	0.07
Standard deviation[3]				
Pension Fund	7.54	7.01	8.64	8.36
Investment portfolio	7.57	6.82	7.71	7.04
Insurance Fund	6.53	6.09	7.15	6.39
Tracking error[4]				
Pension Fund	0.29	0.34	0.31	0.37
Investment portfolio	0.14	0.12	0.17	0.23
Insurance Fund	0.07	0.06	0.07	0.15
Information ratio (IR)[5]				
Pension Fund	1.64	1.75	1.70	1.34
Investment portfolio	2.31	1.94	1.73	0.94
Insurance Fund	0.63	1.72	1.61	0.50

[2] When calculating the returns on the actual and benchmark portfolios, monthly returns are used which are linked together using geometrical methods. The figures are percentages and have been annualised. The excess return is calculated using arithmetical methods.

[3] The standard deviation is a measure of variations in the return/excess return during a period. Each monthly return/excess return is compared with the mean for the period. The higher the standard deviation, the greater the variations relative to the mean, and the higher the risk.

[4] Realised tracking error. Tracking error is explained in Appendix 4.

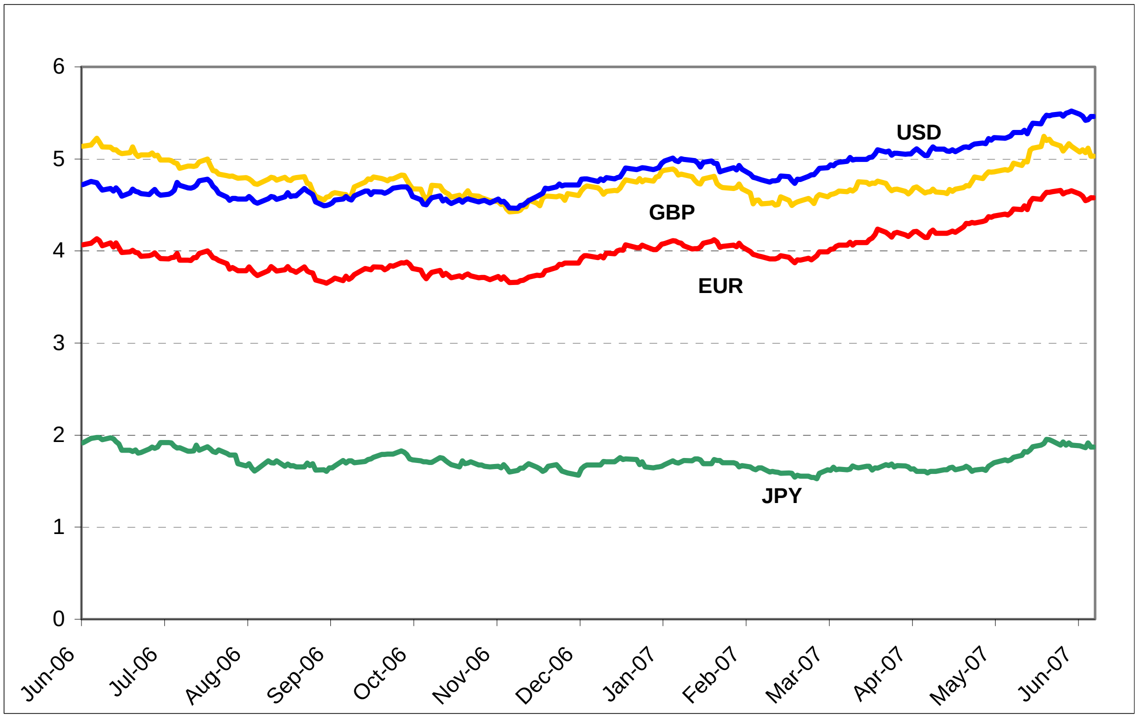
[5] The IR is a measure of risk-adjusted return, and is used to measure the degree of skill in investment management. It is calculated as the ratio between excess return and the actual relative market risk to which the portfolio has been exposed. The IR reveals the level of excess return generated for each unit of risk.

2. Market developments

Fixed income markets

Bond yields in the main markets rose during the second quarter. Ten-year government bond yields increased by about 0.4 percentage point in the US, by 0.5 percentage point in the euro area and the UK, and by around 0.25 percentage point in Japan (see Chart 2-1). Since the beginning of the year, yields have risen furthest in the US and the euro area, where ten-year yields have climbed by about 0.75 percentage point.

Chart 2-1: Movements in the most important bond markets over the last 12 months. Yields on government bonds with approximately ten years to maturity. Per cent per year



Growth in the global economy remains strong and broad-based, although there are signs of cooling in the US. Economic growth is particularly strong in Europe and a number of emerging markets. Long-term interest rates and the prices of a number of raw materials have risen in recent months, while there has been little growth in consumer prices.

Growth in the US economy as measured by GDP was substantially higher in the second quarter of 2007 than in the first. Higher losses on mortgage lending and a downturn in the housing market have not yet led to a significant drop-off in private consumption. Employment has increased, and rising equity prices have probably helped to prop up consumption. Despite high corporate earnings and sound corporate finances, growth in investment has slowed in recent months, which may be related to increased uncertainty about demand for goods and services going forward. The US dollar has weakened significantly against both the euro and the Japanese yen.

Japan is enjoying its longest economic upswing since the Second World War, and the economy probably continued to grow in the second quarter of 2007. Growth in the global economy and a slightly weaker yen have fuelled strong growth in the export sector. Increased investment activity and growth in private consumption have also contributed to growth in the economy. Consumer prices have been more or less unchanged in recent months, and the Bank of Japan did not raise its key interest rate in the second quarter.

China's economic upswing also continued in the second quarter, with year-on-year GDP growth in excess of 11 per cent. Of the major economies, only the US, Japan and Germany are adding more value than China in terms of nominal GDP. It is particularly the export sector and high investment activity that are stimulating growth. There has also been a slight increase in inflationary pressure in the economy, and the People's Bank of China has introduced monetary policy measures to reduce this pressure.

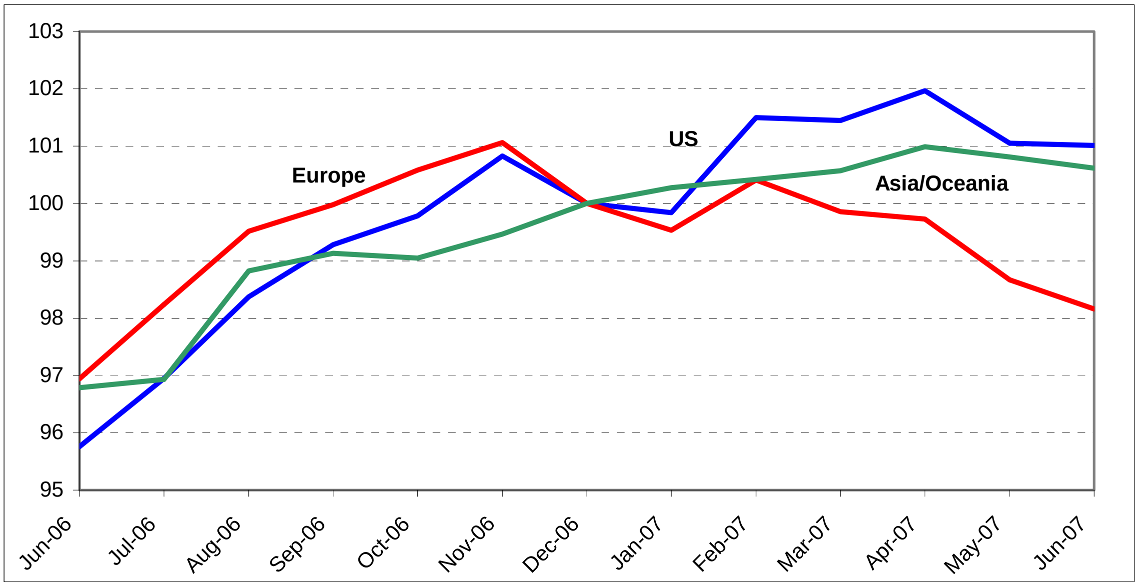
There was strong growth in the euro area economies in the first half of the year. The impact of the increase in the rate of value-added tax in Germany at the beginning of the year was not as great as many had feared. Despite a stronger euro, the export sector performed well in the euro area. Exports to Asia and other parts of Europe grew particularly strongly.

This economic growth in the euro area has led to increased employment and decreased unemployment, which has helped to boost purchasing power and confidence. Growth in both private consumption and investment activity is accelerating. The European Central Bank decided at the beginning of June to raise its key interest rate by 0.25 percentage point to 4.0 per cent.

Economic growth also remains strong in the UK. The most important factors behind this growth are investment and private consumption, while the export sector has made a more modest contribution. Inflation has been above the 2 per cent target so far this year, and the Bank of England raised its key interest rate by 0.25 percentage point to 5.5 per cent in May.

Chart 2-2 shows movements in the Lehman Global Aggregate government bond indices in the main markets over the last 12 months. The second quarter of 2007 brought returns of -1.7 per cent in Europe, 0.0 per cent in Asia, and -0.4 per cent in the US.

Chart 2-2: Movements in the Lehman Global Aggregate government bond indices over the last 12 months (31.12.06=100)



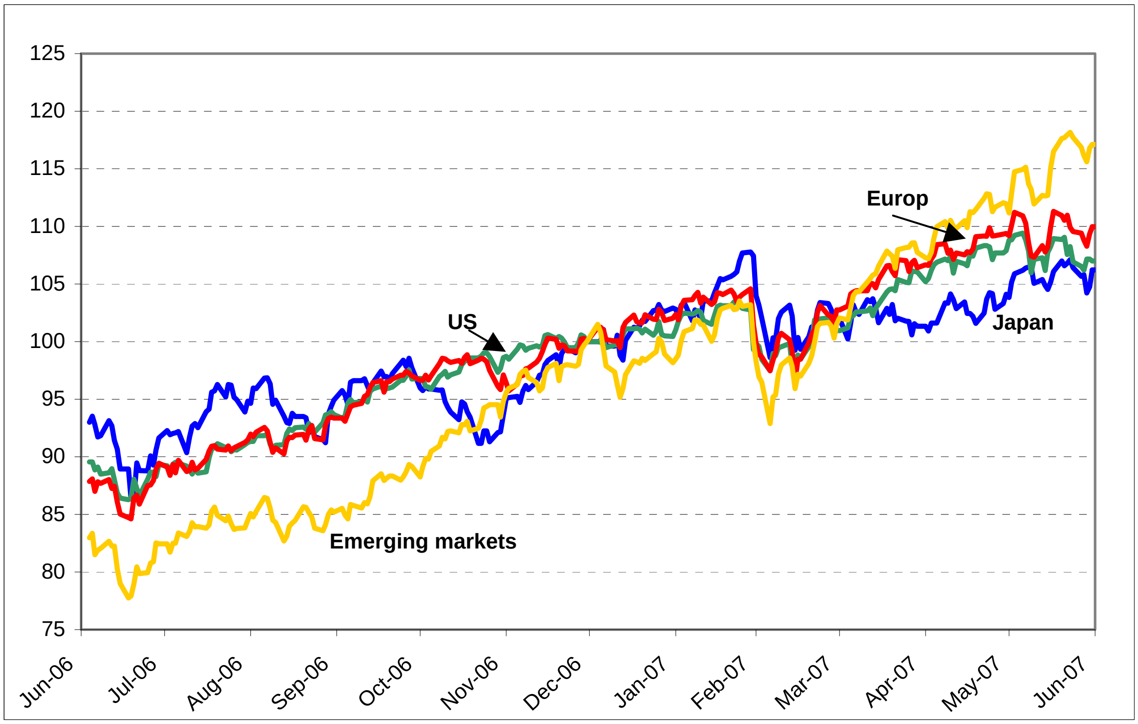
The spread between yields on corporate and government securities (credit spread – see Chart 2-3) increased at the end of February in connection with the downturn in global equity markets. The credit spread was then stable until the end of May, before increasing further through to the end of June. This increase had to do with the growing number of non-performing sub-prime mortgages (loans to homeowners with poor credit ratings) in the US. However, the spread remains relatively low.

Chart 2-3: Spread between yields on corporate securities[6] and government securities in the US. Basis points

[6] Corporate securities with a credit rating of AAA from Standard & Poor's.

Equity markets
Global equity prices gained in the second quarter after a temporary dip in February. With the exception of Japan, the equity indices in the main markets were higher at the end of the second quarter than they were before the fall in February (see Chart 2-4).

Chart 2-4: Movements in the FTSE equity indices for the main markets over the last 12 months (31.12.06=100). In local currencies



Over the quarter as a whole, prices in Europe, Japan, the US and emerging markets rose by 7.0, 4.1, 6.0 and 14.7 per cent respectively. All of the main markets generated positive returns in the first half of 2007. Emerging markets performed particularly strongly, climbing 17 per cent.

There was a significantly sharper increase in prices in global equity markets in the second quarter than in the first. Strong economic growth globally, high corporate earnings, and extensive merger and acquisition activity all contributed to the upswing. Share prices fell back slightly towards the end of the quarter. This fall in prices had to do with the upswing in global interest rates and the growing number of non-performing sub-prime mortgages in the US.

Strong economic growth globally, increased globalisation of the markets for both goods and labour, and a weaker US dollar are factors that contributed to the strong growth in equity prices in many emerging markets. Economic growth has been particularly rapid in China, but also in India and several other Asian countries. The same goes for countries in Eastern Europe and Latin America.

Table 2-1 shows equity price movements in the main sectors and the ten largest sub-sectors of the FTSE All-World Index in the second quarter of 2007. There were positive returns in all of the main sectors in the second quarter. Oil & Gas and Basic Materials did particularly well, while Consumer Services performed the weakest.

Table 2-1: Return on the FTSE All-World Index in the second quarter of 2007 by industrial sector. Measured against the US dollar, the Norwegian krone and the benchmark portfolio's currency basket. Per cent

	USD	NOK	Currency basket
Oil & Gas	**15.74**	**11.99**	**14.70**
Oil & Gas Producers	15.25	11.51	14.22
Basic Materials	**15.05**	**11.32**	**14.02**
Industrials	**12.16**	**8.53**	**11.16**
Consumer Goods	**5.81**	**2.38**	**4.86**
Health Care	**3.19**	**-0.16**	**2.27**
Pharmaceuticals & Biotechnology	3.13	-0.21	2.22
Consumer Services	**2.82**	**-0.51**	**1.91**
General Retailers	2.35	-0.96	1.44
Media	4.74	1.35	3.81
Telecommunications	**10.59**	**7.00**	**9.60**
Fixed Line Telecommunications	7.62	4.14	6.66
Utilities	**4.62**	**1.23**	**3.68**
Financials	**3.81**	**0.45**	**2.89**
Banks	3.08	-0.26	2.16
Nonlife Insurance	6.03	2.59	5.08
General Financial	7.37	3.89	6.41
Technology	**10.98**	**7.38**	**9.99**
Software & Computer Services	7.46	3.98	6.50
Hardware & Equipment	12.93	9.27	11.92
Total[7]	**7.60**	**4.11**	**6.64**

[7] The composition of the Pension Fund's benchmark portfolio differs from the FTSE All-World Index, and therefore the return on it will also be different.

3. Government Pension Fund – Global

Key figures for the second quarter of 2007

- Market value NOK 1,939.5 billion on 30 June
- Return in international currency:
  - Overall: 2.23 per cent
  - Equity portfolio: 7.40 per cent
  - Fixed income portfolio: -1.19 per cent
- Excess return 0.29 percentage point
- Annualised management costs (excluding performance-based fees) 0.08 per cent of assets under management
- Transfers of new capital NOK 67.5 billion
- Three new external equity mandates
- Three new external fixed income mandates

The fund's market value

The fund's market value was NOK 1,939.5 billion at the end of the second quarter, an increase of NOK 63.3 billion during the quarter. New capital equivalent to NOK 67.5 billion was transferred to the fund, and there was a return on investment of NOK 41.7 billion, while a stronger krone in relation to the investment currencies decreased the value of the fund by NOK 45.9 billion. A change in the krone exchange rate has no effect, however, on the fund's international purchasing power.

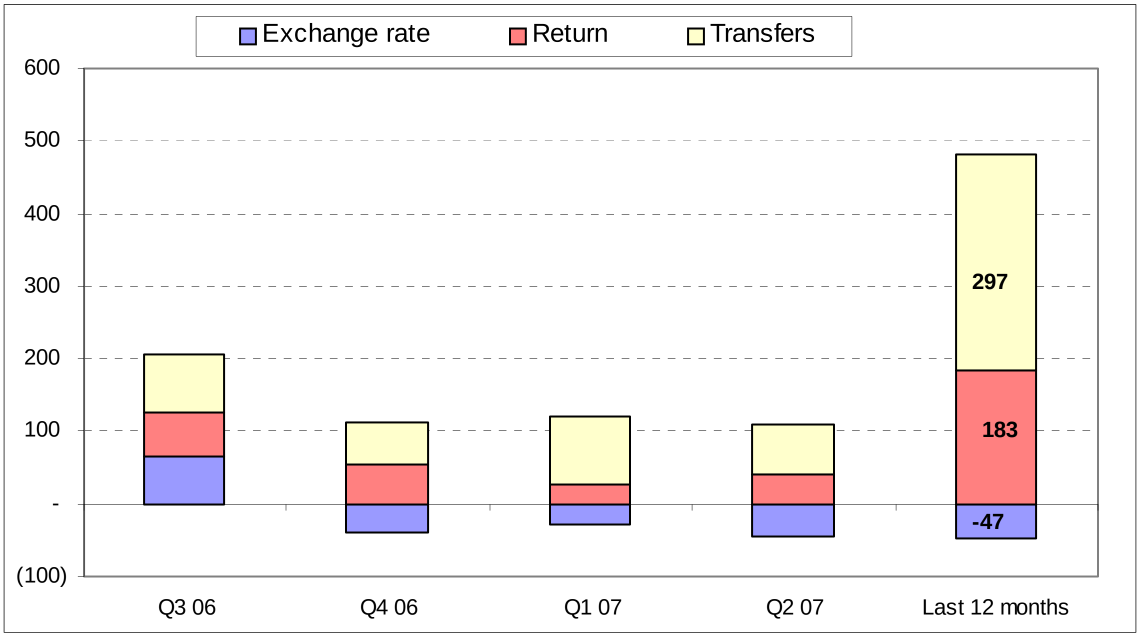
Table 3-1 shows the market value of the portfolio at the end of the last five quarters, and the change in market value in the second quarter of 2007 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone. For the accounting values, see Tables 1 and 2 in Appendix 1.1.

Table 3-1: Changes in the fund's market value over the last 12 months. In millions of NOK

	Equity management	Fixed income management	Total
30 June 2006	609 879	895 143	1 505 022
30 September 2006	687 887	1 024 385	1 712 272
31 December 2006	725 922	1 057 761	1 783 683
31 March 2007	**752 636**	**1 123 561**	**1 876 197**
Transfers of new capital	30 263	37 279	67 542
Return	55 292	-13 645	41 648
Change in krone value	- 18 725	- 27 177	- 45 902
30 June 2007	**819 466**	**1 120 018**	**1 939 484**

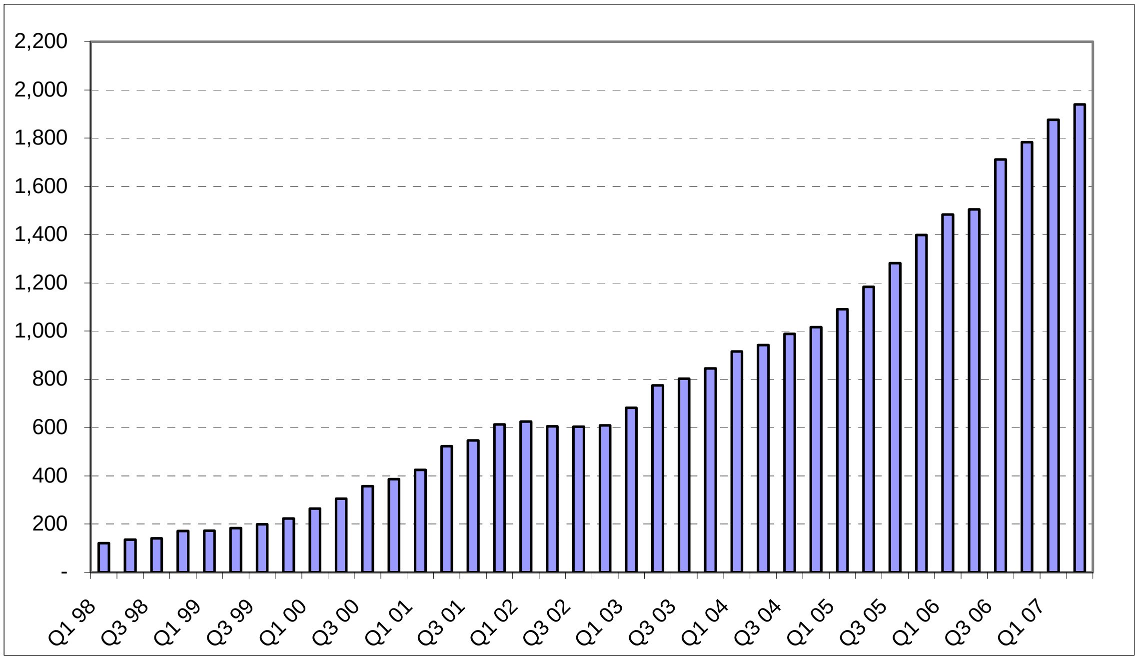
The fund has grown by NOK 434 billion in the last 12 months (see Chart 3-1). NOK 297 billion has been transferred to the fund, and there has been a return on the fund of NOK 183 billion, while a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 46 billion. The chart shows that a weaker krone increased the value of the fund in the third quarter of 2006, while movements in the krone in the last three quarters have reduced the value of the fund by more than NOK 113 billion.

Chart 3-1: Quarterly change in the market value of the fund over the last 12 months. In billions of NOK



Since 1 January 1998, the fund has grown by NOK 1,826 billion (see Chart 3-2). NOK 1,495 billion has been transferred to the fund during the period, and the return on the fund measured in international currency has increased the value of the fund by NOK 496 billion, while a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 165 billion.

Chart 3-2: Market value of the Government Pension Fund – Global 1998-2007. In billions of NOK



Return on the fund

The return on the fund in the second quarter of 2007 was 2.23 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. The return was positive in April and May, but negative in June following a drop in prices in the bond markets and the US equity market. Over the quarter as a whole, the return on the equity portfolio was 7.40 per cent. The fixed income portfolio produced a return of -1.19 per cent.

Measured in Norwegian kroner, the aggregate return in the second quarter was -0.19 per cent. The difference is due to the approximately 2.4 per cent appreciation of the krone against the currencies in the benchmark portfolio during the quarter. It was mainly in April and June that the krone appreciated against the investment currencies, and it was primarily the US dollar that decreased in value. Table 3-2 shows the monthly return measured in terms of the benchmark portfolio's currency basket and in Norwegian kroner, while Table 3-3 shows the return in the second quarter measured in various currencies.

Table 3-2: Return on the fund in the second quarter of 2007. Per cent

	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
Q1	**1.48**	**1.39**	**-0.05**	**-0.15**	**0.09**
April	1.68	1.57	0.47	0.36	0.11
May	1.00	0.88	1.68	1.56	0.12
June	-0.45	-0.51	-2.30	-2.35	0.05
Q2	**2.23**	**1.94**	**-0.19**	**-0.48**	**0.29**
Year to date	3.75	3.35	-0.24	-0.62	0.38

Table 3-3: Return in the second quarter of 2007 measured in different currencies. Per cent

	Equities	**Fixed income**	**Total**
Fund's currency basket	7.40	-1.19	2.23
Import-weighted currency basket	6.49	-2.03	1.36
USD	6.04	-2.44	0.93
EUR	4.90	-3.49	-0.15
NOK	4.86	-3.53	-0.19

The return achieved by Norges Bank on the actual portfolio is measured in relation to the return on the benchmark portfolio defined by the Ministry of Finance. The difference between the return figures is the gross excess return achieved by Norges Bank. In the second quarter, the return on the fund was 0.29 percentage point higher than the return on the benchmark portfolio, which equates to approximately NOK 5.5 billion. The greatest contribution to this excess return came from external and internal equity management, but there was also a positive contribution from external fixed income management.

Over the last 12 months, the cumulative excess return has been 0.47 percentage point. During the three years to the end of the second quarter of 2007, the annualised excess return was 0.60 percentage point (see Chart 3-3).

Chart 3-3: Monthly (right-hand scale) and three-year rolling excess return (left-hand scale). Per cent

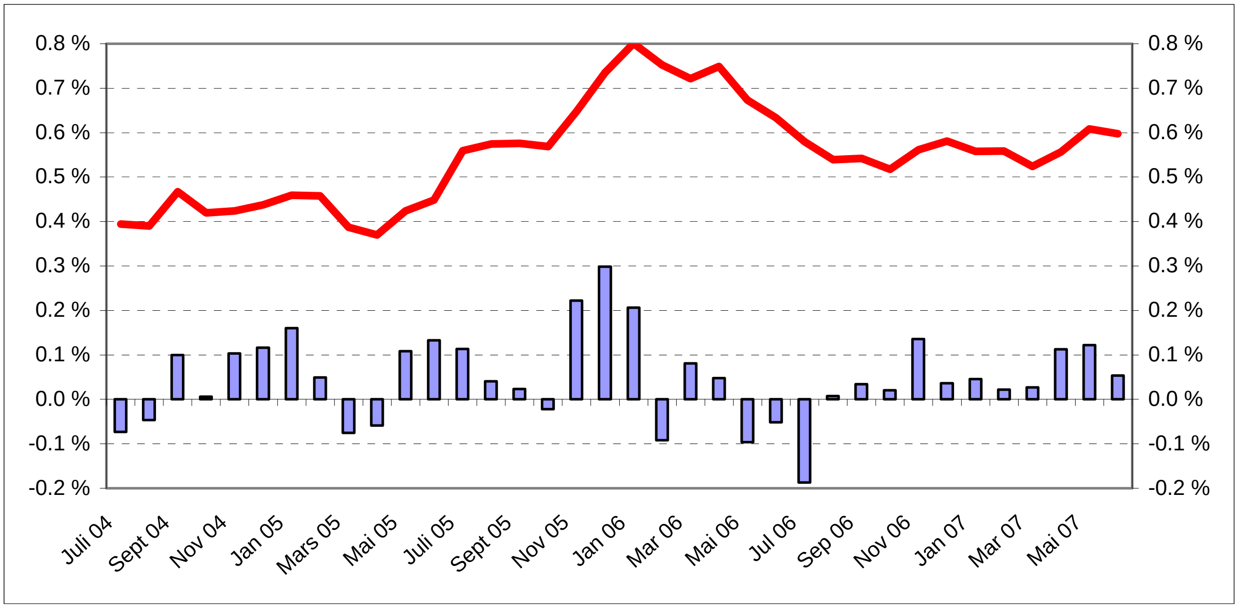


Table 3-4 shows the annualised excess return over the last three years broken down by asset class and into external and internal management. Equity management as a whole contributed around 66 per cent of the excess return. Internal equity and fixed income management contributed far more than external management.

Table 3-4: Annualised contribution to gross excess return from the third quarter of 2004 to the second quarter of 2007. Percentage points

	External management	Internal management	Total	Excess return within each asset class
Equity management	0.15	0.25	0.40	1.04
Fixed income management	0.05	0.15	0.20	0.30
Total	**0.20**	**0.40**	**0.60**	

Table 3-5 shows the information ratio broken down by asset class and into external and internal management during the same period. There is a significantly higher information ratio for internal than for external management. The information ratio is higher for fixed income than for equity management.

Transaction costs are incurred when new capital is phased into the fund. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital in the second quarter of 2007 at NOK 180.5 million. This amounted to 0.27 per cent of the total amount transferred, i.e. NOK 67.5 billion, and 0.01 per cent of the market value of the fund at the beginning of the quarter.

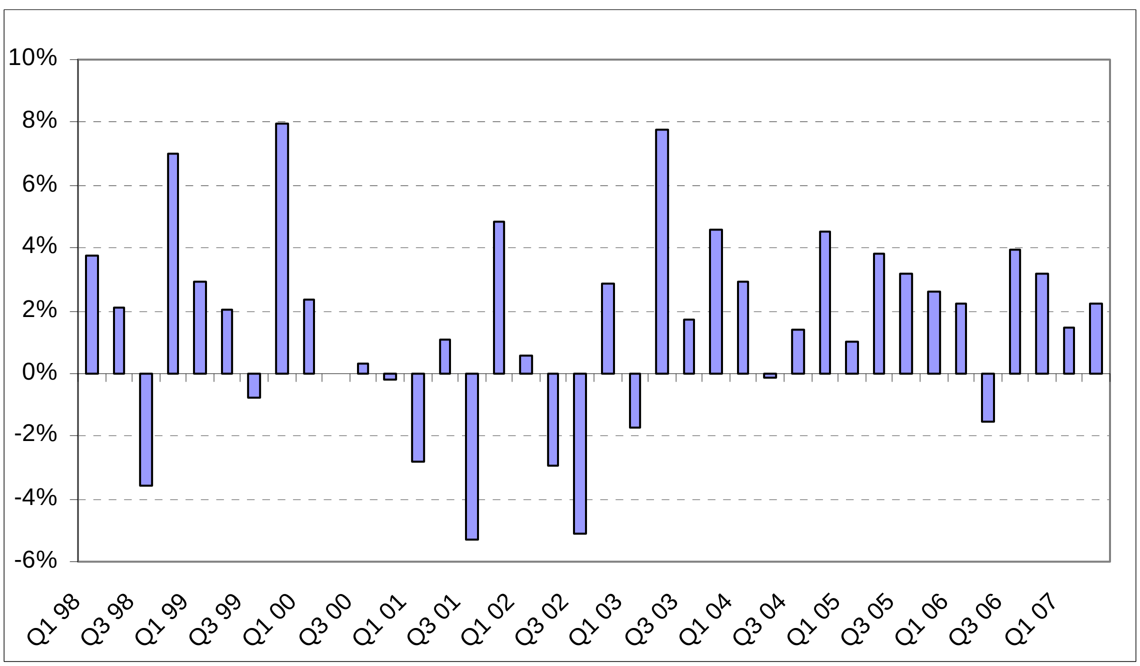
Table 3-5: Information ratio from the third quarter of 2004 to the second quarter of 2007.

	External management	Internal management	Total
Equity management	0.59	1.43	1.21
Fixed income management	2.10	2.25	2.78
Total	**0.78**	**2.45**	**1.75**

The benchmark portfolio has not been adjusted for these transaction costs. This means that the excess return reported is lower than it would have been if the costs associated with phasing in new capital had been excluded. See Appendix 3 for a discussion of the methodology underlying the calculations, and the article *Phasing-in costs in the Petroleum Fund* published in April 2005 in connection with the 2004 annual report for a discussion of phasing-in costs in the fund.

Since the first equity investments were made in 1998, the average quarterly return measured in terms of the benchmark portfolio's currency basket has been 1.58 per cent. There has been a positive return in 27 out of 38 quarters. Chart 3-4 shows the quarterly returns.

Chart 3-4: Quarterly return on the fund measured in terms of the benchmark portfolio's currency basket. Per cent



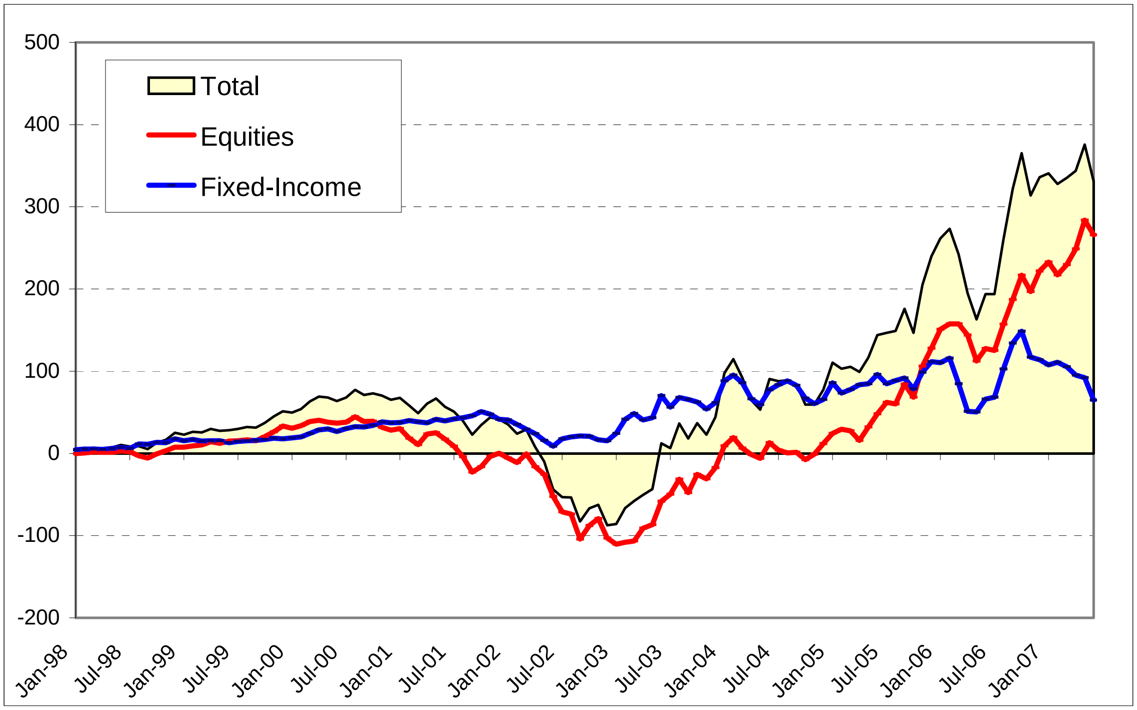
Since 1997, the fund has generated an annualised annual gross return of 6.6 per cent. Once management costs and inflation are deducted, the annual net real return is 4.6 per cent. Table 3-6 shows the annualised return up to the end of the second quarter of 2007 since 1 January in each of the years from 1997 to 2007. The right-hand column in the table shows that the gross excess return has averaged 0.48 percentage point per year since 1 January 1997.

Table 3-6: Annual rates of return on the fund up to the end of the second quarter of 2007 measured in terms of the benchmark portfolio's currency basket. Per cent per year

	Gross annual return	Annual inflation[8]	Annual management costs	Annual net real return	Annual gross excess return
Since 01.01.97	6.55	1.81	0.09	4.57	0.48
Since 01.01.98	6.29	1.81	0.09	4.30	0.50
Since 01.01.99	5.94	1.92	0.09	3.86	0.54
Since 01.01.00	5.10	2.00	0.10	2.94	0.45
Since 01.01.01	5.51	2.00	0.10	3.35	0.48
Since 01.01.02	7.04	2.15	0.10	4.68	0.54
Since 01.01.03	9.85	2.21	0.10	7.37	0.61
Since 01.01.04	9.07	2.39	0.10	6.43	0.62
Since 01.01.05	9.14	2.40	0.10	6.48	0.65
Since 01.01.06	7.85	2.44	0.10	5.18	0.38

The cumulative return on the fund from 1 January 1998 until the end of the second quarter of 2007 was NOK 331 billion. This is shown by the yellow area in Chart 3-5.

Chart 3-5: Cumulative return on the fund 1998-2007. In billions of NOK



[8] Inflation is calculated as a weighted average of the increase in consumer prices in the countries included in the benchmark portfolio.

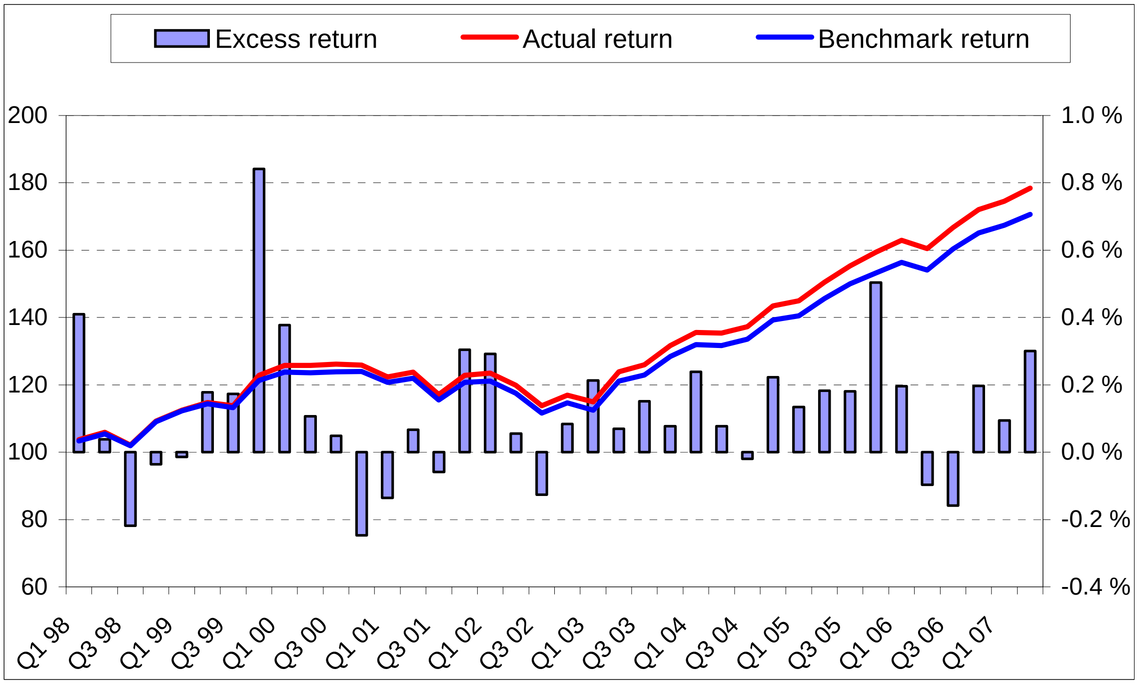
The equity portfolio, which makes up around 40 per cent of the fund, accounted for NOK 266 billion, or 80 per cent, of the cumulative return on the fund.

The red line in the chart shows the cumulative return on the equity portfolio. Between August 2001 and November 2004, the cumulative return on the equity portfolio was negative. It is the strong upswing in global equity prices over the last four years that accounts for the return on the fund. The average purchase price for equity investments was 35.4 per cent lower than their market value at the end of the second quarter.

The blue line in the chart shows that the return on the fixed income portfolio has been far more stable. The cumulative return on the fixed income portfolio was NOK 65 billion at the end of the quarter. Its contribution was more than halved during the quarter as a result of the negative return on the bond markets and a stronger krone relative to the investment currencies. The average purchase price for fixed income investments was 11.8 per cent lower than their market value at the end of the second quarter.

Since 1998, the cumulative return on the benchmark portfolio has been 70.6 per cent, whereas the actual return has been 78.5 per cent (see Chart 3-6). The cumulative gross excess return measured in terms of the currency basket has been 7.8 percentage points, or NOK 36.2 billion.

Chart 3-6: Index for cumulative actual return and benchmark return (left-hand scale) and quarterly gross excess return in percentage points (right-hand scale)

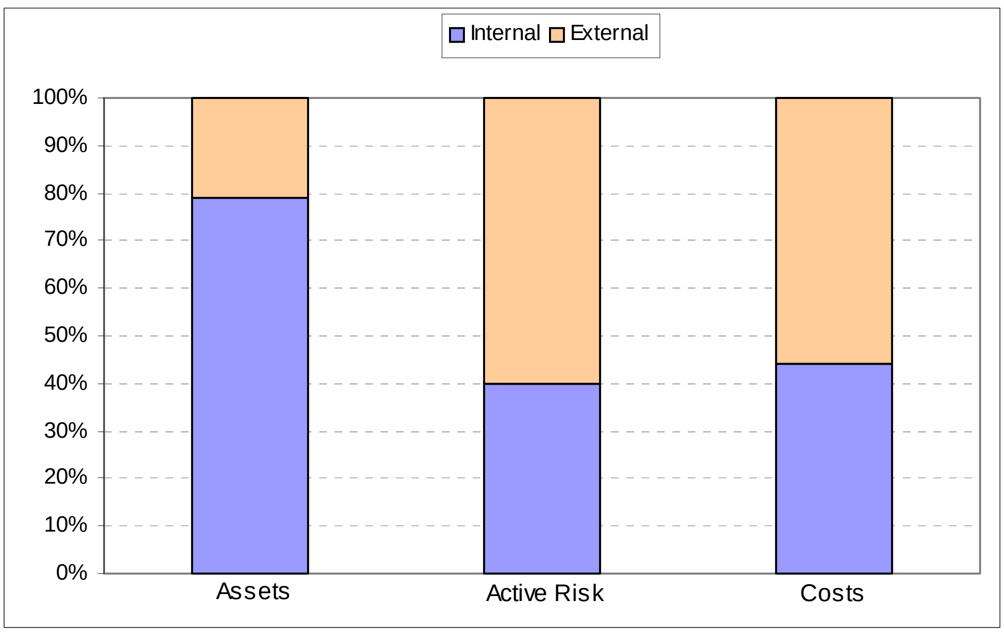


<u>Internal and external management</u>

At the end of the second quarter, 21 per cent of the fund was managed by external investment managers. Costs associated with external management accounted for 56 per cent of total management costs. External management accounted for approximately 60 per cent of the overall risk associated with active management (see Chart 3-7).

The external managers are primarily engaged in active management, whereas a larger part of the internal management is based on enhanced indexing. Active management is much more expensive than index management, and this partly explains why unit costs for external management are far higher than those for internal management. Management costs for external and internal management during the first half of 2007 amounted to 0.24 and 0.05 per cent respectively of assets under management. External managers with specialist expertise are used to achieve sufficient breadth and scope in active management.

Chart 3-7: Distribution of portfolio, management costs and active risk[9] between internal and external management. Per cent



Fixed income management

The market value of the fixed income portfolio fell by NOK 3.5 billion to NOK 1,120.0 billion in the second quarter. NOK 37.3 billion was transferred to the portfolio during the period. A negative return on investment and a stronger krone reduced the value of the portfolio by NOK 13.6 billion and NOK 27.2 billion respectively. At the end of the quarter, about 90 per cent of the fixed income portfolio was managed internally by Norges Bank.

In the second quarter of 2007, capital was transferred to three new mandates assigned to external managers: Hyperion Brookfield Asset Management Inc, TCW Asset

[9] There is no absolutely correct method of calculating the distribution of active risk. The distribution in the chart is based on summation of the Value-at-Risk (VaR) for internal and external mandates, disregarding the correlation between the different mandates.

Management Company and Putnam Advisory Company LLC were awarded specialist mandates in the US.

Equity management

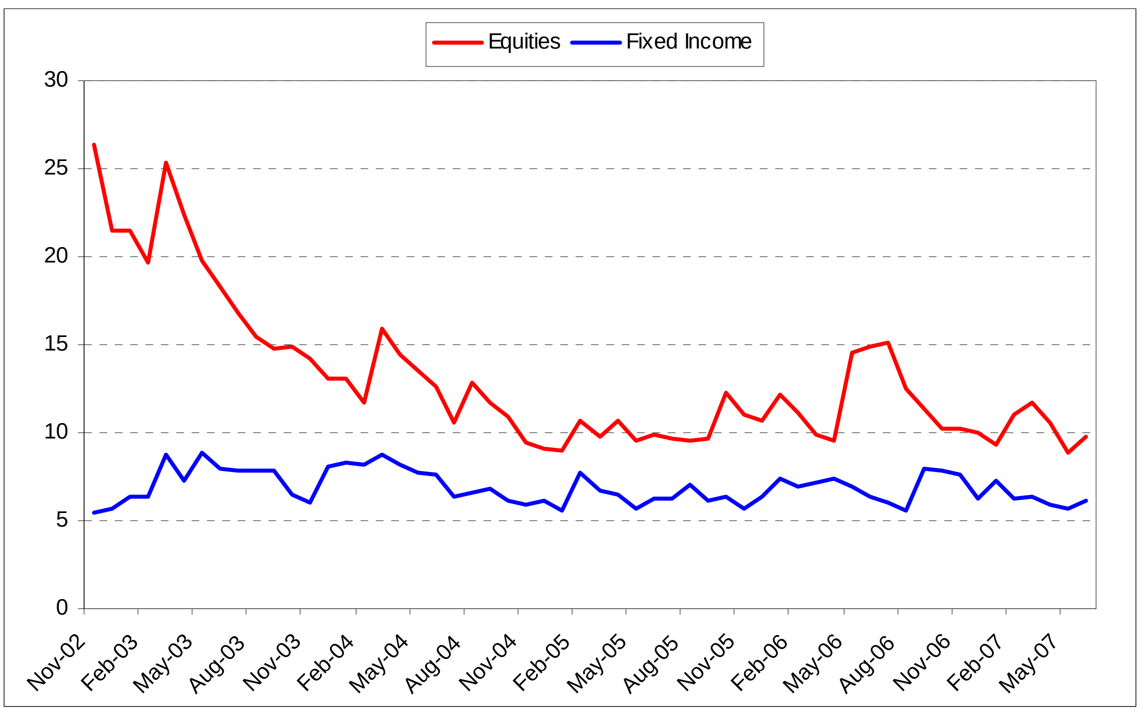
The market value of the equity portfolio was NOK 819.5 billion at the end of the second quarter, an increase of NOK 66.8 billion during the quarter. NOK 30.3 billion was transferred to the portfolio during the period. The positive return on investment increased the value of the portfolio by NOK 55.3 billion, while a stronger krone reduced its value by NOK 18.7 billion. At the end of the quarter, about 64 per cent of the portfolio was managed internally by Norges Bank.

Capital was transferred to three new mandates assigned to an external equity manager during the quarter: Wellington Management Company LLP, Janus Capital Management LLC and Tradewinds NWQ Global Investors LLC were awarded regional mandates.

Market risk

Fluctuations in the global equity and fixed income markets lead to variations in the market value of the fund. The fund's expected volatility is a statistical measure which estimates the "normal" variations in the market value of the fund over the next year. As illustrated in Chart 3-8, the equity portfolio's absolute volatility trended downwards through to the beginning of 2005 and has since fluctuated around 10 per cent. When it comes to the fixed income portfolio, absolute volatility has been much more stable, which reflects the way that prices in the fixed income markets normally vary far less than equity prices.

Chart 3-8: Absolute volatility at each month-end. Per cent. Measured in NOK

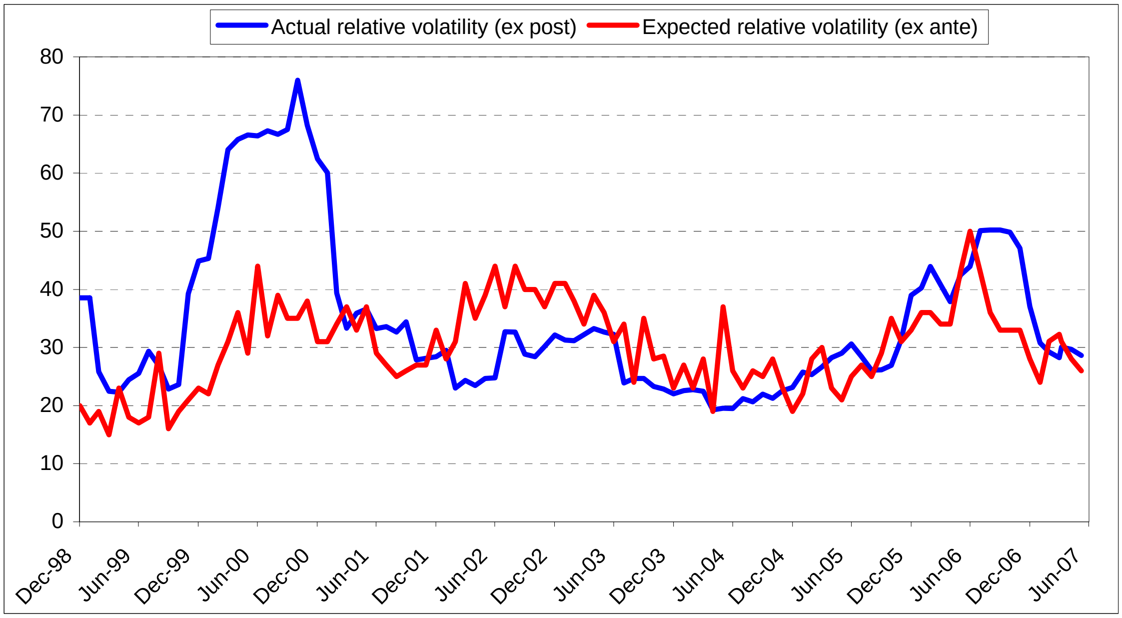


The Ministry of Finance has set a limit on the extent to which the fund's portfolio may deviate from the benchmark portfolio. This has been accomplished by setting a limit for the expected deviation between the returns on the actual portfolio and the benchmark portfolio. This limit for relative market risk in the management of the portfolio has been defined as 1.5 percentage point expected tracking error (see Appendix 4).

Expected tracking error can vary widely even with an unchanged level of active management. This is because these measures are influenced by various market developments, such as changes in market volatility and changes in correlations between the various asset classes and securities.

The red line in Chart 3-9 shows developments in expected tracking error since December 1998. The chart shows that there has been a decrease in expected tracking error since mid-2006. Expected tracking error was 26 basis points at the end of the quarter. In retrospect, we can use the variation in the deviation between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual relative market risk (the blue line in the chart). This tracking error is annualised using 12-month rolling windows.

Chart 3-9: Expected tracking error and actual tracking error. Basis points



Norges Bank tests whether the actual excess return on the fund varies in line with what might be expected based on the risk model used. This is illustrated in Chart 3-10. The chart shows the realised monthly excess return from October 2002 (diamonds) and the confidence interval measured by the standard deviation.

The model indicates that in approximately 67 per cent of cases, the actual return should be within the interval formed by the green lines. The equivalent figures for the orange and red intervals are 95 and 99 per cent respectively. The chart indicates that the actual return is in line with what might be expected based on the risk model used. Analyses of longer time series give similar results.

Chart 3-10: Confidence interval for risk and realised excess return. Basis points

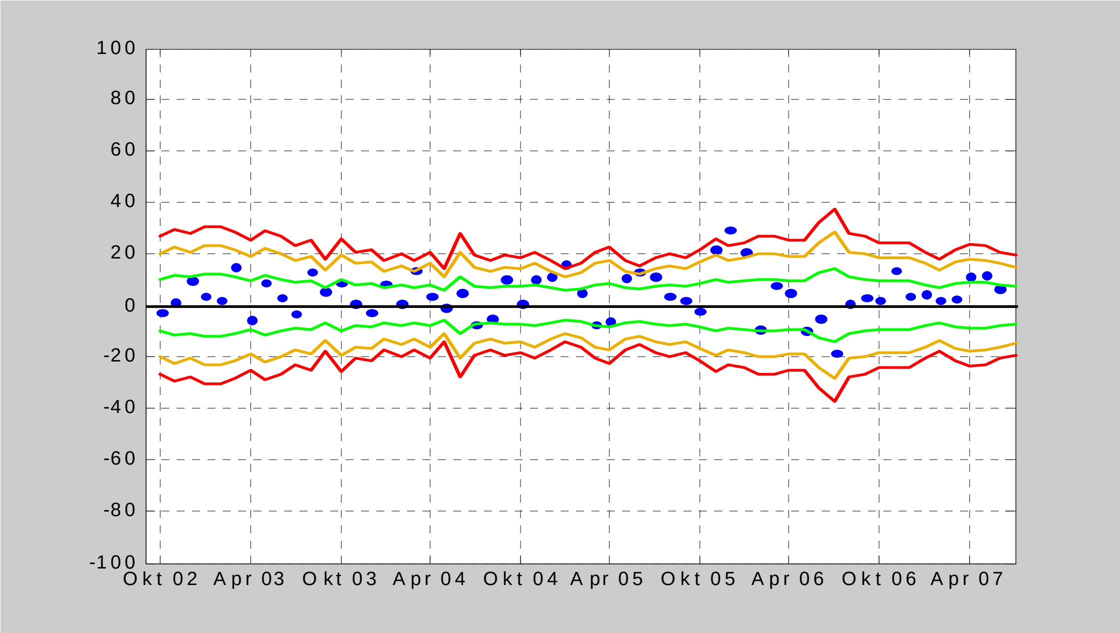
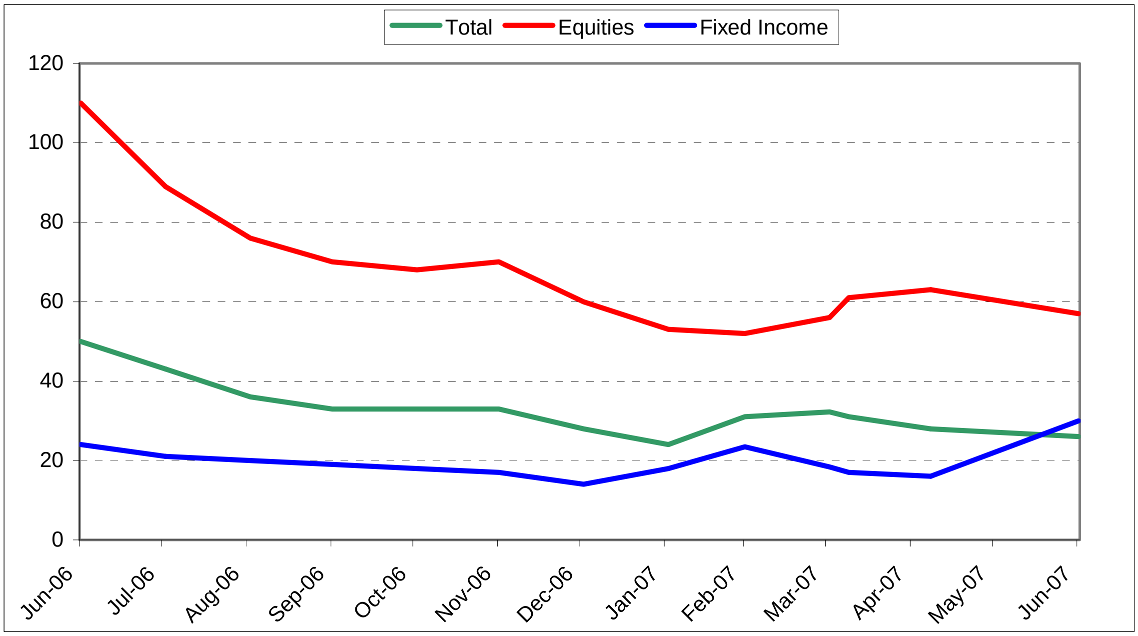


Chart 3-11 shows developments in expected tracking error in the equity and fixed income portfolios over the last 12 months. Relative market risk is higher in equity management than in fixed income management.

Chart 3-11: Expected tracking error at each month-end over the last 12 months. Basis points. Measured in NOK



Information ratio

The information ratio is a measure of skill in active management. It is the ratio of gross excess return for the year to relative market risk (measured here as the actual standard deviation of the gross excess return). The average information ratio for the fund from the first quarter of 1998 to the second quarter of 2007 was 1.34, annualised. Table 3-7 provides a historical overview of the information ratio for the portfolio as a whole and for each asset class.

Table 3-7: Information ratios

Period	Fund	Equities	Fixed income
Last 12 months	1.64	1.19	1.91
Since 2002	1.76	1.10	3.04
Since 1999	1.42	1.12	2.06

Compliance with management guidelines

Through the Regulation on the Management of the Government Pension Fund – Global and guidelines for investments, the Ministry of Finance has set limits for risk and exposure. These limits and the portfolio's actual exposure are shown in Table 3-8. There were no breaches of the investment guidelines during the quarter. According to the guidelines from the Ministry of Finance, the benchmark portfolio for equity instruments is to be based on a tax-adjusted FTSE All-World index. In 2006, Norges Bank used incorrect tax rates for a number of countries, which meant that the excess return reported for the fund was slightly higher than was actually the case. Based on correct figures, the excess return for 2006 was 14 basis points, not 15. This error has been corrected in the excess return reported for the second quarter of 2007. Without this correction, the excess return in the second quarter of 2007 would have been 30 basis points.

Table 3-8: Risk and exposure limits stipulated in the regulation and guidelines

	Risk	Limits	Actual				
			30.06.06	30.09.06	31.12.06	31.03.07	30.06.07
§ 5	Market risk	Maximum tracking error 1.5 percentage point	0.50	0.33	0.28	0.32	0.26
§ 4	Asset mix[10]	Fixed income 30-70%	59.5	59.8	59.3	59.9	57.7
		Equities 30-70%	40.5	40.2	40.7	40.1	42.3
§ 4	Market distribution, equities	Europe 40-60%	49.0	49.1	50.1	49.7	49.7
		Americas and Africa 25-45%	36.1	35.5	34.4	35.0	35.1
		Asia and Oceania 5-25%	14.9	15.4	15.5	15.3	15.2
	Currency distribution, fixed income	Europe 50-70%	60.8	59.8	60.4	59.7	60.0
		Americas and Africa 25-45%	32.6	34.7	34.3	35.0	34.6
		Asia and Oceania 0-15%	6.6	5.5	5.3	5.3	5.4
§ 6	Ownership stake	Maximum 5% of a company	4.69	4.50	4.50	4.50	4.99

[10] The Ministry of Finance has revised the asset mix, see discussion in Report to the Storting No. 24 (2006-2007). See Appendix 2.

Table 3-9 shows the composition of the bond portfolio (fixed income portfolio excluding money market investments) based on credit ratings from Moody's and Standard & Poor's (S&P). In the table, government securities and government-guaranteed bonds without credit ratings have been given the credit rating of the issuing country. In addition to bonds, the fixed income portfolio contains fixed income instruments with shorter maturities.

Table 3-9: The bond portfolio on 30 June 2007 by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	Percentage of total	Rating	Percentage of total
Aaa	49.26	AAA	44.51
Aa	20.20	AA	14.87
A	15.85	A	19.07
Baa	8.41	BBB	9.78
Ba	0.68	BB	0.88
Lower	0.32	Lower	0.31
No rating	5.28	No rating	10.58

Costs

The Management Agreement between the Ministry of Finance and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Government Pension Fund – Global. For 2007, this remuneration is to cover the Bank's actual costs, provided that these costs are less than 0.10 per cent of the fund's average market value. Fees to external managers for excess return achieved are also covered. Norges Bank has entered into agreements concerning performance-based fees with the majority of external active managers in accordance with principles approved by the Ministry of Finance.

In addition to the Pension Fund, NBIM manages the Government Petroleum Insurance Fund and the bulk of Norges Bank's foreign exchange reserves. Fees to external managers and external settlement and custodian institutions are invoiced separately for each fund. The other operating costs are overheads shared by all the funds managed by NBIM. These shared overheads are distributed between the three funds using a cost distribution key. The shared overheads also include the cost of support functions provided by other parts of Norges Bank. These latter costs are calculated in accordance with the guidelines that apply to business operations at Norges Bank.

Annualised, costs in the first half of 2007 amounted to 0.09 per cent of the average market value of the fund (see Table 3-10). Excluding performance-based fees to external managers, costs amounted to 0.08 per cent of the market value of the fund. For internal equity management, there was a decrease in the ratio of costs to assets under management from the first half of 2006 to the first half of 2007. For internal fixed income management, this ratio increased. The increase in the cost of fixed income management was due primarily to the introduction of a new portfolio management system which will allow a wider range of instruments to be used in fixed income management.

Costs are distributed between internal and external management using a cost distribution key for internal costs and custodian costs. External management accounted for approximately 56 per cent of costs, whereas only about 21 per cent of the fund's portfolio is managed externally. The unit cost of internal management was approximately 0.05 per cent, compared with 0.24 per cent for external management. External costs in relation to assets under management were lower in the first half of 2007 than in the first half of 2006, due to a substantial reduction in performance-based fees payable to external managers.

Table 3-10: Management costs in the first half of 2007. In thousands of NOK and as a percentage of the average portfolio

	First half 2007		First half 2006	
	NOK 1 000	Per cent	NOK 1 000	Per cent
Internal costs, equity management	135 179		96 396	
Custodian and settlement costs	39 842		43 775	
Total costs, internal equity management	**175 021**	**0.07**	**140 171**	**0.08**
Internal costs, fixed income management	137 207		76 886	
Custodian and settlement costs	54 860		33 756	
Total costs, internal fixed income management	**192 067**	**0.04**	**110 642**	**0.03**
Minimum fees to external managers	260 800		194 441	
Performance-based fees to external managers	134 266		225 392	
Other costs, external management	76 271		55 645	
Total costs, external management	**471 337**	**0.24**	**475 478**	**0.31**
Total management costs	**838 425**	**0.09**	**726 291**	**0.10**
Total management costs excluding performance-based fees	**704 159**	**0.08**	**500 899**	**0.07**

4. Norges Bank's foreign exchange reserves

<u>Key figures for the second quarter of 2007</u>
Investment portfolio

- Market value NOK 224.0 billion on 30 June
- Return in international currency:
    - Overall: 2.28 per cent
    - Equity portfolio: 7.14 per cent
    - Fixed income portfolio: -1.16 per cent
- Excess return 0.20 percentage point

Buffer portfolio

- NOK 67.5 billion transferred to the Government Pension Fund – Global
- NOK 33.8 billion transferred from the State's Direct Financial Interest in petroleum activities (SDFI)
- NOK 34.4 billion transferred from Norges Bank's own foreign exchange purchases
- Market value NOK 3.5 billion on 30 June
- Return of -2.6 per cent measured in NOK

Investment portfolio

The investment portfolio's market value was NOK 224.0 billion at the end of the second quarter, a decrease of NOK 0.3 billion during the quarter. A positive return on investment increased the value of the fund by NOK 5.1 billion, while a stronger krone against the currencies in which the portfolio is invested reduced its value by NOK 5.4 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

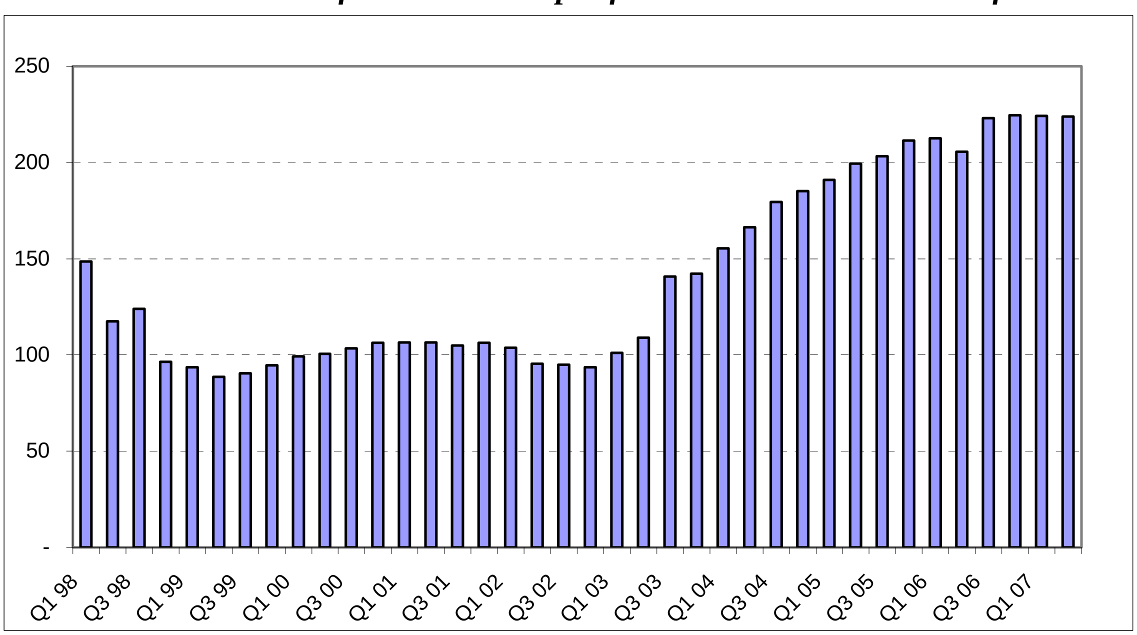
Table 4-1 shows the market value of the portfolio at the end of the last five quarters, and the change in market value in the second quarter of 2007 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone.

Table 4-1: Market value of the investment portfolio over the last 12 months, and change in market value in the second quarter of 2007. In millions of NOK

	Equity management	Fixed income management	Total
30 June 2006	79 754	125 934	205 688
30 September 2006	87 672	135 407	223 079
31 December 2006	93 143	132 374	224 517
31 March 2007	**92 860**	**131 408**	**224 269**
Transfers of new capital	300	-300	–
Return	6 580	-1 501	5 079
Change in krone value	-2 297	-3 073	-5 370
30 June 2007	**97 443**	**126 535**	**223 978**

Chart 4-1 shows movements in the portfolio's market value since 1998 measured in NOK.

Chart 4-1: Market value of the investment portfolio 1998-2007. In billions of NOK



Return on the portfolio

The return on the investment portfolio in the second quarter of 2007 was 2.28 per cent measured in terms of the benchmark portfolio's currency basket (see Table 4-2). Measured in NOK, the aggregate return in the second quarter was -0.13 per cent. The return measured in NOK was lower because the krone appreciated in relation to the currencies in the benchmark portfolio during the quarter.

Table 4-2: Return on the investment portfolio in the second quarter of 2007. Per cent

	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
Q1	**1.43**	**1.41**	**-0.11**	**-0.13**	**0.02**
April	1.70	1.63	0.51	0.44	0.07
May	1.03	0.96	1.69	1.63	0.06
June	-0.45	-0.52	-2.28	-2.35	0.07
Q2	**2.28**	**2.08**	**-0.13**	**-0.32**	**0.20**
Year to date	3.74	3.51	-0.24	-0.46	0.22

The gross return in the second quarter of 2007 was 0.20 percentage point higher than the return on the benchmark portfolio. In absolute terms, the excess return was NOK 443 million. It was mainly internal equity management which contributed to this excess return, but there were also positive contributions from internal and external fixed income management.

Transaction costs were incurred in the second quarter due to the transfer of NOK 300 million from the fixed income portfolio to the equity portfolio. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital in the second quarter of 2007 at NOK 700,000. This is 0.23 per cent of the total amount transferred. The benchmark portfolio has not been adjusted for these transaction costs. This means that the excess return reported is lower than it would have been if the costs associated with the transfer had been excluded.

Since 1998, the average quarterly return measured in international currency has been 1.49 per cent. Chart 4-2 shows the quarterly returns. There has been a negative return in seven out of 38 quarters.

Chart 4-2: Quarterly returns 1998-2007 measured in terms of the portfolio's currency basket. Per cent

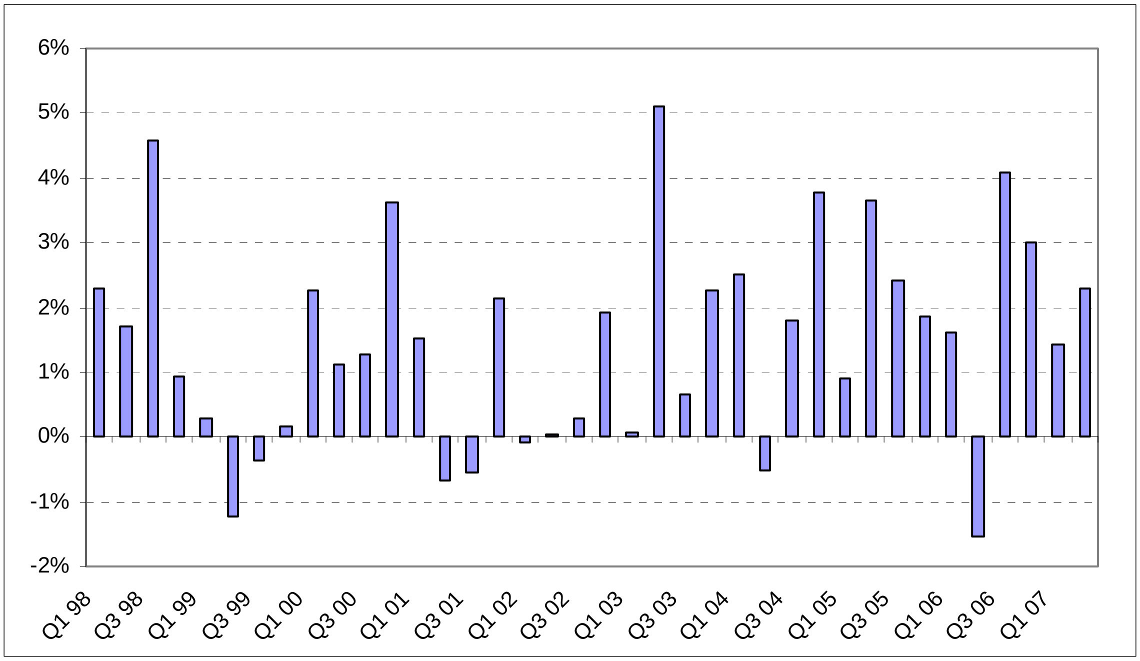


Table 4-3 shows the percentage return on the investment portfolio since 1998. The return has been calculated in relation to the portfolio's currency basket. Until the end of 2000, the entire portfolio was invested in government or government-guaranteed bonds. Since 2001, however, some of the portfolio has also been invested in equities, and since 2003 some in non-government-guaranteed bonds.

Table 4-3: Annual rates of return on the investment portfolio measured in terms of the portfolio's currency basket. Per cent per year

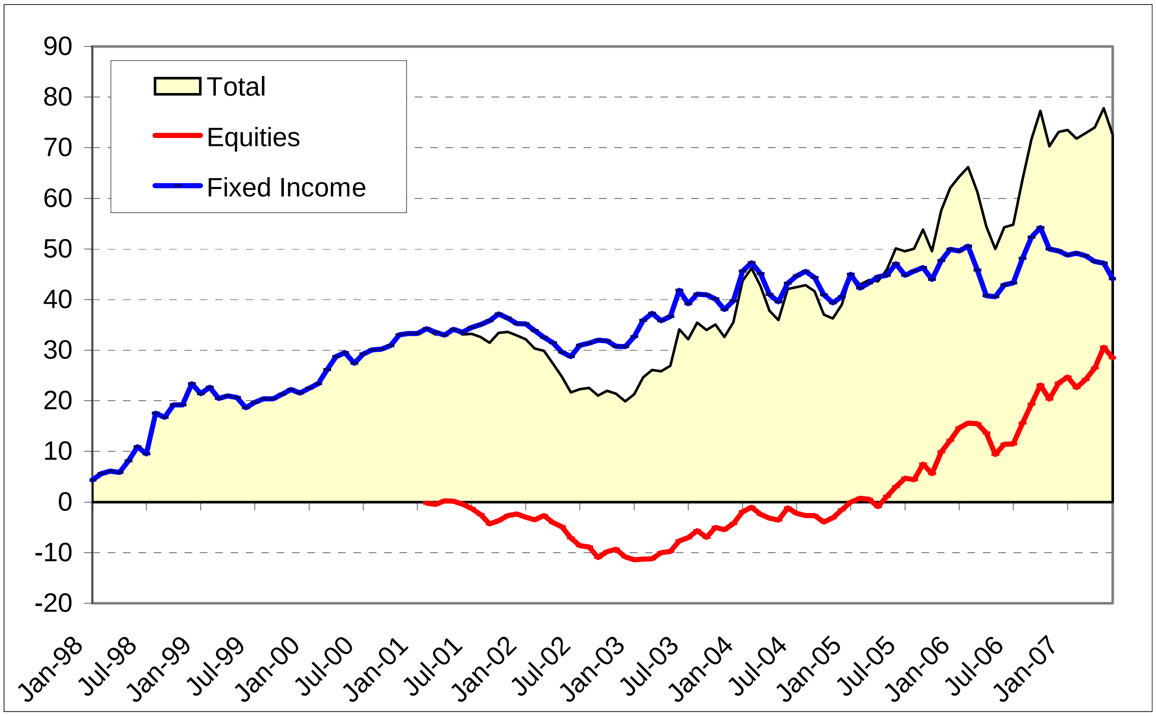
	Nominal annual return	Annual inflation[11]	Management costs	Annual net real return	Annual gross excess return
Since 01.01.98	6.04	1.87	0.06	4.04	0.21
Since 01.01.99	5.61	1.98	0.06	3.50	0.25
Since 01.01.00	6.54	2.06	0.07	4.33	0.26
Since 01.01.01	6.25	2.05	0.07	4.04	0.28
Since 01.01.02	6.96	2.19	0.07	4.60	0.31
Since 01.01.03	8.05	2.22	0.06	5.64	0.30
Since 01.01.04	7.98	2.43	0.06	5.37	0.23
Since 01.01.05	8.09	2.43	0.06	5.46	0.28
Since 01.01.06	7.43	2.47	0.06	4.78	0.25

The table shows that the annual net real return since 1 January 1998 has been 4.04 per cent after deductions for inflation and management costs. The right-hand column shows

[11] Weighted average of consumer price inflation in the countries included in the benchmark portfolio in the years in question.

that the gross excess return in relation to the portfolio's benchmark has averaged 0.21 percentage point per year since 1 January 1998.

Chart 4-3: Cumulative return on the investment portfolio 1998-2007. In billions of NOK



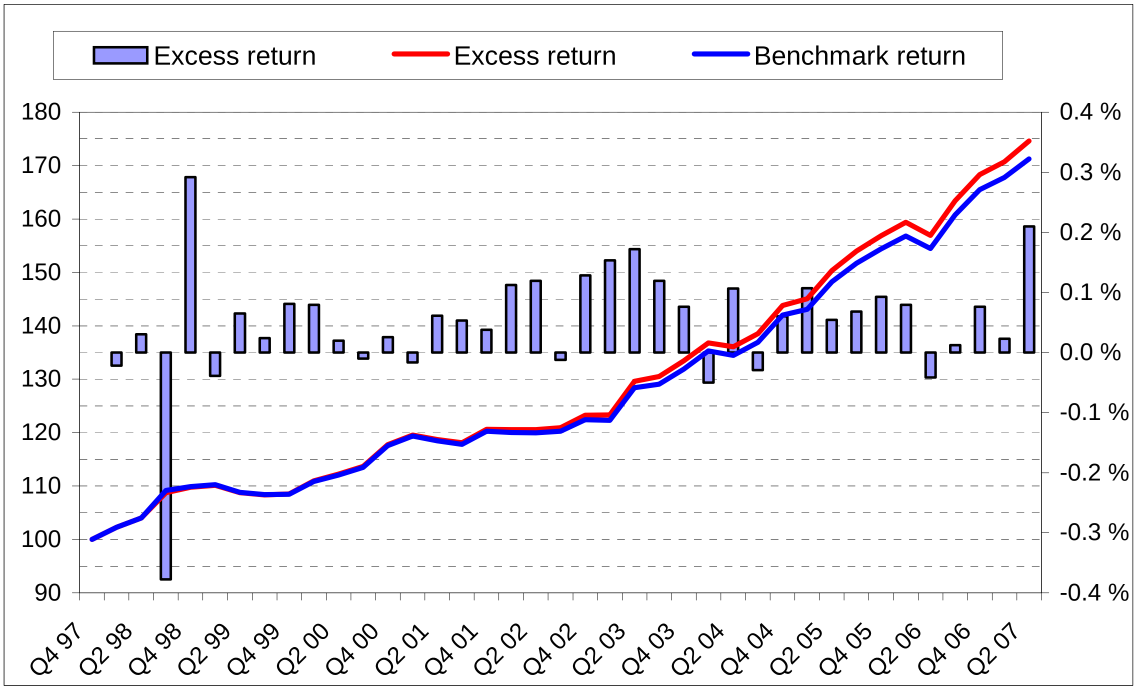
The cumulative return on the investment portfolio from 1 January 1998 until the end of the second quarter of 2007 was NOK 73 billion. This is shown by the yellow area in Chart 4-3. Since 2001, the first year with equity investments in the investment portfolio, the accumulated return has been NOK 39 billion. Equity investments account for NOK 28 billion, or 73 per cent, of the cumulative return during this period. The red line in the chart shows the cumulative return on the equity portfolio. From January 2001 to April 2005, there was a negative cumulative return on the equity portfolio.

The blue line in the chart shows that the return on the fixed income portfolio has been far more stable. The cumulative return on the fixed income portfolio since 1998 was NOK 44 billion at the end of the quarter. During the time that the investment portfolio has included both equity and fixed income investments, the cumulative return on fixed income investments has been NOK 11 billion, or 27 per cent of the portfolio's total cumulative return since 2001.

The cumulative return since 1 January 1998 has been 74.6 per cent for the actual portfolio and 71.3 per cent for the benchmark portfolio (see Chart 4-4). The difference between the two return figures is the gross excess return achieved through management, a total of 3.3 percentage points since 1998.

In absolute terms, the excess return has been NOK 2.6 billion. The chart also shows that a positive excess return has been achieved in 29 of the 38 quarters since 1 January 1998.

Chart 4-4: Index for cumulative actual return and benchmark return (31.12.97=100, left-hand scale) and quarterly gross excess return in percentage points (right-hand scale) 1998-2007



<u>Fixed income management</u>

The market value of the fixed income portfolio fell by NOK 4.9 billion to NOK 126.5 billion in the second quarter. A negative return on fixed income investments and transfers to the equity portfolio contributed NOK 1.5 billion and NOK 0.3 billion respectively to the decrease in value. A stronger krone decreased the value of the portfolio by NOK 3.1 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

About 84 per cent of the portfolio is managed internally by Norges Bank using both enhanced indexing, where the main purpose is to achieve the same market exposure as the benchmark, and active strategies designed to outperform the benchmark.

<u>Equity management</u>

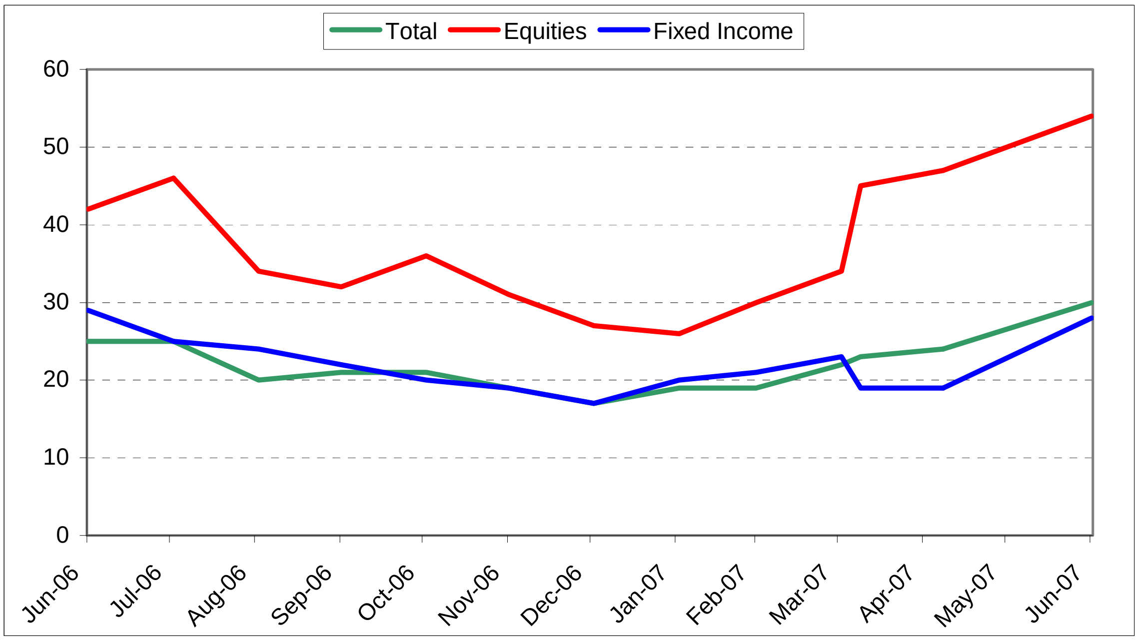
The market value of the equity portfolio increased by NOK 4.6 billion to NOK 97.4 billion during the quarter. A total of NOK 0.3 billion was transferred from the fixed income portfolio, and there was a return on equity investments of NOK 6.6 billion, while a stronger krone reduced the value of the portfolio by NOK 2.3 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power. The entire equity portfolio was managed internally by Norges Bank at the end of the quarter.

Market risk

The Executive Board's guidelines define a limit for the market risk associated with the actual portfolio in relation to the market risk associated with the benchmark portfolio. This relative market risk must always be less than an expected tracking error of 1.5 percentage point.

Chart 4-5 shows that relative market risk has remained well below the upper limit over the last 12 months. Expected tracking error was 0.30 percentage point at the end of the quarter.

Chart 4-5: Expected tracking error at each month-end over the last 12 months. Basis points



Information ratio

The information ratio is a measure of skill in the operational management of the portfolio. It is the ratio of gross excess return for the year to relative market risk (measured here as the actual standard deviation of the gross excess return). Since 1 July 1998, the annual average information ratio has been 0.94.

Table 4-4 provides a historical overview of the information ratio for the portfolio as a whole and for each asset class.

Table 4-4: Information ratios

Period	Portfolio	Equities	Fixed income
Last 12 months	2.31	0.79	1.87
Since 2002	1.82	-0.41	2.62
Since 1999	1.44	n/a[12]	2.02

[12] The first investments in equities were made in 2001.

Compliance with management guidelines

Table 4-5 provides an overview of risk and exposure in the investment portfolio at the end of each quarter over the last year. There were no breaches of the Executive Board's investment guidelines during the second quarter. According to the guidelines from the Executive Board, the benchmark portfolio for equity instruments is to be based on a tax-adjusted FTSE All-World index. In 2006, incorrect tax rates were used for a number of countries, which meant that the excess return reported for the portfolio was slightly higher than was actually the case. Based on correct figures, the excess return for 2006 was 12 basis points, not 13. This error has been corrected in the excess return reported for the second quarter of 2007. Without this correction, the excess return in the second quarter of 2007 would have been 21 basis points.

Table 4-5: Risk and exposure

Risk		Actual				
		30.06.06	**30.09.06**	**31.12.06**	**31.03.07**	**30.06.07**
Market risk (percentage points)	Tracking error	0.25	0.21	0.17	0.22	0.30
Asset mix	Fixed income	61.2	60.7	59.0	58.6	56.5
	Equities	38.8	39.3	41.0	41.4	43.5
Market distribution, equities	Europe	50.9	51.2	52.4	53.5	54.3
	Americas	35.6	35.5	34.6	33.3	32.5
	Asia and Oceania	13.5	13.3	13.0	13.3	13.3
Market distribution, fixed income	Europe	61.3	58.4	59.7	60.2	60.7
	Americas	32.4	35.7	35.0	34.2	33.7
	Asia and Oceania	6.2	5.9	5.3	5.7	5.6
Ownership stake (per cent)	Ownership stake max. 5%	0.82	0.95	1.27	2.29	4.53

Table 4-6 shows the composition of the bond portfolio (fixed income portfolio excluding money market investments) based on credit ratings from Moody's and S&P. In the table, government bonds and government-guaranteed bonds without credit ratings have been assigned the credit rating of the issuing country.

Table 4-6: Bond portfolio on 30 June 2007 by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	**Percentage of total**	**Rating**	**Percentage of total**
Aaa	51.09	AAA	46.81
Aa	18.04	AA	12.91
A	13.38	A	16.79
Baa	7.73	BBB	8.93
Ba	1.20	BB	1.53
Lower rating	0.74	Lower rating	0.83
No rating	7.82	No rating	12.20

Costs
The costs incurred in NBIM's management activities consist partly of fees to external managers and custodian institutions, and partly of Norges Bank's internal operating costs. In the first half of 2007, NBIM's total costs associated with the management of the investment portfolio, including performance-based fees, amounted to NOK 76.8 million, which corresponds to 0.07 per cent of the average portfolio (annualised).

Buffer portfolio

Transfers to the buffer portfolio and transfers to the Government Pension Fund – Global in the second quarter of 2007

Table 4-7 provides an overview of transfers of capital to the buffer portfolio and the Government Pension Fund – Global in the second quarter of 2007. A total of NOK 33.8 billion was transferred to the portfolio from the State's Direct Financial Interest in petroleum activities (SDFI) during the quarter. A further NOK 34.4 billion was transferred to the portfolio through Norges Bank's purchases of foreign exchange in the market during the quarter.

A total of NOK 67.5 billion was transferred to the Government Pension Fund – Global in the second quarter of 2007.

Table 4-7: Transfers to and from the buffer portfolio in the second quarter of 2007. In millions of NOK

Period	Transferred from SDFI	Foreign exchange purchased in the market	Transferred to Government Pension Fund – Global	Market value at end of period
Q1	**38 791**	**34 429**	**93 419**	**-**
April	12 729	11 386	23 569	3 622
May	12 668	10 797	23 696	3 438
June	8 397	12 245	20 276	3 497
Q2	**33 794**	**34 428**	**67 542**	**-**
Year to date	72 585	68 858	160 960	-

Size and return
The market value of the buffer portfolio was NOK 3.5 billion at the end of the second quarter of 2007, compared with NOK 3.2 billion on 31 March 2007. The return on the buffer portfolio during the quarter was -2.6 per cent measured in NOK. In absolute terms, there was a negative return of NOK 389 million.

5. Government Petroleum Insurance Fund

Key figures for the second quarter of 2007

- Market value NOK 15.7 billion on 30 June
- Return of -0.54 per cent in international currency
- Return of -2.72 per cent measured in NOK
- Excess return -0.04 percentage point
- Premiums received from State NOK 1.1 billion
- Claims paid NOK 83.8 million

The fund's market value

The market value of the fund's international portfolio was NOK 15.7 billion at the end of the second quarter of 2007. In addition, the balance on the working account was NOK 152.5 million. The market values of the Petroleum Insurance Fund's foreign exchange portfolios at the end of each of the last five quarters are shown in Table 5-1.

Table 5-1: Market value of the Petroleum Insurance Fund at the end of each quarter. In millions of NOK

	30.06.06	30.09.06	31.12.06	31.03.07	30.6.07
EUR	7 389	7 696	7 596	7 544	7 839
GBP	2 220	2 349	2 343	2 293	2 349
USD	5 092	5 492	5 248	5 246	5 492
Total market value	**14 700**	**15 535**	**15 184**	**15 084**	**15 680**

Return on the fund

The return on the fund in the second quarter of 2007 was -0.54 per cent measured in terms of the currency basket corresponding to the composition of the benchmark portfolio (see Table 5-2). Measured in NOK, the return was -2.72 per cent. The difference is due to the appreciation of the krone during the quarter against the currencies included in the benchmark portfolio. The return on the fund was 0.04 percentage point lower than the return on the benchmark portfolio.

Table 5-2: Return on the Government Petroleum Insurance Fund. Per cent

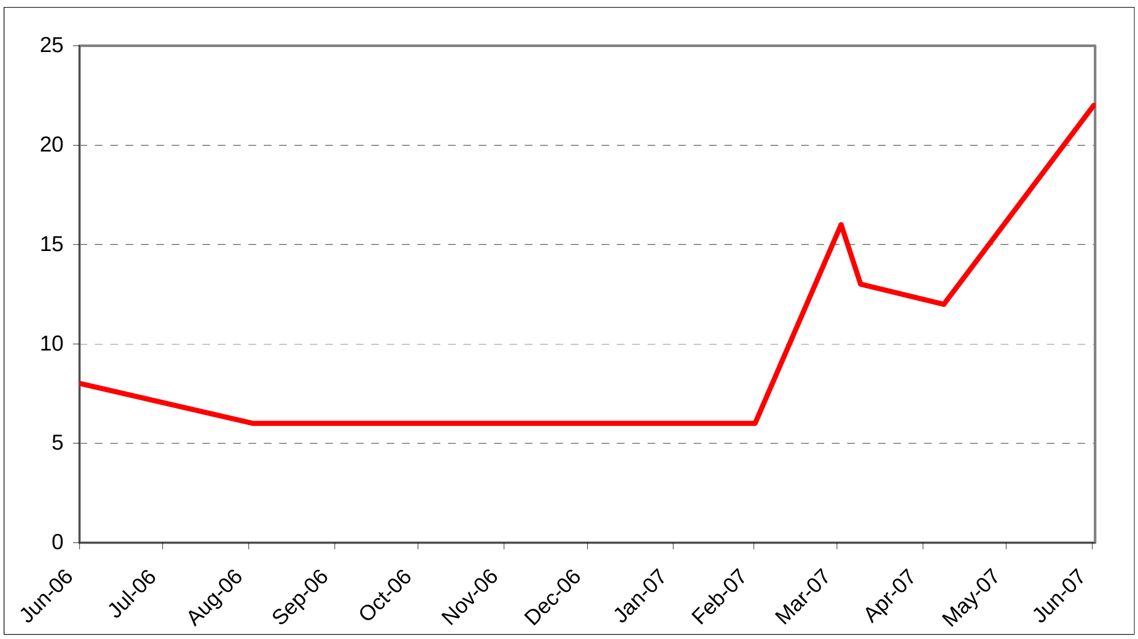
	Measured in terms of the benchmark currency basket		Measured in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Return differential
Q1	**0.81**	**0.74**	**-0.67**	**-0.74**	**0.06**
April	0.22	0.21	-0.83	-0.84	0.01
May	-0.57	-0.55	0.03	0.06	-0.02
June	-0.19	-0.17	-1.94	-1.92	-0.02
Q2	**-0.54**	**-0.51**	**-2.72**	**-2.69**	**-0.04**
Year to date	**0.26**	**0.23**	**-3.38**	**-3.40**	**0.03**

Management of the fund
The entire fund is managed internally by Norges Bank. Norges Bank pursues an index-tracking investment strategy for the fund, which means that the actual portfolio does not deviate far from the benchmark portfolio. The fund is invested primarily in government bonds and other bonds included in the Lehman Global Aggregate index's "Government-related" sub-sector. In addition, the portfolio may be invested in German bonds issued against collateral in the form of loans to the public sector (öffentliche Pfandbriefe), in short-term money market instruments, and in unlisted fixed income derivatives.

Claims payments of NOK 83.8 million were made during the quarter. The Storting set the premium for 2007 at NOK 1.1 billion in June.

Market risk
The guidelines from the Ministry of Petroleum and Energy establish a limit for market risk associated with the actual portfolio in relation to market risk associated with the benchmark portfolio. This relative market risk must always be less than a tracking error of 0.75 percentage point. Relative market risk remained well below this upper limit throughout the second quarter of 2007 (see Chart 5-1).

Chart 5-1: Expected tracking error over the last 12 months. Basis points



Guidelines for management
The guidelines from the Ministry of Petroleum and Energy require an average modified duration in each currency of 4 in the benchmark portfolio and no higher than 5 in the actual portfolio as a whole. Table 5-3 shows that the duration in each of the currencies in which the fund was invested satisfied this requirement by a good margin in the second quarter.

Table 5-3: The portfolio's modified duration by currency on 30 June 2007

Currency	Actual portfolio	Benchmark portfolio
EUR	3.93	3.83
GBP	4.19	3.98
USD	4.04	4.10
Total	**4.01**	**3.95**

Table 5-4 provides an overview of the limits for risk exposure set out in the regulation and guidelines, and shows the portfolio's actual exposure in relation to these limits at the end of the quarter. There were no breaches of the guidelines in the second quarter of 2007.

Table 5-4: Risk exposure limits stipulated in the regulation and guidelines

Risk	Limits	Actual				
		30.06.06	**30.09.06**	**31.12.06**	**31.03.07**	**30.06.07**
Market risk	Maximum tracking error 0.75 percentage point	0.08	0.06	0.06	0.16	0.22
Interest rate risk	Modified duration max. 5	3.98	3.98	3.93	4.00	4.01

Table 5-5 shows the composition of the bond portfolio based on credit ratings from Moody's and S&P. In the table, the agencies' detailed subdivisions have been grouped together – for example, Moody's Aa includes the sub-ratings Aa1, Aa2 and Aa3. Government bonds and government-guaranteed bonds without credit ratings have been assigned the credit rating of the issuing country.

Table 5-5: The bond portfolio on 30 June 2007 by credit rating

Moody's		Standard & Poor's	
Rating	Percentage of total market value	Rating	Percentage of total market value
Aaa	69.00	AAA	60.91
Aa	23.50	AA	18.56
A	6.40	A	17.27
No rating[13]	1.10	No rating	3.26

Costs

The management agreement between the Ministry of Petroleum and Energy and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Petroleum Insurance Fund's portfolio. For 2007, a remuneration rate of 0.06 per cent of the average market value of the portfolio was stipulated. Remuneration of NOK 4.5 million was accrued during the first half of 2007.

[13] If a security has no rating from Moody's, it will have an approved rating from one of the two other approved agencies (S&P or Fitch). The same is the case for S&P.

APPENDICES:

Appendix 1: Accounting reports

1.1 Government Pension Fund – Global

Table 1 shows the distribution of different instruments as presented in Norges Bank's accounts. Off-balance-sheet items are shown in a separate table. Table 2 shows the book return, which in the second quarter was NOK -4,204 million before deduction of Norges Bank's management remuneration.

Table 1: The Pension Fund's international portfolio on 30 June 2007 by instrument. In millions of NOK

	30.06.06	31.12.06	30.06.07
Short-term assets/debt, incl. deposits in foreign banks	-2 885	6 918	-7 094
Money market investments in foreign financial institutions against collateral in the form of securities	689 872	619 746	810 193
Borrowing from foreign financial institutions against collateral in the form of securities	-529 545	-728 414	-678 327
Foreign fixed income securities	746 861	1 166 941	1 009 280
Foreign equities	600 826	720 256	799 253
Adjustment of forward contracts and derivatives	17	-1 777	6 222
Total portfolio before management remuneration	**1 505 146**	**1 783 670**	**1 939 527**
Management remuneration due	-726	-1 526	-838
Accrued advisory fees	0	-5	0
Total portfolio	**1 504 420**	**1 782 139**	**1 938 689**

Off-balance-sheet items (in millions of NOK)			
Liabilities			
Derivatives and forward contracts sold	1 134 791	1 228 557	1 825 295
Derivatives and forward contracts purchased	1 133 381	1 241 246	1 795 551
Rights			
Options sold	84 172	24 154	100 540
Options purchased	50 687	131 203	125 402

There is a slight difference in the market value used in the return calculations (see Table 3-1) and the accounts to 30 June 2007. This is due to different valuation methods for money market investments.

In Table 2, income and expenses in foreign currency have been translated into NOK at the exchange rate on the transaction date, and recognised as they have been earned or incurred according to the accruals principle.

Table 2: Book return on the Pension Fund's international portfolio to 30 June 2007. In millions of NOK

	30.06.06	31.12.06	31.03.07	30.06.07
Interest income	18 325	43 014	13 518	27 151
Dividends	8 909	14 232	3 411	11 810
Exchange rate adjustments[14]	-49 146	-24 232	-25 854	-69 666
Unrealised gains/losses on securities	-55 504	13 592	-9 970	-12 806
Realised gains/losses on securities	29 629	47 482	17 407	31 390
Brokers' commissions	-25	-6	-51	-97
Gains/losses on futures	-3 142	-3 329	-6	79
Gains/losses on options	77	126	-91	120
Gains/losses on equity swaps	1 402	2 174	-595	203
Gains/losses on interest rate swaps	3 570	3 183	1 333	6 714
Book return on investments	**-45 905**	**96 236**	**-898**	**-5 102**
Accrued management remuneration	-726	-1 526	-386	-838
Accrued advisory fees	0	-5	0	0
Net return	**-46 631**	**94 705**	**-1 284**	**-5 940**

1.2 Investment portfolio

Table 1: The investment portfolio on 30 June 2007 by instrument. In millions of NOK

	30.06.06	31.12.06	30.06.07
Short-term assets/debt, incl. deposits in foreign banks	-941	-9 593	-28 141
Money market investments in foreign financial institutions against collateral in the form of securities	104 289	77 501	106 137
Borrowing from foreign financial institutions against collateral in the form of securities	-90 622	-99 350	-94 048
Foreign fixed income securities	120 212	163 757	140 659
Foreign equities	80 536	92 300	97 993
Adjustment of forward contracts and derivatives	378	-100	1 401
Total portfolio	**213 852**	**224 515**	[15]**224 001**

[14] The exchange rate adjustments in the accounts are calculated on the basis of the Pension Fund's actual composition. Income and expenses are translated at the exchange rate on the transaction date, and assets and liabilities are translated at the market rate at the end of the month. This figure will differ from the estimated exchange rate effect in the measurement of returns. When measuring returns, the exchange rate effect is calculated on the basis of the benchmark's currency composition at the beginning of each month and associated exchange rate movements.

[15] There is a difference in the market value used in the return calculations (see Table 4-1) and the accounts to 30 June 2007. This is due partly to different valuation methods for money market investments.

Off-balance-sheet items	30.06.06	31.12.06	30.06.07
Liabilities			
Derivatives and forward contracts sold	196 015	200 684	285 406
Derivatives and forward contracts purchased	191 100	202 861	281 221
Rights			
Options sold	10 835	8 851	29 773
Options purchased	6 568	21 656	25 356

Table 2: Book return on the investment portfolio to 30 June 2007. In millions of NOK

Return on the investment portfolio	30.06.06	31.12.06	31.03.07	30.06.07
Interest income	3 087	6 695	1 479	3 448
Dividends	1 233	2 017	491	1 749
Exchange rate adjustments	-7 608	-4 298	-3 159	-8 220
Unrealised gains/losses on securities	-8 888	1 265	-2 249	-3 215
Realised gains/losses on securities	3 357	4 626	2 671	4 253
Brokers' commissions	-2	-5	-1	-3
Gains/losses on futures	144	114	12	114
Gains/losses on options	10	26	-8	-13
Gains/losses on equity swaps	91	130	11	76
Gains/losses on interest rate swaps	784	448	505	1 296
Other operating expenses	-33	-64	-18	-36
Net return	**-7 825**	**10 954**	**-266**	**-551**

1.3 Buffer portfolio

Table 1: The buffer portfolio on 30 June 2007 by instrument. In millions of NOK

	30.06.06	31.12.06	30.06.07
Short-term assets/debt, incl. deposits in foreign banks	2 452	12 447	18 361
Money market investments in foreign financial institutions against collateral in the form of securities	14 560	8 510	3 051
Adjustment of forward contracts and derivatives	24	0	-21
Amounts payable to Government Pension Fund – Global, unsettled transfers	-23 907	0	-20 276
Total portfolio as per accounts	**-6 871**	**20 957**	**1 115**
Unsettled contracts not recognised	10 368	2 731	2 386
Foreign exchange for management	**3 497**	**23 688**	**3 501**

Off-balance-sheet items	30.06.06	31.12.06	30.06.07
Liabilities			
Derivatives and forward contracts sold	1 860	0	13 172
Derivatives and forward contracts purchased	1 860	0	13 172

Table 2: Book return on the buffer portfolio to 30 June 2007. In millions of NOK

Return	30.06.06	31.12.06	31.03.07	30.06.07
Interest income	301	580	266	407
Exchange rate adjustments	-692	-1 414	-544	-1 058
Other operating expenses	-1	-1	-1	-1
Net return	**-392**	**-835**	**-279**	**-652**

1.3 Government Petroleum Insurance Fund

Table 1: The Petroleum Insurance Fund's international portfolio by instrument on 30 June 2007. In thousands of NOK

	30.06.06	31.12.06	30.06.07
Short-term assets/debt, incl. deposits in foreign banks	-990 679	-61 495	-601 952
Money market investments in foreign financial institutions against collateral in the form of securities	2 104 500	2 768 751	3 025 780
Borrowing from foreign financial institutions against collateral in the form of securities	-14 156	0	0
Foreign fixed income securities	12 491 997	12 611 428	12 165 403
Adjustment of forward contracts and derivatives	-1 664	-3 381	-5 352
Total portfolio before management remuneration	**13 859 999**	**15 315 302**	[16] **14 579 495**
Management remuneration due	-4 156	-8 741	-4 514
Total portfolio	**13 585 843**	**15 306 561**	**14 574 981**

Off-balance-sheet items (in thousands of NOK)	30.06.06	31.12.06	30.06.07
Derivatives and forward contracts sold	921 630	1 025 453	1 064 912
Derivatives and forward contracts purchased	919 964	1 022 070	1 064 912

Table 2: Book return on the Government Petroleum Insurance Fund to 30 June 2007. In thousands of NOK

	30.06.06	31.12.06	31.03.07	30.06.07
Interest income	299 431	663 863	176 266	353 967
Exchange rate adjustments	-455 986	-96 302	-221 108	-548 697
Unrealised changes in value	-371 032	-279 557	-10 344	-247 291
Realised changes in value	-36 248	-37 234	-45 526	-67 493
Other operating expenses	5	5	0	0
Book return on investments	-563 830	250 775	-100 711	-509 514
Accrued management remuneration	-4 156	-8 741	-2 273	-4 514
Net return	**-567 986**	**242 034**	**-102 985**	**-514 028**

[16] There is a difference in the market value used in the return calculations (see Table 5-1) and the accounts to 30 June 2007. This is due to a transfer to the portfolio not yet settled.

Appendix 2: Mandate and benchmark portfolio

1. Government Pension Fund – Global

The Government Pension Fund was established by the Norwegian Parliament by the Act of 20 December 2005. The fund has two parts: the Government Pension Fund – Global (previously the Government Petroleum Fund, established in 1990) and the Government Pension Fund – Norway (previously the National Insurance Fund, established in 1967).

The Ministry of Finance has delegated the operational management of the Government Pension Fund – Global to Norges Bank. The management mandate is stipulated in a regulation and written guidelines issued by the Ministry. A management agreement, which further regulates the relationship between the Ministry of Finance as delegating authority and Norges Bank as operational manager, has also been drawn up. The guidelines and management agreement are available on Norges Bank's website.

According to the regulation, Norges Bank is to seek to achieve the highest possible return within the limits set out in the regulation. The Bank's strategy for achieving an excess return has been presented previously in its annual reports. The Ministry of Finance is updated about the operational management of the fund through quarterly and annual reports, which are also published.

New guidelines for the fund's investments
In Spring 2007, the Ministry of Finance published Report to the Storting No. 24 (2006-2007): *On the management of the Government Pension Fund in 2006*. The Storting considered the report on 12 June 2007. In the report, the Government presented the Pension Fund's results and investment strategy, and announced the following changes to the Government Pension Fund – Global:

- the allocation to equities is to rise from 40 to 60 per cent
- the number of companies is to be increased by including the small-cap segment in the benchmark portfolio
- the criteria for approved markets and currencies were amended

For a more detailed discussion of the proposals and analyses, please refer to the report itself, which is available in English translation on the Ministry of Finance's website. Norges Bank has agreed a schedule for implementing the changes with the Ministry.

The Ministry of Finance has adopted ethical guidelines for the fund's investments. These guidelines require that ethical issues be addressed through three mechanisms: *corporate governance* to promote long-term financial returns, *negative screening* and *exclusion of companies* to avoid complicity in unacceptable violations of fundamental ethical norms. Norges Bank is responsible for corporate governance in accordance with the guidelines from the Ministry of Finance. Norges Bank's Executive Board has approved principles of corporate governance. The government has appointed a Council on Ethics which is to advise the Ministry of Finance on negative screening and company exclusions. The Ministry makes the final decision on the exclusion of companies and instructs Norges Bank accordingly. Section 4 of Appendix 2 provides an overview of the companies excluded from the investment universe at the end of the second quarter of 2007.

The Ministry of Finance has specified countries and currencies that are to be included in the fund's benchmark portfolio. The benchmark portfolio consists of specific equities and fixed income instruments and reflects the delegating authority's investment strategy for the Pension Fund. The benchmark portfolio provides an important basis for managing risk in the operational management of the fund and for evaluating Norges Bank's management performance.

The strategic benchmark portfolio for the Pension Fund is composed of FTSE equity indices for large and medium-sized companies in 27 countries, and of Lehman Global Aggregate and Lehman Global Real fixed income indices in the currencies of 21 countries.

Benchmark portfolio on 30 June 2007. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**42.0**	**60.0**	**58.0**
Belgium		0.8		
Finland		0.9		
France		8.4		
Greece		0.5		
Ireland		0.6		
Italy		3.1		
Netherlands		2.7		
Portugal		0.3		
Spain		3.2		
Germany		6.1		
Austria		0.4		
Euro area (EUR)		*27.0*		*47.8*
UK (GBP)		16.1		10.0
Denmark (DKK)		0.6		0.7
Switzerland (CHF)		4.7		0.5
Sweden (SEK)		2.0		1.2
Total Europe	**50.0**	**50.4**	**60.0**	**60.1**
US (USD)		30.5		32.8
Brazil		0.9		
Canada (CAD)		2.1		2.1
Mexico		0.5		
South Africa		0.7		
Total Americas and Africa	**35.0**	**34.7**	**35.0**	**35.0**
Australia (AUD)		2.6		0.2
Hong Kong		1.3		
Japan (JPY)		8.0		4.4
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.4		0.2
South Korea		1.5		
Taiwan		1.1		
Total Asia and Oceania	**15.0**	**14.9**	**5.0**	**5.0**

Equities accounted for 40 per cent of the fund's strategic benchmark portfolio, while fixed income instruments accounted for 60 per cent.[17] The equity portion of the benchmark consists of equities listed on stock exchanges in Europe (50 per cent), the Americas and Africa (35 per cent), and Asia and Oceania (15 per cent). The regional distribution in the fixed income benchmark is 60 per cent in Europe, 35 per cent in the Americas, and 5 per cent in Asia and Oceania.

Asset classes and regional weights change continuously as a result of changes in market prices for the securities in the benchmark portfolio. The monthly transfers of capital to the Pension Fund are to be used to bring the asset classes and regional weights back as close to the original weights as possible, providing that this does not necessitate selling anything from the existing portfolio. Thus, even after the transfer of new capital, the actual benchmark may differ somewhat from the strategic benchmark portfolio described above. The actual benchmark provides the basis for managing risk and measuring the performance of the Pension Fund.

A substantial difference between the actual benchmark and the strategic benchmark over time will trigger full rebalancing. This kind of rebalancing did not occur in the second quarter of 2007.

The table above shows the weights in the actual benchmark on 30 June 2007. The weights in the fixed income benchmark apply to the currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

2. Norges Bank's foreign exchange reserves – investment portfolio

The foreign exchange reserves are to be available for interventions in the foreign exchange market in connection with the implementation of monetary policy or to promote financial stability. The reserves are divided into a money market portfolio and an investment portfolio. In addition, a buffer portfolio is used for the regular foreign exchange purchases for the Government Pension Fund – Global. Within Norges Bank, the investment portfolio and buffer portfolio are managed by NBIM, while the money market portfolio is managed by Norges Bank Monetary Policy (PPO).

Norges Bank's Executive Board lays down guidelines for the management of the foreign exchange reserves and has delegated responsibility to the Governor for issuing supplementary rules. NBIM manages the investment portfolio in accordance with guidelines laid down by the Executive Board and the Governor of Norges Bank. The Executive Board's guidelines are available on Norges Bank's website. On 29 November 2006, the Executive Board decided to make a number of changes to the investment portfolio's benchmark. The regional weights for the fixed income portfolio were revised slightly (Americas from 37 to 35 per cent and Europe from 58 to 60 per cent), the down-

[17] Once the phasing in of the increased allocation to equities has been completed (see discussion in box), the strategic benchmark portfolio will consist of 60 per cent equities and 40 per cent fixed income instruments.

weighting rule for unsecured and securitised bonds issued by the large federal mortgage institutions in the US was adjusted, and the New Zealand and Singapore currencies were included in the fixed income benchmark. These changes were implemented in the first quarter of 2007.

The Executive Board has laid down joint corporate governance guidelines for the foreign exchange reserves and the Government Pension Fund – Global, and has also ruled that companies which the Ministry of Finance has decided to exclude from the Pension Fund should also be excluded from the foreign exchange reserves. Section 4 of Appendix 2 provides an overview of the companies that have been excluded from the investment universe.

The strategic benchmark portfolio for the investment portfolio is composed of FTSE equity indices for large and medium-sized companies in 27 countries and of Lehman Global Aggregate fixed income indices in the currencies of 21 countries.

Benchmark portfolio on 30 June 2007. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**43.4**	**60.0**	**56.6**
Belgium		0.8		
Finland		1.0		
France		8.8		
Greece		0.5		
Ireland		0.6		
Italy		3.2		
Netherlands		2.8		
Portugal		0.3		
Spain		3.4		
Germany		6.5		
Austria		0.4		
Euro area (EUR)		*28.3*		*47.9*
UK (GBP)		17.0		10.0
Denmark (DKK)		0.6		0.7
Switzerland (CHF)		5.0		0.5
Sweden (SEK)		2.1		1.2
Total Europe	**50.0**	**53.0**	**60.0**	**60.2**
US (USD)		28.8		32.8
Brazil		0.9		
Canada (CAD)		2.0		2.1
Mexico		0.5		
South Africa		0.6		
Total Americas and Africa	**35.0**	**32.7**	**35.0**	**34.9**
Australia (AUD)		2.5		0.2
Hong Kong		1.2		
Japan (JPY)		7.6		4.3
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.4		0.2
South Korea		1.4		
Taiwan		1.1		
Total Asia and Oceania	**15.0**	**14.3**	**5.0**	**4.9**

Equities account for 40 per cent of the fund’s strategic benchmark portfolio, while fixed income instruments account for 60 per cent. The equity portion of the benchmark consists of equities listed on stock exchanges in Europe (50 per cent), the Americas and Africa (35 per cent), and Asia and Oceania (15 per cent). The regional distribution in the fixed income benchmark is 60 per cent in Europe, 35 per cent in the Americas, and 5 per cent in Asia and Oceania.

The table below shows the weights in the actual benchmark on 30 June 2007. The weights in the fixed income benchmark apply to the currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

3. Government Petroleum Insurance Fund

Under the Act relating to the Government Petroleum Insurance Fund, Norges Bank is responsible for the operational management of the fund. The management mandate is stipulated in a regulation and written guidelines issued by the Ministry of Petroleum and Energy. A management agreement, which further regulates the relationship between the Ministry as delegating authority and Norges Bank as operational manager, has also been drawn up. The guidelines and management agreement are available on Norges Bank’s website.

The Ministry of Petroleum and Energy has established a strategic benchmark portfolio for the fund. The currency distribution of the benchmark portfolio is 50 per cent EUR, 15 per cent GBP and 35 per cent USD. The benchmark index consists of the Lehman Global Aggregate Treasury indices for the three currencies as well as a money market deposit to weight the interest rate risk, measured by modified duration, in each currency to 4. During the year, the currency weights fluctuate with market developments. However, at the beginning of July each year, the weights are readjusted to the strategic currency weights.

The table below shows the currency weights in the fund’s strategic and actual benchmark on 30 June 2007

Benchmark portfolio on 30 June 2007. Per cent

Currency	Strategic benchmark portfolio	Actual benchmark portfolio
EUR	50.0	50.0
GBP	15.0	15.0
USD	35.0	35.0
Total	**100.0**	**100.0**

4. Companies excluded from the investment universe

In accordance with the ethical guidelines for the Government Pension Fund – Global, the Ministry of Finance has decided to exclude a total of 21 companies from the fund's investment universe. The decisions were based on recommendations from the Council on Ethics. The background for the exclusions is discussed in greater detail in press releases from the Ministry of Finance.

Companies excluded from the investment universe by the Ministry of Finance as at 30 June 2007[18]

Date	Reason	Company
26 April 2002	Production of anti-personnel landmines	Singapore Technologies, Singapore
31 August 2005	Manufacture of key components for cluster bombs	Alliant Techsystems Inc., US EADS Company N.V., Netherlands[19] EADS Finance B.V., Netherlands[19] General Dynamics Corporation, US L-3 Communications Holdings Inc., US Lockheed Martin Corporation, US Raytheon Company, US Thales SA, France
31 December 2005	Involved in the production of nuclear weapons	BAE Systems Plc, UK Boeing Company, US Finmeccanica SpA, Italy Honeywell International Inc., US Northrop Grumman Corp., US Safran SA, France United Technologies Corp., US
31 May 2006	Serious/systematic violations of human rights	Wal-Mart Stores Inc. Wal-Mart de Mexico S.A
31 May 2006	Serious environmental damage	Freeport McMoRan Copper and Gold Inc.
30 November 2006	Production of cluster munitions	Poongsan Corporation, South Korea
31 March 2007	Damage to the environment	DRDGOLD Limited, South Africa

[18] The company Kerr-McGee (which has since merged with Anadarko Petroleum) was excluded from the fund in summer 2005 because the company's exploration activities in occupied Western Sahara were considered to constitute a particularly serious breach of fundamental ethical norms. The company ended these activities in spring 2006. On the basis of a fresh evaluation from the Council on Ethics, the Ministry of Finance decided on 30 June 2006 to include the company in the fund's investment universe again.

[19] In a letter to Norges Bank dated 21 March 2006, EADS stated that the company no longer has investments in the production of cluster munitions. On 10 May 2006, the Ministry of Finance announced that the Council on Ethics had reconsidered the basis for excluding EADS. The Ministry has decided to follow the Council's recommendation that EADS remain excluded from the investment universe, due to the company being involved in the production of key components for nuclear weapons.

The Council's recommendations are available at http://odin.dep.no/etikkradet/english/bn.html. The table below provides an overview of the companies that have been excluded from the fund. The same companies have also been excluded from the investment universe for Norges Bank's foreign exchange reserves.

Appendix 3: Methodology for the calculation of returns and transaction costs

The return calculations are based on internationally recognised standards. All financial instruments are valued at market prices, and the index suppliers' prices are generally used for securities in the benchmark indices.[20] Bloomberg's prices are used for equities and fixed income securities that are not in the benchmark index. In addition, prices from Reech are used for some fixed income derivatives, and prices from some equity markets are taken directly from the local stock exchanges. Interest expenses and income, dividends and withholding tax are accounted for on an accruals basis when calculating returns. Income and expenses relating to transactions not yet settled are recognised on the trade date.

Transfers to the fund and between the equity and fixed income portfolios are made on the last business day of each month. The return for each month can then be calculated by looking at monthly changes in market value adjusted for incoming and outgoing payments. The geometrical return is used for longer periods, such as quarterly, annual and year-to-date returns. This means that the return indices for each sub-period are multiplied. This return is thus a time-weighted return on the returns for the individual months.

The return is calculated in both NOK and local currency. The NOK return is calculated on the basis of market values in local currency translated into NOK using WM/Reuters exchange rates.[21]

The return in local currency is obtained by calculating the geometrical difference between the fund's return in NOK and the return on the currency basket. The currency basket corresponds to the currency weights in the benchmark portfolio, and the return indicates how much the krone has appreciated/depreciated against the currencies in the benchmark portfolio. The excess return emerges as an arithmetical difference between the returns on the actual portfolio and the benchmark portfolio.

Returns are calculated in a separate system and then reconciled with the accounting system. Differences between market values in the return models and market values in the accounts are primarily due to different valuation principles for money market investments. Provisions are also made in the accounts to cover remuneration to Norges Bank as well as accrued income from securities lending.

[20] Lehman Global Aggregate (LGA) and FTSE for fixed income and equity instruments respectively.
[21] WM/Reuters Closing Spot Rates, fixed at 4 p.m. London time.

Norges Bank estimates transaction costs associated with phasing in new capital into the Government Pension Fund – Global. New capital is transferred to the fund in the form of cash. When the capital is invested in securities (equities and fixed income instruments), both direct and indirect costs will be incurred. In line with normal market practice, Norges Bank has used a model that calculates direct and indirect transaction costs individually since the beginning of 2005. Indirect transaction costs comprise three main components: liquidity costs, market impact and opportunity costs. Norges Bank's model calculates transaction costs in the fixed income portfolio based on the full bid-ask spread. Indirect transaction costs in the equity portfolio are estimated using StockFactsPro®. Market impact in the fixed income market is a function of sector, market conditions, transaction size, size of the loan issued, and liquidity of the issuer. In most cases, the contributions from these variables are negligible.

Appendix 4: Market risk

The Ministry of Finance has set the limit for relative market risk in the management of the Pension Fund on the basis of *expected tracking error*. This measure is defined as the expected value of the standard deviation of the difference between the annual return on the actual portfolio and the return on the benchmark portfolio. When deviations from the benchmark are controlled by means of an upper limit for expected tracking error, it is highly probable that the actual return will lie within a band around the return on the benchmark. The lower the limit for tracking error, the narrower the band will be. Given an expected tracking error of 1.5 percentage points or 150 basis points, the actual return on the portfolio will probably deviate from the benchmark return by less than 1.5 percentage points in two out of three years.

Appendix 5: Norges Bank Investment Management (NBIM)

NBIM is a separate business area at Norges Bank. The Executive Director of NBIM reports to the Governor of Norges Bank. The Executive Board has overriding responsibility for Norges Bank's operations (see organisation chart). The Supervisory Council is the Bank's overseeing body and adopts the Bank's budget. Norges Bank's audit department, Central Bank Audit, reports to the Supervisory Council and is responsible for operational auditing of investment management operations. The Office of the Auditor General is responsible for the final audit of the Government Pension Fund – Global and the Government Petroleum Insurance Fund, and bases its work partly on material from Central Bank Audit.

The Executive Board has overriding responsibility for Norges Bank's operations. It has seven members, all appointed by the King. The Supervisory Council, which has fifteen members appointed by the Storting, is the Bank's overseeing body and approves the Bank's budget. Norges Bank's audit department, Central Bank Audit, reports to the Supervisory Council and is responsible for operational auditing of investment management operations. Norges Bank's foreign exchange reserves and the Government

Pension Fund – Global are included in Norges Bank's annual accounts, which are audited by Central Bank Audit.

The Executive Board establishes the framework for NBIM's operations through strategy plans. The strategy plan covers a three-year period and is reviewed every other year. A new strategy plan for the development of investment management in the period to 2010 was adopted by the Executive Board at the beginning of 2007. During the period covered by the plan, assets under the management of Norges Bank may increase substantially. Investments may also be made in new asset classes such as real estate and private equity. The principal objectives of the plan are to generate substantial added value through active management of the Government's and Norges Bank's foreign financial assets, to foster the owners' long-term financial interests through active corporate governance, and to implement the owners' management strategy in a cost-effective, prudent and confidence-inspiring manner. Underlying the operational objectives is a recognition of the fact that Norges Bank manages substantial assets for Norwegian society. This is also evident from NBIM's mission, vision, objectives and values.

NBIM follows a clearly defined investment philosophy to achieve the objectives of excess returns. According to NBIM's investment philosophy, excess returns are to be achieved by means of a large number of individual, mutually independent decisions rather than a small number of big strategic decisions. Responsibility for decision-making has been delegated to individuals in the form of specific investment mandates and to external asset management organisations. The external management mandates also have clearly defined objectives and limits. This investment philosophy is described in more detail in articles published in connection with the Annual Reports for 2003 and 1999.

Investments are to be managed prudently with considerable emphasis on good internal control procedures and without substantial infringements of the guidelines issued by the delegating authorities. The organisation is to be run cost-effectively and profitably. Management resources are to be focused on core activities, and outsourcing is to be considered for all other activities.

NBIM has separate business lines for equity and fixed income management. The head of each business line (Chief Investment Officer) is responsible for all portfolio investments and returns, strategic planning and cost management within his respective area. Each business line also has a Chief Operating Officer who is responsible for support and analysis functions, transactions and IT systems. The COOs report both to their respective CIO and to the Executive Director of NBIM. In addition, NBIM has departments which are organisationally independent of the two business lines and report directly to NBIM's Executive Director. The Chief Financial Officer's responsibilities cover risk measurement, performance measurement, accounting, compliance with investment guidelines, negotiation of legal agreements, personnel policy, IT policy and administrative shared services. There is a separate department responsible for corporate governance. NBIM has also set up a project department to plan possible future investments in global property markets. The Ministry of Finance will reach a decision on whether investment should be made in real estate at a later date. At the end of the second quarter of 2007, NBIM had a total of 148 permanent employees.