NBIM
Quarterly Performance Report
Third quarter 2006

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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Contents

1. Introduction and key figures

1.1 Upswing in equity and bond prices

After a sharp drop towards the end of the second quarter, equity prices in the largest global markets rallied in the third quarter. Companies in the telecommunications and utilities sectors performed best, while falling oil prices led to a downturn in oil & gas shares. After falling in both the first and second quarters, bond prices recovered in the third. Over the first three quarters as a whole, returns were positive in all of the main bond markets.

The upswing in the capital markets resulted in positive returns on all of the portfolios managed by NBIM. The Government Pension Fund – Global and the investment portfolio in Norges Bank's foreign exchange reserves both generated a positive return in the third quarter of approximately 4.0 per cent measured in the relevant currency basket. The Government Petroleum Insurance Fund, which is invested only in fixed income instruments, generated a positive return of approximately 2.5 per cent.

Global equity markets have performed strongly in recent years (see Chart 1-1). Since the beginning of 2003, the Japanese, European and US markets have gained 99, 75 and 59 per cent respectively. An index of equities in 24 emerging markets has risen 170 per cent in the same period.

Chart 1-1: Movements in equity prices since 1 January 2003

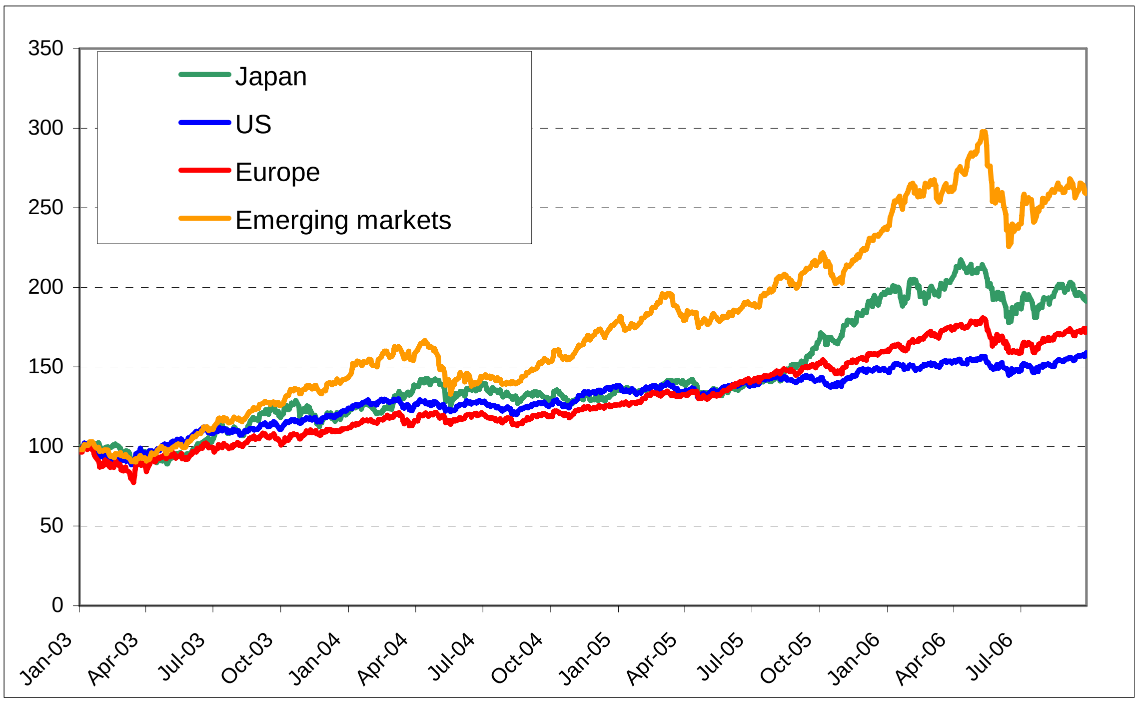
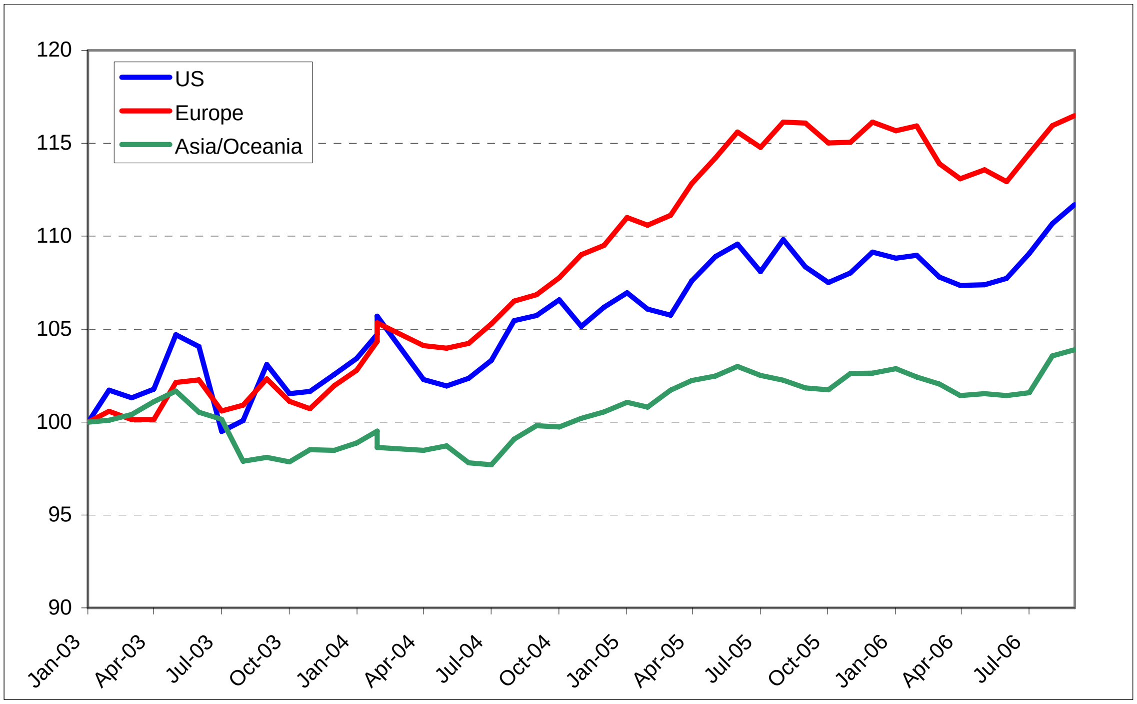


Chart 1-2 shows returns on the bond markets measured as the change in the Lehman Global Aggregate government bond indices since 1 January 2003. The indices for

Europe, the US and Asian-Pacific have risen by 16.5, 11.7 and 3.9 per cent respectively during the period.

Chart 1-2: Movements in the bond markets since 1 January 2003



<u>Return of 3.94 per cent on the Government Pension Fund – Global</u>

The return on the Government Pension Fund – Global in the third quarter of 2006 was 3.94 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 5.14 per cent, and the return on the fixed income portfolio was 3.13 per cent. The return on the Pension Fund's portfolio was 0.16 percentage point lower 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 1,712,3 billion.

<u>Return of 4.10 per cent on the investment portfolio</u>

The return on the investment portfolio in Norges Bank's foreign exchange reserves in the third quarter of 2006 was 4.10 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 5.51 per cent, and the return on the fixed income portfolio was 3.20 per cent. The return on the investment portfolio was 0.01 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 223.1 billion.

<u>Return of 2.52 per cent on the Government Petroleum Insurance Fund</u>

The return on the Government Petroleum Insurance Fund in the third quarter of 2006 was 2.52 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 0.01 percentage point higher 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 15.5 billion.

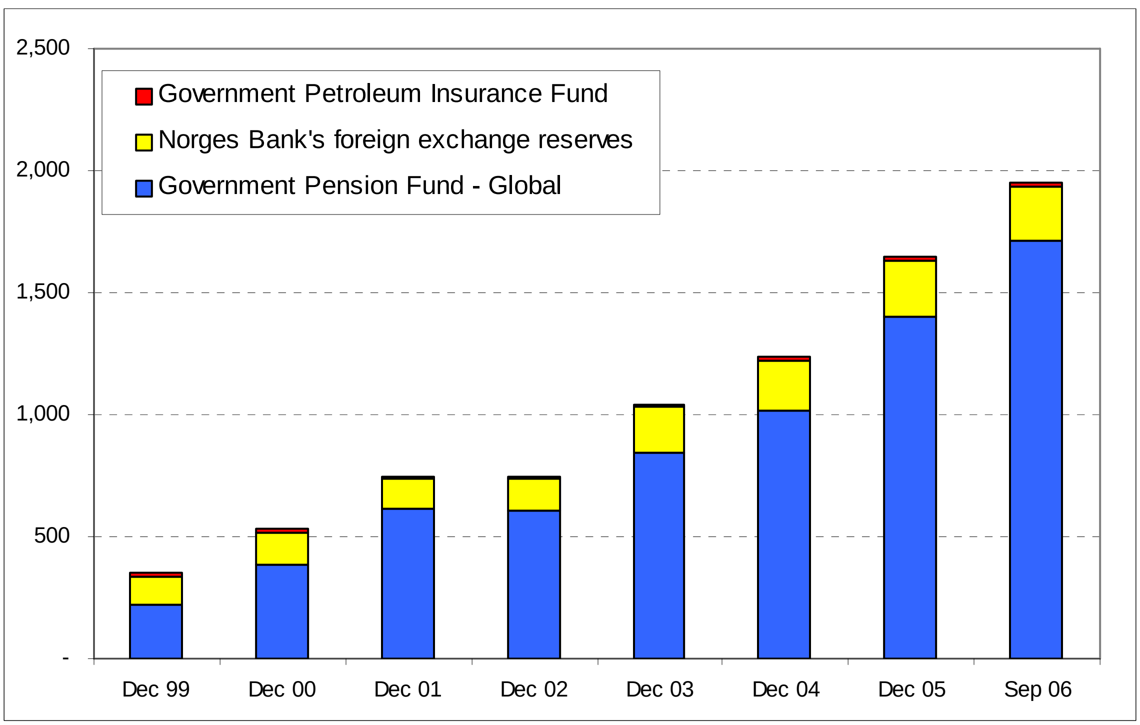
1.2 Total assets under management NOK 1,954 billion

Assets under the management of NBIM grew by NOK 225 billion during the third quarter. Transfers of new capital totalled NOK 78 billion, while a positive return on investment and a weaker krone in relation to the investment currencies increased the market value of the assets by NOK 70 billion and NOK 77 billion respectively. Assets under management totalled NOK 1,954 billion at the end of the third quarter of 2006 (see Table 1-1).

Table 1-1: Return in the third quarter and market value on 30 September 2006

	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	3.94	4.09	8.30	8.46	-0.16	1 712
Investment portfolio	4.10	4.09	8.46	8.44	0.01	223
Government Petroleum Insurance Fund	2.52	2.50	7.06	7.04	0.01	16
Total						**1 954**[1]

Chart 1-3: Growth in assets under management. In billions of NOK



[1] The value of the buffer portfolio, which amounted to approximately NOK 2.7 billion on 30 September 2006, is included in the total.

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

1.3 Negative excess return of NOK 2.1 billion in the third quarter
NBIM's management is measured against benchmark portfolios defined by its clients. One important goal for its management is to generate a somewhat higher return over time on the actual portfolios than on the benchmark portfolios. In the third quarter, the Government Pension Fund – Global generated a negative excess return, while the investment portfolio and the Government Petroleum Insurance Fund generated a positive excess return. The aggregate negative excess return on the portfolios managed by NBIM was NOK 2.1 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 27.7 billion. This breaks down into NOK 25.6 billion on the Government Pension Fund – Global, NOK 2.0 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 September 2006. In millions of NOK

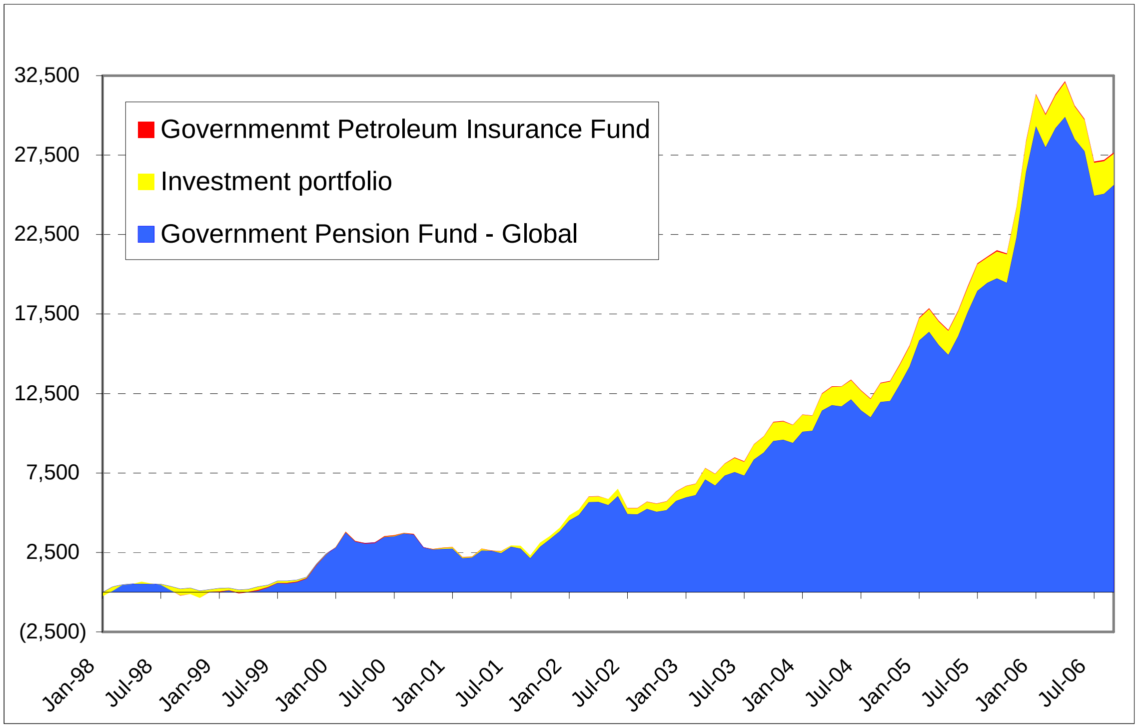


Table 1-2 provides an overview of risks and returns since 1 January 1998 for the portfolios managed by NBIM.

Table 1-2: Risks and returns to 30 September 2006. Annualised

	Last 12 months	Last 3 years	Last 5 years	Since 01.01.98
Return/excess return[2]				
Pension Fund	10.00	8.79	4.60	5.99
Benchmark portfolio	9.53	8.25	4.08	5.52
Excess return	0.48	0.54	0.53	0.47
Investment portfolio	8.77	6.79	4.48	5.78
Benchmark portfolio	8.62	6.60	4.20	5.58
Excess return	0.14	0.19	0.28	0.19
Insurance Fund	5.74	3.77	4.66	3.74
Benchmark portfolio	5.69	3.64	4.53	3.66
Excess return	0.05	0.13	0.13	0.08
Standard deviation[3]				
Pension Fund	9.58	8.28	9.17	8.53
Investment portfolio	9.23	7.87	7.88	7.11
Insurance Fund	7.91	7.31	7.08	6.50
Tracking error[4]				
Pension Fund	0.50	0.34	0.31	0.38
Investment portfolio	0.14	0.15	0.17	0.23
Insurance Fund	0.03	0.06	0.08	0.15
Information ratio (IR)[5]				
Pension Fund	0.90	1.48	1.64	1.18
Investment portfolio	0.91	1.14	1.55	0.79
Insurance Fund	1.30	2.12	1.68	0.50

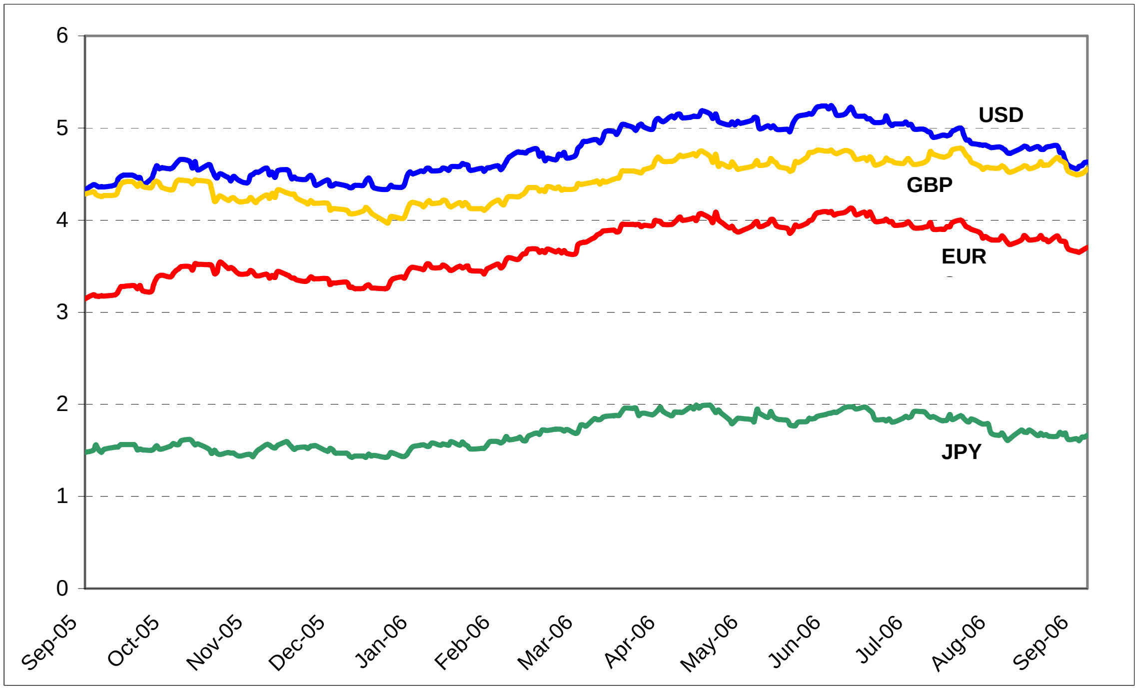
[2] When calculating the returns on the actual and benchmark portfolios, monthly returns are used which are linked together using geometrical methods. The figures are percentages and have been annualised. The excess return is calculated using arithmetical methods.
[3] The standard deviation is a measure 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] 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 fell during the third quarter. Ten-year government bond yields fell by approximately 0.51 percentage point in the US, 0.36 percentage point in the euro area, 0.25 percentage point in Japan, and 0.17 percentage point in the UK (see Chart 2-1). Since the beginning of the year, yields have nevertheless risen by 0.2 to 0.4 percentage point in all of the main markets.

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 is still strong, although there have recently been signs of a slight slowdown in both the US and Japan. In the euro area, however, economic growth has accelerated slightly. The somewhat lower growth rate in the US is due primarily to domestic factors such as weaker demand for consumer durables and a decline in housing investment. There has been a decrease in housing starts, house prices and sales of both new and existing homes, and there has been little employment growth in the construction sector.

There are signs to suggest that inflationary pressure in the US economy has eased slightly in recent months. This is due to falling energy prices and lower growth in prices outside the energy sector. Lower inflation expectations have helped to push down bond yields. Having raised its key interest rate at every monetary policy meeting from June 2004 to June 2006, the Federal Reserve left its key rate unchanged at 5.25 per cent throughout the third quarter.

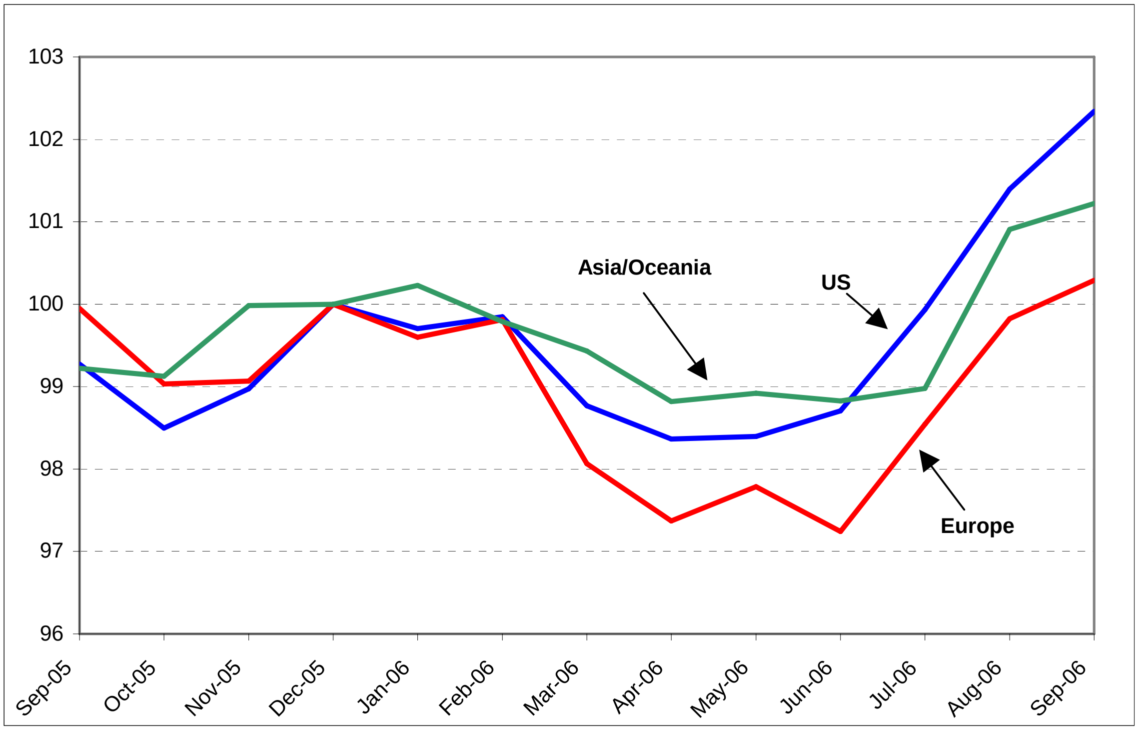
Economic growth in Japan was previously driven largely by the export sector. This has changed, with domestic private consumption and investment playing a much larger role. As a result of strong economic growth and rising energy prices, there has been a slight increase in the rate of inflation in Japan in recent months. In July, the Bank of Japan raised its key interest rate for the first time since August 2000, by 25 basis points.

China's economic growth remains strong, with GDP climbing by more than 10 per cent annually. Growth is being driven by high levels of domestic investment and brisk export activity. The People's Bank of China has attempted to curb activity by raising its key interest rates and its reserve requirement.

Buoyant domestic demand and healthy growth in the export sector are fuelling continued strong growth in the euro area. Unemployment is still high but has been falling in recent months. In most euro countries, the rate of inflation is between 2 and 3 per cent. The ECB decided to raise its key interest rate by 25 basis points to 3.0 per cent in the third quarter. The Bank of England also raised its key rate by 25 basis points during the quarter.

Chart 2-2 shows movements in the Lehman Global Aggregate government bond indices in the main markets over the last 12 months. The third quarter of 2006 brought returns of 3.1 per cent in Europe, 2.4 per cent in Asian-Pacific, and 3.7 per cent in the US.

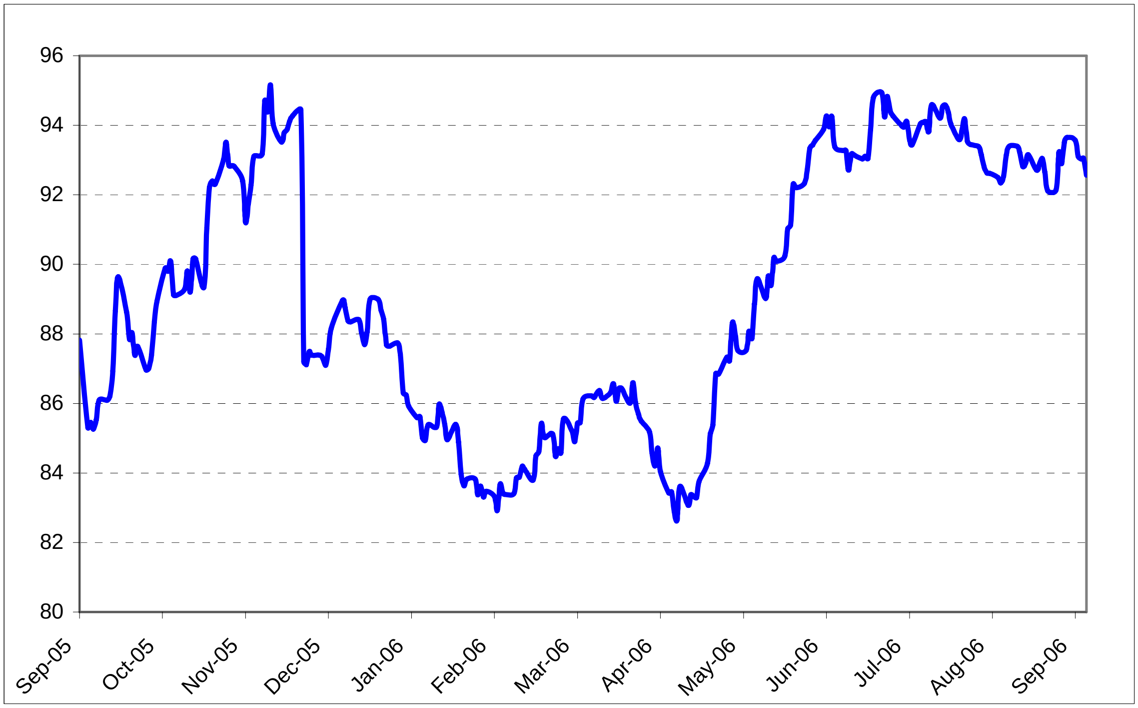
Chart 2-2: Movements in Lehman Global Aggregate government bond indices in the main markets over the last 12 months (31.12.05 = 100)



The spread between yields on corporate and government securities (credit spread) is low and changed little in the third quarter. The global default rate (defaulted bonds as a percentage of the total volume outstanding) has held at low and stable levels in recent months. Healthy corporate earnings have contributed to these low default rates and credit spreads. Low interest rates and good access to liquidity have contributed to brisk demand for securities with relatively high returns.

Chart 2-3 shows movements in the spread between corporate bonds with a good credit rating and government bonds in the US.

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

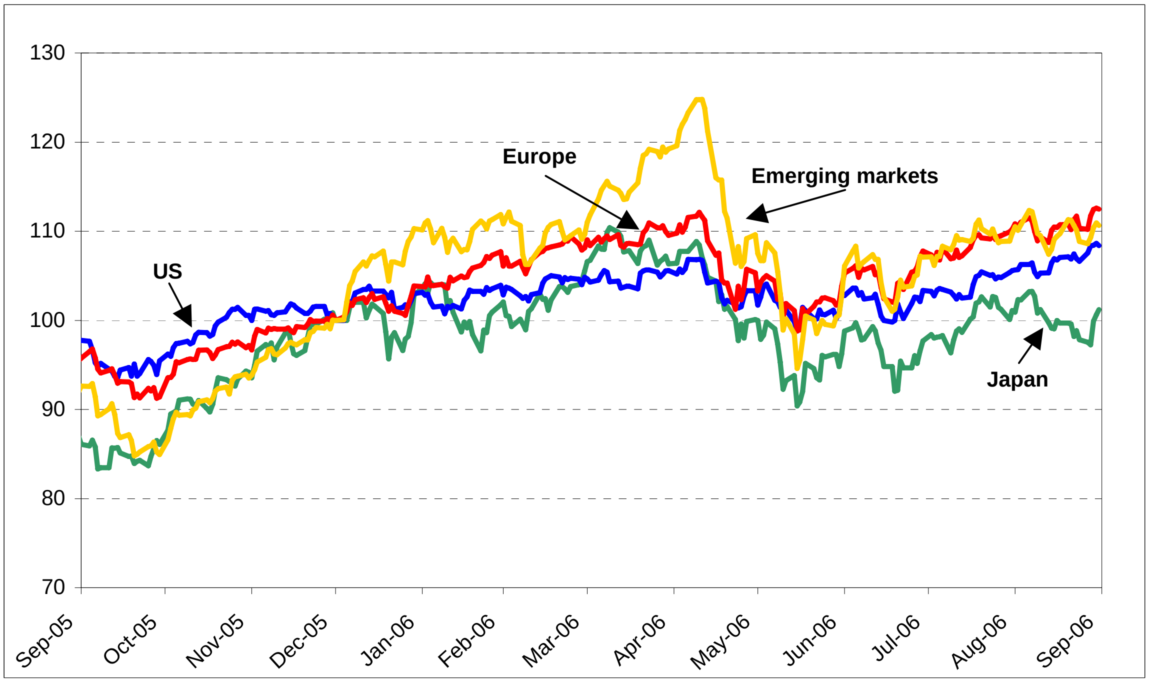


<u>Equity markets</u>

Global equity prices recovered in the third quarter after a sharp drop at the end of the second quarter. Following a period of falling prices through to mid-July, there was stable and positive price growth in the US, European and emerging markets through to the end of the quarter. In Japan, equity prices fell in September. (See Chart 2-4.)

Over the quarter as a whole, prices in Europe, Japan, the US and emerging markets rose by 6.8, 2.4, 5.4 and 4.3 per cent respectively. In the year to date, the FTSE indices for European and emerging markets have shown a return of more than 10 per cent, while the Japanese equity market has produced a return of just over 1 per cent.

Chart 2-4: Movements in the FTSE equity indices for the main markets over the last 12 months (31.12.05 = 100). In local currencies



Generally speaking, earnings are still high at listed companies in the largest equity markets, and the majority of listed companies in the US reported stronger earnings than expected. Lower long-term bond yields and reduced inflation expectations contributed to the upswing. Signals from the Federal Reserve that the monetary policy tightening cycle in the US is over helped to allay fears that the US economy is facing recession. Reduced focus on troubles in the Middle East, progress in the talks concerning Iran's nuclear programme, and a marked drop in oil prices were other factors which impacted positively on equity prices.

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 third quarter of 2006. There were positive returns in most of the main sectors during the quarter. The exceptions were Basic Materials and Oil & Gas. Falling oil prices and drops in the prices of some raw materials contributed to the negative performance in these sectors. Telecommunications and Utilities were the strongest-performing sectors. In the year to date, Utilities is the sector which has performed the best, while Technology has performed the worst.

Table 2-1: Return on the main sectors and the ten largest sub-sectors of the FTSE All-World Index in the third quarter of 2006. Measured against USD, NOK and the benchmark portfolio's currency basket. Per cent

	USD	NOK	Currency basket
Oil & Gas	**-3.24**	**1.36**	**-2.71**
Oil & Gas Producers	-2.34	2.31	-1.80
Basic Materials	**-1.19**	**3.51**	**-0.65**
Industrials	**1.52**	**6.35**	**2.07**
Consumer Goods	**6.56**	**11.63**	**7.14**
Health Care	**6.84**	**11.92**	**7.42**
Pharmaceuticals & Biotechnology	6.76	11.84	7.34
Consumer Services	**4.33**	**9.30**	**4.90**
General Retailers	3.89	8.83	4.45
Media	4.20	9.16	4.77
Telecommunications	**9.31**	**14.51**	**9.91**
Fixed Line Telecommunications	9.87	15.10	10.47
Utilities	**8.44**	**13.60**	**9.03**
Financials	**6.93**	**12.02**	**7.51**
Banks	6.39	11.45	6.97
Nonlife Insurance	7.91	13.04	8.50
General Financial	6.84	11.92	7.42
Technology	**7.96**	**13.09**	**8.55**
Software & Computer Services	8.05	13.19	8.64
Hardware & Equipment	7.91	13.04	8.49
Total[6]	**4.83**	**9.81**	**5.40**

[6] 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 third quarter of 2006

- Market value NOK 1,712.3 billion on 30 September
- Return for the period in international currency:
  - Overall: 3.94 per cent
  - Equities: 5.14 per cent
  - Fixed income: 3.13 per cent
- Excess return -0.16 percentage point
- Annualised management costs (excluding performance-based fees) 0.07 per cent of assets under management
- Transfers of new capital NOK 79.5 billion
- Four new external equity mandates
- Three new external fixed income mandates, including one for investments in mutual funds

The fund's market value
The fund's market value was NOK 1,712.3 billion at the end of the third quarter, an increase of NOK 207.2 billion during the quarter. New capital equivalent to NOK 79.5 billion was transferred to the fund. A weaker krone in relation to the investment currencies and a positive return in international currency increased the value of the fund by NOK 66.3 billion and NOK 61.5 billion respectively. A change in the krone exchange rate has no effect, however, on the fund's international purchasing power.

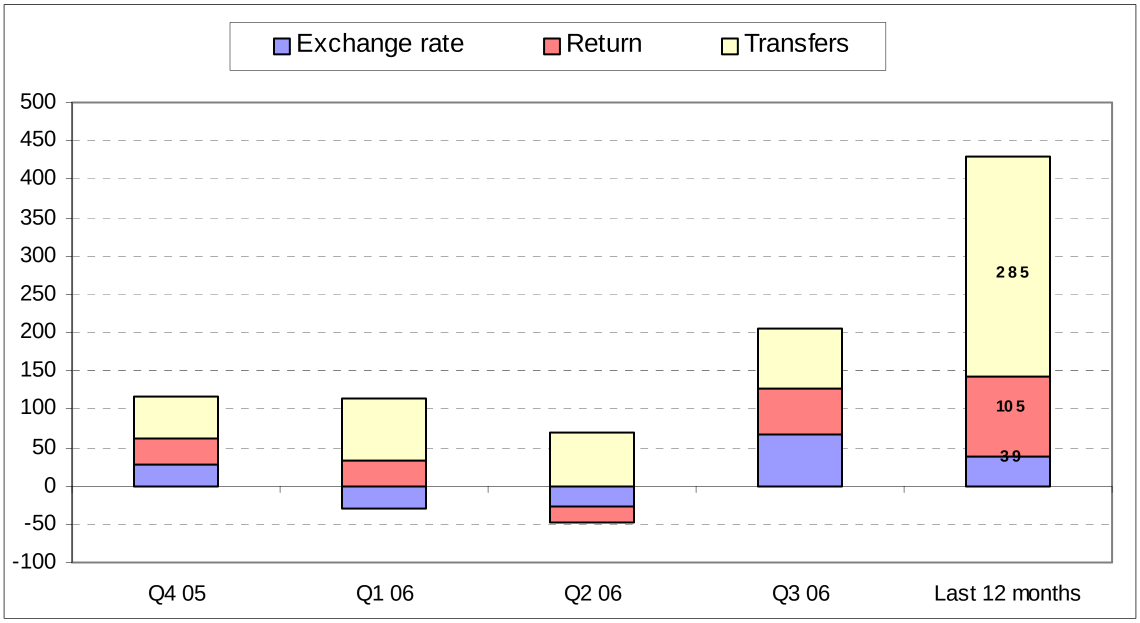
Table 3-1 shows the market value of the fund at the end of the last five quarters, and the change in market value in the third quarter of 2006 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone. For the accounting 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 September 2005	522 691	758 454	1 281 145
31 December 2005	582 305	816 746	1 399 050
31 March 2006	606 890	877 019	1 483 909
30 June 2006	**609 879**	**895 143**	**1 505 022**
Transfers of new capital	18 552	60 915	79 467
Return	32 686	28 802	61 488
Change in krone value	26 770	39 527	66 297
30 September 2006	**687 887**	**1 024 387**	**1 712 273**

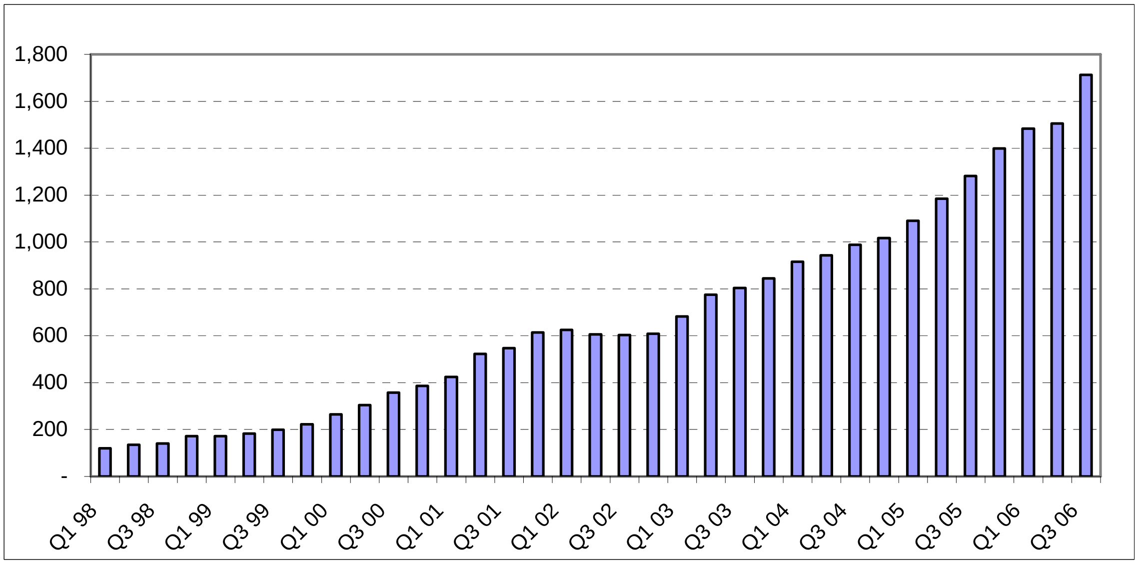
The fund has grown by NOK 431 billion in the last 12 months (see Chart 3-1). NOK 286 billion has been transferred to the fund, the return on the fund has been NOK 105 billion, and a weaker krone in relation to the investment currencies has increased the value of the fund by NOK 41 billion. The chart shows that a weaker krone increased the value of the fund particularly in the third quarter of 2006. In the year to date, movements in the krone have increased the value of the fund by just over NOK 12 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 1,599 billion (see Chart 3-2). NOK 1,277 billion has been transferred to the fund during the period. The return on the fund measured in international currency has increased the value of the fund by NOK 376 billion, whereas a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 54 billion.

Chart 3-2: Market value of the Government Pension Fund – Global 1998-2006. In billions of NOK



Return on the fund

The return on the fund in the third quarter of 2006 was 3.94 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. The return was positive in all three months thanks to rising prices in all of the main equity and bond markets. Over the quarter as a whole, the return on the equity portfolio was 5.14 per cent. The fixed income portfolio generated a return of 3.13 per cent measured in terms of the currency basket.

Measured in NOK, the aggregate return in the third quarter was no less than 8.30 per cent. The difference is due to the approximately 4.4 per cent depreciation of the krone against the currencies in the benchmark portfolio during the quarter. It was mainly in August and September that the krone depreciated against the investment currencies. Table 3-2 shows the monthly return measured in terms of the benchmark portfolio's currency basket and in NOK, while Table 3-3 shows the return in the third quarter measured in various currencies.

Table 3-2: Return on the fund in the third quarter of 2006. 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	**2.24**	**2.04**	**0.25**	**0.06**	**0.20**
Q2	**-1.55**	**-1.45**	**-3.30**	**-3.20**	**-0.10**
July	0.87	1.06	0.00	0.19	-0.19
August	1.83	1.82	4.34	4.33	0.01
September	1.19	1.16	3.80	3.76	0.03
Q3	**3.94**	**4.09**	**8.30**	**8.46**	**-0.16**
Year to date	4.62	4.68	4.99	5.05	-0.05

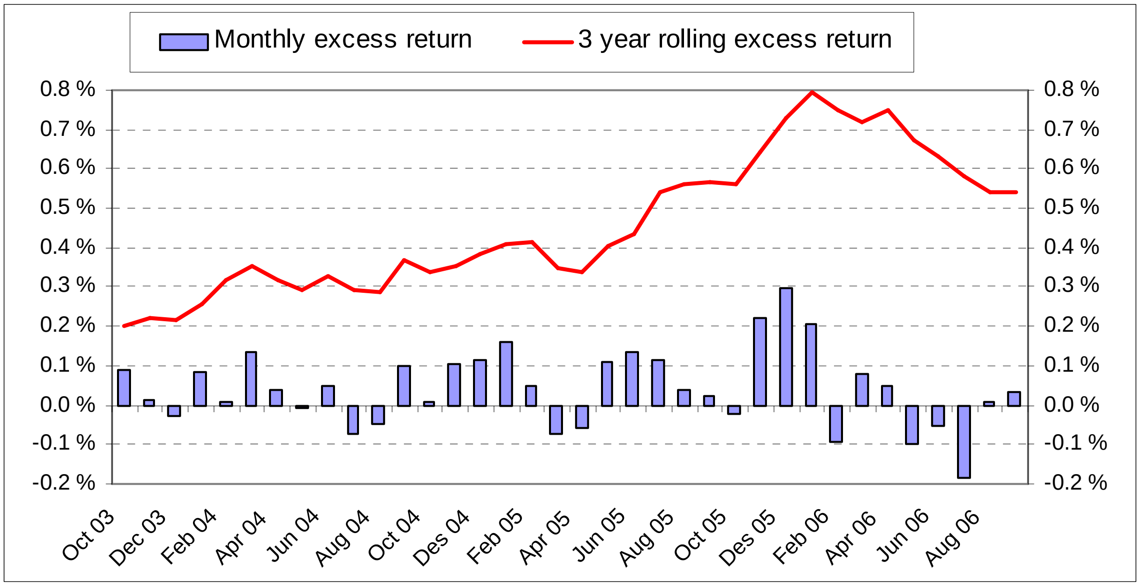
Table 3-3: Return in the third quarter of 2006 measured in different currencies. Per cent

	Equities	**Fixed income**	**Total**
Fund's currency basket	5.14	3.13	3.94
Import-weighted currency basket	5.29	3.28	4.09
USD	4.57	2.57	3.38
EUR	5.55	3.54	4.35
NOK	9.54	7.45	8.30

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. During the third quarter, the return on the fund was 0.16 percentage point lower than the return on the benchmark portfolio. In absolute terms, the negative excess return was approximately NOK 2.1 billion. External equity and fixed income management contributed a negative excess return, while internal equity and fixed income management generated a positive excess return.

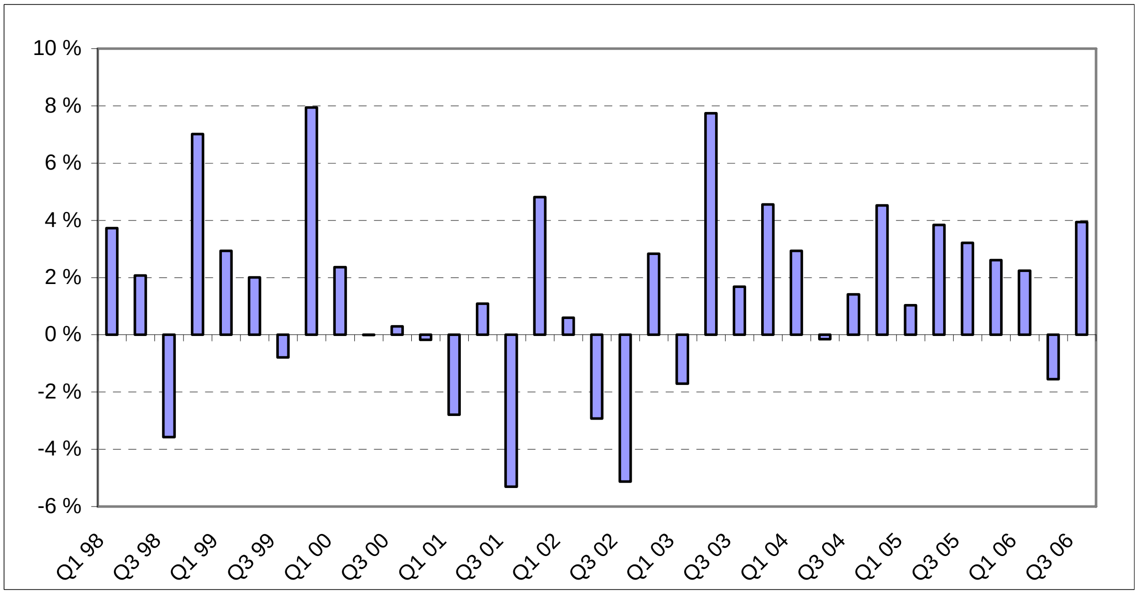
Over the last 12 months, the cumulative excess return has been 0.47 percentage point. During the three years to the end of the third quarter of 2006, the annualised excess return was 0.54 percentage point (see Chart 3-3).

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



Transaction costs are incurred when phasing in new capital and when changing the regional weights for the fund's investments. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital and changing the regional weights at NOK 161.6 million in the third quarter of 2006.

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



This amounted to 0.20 per cent of the total amount transferred, i.e. NOK 79.5 billion, and 0.01 per cent of the market value of the fund at the beginning of the quarter. The transaction costs year to date is estimated to NOK 533.8 million. 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 1.52 per cent. There has been a negative return in ten out of 35 quarters. Chart 3-4 shows the quarterly returns.

Since 1997, the fund has generated an annualised annual gross return of 6.3 per cent. Once management costs and inflation are deducted, the annual net real return has been 4.4 per cent. Table 3-4 shows the annualised return up to the end of the third quarter of 2006 since 1 January in each of the years from 1997 to 2005. The right-hand column in the table shows that the gross excess return has averaged 0.45 percentage point per year since 1 January 1997.

Table 3-4: Annual rates of return on the fund up to the end of the third quarter of 2006 measured in terms of the benchmark portfolio's currency basket. Per cent per year

	Gross annual return	Annual inflation[7]	Annual management costs	Annual net real return	Annual gross excess return
Since 01.01.97	6.33	1.77	0.09	4.39	0.45
Since 01.01.98	6.02	1.77	0.09	4.08	0.47
Since 01.01.99	5.61	1.88	0.09	3.56	0.51
Since 01.01.00	4.63	1.97	0.10	2.51	0.41
Since 01.01.01	5.01	1.97	0.10	2.88	0.43
Since 01.01.02	6.65	2.13	0.10	4.32	0.50
Since 01.01.03	9.92	2.19	0.10	7.45	0.56
Since 01.01.04	8.96	2.42	0.10	6.28	0.56
Since 01.01.05	8.99	2.45	0.10	6.28	0.57

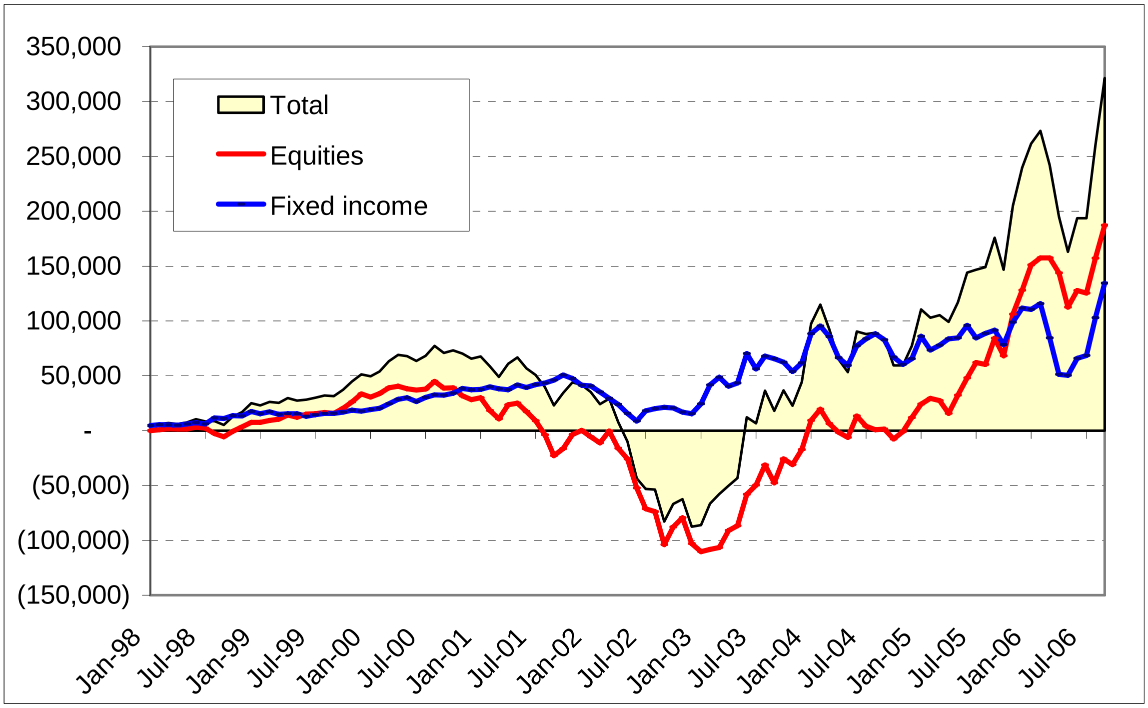
The cumulative return on the fund from 1 January 1998 until the end of the third quarter of 2006 was NOK 321 billion. This is shown by the yellow area in Chart 3-5. Equity management accounted for NOK 187.2 billion, or 58%, of the cumulative return on the fund. The red line in the chart shows the cumulative return on the equity portfolio. Between August 2001 and November 2004, the cumulative return on the equity portfolio was negative, and so all returns have come in the ensuing period of just under two years.

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

The market value of the equity portfolio at the end of the quarter was 37.9 per cent higher than the average purchase price.

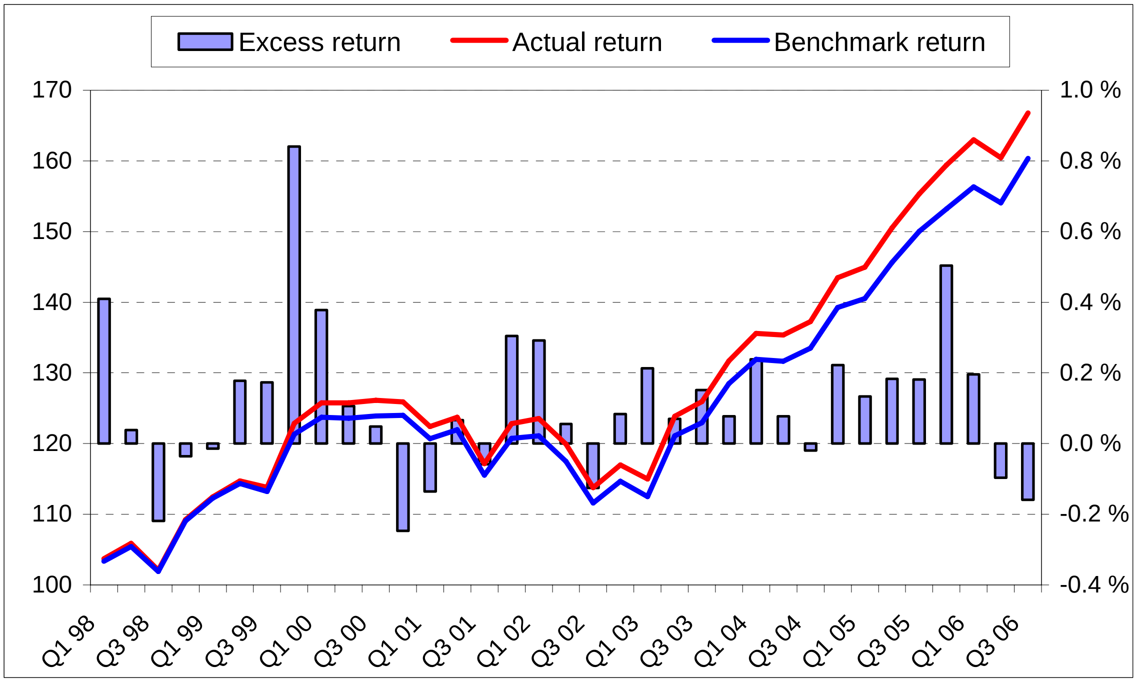
The blue line in the chart shows that the fixed income portfolio has been far more stable in terms of cumulative return. Fixed income management accounted for NOK 134.3 billion, or 42%, of the cumulative return on the fund.

Chart 3-5: Cumulative return on the fund 1998-2006. In millions of NOK



Since 1998, the cumulative return on the benchmark portfolio has been 60.4 per cent, whereas the actual return has been 66.7 per cent (see Chart 3-6). The cumulative gross excess return measured in terms of the currency basket has been 6.4 percentage points, or NOK 25.6 billion.

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

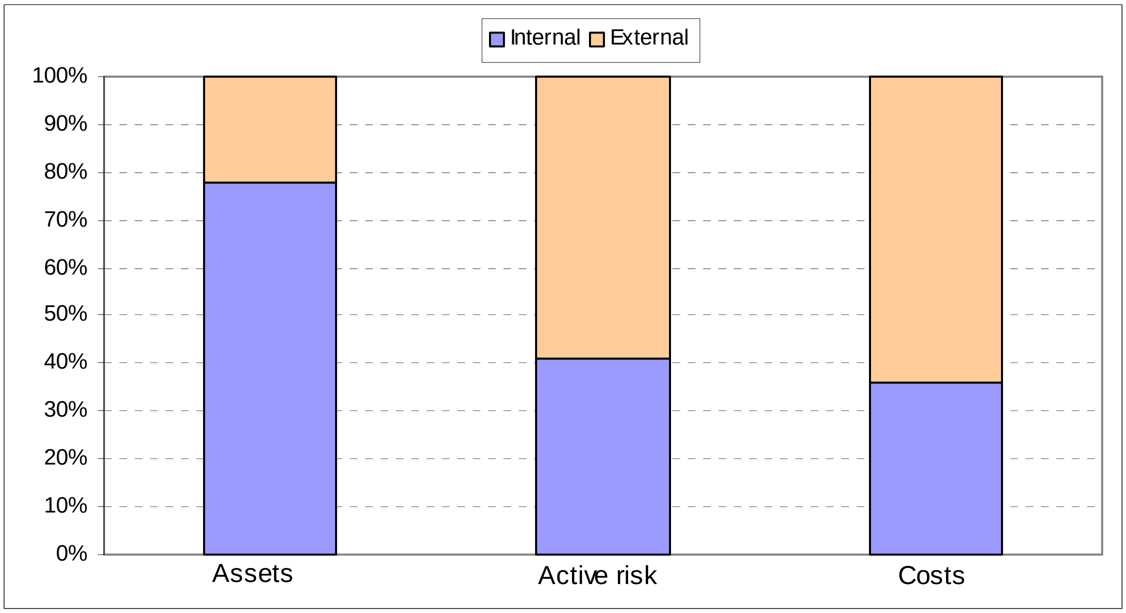


Internal and external management

At the end of the third quarter, 22 per cent of the fund was managed by external investment managers. Costs associated with external management accounted for 64 per cent of total management costs. External management accounted for approximately 59 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 third quarter amounted to 0.30 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, and the excess return from external managers has clearly exceeded the additional costs.

Chart 3-7: Distribution of portfolio, management costs and active risk[8] between internal and external management. Per cent



<u>Fixed income management</u>

The market value of the portfolio increased by NOK 129.2 billion to NOK 1,024.4 billion in the third quarter. NOK 60.9 billion was transferred to the portfolio during the period. A positive return on investment and a weaker krone increased the value of the portfolio by NOK 28.8 billion and NOK 39.5 billion respectively. At th end of the quarter, approximately 89 per cent of the portfolio was managed internally by Norges Bank.

There are two main types of management. One is indexing and active management directly related to the indexing task. The objective of this enhanced indexing is to maintain a portfolio that is very close to the benchmark, while taking advantage of special pricing situations to achieve an excess return. Three sub-portfolios are indexed: government-guaranteed bonds, corporate bonds and securitised bonds. The three sub-portfolios are indexed internally, with the exception of securitised bonds in the US, which are managed externally.

Active management follows an investment philosophy based on specialisation and delegation of decisions, and is performed by both internal and external managers. To achieve the aim of specialisation, a group structure has been established where each group is tasked with a limited investment universe.

Approximately 11 per cent of the portfolio is managed by external managers. Besides the mandates for US securitised bonds, this portion includes active mandates with a variety of strategies for outperforming the benchmark. The choice of external managers is

[8] 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.

viewed as an investment decision where different mandates are allocated capital or phased out on the basis of analyses of liquidity and expected future excess returns.

In the third quarter of 2006, capital was transferred to three new mandates assigned to external managers: Ellington Management Group and Barclays Global Investors N.A. were both awarded mandates for specialist management in the US, while a Fund investment mandate was awarded Smith Breeden Associates Inc.

Equity management

The market value of the equity portfolio was NOK 687.9 billion at the end of the third quarter, an increase of NOK 78.0 billion during the period. NOK 18.6 billion was transferred to the portfolio during the period. A positive return on investment increased the value of the portfolio by NOK 32.7 billion, while a weaker krone increased its value by NOK 26.8 billion.

At the end of the quarter, approximately 62 per cent of the portfolio was managed internally by Norges Bank. Part of the portfolio is managed in an enhanced indexing portfolio. Other internal active management has been built up gradually in recent years, and consists of portfolio managers focusing both on fundamental analysis-based stock-picking in the financial, telecommunication, energy, media and trade sectors globally, and on relative value strategies. Over the last year, these mandates have been converted to the "absolute return" type, i.e. the portfolios strike a balance between long (owned) and short (borrowed) equity positions. Equities are borrowed from a central index portfolio or in the market. This set-up leaves NBIM free to focus and dimension its internal management independently of capital delegated to external managers.

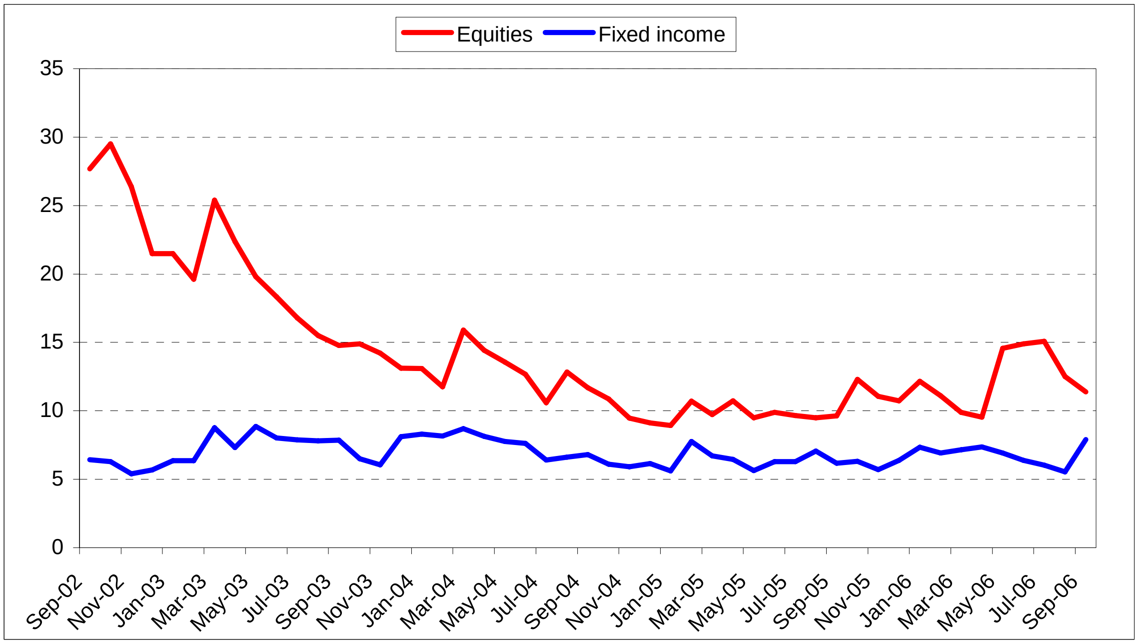
Approximately 38 per cent of the portfolio is managed by external managers. All of the external equity mandates have defined their own benchmark portfolios and risk limits. The regional mandates have benchmark portfolios consisting of the companies included in the FTSE index for a geographical region, such as Continental Europe, the UK, the US and Japan. The sector mandates have benchmark portfolios in sectors such as finance, technology, health care, oil and gas, utilities, trade, media and telecommunications.

Capital was transferred to four new mandates assigned to external equity managers during the quarter: Fidelity Pensions Management, Atlantis Fund Management Ltd. and Scheer, Rowlett & Associates Investment Management Ltd. were awarded regional mandates, while Wellington Management Company LLP was awarded a sector mandate.

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 decreased slightly in the third quarter after increasing in the second. When it comes to the fixed income portfolio, there have been only small changes in market risk over the last four years. This stability reflects the way that the fixed income markets are normally far more stable than the equity markets.

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

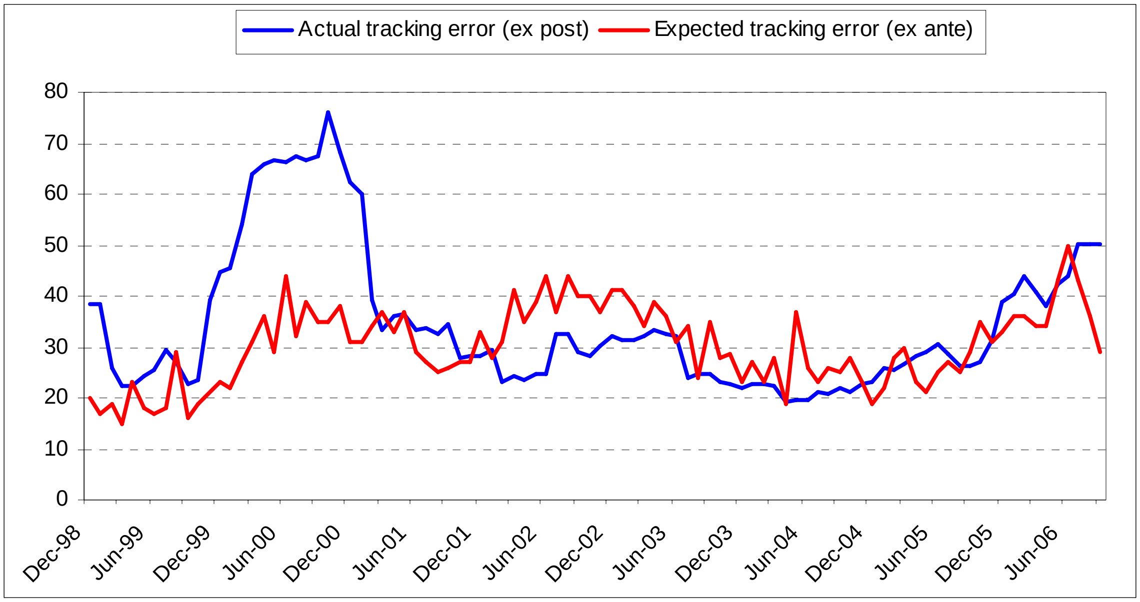


The Ministry of Finance has set a limit on the extent to which the fund's portfolio may differ from the benchmark portfolio. This has been accomplished by setting a limit for the expected deviation between the returns on the actual portfolio and the benchmark portfolio. This limit for relative market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

Expected volatility 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 slight increase in expected tracking error over the last 12 months. In the third quarter, there was a decrease in expected tracking error due to reduced volatility in the capital markets. 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 (dots) and a confidence interval measured as 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 given the risk model used, and analyses of longer time series give similar results.

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

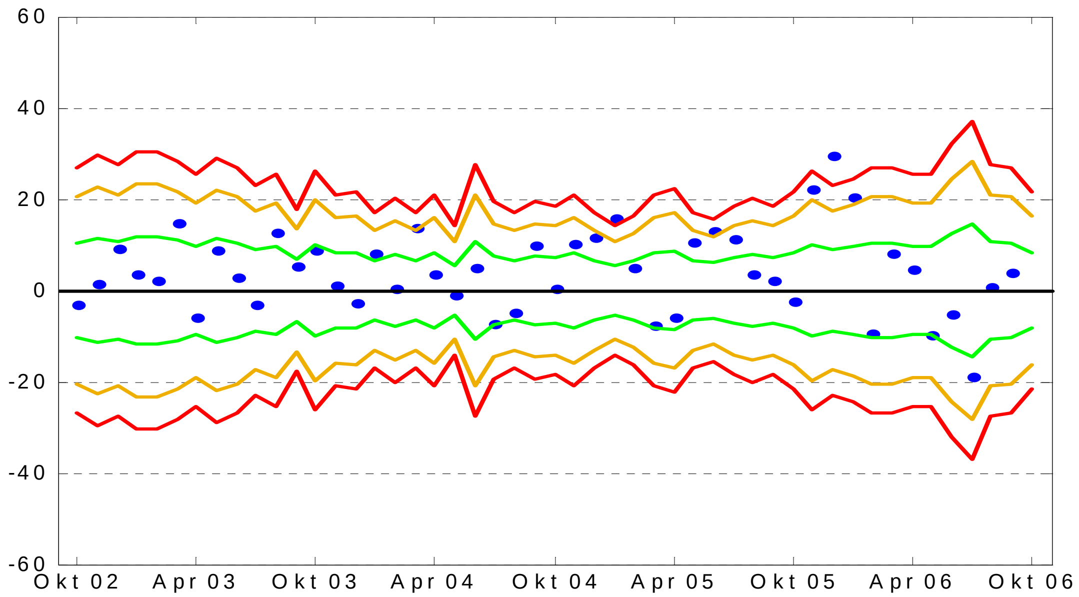
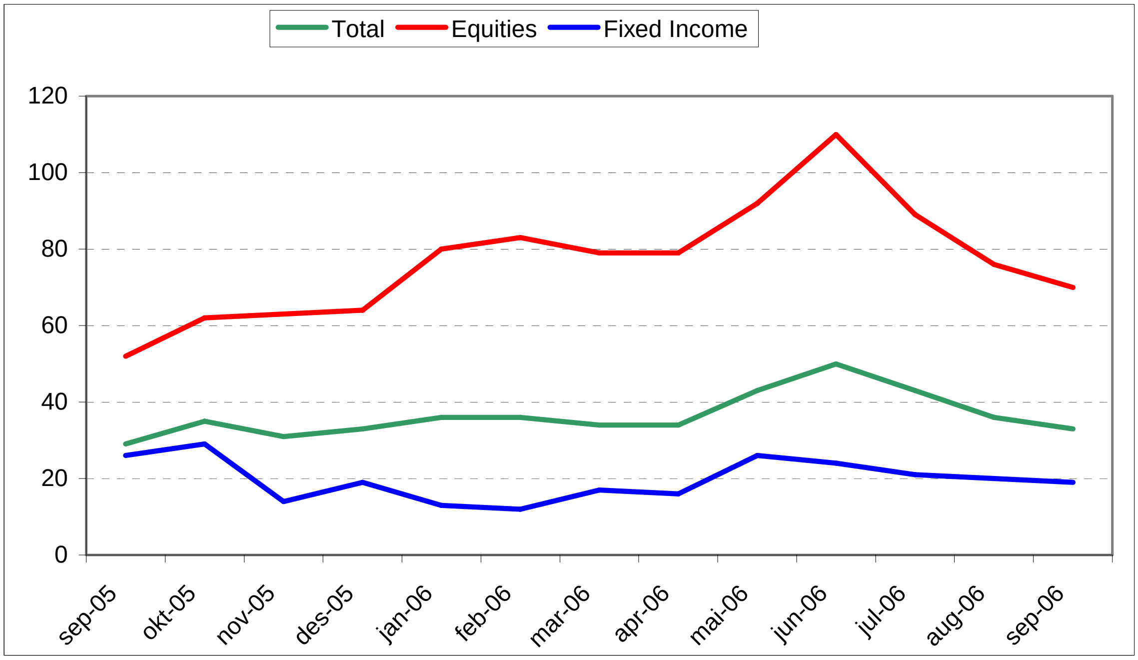


Chart 3-11 shows developments in expected tracking error in the equity and fixed income portfolios over the last 12 months. Relative market risk is higher in equity management than in fixed income management.

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 third quarter of 2006 was 1.19, annualised. Table 3-5 provides a historical overview of the information ratio for the fund as a whole and for each asset class.

Table 3-5: Information ratios

Period	Fund	Equities	Fixed income
Last 12 months	0.90	0.54	2.60
Since 2002	1.51	0.86	3.13
Since 1999	1.28	1.01	2.00

Guidelines for management

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 3-6. There were no significant breaches of the investment guidelines during the quarter.

Table 3-6: Risk and exposure limits stipulated in the regulation and guidelines

	Risk	Limits	Actual				
			30.09.05	**31.12.05**	**31.03.06**	**30.06.06**	**30.09.06**
§ 5	Market risk	Maximum tracking error 1.5 percentage point	0.29	0.33	0.34	0.50	0.33
§ 4	Asset mix	Fixed income 50-70%	59.2	58.4	59.1	59.5	59.8
		Equities 30-50%	40.8	41.6	40.9	40.5	40.2
§ 4	Market distribution, equities[9]						
		Europe 40-60%	47.7	47.3	48.5	49.0	49.1
		Americas and Africa 25-45%				36.1	35.5
		Asia and Oceania 5-25%				14.9	15.4
		Americas, Africa, Asia and Oceania 40-60%	52.3	52.7	51.5		
	Currency distribution, fixed income[10]	Europe 50-70%	54.5	55.1	55.5	60.8	60.0
		Americas and Africa 25-45%	35.3	34.8	34.2	32.6	34.7
		Asia and Oceania 0-15%	10.2	10.1	10.4	6.6	5.5
§ 6	Ownership stake	Maximum 5% of a company	3.0	2.7	3.9	4.7	4.5

Table 3-7 shows the composition of the bond portfolio (fixed income portfolio excluding cash) 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 assigned the credit rating of the issuing country. In addition to bonds, the fixed income portfolio contains fixed income instruments with shorter maturities. These all have credit ratings of P-1 from Moody’s and A-1 from S&P.

Table 3-7: The bond portfolio on 30 September 2006 by credit rating. Percentage of market value

Moody’s		**Standard & Poor’s**	
Rating	Percentage of total	Rating	Percentage of total
Aaa	50.93	AAA	49.24
Aa	18.14	AA	18.20
A	16.66	A	14.93
Baa	8.27	BBB	8.78
Ba	0.47	BB	0.64
Lower	0.14	Lower	0.15
No rating	5.39	No rating	8.06

[9] The Ministry of Finance has changed the regional weights in 2006, cf. discussion in the Revised National Budget for 2006.

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 2006, 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.

Table 3-8: Management costs in the first three quarters of 2006. In thousands of NOK and as a percentage of the average portfolio

	Q1-Q3 2006		Q1-Q3 2005	
	NOK 1 000	Per cent		NOK 1 000
Internal costs, equity management	153 219		112 860	
Custodian and fund administration costs	81 063		39 499	
Total costs, internal equity management	**234 282**	**0.08**	**152 359**	**0.07**
Internal costs, fixed income management	124 094		110 947	
Custodian and fund administration costs	45 338		33 387	
Total costs, internal fixed income management	**169 432**	**0.03**	**144 334**	**0.03**
Minimum fees to external managers	298 227		258 564	
Performance-based fees to external managers	315 857		197 419	
Other costs, external management	89 842		80 036	
Total costs, external management	**703 926**	**0.30**	**536 019**	**0.29**
Total management costs	**1 107 639**	**0.10**	**832 712**	**0.10**
Total management costs excluding performance-based fees	**791 783**	**0.07**	**635 293**	**0.08**

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 three quarters of 2006 amounted to 0.10 per cent of the average market value of the fund (see Table 3-8). Excluding performance-based fees to external managers, costs amounted to 0.07 per cent of the market value of the fund. By way of comparison, costs in the first three quarters of 2005 amounted to 0.08 per cent of market value.

For internal management, there was no change in the ratio of costs to assets under management from the first three quarters of 2005 to the first three quarters of 2006. For external management, the ratio increased slightly, due mainly to a rise in performance-based fees to external managers. Fees to most external managers are calculated on the basis of the average excess return generated by that manager over a number of years. There is therefore no direct link between the fees charged to the accounts and the excess return generated in a particular year.

Costs are distributed between internal and external management using a cost distribution key for internal costs and custodian costs. External management accounted for approximately 64 per cent of costs, whereas only approximately 22 per cent of the fund's portfolio is managed externally. The unit cost of internal management was approximately 0.05 per cent, compared with 0.30 per cent for external management.

4. Norges Bank's foreign exchange reserves

Key figures for the third quarter of 2006

Investment portfolio

- Market value NOK 223.1 billion on 30 September
- Return for the period in international currency:
    - Overall: 4.10 per cent
    - Equities: 5.51 per cent
    - Fixed income: 3.20 per cent
- Excess return 0.01 percentage point
- One new external management mandate

Buffer portfolio

- NOK 79.5 billion transferred to the Government Pension Fund – Global
- NOK 40.6 billion transferred from the State's Direct Financial Interest in petroleum activities (SDFI)
- NOK 37.8 billion transferred from Norges Bank's own foreign exchange purchases
- Market value NOK 2.7 billion on 30 September
- Return for the period of 6.2 per cent measured in NOK

The investment portfolio's market value

The investment portfolio's market value was NOK 223.1 billion at the end of the third quarter, an increase of NOK 17.4 billion during the quarter. A positive return on investment accounted for NOK 8.6 billion of this increase, while a weaker krone against the currencies in which the portfolio is invested increased its value by a further NOK 8.8 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

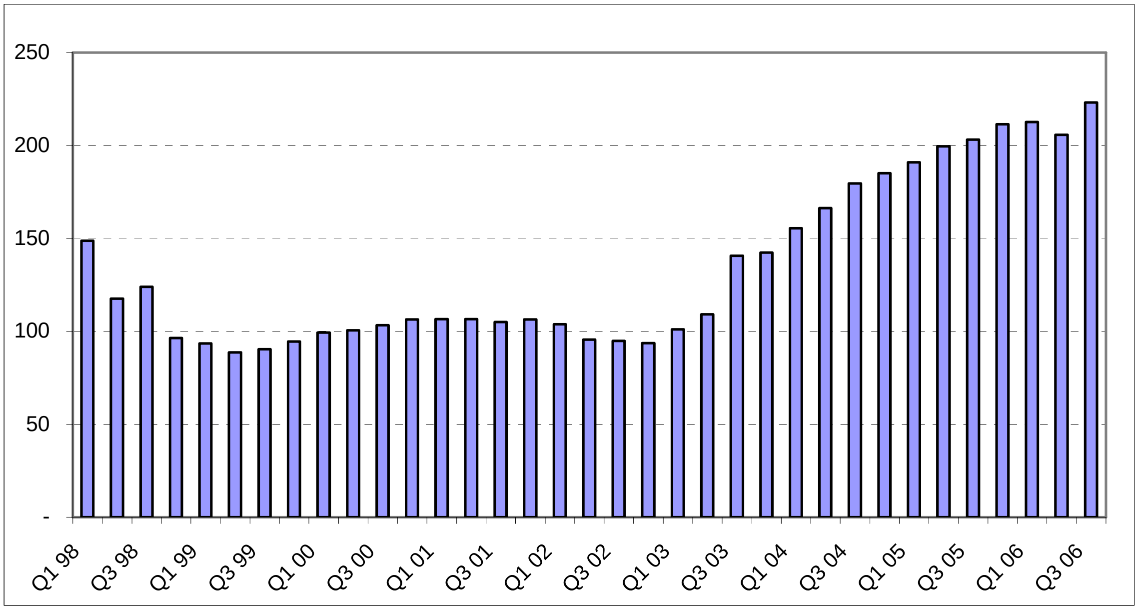
Table 4-1 shows the market value of the portfolio at the end of the last five quarters, and the change in market value in the third quarter of 2006 due to the return on the portfolio in international currency and changes in the international value of the krone.

Table 4-1: Market value of the investment portfolio over the last 12 months, and change in market value in the third quarter of 2006. In millions of NOK

	Equity management	Fixed income management	Total
30 September 2005	66 005	137 209	203 213
31 December 2005	70 669	140 817	211 486
31 March 2006	83 495	129 174	212 670
30 June 2006	**79 754**	**125 934**	**205 688**
Transfers of new capital	-	-	-
Return	4 485	4 080	8 564
Change in krone value	3 433	5 394	8 827
30 September 2006	**87 672**	**135 407**	**223 079**

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 1998-2006. In billions of NOK



<u>Return on the portfolio</u>

The return on the investment portfolio in the third quarter of 2006 was 4.10 per cent measured in terms of the benchmark portfolio's currency basket (see Table 4-2). Measured in NOK, the aggregate return in the third quarter was 8.46 per cent. The return measured in NOK was higher because the krone depreciated in relation to the currencies in the benchmark portfolio during the quarter.

The gross actual return on the investment portfolio was 0.01 percentage points higher than the return on the benchmark portfolio. In absolute terms, the excess return in the third quarter of 2006 was NOK 15 million. Internal fixed income management generated a positive excess return, while both external fixed income and internal equity management made a negative contribution.

Table 4-2: Return on the investment portfolio. Actual and benchmark portfolios in the third quarter of 2006. 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	**1.62**	**1.54**	**-0.37**	**-0.45**	**0.08**
Q2	**-1.53**	**-1.48**	**-3.28**	**-3.24**	**-0.04**
July	1.15	1.09	0.25	0.19	0.06
August	1.79	1.80	4.31	4.32	-0.01
September	1.10	1.15	3.71	3.75	-0.04
Q3	**4.10**	**4.09**	**8.46**	**8.44**	**0.01**
Year to date	4.17	4.12	4.51	4.46	0.05

Since 1 January 1998, the average quarterly return measured in international currency has been 1.43 per cent. Chart 4-2 shows the quarterly returns. There has been a negative return in seven out of 35 quarters.

Chart 4-2: Quarterly returns 1998-2006 measured in terms of the portfolio's currency basket. Per cent

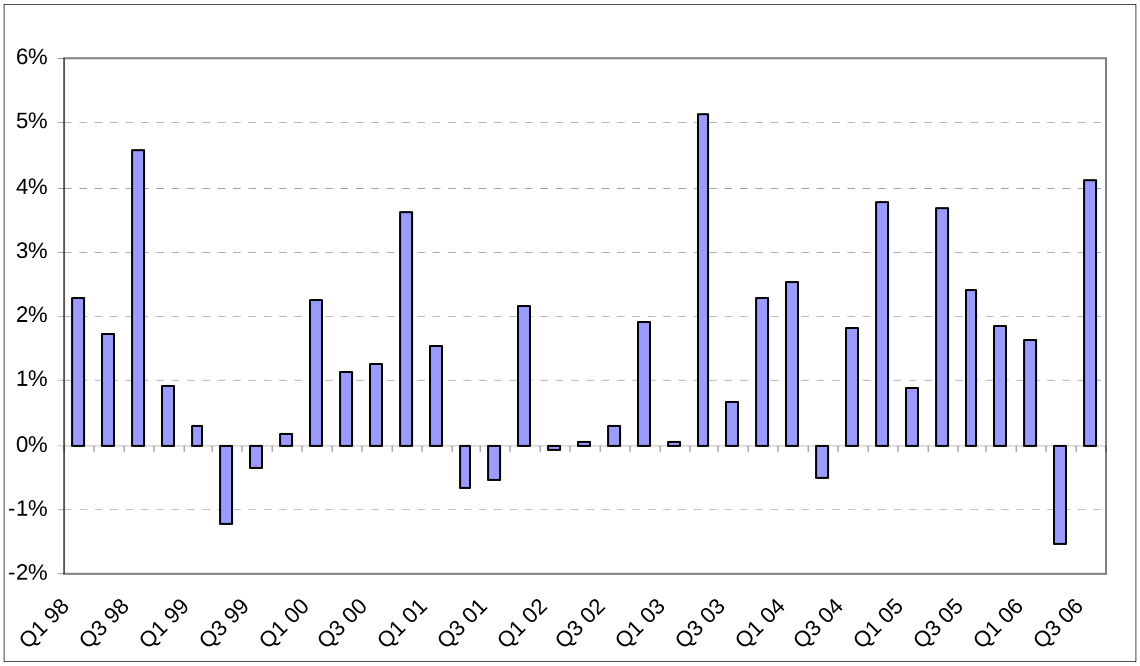


Table 4-3 shows the percentage return on the investment portfolio since 1998. The return has been calculated in relation to the portfolio's currency basket. Until the end of 2000, the entire portfolio was invested in government or government-guaranteed bonds. Since 2001, however, some of the portfolio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

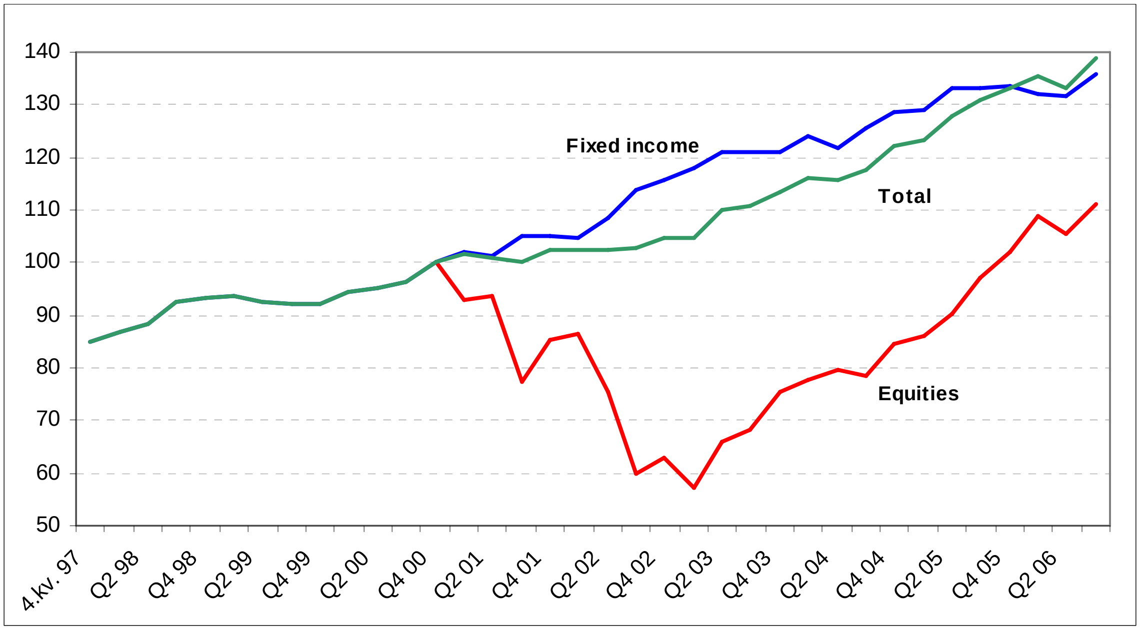
	Nominal annual return	Annual inflation[10]	Management costs	Annual net real return	Annual gross excess return
Since 01.01.98	5.77	1.83	0.06	3.80	0.19
Since 01.01.99	5.26	1.95	0.06	3.19	0.23
Since 01.01.00	6.24	2.04	0.07	4.06	0.25
Since 01.01.01	5.86	2.02	0.07	3.70	0.27
Since 01.01.02	6.60	2.17	0.07	4.26	0.29
Since 01.01.03	7.81	2.21	0.06	5.41	0.27
Since 01.01.04	6.64	2.47	0.06	4.99	0.18
Since 01.01.05	7.59	2.50	0.06	4.90	0.22

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

The table shows that the annual net real return since 1 January 1998 has been 3.80 per cent after deductions for inflation and management costs. The right-hand column shows that the gross excess return in relation to the portfolio's benchmark has averaged 0.19 percentage point per year since 1 January 1998.

Chart 4-3 shows the cumulative return from 1 January 1998 for the fixed income and equity portfolios. The cumulative return on fixed income investments for the period as a whole has been 59.9 per cent. Since the first equity investments were made in January 2001, the cumulative return has been 35.8 per cent on the fixed income portfolio and 11.2 per cent on the equity portfolio. The chart shows that the overall cumulative return is slightly higher than the cumulative return on each of the two asset classes. This is due to the transfer of funds to the asset class which has given the weaker performance and therefore had an underweight. If this asset class subsequently performs strongly relative to the other, the overall cumulative return may exceed the return on each of the two asset classes.

Chart 4-3: Index for cumulative return on the asset classes in the investment portfolio measured in terms of the portfolio's currency basket (31.12.00 = 100)

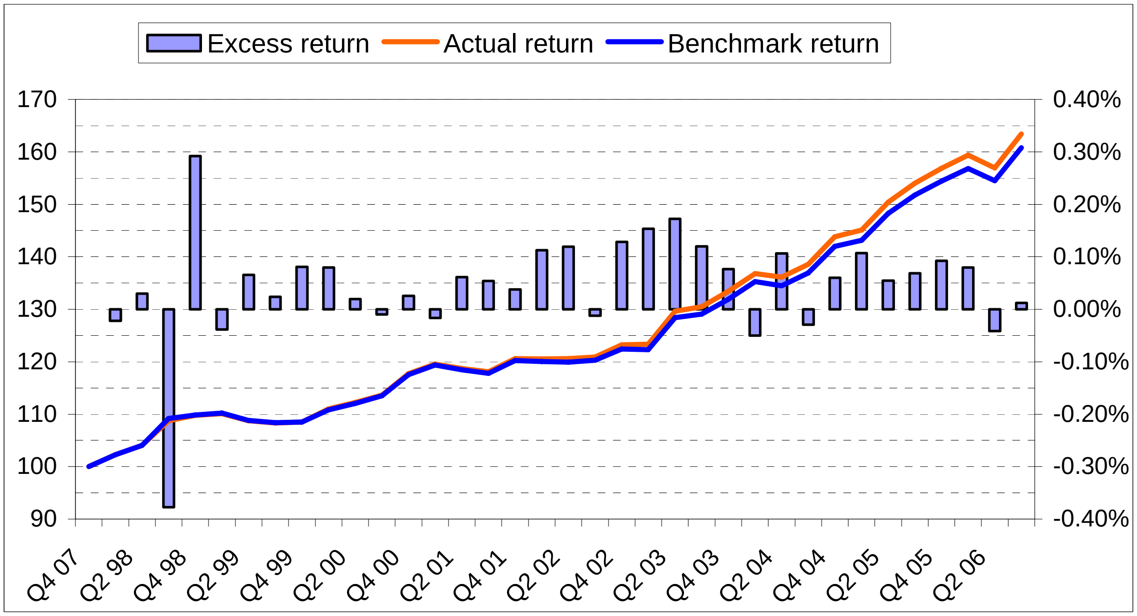


However, this difference in returns does not provide an accurate picture of the profitability of the two asset classes. Substantial amounts have been transferred from bonds to equities since January 2001. The market value of the equity portfolio at the end of the quarter was 17.4 per cent higher than the average purchase price. Thus equity investments have been more profitable relative to bond investments than Chart 4-3 would suggest.

The cumulative return since 1 January 1998 has been 63.4 per cent for the actual portfolio and 60.8 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 2.6 percentage points since 1998.

In absolute terms, the excess return has been NOK 2.0 billion. The chart also shows that a positive excess return has been achieved in 26 of the 35 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) 1998-2006



<u>Fixed income management</u>
The market value of the fixed income portfolio grew by NOK 9.5 billion to NOK 135.4 billion in the third quarter. A positive return on fixed income investments and a weaker krone increased the value of the portfolio by NOK 4.1 billion and NOK 5.4 billion respectively. A change in the krone exchange rate has no effect, however, on the portfolio’s international purchasing power.

Approximately 85 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.

In the third quarter of 2006, capital was transferred to one new mandate assigned to an external manager: Bridgewater Associates Inc. was awarded a mandate for specialist management in the US.

<u>Equity management</u>
The market value of the equity portfolio grew by NOK 7.9 billion to NOK 87.7 billion during the quarter. A positive return on equity investments and a weaker krone increased the value of the portfolio by NOK 4.5 billion and NOK 3.4 billion respectively. A change in the krone exchange rate has no effect, however, on the portfolio’s international

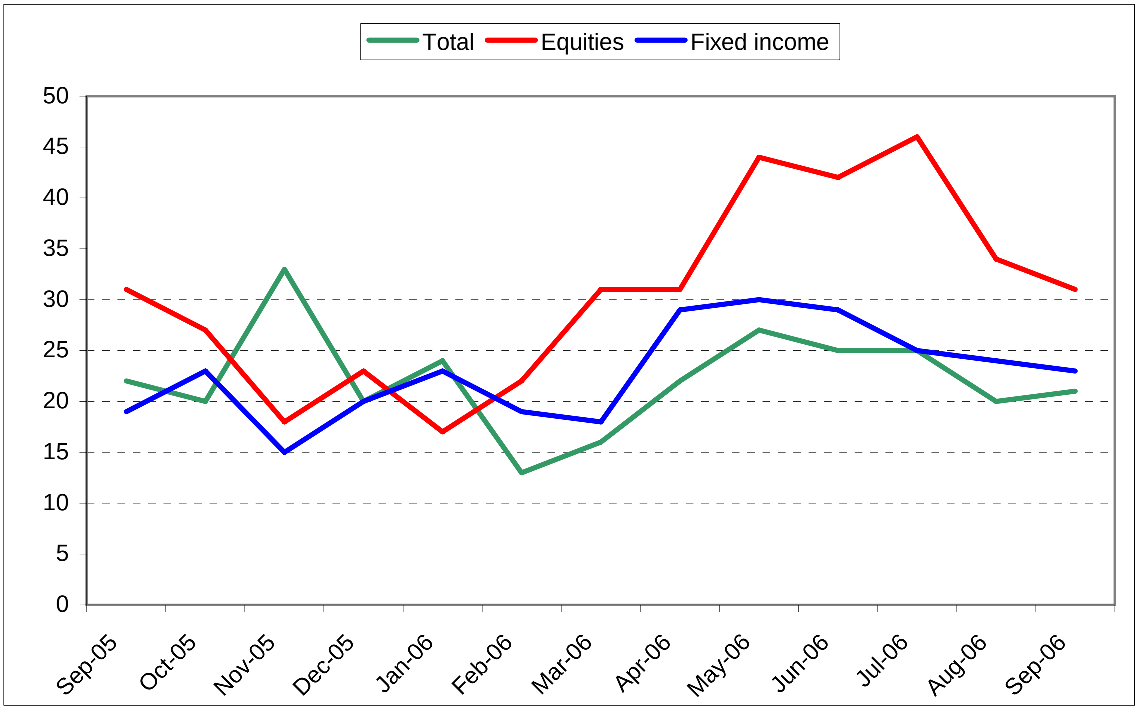
purchasing power. The entire equity portfolio was managed internally by Norges Bank at the end of the quarter.

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 0.21 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 0.89.

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

Table 4-4: Information ratios

Period	Portfolio	Equities	Fixed income
Last 12 months	0.91	-0.95	2.35
Since 2002	1.60	-0.54	2.70
Since 1999	1.28	n/a	1.97

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. It was a minor breach of the Executive Board's guidelines in third quarter. There was an error in the composition of the fixed-income benchmark. The error was corrected without loss for the Fund.

Table 4-5: Risk and exposure

Risk		Actual				
		30.09.05	31.12.05	31.03.06	30.06.06	30.09.06
Market risk (percentage points)	Tracking error	0.22	0.31	0.16	0.25	0.21
Asset mix	Fixed income	67.52	66.58	60.74	61.23	60.70
	Equities	32.48	33.42	39.26	38.77	39.30
Market distribution, equities	Europe	49.32	48.56	50.00	50.91	51.18
	Americas	39.90	39.79	36.58	35.58	35.51
	Asia and Oceania	10.78	11.65	13.42	13.51	13.31
Market distribution, fixed income	Europe	53.17	52.79	56.43	61.34	58.42
	Americas	38.68	39.28	37.38	32.44	35.70
	Asia and Oceania	8.15	7.93	6.19	6.22	5.88
Ownership stake (per cent)	Ownership stake max. 5 per cent	0.45	0.97	0.68	0.82	0.95

Table 4-6 shows the composition of the bond portfolio (fixed income portfolio excluding cash) based on credit ratings from Moody's and Standard & Poor's (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 September 2006 by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	Percentage of total	Rating	Percentage of total
Aaa	54.72	AAA	51.93
Aa	20.43	AA	18.25
A	12.59	A	10.46
Baa	5.87	BBB	6.83
Ba	1.18	BB	1.53
Lower rating	0.63	Lower rating	0.48
No rating	4.58	No rating	10.52

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 three quarters of 2006, NBIM's total costs associated with the management of the investment portfolio, including performance-based fees, amounted to NOK 96.5 million, which corresponds to 0.06 per cent (annualised) of the average portfolio.

Buffer portfolio

Transfers to the buffer portfolio and transfers to the Government Pension Fund – Global in the third quarter of 2006

Table 4-7 provides an overview of transfers of capital to the buffer portfolio and the Government Pension Fund – Global in the third quarter of 2006. A total of NOK 40.7 billion was transferred to the portfolio from the State's Direct Financial Interest in petroleum activities (SDFI) during the quarter. A further NOK 28.3 billion was transferred to the portfolio through Norges Bank's purchases of foreign exchange in the market during the quarter.

A total of NOK 69.6 billion was transferred to the Government Pension Fund – Global in the third quarter of 2006.

Table 4-7: Transfers to and from the buffer portfolio in the third quarter of 2006. In millions of NOK

Period	Transferred from SDFI	Foreign exchange purchased in the market	Transferred to Government Pension Fund – Global	Transferred to investment portfolio	Market value at end of period
Q1	**46 115**	**16 175**	**82 366**	**-**	**-**
Q2	**40 660**	**28 321**	**69 550**	**-**	**-**
July	13 433	10 497	24 065	-	3 082
August	13 436	9 427	23 993	-	2 302
September	13 776	17 845	31 409	-	2 700
Q3	**40 645**	**37 768**	**79 467**	**-**	**-**
Year to date	127 420	82 264	231 383	-	-

Size and return

The market value of the buffer portfolio was NOK 2.7 billion at the end of the third quarter of 2006, compared with NOK 3.5 billion on 30 June 2006. The return on the buffer portfolio during the quarter was 6.2 per cent measured in NOK. In absolute terms, there was a return of NOK 257 million.

5. Government Petroleum Insurance Fund

Key figures for the third quarter of 2006

- Market value NOK 15.5 billion on 30 September
- Return for the period of 2.52 per cent in international currency
- Return for the period of 7.06 per cent measured in NOK
- Excess return 0.01 percentage point
- Claims paid NOK 2.4 million

The fund's market value

The market value of the fund's international portfolio was NOK 15.5 billion at the end of the third quarter of 2006. In addition, the balance on the working account was NOK 149.9 million. The market values of the Petroleum Insurance Fund's foreign exchange portfolios at the end of each quarter since September 2005 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

	30.09.05	31.12.05	31.03.06	30.06.06	30.09.06
EUR	7 036	7 038	6 906	7 389	7 696
GBP	2 098	2 120	2 073	2 220	2 349
USD	4 892	5 039	4 835	5 091	5 492
Total market value	**14 026**	**14 197**	**13 814**	**14 700**	**15 535**

Return on the fund

The return on the fund in the third quarter of 2006 was 2.52 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 7.06 per cent. The difference is due to the depreciation of the krone against the currencies included in the benchmark portfolio during the quarter. The return on the fund was 0.01 percentage point higher 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	Excess return
Q1	**-0.71**	**-0.72**	**-2.38**	**-2.39**	**0.00**
Q2	**-0.07**	**-0.08**	**-1.63**	**-1.64**	**0.01**
July	0.93	0.91	0.08	0.06	0.02
August	0.99	0.98	3.70	3.68	0.01
September	0.57	0.59	3.16	3.18	-0.02
Q3	**2.52**	**2.50**	**7.06**	**7.04**	**0.01**
Year to date	**1.72**	**1.69**	**2.81**	**2.78**	**0.03**

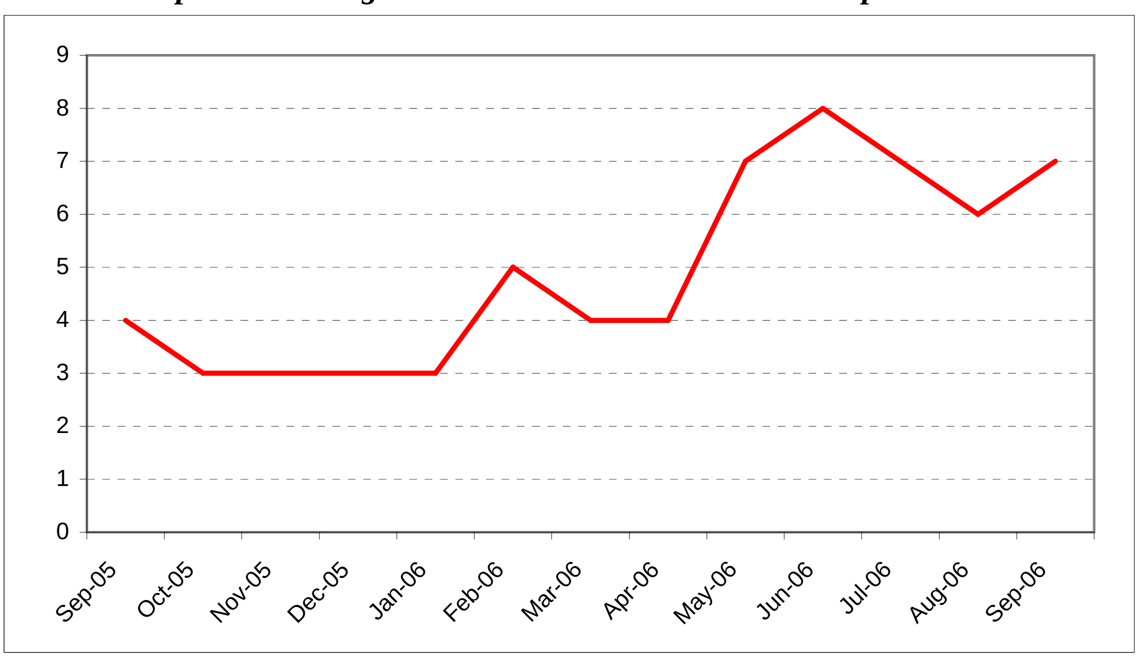
The actual return figures include normal transaction costs associated with indexing the portfolio. These costs are not included when calculating the benchmark return. Norges Bank estimates that these costs amount to about 0.02 per cent of the portfolio's value per year. On the other hand, the actual return figures include income from lending fixed income instruments, while the benchmark return does not. Norges Bank and some of the external custodian institutions conduct lending operations.

Management of the fund
The entire portfolio is managed internally by Norges Bank and has always been kept very close to the benchmark. The portfolio 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 2.4 million were made during the quarter.

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 third quarter of 2006 (see Chart 5-1).

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



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 third quarter.

Table 5-3: The portfolio's modified duration by currency on 30 September 2006

Currency	Actual portfolio	Benchmark portfolio
EUR	3.86	3.94
GBP	3.92	4.08
USD	4.15	4.05
Total	**3.98**	**4.00**

Guidelines for management

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 during the third quarter of 2006.

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

Risk	Limits	Actual				
		30.09.05	**31.12.05**	**31.03.06**	**30.06.06**	**30.09.06**
Market risk	Maximum tracking error 0.75 percentage point	0.04	0.03	0.04	0.08	0.07
Interest rate risk	Modified duration max. 5	3.91	3.93	3.92	3.98	3.98

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 September 2006 by credit rating

Moody's		Standard & Poor's	
Rating	Percentage of total market value	Rating	Percentage of total market value
Aaa	77.66	AAA	63.50
Aa	21.73	AA	29.78
A	4.90	A	4.90
No rating[11]	2.71	No rating	1.82

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 2006, a remuneration rate of 0.06 per cent of the average market value of the portfolio was stipulated. Remuneration of NOK 6.4 million was accrued during the first three quarters of 2006.

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[11] If a security has no rating from Moody's, it will have an approved rating from one of the other 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 was NOK 127,767 million in the first three quarters of 2006 prior to the deduction of Norges Bank's management remuneration.

Table 1: The Pension Fund's international portfolio on 30 September 2006 by instrument. In millions of NOK

	30.09.05	31.12.05	30.09.06
Short-term assets/debt, incl. deposits in foreign banks	6 912	23 784	-14 981
Money market investments in foreign financial institutions against collateral in the form of securities	474 743	558 979	664 740
Borrowing from foreign financial institutions against collateral in the form of securities	-443 772	-438 717	-623 527
Foreign fixed income securities	738 292	682 024	1 005 701
Foreign equities	511 821	576 683	682 149
Adjustment of forward contracts and derivatives	-6 633	-3 618	-1 702
Total portfolio before management remuneration	**1 281 363**	**1 399 135**	**1 712 380**
Management remuneration due	-833	-1 239	-1 108
Total portfolio	**1 280 530**	**1 397 896**	**1 711 272**

Off-balance-sheet items (in millions of NOK)	**30.09.05**	**31.12.05**	**30.09.06**
Liabilities			
Derivatives and forward contracts sold	639 397	798 223	1 144 587
Derivatives and forward contracts purchased	621 614	785 681	1 160 268
Rights			
Options sold	290	5 273	26 480
Options purchased	5 430	8 578	118 184

There is a slight difference in the market value used in the return calculations (see Table 3-1) and the accounts to 30 September 2006. This is due partly to accounting provisions and 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 September 2006. In millions of NOK

	30.09.05	31.12.05	31.06.06	30.09.06
Interest income	20 715	27 815	18 325	30 195
Dividends	8 543	10 309	8 909	11 832
Exchange rate adjustments[12]	6 789	33 610	-49 146	13 536
Unrealised gains/losses on securities	28 533	36 521	-55 504	-11 364
Realised gains/losses on securities	34 301	49 908	29 629	36 261
Brokers' commissions	-18	-19	-25	-37
Gains/losses on futures	656	1 250	-3 142	-3 348
Gains/losses on options	-4	0	77	55
Gains/losses on equity swaps	127	1 239	1 402	1 794
Gains/losses on interest rate swaps	-894	1 756	3 570	2 938
Book return on investments	**98 748**	**162 389**	**-45 905**	**81 862**
Accrued management remuneration	-833	-1 239	-726	-1 108
Net return	**97 915**	**161 150**	**-46 631**	**80 754**

[12] The exchange rate adjustments in the accounts in the table above have been calculated on the basis of the 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.

1.2 Investment portfolio

Table 1: The investment portfolio on 30 September 2006 by instrument. In millions of NOK

	30.09.05	31.12.05	30.09.06
Short-term assets/debt, incl. deposits in foreign banks	-4 129	-9 159	-12 070
Money market investments in foreign financial institutions against collateral in the form of securities	55 972	66 211	96 907
Borrowing from foreign financial institutions against collateral in the form of securities	-61 260	-61 002	-98 978
Foreign fixed income securities	155 162	146 676	148 834
Foreign equities	65 995	70 615	88 699
Adjustment of forward contracts and derivatives	-783	-377	-303
Total portfolio	**210 957**	**212 964**	[13]**223 089**

Off-balance-sheet items	30.09.05	31.12.05	30.09.06
Liabilities			
Derivatives and forward contracts sold	92 385	137 043	201 036
Derivatives and forward contracts purchased	84 692	136 662	207 393
Rights			
Options sold	43	759	11 664
Options purchased	1 149	1 448	16 452

Table 2: Book return on the investment portfolio to 30 September 2006. In millions of NOK

Return on the investment portfolio	30.09.05	31.12.05	31.06.06	30.09.06
Interest income	3 572	5 067	3 087	5 094
Dividends	1 199	1 467	1 233	1 664
Exchange rate adjustments	1 489	5 570	-7 608	651
Unrealised gains/losses on securities	4 535	5 318	-8 888	-2 308
Realised gains/losses on securities	4 191	5 390	3 357	4 126
Brokers’ commissions	-2	-3	-2	-4
Gains/losses on futures	-203	-145	144	82
Gains/losses on options	-5	-3	10	-5
Gains/losses on equity swaps	-42	-13	91	53
Gains/losses on interest rate swaps	94	440	784	240
Other operating expenses	-31	-44	-33	-51
Net return	**14 797**	**23 044**	**-7 825**	**9 542**

[13] There is a difference in the market value used in the return calculations (see Table 4-1) and the accounts to 30 September 2006. This is due to internal netting of receivables and payables between the investment portfolio and the buffer portfolio.

1.3 Government Petroleum Insurance Fund

Table 1: The Petroleum Insurance Fund's international portfolio on 30 September 2006 by instrument. In thousands of NOK

	30.09.05	31.12.05	30.09.06
Short-term assets/debt, incl. deposits in foreign banks	-419 397	32 040	206 958
Money market investments in foreign financial institutions against collateral in the form of securities	3 000 008	2 854 221	2 546 411
Borrowing from foreign financial institutions against collateral in the form of securities	0	0	0
Foreign fixed income securities	11 447 122	11 312 548	12 987 634
Adjustment of forward contracts and derivatives	-1 100	-983	-1 827
Total portfolio before management remuneration	**14 026 634**	**14 197 825**	**15 739 177**
Management remuneration due	-6 161	-8 222	-6 389
Total portfolio	**14 020 473**	**14 189 603**	[14] **15 732 788**

Off-balance-sheet items (in thousands of NOK)	**30.09.05**	**31.12.05**	**30.09.06**
Derivatives and forward contracts sold	1 135 199	1 149 753	854 741
Derivatives and forward contracts purchased	1 134 099	1 148 770	852 879

Table 2: Book return on the Government Petroleum Insurance Fund to 30 September 2006. In thousands of NOK

	30.09.05	31.12.05	31.06.06	30.09.06
Interest income	408 254	559 657	299 431	484 399
Exchange rate adjustments	28 716	325 078	-455 986	192 946
Unrealised gains/losses on securities	17 474	-18 437	-370 349	-177 463
Realised gains/losses on securities	33 213	15 285	-36 248	-24 976
Gains/losses on derivatives	694	811	-683	-880
Other operating expenses	-1	-6	5	5
Net return	**488 350**	882 309	-563 830	-474 032
Accrued management remuneration	-6 161	-8 222	-4 156	-6 389
Net return	**482 189**	**874 087**	**-567 986**	**-467 643**

[14] There is a difference in the market value used in the return calculations (see Table 5-1) and the accounts to 30 September 2006. This is due to the netting of receivables and payables between Norges Bank's foreign exchange reserves and the Petroleum Insurance Fund.

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 Government Pension Fund – Global is a continuation of the Government Petroleum Fund. At the same time as the Government Pension Fund was established on 1 January 2006, the Ministry of Finance changed the guidelines for the management of the fund. The most important changes were that the maximum ownership stake in limited companies was raised to 5 per cent (previously 3 per cent), the requirement of a minimum credit rating for corporate bonds was dropped (previously a minimum of BBB investment grade), and investments may now be made in commodities contracts and units in mutual funds.

In the Revised National Budget for 2006, the Ministry of Finance announced its decision to change the regional weights for the fund's investments. The composition of the benchmark portfolio for equities is now 15 per cent Asia and Oceania, 50 per cent Europe and 35 per cent Americas and Africa. The composition of the benchmark portfolio for fixed income investments is now 5 per cent Asia and Oceania, 60 per cent Europe and 35 per cent Americas. The upper and lower limits for the regional composition of the actual portfolio have been set at ten percentage points either side of the regional weights in the benchmark portfolio, but with a lower limit for fixed income investments in Asia and Oceania of 0 per cent. The change was phased in gradually and was completed in the third quarter of 2006.

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, and *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. With effect from 31 May 2006, the Ministry of Finance decided to exclude the companies Wal-Mart and Freeport from the fund's investment universe. The reasons for their exclusion are discussed in more detail in the Ministry's press release of 6 June 2006. An overview of the companies excluded from the investment universe at the end of the third quarter of 2006 can be found in Appendix 4.

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 management of the fund through quarterly and annual reports which are also published.

Benchmark portfolio on 30 September 2006. 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**	**40.2**	**60.0**	**59.8**
Belgium		0.8		
Finland		0.9		
France		8.0		
Greece		0.5		
Ireland		0.6		
Italy		3.2		
Netherlands		2.7		
Portugal		0.3		
Spain		3.2		
Germany		5.3		
Austria		0.4		
Euro area (EUR)		*25.8*		*47.9*
UK (GBP)		16.9		9.7
Denmark (DKK)		0.5		0.7
Switzerland (CHF)		5.0		0.5
Sweden (SEK)		1.8		1.1
Total Europe	**50.0**	**50.1**	**60.0**	**59.9**
US (USD)		31.4		33.1
Brazil		0.6		
Canada (CAD)		2.0		2.0
Mexico		0.4		
South Africa		0.5		
Total Americas and Africa	**35.0**	**35.0**	**35.0**	**35.2**
Australia (AUD)		2.1		0.2
Hong Kong		1.2		
Japan (JPY)		8.9		4.5
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.3		0.2
South Korea		1.4		
Taiwan		1.0		
Total Asia and Oceania	**15.0**	**14.9**	**5.0**	**5.0**

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 the 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. 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 Europe, 35 per cent Americas, and 5 per cent Asia and Oceania.

Asset class 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 class 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 third quarter of 2006.

The table above shows the weights in the actual benchmark on 30 September 2006. 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 made 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. In November 2005, the Executive Board decided to increase the equity portion of the investment portfolio from 30 to 40 per cent. The phasing in of this higher proportion of equities was completed on 30 April 2006. With effect from 1 January 2006, the Executive Board decided that the maximum ownership stake in any one company be raised from 3 to 5 per cent.

If combined holdings in the foreign exchange reserves and the Government Pension Fund – Global exceed 5 per cent, a special report must be submitted to the Executive Board. The Executive Board has laid down joint guidelines for corporate governance in the two funds, 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.

Benchmark portfolio on 30 September 2006. 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**	**39.4**	**60.0**	**60.6**
Belgium		0.8		
Finland		0.9		
France		8.2		
Greece		0.5		
Ireland		0.6		
Italy		3.3		
Netherlands		2.8		
Portugal		0.3		
Spain		3.3		
Germany		5.4		
Austria		0.4		
Euro area (EUR)		*26.5*		*46.7*
UK (GBP)		17.3		9.3
Denmark (DKK)		0.5		0.7
Switzerland (CHF)		5.2		0.6
Sweden (SEK)		1.9		1.1
Total Europe	**50.0**	**51.4**	**58.0**	**58.5**
US (USD)		30.9		33.5
Brazil		0.6		
Canada (CAD)		21.9		3.3
Mexico		0.4		
South Africa		0.5		
Total Americas and Africa	**35.0**	**34.4**	**37.0**	**36.7**
Australia (AUD)		2.0		0.2
Hong Kong		1.1		
Japan (JPY)		8.5		4.6
New Zealand (NZD)		0.1		
Singapore (SGD)		0.3		
South Korea		1.3		
Taiwan		1.0		
Total Asia and Oceania	**15.0**	**14.3**	**5.0**	**4.8**

With effect from 31 May 2006, the Ministry of Finance decided to exclude the companies Wal-Mart and Freeport from the Pension Fund's investment universe. An overview of the companies excluded from the investment universe can be found in Appendix 4.

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 18 countries. 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 58 per cent Europe, 37 per cent Americas, and 5 per cent Asia and Oceania.

The table above shows the weights in the actual benchmark on 30 September 2006. 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 is composed of the Lehman Global Aggregate Treasury indices for the three currencies as well as a money market deposit to weight the interest rate risk, as 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 reset to the strategic currency weights.

The table below shows the currency weights in the fund's strategic and actual benchmark on 30 September 2006

Benchmark portfolio on 30 September 2006. Per cent

Currency	Strategic benchmark portfolio	Actual benchmark portfolio
EUR	50.0	49.5
GBP	15.0	15.1
USD	35.0	35.4
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 20 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. 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.

Companies excluded from the investment universe by the Ministry of Finance as at 30 September 2006

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[15] EADS Finance B.V., Netherlands[16] 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, Italia Honeywell International Inc., US Northrop Grumman Corp., US Safran SA, France United Technologies Corp., US
31 May 2006	Breaches of human and labour rights (1) Damage to the environment (2)	Wal-Mart Stores Inc. (1) Wal-Mart de Mexico S.A (1) Freeport-McMoRan Copper and Gold Inc. (2)

Kerr-McGee Corporation was excluded from the investment universe on 31 May 2005. The company has since been merged with Anadarko Petroleum and became part of the investment universe again from 30 June 2006.

[15] 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.

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 supplier's prices are generally used for securities in the benchmark indices[16]. 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 based 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.[17]

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 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.

Norges Bank estimates transaction costs associated with phasing in new capital into the Pension Fund. 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

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

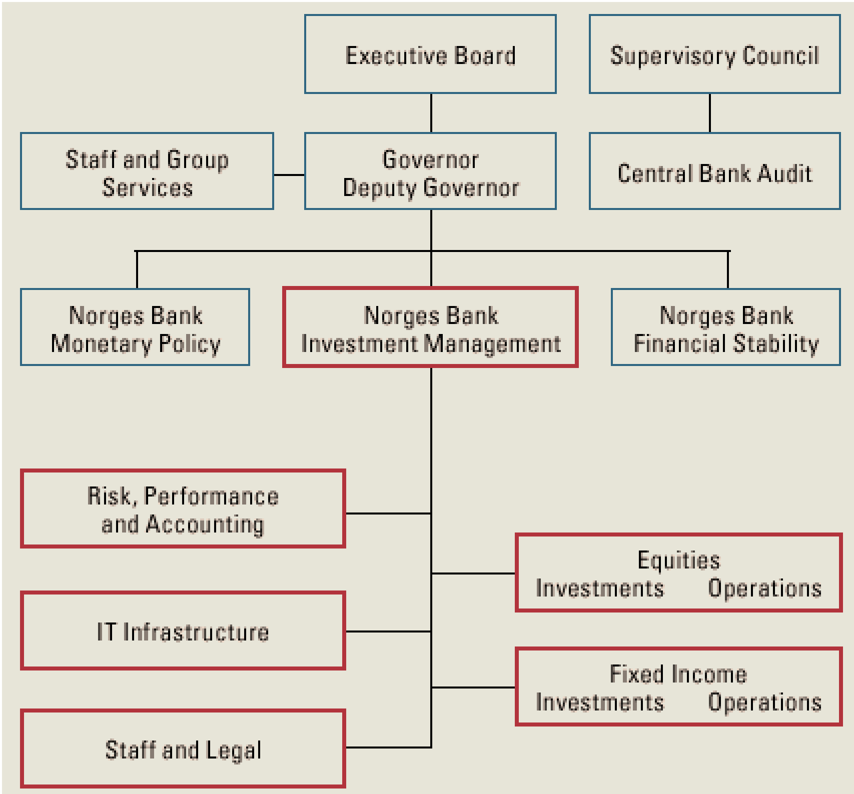
of 2005. Indirect transaction costs comprise three main components: liquidity costs, market impact and opportunity costs. Norges Bank's model calculates transaction costs in the fixed income portfolio based on the full bid-ask spread. Indirect transaction costs in the equity portfolio are estimated using 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: Definition of expected tracking error

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 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 the Audit Department.



The Executive Board establishes the framework for NBIM's operations through its decisions concerning NBIM's strategy plans. The strategy plan covers a three-year period and is revised every other year. The main objectives for the period 2005-2007 are to achieve an annual excess return of at least 0.25 percentage point by means of active management and to ensure a high level of confidence among clients and the general public. Underlying these objectives is an acknowledgement that Norges Bank manages substantial assets on behalf of Norwegian society.

NBIM has separate business lines for equity and fixed income management. The heads of Equities and Fixed Income are responsible for all portfolio investments and performance, strategic planning and cost management within their respective asset class. Each business line has a chief operating officer who is responsible for support functions, transactions and IT systems. The chief operating officers report both to their respective business line manager and to the Executive Director of NBIM. In addition, three departments which are organisationally independent of the two business lines report directly to NBIM's Executive Director. These departments are responsible for risk measurement, performance measurement, accounting, compliance with investment guidelines, negotiation of legal agreements, personnel policy, IT policy and administrative shared services. At the end of September 2006, NBIM had 134 permanent employees.