NORGES BANK
REAL ESTATE MANAGEMENT

REAL ESTATE INVESTMENTS

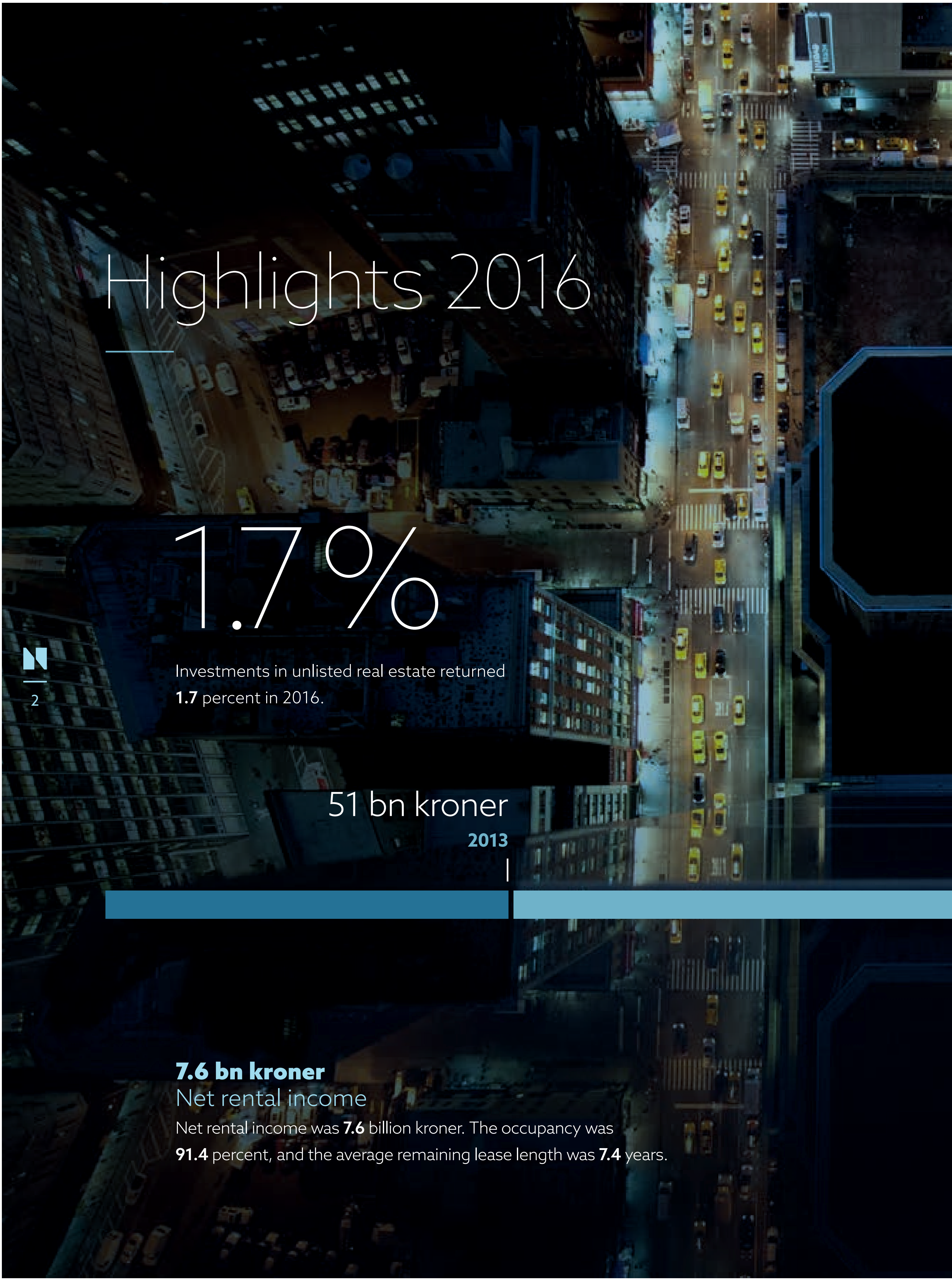
GOVERNMENT PENSION FUND GLOBAL

/2016

No. 02


P E R A E N

Our mission
is to safeguard
and build financial
wealth for future
generations



Highlights 2016

1.7%

Investments in unlisted real estate returned **1.7** percent in 2016.

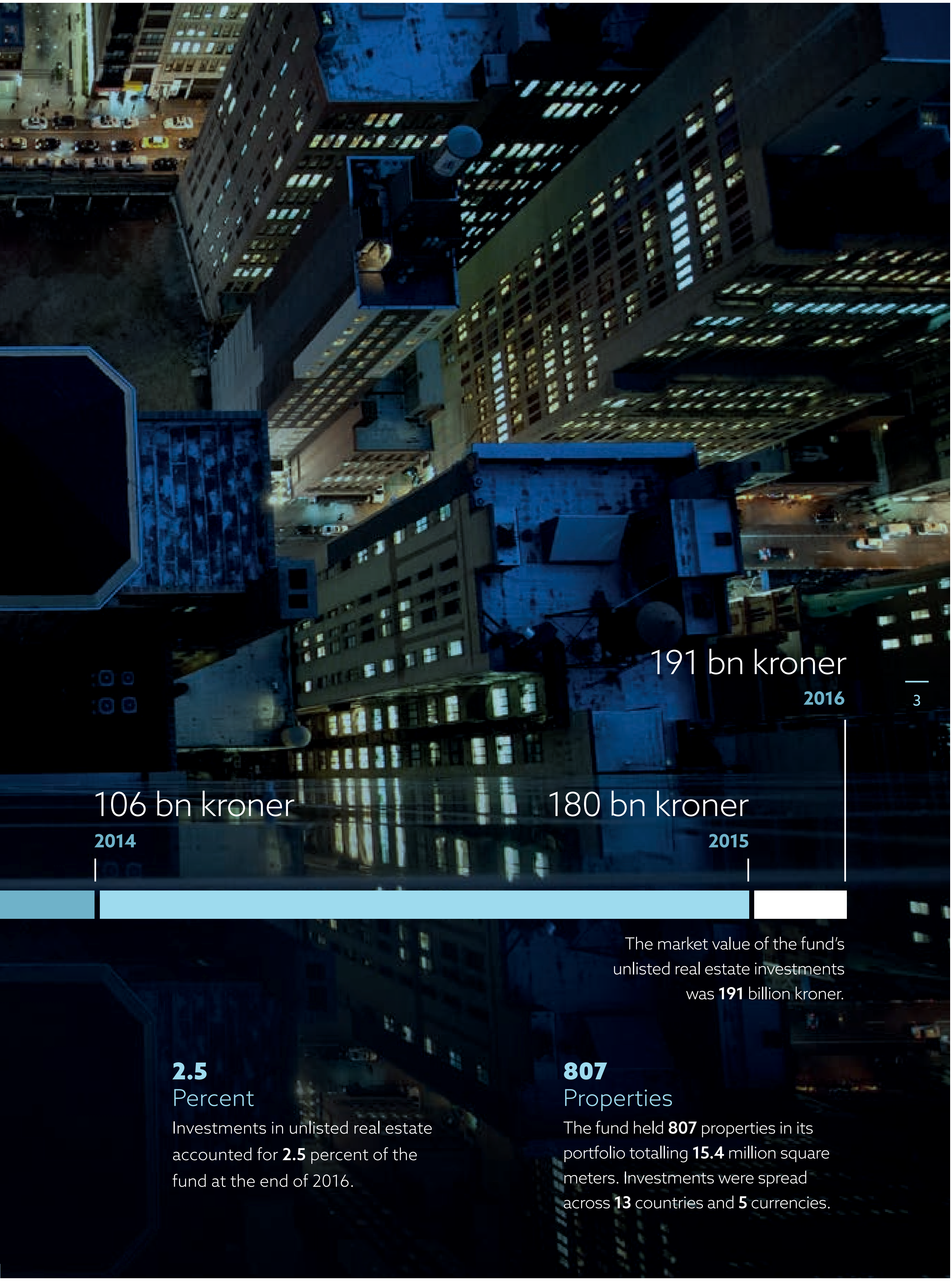
51 bn kroner

2013

7.6 bn kroner

Net rental income

Net rental income was **7.6** billion kroner. The occupancy was **91.4** percent, and the average remaining lease length was **7.4** years.



191 bn kroner
2016

106 bn kroner
2014

180 bn kroner
2015

The market value of the fund's unlisted real estate investments was **191** billion kroner.

2.5
Percent

Investments in unlisted real estate accounted for **2.5** percent of the fund at the end of 2016.

807
Properties

The fund held **807** properties in its portfolio totalling **15.4** million square meters. Investments were spread across **13** countries and **5** currencies.

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ORGANISATION


Karsten Kallevig
Chief Executive Officer of Norges Bank Real Estate Management

A long-term investor

The fund's unlisted real estate investments returned 1.7 percent in 2016. We invest methodically in line with our strategy after due diligence of potential investments.

Volatile financial markets characterised the first half of the year, and we deliberately slowed the transaction activity during this period. Subsequently, financial markets seemed to stabilise despite several unexpected geopolitical events. Real estate transactions picked up, and during the last six months we acquired several properties in both the US and Europe.

We invested 19.1 billion kroner in 2016. Direct property yields are still significantly higher than ten-year government bonds in most of our strategic markets. However, nominal prices are high and we potentially face a reversal of the yield tightening seen since the financial crisis.

Our focus on high-quality assets in a limited number of major cities and global distribution networks continues. We buy assets to hold for the long term, but some portfolios have assets earmarked for sale from the time of acquisition. Assets may also display different risk and return dynamics over time than initially expected or may fall outside of a slowly evolving strategy. In 2016, we sold assets for 2.6 billion kroner.

> We will continue to invest without haste and after performing thorough analyses

Unlisted real estate accounts for 2.5 percent of the fund. The Norwegian Ministry of Finance recently amended our investment mandate, setting a new upper limit for unlisted real estate at 7 percent. We will continue to invest without haste and after performing thorough analyses.

Norges Bank Real Estate Management continues to mature, and is well-positioned to leverage further growth in the portfolio. We focus on balancing costs with building a professional organisation operating in a highly competitive environment.

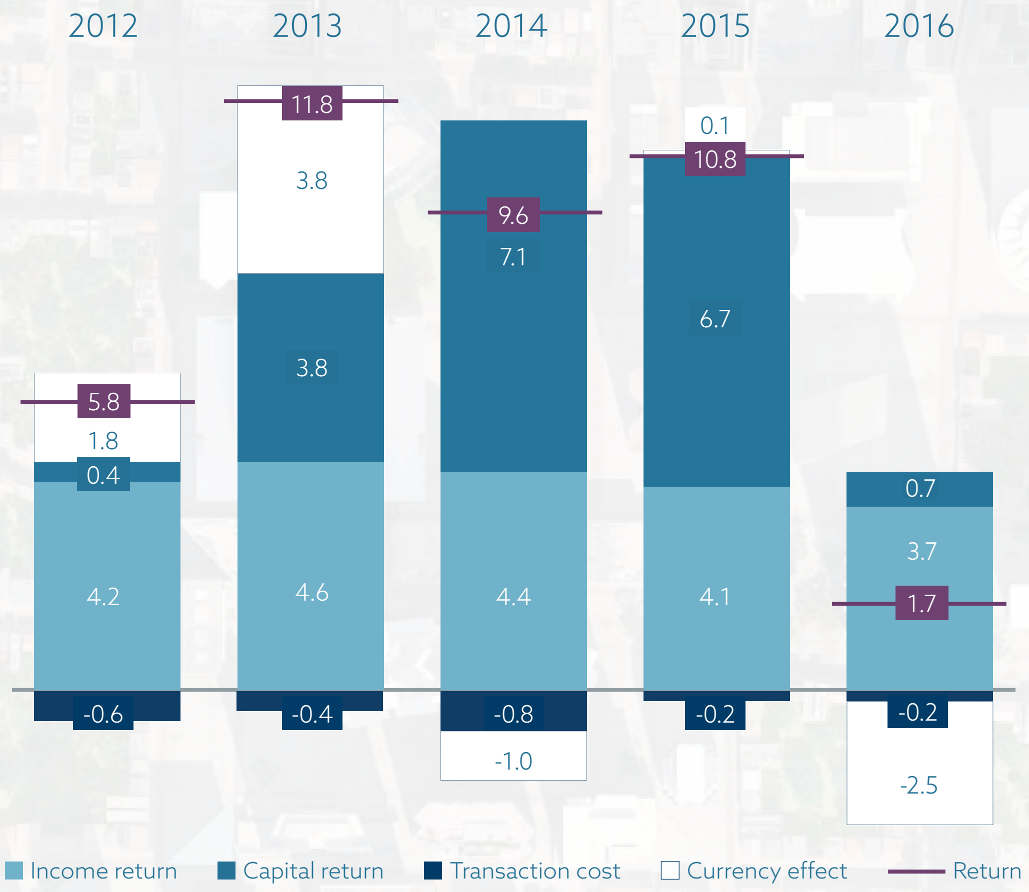
Our mission is to safeguard and build financial wealth for future generations. The goal for our investments, therefore, is to generate a good long-term return with acceptable risk, responsibly and transparently.

Oslo, 14 March 2017

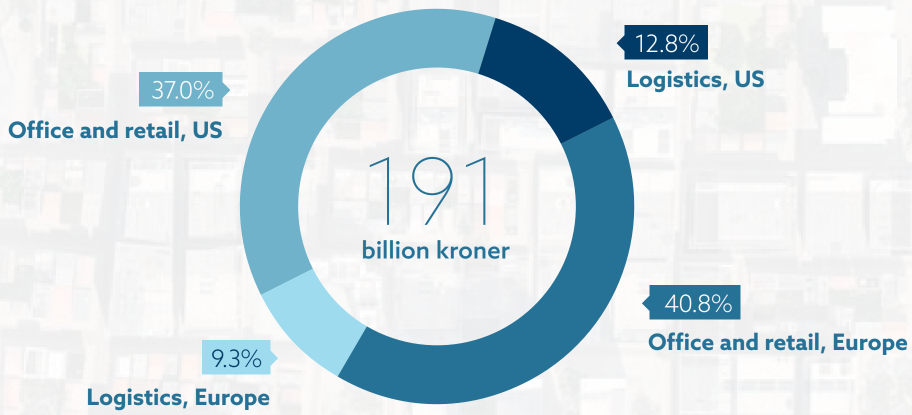
Karsten Kallevig
Chief Executive Officer of Norges Bank Real Estate Management

RETURN

Percent



MARKET VALUE AS AT END OF 2016



Results for 2016

The fund's investments in unlisted real estate returned 1.7 percent in 2016.

The return on unlisted real estate investments depends on rental income, operating costs, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property purchases.

Measured in local currency, rental income net of costs made a positive contribution of 3.7 percentage points to the return in 2016, down from 4.1 percentage points in 2015. The change in the value of properties and debt contributed

Table 1 Annual return. Percent

	Since March 2011	2016	2015	2014	2013	2012
Income return	4.0	3.7	4.1	4.4	4.6	4.2
Capital return	3.5	0.7	6.7	7.1	3.8	0.4
Transaction cost	-1.5	-0.2	-0.2	-0.8	-0.4	-0.6
Currency effect	0.0	-2.5	0.1	-1.0	3.8	1.8
Return measured in the fund's currency basket	**6.0**	**1.7**	**10.8**	**9.6**	**11.8**	**5.8**
Return measured in kroner	**11.0**	**-3.0**	**24.6**	**26.6**	**20.6**	**-0.5**

Table 2 Annual return.[1] Millions of kroner

	2016	2015	2014	2013	2012
Income return	6,208	5,621	3,025	1,705	554
Capital return	1,121	9,225	4,761	1,693	-131
Transaction cost	-427	-328	-587	-203	-127
Return measured in kroner before currency translation effect	**6,902**	**14,518**	**7,199**	**3,195**	**296**

[1] Income return and capital return in percent are calculated in local currency with a weighted average denominator. Therefore, the amounts in kroner in Table 2 differ from the amounts in percent in Table 1.

Table 3 Annualised return. Percent

	2016	2015	2014	2013	2012
1-year return	1.7	10.8	9.6	11.8	5.8
3-year return	7.3	10.7	9.0		
5-year return	7.9				
Since 31 March 2011	6.0	6.9	5.9	4.6	0.7
Since 31 March 2011, money-weighted	7.3	10.2	9.5	8.8	1.7

0.7 percentage points, measured in local currency. Exchange rates contributed -2.5 percentage points in 2016 due to movements in the currencies of our real estate investments relative to the fund's currency basket. The main negative contributions to the currency return came from being overweight in British pounds and underweight in Japanese yen. Transaction costs made a contribution of -0.2 percentage points.

Since its inception in 2011, the unlisted real estate portfolio has generated an annualised return of 6.0 percent.

CHANGES IN MARKET VALUE

The net market value of the fund's unlisted real estate investments was 191 billion kroner at the end of 2016. Since inception we have received 136.7 billion kroner in funding from the fund's fixed-income allocation, and we have reinvested 15.3 billion kroner of income from real estate.

Table 4 Key figures since inception in March 2011 per country as at 31 December 2016. Millions of kroner

	Net asset value real estate	US	UK	Germany	France	Switzer-land	Logistics US	Logistics Europe	Group cash and net assets[1]
Net funding	136,651	50,216	26,695	3,957	19,573	4,951	17,778	11,174	2,307
Reinvested income	15,330	4,419	2,593	302	2,169	1,313	1,719	2,850	-35
Capital return	16,974	3,338	8,029	550	1,363	26	1,989	1,680	-
Currency effect	21,714	11,345	328	795	1,905	2,364	2,958	2,090	-71
Net value	**190,670**	**69,318**	**37,644**	**5,605**	**25,010**	**8,653**	**24,444**	**17,794**	**2,201**

[1] Related to unlisted real estate.

Chart 1 Changes in the market value of unlisted real estate investments. Billions of kroner

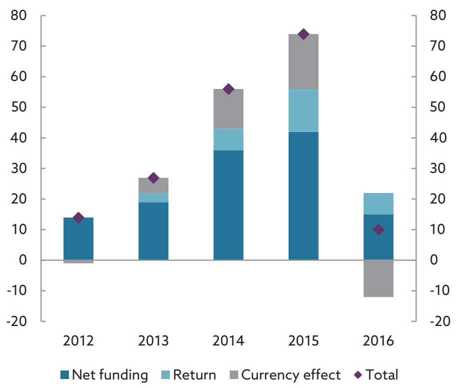
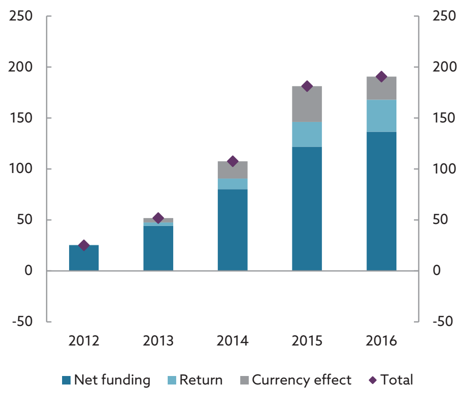


Chart 2 Accumulated changes in the market value of unlisted real estate investments. Billions of kroner



Changes in property value have contributed with 17.0 billion kroner to the net asset value, and a positive currency effect has contributed with 21.7 billion kroner.

THE IPD BENCHMARK

Prior to 1 January 2017, the mandate from the Ministry of Finance required the fund to target a net return on the real estate portfolio that matched or exceeded the return on the Investment Property Databank (IPD) Global Property Benchmark, excluding Norway and adjusted for the effect of actual leverage and actual management costs. IPD produces indices for unlisted real estate investments at global, regional, country and city level.

IPD's return data for the previous year is normally available in June, and the benchmark for 2015 was 25.9 percent against the fund's 24.6 percent measured in Norwegian kroner. The difference in return from IPD of -1.3 percent in 2015 is predominantly caused by properties in certain cities that had a lower return than the corresponding IPD index.

Table 5 Return measured against IPD Global Property Benchmark, measured in kroner. Percent

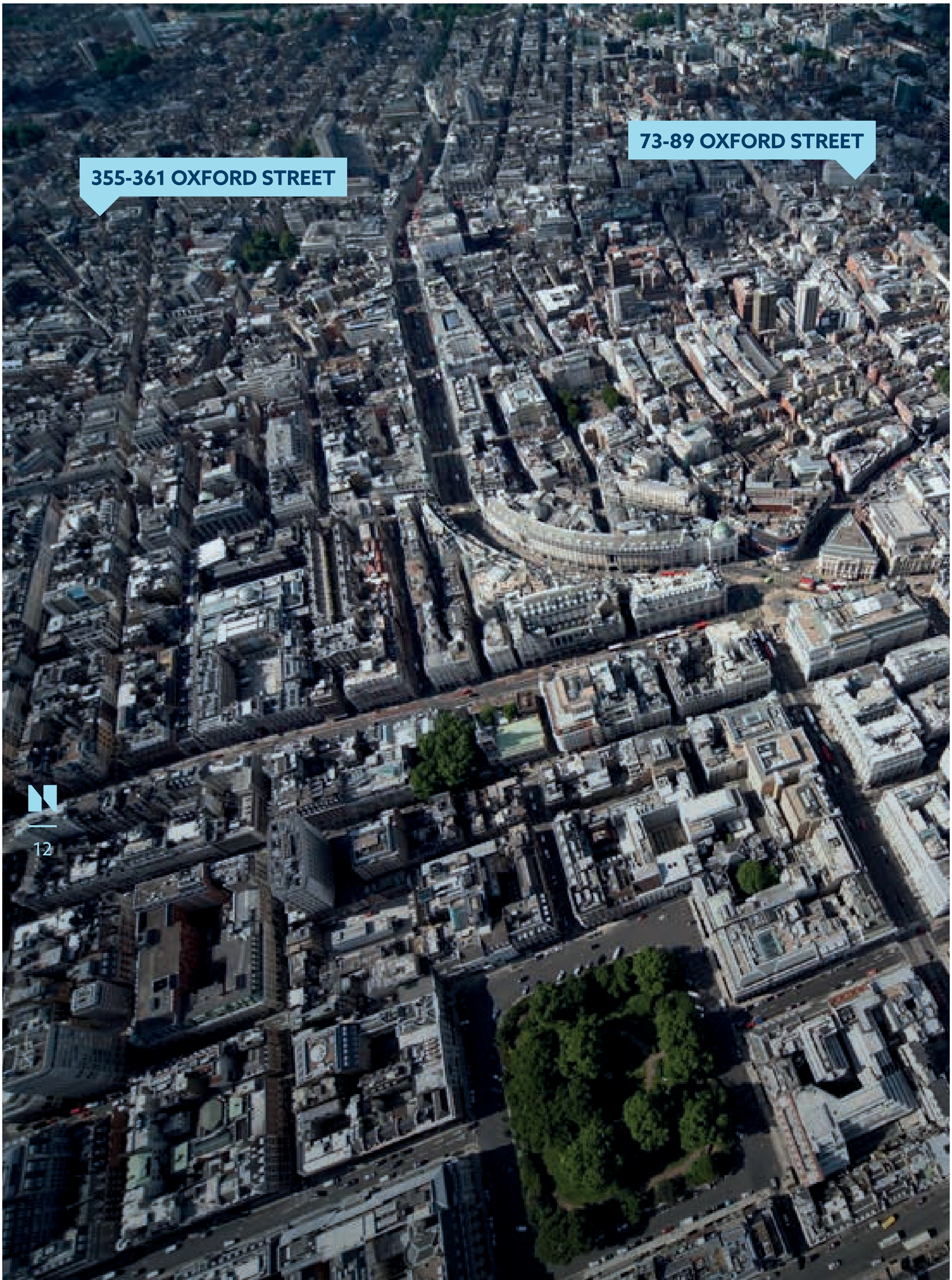
	2016	2015	2014	2013	2012
The fund's unlisted real estate investments	-3.0	24.6	26.6	20.6	-0.5
Investment Property Databank (IPD)	N/A[1]	25.9	27.6	15.9	-0.4
Relative	N/A[1]	-1.3	-1.0	4.7	-0.1

[1] IPD figures are not available at time of print.

CURRENCY BASKET

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. The fund's currency basket consisted of 34 currencies at the end of 2016. Unless otherwise stated in the text, results are measured in the fund's currency basket. Contributions to the return are presented in local currency.

The return on real estate investments is measured and reported on a time-weighted basis. Unless otherwise stated in the text, all returns presented are time-weighted.



LONDON, UK

In 2016, the fund acquired a 100 percent interest in 355-361 Oxford Street and 73-89 Oxford Street in London.

Chart 3 Change in the value of real estate investments during 2016. Billions of kroner

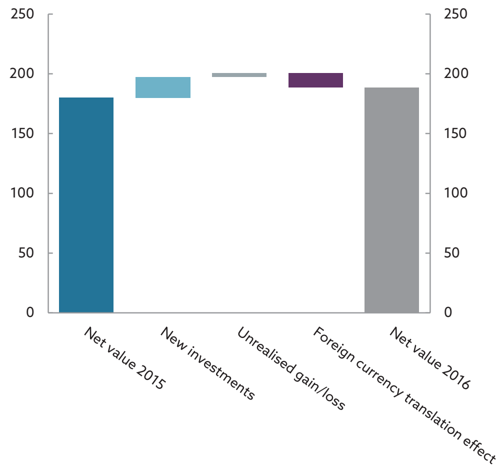


Chart 4 Annual investments in real estate

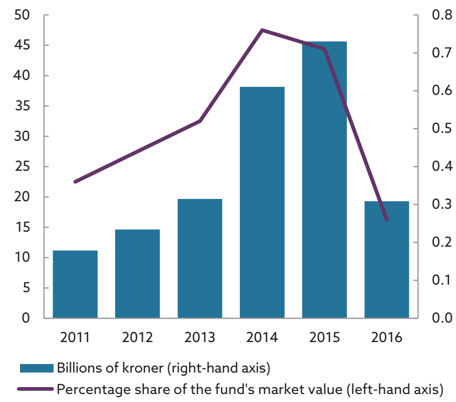


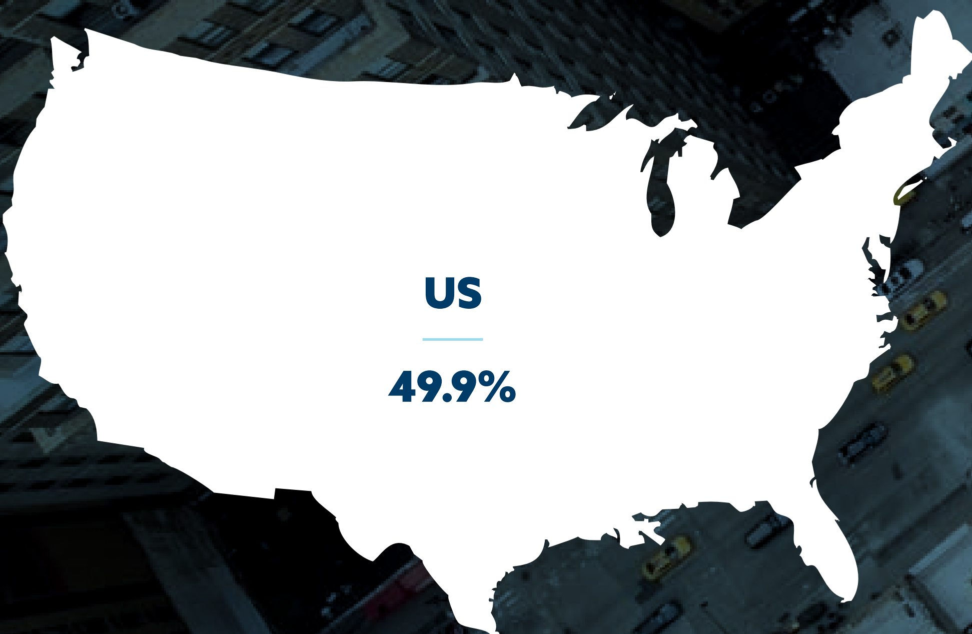
Table 6 Changes in net value of investments by market. Millions of kroner

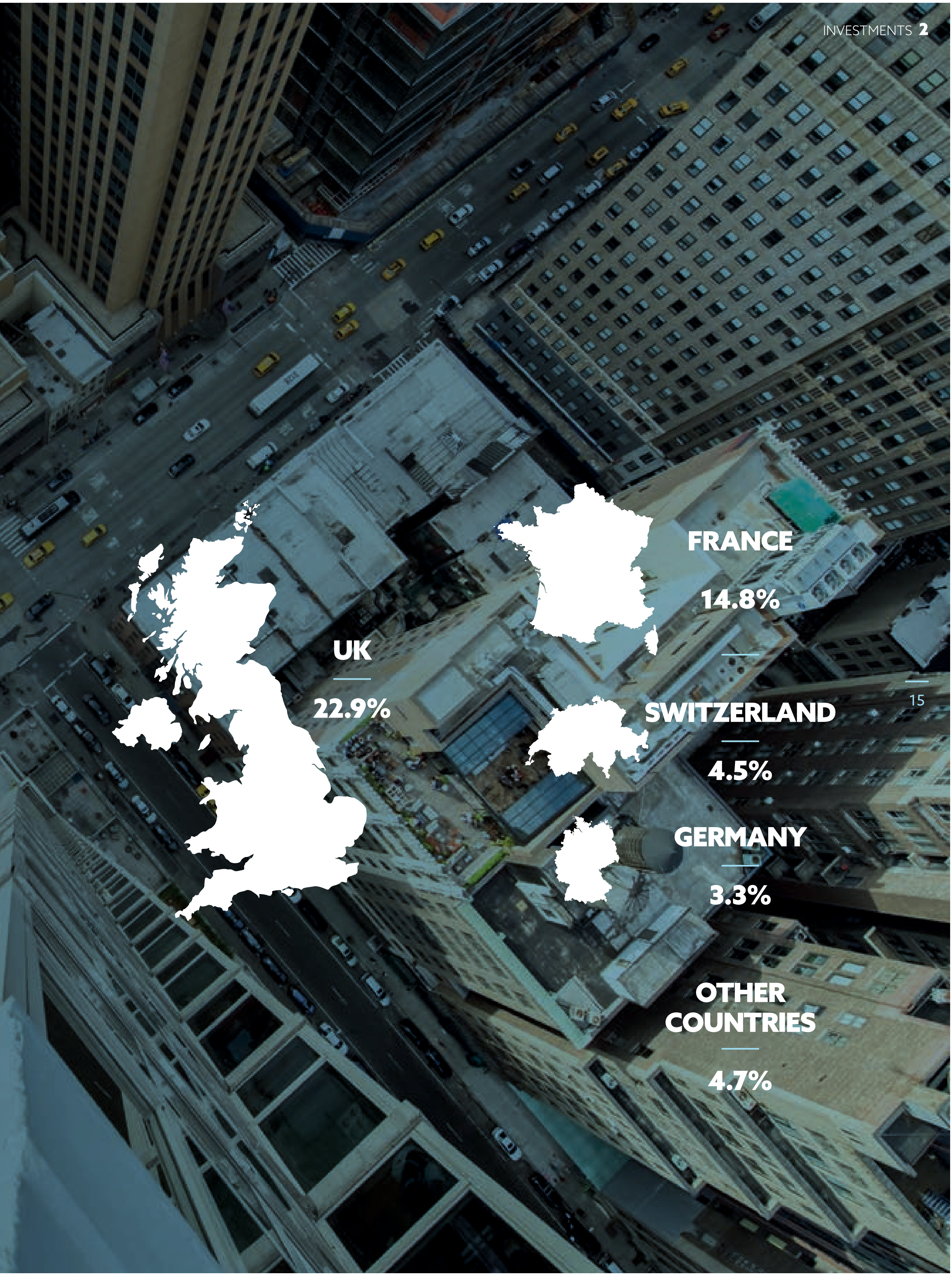
	Total	Europe	US	Group cash and net assets
Net value as at 31 December 2015	181,141	91,393	88,628	1,120
New investments	19,147	13,512	5,635	-
Payments to existing investments[1]	2,808	1,408	1,400	-
Payments from existing investments	-4,686	-1,959	-2,727	-
Unrealised gain/loss[2]	3,285	307	2,978	-
Foreign currency translation effect	-12,106	-9,955	-2,151	-
Cash and other net assets at group level	1,081	-	-	1,081
Net value real estate as at 31 December 2016	**190,670**	**94,706**	**93,763**	**2,201**

[1] Payments for capital expenditure, repayment of external debt and other operational expenses.
[2] Change in value of investment entities.

Share of market value

Group cash and net assets have been allocated to each country




UK
22.9%
FRANCE
14.8%
SWITZERLAND
4.5%
GERMANY
3.3%
OTHER COUNTRIES
4.7%

Investment strategy

We invest in office and retail properties in selected cities around the world, and in logistics properties that are part of global distribution networks.

At the end of 2016, we had real estate valued at 191 billion kroner spread across 13 countries. As we enter 2017, we continue on the same path we have followed since 2011. We invest in high-quality properties that can deliver a good return over time, and use our long investment horizon to our advantage. We invest and manage our portfolio in a focused, professional, responsible and environmentally sustainable manner. We are transparent in how we manage our investments.

TEN STRATEGIC CITIES

We target a limited number of global cities with common characteristics. The cities we invest in have real estate markets with sufficient scale, which enables substantial investments over time. We expect to see continued population and/or employment growth, and believe cities that attract intellectual and financial capital have the largest potential for economic growth and increased trade. In the cities we invest in, there are also constraints on the development of new real estate, whether regulatory, such as height restrictions or annual construction limits, or topographical limits such as coastlines or mountains.

In the US, we focus on New York, Boston, Washington, D.C. and San Francisco. In Europe, we concentrate on London, Paris, Berlin and Munich. In the developed markets in Asia, we

Chart 5 The fund's real estate investments by country as at 31 December 2016. Net value

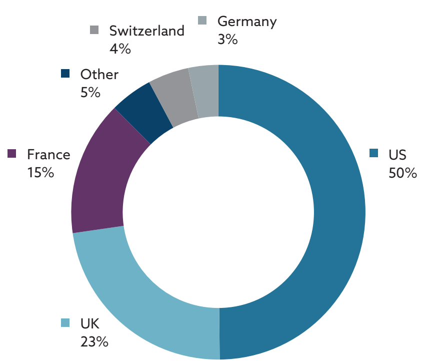
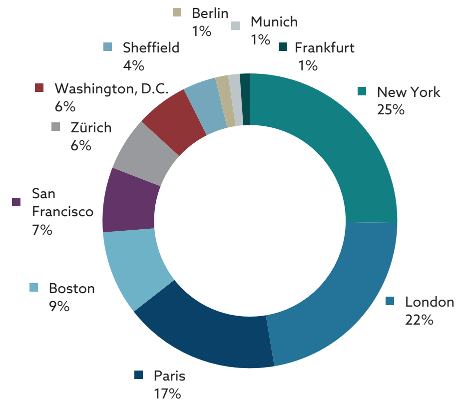


Chart 6 The fund's real estate investments in office and retail by city as at 31 December 2016. Net value



target Tokyo and Singapore. We may consider other cities if attractive opportunities arise.

At the end of 2016, 68.5 percent of our real estate investments were concentrated in eight of our strategic cities in Europe and the US. Our largest single city exposure was to New York at 19.2 percent, followed by London at 17.0 percent and Paris at 13.1 percent. We did not have any investments in Tokyo or Singapore at the end of 2016.

In addition to our strategic cities, we had office and retail investments in Frankfurt, Zürich and Sheffield at the end of 2016.

THREE SECTORS

The office sector forms the backbone of our strategy. We invest in high-quality office buildings in locations that will remain attractive and relevant in the longer term. Every new investment is preceded by an assessment of expected future return and risk. Office investments made up 63.6 percent of our portfolio at the end of 2016.

Retail is a large sector that has historically generated a return that correlates with economic growth. We concentrate on markets with relatively high spending per capita. Retail investments made up 12.0 percent of the portfolio at the end of 2016.

The logistics sector has grown with globalisation. Cost pressure and expansion in e-commerce have increased the need for high-quality warehousing. We invest in logistics properties that are located near key transport infrastructure, such as motorways, railways, ports and airports. Logistics investments made up 22.2 percent of our portfolio at the end of 2016.

Chart 7 The fund's logistics investments by country as at 31 December 2016. Net value

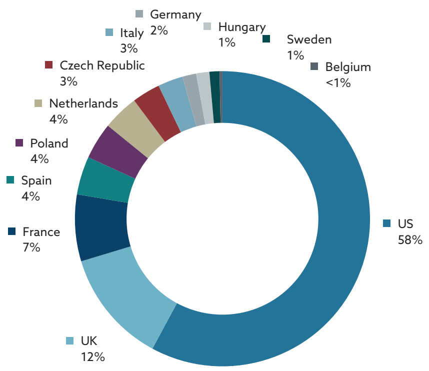
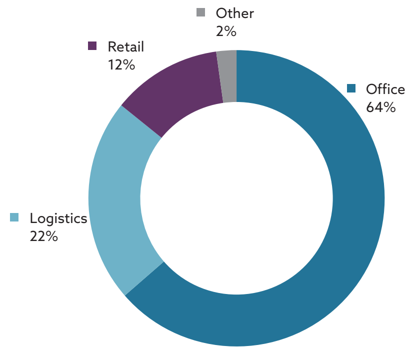


Chart 8 The fund's real estate investments by sector as at 31 December 2016. Net value



PARTNERSHIPS

We invest with partners in order to benefit from their local knowledge and expertise. Partnerships with well-known, reputable investors provide credibility, increase our access to investment opportunities, and give us better information on which to base investment decisions.

When choosing partners, we have attached importance to finding large and respected investors with a good knowledge of specific markets and local presence, as this enable them to take responsibility for asset management. We have sought out partners with sufficient capital and a long-term investment horizon. It is important to have alignment of interests between the fund and its partners.

ASSET MANAGEMENT

Ongoing asset management of the properties in the portfolio is key to maximise the return on our investments. This includes developing and implementing business plans, ensuring the right tenant structure, identifying development projects, implementing upgrades and producing accounts and relevant reports for the properties.

We review and approve annual business plans, budgets, renewals of major leases, and significant upgrades for each property. This ensures that the management and operation of our investments align with our strategy and expectations.

Table 7 Investment partners as at 31 December 2016. Percent

Investment partner	Country/region	Sector	Share of portfolio
Prologis	US	Logistics	12.8
Boston Properties	US	Office	10.7
The Crown Estate	UK	Retail, office	9.5
Prologis	Europe	Logistics	9.3
Trinity Church Wall Street	US	Office	8.2
TIAA	US	Office	8.1
MetLife	US	Office	5.3
AXA Real Estate	France	Office, retail	4.6
British Land	UK	Retail	2.8
AXA Real Estate	Germany	Office, retail	2.5
Kilroy Realty	US	Office	2.1
PGIM Real Estate	US	Office	1.9
Generali Real Estate	France	Office, retail	1.6

We continue to improve our internal asset management capabilities as the number of wholly-owned assets increases.

Managing our assets internally increases our operational control and understanding of the assets. It may also reduce costs. Complex asset management is outsourced.

CURRENCY AND DEBT

Our real estate investments spanned five currencies at the end of 2016. The largest exposure was to US dollars at 49.9 percent, followed by British pounds at 22.9 percent, and euro at 22.4 percent.

We do not normally raise external debt to finance property purchases. However, some investments were encumbered with debt at the time of the acquisition, and some investment partners require debt. At the end of 2016, nine investments had an element of debt, collateralised against underlying properties, with a total loan-to-value ratio of 7.7 percent for the real estate portfolio as a whole. Of this debt, 31.4 percent was in British pounds, 64.0 percent in US dollars and 4.5 percent in euro.

Chart 9 The fund's real estate investments by currency as at 31 December 2016. Net value

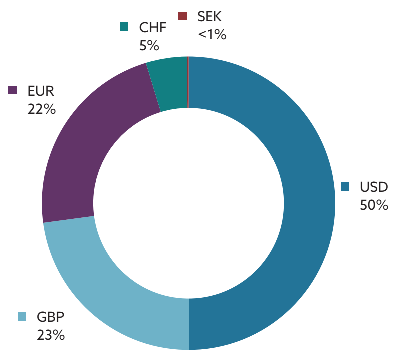


Table 8 Debt maturity as at 31 December 2016. Millions of kroner

	Debt
More than 5 years	10,553
Between 1 and 5 years	2,721
Within 1 year	2,452
Total	**15,727**

PARIS, FRANCE

In 2016, the fund acquired a 100 percent interest in 9 Place Vendôme and 368-374 rue Saint-Honoré in Paris.

European investments

Investments in Europe accounted for 50.1 percent of the real estate investments at the end of the year and returned -4.2 percent.

MARKET TRENDS

It was a mixed picture across European property markets in 2016 with improved performance in Germany and France, while the UK witnessed weaker activity.

> Improved performance in Germany and France, while the UK witnessed weaker activity in 2016

In Continental Europe, office investment volumes recorded similar levels of activity in 2016 as the previous year, although investor activity declined in the UK.

In London, prime office rents were stable outside of the West End and Midtown submarkets, where rents fell in late 2016 by 6 and 2 percent respectively, having increased substantially in 2015. Vacancy rates increased modestly over the year.

The Paris office market showed signs of improvement in the second half of 2016, as rising tenant demand reduced vacancy rates. Office rents were relatively flat, despite some improved supply-demand dynamics towards the end of the year.

Berlin was the best-performing office market in Germany, with annual rental growth above 15 percent. Of the major German office markets, Munich was the second best performing metropolitan, seeing a 3 percent rise in rents over the year.

In the retail sector, rents for prime and luxury property in London and Paris continued to outperform less dominant retail sites, continuing the trend of polarisation between the best and the worst.

Despite an increase in development activity in logistics during 2016, the vacancy remains at low levels across many European markets, supported by an expansion in e-commerce. Tenant demand increased across all major logistics markets in Europe in 2016, although increasing supply led to a mild rise in vacancy in UK and Poland. Investor demand remains strong, although UK transaction volumes were notably affected by Brexit uncertainty.

OUR OFFICE AND RETAIL INVESTMENTS

We had investments in 174 office and retail properties in Europe at the end of 2016. They made up 40.8 percent of the portfolio and returned -5.1 percent. The primary driver for the negative return was the weakening of the British pound. The largest exposure was to London, at 41.6 percent.

The investments consisted of 66.8 percent office, 29.5 percent retail, and 3.6 percent other. The three largest tenants were Credit Suisse (12.9 percent), Bank of America Merrill Lynch (11.0 percent) and Chanel (2.0 percent). The ten largest tenants generate 35.0 percent of the rental income, and the average remaining lease term was 8.0 years. Investments in office and retail made up 81.4 percent of the total European portfolio.

Table 9 New investments in office and retail in Europe in 2016

Address	City	Partner	Sector	Share in percent	Currency	Price in millions
355-361 Oxford Street	London	-	Retail	100.0	GBP	124.0
73-89 Oxford Street [1]	London	-	Retail	100.0	GBP	276.5
9 Place Vendôme and 368-374 rue Saint-Honoré	Paris	-	Office	100.0	EUR	1,000.0
2 properties	London	The Crown Estate	Retail	25.0	GBP	3.5

[1] The fund has committed to pay a total of 276.5 million British pounds upon completion of the building and made an initial payment of 205.2 million pounds in 2016.

Chart 10 Investments in office and retail in Europe by sector as at 31 December 2016

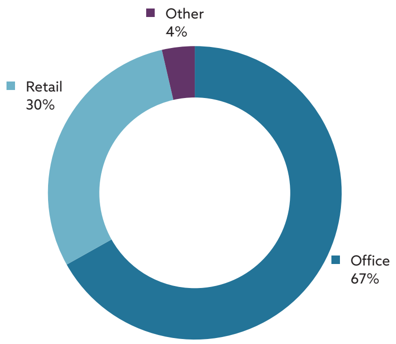
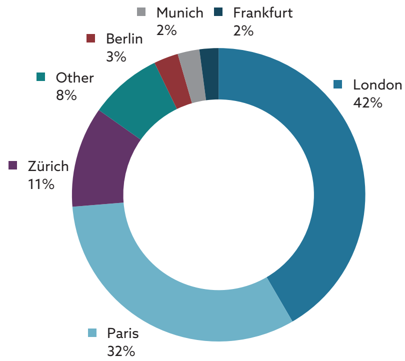


Chart 11 Investments in office and retail in Europe by city as at 31 December 2016



355-361 Oxford Street, London ↑
In July 2016, the fund acquired a 100 percent interest in a long leasehold interest on 355-361 Oxford Street. The property consists of two adjoining buildings, comprising approximately 5,500 square meters of office and retail space.

9 Place Vendôme and 368-374 rue Saint-Honoré, Paris ↑
In December 2016, the fund acquired a 100 percent interest in a property on 9 Place Vendôme 368-374 rue Saint-Honoré in Paris. The property comprises 26,800 square meters and consists of 21,440 square meters of office space and 5,360 square meters of retail space.

73-89 Oxford Street, London ↑
In November 2016, the fund signed an agreement to acquire a 100 percent interest in a property under development on 73-89 Oxford Street. The property will comprise 8,090 square meters and consist of two retail units totalling 4,090 square meters and four floors of office totalling 4,000 square meters.

OUR LOGISTICS INVESTMENTS

We had investments in 241 logistics properties in eleven countries in Europe at the end of 2016. They made up 9.3 percent of the real estate portfolio and returned -0.7 percent. The primary driver for the negative return was the weakening of the British pound. Our investments in European logistics properties made up 42.1 percent of our logistics portfolio. The largest exposure was to the UK, at 29.7 percent of the European logistics portfolio, followed by France at 17.4 percent and Spain at 9.9 percent.

The three largest tenants were Ceva Logistics (7.3 percent), Sainsbury's (5.3 percent) and Geodis (4.2 percent). The ten largest tenants generate 28.7 percent of the rental income, and the average remaining lease term was 5.4 years.

All of our investments in Europe have been made with Prologis. Our stake in these properties is 50 percent.

Chart 12 Investments in logistics in Europe by country as at 31 December 2016

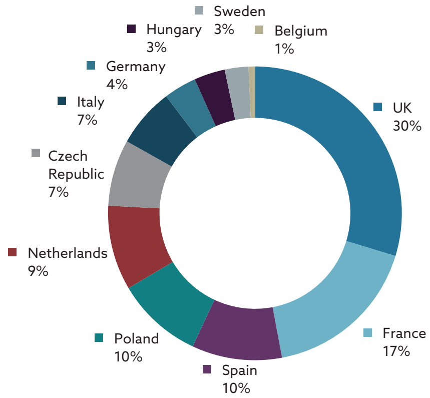


Table 10 New investments in logistics in Europe in 2016

	Partner	Country	Share in percent	Currency	Price in million
8 properties	Prologis	Czech Republic, Poland and Hungary	50.0	EUR	55.3
1 property	Prologis	Hungary	50.0	EUR	6.1
1 property	Prologis	UK	50.0	GBP	4.2

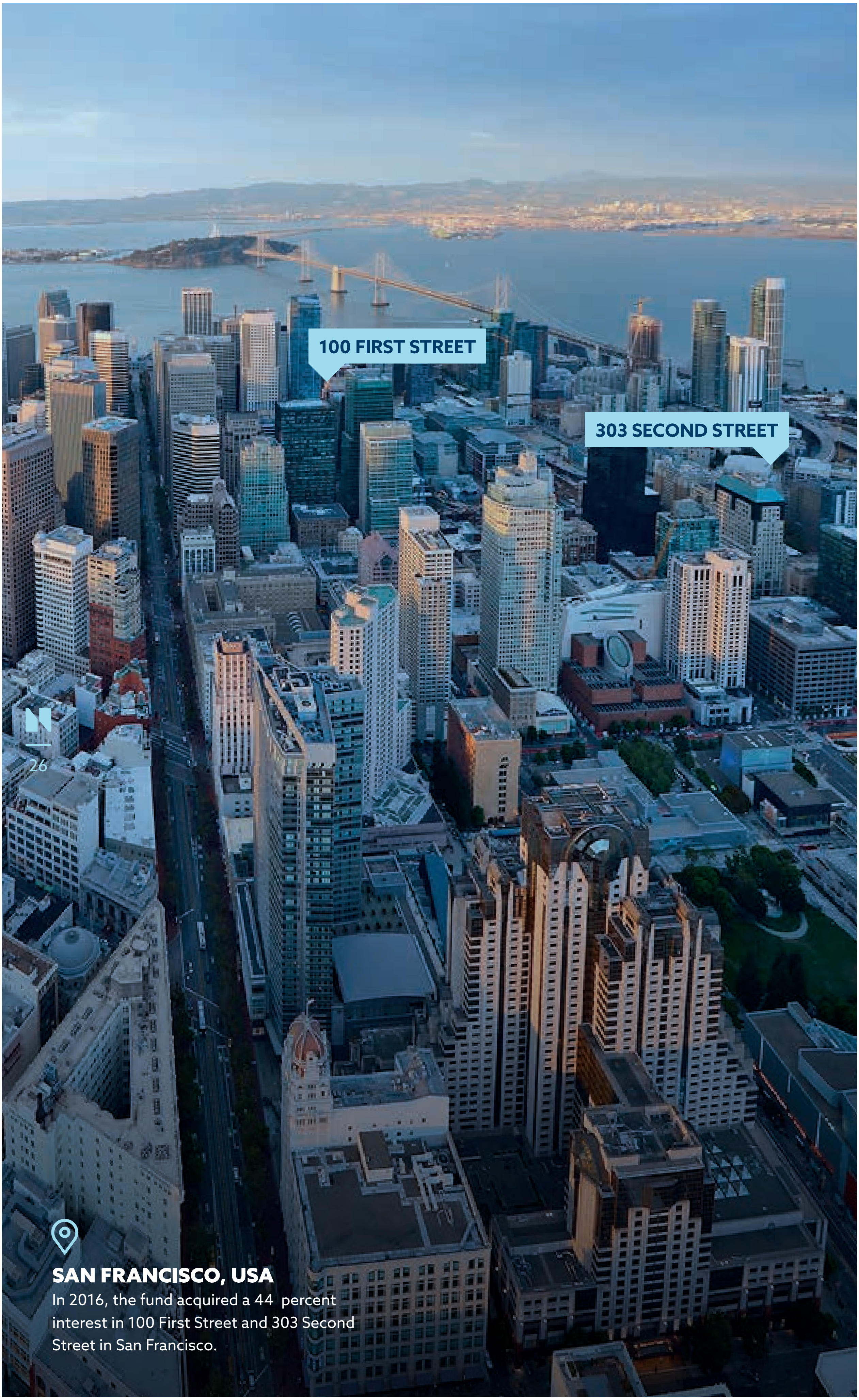
Table 11 Disposals in logistics in Europe in 2016

	Partner	Country	Share in percent	Currency	Price in million
2 properties	Prologis	Spain	50.0	EUR	25.1
3 properties	Prologis	France	50.0	EUR	25.1
2 properties	Prologis	Poland	50.0	EUR	9.6
3 properties	Prologis	UK	50.0	GBP	18.8

Table 12 Investments in Europe by country as at 31 December 2016. Millions of kroner

	Value	Ownership in percent
UK	37,646	
2 King Edward Street, London	5,605	100.0
3 Old Burlington Street, London	2,451	100.0
75 Davies Street, London	2,585	100.0
355-361 Oxford Street, London	1,472	100.0
73-89 Oxford Street, London	2,200	100.0
Pollen Estate, London	4,480	57.8
The Crown Estate, partnership	**13,540**	**25.0**
Regent Street portfolio, London		
British Land, partnership	**5,314**	**50.0**
The Meadowhall Shopping Centre, Sheffield		
FRANCE	24,985	
17-23 boulevard de la Madeleine and 20-26 rue Duphot, Paris	4,076	100.0
9 Place Vendôme and 368-374 rue Saint-Honoré, Paris	8,973	100.0
AXA France, partnership	**8,817**	**50.0**
2 rue des Italiens, Paris		
1-3 rue des Italiens, Paris		
12-14 Rond-Point des Champs Elysées, Paris		
16 avenue Matignon, Paris		
24-26 rue Le Peletier, Paris		
27 avenue du Général Leclerc, Boulogne		
31-33 rue de Verdun and 46-48 rue Carnot, Suresnes		
45-63 route de Vaugirard and 2-14 rue de la Verrerie, Meudon		
99 avenue de France, Paris		
77 esplanade du Général de Gaulle, Paris La Défense		
28-32 avenue Victor Hugo, Paris		
Generali, partnership	**3,119**	**50.0**
100 avenue des Champs Elysées, Paris		
15-17 rue Scribe, Paris		
183-185 avenue Daumesnil, Paris		
3-5 boulevard Malesherbes, Paris		
9 avenue de Messine, Paris		
11-15 rue Pasquier, Paris		
SWITZERLAND	8,653	
Uetlihof office campus, Zürich	8,653	100.0
GERMANY	5,599	
Luisenstrasse 12, 14, Karlstrasse 23, Munich	909	94.0
AXA Germany, partnership	**4,690**	**50.0**
Kurfurstendamm 19-24, Joachimstaler Strasse 5, Kantstrasse 160, Berlin		
Hultschiner Strasse 8, Munich		
An der Welle 3-7, Reuterweg 16-18, Gärtnerweg 51, Frankfurt		
An der Welle 2-10, Leerbachstrasse 3-7, Frankfurt		
LOGISTICS	17,794	
Prologis, partnership	**17,794**	**50.0**
Across 11 European countries		
TOTAL EUROPE[1]	94,678	

[1] Exluding management companies in Europe.



SAN FRANCISCO, USA

In 2016, the fund acquired a 44 percent interest in 100 First Street and 303 Second Street in San Francisco.

US investments

Investments in the US accounted for 49.9 percent of our real estate investments at the end of the year and returned 7.6 percent.

MARKET TRENDS

Rents for US offices rose 6.0 percent nationwide in 2016, marginally above the 5.7 percent growth seen in 2015, ending the year at all-time highs. Capital values rose across three of the four US cities where we have invested, while remained flat in Washington, D.C. The performance however remains mixed at a broader metro and submarket level. Office investment volumes fell 3 percent in the US as a whole.

> Capital values rose across three of the four US cities where we have invested

New York showed overall office rental growth of 4.5 percent. The Midtown Manhattan submarket saw rental growth of 2.5 percent, while Downtown Manhattan witnessed a rental decline of 1.9 percent. Office deal activity on Manhattan fell 4 percent compared to the previous year.

Rents in Boston increased by 4.6 percent overall, assisted by an improvement in the Financial District where rents rose 5 percent. Office investment in Boston saw a 10 percent increase over the year.

Washington, D.C. office rents increased by 3.5 percent, but tenant demand softened for much of the year. The vacancy increased modestly, ending the year at 10.7 percent, up 0.7 percentage points compared to a year earlier. Office deal activity in the capital saw a 24 percent decline in volume.

In San Francisco, office rents rose by 5.7 percent over the year. In the City submarket however, rents fell by 2 percent and vacancy rates edged higher for the first time in around six years, to 5.6 percent, as new office development outpaced demand. Office investments rose by 9 percent over the year in San Francisco.

Vacancy rates in the US logistics market trended lower to 8.2 percent in 2016 to 16-year lows, prompting industrial rents to increase by more than 5 percent nationwide. The strongest growth in rents was in the California region, seeing 10-15 percent growth in metropolitan areas such as San Francisco. At the other end of the scale, Houston saw a near 20 percent decline in industrial rents because of impacts from earlier declines in oil and commodity prices.

OUR OFFICE AND RETAIL INVESTMENTS

We had investments in 34 office and retail properties in the US at the end of 2016. They made up 37.0 percent of the real estate investments and returned 6.1 percent. Our investments in office and retail in the US are concentrated in four cities: New York, Boston, San Francisco and Washington, D.C. Our largest exposure was to New York, at 51.8 percent of the total US office and retail investments.

In the US, none of our office and retail properties are classified as retail properties. Some properties have a retail component, but are still classified as office buildings because expected income from the office component is greater than that of the retail component. The three largest tenants were Kirkland & Ellis (3.6 percent), Proskauer Rose (3.5 percent) and Wellington (3.4 percent). The ten largest tenants generate 25.8 percent of the rental income, and the average remaining lease term was 7.5 years. Investments in office and retail made up 74.3 percent of the total US investments.

Table 13 New investments in office and retail in the US in 2016

Address	City	Partner	Sector	Share in percent	Currency	Price in million
11 properties near Hudson Square, Midtown South, Manhattan	New York	Trinity Church Wall Street	Office	4.0	USD	142.0
175 N Street, NE and 150 M Street, NE[1]	Washington, D.C.	MetLife	Office	47.5	USD	71.3
100 First Street and 303 Second Street[2]	San Francisco	Kilroy Realty	Office	44.0	USD	452.9

[1] The fund made an initial payment of 71.3 million dollars and has committed to a total projected cost of 200.4 million dollars.

[2] 303 Second Street is encumbered by 125.8 million dollars of existing debt, and the investment amount is net of the proportionate amount of debt, approximately 55.3 million dollars.

Chart 13 Investments in office and retail in the US by sector as at 31 December 2016

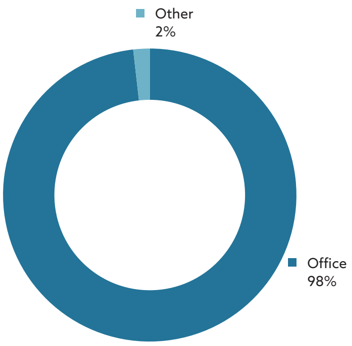
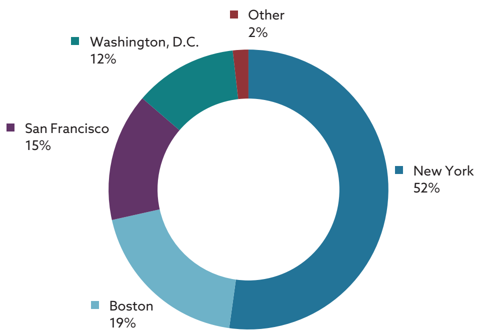
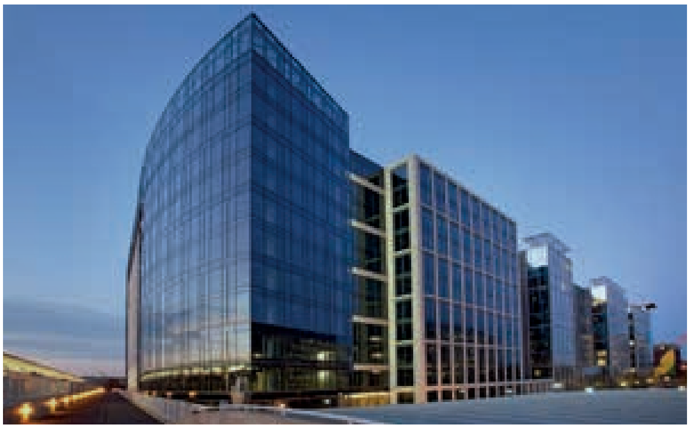


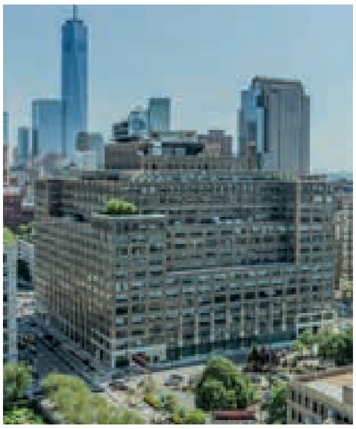
Chart 14 Investments in office and retail in the US by city as at 31 December 2016





175 N Street, NE and 150 M Street, NE, Washington, D.C.

In August 2016, the fund signed an agreement to acquire a 47.5 percent interest in two properties on 175 N Street, NE and 150 M Street, NE, through its joint venture with MetLife. One of the properties was recently completed and one is under development.



Hudson Square, New York

In June 2016, the fund acquired an additional four percent in the Hudson Square joint venture with Trinity Church Wall Street, bringing the total share up to 48 percent.

100 First Street and 303 Second Street, San Francisco

In August 2016, the fund signed an agreement to acquire a 44 percent common equity interest in two Kilroy Realty Corporation companies that own two office properties on 100 First Street and 303 Second Street in San Francisco.

OUR LOGISTICS INVESTMENTS

We had investments in 358 logistics properties in the US at the end of 2016. They made up 12.8 percent of the real estate investments and returned 11.8 percent.

Our investments in US logistics properties made up 57.9 percent of our logistics investments.

The properties were spread across the country. Our largest exposure was to California at 29.6 percent, followed by New Jersey at 15.8 percent, and Chicago at 12.8 percent.

The three largest tenants were Amazon.com (12.6 percent), C&S Wholesale (2.4 percent) and UPS (1.4 percent). The ten largest tenants generate 23.4 percent of the rental income, and the average remaining lease term was 4.6 years.

All of the fund's investment in the US have been made in partnership with Prologis. Our stake in these properties is 45 percent.

Chart 15 Investments in logistics in the US by region as at 31 December 2016

Table 14 Disposals in logistics in the US in 2016

	Partner	State	Share in percent	Currency	Price in million
2 properties	Prologis	Massachusetts and New Jersey	45.0	USD	91.3
3 properties	Prologis	California	45.0	USD	38.3
31 properties	Prologis	Multiple states	45.0	USD	86.1

Table 15 Investments in the US by city as at 31 December 2016. Millions of kroner

	Value	Ownership in percent
NEW YORK	36,866	
TIAA, partnership	3,803	49.9
2 Herald Square		
470 Park Avenue South		
475 Fifth Avenue		
Trinity Church Wall Street, partnership	15,636	48.0
75 Varick Street		
345 Hudson Street		
200 Hudson Street		
225 Varick Street		
435 Hudson Street		
100 Avenue of the Americas		
350 Hudson Street		
205 Hudson Street		
10 Hudson Square		
155 Avenue of the Americas		
12-16 Vestry Street		
Boston Properties, partnership	13,710	45.0
601 Lexington Avenue		
7 Times Square		
PGIM Real Estate, partnership	3,717	45.0
11 Times Square		
WASHINGTON, D.C.	8,426	
TIAA, partnership	6,117	49.9
800 17th Street, NW		
1101 Pennsylvania Avenue, NW		
1300 Eye Street, NW		
400-444 North Capitol Street, NW		
25 Massachusetts Avenue, NW		
MetLife, partnership	2,309	47.5
555 12th Street, NW		
175 N Street, NE		
150 M Street, NE		
BOSTON	13,608	
TIAA, partnership	1,864	49.9
33 Arch Street		
Boston Properties, partnership	6,768	45.0
100 Federal Street		
280 and 290 Congress Street		
MetLife, partnership	4,977	47.5
655 Atlantic Avenue		
One Beacon Street		
SAN FRANCISCO	10,418	
TIAA, partnership	3,581	49.9
405 Howard Street		
888 Brannan Street		
MetLife, partnership	2,883	47.5
425 Market Street		
Kilroy Realty, partnership	3,954	44.0
100 First Street		
303 Second Street		
LOGISTICS	24,444	
Prologis US, partnership	24,444	45.0
Across 14 US states		
TOTAL US	93,762	

Risk management

We use a variety of measures and analyses to obtain a broad picture of the risks associated with our real estate investments.

Market risk is the risk of fluctuations in or loss of market value of individual investments and of the real estate portfolio as a whole. Loss from market risk is mainly induced by changes in the cash flow from the properties and changes in the market's expected future income from the properties, both in absolute terms and relative to other asset classes. There is no individual measurement or analysis that can fully describe the market risk of the real estate portfolio. Therefore, we use a variety of measures and risk analyses, such as concentration analysis, portfolio simulation and asset specific analysis.

Expected volatility for the real estate investments, calculated in the form of the statistical measure standard deviation, uses historical prices to estimate how much the

annual return on the fund's real estate investments can normally be expected to fluctuate. At the end of 2016, the expected absolute volatility of the real estate investments was 12.7 percent. A substantial part of the risk in the real estate portfolio originates from uncertainties in the future income.

At the end of the year, 91.4 percent of the portfolio was let, and 2.4 percent of the portfolio was under development. The equivalent figures at the end of 2015 were 93.5 and 1.0 percent, respectively. The current lease expiry structure is evenly distributed, but with a slight concentration in 2022. The average remaining lease term is 7.4 years, which is an increase of 0.3 years from 2015.

Chart 16 Quarterly income and capital return in local currency. Percent

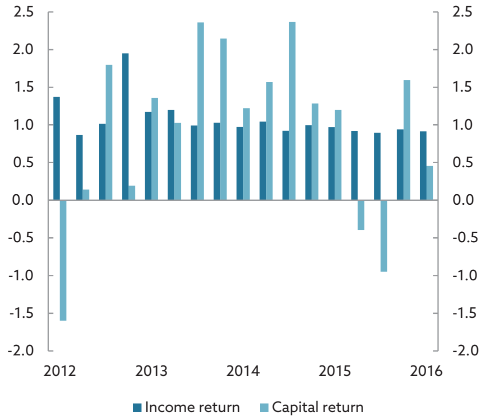


Chart 17 Tenant industry exposure as at 31 December 2016

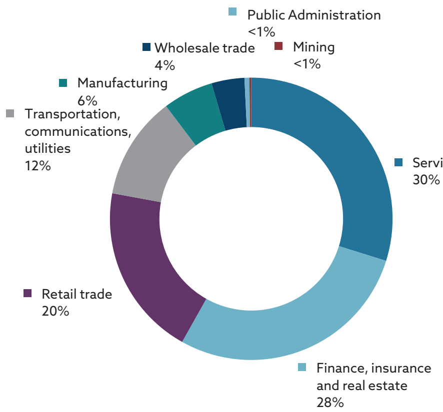
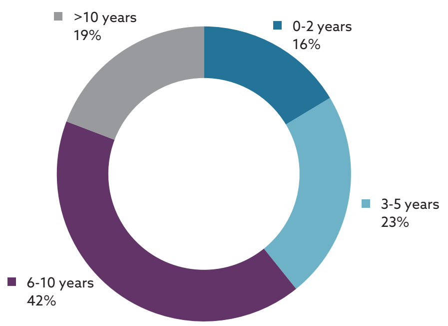


Chart 18 Lease expiry profile as at 31 December 2016



CONCENTATION RISK

The most important way in which we can reduce market risk is to diversify the portfolio. Concentration risk relates to the absolute exposure to different segments of the investment universe. Before each new investment, we assess the related risks and how they might affect the portfolio. The composition of the fund's real estate investments is continuously evaluated, and geography, sector, industry and investment year are particularly taken into account.

As a starting point, we aim to avoid making too many major investments in any one year, as this reduces the risk of investing excessively in a period when the market subsequently turns out to have been overpriced. The largest exposure to one individual investment year was to 2015, at 31.8 percent. The equivalent figure at the end of 2015 was 36.3 percent. The fund's largest sector allocation was to office. At the end of 2016, 63.6 percent was invested in office, compared to 62.3 percent in 2015.

Furthermore, the real estate portfolio is exposed to idiosyncratic risks from investments in individual properties. Through large individual investments, the fund is exposed to risks that cannot be diversified, and that may affect the value of the real estate portfolio. The fund assesses individual investments by analysing selected comparable risk factors, and measures the properties' risk by using simulation models.

Chart 19 The fund's real estate investments by country. Percent

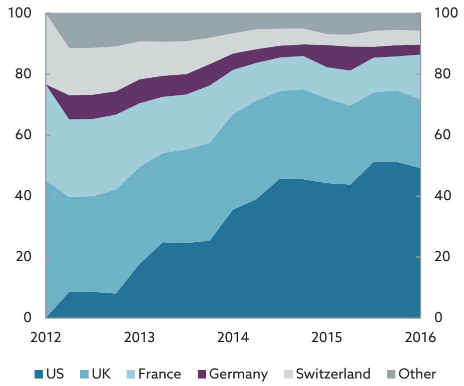


Chart 20 The fund's real estate investments by sector. Percent

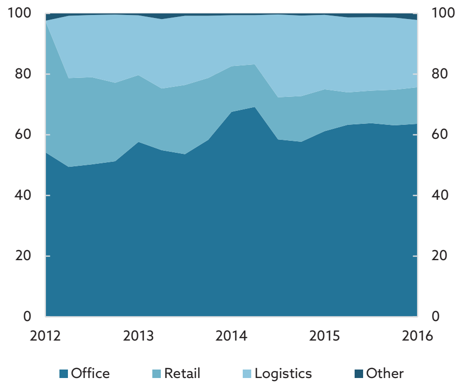


Chart 21 The fund's office and retail investments by city. Percent

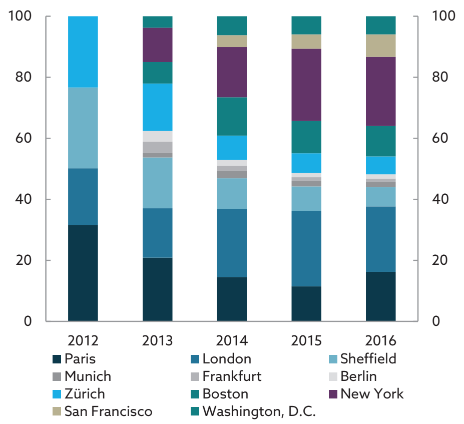
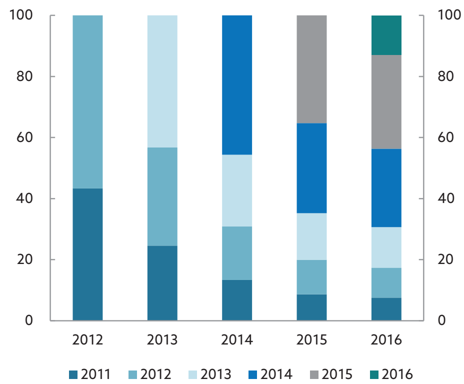


Chart 22 The fund's real estate investments by investment year. Percent



NEW YORK, US

In 2016, the fund acquired an additional four percent of a portfolio of eleven properties in Hudson Square in New York.

CLIMATE RISK

Physical risks posed by extreme weather or shifts in climate patterns may impact the physical condition of our properties and our business continuity. We monitor such risks locally.

We monitor strategies and policies of local governments, such as new building code regulations, initiatives to build stronger coastal defences and drainage systems, assessments of climate vulnerability, and forecasts based on the latest scientific evidence.

We choose the most appropriate insurance agreements in order to reduce our financial exposure to climate risk.

OPERATIONAL RISK

Operational risk is defined as the risk of an unwanted operational event with financial or reputational impact. The unwanted event may arise internally from deficiencies in processes, human errors and technology problems, as well as from external factors such as changes in framework conditions, supplier mistakes or other factors affecting business operations. Investment considerations with a negative impact on performance is not part of the operational risk management framework.

Norges Bank's Executive Board has issued Principles for Risk Management. These principles state that there must be less than a 20 percent probability that operational risk factors have a gross financial impact of 750 million kroner or more over a 12-month period. The operational risk exposure was below this limit throughout 2016.

We work systematically to identify unwanted operational events and continuously improve processes to prevent such incidents.

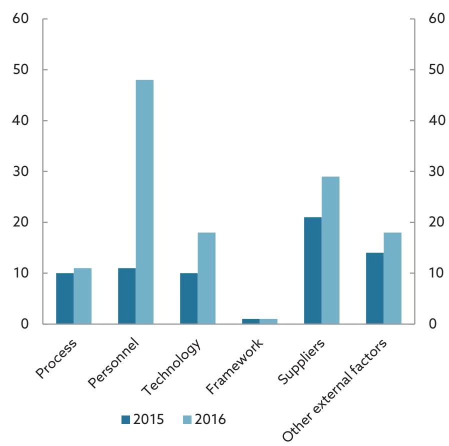
A total of 125 unwanted events in the real estate operation were registered in 2016, compared to 67 in 2015, which reflects an increased focus on incident reporting.

Most of the reported unwanted events had no direct financial consequences, either because they were discovered early or because they had only non-financial impact. One significant unwanted event, concerning document handling, was reported in 2016. The unwanted event was classified with non-financial impact and was followed up appropriately. The estimated total financial impact of unwanted events in 2016 was 1.24 million kroner.

COMPLIANCE

The Ministry of Finance has issued a mandate for the fund's management. In 2016, no significant breaches of these guidelines were registered, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

Chart 23 Unwanted events at Norges Bank Real Estate Management sorted by cause



Environmentally sustainable management

We believe that responsible and sustainable management of our properties supports our goal to achieve the highest possible long-term return.

We work with partners and asset managers to integrate sustainability measures into business plans. Actions related to environmental certification and reporting, energy management, and heating, ventilation and cooling systems, accounted for 52 percent of all measures identified across business plans for office and retail buildings.

In 2016, we defined sustainability performance targets for our portfolio and began collecting data on energy, water, and waste management at building level to support asset management. All of our US office buildings are now participating in the voluntary Energy Star program to benchmark energy and water efficiency.

We also published a guidance document for our partners and asset managers which identifies what we regard as responsible and commercially viable operating principles for environmentally sustainable management. The guidance document is available on our website.

PORTFOLIO RESULTS

We measure the sustainability performance of all investments using the Global Real Estate Sustainability Benchmark (GRESB). The value weighted GRESB score for our total portfolio was 66 in 2016. Since 2013, our score has improved by 27 percent. We have outperformed our peers every year except 2014.

Chart 24 Sustainability measures specified in business plans for office and retail buildings

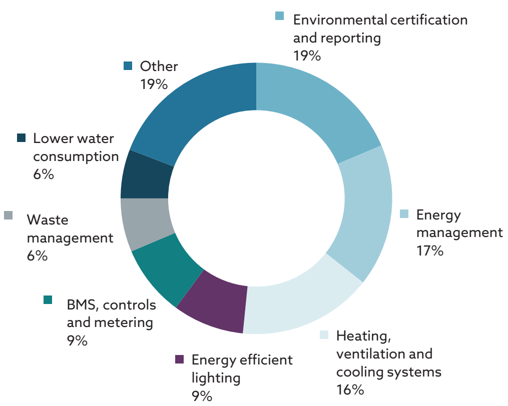
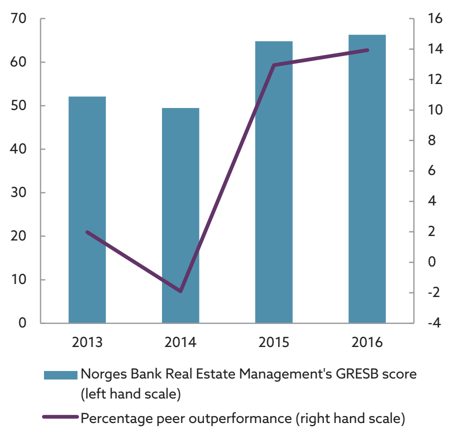


Chart 25 Norges Bank Real Estate Management's GRESB score



SEGMENT RESULTS

The GRESB scores across individual segments of the portfolio vary. In our European portfolio, both the aggregate scores of our investments in office and retail properties, and logistics properties, improved relative to 2015. Their scores were also better than those of their respective peer groups in both years. Our European office and retail investments outperformed the peer group by a similar margin in 2015 and 2016, whereas investments in logistics properties slightly increased their margin of outperformance between the years.

In our US portfolio, the aggregate score of our investments in office and retail properties declined between 2015 and 2016. This was mainly due to an error associated with the submission of information to GRESB. Correcting for this error, we estimate that the aggregate score for our investments in the US office and retail properties would have improved between 2015 and 2016. The aggregate score of our US investments in logistics properties increased between 2015 and 2016, and the improvement was greater than the growth in the score of the respective peer group between the two years.

CERTIFYING OUR OFFICE AND RETAIL PORTFOLIO

Our long-term goal is to obtain green building certifications for all our office and retail properties. We track the share of our office and retail properties over 2,000 square meters that is certified, measured by net rentable area.

The share of our portfolio that is certified in a given year is affected by new investments and certification of existing properties in the portfolio. The number of certified office and retail properties increased by seven in 2016, of which four were properties in our ownership

Chart 26 Norges Bank Real Estate Management's European GRESB score

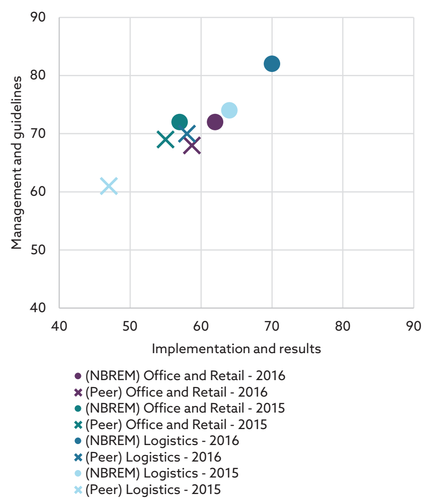
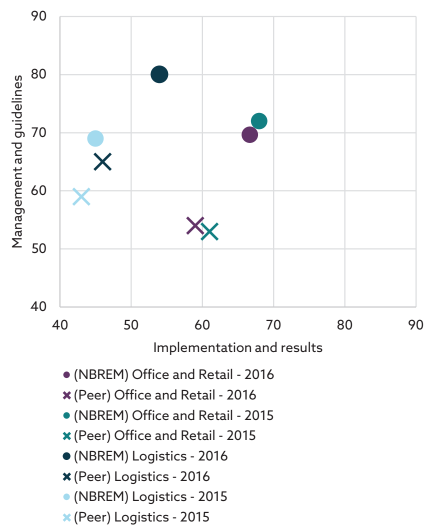


Chart 27 Norges Bank Real Estate Management's US GRESB score



that achieved new certifications and three were properties we acquired during the year, which had previously been certified. In addition, we purchased two properties that were not certified and two properties that were under development.

At the end of 2016, we had achieved a 58 percent certification share, compared to 55 percent in 2015. In the US, the certification share increased from 66 percent to 71 percent between 2015 and 2016, whereas in Europe, the certification share increased from 38 percent to 39 percent over the same period.

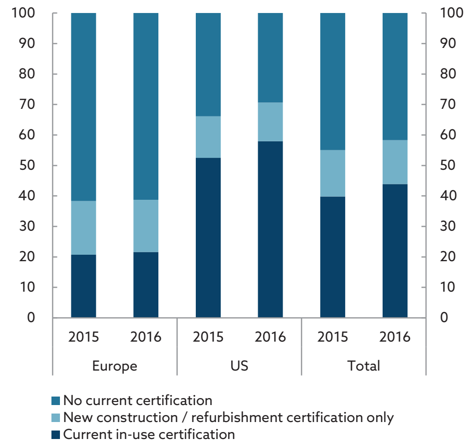
All development projects in the portfolio are on track to achieve a green building certification.

ENERGY-EFFICIENCY IN LOGISTICS

All new logistics properties in our portfolio are constructed to obtain a green building certification. In 2016, 14 of our 599 logistics properties were environmentally certified, all of which were previously certified during construction.

Environmental certification of properties in operation is less widespread in the logistics sector than in the office and retail sectors. Therefore, our sustainability strategy in the logistics sector focuses on upgrading properties to energy-efficient lighting and installing smart meters.

Chart 28 Share of the real estate portfolio in office and retail above 2,000 square meters. Percent



ENVIRONMENTALLY SUSTAINABLE MANAGEMENT

A guidance document for real estate investments was published in October 2016 and is available on www.nbrem.no.

NEW GREEN BUILDING CERTIFICATIONS IN 2016

Address	City	Market	Certification
175 N Street, NE[1]	Washington, D.C.	US	LEED BD + C: Core and Shell Platinum
100 First Street[1]	San Francisco	US	LEED EBOM Gold
303 Second Street[1]	San Francisco	US	LEED EBOM Gold
888 Brannan Street	San Francisco	US	LEED BD + C: Core and Shell Gold
28-32 avenue Victor Hugo	Paris	Europe	BREEAM New Construction/ Refurbishment Very Good BREEAM In-use Part 1 and 2 Very Good
7 Cork Street	London	Europe	BREEAM New Construction (interim) Very Good
31-33 rue de Verdun and 46-48 rue Carnot	Paris	Europe	BREEAM In-use Part 1 and 2 Excellent

[1] New investments in 2016.

Valuations

We obtain external valuations and report the value of the real estate investments on a quarterly basis.

The value of a real estate portfolio is the sum of its assets and liabilities. The fair value is the estimated price that would have been obtained from the sale of a property or transfer of a liability between two market participants.

VALUATION OF REAL ESTATE

The value of a property before it is sold will always be subject to a degree of uncertainty, because real estate is an asset class with less frequent trading than listed equities and bonds. Having a diverse base of different valuers helps increase the quality of estimated values.

Valuations are performed in accordance with internationally recognised standards. We quality-assure the information on which valuers base their valuations.

VALUING DEBT

At the end of 2016, the portfolio's financial leverage was 7.7 percent. As with the properties themselves, debt is measured at fair value. Where there are no observable prices, debt is valued by external valuers or using various models.

VALUATION UNCERTAINTY

Property valuations are based on forward-looking judgements. The estimates used generally reflect comparable recent transactions for properties with similar characteristics.

Estimates of property values are particularly sensitive to changes in discount rates and assumptions that affect future income. The uncertainty can be measured by looking at the effect of changes in these variables. An increase in the discount rate of 0.2 percentage points and a decrease in expected rental income of 2.0 percent, would reduce the value of the portfolio by around 5.1 percent compared to the estimated value at the end of the year. Similarly, a decrease in the discount rate of 0.2 percentage points and an increase in expected rental income of 2.0 percent would raise the estimated value by 5.7 percent.

We review the value of the investments at the end of each quarter. This includes documenting the results of the controls and analyses performed and presenting the most important sources of valuation uncertainty.

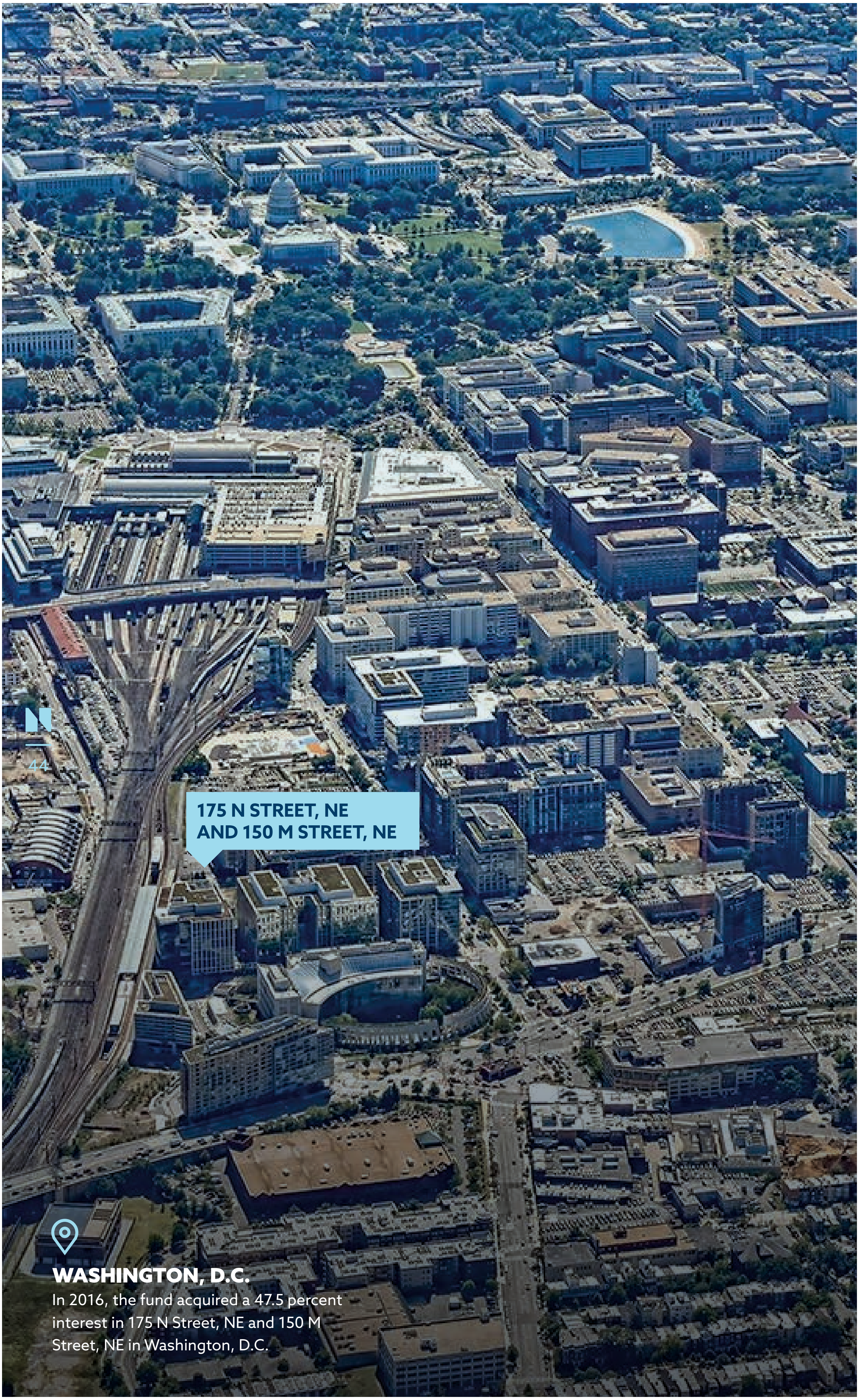
EXTERNAL VALUERS AS AT 31 DECEMBER 2016

Valuer	Cities
CBRE	Paris, Zürich, Boston, Frankfurt, Berlin, New York, Munich, Washington, D.C., Sheffield, logistics
Cushman and Wakefield	London, Paris, New York, Boston, Washington, D.C., logistics
Joseph Blake	Washington, D.C.
JLL	Logistics
NPV Advisors	San Francisco
Integra Realty Resources	New York, San Francisco
BNP Paribas	Munich
US Realty Consultants	Washington, D.C.

Table 16 Net asset value. Millions of kroner

	2016	2015	2014	2013	2012
Properties	204,635	197,549	118,515	57,329	28,895
External debt	-15,727	-17,432	-11,985	-6,307	-4,109
Tax payable	-204	-215	-98	-30	-3
Net deferred tax	-1,153	-1,048	-520	-230	-2
Deposits in bank	2,272	2,491	1,170	695	327
Net other assets and liabilities	-1,354	-1,324	-651	-424	-100
Net asset value[1]	**188,469**	**180,021**	**106,431**	**51,032**	**25,008**
Group cash and net assets	2,178	1,091	1,199	573	115
Net assets consolidated subsidiaries	23	29	-	-	-
Net asset value including group cash and net assets	**190,670**	**181,141**	**107,630**	**51,605**	**25,123**

[1] See note 6, table 6.4 in the Government Pension Fund Global annual report 2016.



WASHINGTON, D.C.

In 2016, the fund acquired a 47.5 percent interest in 175 N Street, NE and 150 M Street, NE in Washington, D.C.

Income

The fund receives a stable rental income from tenants.

Net rental income amounted to 7,645 million kroner in 2016. The increase from 2015 was 724 million kroner and is primarily due to new investments. Vacancy in the properties has an impact on rental income. The occupancy rate in 2016 was 91.4 percent compared to 93.5 percent in 2015.

Income return comprises net rental income less operating costs. The costs are interest expense external debt, taxes paid, asset management fixed fees, and costs in management companies and holding structure.

Capital return comprises realised gain/loss, fair value changes properties, fair value changes external debt, deferred tax and asset management variable fees.

The real estate portfolio has a diversified tenant base of 2,870 tenants in different industries in Europe and the US. In some cases, we own the land but not the building, in which case we only receive a ground rent.

Changes in currency rates have a significant impact on the rental income in Norwegian kroner. In 2016, this was primarily driven by a weakening of the British pound versus the Norwegian krone by 18.5 percent.

Table 17 Net income. Millions of kroner

	2016	2015	2014	2013	2012
Net rental income	7,645	6,921	3,747	2,237	695
Realised gain/loss	109	320	-	-	-
Fair value changes – properties	1,416	9,265	5,464	1,539	196
Fair value changes – external debt	-191	435	-395	336	-327
Management company costs – unconsolidated[1]	-42	-41	-43	-35	-24
Holding structure costs	-144	-174	-120	-61	-42
Asset management – fixed fees	-454	-308	-165	-94	-20
Asset management – variable fees	-39	-343	-16	-	-
Transaction costs	-411	-320	-586	-201	-126
Interest expense external debt	-622	-666	-354	-239	-44
Taxes – paid	-151	-100	-82	-64	-7
Taxes – deferred	-174	-452	-292	-182	-
Net income[2]	**6,942**	**14,537**	**7,160**	**3,236**	**301**
Management company costs – consolidated[1]	-24	-11	40	-39	-4
Transaction cost at group level	-16	-8	-1	-2	-1
Net income at group level[3]	**6,902**	**14,518**	**7,199**	**3,195**	**296**

[1] Total “Management company costs” are shown in in Table 21.
[2] See Note 6, Table 6.1 and Table 6.3 in the Government Pension Fund Global annual report 2016.
[3] Management costs covered in Table 20 are not included in “Net income” as these costs are refunded from the Ministry of Finance.

MANAGEMENT COSTS

INVESTMENT MANAGEMENT COSTS

Purpose
Ensure an organisation that can contribute to the highest possible return on the fund's real estate investments, by finding investment opportunities, completing transactions and following up on existing investments.

Costs
Personnel costs, IT services, legal fees and consulting fees.

HOLDING STRUCTURE COSTS

Purpose
Safeguard the fund's financial interests. Risk management and limitation of liability.

Costs
Audit fees, accounting services, IT services, legal fees and board remuneration.

ASSET MANAGEMENT COSTS

Purpose
Ensure the highest possible rental income and return on investments by continuous asset management.

Costs
Fixed fees to asset managers. Variable fees to asset managers.

OTHER COSTS

PROPERTY COSTS

Purpose
Ensure net rental income from tenants.

Costs
Letting activities, electricity, insurance, maintenance and costs related to day-to day follow-up on tenants.

TRANSACTION COSTS

Purpose
Ensure transfer of ownership, and thorough due diligence to mitigate risks.

Costs
Stamp duty and other taxes, and cost of due diligence.

INTEREST COSTS

Costs for external loans.

TAX COSTS

Costs to local tax authorities.

Management costs

We are cost-conscious in our management of real estate investments. Costs are incurred at several levels.

There are three types of costs in the management of the fund's real estate investments. Norges Bank Real Estate Management and management companies incur investment management costs. Wholly and partly owned holding companies incur holding structure costs. Some holding companies incur asset management costs that consist of a fixed and a variable component.

The reduction in total management costs from 2015 to 2016 was due to a decrease in variable fees to asset managers. The decrease was a result of renegotiation of asset management agreements. We negotiated an increase in fixed fees and a reduction of variable fees.

Table 18 Management costs based on average assets under management. Percent

	2016	2015	2014	2013	2012
Total management costs[1]	0.65	0.90	0.80	0.89	1.24
Investment management – Norges Bank Real Estate Management	0.25	0.24	0.29	0.38	0.55
Investment management – Management companies	0.04	0.05	0.06	0.10	0.19
Holding structure	0.08	0.13	0.18	0.16	0.34
Asset management – fixed fees	0.26	0.23	0.24	0.25	0.16
Asset management – variable fees	0.02	0.25	0.03	-	-

[1] All costs are included in net result and return figures for real estate, except the cost of investment management in Norges Bank Real Estate Management.

Table 19 Management costs. Millions of kroner

	2016	2015	2014	2013	2012
Total management costs	1,143	1,210	543	331	154
Investment management – Norges Bank Real Estate Management	440	333	199	141	68
Investment management – Management companies	66	52	43	35	24
Holding structure	144	174	120	61	42
Asset management – fixed fees	454	308	165	94	20
Asset management – variable fees	39	343	16	-	-

INVESTMENT MANAGEMENT COSTS

Investment management costs include the cost for the organisation that manages and invests in real estate for the fund. These include costs for personnel, IT, consulting, legal services, offices for our employees and a proportion of common costs shared with Norges Bank and Norges Bank Investment Management.

These costs are incurred at two levels in the organisation structure. First, costs are incurred directly by Norges Bank Real Estate Management, which manages the real estate investments. These amounted to 440 million kroner in 2016.

Second, costs are incurred in management companies in Luxembourg, Singapore, Tokyo and London. These costs are similar in type to those incurred by Norges Bank Real Estate Management, and amounted to 66 million kroner in 2016.

HOLDING STRUCTURE COSTS

The holding structure includes a large number of wholly or partly owned property companies with no employees. Costs for the wholly-owned and partly owned companies are mainly audit and accounting fees, legal fees and insurance.

Table 20 Investment management costs in Norges Bank Real Estate Management. Millions of kroner

	2016	2015	2014	2012	2012
Salary, social security and other personnel related costs	215	175	103	78	38
IT services, systems, data and information	74	55	51	35	30
Research, consulting and legal fees	30	17	19	6	-
Other costs	121	86	26	22	-
Total management costs	**440**	**333**	**199**	**141**	**68**

Table 21 Investment management costs in Management companies. Millions of kroner

	2016	2015	2014	2013	2012
Salary, social security and other personnel related costs	27	26	22	18	11
IT services, systems, data and information	11	9	5	3	2
Research, consulting and legal fees	5	4	7	6	6
Other costs	23	13	9	8	5
Total management costs	**66**	**52**	**43**	**35**	**24**

Other costs for wholly and partly owned companies mainly include administrative expenses in relation to the entities in the structures, as well as compensation to co-owners in the US and UK for increased tax costs resulting from the structure chosen. Since these companies have no employees, there are no personnel or office costs.

Holding structure costs amounted to 144 million kroner in 2016.

ASSET MANAGEMENT COSTS

Internal and external asset managers handle the commercial management of the properties and implement action plans to obtain the best possible return with the least possible risk. In some cases, the fees to external asset managers have a variable component, normally based on excess return over a number of years.

Asset management costs amounted to 493 million kroner in 2016.

Table 22 Holding structure costs. Millions of kroner

	2016	2015	2014	2013	2012
IT services, systems, data and information	24	22	16	13	11
Research, consulting and legal fees	74	62	46	31	9
Other costs	46	90	58	17	22
Total holding structure costs[1]	144	174	120	61	42

[1] For 2016, the total management cost of 66 million shown in table 21, and 34 million of the holding structure costs in Table 22, equal the 100 million shown in Table 10.2 in the Government Pension Fund Global's annual report 2016.

Table 23 Fees to asset managers. Millions of kroner

	2016	2015	2014	2013	2012
Asset management – fixed fees	454	308	165	94	20
Asset management – variable fees	39	343	16	-	-
Total fees to asset managers	493	651	181	94	20

Other costs

Real estate investments incur costs related to property management, transactions, tax and interest.

PROPERTY COSTS
Costs for the day-to-day operation and maintenance of the buildings in the portfolio are incurred by the property companies that own the buildings and are therefore not directly related to investment activities.

These costs include activities relating to letting, cleaning, electricity, insurance, health and safety, security, caretaking, billing and day-to-day tenant services. A significant amount of the operating costs are reimbursed by the tenants. Sometimes operating costs are met by the tenant directly. In cases where we own the land but not the building itself, we do not incur operating costs for the building.

Property management costs amounted to 2,852 million kroner in 2016 before reimbursement by tenants.

TAX COSTS
The fund's tax position depends on local regulations and on the tax treaties with each relevant country.

In 2016, the fund reported taxes payable on real estate investments of 151 million kroner and a change in deferred tax liability of 174 million kroner.

INTEREST COSTS
Our investments are financed mainly with equity and inter-company loans. Some investments, however, also involve external debt.

External interest costs amounted to 622 million kroner in 2016.

TRANSACTION COSTS
Transaction costs are incurred when buying and selling properties. They include stamp duty and other taxes and fees to the local authorities. These costs can vary considerably, and amounted to 340 million kroner in 2016.

Costs are also incurred for the due diligence reviews that precede an investment. These are carried out to mitigate risks in line with the management mandate and include analyses of market, liquidity, credit, counterparty, operational, legal, tax, technical and environmental risks. These costs are relatively stable in percent for each new investment, and amounted to 71 million kroner in 2016.

Transaction costs for unsuccessful deals are expensed at group level when a subsidiary is not established. These transaction costs amounted to 16 million kroner in 2016. Transaction costs amounted to a total of 427 million kroner in 2016.

Table 24 Rental income and property costs. Millions of kroner

	2016	2015	2014	2013	2012
Gross rental income	8,970	7,816	4,132	2,374	712
Property costs	-2,852	-2,224	-948	-406	-45
Reimbursements	1,527	1,329	563	269	28
Net rental income	**7,645**	**6,921**	**3,747**	**2,237**	**695**

Table 25 Transaction costs. Millions of kroner

	2016	2015	2014	2013	2012
Stamp duty and other transfer taxes	340	83	401	73	74
Other transaction costs	71	237	185	128	52
Transaction costs	**411**	**320**	**586**	**201**	**126**
Transaction costs at group level	16	8	1	2	1
Total transactions costs	**427**	**328**	**587**	**203**	**127**

Table 26 Transaction costs based on invested capital. Percent

	2016	2015	2014	2013	2012
Stamp duty and other transfer taxes	1.77	0.18	1.06	0.38	0.63
Other transaction costs[1]	0.37	0.55	0.49	0.67	0.45
Transaction costs in percent of invested capital that year	**2.15**	**0.73**	**1.55**	**1.05**	**1.08**

[1] Does not include transaction costs for unsuccessful deals at group level.

Cash flow

Net 14,748 million kroner was transferred from the fund's fixed-income investments to the fund's real estate investments in 2016. The subsidiaries repaid 5,591 million kroner.

These funds were used to finance new real estate investments of 19,147 million kroner. In addition, 2,808 million kroner was used to repay external debt and to finance property upgrades. Total cash holdings at Norges Bank increased by 1,100 million kroner in 2016.

Norges Bank Real Estate Management invests through subsidiaries and underlying property companies. The subsidiaries are financed with equity and intercompany loans. Cash generated by the property companies in the form of net rental income is distributed in the form of dividends or interest on inter-company loans to the entities in the holding structure and up to the fund. Income generated by the property companies may also be distributed in the form of repayments of inter-company loans and equity.

The dividends paid to the fund and interest on inter-company loans are less than net rental income in the underlying companies that own properties. The remaining income covers costs in the holding structure or is reinvested, for example in upgrading buildings.

The cash flow from rental income at the underlying property companies amounted to 7,229 million kroner.

In total, the subsidiaries reinvested 89 million kroner of their operating cash flow, in addition to investments financed by Norges Bank.

The subsidiaries' total cash holdings decreased by 219 million kroner in 2016.

Table 27 Cash flow. Millions of kroner

	2016	2015	2014	2013	2012
Net funding to real estate	14,748	41,584	36,047	18,951	14,262
Dividend received from subsidiaries	2,167	1,931	598	259	-
Interest received on loans to subsidiaries	1,490	1,601	1,368	749	203
Repayment of loans given to subsidiaries	1,934	654	436	341	240
Payments to new investments in subsidiaries	-19,147	-44,476	-36,859	-19,306	-14,574
Downpayments on external loans and capital expenditure	-2,808	-1,415	-1,287	-352	-26
Capital received from sale of properties and drawdown of external loans in real estate entities	2,752	260	-	-	-
Other payments to subsidiaries	-36	-	-	-	-
Change in retained cash at group level	1,100	138	303	642	105

Table 28 Net rental income to cash flow. Millions of kroner

	2016	2015	2014	2013	2012
Net rental income	7,645	6,921	3,747	2,237	695
Net rental income – non-cash items	-416	-312	-97	-50	-13
Cash flow from rental income	**7,229**	**6,609**	**3,650**	**2,187**	**682**
Transaction costs	-411	-320	-586	-201	-126
Interest expenses external loans	-622	-666	-354	-239	-44
Taxes paid	-151	-100	-81	-64	-5
Asset managers fees – fixed	-454	-308	-165	-94	-20
Asset managers fees – variable paid	-231	-	-	-	-
Operating expenses	-186	-215	-163	-96	-66
Total operating cash flow	**5,174**	**5,000**	**2,301**	**1,493**	**421**
Realised gains and losses from sales of properties	109	320	-	-	-
Total cash flow repaid from operational activities [1]	-5,591	-4,186	-2,402	-1,349	-443
Reinvestments	89	207	575	224	237
Change in retained cash	-219	1,342	475	368	214

[1] Paid to Norges Bank.

Investment decisions

Real estate investments require extensive analysis, in-depth evaluation and rigorous decision-making.

When considering an investment opportunity, we assess and make assumptions about rent developments, capitalisation rates, vacancy periods, lease terms, and refurbishment costs. We also carry out a thorough due diligence analysis of financial, legal, regulatory, tax-related, structural, operational, technical, environmental and insurance-related matters.

DECISION-MAKING

The decision-making process for real estate investments is governed by investment and committee mandates, and by job descriptions. All significant investments are considered by boards and committees consisting of internal and external advisors, and all processes are well documented.

Norges Bank's Executive Board

Norges Bank's Executive Board is the ultimate decision-maker and approves investments above 1.5 billion dollars, based on the Real Estate Investment Board's recommendations.

The Executive Board consists of eight members appointed by the King in Council and is chaired by the governor of Norges Bank. The Executive Board has established a Risk and Investment Committee. The committee gives support to the Executive Board in its risk and real estate management, and in major investment decisions.

The committee consists of two of the Executive Board's external members and is chaired by one of the deputy governors of Norges Bank.

The Real Estate Investment Board

The Real Estate Investment Board reviews investments above 250 million dollars, reviews and approves investments above 750 million dollars, and makes recommendations to the Executive Board on investments above 1.5 billion dollars. Investments that are of a significantly different nature than regular real estate transactions shall be approved by the Real Estate Investment Board. The board ensures that investments are made in accordance with our mandate and strategy plan. Decisions require a majority vote.

The board consists of the Chief Executive Officer of Norges Bank Investment Management (chair), the Chief Executive Officer of Norges Bank Real Estate Management, the Chief Risk Officer of Norges Bank Investment Management, and two external advisors.

The Real Estate Investment Committee

The Chief Executive Officer of Norges Bank Real Estate Management approves investments above 250 million dollars. The Real Estate Investment Committee advises the Chief Executive Officer on investments above this threshold, including aspects relating to the transaction and to the decision-making process. Investments that involve new partners, new markets, new asset managers or new holding structures shall be reviewed by the Real Estate Investment Committee.

The committee consists of Norges Bank Real Estate Management's Chief Compliance and Control Officer (chair), Chief Executive Officer, Chief Investment Officer, Chief Risk Officer, Chief Operating Officer, and Chief Administrative Officer.

The Real Estate Advisory Board
The Chief Investment Officer of Norges Bank Real Estate Management approves investments up to 250 million dollars. The Real Estate Advisory Board advises the Chief Investment Officer on investments, including aspects of structure, commerciality, pricing, risk and strategy. All investments above 50 million dollars are presented to the Real Estate Advisory Board.

The board consists of the Norges Bank Real Estate Management's Chief Investment Officer (chair) and Chief Risk Officer, and two external advisors.

IMPLEMENTATION
When the relevant body has approved an investment, the transaction documents are finalised. Generally, a subsidiary of Norges Bank Real Estate Management will enter into the purchase or sales agreement. The closing of the transaction and the transfer of the purchase price will vary from market to market.

Transparency about the management of the fund and the results we achieve is important. We report the return on our investments each quarter and announce all purchases and sales above 25 million dollars on the fund's website, www.nbrem.no. We normally make announcements when the agreement has been signed.

All purchases and sales are reflected in the annual holdings list on our website www.nbrem.no.

INVESTMENT APPROVALS

Thresholds	Decision-making bodies
Investments above **1.5 billion** dollars	Norges Bank's Executive Board Advised by: Real Estate Investment Board
Investments above **750 million** and below **1.5 billion** dollars and special transactions	Real Estate Investment Board
Investments above **250 million** and below **750 million** dollars or new markets/partners/structures	Chief Executive Officer of Norges Bank Real Estate Management Advised by: Real Estate Investment Committee
Investments between **50 million** and **250 million** dollars	Chief Investment Officer of Norges Bank Real Estate Management Advised by: Real Estate Advisory Board
Investments up to **50 million** dollars	Chief Investment Officer of Norges Bank Real Estate Management

Investing through subsidiaries

The fund invests in real estate through subsidiaries to ensure sound risk management and to protect Norges Bank and the fund's assets.

Investments in real estate differ from those in listed equities and bonds. A transaction will often take weeks or months from first discussions to completion. Purchase contracts, joint venture agreements (when the fund invests with a joint venture partner), asset management and property management agreements need to be negotiated individually in line with local market conventions and rules. Due diligence analyses of various risk factors are also performed ahead of each investment.

The Ministry of Finance has laid down rules for real estate investments in the fund's mandate.

These rules permit Norges Bank Real Estate Management to invest in real estate through Norwegian or foreign entities. Unlisted companies and fund structures must be registered in countries with which Norway has tax treaties or countries from which Norway is entitled to obtain tax information under other international agreements.

The investment risk associated with real estate is not necessarily limited to the sum invested. Norges Bank Real Estate Management has assessed suitable holding and operating platforms for the implementation of the real estate investments to protect against these risks.

It is good risk management and standard practice in the real estate industry to invest through subsidiaries.

The fund's tax position depends on local rules and on the tax treaties that Norway has entered into. It is important for the fund that it pays tax in accordance with local rules, but also that it does not incur more tax than necessary. Expected tax costs are therefore among the factors considered when deciding on a holding structure.

FACTORS CONSIDERED WHEN DECIDING ON HOLDING STRUCTURES

Limitation of liability
- Protect the fund against claims
- Limit any claims to the individual property and its value
- Ensure risk management

Good control and governance structure
- Ensure oversight, control and clear roles and responsibilities

Efficient operational management
- Limit costs
- Ensure operational platforms for property management
- Ensure efficient and secure cash management

INVESTMENTS IN CONTINENTAL EUROPE
In 2011, Norges Bank created a platform in Luxembourg to bring together the operational and administrative management of real estate investments in Continental Europe, including France, Germany and Switzerland. In addition, logistics investments in the UK are held through this platform. Key considerations in the choice of Luxembourg were its central geographical location, access to a local pool of relevant skills, robust and well-tested legal structures, predictable application of local rules (including tax rules), and it being a widely used jurisdiction among institutional investors.

Luxembourg is a member of the OECD and the EU, and it has tax treaties with Norway and the countries in which the fund is invested in Continental Europe.

The subsidiaries are financed with equity and inter-company loans. The use of inter-company loans helps promote efficient cash management, including the repatriation of income back to the fund. These loans also reduce the tax base. All of our structures, including the use of inter-company loans, comply with relevant laws and regulations on tax allowances, capitalisation and transfer pricing.

MARKET-SPECIFIC STRUCTURES
The fund's investments in Germany and Switzerland are held directly by subsidiaries in Luxembourg.

In France, we also use regulated investment vehicles (OPCIs) for real estate investments.

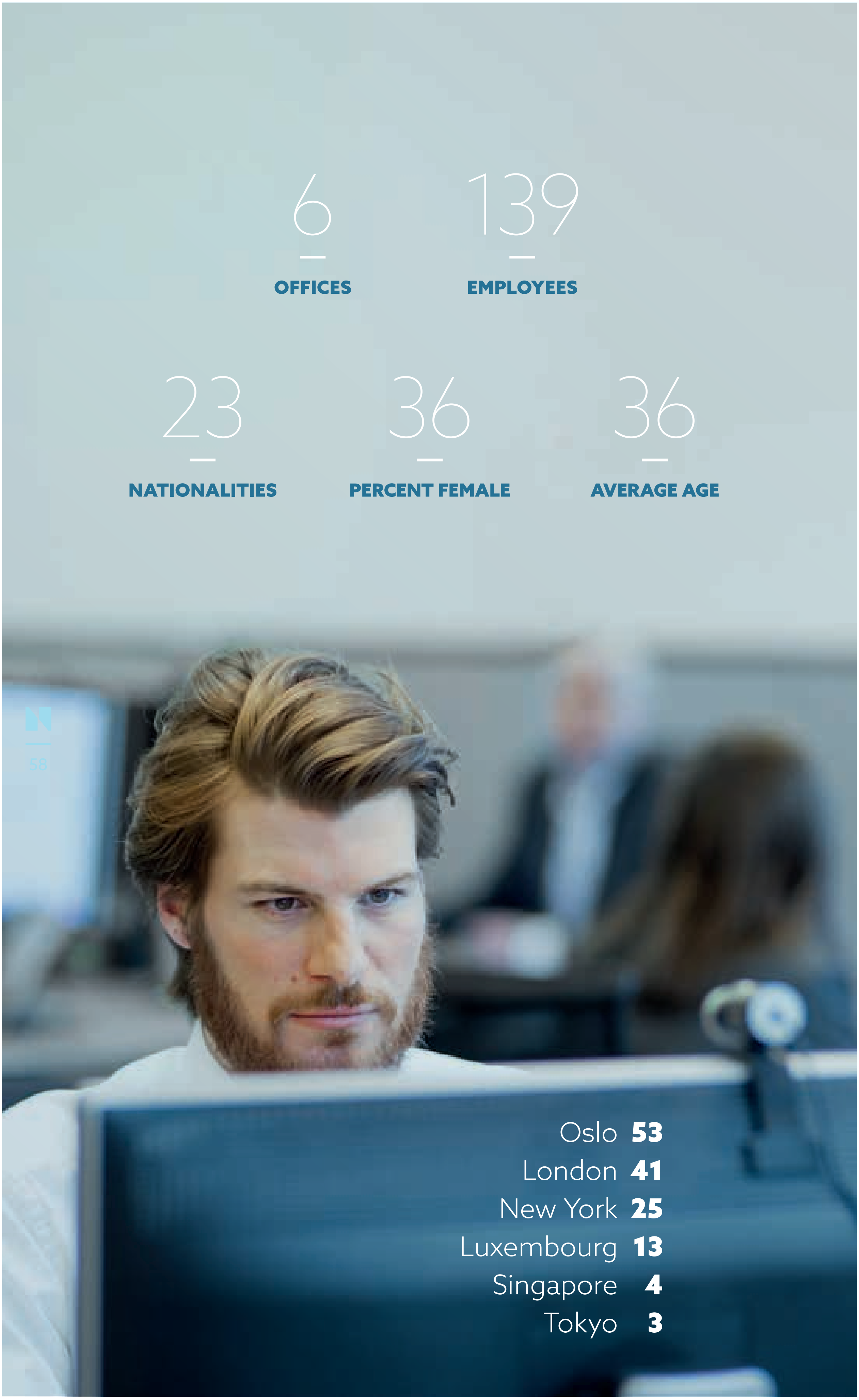
The partnership with Prologis for the European logistics portfolio is held through a Luxembourg company with more than 200 underlying property companies in Luxembourg, the Netherlands and various other markets we invest in.

INVESTMENTS IN THE UK
Under English law, foreign sovereign investors are exempt from income tax and capital gains tax on property sales. The fund has established a holding structure in the UK that meets the requirements in the UK, using tax-transparent English Limited Partnerships (ELPs) for real estate investments.

INVESTMENTS IN THE US
In the US, the fund is exempt from taxation under local laws because it is owned by a foreign government. The real estate holding structures take the form of local tax-transparent entities with limited liability. Properties are held by so-called D-REITs (domestically controlled real estate investment trusts). Norges Bank Real Estate Management as a non-domestic investor must have an ownership stake below 50 percent and not otherwise have a controlling influence.

The US subsidiaries are registered in Delaware. Because the fund is exempt from US taxation, the choice of state for the establishment of the subsidiary has no tax implications for the fund, but Delaware has well-developed company laws and an efficient and respected court system for dealing with company law disputes. It is therefore widely used in the US as a preferred state for forming and registering companies.

An overview of the holding structures in the different markets can be found on the fund's website at www.nbrem.no.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OFFICES
139
EMPLOYEES
23
NATIONALITIES
36
PERCENT FEMALE
36
AVERAGE AGE
Oslo **53**
London **41**
New York **25**
Luxembourg **13**
Singapore **4**
Tokyo **3**

A global organisation

Norges Bank Real Estate Management expanded its workforce to 139 in 2016, in line with our growing real estate investments.

Norges Bank Real Estate Management has taken shape as an established and self-sufficient entity within Norges Bank Investment Management. Our key objective is to build an efficient investment organisation to safeguard the value of the fund.

Employees from 23 different nationalities across our offices bring diversity and give a worldwide perspective to our organisation.

By end of 2016, 62 percent of our workforce was based at our offices in London, New York, Singapore, Tokyo and Luxembourg. This provides local presence for our investment personnel to build in-depth knowledge of our assets and the markets we invest in.

We continue to build a high-performance team of talented employees, aligning with our business objectives and strategy. Our primary goal has been to lay a platform for professional development to enhance the expertise around the real estate asset class and of our employees.

NBRE Management Europe Ltd. was established in November 2016, and is a fully owned subsidiary of Norges Bank. The company and staff are located in London and will be involved in the management of our investments in UK, France and Germany.

Chart 29 Employees by office location as at 31 December 2016

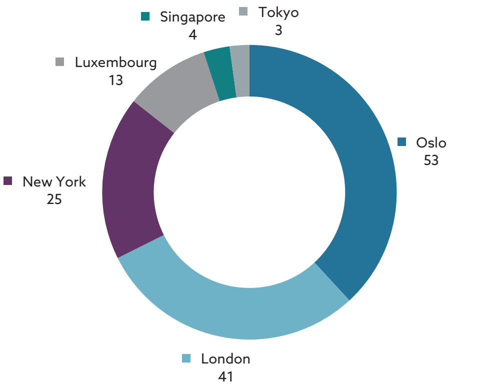
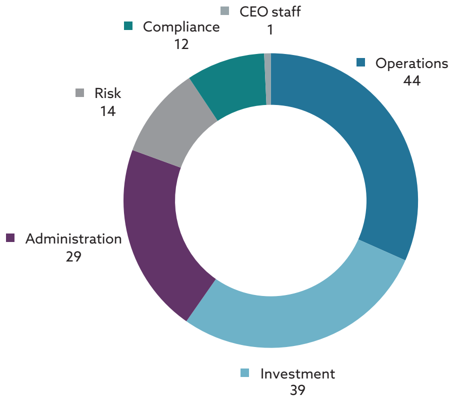


Chart 30 Employees by area as at 31 December 2016



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