NBIM Quarterly Performance Report
Third quarter 2007

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

Government Petroleum Insurance Fund

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

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1. Introduction and key figures

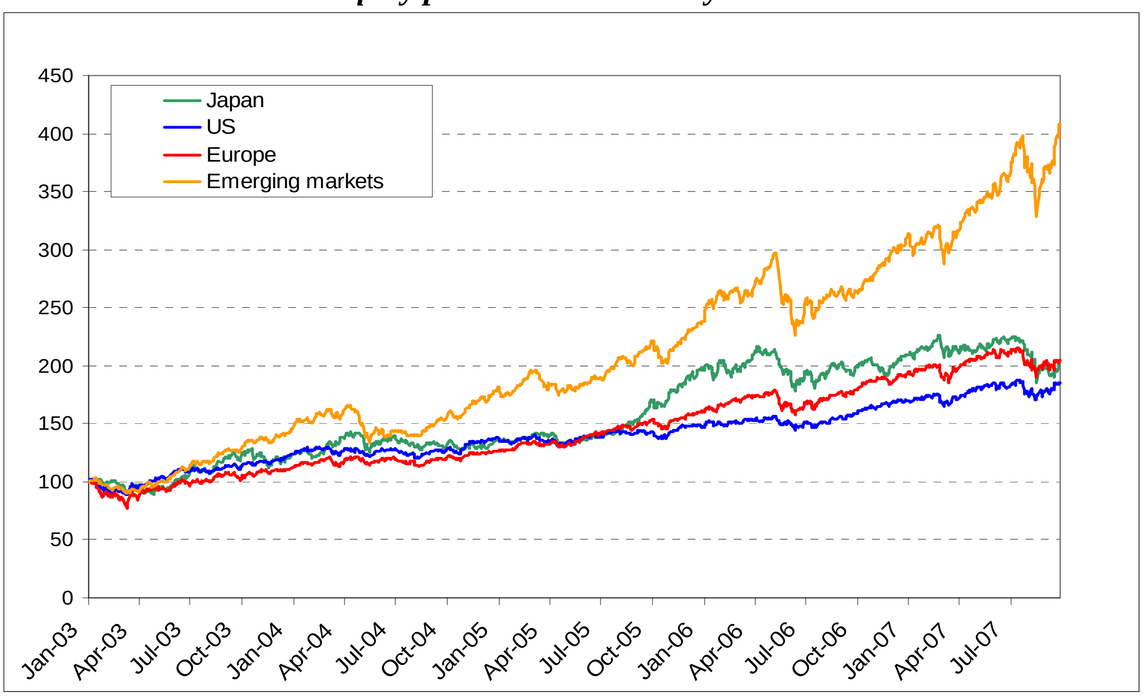
1.1 Major price variations in global financial markets

The third quarter brought turmoil and price fluctuations in financial markets the world over. Growing defaults on subprime mortgages in the US led to a widening of the yield spread between securities backed by loans to subprime borrowers and US government bonds. Equity markets were also affected by the turmoil, and prices fell sharply in July and August. Equity markets rallied in September, and part of the drop in prices was reversed. Companies in the Basic Materials sector performed best, while companies in the Financials and Consumer Services sectors performed worst.

Over the quarter as a whole, the Government Pension Fund – Global, the investment portfolio in Norges Bank's foreign exchange reserves and the Government Petroleum Insurance Fund generated positive returns in international currency of 1.15, 0.45 and 2.64 per cent respectively. In the first three quarters of 2007, the two largest funds (the Government Pension Fund – Global and the investment portfolio) generated returns of 4.9 and 4.2 per cent respectively, while the return on the Petroleum Insurance Fund was 2.9 per cent.

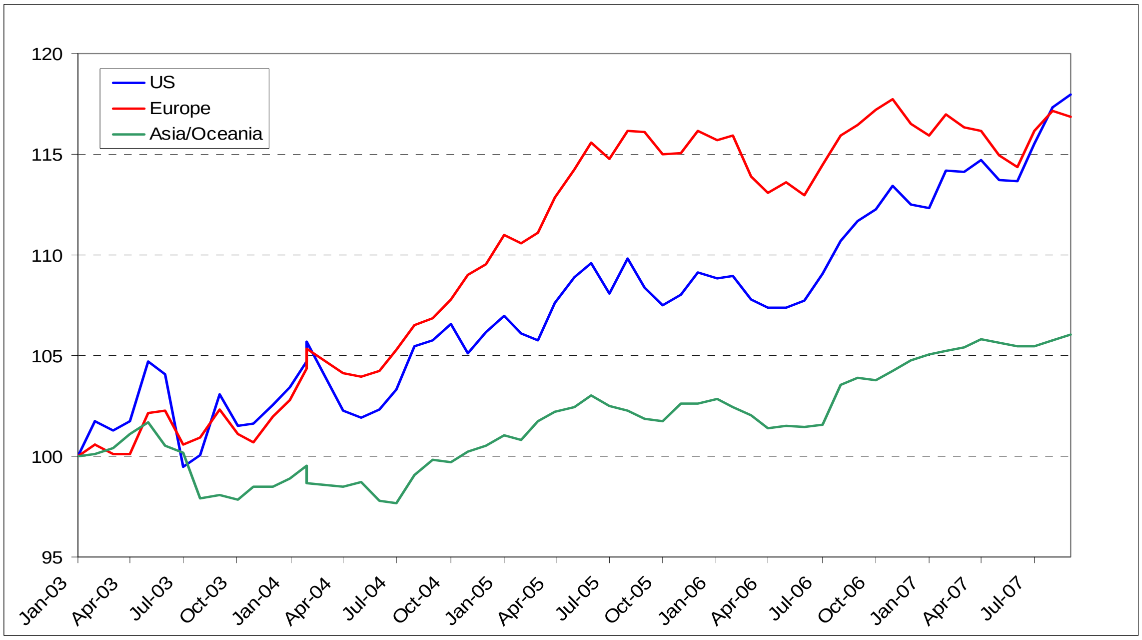
Since the beginning of 2003, the Japanese, European and US equity markets have gained 104, 105 and 85 per cent respectively. An index of equities in 24 emerging markets has risen 308 per cent in the same period.

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



The return on global government bond markets was positive in the third quarter of 2007. This had to do with the turmoil in credit markets leading to increased demand for government bonds, which are highly creditworthy investments. Chart 1-2 shows returns on government bond markets since 2003 measured as the change in the Lehman Global Aggregate government bond indices. The indices for Europe, America and Asia/Oceania rose by 16.8, 18.0 and 6.1 per cent respectively during the period.

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



<u>Return of 1.15 per cent on the Government Pension Fund – Global</u>

The return on the Government Pension Fund – Global in the third quarter of 2007 was 1.15 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 -0.30 per cent, and the return on the fixed income portfolio was 2.10 per cent. The return on the Pension Fund's portfolio was 0.17 percentage point lower than the return on the benchmark portfolio defined by the Ministry of Finance. In the first three quarters of 2007, the overall return on the fund was 4.94 per cent, and the excess return 0.19 percentage point. The market value of the fund at the end of the quarter was NOK 1 932.3 billion.

<u>Return of 0.45 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 2007 was 0.45 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 -1.52 per cent, and the return on the fixed income portfolio was 1.97 per cent. The return on the investment portfolio was 0.60 percentage point lower than the return on the benchmark portfolio defined by Norges Bank's Executive Board. In the first three quarters of 2007, the overall return on the portfolio was 4.21 per cent, and the excess return 0.39 percentage point. The market value of the portfolio at the end of the quarter was NOK 213.1 billion.

Return of 2.64 per cent on the Government Petroleum Insurance Fund
The return on the Government Petroleum Insurance Fund in the third quarter of 2007 was 2.64 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 0.09 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Petroleum and Energy. In the first three quarters of 2007, the overall return on the fund was 2.91 per cent, and the excess return 0.11 percentage point. The market value of the fund at the end of the quarter was NOK 14.4 billion.

1.2 Total assets under management NOK 2,163 billion

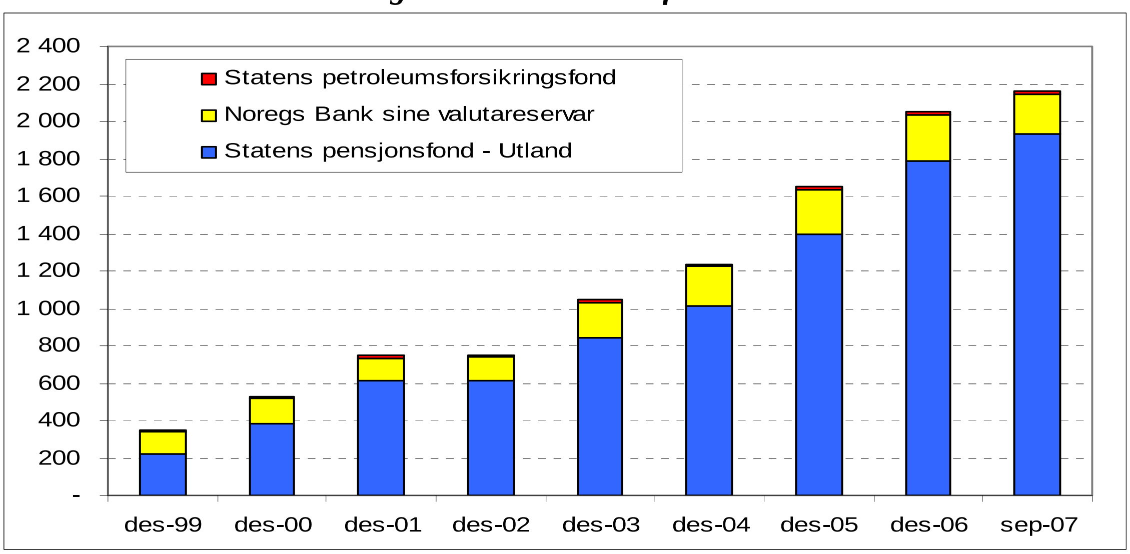
Transfers of NOK 75.9 billion were made to the Government Pension Fund – Global in the third quarter, and there was a return on investment of NOK 21.4 billion, while a stronger krone in relation to the investment currencies reduced the market value of the portfolios by NOK 104.4 billion. Assets under management totalled NOK 2 163 billion at the end of the third quarter of 2007 (see Table 1-1).

Table 1-1: Return in the third quarter and market value on 30 September 2007

	Return in currency		Return in NOK			NOK
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return	Market value in billions
Government Pension Fund – Global	1.15	1.33	-4.20	-4.03	-0.17	1 932
Investment portfolio	0.45	1.08	-4.85	-4.25	-0.60	213
Government Petroleum Insurance Fund	2.64	2.55	-3.06	-3.15	0.09	14
Total						**2 163**[1]

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

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



[1] The value of the buffer portfolio, which amounted to about NOK 2.9 billion on 30 September 2007, is included in the total.

1.3 Negative excess return of NOK 4.9 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 and the investment portfolio both generated a negative excess return, while the Government Petroleum Insurance Fund generated a positive excess return. There was a negative aggregate excess return on the portfolios managed by NBIM of NOK 4.9 billion. In the first three quarters of 2007, there was a positive aggregate excess return of NOK 2.8 billion. If account is taken of special transaction costs relating to the phasing in of new capital into the Pension Fund and the change in the benchmark for the investment portfolio, the negative excess return decreases by an estimated NOK 557 million.

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 34.0 billion. This breaks down into NOK 32.7 billion on the Government Pension Fund – Global, NOK 1.2 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 2007. In millions of NOK

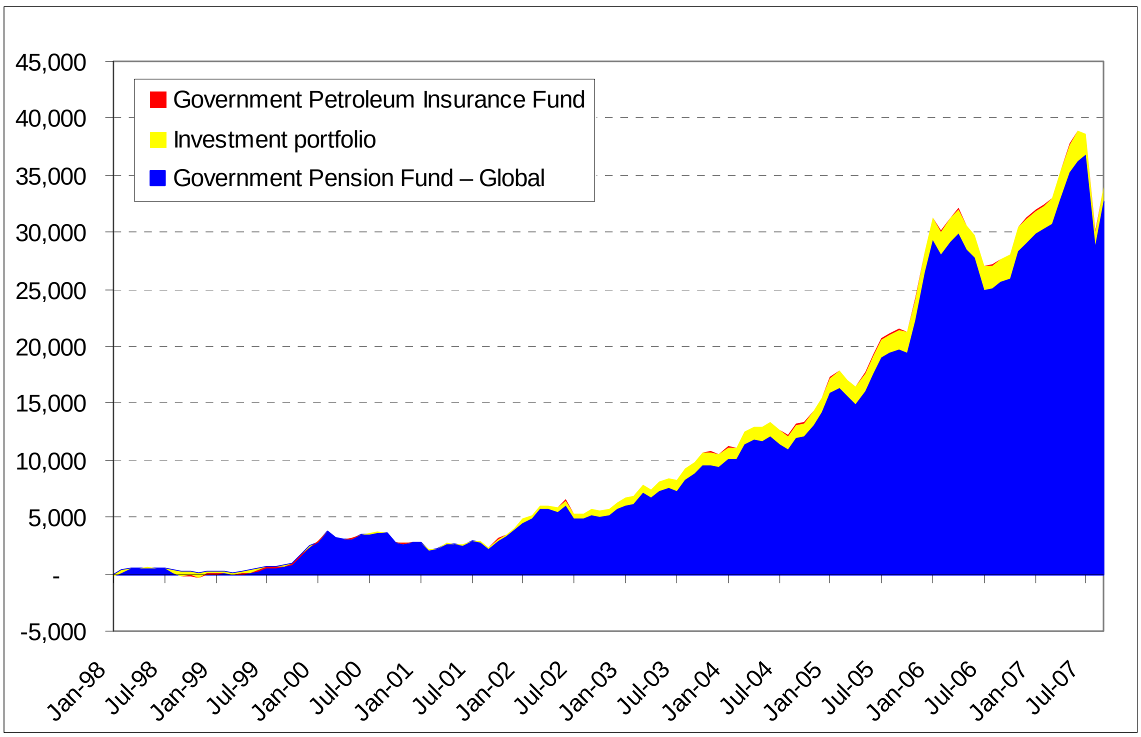


Table 1-2 provides an overview of risks and returns since 1 January 1998 for the portfolios managed by NBIM.

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

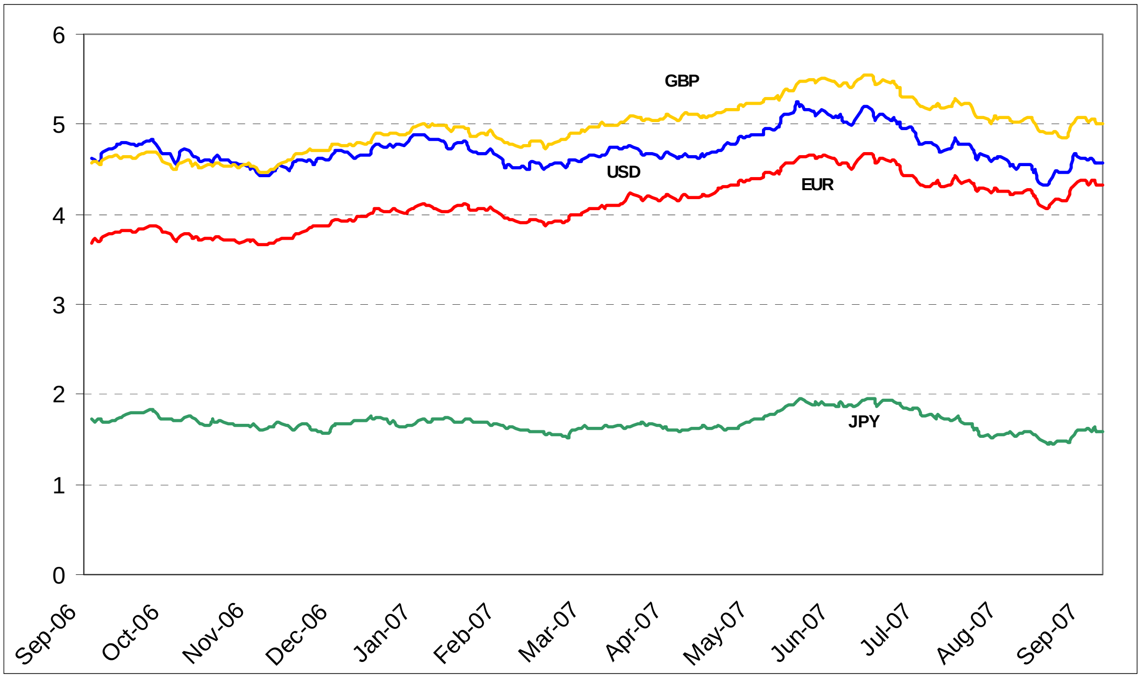
	Last 12 months	Last 3 years	Last 5 years	Since 01.01.98
Return/excess return[2]				
Pension Fund	-3.61	4.70	7.44	4.96
Benchmark portfolio	-4.00	4.16	6.92	4.50
Excess return	0.38	0.54	0.51	0.46
Investment portfolio	-4.47	3.36	5.72	4.68
Benchmark portfolio	-4.15	3.32	5.56	4.54
Excess return	-0.32	0.03	0.16	0.14
Insurance Fund	-7.67	-0.76	3.60	2.42
Benchmark portfolio	-7.78	-0.86	3.47	2.34
Excess return	0.11	0.10	0.12	0.08
Standard deviation[3]				
Pension Fund	6.22	7.34	8.45	8.35
Investment portfolio	6.51	7.23	7.91	7.08
Insurance Fund	5.75	6.55	7.39	6.48
Tracking error[4]				
Pension Fund	0.51	0.43	0.36	0.40
Investment portfolio	0.50	0.31	0.27	0.27
Insurance Fund	0.14	0.09	0.08	0.15
Information ratio (IR)[5]				
Pension Fund	0.75	1.24	1.43	1.17
Investment portfolio	-0.63	0.10	0.58	0.51
Insurance Fund	0.77	1.09	1.45	0.54

[2] When calculating the returns on the actual and benchmark portfolios, monthly returns are used which are linked together using geometrical methods. The figures are percentages and have been annualised. The excess return is calculated using arithmetical methods.
[3] The standard deviation is a measure of variations in the return/excess return during a period. Each monthly return/excess return is compared with the mean for the period. The higher the standard deviation, the greater the variations relative to the mean, and the higher the risk.
[4] Realised tracking error. Tracking error is explained in Appendix 4.
[5] The IR is a measure of risk-adjusted return, and is used to measure the degree of skill in investment management. It is calculated as the ratio between excess return and the actual relative market risk to which the portfolio has been exposed. The IR reveals the level of excess return generated for each unit of risk.

2. Market developments

<u>Fixed income markets</u>
Bond yields in the main markets fell in the third quarter. Ten-year government bond yields fell by approximately 0.45 percentage point in the US and the UK, and by approximately 0.25 percentage point in the euro area and Japan (see Chart 2-1). Since the beginning of the year, there has been an upswing in long yields in Europe, but a slight downturn in yields in the US and Japan.

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



Growth in the global economy remains strong, although there are signs of a slight slowdown in some industrialised countries. There is particularly strong growth in a number of emerging markets, and large economies such as China, India and Russia all had growth rates between 8 and 11 per cent.

Economic growth in the US is still robust, although there are signs that higher petrol prices and a persistently weak housing market are putting a damper on private consumption. A weaker dollar has contributed to good performance in the export industry, and investment activity remains high.

The economic upswing also continued in the euro area. The labour market is developing favourably, and unemployment in the euro area is falling. There are no signs of significant pressure on wages or prices, and confidence indicators suggest optimism among both consumers and businesses. Growth in private consumption picked up in the second and third quarters, which suggests that the increase in German VAT at the beginning of the year had only a temporary negative effect. The European Central Bank did not change its key interest rate in the third quarter.

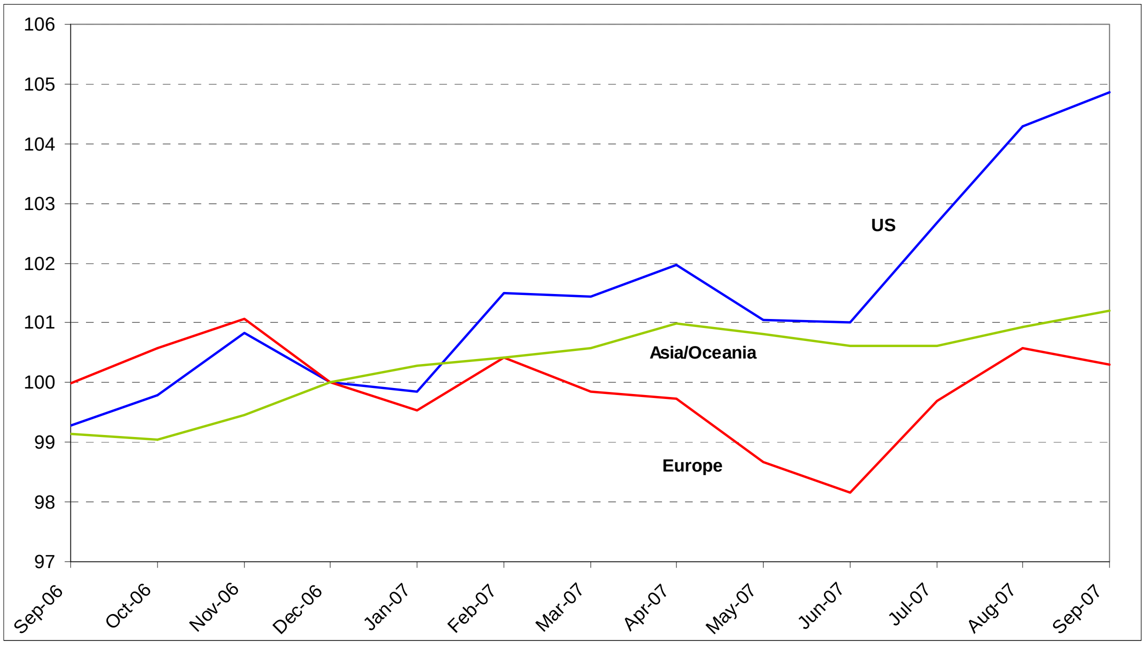
The upswing in the UK economy is continuing, despite higher interest rates and a stronger pound. Growth is being driven primarily by domestic demand. It is investment in particular which has contributed to economic growth, but private consumption has also picked up. The Bank of England raised its key interest rate from 5.5 to 5.75 per cent at the beginning of July.

Economic growth in Japan is also favourable, although there has been a slight slowdown in recent months. Unemployment is low, wage growth is moderate, and inflation is negative. The Bank of Japan has not changed its key interest rate since February 2007.

China and India are important for the global economy, with growth rates around 10 per cent. It is particularly the export sector and high investment activity which are fuelling growth in China. Activity levels are higher than the ruling powers believe to be compatible with stable long-term development. The People's Bank of China has therefore tightened monetary policy by increasing its primary reserve requirements, raising interest rates, and allowing the yuan to appreciate. In India, growth is being driven by strong domestic demand, with upswings in both investment and private consumption. Imports are also growing strongly, faster than exports. Unlike China, India is running trade and current account deficits.

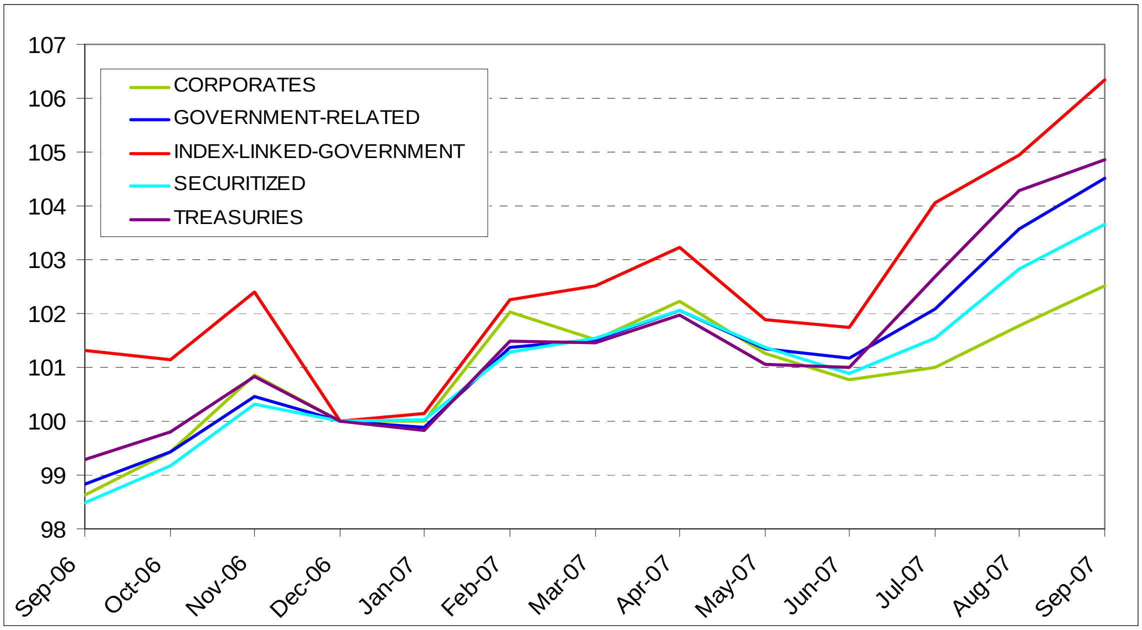
Chart 2-2 shows movements in the Lehman Global Aggregate government bond indices in the main markets over the last 12 months. The third quarter of 2007 brought returns of 2.2 per cent in Europe, 0.6 per cent in Asian-Pacific, and 3.8 per cent in the US.

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



Due to the turmoil in credit markets, there was a difference in the return of the various sub-indices in the US benchmark portfolio. The sub-index for corporate bonds performed worst, with a return roughly half that for the government bond index (see Chart 2-3). The return of the securitized-index which is mainly composed of mortgages, was 2.7 per cent.

Chart 2-3: Movements in the Lehman Global Aggregate sub-indices for the US over the last 12 months (31.12.06=100)



July and August brought turmoil and price fluctuations in financial markets the world over. The market turmoil was triggered by growing defaults on subprime mortgages in the US. The US mortgage market has a complex structure with many different players involved. Uncertainty about the scope and ramifications of these losses led to a sharp increase in the yield spread between securities backed by loans to subprime borrowers and US government bonds (see Chart 2-4). Investors' flight from securities with credit risk into more secure investments such as government bonds contributed to a downturn in long yields.

The turmoil quickly spread to other parts of the financial markets. There was considerable uncertainty about which banks and financial institutions were exposed to losses in the mortgage market, which meant that banks were reluctant to lend each other money. Banks wanted to retain liquidity, both to have access to it should other banks close their lines, and to avoid being left with claims on a bank that might go bankrupt.

Financial institutions needing short-term funding therefore ran into liquidity problems, and the central banks in the largest economies injected liquidity into financial markets to ease this situation in the short term. In mid-August, the Federal Reserve lowered its discount rate from 6.25 to 5.75 per cent. At the same time, the borrowing period for loans at the discount rate was extended from one to 30 days. In so doing, the Federal Reserve showed that it was ready to help banks running into short-term liquidity problems. In mid-September, the Federal Reserve reduced its key monetary policy rate by 50 basis points to 4.75 per cent.

Chart 2-4: Spread between yields on corporate[6] and government securities in the US. Basis points

<u>Equity markets</u>
Prices in global equity markets fluctuated widely in the third quarter, due largely to the turmoil in credit markets. Over the quarter as a whole, prices in Japan and Europe fell by 8.3 and 3.2 per cent respectively. In the US and emerging markets, prices rose by 2.0 and 12.5 per cent respectively. With the exception of Japan, all of the main markets generated positive returns in the first three quarters of 2007. Emerging markets performed particularly strongly, gaining 32 per cent (see Chart 2-5).

Movements in global equity markets were greatly influenced by the turmoil in credit markets. Equity prices fell sharply globally from mid-July to mid-August. The slide was triggered by falling house prices and growing problems with defaults on mortgages in the US. Banks and investors outside the US were also exposed to these loans, with the result that markets globally were soon affected. Once the central banks in Europe, the US and, eventually, the UK injected liquidity into the banking system, equity markets stabilised, and prices rallied towards the end of the quarter.

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 2007. There were mixed returns in the main sectors. Basic Materials performed best, while Financials and Consumer Services performed worst. The turmoil in credit markets led to a weak price performance from bank stocks in both Europe and the US.

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

Chart 2-5: Movements in the FTSE equity indices for the main markets over the last 12 months (31.12.06=100). In local currencies

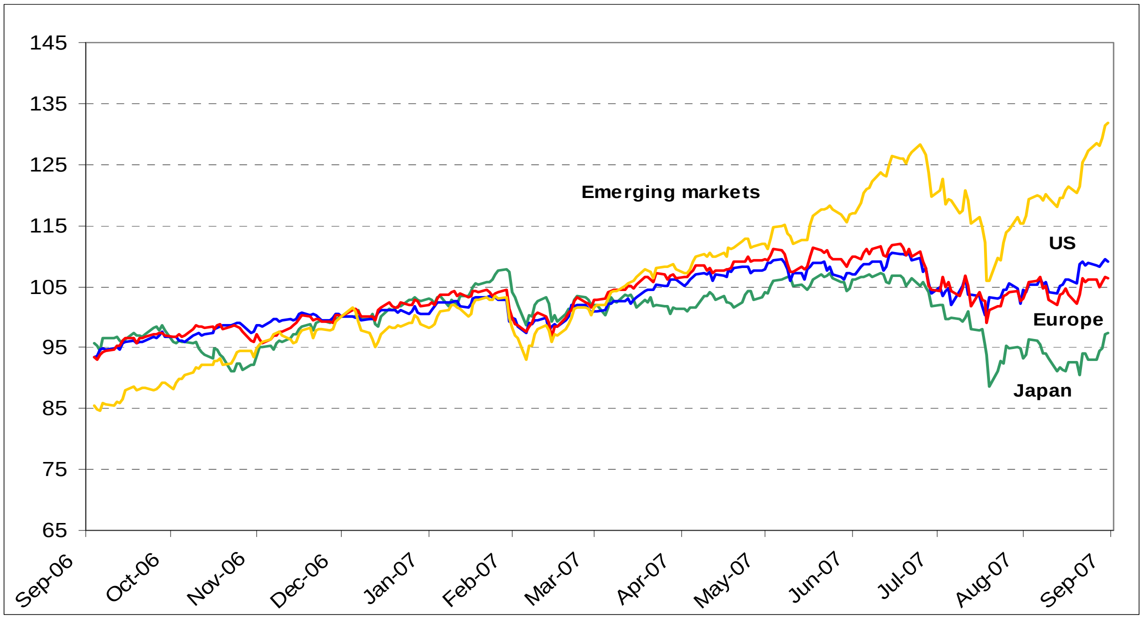


Table 2-1: Return on the FTSE All-World Index in the third quarter of 2007 by industrial sector. Per cent

	USD	NOK	Currency basket
Oil & Gas	**7.54**	**-1.27**	**4.24**
Oil & Gas Producers	6.60	-2.14	3.33
Basic Materials	**15.67**	**6.19**	**12.11**
Industrials	**3.95**	**-4.57**	**0.76**
Consumer Goods	**4.30**	**-4.25**	**1.10**
Health Care	**1.66**	**-6.67**	**-1.46**
Pharmaceuticals & Biotechnology	1.11	-7.18	-2.00
Consumer Services	**-1.87**	**-9.91**	**-4.88**
General Retailers	-4.90	-12.70	-7.82
Media	-4.44	-12.28	-7.38
Telecommunications	**8.08**	**-0.78**	**4.76**
Fixed Line Telecommunications	7.36	-1.44	4.06
Utilities	**3.97**	**-4.55**	**0.78**
Financials	**-0.76**	**-8.90**	**-3.81**
Banks	-2.32	-10.33	-5.32
Nonlife Insurance	0.04	-8.16	-3.03
General Financial	-3.71	-11.60	-6.67
Technology	**6.12**	**-2.58**	**2.86**
Software & Computer Services	4.39	-4.16	1.18
Hardware & Equipment	7.02	-1.75	3.73
Total[7]	**3.60**	**-4.90**	**0.41**

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

3. Government Pension Fund – Global

Key figures for the third quarter of 2007

- Market value NOK 1 932.3 billion on 30 September
- Return in international currency:
  - Overall: 1.15 per cent
  - Equities: -0.30 per cent
  - Fixed income: 2.10 per cent
- Excess return -0.17 percentage point
- Annualised management costs (excluding performance-based fees) 0.08 per cent of assets under management
- Transfers of new capital NOK 75.9 billion

The fund's market value

The fund's market value was NOK 1 932.3 billion at the end of the third quarter, a decrease of NOK 7.2 billion during the quarter. New capital equivalent to NOK 75.9 billion was transferred to the fund, and there was a return on investment of NOK 21.3 billion, while a stronger krone in relation to the investment currencies decreased the value of the fund by NOK 104.4 billion. A change in the krone exchange rate has no effect, however, on the fund's international purchasing power.

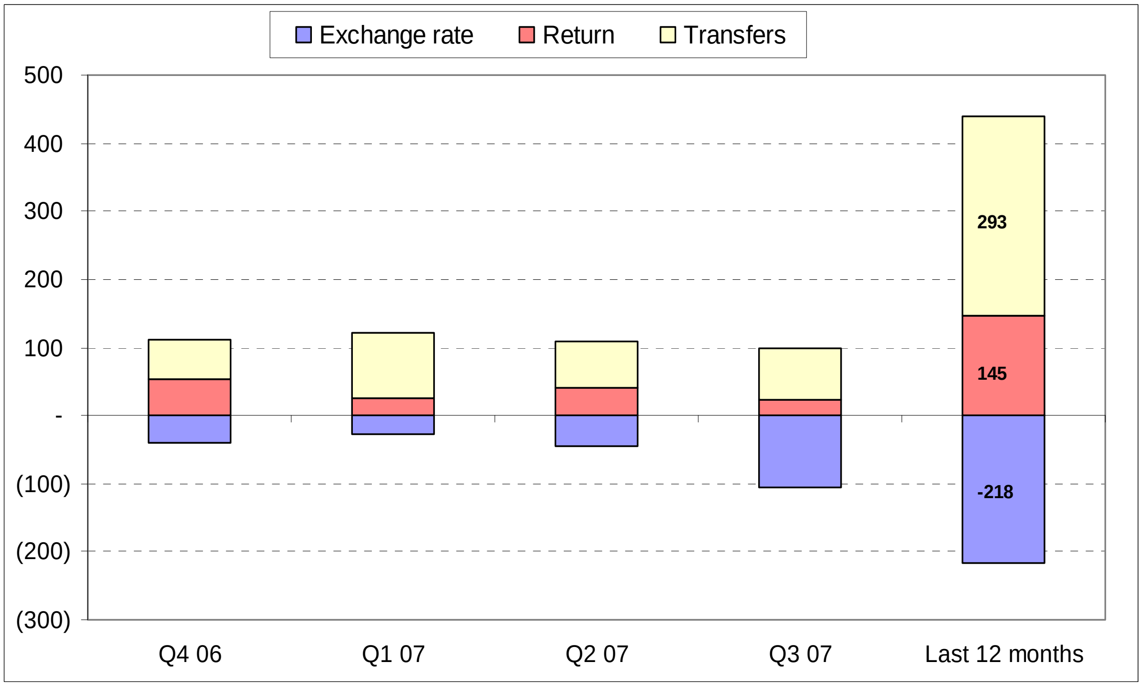
Table 3-1 shows the market value of the portfolio at the end of the last five quarters, and the change in market value in the third quarter of 2007 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone. For the accounting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

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

	Equity management	Fixed income management	Total
30 September 2006	687 887	1 024 385	1 712 272
31 December 2006	725 922	1 057 761	1 783 683
31 March 2007	752 636	1 123 561	1 876 197
30 June 2007	**819 466**	**1 120 018**	**1 939 484**
Transfers of new capital	-	-	75 878
Return	-	-	21 336
Change in krone value	-	-	- 104 419
30 September 2007	**878 143**	**1 054 135**	**1 932 278**

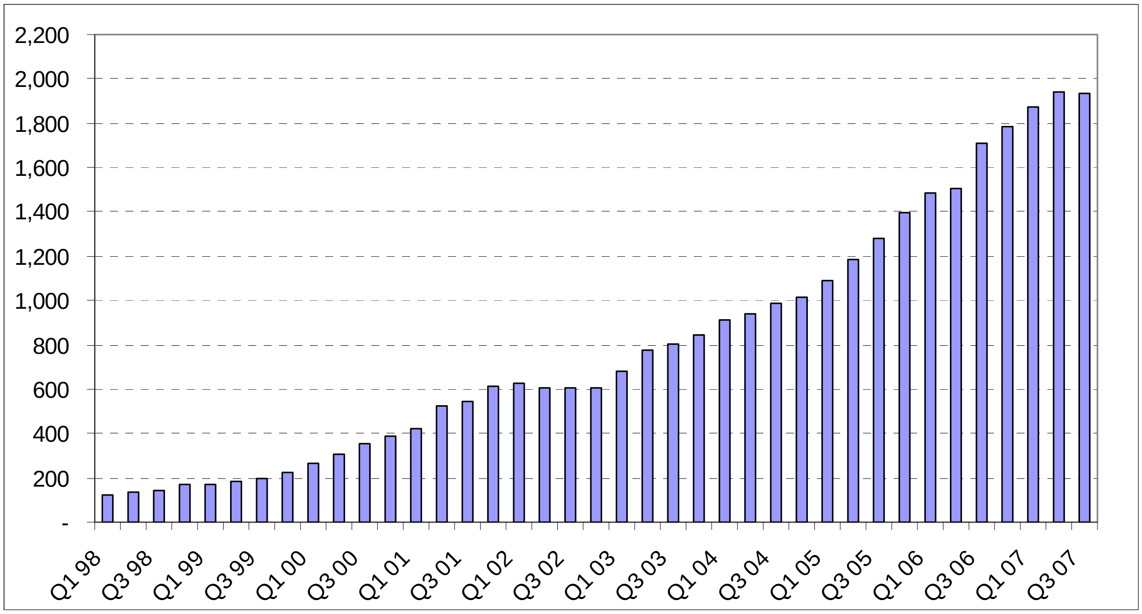
The fund has grown by NOK 220 billion in the last 12 months (see Chart 3-1). NOK 293 billion has been transferred to the fund, and there has been a return on investment of NOK 145 billion, while a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 218 billion. The chart shows that a stronger krone has reduced the value of the fund in each of the last four quarters.

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 1 819 billion (see Chart 3-2). NOK 1 571 billion has been transferred to the fund during the period, and the return on investment measured in international currency has increased the value of the fund by NOK 519 billion, whereas a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 271 billion.

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



Return on the fund

The return on the fund in the third quarter of 2007 was 1.15 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. The return was positive in August and September, but negative in July following a sharp drop in prices in equity markets. Over the quarter as a whole, there was a negative return on the equity portfolio of 0.30 per cent. The fixed income portfolio produced a positive return of 2.10 per cent.

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

	Return measured in terms of the benchmark currency basket		Return measured in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
Q1	**1.48**	**1.39**	**-0.05**	**-0.15**	**0.09**
Q2	**2.23**	**1.94**	**-0.19**	**-0.48**	**0.29**
July	-0.52	-0.55	-0.94	-0.97	0.03
August	0.12	0.52	-0.11	0.30	-0.40
September	1.56	1.36	-3.18	-3.37	0.19
Q3	**1.15**	**1.33**	**-4.20**	**-4.03**	**-0.17**
Year to date	4.94	4.72	-4.43	-4.63	0.19

Measured in NOK, the aggregate return in the third quarter was -4.20 per cent. The difference is due to the approximately 5.3 per cent appreciation of the krone against the currencies in the benchmark portfolio during the quarter. It was mainly in September that the krone appreciated against the investment currencies, and it was primarily the US dollar that decreased in value. Table 3-2 shows the monthly return measured in terms of the benchmark portfolio's currency basket and in NOK, while Table 3-3 shows the return in the third quarter measured in various currencies.

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

	Equities	Fixed income	Total
Fund's currency basket	-0.30	2.10	1.15
Import-weighted currency basket	-1.71	0.66	-0.29
USD	2.86	5.34	4.35
EUR	-2.32	0.04	-0.90
NOK	-5.57	-3.29	-4.20

The return achieved by Norges Bank on the actual portfolio is measured in relation to the return on the benchmark portfolio defined by the Ministry of Finance. The difference between the return figures is the gross excess return achieved by Norges Bank. In the third quarter, the return on the fund was 0.17 percentage point lower than the return on the benchmark portfolio. In absolute terms, the negative excess return was approximately NOK 3.6 billion, but somewhat lower if account is taken of the additional costs relating to the phasing in of new capital incurred by Norges Bank (see below). There was a negative contribution from fixed income management, while both internal and external equity management made a positive contribution.

Over the last 12 months, the cumulative excess return has been 0.38 percentage point. During the three years to the end of the third quarter of 2007, 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

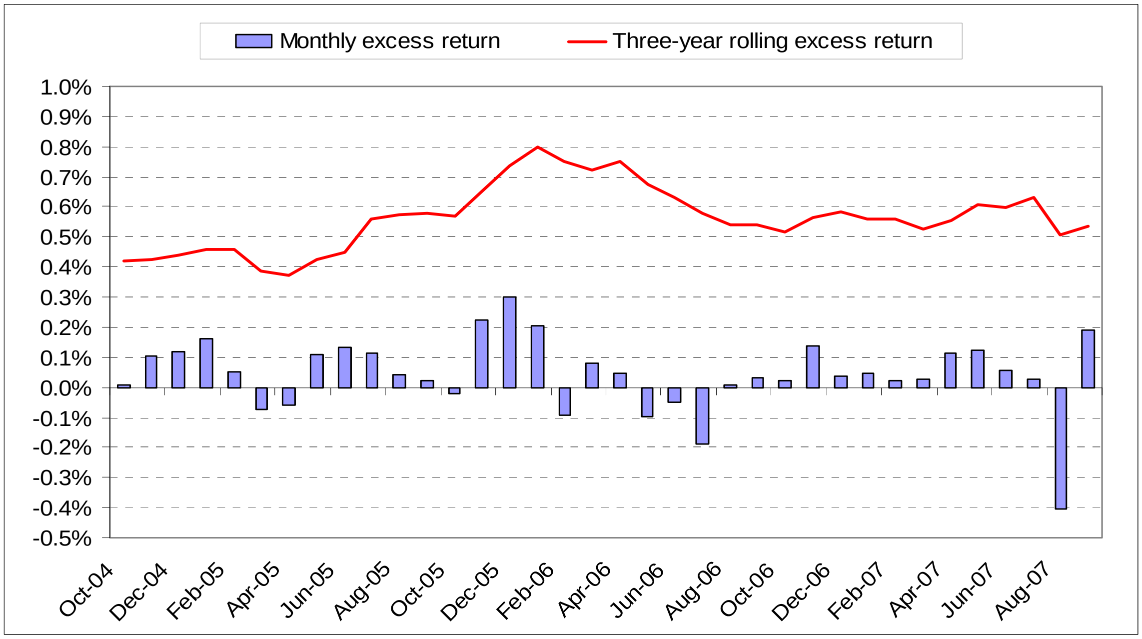


Table 3-4 shows the annualised excess return over the last three years broken down by asset class and into external and internal management. Equity management as a whole contributed around 85 per cent of the excess return. Internal equity and fixed income management contributed far more than external management.

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

	External management	Internal management	Total	Excess return within each asset class
Equity management	0.17	0.29	0.46	1.17
Fixed income management	0.02	0.06	0.08	0.11
Total	**0.19**	**0.35**	**0.54**	

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

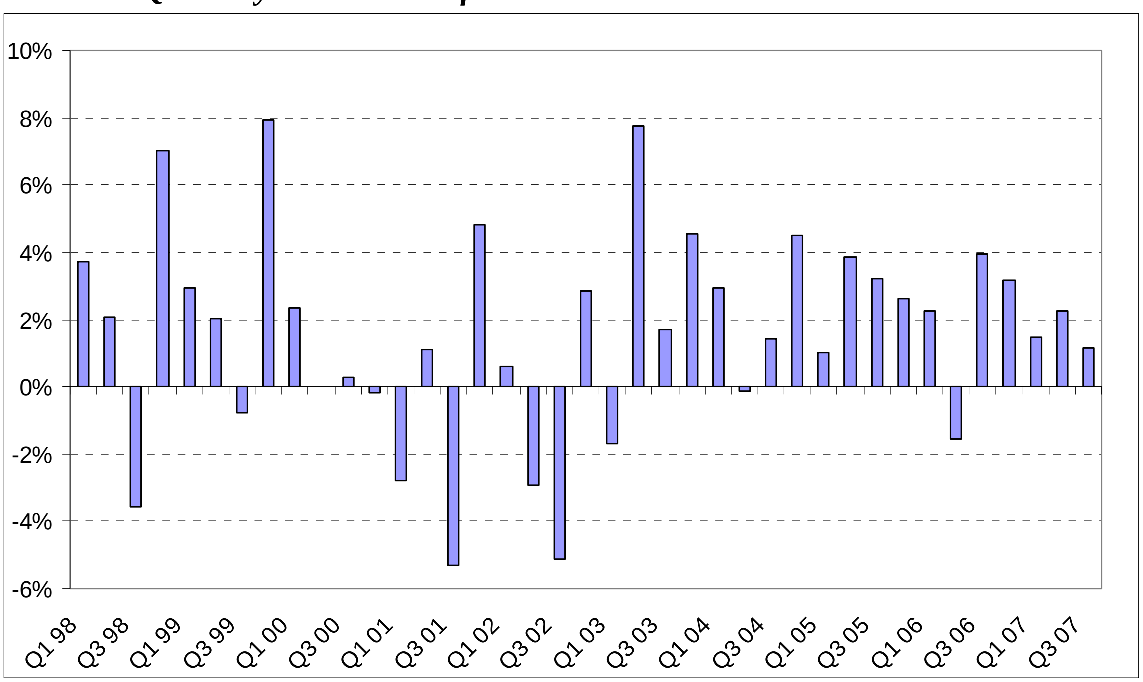
	External management	Internal management	Total
Equity management	0.58	1.47	1.27
Fixed income management	0.40	0.42	0.44
Total	**0.62**	**1.11**	**1.24**

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

Transaction costs are incurred when new capital is phased into the fund. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital at NOK 425.6 million in the third quarter of 2007. This equates to 0.56 per cent of the total amount transferred, i.e. NOK 75.9 billion, and 0.02 per cent of the market value of the fund at the beginning of the quarter. 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 1.57 per cent. There has been a positive return in 28 out of 39 quarters. Chapter 3-4 shows the quarterly returns measured in the benchmark portfolio's currency basket.

Chart 3-4: Quarterly return on the fund. Per cent



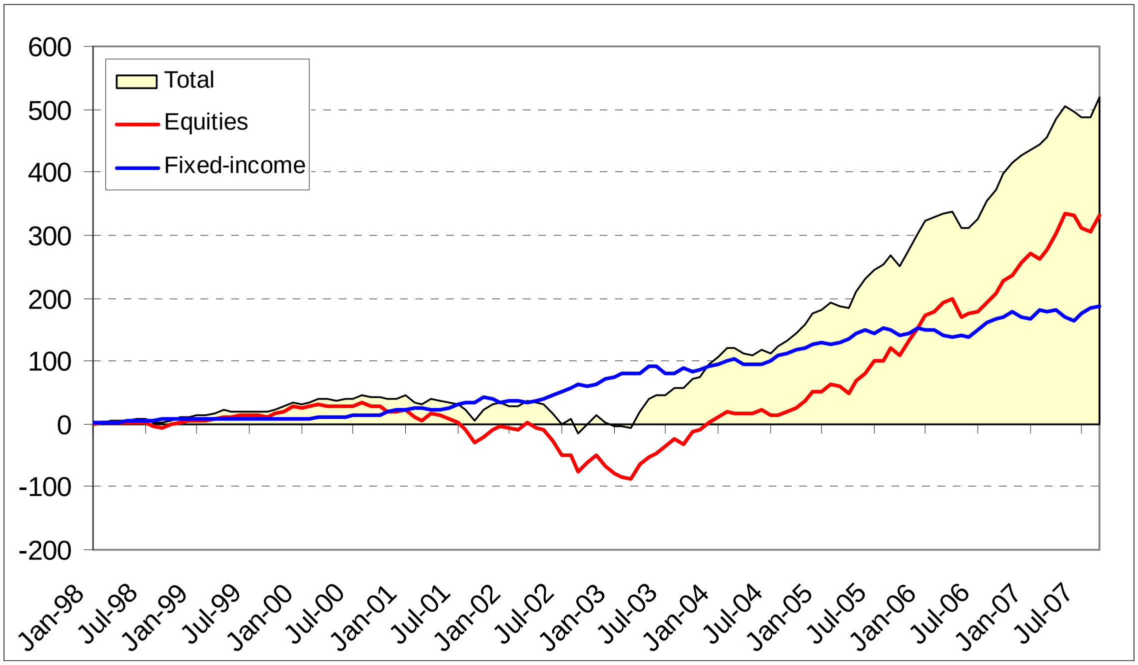
Since 1997, the fund has generated an annualised annual gross return of 6.5 per cent. Once management costs and inflation are deducted, the annual net real return has been 4.6 per cent. Table 3-6 shows the annualised return up to the end of the third quarter of 2007 since 1 January in each of the years from 1997 to 2006. 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 3-6: Annual rates of return on the fund up to the end of the third quarter of 2007 measured in terms of the benchmark portfolio's currency basket. Per cent per year

	Gross annual return	Annual inflation[8]	Annual management costs	Annual net real return	Annual gross excess return
Since 01.01.97	6.50	1.78	0.09	4.55	0.45
Since 01.01.98	6.24	1.78	0.09	4.29	0.47
Since 01.01.99	5.90	1.88	0.09	3.85	0.50
Since 01.01.00	5.09	1.96	0.10	2.97	0.41
Since 01.01.01	5.48	1.95	0.10	3.36	0.43
Since 01.01.02	6.93	2.09	0.10	4.64	0.49
Since 01.01.03	9.56	2.13	0.10	7.18	0.53
Since 01.01.04	8.77	2.28	0.10	6.25	0.53
Since 01.01.05	8.72	2.24	0.10	6.23	0.52
Since 01.01.06	7.38	2.19	0.10	4.98	0.21

The cumulative return on the fund from 1 January 1998 until the end of the third quarter of 2007 was NOK 518 billion. This is shown by the yellow area in Chart 3-5. The equity portfolio, which makes up around 40 per cent of the fund, accounted for NOK 330 billion, or 64 per cent, of the cumulative return on the fund.

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



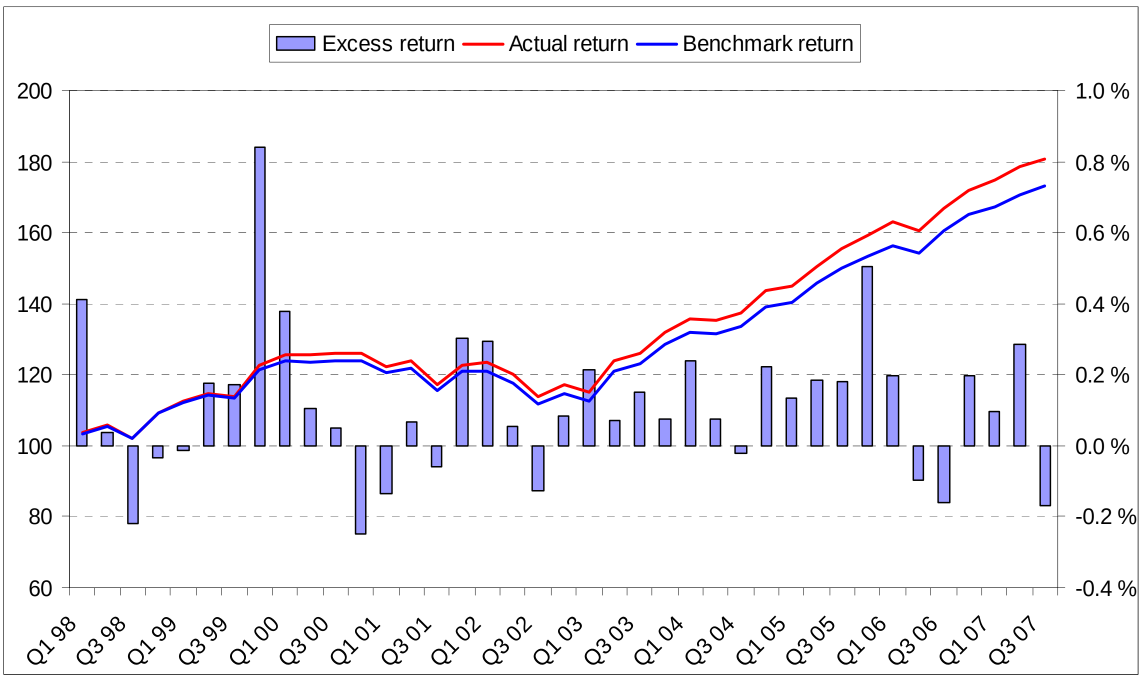
[8] Inflation is calculated as a weighted average of the increase in consumer prices in the countries included in the benchmark portfolio.

The red line in the chart shows the cumulative return on the equity portfolio. Between August 2001 and November 2004, the cumulative return on the equity portfolio was negative. It is the strong upswing in global equity prices over the last four years that accounts for the return on the fund. The average purchase price for equity investments was 29.9 per cent lower than their market value at the end of the third quarter.

The blue line in the chart shows that the return on the fixed income portfolio has been far more stable. The cumulative return on the fixed income portfolio was NOK 188 billion at the end of the quarter. The average purchase price for bond investments was 12.2 per cent lower than their market value at the end of the third quarter.

Since 1998, the cumulative return on the benchmark portfolio has been 72.9 per cent, whereas the actual return has been 80.5 per cent (see Chart 3-6). The cumulative gross excess return measured in terms of the currency basket has been 7.6 percentage points, or NOK 32.7 billion.

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

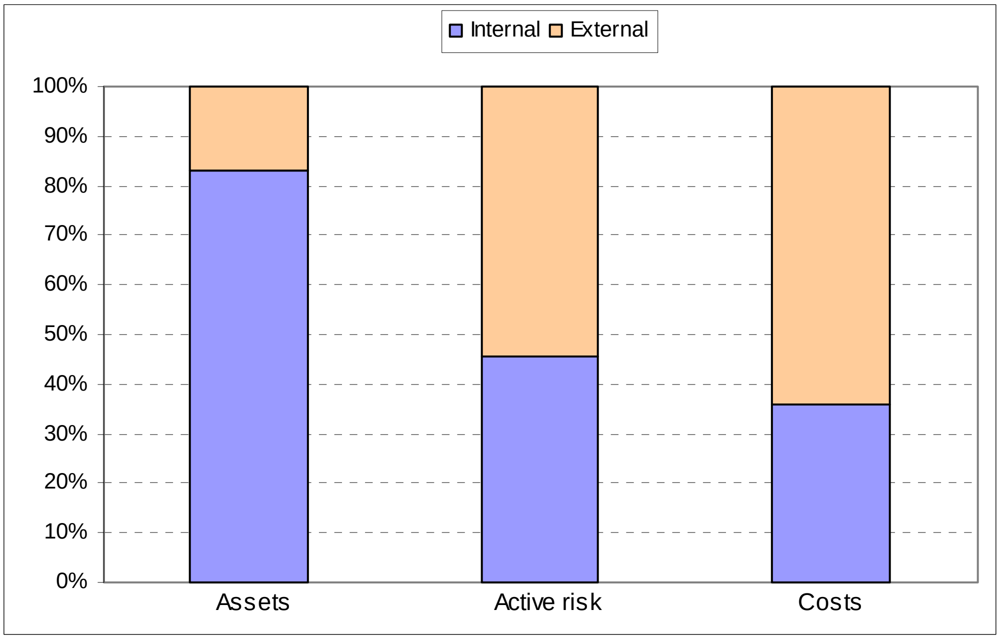


<u>Internal and external management</u>

At the end of the third quarter, 17 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 54 per cent of the overall risk associated with active management (see Chart 3-7).

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

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

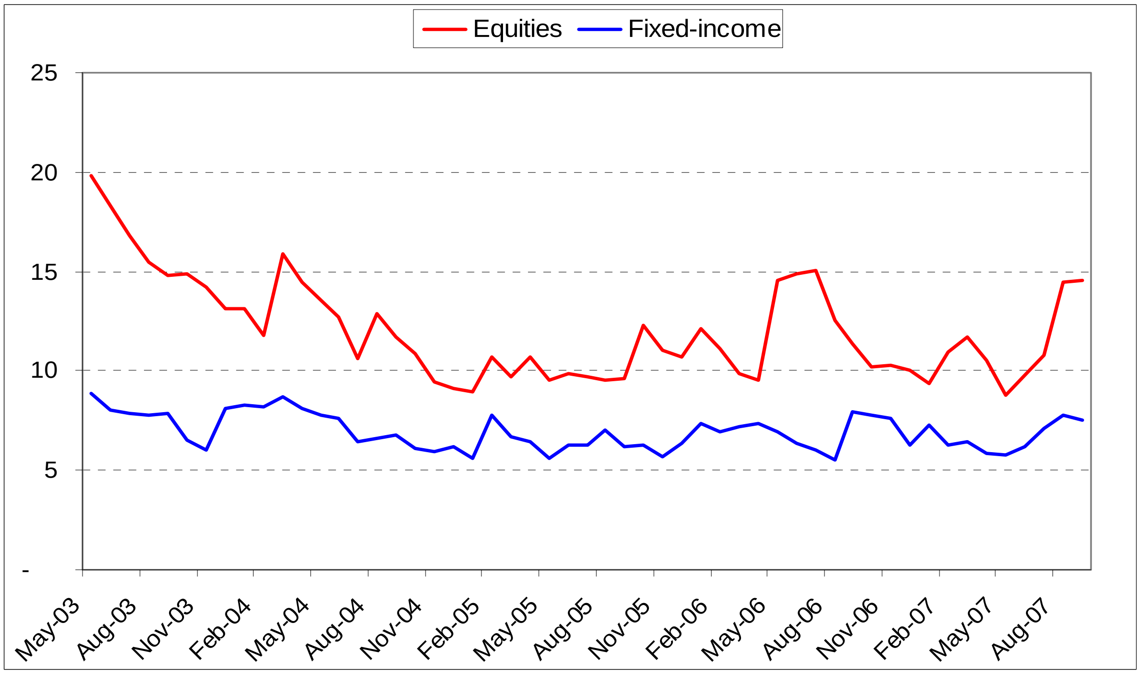


<u>Equity and fixed income and management</u>
The market value of the equity portfolio increased by NOK 58.7 billion in the third quarter, while the value of the fixed income portfolio fell by NOK 65.9 billion. Their market value at the end of the period was therefore NOK 878.1 billion and NOK 1 054.2 billion respectively. At the end of the quarter, approximately 89 per cent of the fixed income portfolio and 75 per cent of the equity portfolio were managed internally by Norges Bank.

<u>Market risk</u>
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 has fluctuated between 8 and 16 per cent over the last four years. When it comes to the fixed income portfolio, absolute volatility has been much more stable, which reflects the way that prices in the fixed income markets normally vary far less than equity prices.

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

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

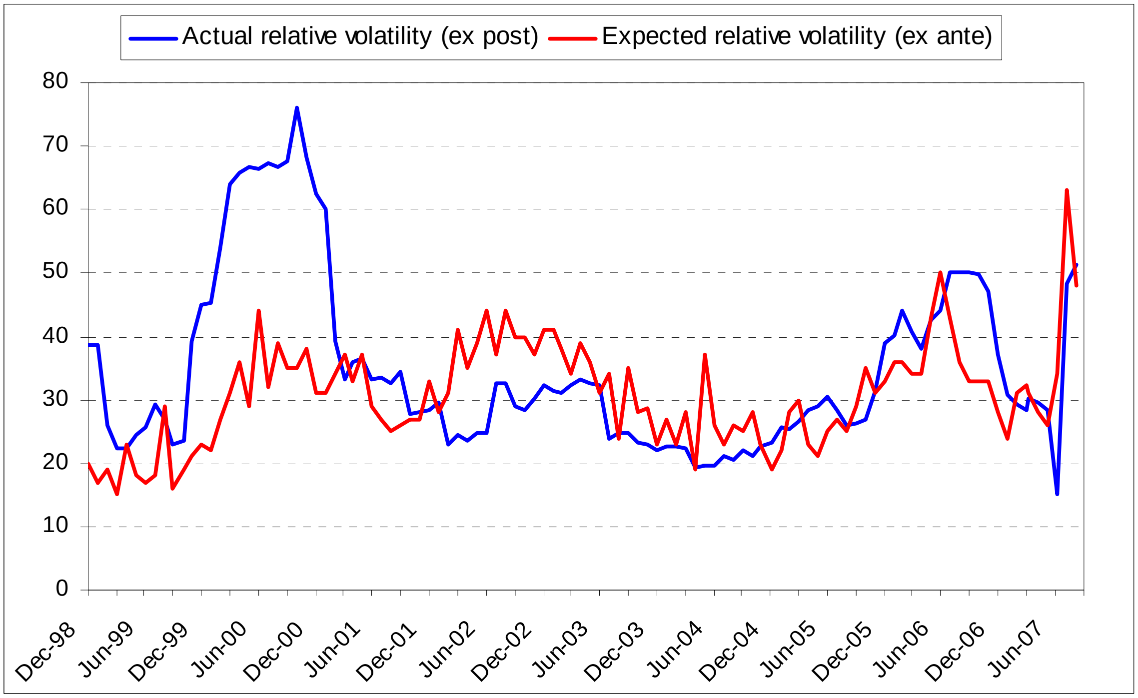


The Ministry of Finance has set a limit on the extent to which the fund's portfolio may differ from the benchmark portfolio. This has been accomplished by setting a limit for the expected deviation between the returns on the actual portfolio and the benchmark portfolio. This limit for relative market 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.

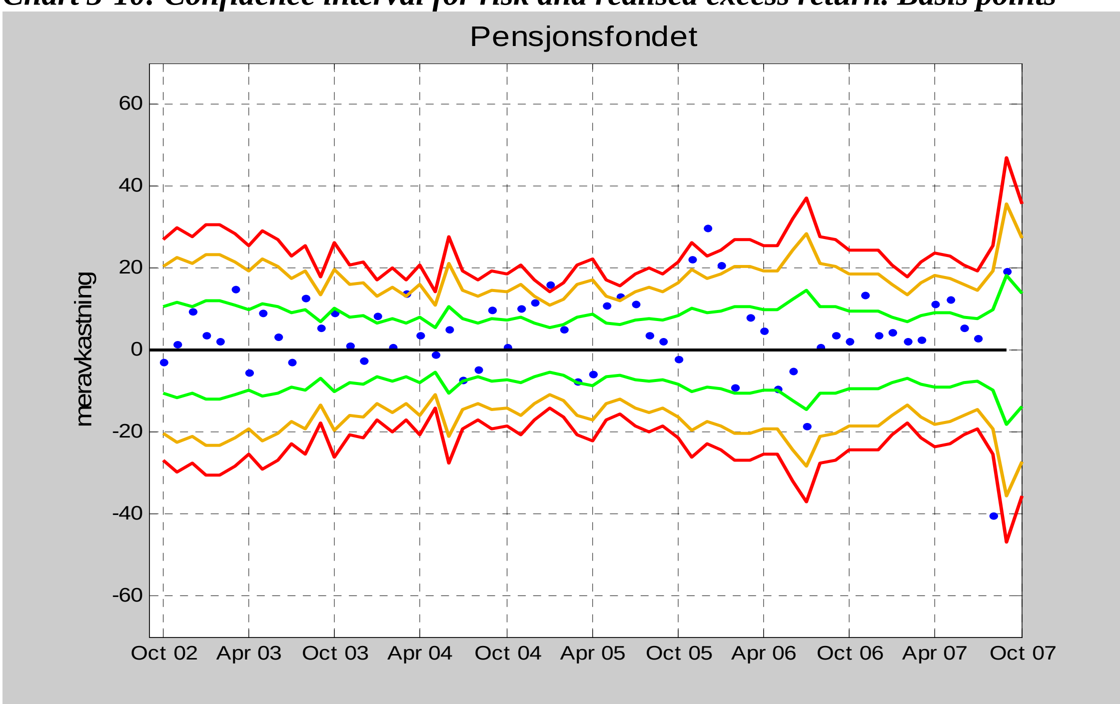
The red line in Chart 3-9 shows developments in expected tracking error since December 1998. The chart shows that there was a sharp increase in expected tracking error in the third quarter. This was due partly to an increase in absolute market risk. Expected tracking error was 48 basis points at the end of the quarter. In retrospect, we can use the variation in the deviation between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual relative market risk (the blue line in the chart). This tracking error is annualised using 12-month rolling windows.

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



Norges Bank tests whether the actual excess return on the fund varies in line with what might be expected based on the risk model used. This is illustrated in Chart 3-10.

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

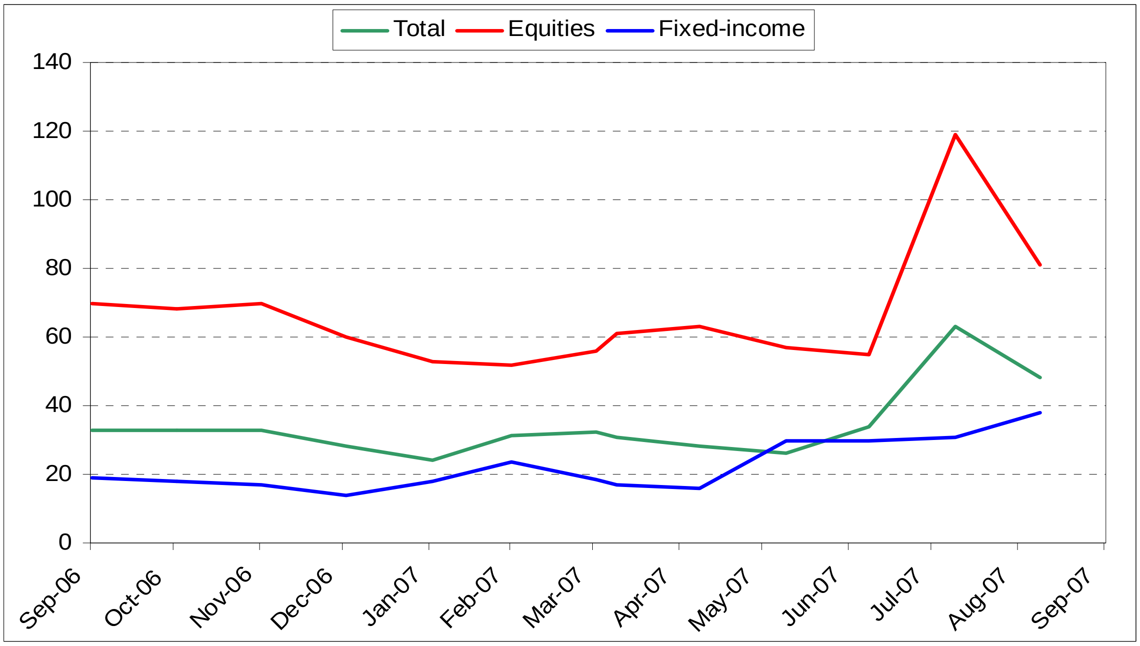


The chart shows the realised monthly excess return from October 2002 (dots) and a confidence interval measured as the standard deviation.

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 3-11 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



<u>Information ratio</u>

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 2007 was 1.17, annualised. Table 3-7 provides a historical overview of the information ratio for the fund as a whole and for each asset class.

Table 3-7: Information ratios

Period	Fund	Equities	Fixed income
Last 12 months	0.75	1.92	-0.61
Since 2002	1.32	1.05	1.14
Since 1999	1.23	1.09	0.97

Compliance with management guidelines

Through the Regulation on the Management of the Government Pension Fund – Global and guidelines for investments, the Ministry of Finance has set limits for risk and exposure. These limits and the portfolio's actual exposure are shown in Table 3-8. There were no significant breaches of the investment guidelines during the quarter. One minor breach was discovered: in connection with securities lending, Norges Bank accepted bonds issued by a Norwegian bank as collateral. The position was closed without loss.

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

	Risk	Limits	Actual				
			30.09.06	**31.12.06**	**31.03.07**	**30.06.07**	**30.09.07**
§ 5	Market risk	Maximum tracking error 1.5 percentage point	0.33	0.28	0.32	0.26	0.48
§ 4	Asset mix[10]	Fixed income 30-70%	59.8	59.3	59.9	57.7	54.6
		Equities 30-70%	40.2	40.7	40.1	42.3	45.4
§ 4	Market distribution, equities	Europe 40-60%	49.1	50.1	49.7	49.7	50.1
		Americas and Africa 25-45%	35.5	34.4	35.0	35.1	34.4
		Asia and Oceania 5-25%	15.4	15.5	15.3	15.2	15.5
	Currency distribution, fixed income	Europe 50-70%	59.8	60.4	59.7	60.0	59.8
		Americas and Africa 25-45%	34.7	34.3	35.0	34.6	34.7
		Asia and Oceania 0-15%	5.5	5.3	5.3	5.4	5.5
§ 6	Ownership stake	Maximum 5% of a company	4.50	4.50	4.50	4.99	5.00

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

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

Moody's		**Standard & Poor's**	
Rating	Percentage of total	Rating	Percentage of total
Aaa	51.66	AAA	46.75
Aa	19.90	AA	15.91
A	14.37	A	16.68
Baa	7.09	BBB	8.27
Ba	0.67	BB	0.78
Lower	0.31	Lower	0.29
No rating	6.00	No rating	11.32

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

Costs

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

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

Annualised, costs in the first three quarters of 2007 amounted to 0.09 per cent of the average market value of the fund (see Table 3-10). Excluding performance-based fees to external managers, costs amounted to 0.08 per cent of the market value of the fund.

For internal equity management, there was no change in the ratio of costs to assets under management from the first three quarters of 2006 to the same period in 2007, while the equivalent ratio for internal fixed income management increased. The increase in the cost of fixed income management was due primarily to the introduction of a new portfolio management system which will allow a wider range of instruments to be used in fixed income management.

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

	2007		**2006**	
	NOK 1 000	Per cent	NOK 1 000	Per cent
Internal costs, equity management	210 660		153 219	
Custodian and fund administration costs	89 183		81 063	
Total costs, internal equity management	**299 843**	**0.08**	**234 282**	**0.08**
Internal costs, fixed income management	217 530		124 094	
Custodian and fund administration costs	83 601		45 338	
Total costs, internal fixed income management	**301 131**	**0.04**	**169 432**	**0.03**
Minimum fees to external managers	396 237		298 227	
Performance-based fees to external managers	198 394		315 857	
Other costs, external management	123 964		89 842	
Total costs, external management	**718 595**	**0.24**	**703 926**	**0.30**
Total management costs	**1 319 569**	**0.09**	**1 107 639**	**0.10**
Total management costs excluding performance-based fees	**1 121 175**	**0.08**	**791 783**	**0.07**

Costs are distributed between internal and external management using a cost distribution key for internal costs and custodian costs. External management accounted for approximately 56 per cent of costs, whereas only approximately 17 per cent of the fund's portfolio is managed externally. The unit cost of internal management was approximately 0.05 per cent, compared with 0.24 per cent for external management. External costs in relation to assets under management were lower in the first three quarters of 2007 than in the same period in 2006, due to a substantial reduction in performance-based fees payable to external managers.

4. Norges Bank's foreign exchange reserves

Key figures for the third quarter of 2007

Investment portfolio

- Market value NOK 213.1 billion on 30 September
- Return in international currency:
  - Overall: 0.45 per cent
  - Equities: -1.52 per cent
  - Fixed income: 1.97 per cent
- Excess return -0.60 percentage point

Buffer portfolio

- NOK 75.9 billion transferred to the Government Pension Fund – Global
- NOK 40.1 billion transferred from the State's Direct Financial Interest in petroleum activities (SDFI)
- NOK 35.5 billion transferred from Norges Bank's own foreign exchange purchases
- Market value NOK 2.9 billion on 30 September
- Return of -3.8 per cent measured in NOK

Investment portfolio

The investment portfolio's market value was NOK 213.1 billion at the end of the third quarter, a decrease of NOK 10.8 billion during the quarter. A positive return on investment increased the value of the portfolio by NOK 0.9 billion, while a stronger krone against the currencies in which the portfolio is invested reduced its value by NOK 11.7 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

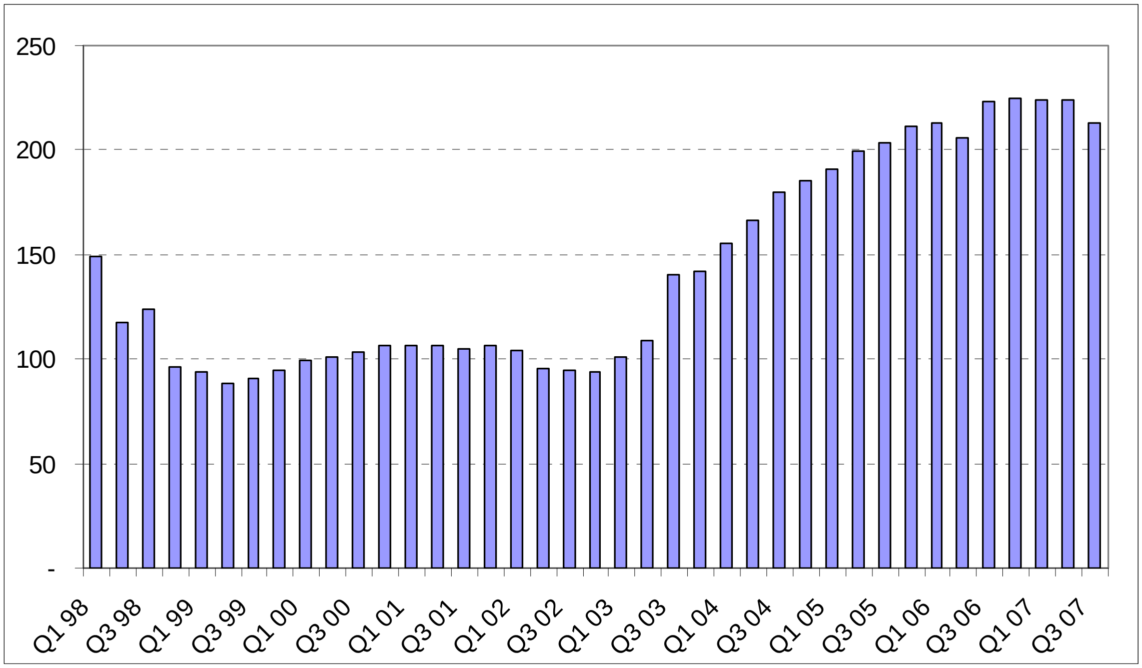
Table 4-1 shows the market value of the portfolio at the end of the last five quarters, and the change in market value in the third quarter of 2007 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone.

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

	Equity management	Fixed income management	Total
30 September 2006	87 672	135 407	223 079
31 December 2006	92 143	132 374	224 517
31 March 2007	92 860	131 408	224 269
30 June 2007	**97 443**	**126 535**	**223 978**
Transfers of new capital	–	-	–
Return	-1 569	2 440	871
Change in krone value	-4 973	-6 764	-11 737
30 September 2007	**90 900**	**122 211**	**213 111**

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

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



<u>Return on the portfolio</u>
The return on the investment portfolio in the third quarter of 2007 was 0.45 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 -4.85 per cent. The return measured in NOK was lower because the krone appreciated in relation to the currencies in the benchmark portfolio during the quarter.

The gross return in the third quarter of 2007 was 0.60 percentage point lower than the return on the benchmark portfolio. In absolute terms, the negative excess return was NOK 1 386 million. There were negative contributions from both internal and external fixed income management and internal equity management.

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

	Return measured in terms of the benchmark currency basket		Return measured in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
Q1	**1.43**	**1.41**	**-0.11**	**-0.13**	**0.02**
Q2	**2.28**	**2.08**	**-0.13**	**-0.32**	**0.20**
July	-0.96	-0.61	-1.38	-1.03	-0.35
August	0.17	0.49	-0.07	0.25	-0.31
September	1.25	1.21	-3.46	-3.50	0.04
Q3	**0.45**	**1.08**	**-4.85**	**-4.25**	**-0.60**
Year to date	4.21	4.63	-5.08	-4.69	-0.39

Transaction costs were incurred in the third quarter as a result of the small-cap segment being included in the benchmark portfolio (see discussion in Section 2 of Appendix 2). Norges Bank has estimated the direct and indirect transaction costs associated with the inclusion of the small-cap segment at NOK 131.7 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 the change in the benchmark portfolio had been excluded.

Since 1998, the average quarterly return measured in international currency has been 1.45 per cent. Chapter 4-2 shows the quarterly returns measured in the portfolio's currency basket. There has been a negative return in seven out of 39 quarters.

Chart 4-2: Quarterly returns 1998-2007. Per cent

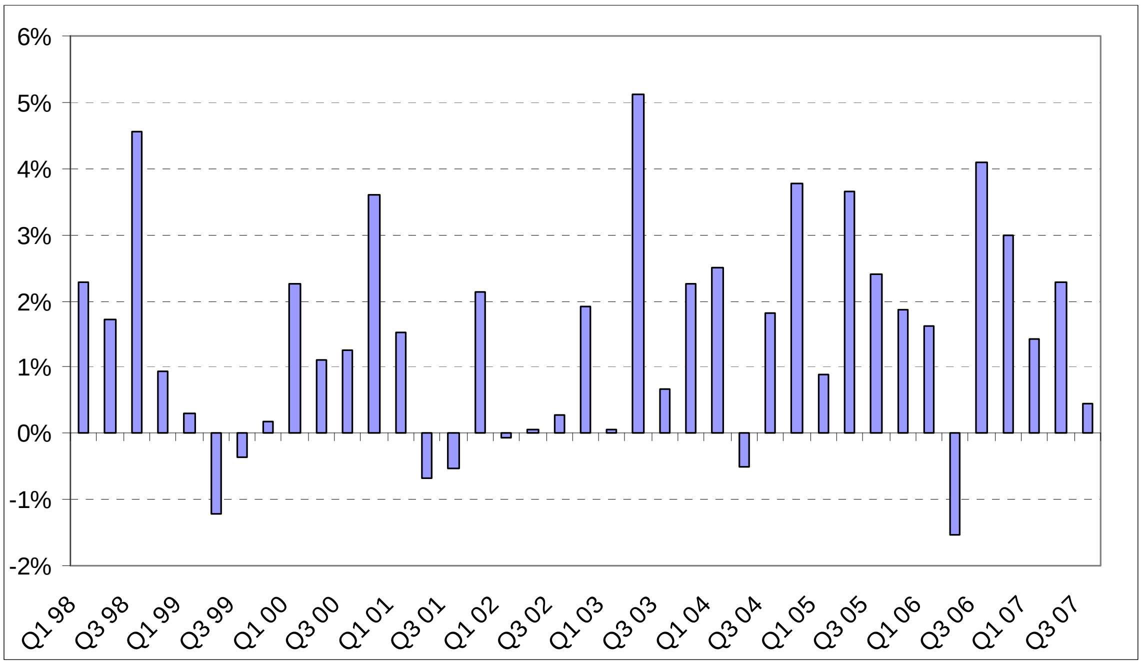


Table 4-3 shows the percentage return on the investment portfolio since 1998. The return has been calculated in relation to the portfolio's currency basket. Until the end of 2000, the entire portfolio was invested in government or government-guaranteed bonds. Since 2001, however, some of the portfolio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

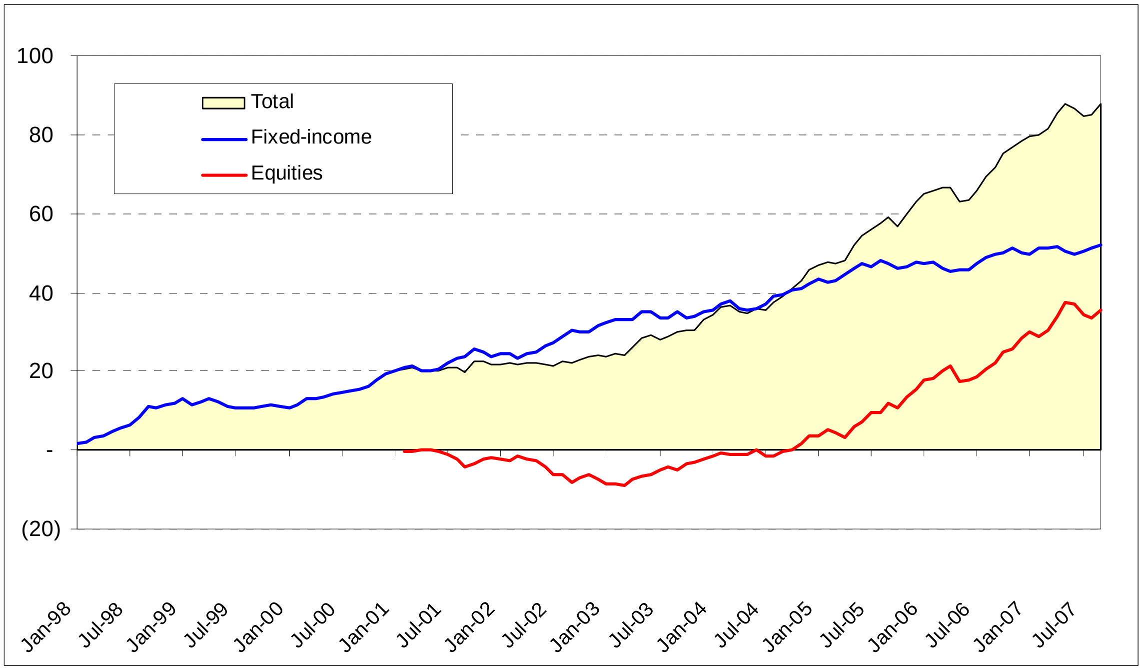
The table shows that the annual net real return since 1 January 1998 has been 3.96 per cent after deductions for inflation and management costs. The right-hand column shows that the gross excess return in relation to the portfolio's benchmark has averaged 0.14 percentage point per year since 1 January 1998.

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

	Nominal annual return	Annual inflation[11]	Management costs	Annual net real return	Annual gross excess return
Since 01.01.98	5.93	1.84	0.06	3.96	0.14
Since 01.01.99	5.50	1.94	0.06	3.43	0.16
Since 01.01.00	6.38	2.02	0.07	4.22	0.17
Since 01.01.01	6.08	2.00	0.07	3.93	0.18
Since 01.01.02	6.73	2.12	0.07	4.44	0.18
Since 01.01.03	7.71	2.14	0.06	5.39	0.14
Since 01.01.04	7.56	2.31	0.06	5.07	0.03
Since 01.01.05	7.50	2.27	0.06	5.05	0.01
Since 01.01.06	6.69	2.21	0.06	4.23	-0.17

The cumulative return on the portfolio from 1 January 1998 until the end of the third quarter of 2007 was NOK 88 billion. This is shown by the yellow area in Chart 4-3. Since 2001, the first year with equity investments in the investment portfolio, the accumulated return has been NOK 68 billion. Equity investments account for NOK 36 billion, or 53 per cent, of the cumulative return during this period. The red line in the chart shows the cumulative return on the equity portfolio. From January 2001 to September 2004, there was a negative cumulative return on the equity portfolio.

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



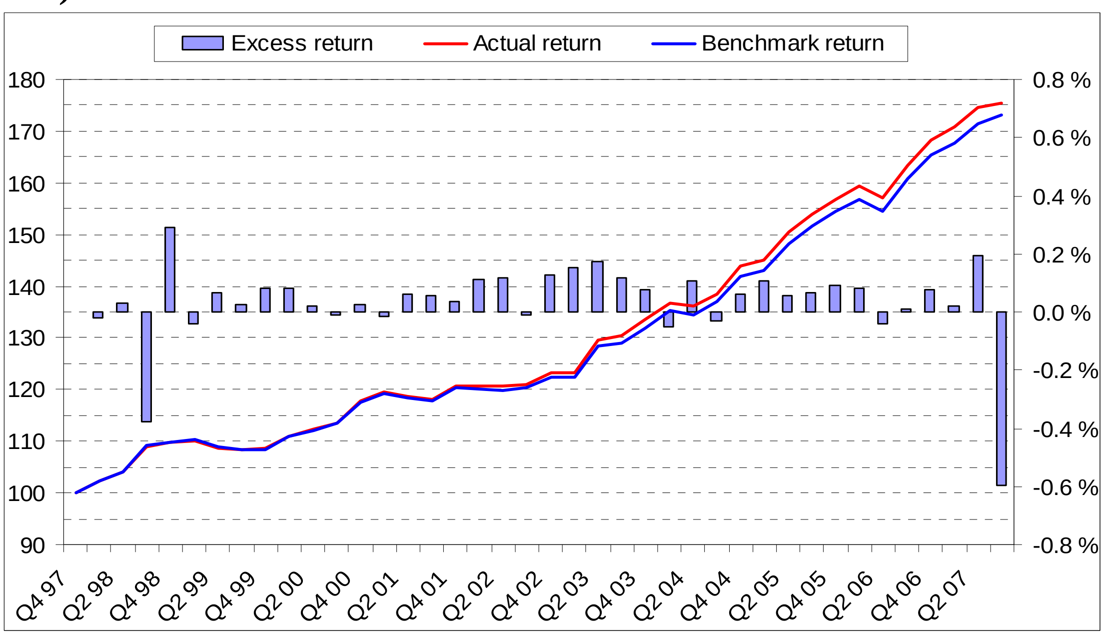
[11] Weighted average of consumer price inflation in the countries included in the benchmark portfolio in the years in question.

The blue line in the chart shows that the return on the fixed income portfolio has been far more stable. The cumulative return on the fixed income portfolio since 1998 was NOK 52 billion at the end of the quarter. During the time that the investment portfolio has included both equity and fixed income investments, the cumulative return on fixed income investments has been NOK 32 billion, or 47 per cent of the portfolio's total cumulative return since 2001.

The cumulative return since 1 January 1998 has been 75.4 per cent for the actual portfolio and 73.1 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 2.2 percentage points since 1998.

In absolute terms, the excess return has been NOK 1.3 billion. The chart also shows that a positive excess return has been achieved in 29 of the 39 quarters since 1 January 1998.

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



Fixed income management

The market value of the fixed income portfolio fell by NOK 4.3 billion to NOK 122.2 billion in the third quarter. There was a positive return on fixed income investments of NOK 2.4 billion, while a stronger krone reduced the value of the portfolio by NOK 6.7 billion. 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.

Equity management
The market value of the equity portfolio fell by NOK 6.5 billion to NOK 90.9 billion during the quarter. A negative return on equity investments and a stronger krone relative to the investment currencies reduced the value of the portfolio by NOK 1.5 billion and NOK 5.0 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: Expected tracking error at each month-end over the last 12 months. Basis points

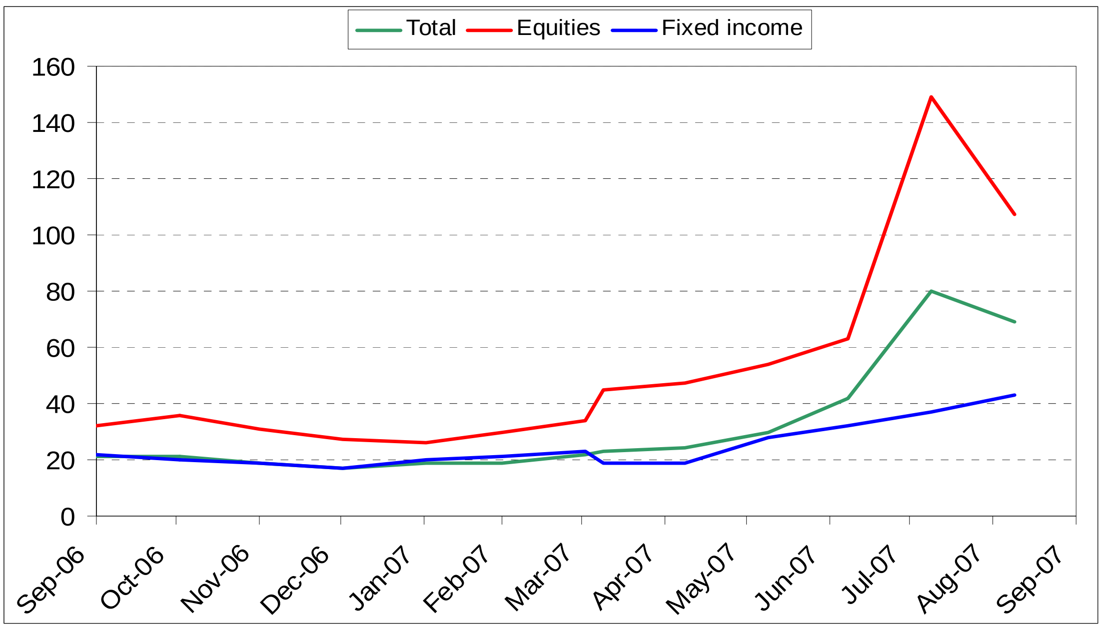


Chart 4-5 shows that relative market risk has remained well below the upper limit over the last 12 months. There has been an upswing in tracking error in recent months, and expected tracking error was 0.69 percentage point at the end of the quarter.

Information ratio
The information ratio is a measure of skill in investment 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). Since 1 July 1998, the annual average information ratio has been 0.51.

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	-0.63	-0.85	-0.36
Since 2002	0.66	-0.63	1.08
Since 1999	0.68	n/a[12]	1.00

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 2007, NBIM's total costs associated with the management of the investment portfolio, including performance-based fees, amounted to NOK 119.2 million, which corresponds to 0.07 per cent (annualised) of the average portfolio.

Compliance with management guidelines

Table 4-5 provides an overview of risk and exposure in the investment portfolio at the end of each quarter over the last year. There were no significant breaches of the Executive Board's investment guidelines in the third quarter. One minor breach was discovered: in connection with securities lending, Norges Bank accepted bonds issued by a Norwegian bank as collateral. The position was closed without loss.

Table 4-5: Risk and exposure

Risk		Actual				
		30.09.06	**31.12.06**	**31.03.07**	**30.06.07**	**30.09.07**
Market risk	Tracking error	0.21	0.17	0.22	0.30	0.69
Asset mix	Bonds	60.7	59.0	58.6	56.5	57.3
	Equities	39.3	41.0	41.4	43.5	42.7
Market distribution, equities	Europe	51.2	52.4	53.5	54.3	52.4
	Americas	35.5	34.6	33.3	32.5	33.1
	Asia and Oceania	13.3	13.0	13.3	13.3	14.5
Market distribution, bonds	Europe	58.4	59.7	60.2	60.7	60.0
	Americas	35.7	35.0	34.2	33.7	34.0
	Asia and Oceania	5.9	5.3	5.7	5.6	6.0
Ownership stake	Ownership stake max. 5%	0.95	1.27	2.29	4.53	4.94

Table 4-6 shows the composition of the bond portfolio (fixed income portfolio excluding money market investments) based on credit ratings from Moody's and 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.

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

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

Moody's		Standard & Poor's	
Rating	**Percentage of total**	**Rating**	**Percentage of total**
Aaa	52.65	AAA	48.56
Aa	19.19	AA	15.15
A	12.84	A	14.94
Baa	6.64	BBB	7.72
Ba	0.90	BB	1.27
Lower rating	0.55	Lower rating	0.50
No rating	7.23	No rating	11.86

Buffer portfolio

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

Table 4-7 provides an overview of transfers of capital to the buffer portfolio and the Government Pension Fund – Global in the third quarter of 2007. A total of NOK 40.1 billion was transferred to the portfolio from the State's Direct Financial Interest in petroleum activities (SDFI) during the quarter. A further NOK 35.5 billion was transferred to the portfolio through Norges Bank's purchases of foreign exchange in the market during the quarter. A total of NOK 75.9 billion was transferred to the Government Pension Fund – Global in the third quarter of 2007.

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

Period	Transferred from SDFI	Foreign exchange purchased in the market	Transferred to Government Pension Fund – Global	Market value at end of period
Q1	**38 791**	**34 429**	**93 419**	**3 205**
Q2	**33 794**	**34 428**	**67 542**	**3 497**
July	14 735	10 651	23 244	5 652
August	10 806	14 727	24 238	7 060
September	14 595	10 079	28 396	2 857
Q3	**40 136**	**35 457**	**75 878**	**-**
Year to date	112 722	104 315	236 838	-

Size and return

The market value of the buffer portfolio was NOK 2.9 billion at the end of the third quarter of 2007, compared with NOK 3.5 billion on 30 June 2007. The return on the buffer portfolio during the quarter was -3.8 per cent measured in NOK. In absolute terms, this equates to a return of NOK -2,511 million.

5. Government Petroleum Insurance Fund

Key figures for the third quarter of 2007

- Market value NOK 14.4 billion on 30 September
- Return of 2.64 per cent in international currency
- Return of -3.06 per cent measured in NOK
- Excess return 0.09 percentage point
- Claims paid NOK 813.4 million

The fund's market value

The market value of the fund's international portfolio was NOK 14.4 billion at the end of the third quarter of 2007. In addition, the balance on the working account was NOK 138.6 million. The market values of the Petroleum Insurance Fund's foreign exchange portfolios at the end of each of the last five quarters are shown in Table 5-1.

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

	30.09.06	31.12.06	31.03.07	30.06.07	30.09.07
EUR	7 696	7 596	7 544	7 839	7 370
GBP	2 349	2 343	2 293	2 349	2 099
USD	5 492	5 248	5 246	5 492	4 968
Total market value	**15 535**	**15 184**	**15 084**	**15 680**	**14 437**

Return on the fund

The return on the fund in the third quarter of 2007 was 2.64 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 -3.06 per cent. The difference is due to the appreciation of the krone against the currencies included in the benchmark portfolio during the quarter. The return on the fund was 0.09 percentage point higher than the return on the benchmark portfolio.

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

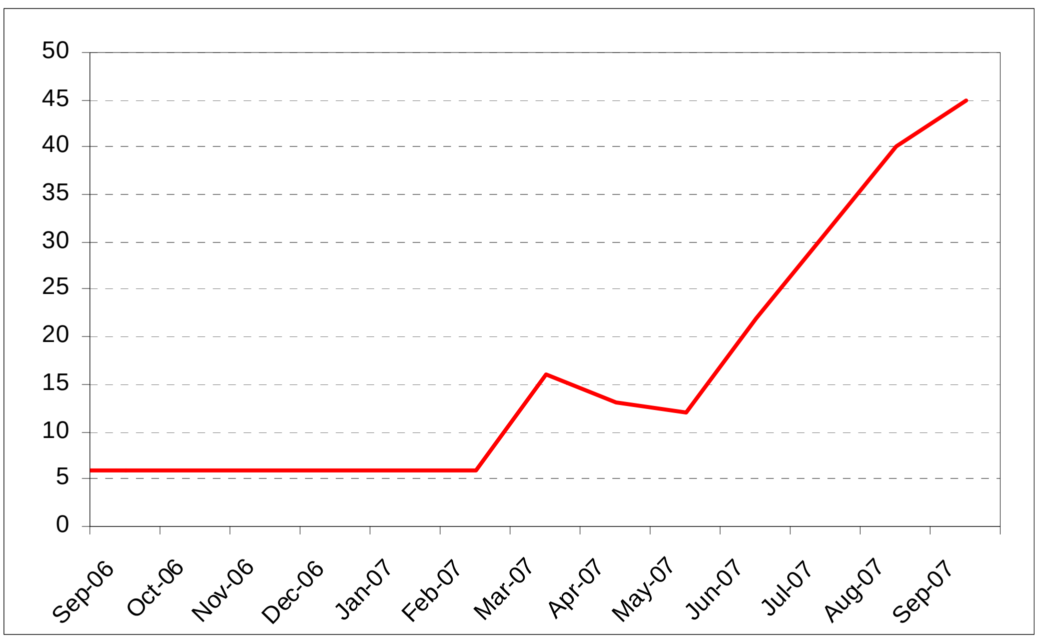
	Measured in terms of the benchmark currency basket		**Measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Return differential
Q1	**0.81**	**0.74**	**-0.67**	**-0.74**	**0.06**
Q2	**-0.54**	**-0.51**	**-2.72**	**-2.69**	**-0.04**
July	1.22	1.26	0.65	0.69	-0.04
August	0.99	0.98	0.67	0.65	0.01
September	0.41	0.29	-4.32	-4.44	0.12
Q3	**2.64**	**2.55**	**-3.06**	**-3.15**	**0.09**
Year to date	**2.91**	**2.79**	**-6.34**	**-6.45**	**0.11**

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

Claims payments of NOK 813.4 million were made during the quarter.

Market risk
The guidelines from the Ministry of Petroleum and Energy establish a limit for market risk in the actual portfolio in relation to the benchmark portfolio. This relative market risk must always be less than a tracking error of 0.75 percentage point. Although there has been a significant increase in recent months, relative market risk was well below the upper limit throughout the third quarter of 2007 (see Chart 5-1).

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



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

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

Currency	Actual portfolio	Benchmark portfolio
EUR	3.76	3.92
GBP	4.06	4.13
USD	4.06	4.01
Total	**3.91**	**3.98**

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 2007.

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

Risk	Limits	Actual				
		30.09.06	31.12.06	31.03.07	30.06.07	30.09.07
Market risk	Maximum tracking error 0.75 percentage point	0.06	0.06	0.16	0.22	0.45
Interest rate risk	Modified duration max. 5	3.98	3.93	4.00	4.01	3.91

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 2007 by credit rating

Moody's		Standard & Poor's	
Rating	Percentage of total market value	Rating	Percentage of total market value
Aaa	66.95	AAA	58.66
Aa	23.99	AA	21.24
A	7.91	A	16.74
No rating[13]	1.15	No rating	3.37

Costs

The management agreement between the Ministry of Petroleum and Energy and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Petroleum Insurance Fund's portfolio. For 2007, a remuneration rate of 0.06 per cent of the average market value of the portfolio was stipulated. Remuneration of NOK 6.8 million was accrued in the first three quarters of 2007.

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

APPENDICES:

Appendix 1: Accounting reports

1.1 Government Pension Fund – Global

Table 1 shows the distribution of different instruments as presented in Norges Bank's accounts. Off-balance-sheet items are shown in a separate table. Table 2 shows the book return, which was NOK -83 101 million in the third quarter of 2007 prior to the deduction of Norges Bank's management remuneration.

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

	30.09.06	31.12.06	30.09.07
Short-term assets/debt, incl. deposits in foreign banks	-14 981	6 918	-1 419
Money market investments in foreign financial institutions against collateral in the form of securities	664 740	619 746	698 791
Borrowing from foreign financial institutions against collateral in the form of securities	-623 527	-728 414	-729 179
Foreign fixed income securities	1 005 701	1 166 941	1 105 488
Foreign equities	682 149	720 256	854 514
Adjustment of forward contracts and derivatives	-1 712	-1 777	4 110
Total portfolio before management remuneration	**1 712 370**	**1 783 670**	**1 932 305**
Management remuneration due	-1 108	-1 526	-1 320
Accrued advisory fees	0	-5	0
Total portfolio	**1 711 262**	**1 782 139**	**1 930 985**

Off-balance-sheet items (in millions of NOK)			
Liabilities			
Derivatives and forward contracts sold	1 144 587	1 228 557	1 992 730
Derivatives and forward contracts purchased	1 160 268	1 241 246	1 953 467
Rights			
Options sold	26 480	24 154	65 333
Options purchased	118 184	131 203	111 506

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

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

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

	30.09.06	31.12.06	30.06.07	30.09.07
Interest income	30 195	43 014	27 151	43 499
Dividends	11 832	14 232	11 810	15 448
Exchange rate adjustments[14]	13 536	-24 232	-69 666	-168 968
Unrealised gains/losses on securities	-11 364	13 592	-12 806	-19 433
Realised gains/losses on securities	29 629	47 482	31 390	36 996
Brokers' commissions	-37	-6	-97	-139
Gains/losses on futures	-3 358	-3 329	79	-112
Gains/losses on options	55	126	120	-311
Gains/losses on equity swaps	1 794	2 174	203	-321
Gains/losses on interest rate swaps	2 938	3 183	6 714	5 138
Book return on investments	**81 852**	**96 236**	**-5 102**	**-88 203**
Accrued management remuneration	-1 108	-1 526	-838	-1 320
Accrued advisory fees	0	-5	0	0
Net return	**80 744**	**94 705**	**-5 940**	**-89 523**

1.2 Investment portfolio

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

	30.09.06	31.12.06	30.09.07
Short-term assets/debt, incl. deposits in foreign banks	-12 070	-9 593	-11 837
Money market investments in foreign financial institutions against collateral in the form of securities	96 907	77 501	75 203
Borrowing from foreign financial institutions against collateral in the form of securities	-98 978	-99 350	-94 112
Foreign fixed income securities	148 834	163 757	152 903
Foreign equities	88 699	92 300	90 627
Adjustment of forward contracts and derivatives	-303	-100	302
Total portfolio	**223 089**	**224 515**	[15]**213 104**

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[14] 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.

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

Off-balance-sheet items	30.09.06	31.12.06	30.09.07
Liabilities			
Derivatives and forward contracts sold	201 036	200 684	266 972
Derivatives and forward contracts purchased	207 393	202 861	268 530
Rights			
Options sold	11 664	8 851	1 996
Options purchased	16 452	21 656	7 144

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

Return on the investment portfolio	30.09.06	31.12.06	30.06.07	30.09.07
Interest income	5 094	6 695	3 448	5 365
Dividends	1 664	2 017	1 749	2 247
Exchange rate adjustments	651	-4 298	-8 220	-19 270
Unrealised gains/losses on securities	-2 308	1 265	-3 215	-6 177
Realised gains/losses on securities	4 126	4 626	4 253	5 973
Brokers' commissions	-4	-5	-3	-32
Gains/losses on futures	82	114	114	137
Gains/losses on options	-5	26	-13	-57
Gains/losses on equity swaps	53	130	76	17
Gains/losses on interest rate swaps	240	448	1 296	385
Other operating expenses	-51	-64	-36	-58
Net return	**9 542**	**10 954**	**-551**	**-11 470**

1.3 Buffer portfolio

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

	30.09.06	31.12.06	30.09.07
Short-term assets/debt, incl. deposits in foreign banks	13 305	12 447	1 085
Money market investments in foreign financial institutions against collateral in the form of securities	16 945	8 510	15 856
Adjustment of forward contracts and derivatives	-9	0	-21
Amounts payable to Government Pension Fund – Global, unsettled transfers	-31 409	0	-17 458
Total portfolio as per accounts	**-1 168**	**20 957**	**-538**
Unsettled contracts not recognised	3 868	2 731	3 395
Foreign exchange for management	**2 700**	**23 688**	**2 857**

Off-balance-sheet items	30.09.06	31.12.06	30.09.07
Liabilities			
Derivatives and forward contracts sold	3 959	0	12 970
Derivatives and forward contracts purchased	3 959	0	12 970

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

Return	30.09.06	31.12.06	30.06.07	30.09.07
Interest income	436	580	407	530
Exchange rate adjustments	-643	-1 414	-1 058	-1 468
Other operating expenses	-1	-1	-1	-1
Net return	**-208**	**-835**	**-652**	**-939**

1.3 Government Petroleum Insurance Fund

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

	30.09.06	31.12.06	30.09.07
Short-term assets/debt, incl. deposits in foreign banks	206 958	-61 495	-151 480
Money market investments in foreign financial institutions against collateral in the form of securities	2 546 411	2 768 751	3 083 649
Borrowing from foreign financial institutions against collateral in the form of securities	0	0	0
Foreign fixed income securities	12 987 634	12 611 428	11 511 764
Adjustment of forward contracts and derivatives	-1 827	-3 381	-5 552
Total portfolio before management remuneration	**15 739 177**	**15 315 302**	**14 438 381**
Management remuneration due	-6 389	-8 741	-6 841
Total portfolio	**15 732 788**	**15 306 561**	**14 431 541**

Off-balance-sheet items (in thousands of NOK)	30.09.06	31.12.06	30.09.07
Derivatives and forward contracts sold	854 741	1 025 453	989 364
Derivatives and forward contracts purchased	852 879	1 022 070	989 364

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

	30.09.06	31.12.06	30.06.07	30.09.07
Interest income	484 399	663 863	353 967	539 932
Exchange rate adjustments	192 946	-96 302	-548 697	-1 391 488
Unrealised changes in value	-178 343	-279 557	-247 291	-26 681
Realised changes in value	-24 976	-37 234	-67 493	-75 489
Other operating expenses	5	5	0	0
Book return on investments	474 032	250 775	-509 514	-953 725
Accrued management remuneration	-6 389	-8 741	-4 514	-6 841
Net return	**467 643**	**242 034**	**-514 028**	**-960 566**

Appendix 2: Mandate and benchmark portfolio

1. Government Pension Fund – Global

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

The Ministry of Finance has delegated the operational management of the Government Pension Fund – Global to Norges Bank. The management mandate is stipulated in a regulation and written guidelines issued by the Ministry. A management agreement, which further regulates the relationship between the Ministry 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.

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

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

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

The Ministry of Finance has adopted ethical guidelines for the fund's investments. These guidelines require that ethical issues be addressed through three mechanisms: *corporate governance* to promote long-term financial returns, 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. Section 4 of Appendix 2 provides an overview of the companies excluded from the investment universe at the end of the third quarter of 2007.

The Ministry of Finance has specified countries and currencies that are to be included in the fund’s benchmark portfolio. The benchmark portfolio consists of specific equities and fixed income instruments and reflects the delegating authority’s investment strategy for the Pension Fund. The benchmark portfolio provides 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.

Benchmark portfolio on 30 September 2007. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	[16]	**45.4**	[16]	**54.6**
Belgium		0.8		
Finland		1.2		
France		8.3		
Greece		0.6		
Ireland		0.5		
Italy		3.0		
Netherlands		2.7		
Portugal		0.3		
Spain		3.3		
Germany		6.4		
Austria		0.4		
Euro area (EUR)		*27.4*		*48.0*
UK (GBP)		15.7		10.1
Denmark (DKK)		0.7		0.6
Switzerland (CHF)		4.8		0.5
Sweden (SEK)		1.9		1.2
Total Europe	**50.0**	**50.4**	**60.0**	**60.5**
US (USD)		29.7		32.4
Brazil		1.0		
Canada (CAD)		2.3		2.2
Mexico		0.5		
South Africa		0.7		
Total Americas and Africa	**35.0**	**34.1**	**35.0**	**34.6**
Australia (AUD)		2.7		0.2
Hong Kong		1.6		
Japan (JPY)		7.8		4.4
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.5		0.2
South Korea		1.7		
Taiwan		1.2		
Total Asia and Oceania	**15.0**	**15.4**	**5.0**	**4.9**

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Equities accounted for 40 per cent of the fund's strategic benchmark portfolio, while fixed income instruments accounted for 60 per cent.[16] 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 2007.

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

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

The foreign exchange reserves are to be available for interventions in the foreign exchange market in connection with the implementation of monetary policy or to promote financial stability. The reserves are divided into a money market portfolio and an investment portfolio. In addition, a buffer portfolio is used for the regular foreign exchange purchases 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. On 13 June 2007, the Executive Board decided to extend the benchmark portfolio for equities to include the small-cap segment (cf. equivalent decision for the Government Pension Fund – Global). The change was made on 31 August 2007.

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

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

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

Benchmark portfolio on 30 September 2007. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**42.6**	**60.0**	**57.4**
Belgium		0.8		
Finland		1.3		
France		7.9		
Greece		0.6		
Ireland		0.6		
Italy		3.0		
Netherlands		2.8		
Portugal		0.3		
Spain		3.3		
Germany		6.1		
Austria		0.5		
Euro area (EUR)		*27.0*		*48.4*
UK (GBP)		15.8		10.2
Denmark (DKK)		0.8		0.6
Switzerland (CHF)		4.7		0.5
Sweden (SEK)		2.1		1.2
Total Europe	**50.0**	**50.4**	**60.0**	**60.9**
US (USD)		29.7		31.9
Brazil		0.9		
Canada (CAD)		2.5		2.2
Mexico		0.4		
South Africa		0.6		
Total Americas and Africa	**35.0**	**34.1**	**35.0**	**34.1**
Australia (AUD)		2.7		0.2
Hong Kong		1.6		
Japan (JPY)		7.7		4.5
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.5		0.2
South Korea		1.8		
Taiwan		1.3		
Total Asia and Oceania	**15.0**	**15.6**	**5.0**	**5.0**

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

3. Government Petroleum Insurance Fund

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

The Ministry of Petroleum and Energy has established a strategic benchmark portfolio for the fund. The currency distribution of the benchmark portfolio is 50 per cent EUR, 15 per cent GBP and 35 per cent USD. The benchmark index 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 2007

Benchmark portfolio on 30 September 2007. Per cent

Currency	Strategic benchmark portfolio	Actual benchmark portfolio
EUR	50.0	50.9
GBP	15.0	14.9
USD	35.0	34.2
Total	**100.0**	**100.0**

4. Companies excluded from the investment universe

In accordance with the ethical guidelines for the Government Pension Fund – Global, the Ministry of Finance has decided to exclude a total of 21 companies from the fund's investment universe. The decisions were based on recommendations from the Council on Ethics. The background for the exclusions is discussed in greater detail in press releases from the Ministry of Finance. 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 2007[17]

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

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

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

[18] 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.

for securities in the benchmark indices[19]. 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.[20]

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 Government Pension Fund – Global. New capital is transferred to the fund in the form of cash. When the capital is invested in securities (equities and fixed income instruments), both direct and indirect costs will be incurred. In line with normal market practice, Norges Bank has used a model that calculates direct and indirect transaction costs individually since the beginning of 2005. Indirect transaction costs have 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.

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

Appendix 4: Market risk

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

Appendix 5: Norges Bank Investment Management (NBIM)

NBIM is a separate business area of 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 approves the Bank's budget. Norges Bank's audit department, Central Bank Audit, reports to the Supervisory Council and is responsible for operational auditing of investment management operations. The Office of the Auditor General is responsible for the final audit of the Government Pension Fund – Global and the Government Petroleum Insurance Fund, and bases its work partly on material from Central Bank Audit.

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

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

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

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

NBIM has separate business lines for equity and fixed income management. The head of each business line (Chief Investment Officer) is responsible for all portfolio investments and returns, strategic planning and cost management within his respective area. Each business line also has a Chief Operating Officer who is responsible for support and analysis functions, transactions and IT systems. The chief operating officers report both to their respective business line manager and to the Executive Director of NBIM. A separate department is responsible for corporate governance. In addition, NBIM has departments which are organisationally independent of the two business lines and report directly to NBIM's Executive Director. The Chief Financial Officer's responsibilities cover risk measurement, performance measurement, accounting, compliance with investment guidelines, negotiation of legal agreements, personnel policy, IT policy and administrative shared services. NBIM has also set up a project department to plan possible future investments in global property markets. The Ministry of Finance will reach a decision on whether investment should be made in real estate at a later date. At the end of the third quarter of 2007, NBIM had a total of 171 permanent employees.