NORGES BANK
REAL ESTATE MANAGEMENT

REAL ESTATE INVESTMENTS

GOVERNMENT PENSION FUND GLOBAL

REPORT /2015

No. 01

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

Contents

2015

Translated from Norwegian. For information only.

4

INVESTMENTS

5

INCOME

6

ORGANISATION

1.1 HIGHLIGHTS

2015 in figures

10.8%

Investments in unlisted real estate returned **10.8** percent in 2015.

6.9 billion kr

Net rental income

Net rental income was 6.9 billion kroner. The occupancy was 93.5 percent, and the average remaining lease length was 7.1 years.

180 billion kr

2015

The market value of the fund's unlisted real estate investments was **180** billion kroner.

106 billion kr

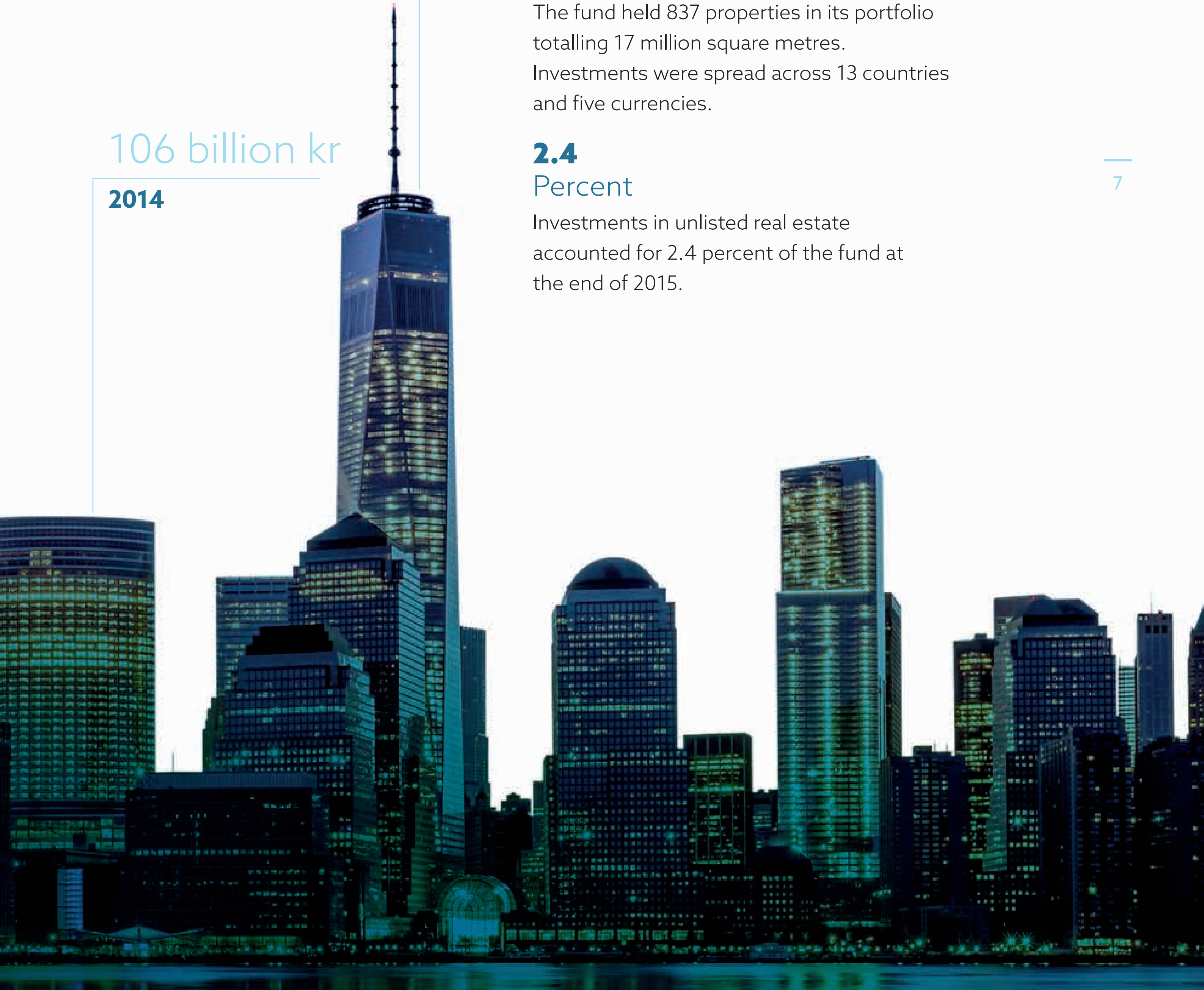
2014

837
Properties

The fund held 837 properties in its portfolio totalling 17 million square metres. Investments were spread across 13 countries and five currencies.

2.4
Percent

Investments in unlisted real estate accounted for 2.4 percent of the fund at the end of 2015.



Karsten Kallevig

Chief Executive Officer of Norges Bank Real Estate Management

Long-term management

The fund's unlisted real estate investments returned 10.8 percent in 2015. We approach new investment opportunities methodically and without haste.

We can now look back on five years as an investor in the global real estate market. The portfolio is now worth 180 billion kroner and consists of properties of a high standard in key markets in the US and Europe.

Since inception in 2011, unlisted real estate investments have returned 6.9 percent. Returns in unlisted markets in a single year should not be given too much weight. We are still in an early phase, but each year that passes gives us a better indication of the contribution real estate investments make to the fund.

There has been increased uncertainty in financial markets recently, but this has not had a major impact on unlisted real estate to date. Yields in most markets are record-low. Even record-high real estate prices are producing strong excess returns over fixed-income investments. Most letting markets are also relatively solid, with good rents and low vacancy. We nevertheless believe that the current uncertainty could result in weaker results ahead. However, the fund has a very long investment horizon and a substantial capacity to absorb and exploit short-term fluctuations. We invest when we see good opportunities in line with our strategy, and we hold back when the risks outweigh the expected returns.

Our organisation has grown with our investments and now includes employees at six offices in five time zones. To ensure capacity, specialist expertise and an organisation and investment culture tailored to investments in the unlisted market, the real estate operation was reorganised as a separate unit in 2014. We are working actively to establish the necessary infrastructure to ensure sound management of an ever-growing portfolio of unlisted real estate investments.

Openness about our activities is important, and less information is publicly available in the unlisted market. Our aim with this report is to explain how we go about investing in unlisted real estate and how these investments are managed.

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

Oslo, 28 April 2016

Karsten Kallevig
Chief Executive Officer of Norges Bank Real Estate Management

Gradual expansion

The Ministry of Finance decided in 2010 that the fund should be permitted to invest in real estate. The fund has since built up a global portfolio of unlisted real estate investments valued at 180 billion kroner at the end of 2015.

FIRST INVESTMENT IN LONDON

The fund began by investing in traditional sectors such as offices and retail in Europe's largest property markets. Priority was given to partnerships with respected local players.

The first investment in unlisted real estate was announced on 4 November 2010. The fund entered into partnership with The Crown Estate and acquired a 25 percent stake in the shopping street Regent Street. London was a natural starting point, and the fund already had an office there.

Shortly after we established a joint venture in Paris with French insurer AXA, and the portfolio has since been expanded to include several other European cities.

NEW MARKETS

Our first investment in logistics was announced on 20 December 2012. This was in line with our strategy of building a global and diversified portfolio.

On 1 January 2013, the Ministry of Finance broadened the mandate to include investments in real estate outside Europe. As the world's largest economy and one of the largest real estate markets, the US was the natural next step for the fund.

> Our strategy is to build a global and diversified portfolio

The fund adopted the same strategy as in Europe, attaching importance to finding solid partners and investing in well-developed markets. The first investment in the US was made in the first quarter of 2013.

SEPARATE ORGANISATION

When the fund began investing in real estate in 2010, the real estate department had just three employees. By the end of 2015, the team had grown to a total of 122 people of 23 nationalities across six offices.

Unlisted real estate investments differ from listed equities and bonds when it comes to the execution of investment decisions, the management framework, oversight and control. The real estate department was therefore reorganised as a separate unit – Norges Bank Real Estate Management – in 2014. The aim was to ensure capacity, specialist expertise and an organisation/investment culture tailored to investments in unlisted real estate.

MILESTONES FOR THE FUND'S REAL ESTATE INVESTMENTS

2010
The Ministry of Finance issues a mandate in March to invest up to 5 percent of the fund in real estate.
The first investment in unlisted real estate, Regent Street in London, is announced on 4 November.

2011
Norges Bank creates a platform in Luxembourg in May to bring together the operational and administrative management of real estate investments in continental Europe.

2012
The fund makes its first investment in logistics in December.

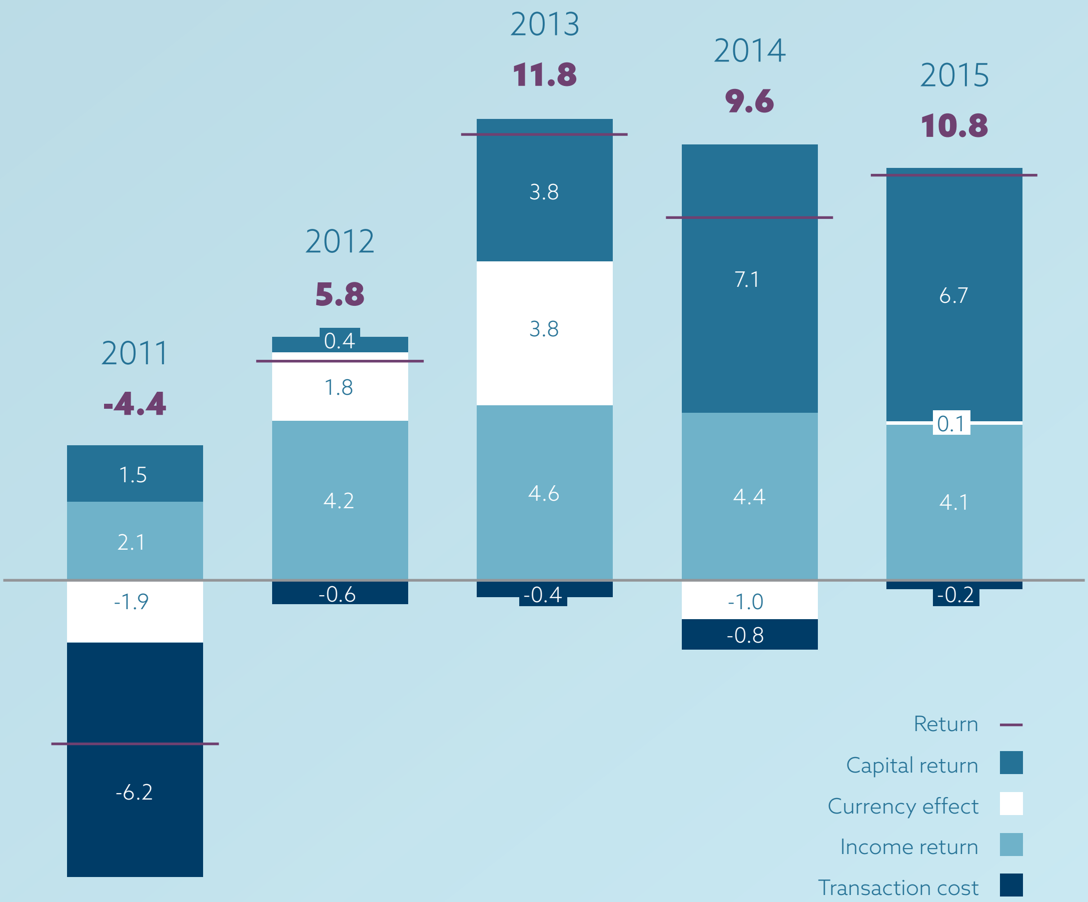
2013
The mandate is broadened with effect from 1 January to include investments outside Europe.
The first investment in the US is announced on 11 February.
The market value of real estate investments hits 1 percent of the fund's total market value in the fourth quarter.

2014
The real estate operation is reorganised as a separate unit in August.

2015
The fund opens real estate offices in Tokyo and Singapore in October.

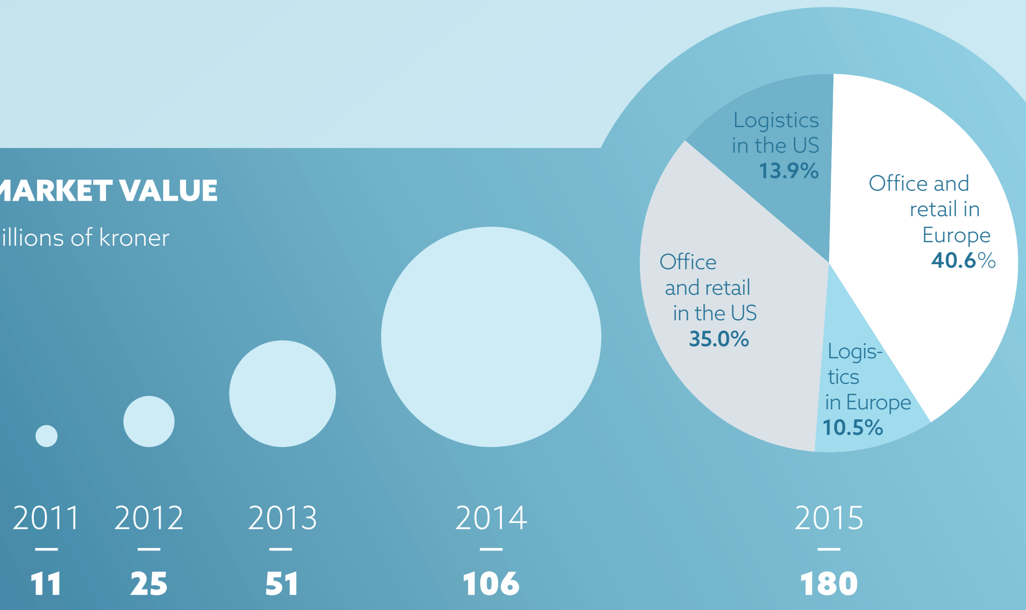
RETURN

Percent



MARKET VALUE

Billions of kroner



3.1 RESULTS

Results for 2015

The fund's investments in unlisted real estate returned 10.8 percent in 2015.

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

Measured in local currency, rental income net of operating costs made a positive contribution of 4.1 percentage points to the return in 2015, down from 4.4 percentage points in 2014. The change in the value of properties and debt contributed 6.7 percentage points, measured in local currency. Exchange rates made a positive contribution of 0.1 percentage point in 2015 due to movements in the currencies of our real estate investments relative to the fund's currency basket. There was a positive contribution from the dollar and the Swiss franc, but a negative contribution from the pound and the euro. Transaction costs made a negative contribution of 0.2 percentage point.

Table 1 Return in 2015. Percent

	Total	Europe	US
Income return	4.1	4.1	3.8
Capital return	6.7	8.7	3.9
Transaction cost	-0.2	-0.1	-0.4
Currency effect	0.1	-2.8	5.4
Return measured in the fund's currency basket	**10.8**	**10.0**	**12.7**
Return measured in Norwegian kroner	**24.6**	**23.7**	**26.8**

Table 2 Annual return. Percent

	2015	2014	2013	2012	2011
Income return	4.1	4.4	4.6	4.2	2.1
Capital return	6.7	7.1	3.8	0.4	1.5
Transaction cost	-0.2	-0.8	-0.4	-0.6	-6.2
Currency effect	0.1	-1.0	3.8	1.8	-1.9
Return measured in the fund's currency basket	**10.8**	**9.6**	**11.8**	**5.8**	**-4.4**
Return measured in Norwegian kroner	**24.6**	**26.6**	**20.6**	**-0.5**	**-0.8**

Table 3 Annualised return. Percent

	2015	2014	2013	2012	2011
Annual return, time-weighted	10.8	9.6	11.8	5.8	-4.4
Annual return, money-weighted	11.1	10.1	12.9	4.7	-5.0
3 years return, time-weighted	10.7	9.0			
3 years return, money-weighted	11.2	10.4			
Since 31 March 2011, time-weighted	6.9	5.9	4.6	0.7	-4.4
Since 31 March 2011, money-weighted	10.2	9.5	8.8	1.7	-5.0

Since its inception in 2011, the real estate portfolio has generated an annual return of 6.9 percent.

CHANGES IN MARKET VALUE

The net market value of the fund's unlisted real estate investments was 180 billion kroner at the end of 2015. The change since 2011 can be explained by a combination of new investments, changes in the value of properties and debt and currency gains.

The increase in market value is mainly a result of new investments, which have been financed by inflows from the fund's fixed-income portfolio of 120.7 billion kroner and by net income of 9.6 billion kroner. Investments have also increased in value since 2011 by 15.8 billion kroner, giving a total return of 59.3 billion kroner, of which exchange rate movements have contributed 33.9 billion kroner.

Investments in offices and retail in the UK and the US and investments in European logistics have performed best since inception, while investments in offices and retail in Germany and France have performed less well.

Table 4 Key figures per country as at 31 December 2015. Millions of kroner

Country[1]	Inflows	Net income	Capital return	Currency effect	Net value
US	45,328	2,255	3,001	12,802	63,387
UK	23,637	1,657	8,378	7,820	41,492
Germany	4,040	387	- 83	1,081	5,424
France	11,181	1,641	1,004	2,711	16,537
Switzerland	5,261	996	19	2,743	9,019
Logistics, US	19,992	755	844	3,651	25,241
Logistics, Europe	11,294	1,958	2,586	3,084	18,921
Total	**120,732**	**9,648**	**15,750**	**33,891**	**180,021**

[1] Office and retail per country. Logistics reported separately.

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

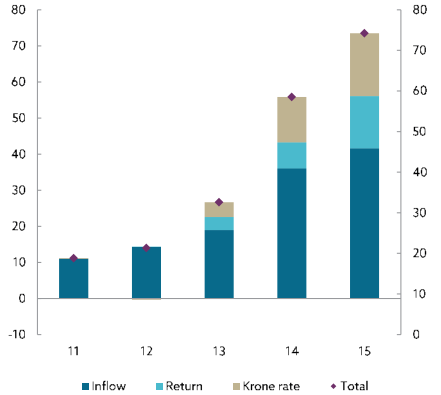
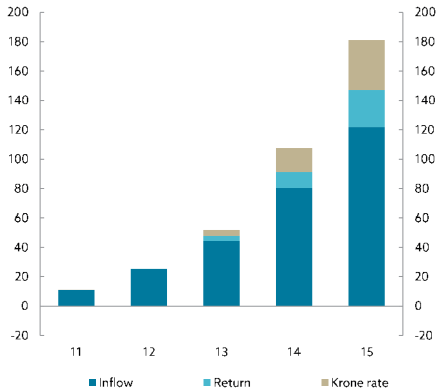


Chart 2 Accumulated changes in the market value of unlisted real estate investments. Billions of kroner



THE IPD BENCHMARK

The mandate from the Ministry of Finance requires the fund to target a net return on the real estate portfolio that matches or exceeds the return on the Investment Property Databank (IPD) Global Property Benchmark excluding Norway and adjusted for the actual effect of leverage and actual management costs. IPD is owned by MSCI and produces indices for both listed and unlisted real estate investments at global, regional, country and city level.

IPD's return data for the previous year are not normally available until June, but compared with the IPD benchmark for 2014 the fund's return on the unlisted real estate investments was 26.6 percent, against 27.6 percent. This is due partly to the fund's real estate investments having a different geographical allocation to the IPD benchmark.

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

	2015	2014	2013	2012	2011
The fund's unlisted real estate investments	24.6	26.6	20.6	-0.5	-0.8
IPD	N/A[1]	27.6	15.9	-0.4	5.0
Relative	N/A[1]	-1.0	4.7	0.1	-5.8

[1] IPD's figures are delivered with about six months delay.

RETURNS IN INTERNATIONAL CURRENCY

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund's benchmark indices for equities and bonds. The fund's currency basket consisted of 33 currencies at the end of 2015. Unless otherwise stated in the text, results are measured in the fund's currency basket. Contributions to the return are presented in local currency.

The return on real estate investments is measured and reported on a time-weighted basis in line with the Global Investment Performance Standards (GIPS), but we also present the money-weighted return.

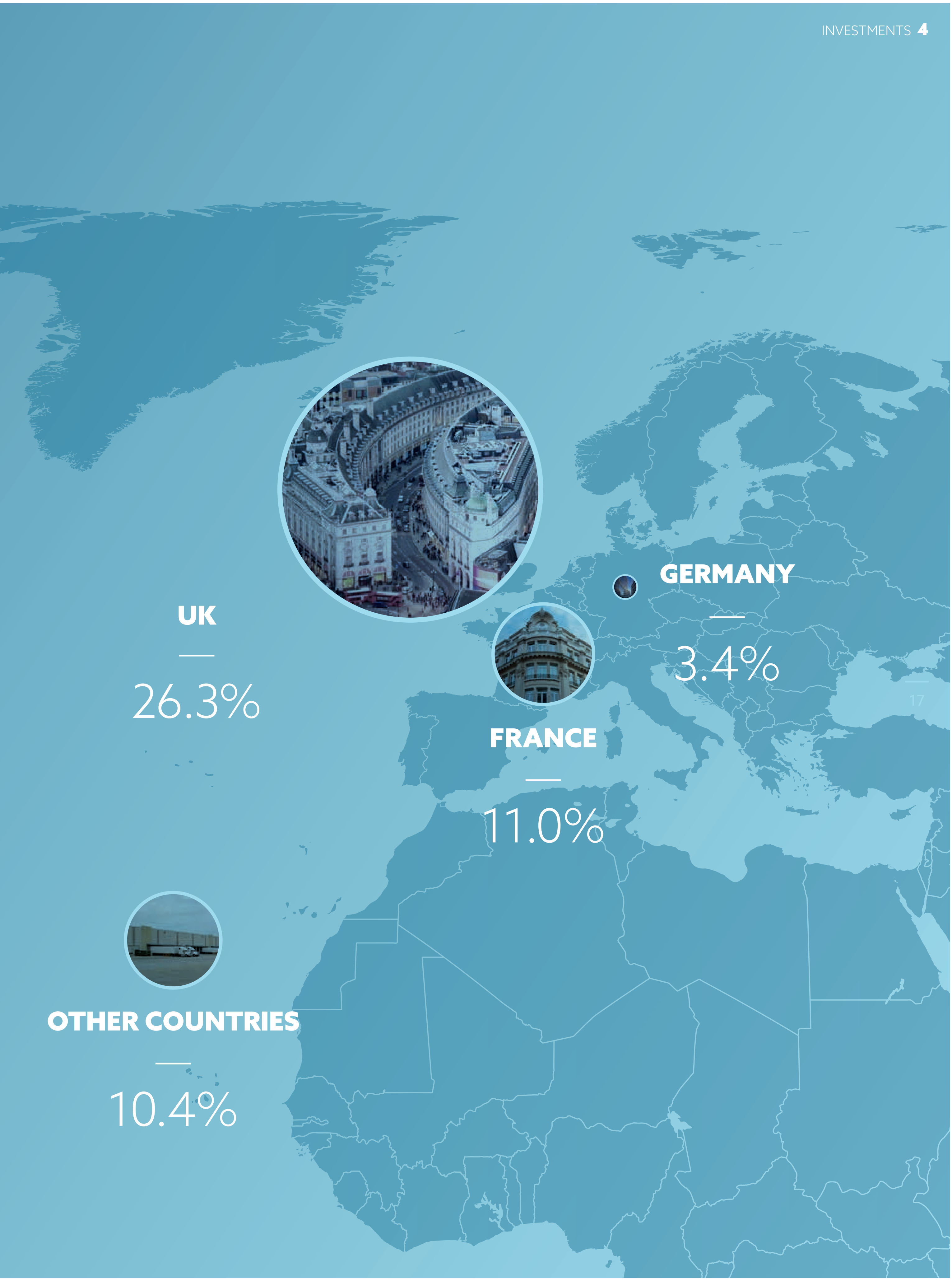
The time-weighted return assigns an equal weight to each period, regardless of how much was invested in each period, whereas the money-weighted return takes account of how much was invested in each period.

Real estate investments

Share of market value

US

48.9%


GERMANY
3.4%
UK
26.3%
FRANCE
11.0%
OTHER COUNTRIES
10.4%

Investments worldwide

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

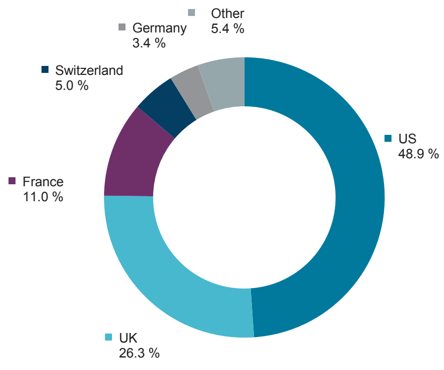
We invest in properties that can deliver good return for the fund over time. Our aim is to build a global, but concentrated, portfolio.

The real estate portfolio was spread across 13 countries at the end of 2015. The greatest exposure was to the US at 48.9 percent, followed by the UK at 26.3 percent and France at 11.0 percent.

SELECTED CITIES

Our strategy is to invest in a limited number of major cities with various common characteristics. The cities must have a real estate market with sufficient scale to have opportunities for substantial investments over time. We look for cities expected to see continued population and/or employment growth and economic growth. We believe cities that attract intellectual and financial capital will have the greatest potential for economic growth and increased trade. There should also be constraints on the development of new real estate, whether regulatory, such as height restrictions or annual construction limits, or topographical limits such as coastlines or

Chart 3 The fund's real estate investments by country as at 31 December 2015. Net value



mountains, as this will favour long-term growth in rents.

In Europe, we are concentrating on large real estate markets such as London, Paris, Berlin and Munich. Our investments in the US span four major cities: New York, Boston, Washington, D.C. and San Francisco. At the end of the year, 65.5 percent of our investments were concentrated in these eight cities. The greatest exposure was to New York at 20.4 percent, followed by London at 19.3 percent and Paris at 9.1 percent.

In addition to these eight cities included in our investment strategy, the fund had investments in Frankfurt, Zürich and Sheffield. We have invested in these cities because we were presented with good investment opportunities. We do however not have the same long-term plans to build up investments in these cities.

Tokyo and Singapore are also part of our long-term strategy, but we did not have any investments in these cities at the end of 2015.

THREE SECTORS

Office properties represent the backbone of the fund's investment strategy and accounted for 62.3 percent of the fund's real estate investments at the end of the year. We concentrate on expanding global cities where land is an important component of property values. We invest in offices of a high standard in attractive locations. We also consider other properties if we believe they have the potential to be attractive in the longer term. Every new investment is preceded by an assessment of expected future return and risk.

Retail is a large sector that has historically generated a return that correlates with general economic growth. We concentrate on markets with relatively high spending per capita. Retail investments made up 12.3 percent of the portfolio at the end of the year.

The logistics sector has grown with globalisation. New technology and new global distribution chains have also led to a greater need for high-quality warehousing. The fund's logistics properties are mainly located near key

Chart 4 The fund's real estate investments by cities as at 31 December 2015. Net value

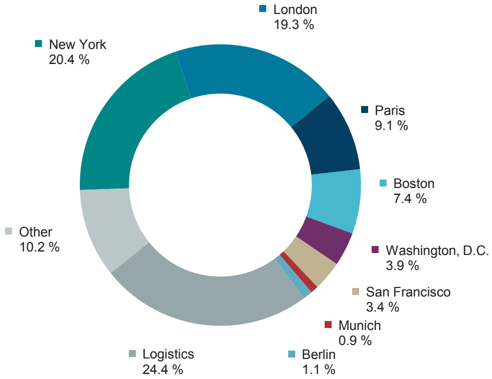
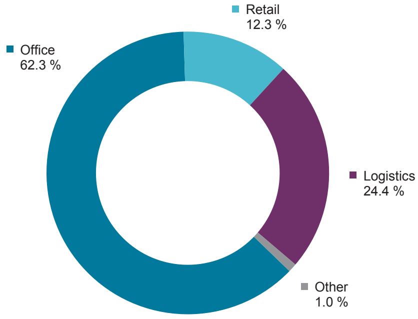


Chart 5 The fund's real estate investments by sector as at 31 December 2015. Net value



transport infrastructure, such as motorways, railways, ports and airports. Logistics investments made up 24.4 percent of the portfolio at the end of the year.

PARTNERSHIPS

We have largely chosen to invest with partners in order to benefit from their local knowledge and expertise. Investing with partners gives us better access to new investment opportunities and better information on which to base investment decisions.

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

We have in most cases entered into joint ventures where both sides invest similar amounts and have a similar investment horizon and philosophy.

The fund had ten investment partners at the end of the year.

ASSET MANAGEMENT

Ongoing management of the properties in the portfolio is important for maximising the return on investment. This includes identifying and implementing upgrades and development projects, ensuring the right mix of tenants, and producing budgets and reports for the properties.

We take all strategic and important investment decisions in-house, but delegate responsibility for day-to-day asset and property management to respected and experienced local players. We are actively involved in the decisions taken by our asset managers. We review and approve annual business plans, budgets for each individual property, renewals of major leases, and significant upgrades. This ensures that the management and operation of the portfolio match our strategy and expectations.

CURRENCY AND DEBT

Our real estate investments spanned five currencies at the end of the year. The greatest exposure was to the dollar at 48.9 percent, followed by the pound at 26.3 percent and the euro at 18.9 percent.

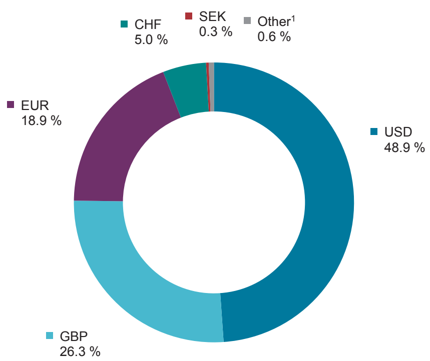
The fund does not normally raise debt to finance property purchases. However, some investments involve debt, either because the investment already comes with debt or because an investment partner requires it. Debt amounted to 8.8 percent of the portfolio at the end of 2015. At nominal value, this gives a leverage of 8.3 percent. Of this debt, 35.9 percent was in pounds, 59.7 percent in dollars and 4.4 percent in euros.

In line with applicable accounting standards, the financial reporting for the fund presents this debt at market value. Currency fluctuations were the main reason for changes in the market value of debt during the year, but movements in credit markets also had an effect.

Table 6 Investment partners as at 31 December 2015. Share of investments in percent

Investment partner	Country	Sector	Share of portfolio
Prologis	US	Logistics	13.9
Boston Properties	US	Office	11.6
Prologis	Europe	Logistics	10.5
The Crown Estate	UK	Retail, office	8.8
TIAA	US	Office	8.5
Trinity Wall Street	US	Office	7.8
AXA Real Estate	France, Germany	Office, retail	7.6
MetLife	US	Office	5.2
British Land	UK	Retail	3.6
Prudential Real Estate Investors	US	Office	2.2
Generali Real Estate	France	Office, retail	1.7

Chart 6 The fund's real estate investments by currency as at 31 December 2015. Net value



[1] Bank deposits and other claims

Table 7 Debt as at 31 December 2015. Millions of kroner

	Investments	Debt
US	5	10,403
Europe	4	7,029
Total	**9**	**17,432**

Table 8 Debt maturity as at 31 December 2015. Millions of kroner

	Debt
More than 5 years	10,711
Between 1 and 5 years	5,023
Within 1 year	1,698
Total	**17,432**

Chart 7 Change in the value of real estate investments as at 31 December 2015. Millions of kroner

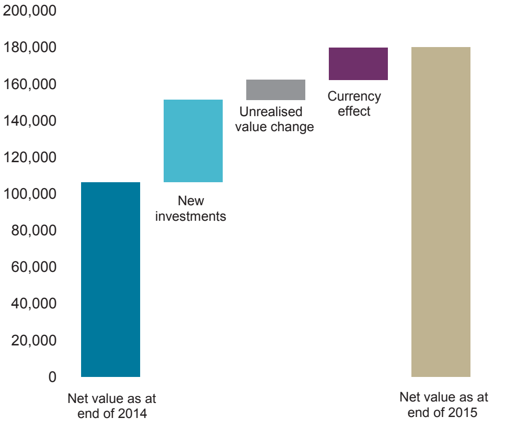


Chart 8 Annual investments in percentage of the fund's market value

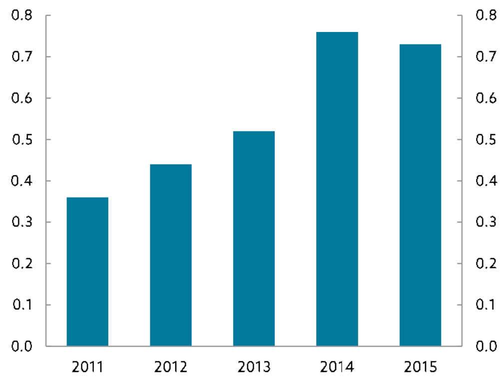


Table 9 Changes in net asset value of investments by market. Millions of kroner

	Total	Europe	US
Net asset value as at 31 December 2014	**106,431**	**68,714**	**37,717**
New investments	44,946	7,405	37,541
Unrealised value change	11,005	7,958	3,047
Currency effect	17,639	7,316	10,323
Net asset value as at 31 December 2015	**180,021**	**91,393**	**88,628**

Table 10 Value by market as at 31 December 2015. Millions of kroner

	Total	Europe	US
Gross asset value	197,549	99,376	98,173
Debt	-17,432	-7,029	-10,403
Net other assets unlisted real estate	-96	-954	858
Net asset value	**180,021**	**91,393**	**88,628**

4.2 EUROPE

European investments

Investments in Europe accounted for 51.1 percent of the unlisted real estate portfolio at the end of the year and returned 10.0 percent.

The European property market somewhat underperformed the global market, with the exception of London which performed well. Strong demand for office space in the central parts of the British capital resulted in rental growth ranging from around 7 percent in the West End to 18 percent in the Midtown area. Office rents in London were back to the levels seen in 2007, and vacancy was particularly low.

Office rents in Paris were unchanged with above-average vacancy, although vacancy in central districts was coming down. Berlin and Munich were the best-performing cities in Germany, with rental growth of approximately 4 and 3 percent respectively. Despite a generally moderate market performance, capital continued to flow into European commercial real estate. Investment volumes in Europe increased by around 23 percent in 2015 compared to 2014. Although local players continued to dominate, the strongest growth was from foreign capital.

In the retail and shopping centre sector, rents in the most attractive areas of Paris and London increased by 17 and 23 percent respectively. Rental growth in these areas has been significantly above the average in recent years.

Global economic growth since the financial crisis has led to increased trade, boosting the market for logistics properties. Logistics lettings in Europe grew by 28 percent in 2015, based on a survey in 22 European cities. Several markets saw a decrease in vacancy. Based on CBRE's rent index, logistics rents increased by 2.6 percent, but in many places they are still lower than before the financial crisis. London, Edinburgh and Dublin were the strongest markets for logistics properties, with rents climbing more than 10 percent. Rents in France and Germany increased by 2 and 4 percent respectively.

OFFICES AND RETAIL

The fund had investments in a total of 176 office and retail properties in Europe at the end of the year. These investments made up 40.6 percent of the overall unlisted real estate portfolio and returned 11.1 percent. The greatest exposure was to London, which accounted for 48.2 percent of the total European office and retail portfolio at the end of the year.

The investments consisted of 67.5 percent offices and 30.3 percent retail at the end of 2015. The three largest tenants were Credit Suisse, Bank of America Merrill Lynch and Chanel. The ten largest tenants generated 36.7 percent of rental income, and the average remaining lease term was 8.3 years. Investments in offices and retail made up 79.5 percent of the total European portfolio.

Table 11 New investments in office and retail in Europe in 2015 [1]

Address	City	Partner	Sector	Share in percent	Price in million pounds
3 Old Burlington Street[2]	London	-	Office	100.0	190.6
33 Savile Row[2]	London	-	Residential	100.0	43.3
West One Shopping Centre and 75 Davies Street	London	-	Retail	100.0	240.0

[1] Some properties include residential units.
[2] These addresses make up Queensberry House, 3 Old Burlington Street, and will be reported as one property going forward.

Chart 9 Investments in office and retail in Europe by sector as at 31 December 2015. Net value

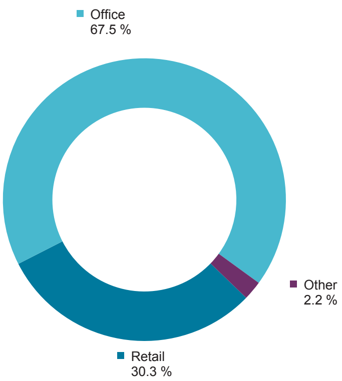
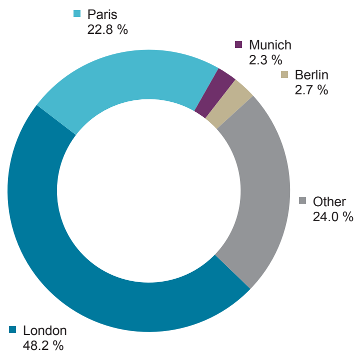


Chart 10 Investments in office and retail in Europe by city as at 31 December 2015. Net value



LOGISTICS

The fund had investments in a total of 240 logistics properties spread across 11 countries in Europe at the end of the year. These investments made up 10.5 percent of the overall unlisted real estate portfolio and returned 6.0 percent.

The fund's investments in European logistics properties amounted to 42.8 percent of the total logistics portfolio at the end of the year. The greatest exposure was to the UK, which accounted for 32.8 percent of the European logistics portfolio, followed by France at 17.8 percent and Spain at 10.4 percent.

The three largest tenants were Ceva Logistics, Sainsbury's and Geodis. The ten largest tenants generated 26.0 percent of rental income, and the average remaining lease term was 5.8 years.

All of the fund's logistics investments in Europe have been made in partnership with Prologis. The fund's stake in these properties is 50 percent.

Chart 11 Investments in logistics in Europe by country as at 31 December 2015. Net value

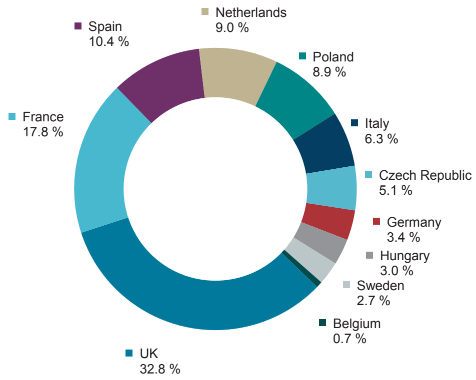


Table 12 New investments in logistics in Europe in 2015

Adress	Partner	Sector	Share in percent	Price in million euro
Eight properties in the UK, Poland and France	Prologis Europe	Logistics	50.0	155.0

Table 13 Investments in Europe as at 31 December 2015. Millions of kroner

	City	Value	Ownership Percent
UK		41,490	
Norges Bank Real Estate Management, wholly-owned			
Pollen Estate	London	5,188	57.8
Merrill Lynch Financial Centre, 2 King Edward Street	London	7,707	100
Queensberry House, 3 Old Burlington Street	London	3,143	100
West One Shopping Centre og 75 Davies Street	London	3,156	100
The Crown Estate, partnership		15,760	25
Regent Street portfolio	London		25
British Land, partnership		6,536	
The Meadowhall Shopping Centre	Sheffield		50
FRANCE		16,553	
Norges Bank Real Estate Management, wholly-owned			
Le Madeleine, 23 boulevard de la Madeleine	Paris	4,366	100
AXA France, partnership		9,098	50
Grand Ilot, 2 rue des Italiens	Paris		50
Petit Ilot, 1-3 rue des Italiens	Paris		50
12-14 Rond-Point des Champs Elysées	Paris		50
16 avenue Matignon	Paris		50
24-26 rue Le Peletier	Paris		50
Le Prélude, 27 avenue du Général Leclerc	Paris		50
Le Verdi, 31-33 rue de Verdun	Paris		50
Meudon Campus, 46-63 route de Vaugirard	Paris		50
99 avenue de France	Paris		50
Opus 12 - 77 esplanade du Général de Gaulle	Paris		50
28-32 avenue Victor Hugo	Paris		50
Generali, partnership		3,089	
100 avenue des Champs Elysées	Paris		50
15-17 rue Scribe	Paris		50
183-185 avenue Daumesnil	Paris		50
3-5 boulevard Malesherbes	Paris		50
9 avenue de Messine	Paris		50
11 rue Pasquier	Paris		50
SWITZERLAND		9,019	
Norges Bank Real Estate Management, wholly-owned			
Uetlihof office campus	Zürich	9,019	100
GERMANY		5,424	
Norges Bank Real Estate Management, wholly-owned			
Lenbachgärten, Luisenstrasse 12,14, Karlstrasse 23	Munich	813	94.9
AXA Germany, partnership		4,611	
Neues Kranzler Eck, Kurfurstendamm 19-24, Joachimstaler Strasse 5, Kantstrasse 160	Berlin		50
SZ Tower, Hultschiner Strasse 8	Munich		50
Die Welle W1, An der Welle 3-7, Reuterweg 16-18, Gärtnerweg 51	Frankfurt		50
Die Welle W3, An der Welle 2-10, Leerbachstrasse 3-7	Frankfurt		50
LOGISTICS INVESTMENTS SPREAD ACROSS SEVERAL COUNTRIES		18,921	
Prologis Europe, partnership		18,921	50
Total office and retail		72,470	
Total logistics		18,921	
TOTAL EUROPE[1]		**91,391**	

[1] Certain assets and debt which are not directly attributable to investment structures are excluded

Queensberry House/3 Old Burlington Street, London ↑
In January, the fund acquired 100 percent of Queensberry House on 3 Old Burlington Street in London, which is home to the fund's London office. The building comprises 6,271 square meters of offices over six floors and 650 square meters of retail space on Savile Row, along with an underground car park with 320 spaces. In October, the fund also acquired 100 percent of 33 Savile Row, consisting of 12 residential units on the top two floors of Queensberry House. The fund paid 234 million pounds for the entire property.

West One Shopping Centre/ 75 Davies Street, London ←

In September, the fund acquired 100 percent of West One Shopping Centre and the rest of the building at 75 Davies Street above London's Bond Street underground station, paying 240 million pounds for a 95-year lease. The property comprises 4,181 square meters of office accommodation on four floors and 4,181 square meters of retail space. The shopping centre has an entrance from the underground station.

Eight logistics properties in the UK, Poland and France ↑

In July, the fund acquired a 50 percent interest in a portfolio of eight logistics properties in the UK, Poland and France, paying 155 million euros. The properties in Daventry, Minworth and Kettering in the UK, Vémars in France and Wrocław in Poland have a total lettable area of 260,130 square meters.

Die Welle, An der Welle 3-7 and 2-10, Frankfurt ←

In October 2012, the fund made its first investment in Germany. In a joint venture with AXA, we acquired a 50 percent interest in two properties in Berlin and Frankfurt, paying 784 million euros. Die Welle is located in Frankfurt's business district. The 81,600 square meter building consists mainly of offices.

Photo: Andreas Nenninger Photography

Neues Kranzler Eck, Kurfürstendamm 19-24, Berlin ↑

The second of the properties acquired in Germany in October 2012 in partnership with AXA, is located on Berlin's renowned Kurfürstendamm avenue. The fund has a 50 percent interest in the building, which comprises 72,400 square meters of office and retail space on 16 floors.

24-26 rue le Peletier, Paris

In July 2011, the fund made its first real estate investment in France. The fund formed a partnership with AXA and acquired a 50 percent interest in seven properties in Paris for 702.5 million euros. The building pictured here is on Rue le Peletier in the city centre and comprises 9,513 square meters on nine floors.

4.3 US

US investments

Investments in the US accounted for 48.9 percent of the unlisted real estate portfolio at the end of the year and returned 12.7 percent.

Demand for office space in the US increased in 2015, and rents rose more than 5 percent nationwide. San Francisco was the strongest performer of the cities where the fund has investments, with office rents climbing more than 15 percent. Strong demand, coupled with a limited supply of new developments, led to the lowest vacancy levels since 2011. Washington D.C., on the other hand, was one of the weaker markets, with largely unchanged rents and above-average vacancy.

Rents in central parts of New York and Boston increased by just over 6 percent. In New York, vacancy was particularly low in the Midtown South area of Manhattan at less than 5 percent. There was strong demand from investors in these markets, and transaction volumes were 23 percent higher in 2015 than in 2014. Cap rates, the ratio between rents and asset values, fell slightly in the US in 2015 despite an increase in interest rates.

Vacancy in the US logistics market was at a 15-year low and 2 percentage points below the historical average, and warehouse rents increased by 4 percent nationwide. The strongest growth in rents was in San Francisco at more than 50 percent, followed by Minneapolis, Seattle and San Jose at between 30 and 40 percent.

OFFICES AND RETAIL

The fund had investments in a total of 31 office and retail properties in the US at the end of the year. These investments made up 35.0 of the overall unlisted real estate portfolio and returned 13.5 percent. The fund's investments in offices and retail in the US are concentrated in four cities: New York, Boston, Washington, D.C. and San Francisco. The greatest exposure was to New York, which accounted for 58.1 percent of the total US office and retail portfolio at the end of the year.

In the US, none of the properties within office and retail are classified as retail properties. Some properties have a retail component, but are still classified as office buildings because the bulk of the space is used for office purposes. The three largest tenants were Kirkland & Ellis, Wellington and Proskauer Rose. The ten largest tenants generated 27.9 percent of rental income, and the average remaining lease term was 7 years.

Investments in offices and retail made up 71.6 percent of the total US portfolio.

Table 14 New investments in office and retail in the US in 2015

Address	City	Partner	Sector	Share in percent	Price in million dollar
11 Times Square	New York	Prudential REI and SJP Properties	Office	45.0	401.9
25 Massachusetts Avenue	Washington, D.C.	TIAA	Office	49.9	60.8
888 Brannan Street	San Francisco	TIAA	Office	49.9	153.2
11 properties near Hudson Square, Midtown South, Manhattan	New York	Trinity Wall Street	Office	44.0	1,562.0

Chart 12 Investments in office and retail in the US by sector as at 31 December 2015. Net value

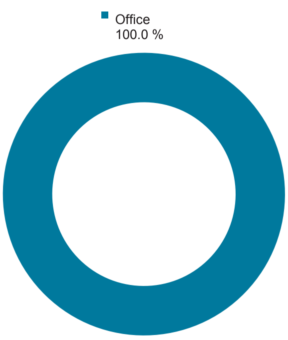
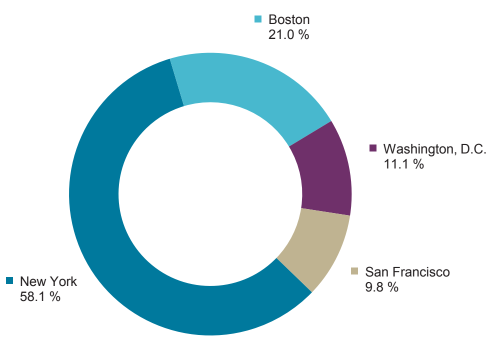


Chart 13 Investments in office and retail in the US by city as at 31 December 2015. Net value



LOGISTICS

The fund had investments in a total of 390 logistics properties in the US at the end of the year. These investments made up 13.9 percent of the overall unlisted real estate portfolio and returned 12.6 percent.

The fund's investments in US logistics properties amounted to 57.2 percent of the total logistics portfolio at the end of the year.

The properties were spread across the country. The greatest exposure was to California at 28.8 percent, followed by New Jersey at 16.0 percent, Los Angeles at 12.8 percent and Chicago at 12.4 percent.

The three largest tenants were Amazon.com, C&S Wholesale and Y-OPCO. The ten largest tenants accounted for 26.3 percent of rental income, and the average remaining lease term was 5.7 years.

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

Chart 14 Investments in logistics in the US by region as at 31 December 2015. Net value

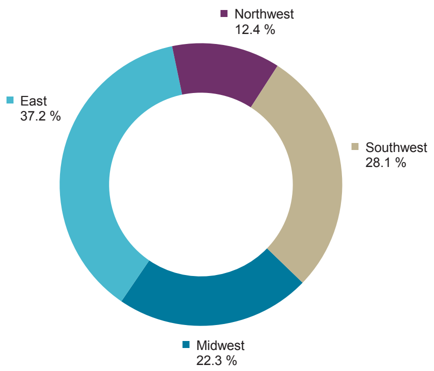


Table 15 New investments in logistics in the US in 2015

Address	City	Partner	Sector	Share in percent	Price in million dollar
322 properties across 17 states	US	Prologis US	Logistics	45.0	2,324.5
4101-4601 6th Avenue South	Seattle	Prologis US	Logistics	45.0	28.5
800 Veterans Parkway, 850 Veterans Parkway	Chicago	Prologis US	Logistics	45.0	18.2

Table 16 Investments by sector and city as at 31 December 2015. Millions of kroner

	Value
Office and retail	63,387
New York	36,867
Washington, D.C.	7,016
Boston	13,323
San Francisco	6,181
Logistics	25,241
TOTAL US	88,628

Table 17 Investments in the US by partner as at 31 December 2015. Millions of kroner

	City	Value	Ownership Percent
TIAA, partnership		15,286	49.9
2 Herald Square	New York		49.9
470 Park Avenue South	New York		49.9
475 Fifth Avenue	New York		49.9
800 17th Street	Washington, D.C.		49.9
1101 Pennsylvania Avenue, NW	Washington, D.C.		49.9
1300 Eye Street, NW	Washington, D.C.		49.9
400 - 444 North Capitol Street, NW	Washington, D.C.		49.9
25 Massachusetts Avenue, NW	Washington, D.C.		49.9
405 Howard Street	San Francisco		49.9
888 Brannan Street	San Francisco		49.9
33 Arch Street	Boston		49.9
Trinity Wall Street, partnership		13,987	44
75 Varick Street	New York		44
345 Hudson Street	New York		44
200 Hudson Street	New York		44
225 Varick Street	New York		44
435 Hudson Street	New York		44
100 Avenue of Americas	New York		44
350 Hudson Street	New York		44
205 Hudson Street	New York		44
10 Hudson Square	New York		44
155 Avenue of Americas	New York		44
12-16 Vestry Street	New York		44
Prudential, partnership		3,885	45
11 Times Square	New York		45
Boston Properties, partnership		20,921	45
601 Lexington Avenue	New York		45
7 Times Square	New York		45
100 Federal Street	Boston		45
Atlantic Wharf	Boston		45
MetLife, partnership		9,309	47.5
555 12th Street, NW	Washington, D.C.		47.5
1 Financial Centre	Boston		47.5
One Beacon Street	Boston		47.5
425 Market Street	San Francisco		47.5
Prologis US, partnership		25,241	45

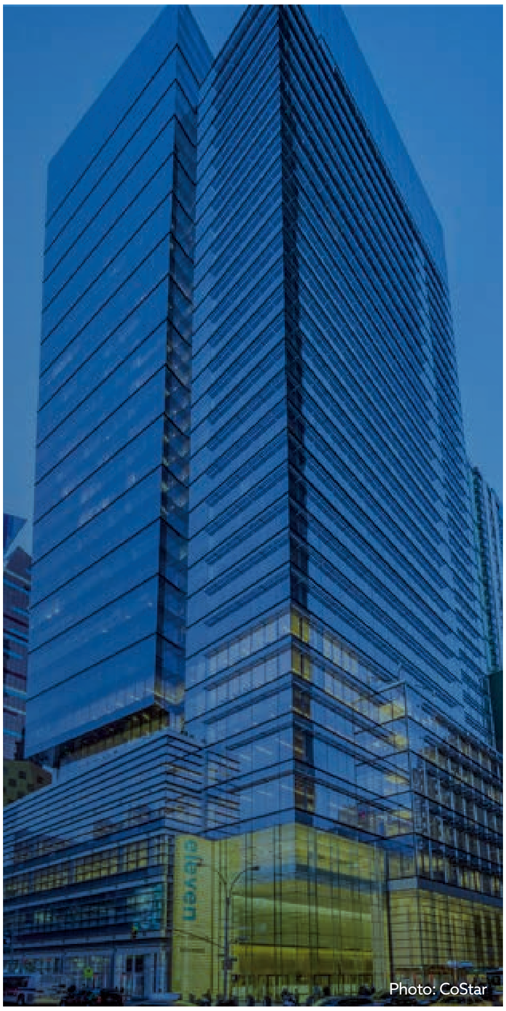


Photo: CoStar

11 Times Square, New York

In February, the fund acquired a 45 percent stake in 11 Times Square in New York for 401.9 million dollars alongside Prudential Real Estate Investors and SJP Properties. Completed in 2010, the property contains around 97,548 square meters of office accommodation and 4,645 square meters of retail space on 40 floors. The building is located on 42nd Street and 8th Avenue and has direct access to 11 different subway lines.

11 properties around Hudson Square, New York

In November, the fund paid 1.56 billion dollars for a 44 percent interest in a portfolio of 11 office properties located around Hudson Square in the Midtown South area of Lower Manhattan in New York City, in a joint venture with Trinity Wall Street. The properties total more than 455,000 square meters.

888 Brannan Street, San Francisco ↑
In September, the fund paid 153.2 million dollars for a 49.9 percent interest in 888 Brannan, a 41,342 square meter office property on Brannan Street in San Francisco, in partnership with TIAA.

322 logistics properties across 17 US states ↓
April saw our single largest real estate investment yet, with the fund paying 2.3 billion dollars for a 45 percent interest in a portfolio of logistics properties across 17 US states, totalling 5.6 million square meters. The transaction also included a further ten properties with 330,000 square meters under development and land with 635,000 square meters of development potential.

Atlantic Wharf, 290 Congress Street, Boston ↑
In September 2014, the fund signed an agreement with Boston Properties to buy a 45 percent stake in three office buildings, one in New York and two in Boston, for 1.5 billion dollars. Pictured here is the Atlantic Wharf office tower in central Boston, comprising 73,486 square meters on 31 floors.

555 East 12th Street, Washington, D.C.

In January 2014, the fund announced two new property investments in Washington, D.C. and San Francisco in partnership with MetLife, paying 480 million dollars for a 47.5 percent stake in both buildings. The Washington, D.C. property is located on 555 East 12th Street, adjacent to the Metro Center subway station and one block north of Pennsylvania Avenue. With 73,000 square meters on 12 floors, it is one of the largest office buildings in the city.

425 Market Street, San Francisco

The second of the properties acquired in January 2014 in partnership with MetLife was the fund's first investment on the US West Coast. 425 Market Street is an office building on the junction with Fremont Street in San Francisco's south financial district with 87,900 square meters on 36 floors. The fund has a 47.5 percent stake in the building.

Times Square Tower, 7 Times Square, New York

In September 2013, the fund signed an agreement to buy 45 percent of the Times Square Tower in Manhattan in partnership with Boston Properties for 684 million dollars. The building occupies an entire block between 41st and 42nd Streets, Broadway and 7th Avenue and has a total lettable area of 115,200 square meters on 47 floors.

4.4 RISK MANAGEMENT

Expected fluctuations

The results of the fund's real estate investments can be expected to vary over time. The most important form of risk management at our disposal is diversifying investments across regions, sectors and markets.

We aim to minimise the risk of our investments falling in value, and to generate a good long-term return.

We use various methods and tools to obtain the broadest possible picture of risk relating to the real estate portfolio and to manage this risk as best possible.

MARKET RISK

Market risk is the risk of loss or a change in the market value of an investment or the portfolio as a whole. Market risk is driven mainly by changes in cash flow from the properties and changes in the market's expected future income from the properties, both in absolute terms and relative to other asset classes. In the case of real estate, the measurement of market risk includes occupancy levels and tenant concentration.

The most important way in which we can minimise market risk is to diversify the portfolio. Before each new investment, we conduct a thorough due diligence of the risks related to the investment and how it could impact on the portfolio.

As a starting point, we try to avoid making too many major investments in any one year, as this reduces the risk of investing excessively in a period when the market subsequently turns out to have been overpriced.

The risk associated with real estate investments is measured and reported to Norges Bank's Executive Board on a quarterly basis.

CHANGES IN RENTAL INCOME

Income risk is the risk of receiving less rental income than expected, for example due to problems letting properties. At the end of 2015, 93.5 percent of the portfolio was let, and 1.0 percent of the portfolio was under development. Our investment strategy entails concentrating on markets expected to show long-term growth, as this reduces the risk of lost income.

We measure tenant concentration risk on a quarterly basis and when evaluating a new investment. We also look at each tenant's creditworthiness.

At the end of 2015, we were receiving rental income from more than 3,100 tenants across a variety of industries in Europe and the US. The largest office tenants are mainly in financial and legal services, while the tenant base for retail and logistics properties is very diverse. The ten largest tenants generated around 20 percent of rental income at the end of 2015, and the 100 largest just under 50 percent.

The current lease maturity structure is even but with a slight concentration in 2022. The average remaining lease term is 7.1 years.

Besides monitoring and managing concentration risk, we attach importance to investing in properties of a high standard that are attractive to tenants. This will help limit the negative effects of unfavourable market developments.

Chart 15 Tenants by sector as at 31 December 2015

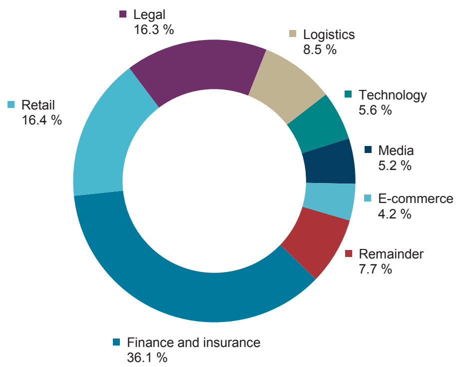
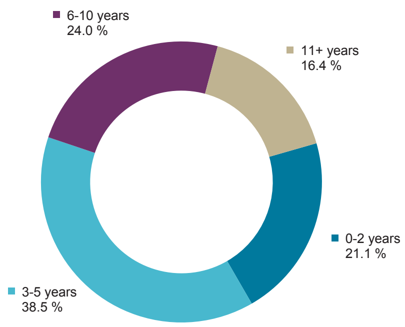


Chart 16 Remaining time to expiry of leases



COUNTERPARTY RISK

Counterparty risk is the risk of loss due to a counterparty's bankruptcy or default. The loss of cash holdings in bank accounts is the main form of counterparty risk in the real estate portfolio. We reduce this risk by minimising these holdings, which are measured monthly. It has also been made a requirement that accounts may be opened only with banks with a satisfactory credit rating.

Another form of counterparty risk arises from investing jointly with partners. On the one hand, the partner's local expertise helps us reduce market risk and income risk. On the other, there is the risk of the partner failing to fulfil its side of the partnership agreement.

OPERATIONAL RISK

Norges Bank's Executive Board has issued guidelines for operational risk management and internal control. It has decided there must be less than a 20 percent probability that operational risk factors will result in gross losses of 750 million kroner or more over a 12-month period. Operational risk exposure was below this limit throughout 2015.

A total of 63 unwanted events in the real estate operation were registered in 2015. Most of these had no financial consequences, either because they were discovered early or because they had only non-financial consequences. None were considered significant. The estimated total financial impact of unwanted events in 2015 was 350,000 kroner.

We work systematically to identify unwanted events and constantly improve processes to prevent such incidents. Reporting and responding to unwanted events are important for improving our operations.

COMPLIANCE

The Ministry of Finance has issued guidelines for the fund's management. No significant breaches of these guidelines were registered in 2015, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

Environmentally sustainable management

We attach importance to managing the properties we own in a responsible and environmentally sustainable manner, and believe this supports our goal to achieve the highest possible long-term return.

Environmentally sustainable and responsible management of real estate investments is an integral part of the investment process and risk management. In our work with partners and asset managers, we attach importance to energy efficiency, water consumption and waste management. Environmentally sustainable asset management results in lower operating costs and more productive workplace. In addition, the properties will generally be better positioned to meet future regulatory requirements.

The due diligence process ahead of a new investment also includes an assessment of environmental factors. We often use external experts to identify any materials that could cause harm to the environment or adverse health effects and thereby influence the financial value of the property.

INTERNATIONAL STANDARDS

Obtaining comparable data on sustainable management in the real estate market is a challenge. GRESB is an investor-driven organisation that has developed an analytical tool to promote transparency and best practices in this area. Norges Bank Real Estate Management is represented on GRESB's board and has been a member since 2011. We have used this framework to gather information about our investments and to compare our work on sustainable real estate management with that of others. We use this information systematically to gradually improve the properties' quality, efficiency and environmental performance together with our partners and asset managers.

GRESB considers two aspects of sustainable management when assessing different real estate portfolios. Management & Policy looks mainly at the manager's work and processes relating to sustainability, while Implementation & Measurement focuses on actions and results. GRESB ranks portfolios, managers and companies participating in an annual survey. Different results often reflect differences in the underlying buildings' age, construction and condition, as well as different practices and expectations across global real estate markets.

The fund's GRESB results for 2015 show an improvement on 2014. We received GRESB reports on all the investments we have made ourselves or together with a partner. All of our partners ranked relatively highly on Management & Policy in 2015 compared to other asset managers reporting to GRESB. We nevertheless see room for improvement in terms of setting targets, collecting data and measuring the results of energy efficiency, water consumption and waste management actions.

ENVIRONMENTAL CERTIFICATION

Various third parties certify properties as meeting given environmental criteria. The most widely recognised schemes in our markets are LEED and BREEAM, developed by the US Green Building Council and BRE Group respectively. LEED rates buildings as Certified, Silver, Gold or Platinum, while BREEAM has five ratings – Pass, Good, Very Good, Excellent and Outstanding – based on documented environmental performance in nine categories: management, health & wellbeing, energy, transport, water, materials, waste, land use & ecology, and pollution. By upgrading the properties we own to meet recognised standards, we can increase their quality, reduce operating costs and make them more attractive to tenants. Environmental certification requires efficient use of energy and water as well as good waste management systems. Our long-term goal is therefore for all our office and retail properties to be certified.

Evaluation or implementation of environmental certification was included in the operating plans of 19 percent for our real estate investments in 2015.

At the end of the year, 55 percent of our office and retail properties above 2,000 square meters were environmentally certified, against 42 percent a year earlier.

13 of our 630 logistics properties were environmentally certified in 2015. Environmental certification is generally less widespread in the logistics sector and is largely restricted to various newbuilds.

The percentage of environmentally certified buildings in the portfolio will vary from year to year as a result of new investments and certification of existing properties. The number of environmentally certified buildings in the portfolio increased by 12 in 2015, of which eight were certified under our ownership and four were certified before being acquired. In addition, we purchased 12 buildings that were not certified.

MEASURING ENERGY CONSUMPTION

We are working systematically on including environmental initiatives in operating plans and budgets. In addition to environmental certification and reporting, our work in 2015 included setting up building management systems for monitoring performance and installing automatic electricity meters to make it possible to analyse energy consumption continuously across the properties and identify potential improvements. We have also invested in energy management systems. Measures to reduce water consumption and improve waste management were part of the operating plans for several properties in 2015.

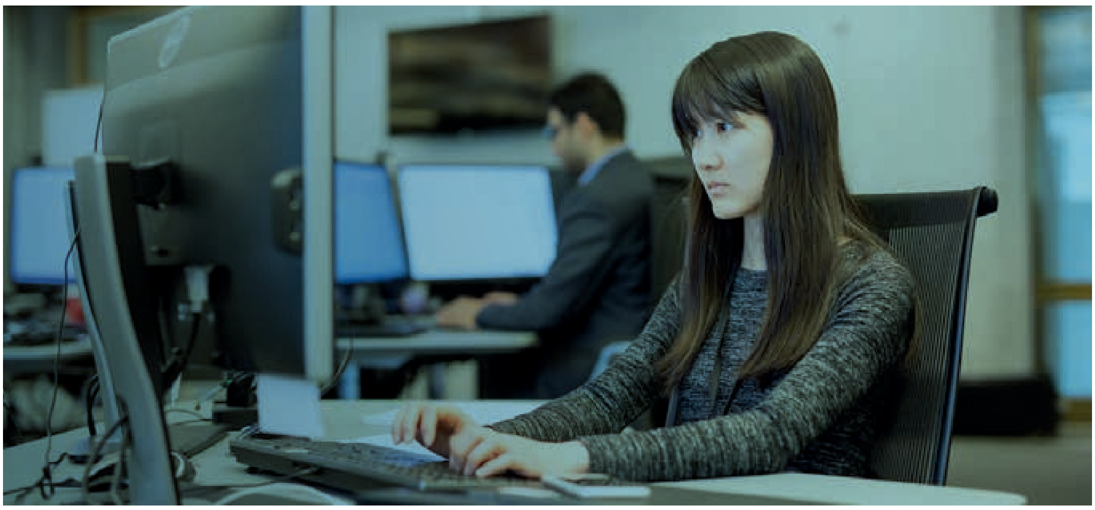


Chart 17 Results from the GRESB survey in 2014. The fund's portfolio measured against various reference portfolios

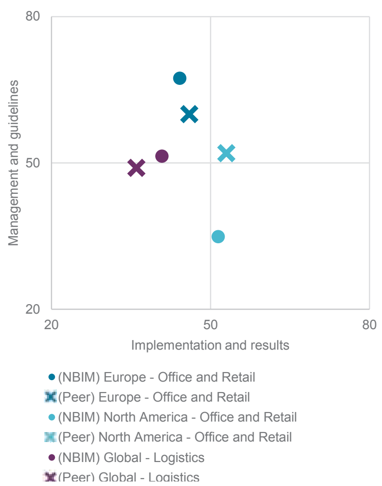


Chart 18 Results from the GRESB survey in 2015. The fund's portfolio measured against various reference portfolios

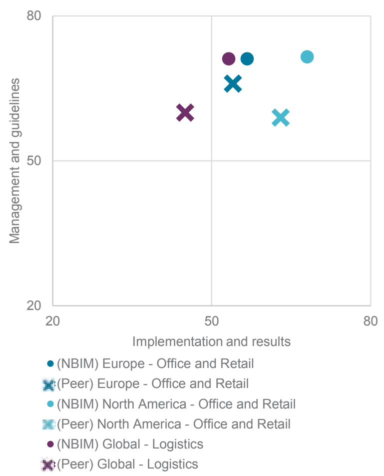


Chart 19 Share of the real estate portfolio in office and retail above 2,000 m². Percent m²

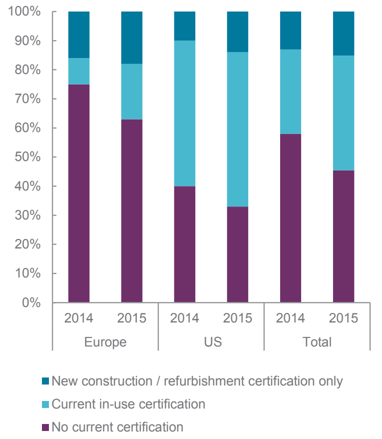
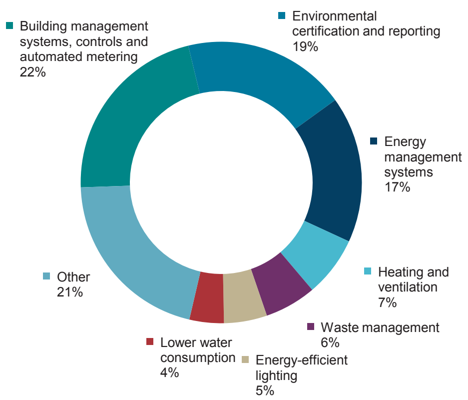


Chart 20 Sustainability measures specified in business plans for office and retail buildings



NEW GREEN BUILDING CERTIFICATIONS IN 2015

Address	City	Market	Certification
24-26, rue Le Peletier	Paris	Europe	BREEAM In-Use Very Good
1-3, rue des Italiens	Paris	Europe	BREEAM New Construction Very Good
1 Financial Center	Boston	US	LEED EBOM Gold
475 Fifth Avenue	New York	US	LEED BD + C Silver
Meadowhall Shopping Centre	Sheffield	Europe	BREEAM In-Use Excellent
7 Air Street	London	Europe	BREEAM New Construction Excellent
1 New Burlington Place	London	Europe	BREEAM New Construction Excellent
Walmar House, 288-300 Regent Street	London	Europe	BREEAM New Construction Very Good
75 Varick Street[1]	New York	US	LEED EBOM Silver
345 Hudson Street[1]	New York	US	LEED EBOM Gold
11 Times Square[1]	New York	US	LEED BD + C Gold
25 Massachusetts Avenue[1]	Washington, D.C.	US	LEED EBOM Gold

[1] New acquisitions in 2015

Quarterly valuations

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

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

VALUATION OF REAL ESTATE

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

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

VALUING DEBT

At the end of 2015, the portfolio's leverage was 8.8 percent.

As with the properties themselves, debt is measured at fair value. Where we do not have observable prices, debt is valued by external valuers or using various models.

VALUATION UNCERTAINTY

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

Estimates of property values are particularly sensitive to changes in discount rates and assumptions that affect future income. The uncertainty can be measured by looking at the effect of changes in these variables. An increase in the discount rate of 0.2 percentage point and a decrease in expected rental income of 2,0 percent, would reduce the value of the portfolio by around 4.3 percent compared to the actual value at the end of the year. Similarly, a decrease in the discount rate of 0.2 percentage point and an increase in expected rental income of 2.0 percent would raise the portfolio's value by 4.8 percent.

We review the value of the portfolio and report to Norges Bank's Executive Board at the end of each quarter. This includes documenting the results of the controls and analyses performed and presenting the most important sources of valuation uncertainty.

EXTERNAL VALUERS AS AT 31 DECEMBER 2015

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

Table 18 Net asset value. Millions of kroner

	2015	2014	2013	2012	2011
Properties	197,549	118,515	57,329	28,895	11,023
Debt	- 17 432	- 11,985	- 6,307	- 4,109	-
Tax payable	- 215	- 98	- 30	- 3	-
Net deferred tax	- 1 048	- 520	- 230	- 2	-
Bank deposits	2 491	1,170	695	327	113
Net other assets and liabilities	- 1 324	- 651	- 424	- 100	- 32
Net asset value[1]	**180,021**	**106,431**	**51,032**	**25,008**	**11,104**
Net assets and liabilities not allocated to investments	1 091	1,199	573	115	25
Net value consolidated subsidiaries	29	-	-	-	-
Net asset value	**181,141**	**107,630**	**51,605**	**25,123**	**11,129**

[1] See note 6, table 6.4 in the Government Pension Fund Global annual report 2015

5.1 INCOME

Stable income

Real estate investments generate a cash flow for the fund in the form of rental income.

Real estate investments generate a cash flow in the form of rental income from a diversified tenant base of more than 3,100 tenants in different industries in Europe and the US. Rental income is generated primarily by letting of the buildings we own. In some cases, we own the land but not the building, in which case we receive only the ground rent.

Net rental income amounted to 6,921 million kroner in 2015.

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

The dividends paid to the fund and interest on inter-company loans will amount to less than net rental income at the underlying company that owns the property. The remaining income is used to cover costs in the holding structure or reinvested, for example in upgrading buildings.

Table 19 Net profit on investments before foreign exchange gains and losses. Millions of kroner

	2015	2014	2013	2012	2011
Net rental inome	6,921	3,747	2,237	695	243
Realised gain/loss	320	-	-	-	-
Fair value changes, buildings	9,265	5,464	1,539	196	138
Fair value changes, debt	435	- 395	336	- 327	-
Transaction costs	- 320	- 586	- 201	- 126	- 443
Interest expenses	- 666	- 354	- 239	- 44	-
Tax expenses	- 552	- 373	- 246	- 7	-
Fixed fees to asset managers	- 308	- 165	- 94	- 20	- 3
Variable fees to asset managers	- 343	- 16	-	-	-
Other costs	- 215	- 163	- 96	- 66	- 21
Net income[1]	**14,537**	**7,160**	**3,236**	**301**	**- 86**
Other expenses	- 19	39	- 41	- 5	7
Net profit on investments before foreign exchange gains and losses[2]	**14,518**	**7,199**	**3,195**	**296**	**- 79**

[1] See note 6, table 6.1 and 6.3 in the Government Pension Fund Global annual report 2015

[2] Management costs covered in table 21 are not included in "Net profit on investments before foreign exchange gains and losses" as these costs are refunded from the Ministry of Finance

INVESTMENT MANAGEMENT COSTS

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

Costs
Personell costs, IT-services, legal fees and consulting fees.

HOLDING STRUCTURE COSTS

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

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

ASSET MANAGEMENT COSTS

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

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

PROPERTY COSTS

Purpose
Ensure net rental income from assets in portfolio.

Costs
Electricity, insurance, maintenance costs, janitorial services and costs related to day-to-day follow-up of tenants.

5.2 MANAGEMENT COSTS

Costs at different levels

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

The fund's costs relating to unlisted real estate investments are incurred and distributed in the same way as at comparable organisations that invest in and manage real estate. There are four main types of costs in the management of the fund's unlisted real estate investments, in addition to costs for external financing, tax and transaction costs.

The rise in total management costs from 2014 to 2015 was due to a substantial increase in variable fees to asset managers. This increase was a result of specific investments with one partner producing a solid return over a number of years and reaching the threshold for performance fees. All other costs elements are reduced, measured in percent, from 2014 to 2015.

Table 20 Management costs based on average assets under management. Percent

	2015	2014	2013	2012	2011
Total management costs	0.90	0.80	0.89	1.24	0.91
Costs in Norges Bank Real Estate Management	0.24	0.29	0.38	0.55	0.57
Management companies	0.05	0.06	0.10	0.19	0.19
Holding structure costs	0.13	0.18	0.16	0.34	0.10
Fixed fees to asset managers	0.23	0.24	0.25	0.16	0.05
Variable fees to asset managers	0.25	0.03	0.00	0.00	0.00

INVESTMENT MANAGEMENT COSTS

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

These costs are incurred at two levels in the organisation structure. At the highest level, costs are incurred directly by Norges Bank Real Estate Management, which manages real estate investments.

Costs at Norges Bank Real Estate Management amounted to 333 million kroner in 2015.

At the next level are the operating companies with employees in Luxembourg, Tokyo and Singapore. Their costs are similar in type to those incurred by Norges Bank Real Estate Management.

Management costs at the operating companies totalled 52 million kroner in 2015.

Table 21 Management costs in Norges Bank Real Estate Management. Millions of kroner

	2015	2014	2013	2012	2011
Salary, social security and other personnel related costs	175	103	78	38	18
IT services, systems, data and information	55	51	35	30	21
Research, consulting and legal fees	17	19	6	-	1
Other costs	86	26	22	-	1
Total management costs[1]	**333**	**199**	**141**	**68**	**41**

[1] Included in table 10.1 in the 2015 annual report of the Government Pension Fund Global.

Table 22 Management costs in Luxembourg and Asia. Millions of kroner

	2015	2014	2013	2012	2011
Salary, social security and other personnel related costs	26	22	18	11	1
IT services, systems, data and information	9	5	3	2	1
Research, consulting and legal fees	4	7	6	6	10
Other costs	13	9	8	5	2
Total management costs[1]	**52**	**43**	**35**	**24**	**14**

[1] Included in table 10.2 in the 2015 annual report of the Government Pension Fund Global.

HOLDING STRUCTURE COSTS

The holding structure includes a large number of wholly or partly owned property companies with no employees. Costs for the wholly-owned companies are mainly audit and accounting fees, while costs for the partly owned companies also include legal fees and insurance. Other costs for partly owned companies are mainly compensation to co-owners in the US and compensation to one of our partners in the UK for increased tax costs following the structure chosen. Since these companies have no employees, there are no personnel or office costs.

Holding structure costs amounted to 174 million kroner in 2015. These costs are incurred by the underlying property companies.

ASSET MANAGEMENT COSTS

Internal and external asset managers handle the commercial management of the properties and implement action plans to obtain the best possible return for the least possible risk.

In some cases, the fees to external asset managers have a variable component, normally based on excess return over a number of years. Costs are also incurred in coordinating property management services.

Asset management costs amounted to 651 million kroner in 2015. These costs are incurred by the underlying property companies.

Table 23 Holding structure costs. Millions of kroner

	2015	2014	2013	2012	2011
IT services, systems, data and information	22	16	13	11	4
Research, consulting and legal fees	62	46	31	9	2
Other costs	90	58	17	22	1
Total holding structure costs[1]	174	120	61	42	7

[1] Some costs are included in table 10.2 in the 2015 annual report of the Government Pension Fund Global.

Table 24 Fees to asset managers. Millions of kroner

	2015	2014	2013	2012	2011
Fixed fees to asset managers	308	165	94	20	3
Variable fees to asset managers	343	16	-	-	-
Total fees to asset managers	651	181	94	20	3

PROPERTY COSTS

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

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

Property management costs amounted to 2,224 million kroner in 2015 before reimbursement by tenants.

Table 25 Property costs. Millions of kroner

	2015	2014	2013	2012	2011
Gross rental income	7,816	4,132	2,374	712	257
Property costs	- 2,224	- 948	- 406	- 45	- 14
Reimbursements	1,329	563	269	28	-
Net rental income	6,921	3,747	2,237	695	243

5.3 CASH FLOW

Predictable cash flow

A total of 41,584 million kroner was transferred from the fund's fixed-income portfolio to the real estate portfolio in 2015. Norges Bank also received 4,186 million kroner from its subsidiaries.

These funds were used to finance new real estate investments of 44,216 million kroner. In addition, 1,415 million kroner was used to repay external debt and to finance property upgrades.

Total cash holdings at Norges Bank increased by 138 million kroner in 2015.

Total net rental income at the underlying property companies amounted to 6,921 million kroner.

Total operating cash flow at these companies was 5,000 million kroner. The total cash flow paid to Norges Bank was 4,186 million kroner.

In total, the subsidiaries reinvested 207 million kroner of their operating cash flow, in addition to investments financed by Norges Bank.

The subsidiaries' total cash holdings increased by 1,342 million kroner in 2015.

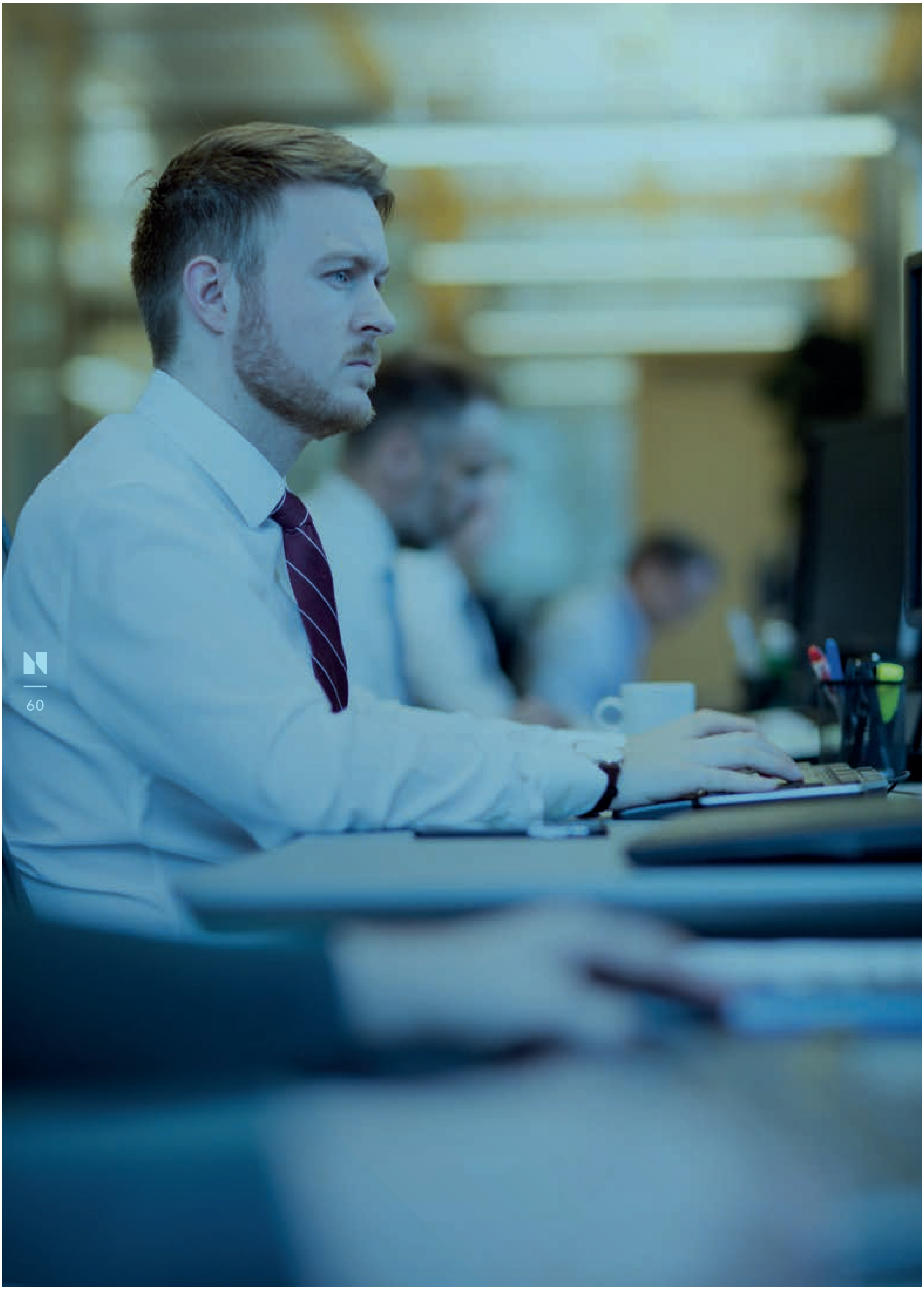
Table 26 Cash flow to/from Norges Bank. Millions of kroner

	2015	2014	2013	2012	2011
Total inflow from financing activitites	**41,584**	**36,047**	**18,951**	**14,262**	**11,009**
Dividend received from subsidiaries	1,931	598	259	-	-
Interest received on loans to subsidiaries	1,601	1,368	749	203	25
Downpayments on loans to subsidiaries	654	436	341	240	61
Total inflow from operational activities	**4,186**	**2,402**	**1,349**	**443**	**86**
Payments to new investments in subsidiaries	- 44,216	- 36,859	- 19,306	- 14,574	- 11,129
Downpayments on external loans and capital expenditure	- 1,415	- 1,287	- 352	- 26	- 27
Total outflow to investment activitites	**- 45,631**	**- 38,146**	**- 19,658**	**- 14,600**	**- 11,156**
Change in retained cash	**138**	**303**	**642**	**105**	**- 61**

Table 27 Correlation between net rental income in subsidiaries and cash received at Norges Bank. Millions of kroner

	2015	2014	2013	2012	2011
Net rental income	6,921	3,747	2,237	695	243
Net rental income - non cash items	- 312	- 97	- 50	- 13	-
Transaction costs	- 320	- 586	- 201	- 126	- 443
Interest expenses external loans	- 666	- 354	- 239	- 44	-
Taxes paid	- 100	- 81	- 64	- 5	-
Fees to external asset managers	- 308	- 165	- 94	- 20	- 3
Operating expenses	- 215	- 163	- 96	- 66	- 21
Total operating cashflow	**5,000**	**2,301**	**1,493**	**421**	**- 224**
Realised gains and losses from sales of properties	320	-	-	-	-
Total cashflow repaid from operating activities[1]	- 4,186	- 2,402	- 1,349	- 443	- 86
Reinvestments	207	575	224	237	364
Change in retained cash	**1,342**	**475**	**368**	**214**	**54**

[1] Paid to Norges Bank.



TAX COSTS

The fund's tax position depends on local regulations and on the tax treaties that Norway has entered into with each country.

In 2015, the fund reported taxes payable on real estate investments of 100 million kroner and a change in deferred tax liability of 452 million kroner.

INTEREST COSTS

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

External interest costs were 666 million kroner in 2015.

TRANSACTION COSTS

Transaction costs are incurred when buying and selling properties. They include stamp duty and other taxes and fees to the local authorities. These costs can vary considerably, and amounted to 83 million kroner in 2015.

Costs are also incurred for the due diligence reviews that precede an investment. These are carried out to mitigate risks in line with the management mandate and include analyses of market, liquidity, credit, counterparty, operational, legal, tax, technical and environmental risks.

These additional transaction costs came to 245 million kroner in 2015.

Table 28 Transaction costs. Millions of kroner

	2015	2014	2013	2012	2011
Stamp duty and other transfer taxes	83	401	73	74	369
Other transaction costs	237	185	128	52	74
Transaction costs expensed in subsidiaries and joint venture entities	**320**	**586**	**201**	**126**	**443**
Transaction costs consolidated in Norges Bank	8	1	2	1	-
Total transactions costs	**328**	**587**	**203**	**127**	**443**

Table 29 Transaction costs based on invested capital. Percent

	2015	2014	2013	2012	2011
Transaction costs in percent of invested capital that year	0.73	1.55	1.05	1.08	3.96
Stamp duty and other transfer taxes	0.18	1.06	0.38	0.63	3.30
Other transaction costs	0.55	0.49	0.67	0.45	0.66

6.1 PROPERTY COMPANIES

Investing through subsidiaries

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

Investments in unlisted real estate differ from those in listed equities and bonds. A transaction will often take weeks or months from first discussions to completion. Both purchase contracts and joint venture agreements need to be negotiated individually in line with local market conventions and rules. Due diligence analyses of various risk factors are also performed ahead of each investment.

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

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

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

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

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

FACTORS CONSIDERED WHEN DECIDING ON HOLDING STRUCTURES

Limitation of liability

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

Good control and governance structure

- Ensure oversight, control and clear roles and responsibilities

Efficient operational management

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

INVESTMENTS IN CONTINENTAL EUROPE

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

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

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

MARKET SPECIFIC STRUCTURES

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

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

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

INVESTMENTS IN THE UK

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

INVESTMENTS IN THE US

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

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

An overview of holding structures in the different markets can be found on the fund's website at www.nbim.no.

In-depth investment analyses

Real estate investments are subject to rigorous decision-making processes. We carry out extensive analyses and evaluations of all investments.

When considering an investment opportunity, we assess and make assumptions about developments in rents, capitalisation rates, void periods, lease terms and refurbishment costs.

We also perform a thorough due diligence analysis of financial, legal, regulatory, tax, structural, operational, technical, environmental and insurance matters.

DECISION-MAKING BODIES

The decision-making process for real estate investments is laid down in job descriptions, investment mandates and committee mandates.

Norges Bank's Executive Board is the ultimate decision-maker on real estate investments. From 1 January 2016, the Executive Board must approve all transactions above 1.5 billion dollars. The Executive Board has set up a Risk and Investment Committee as a preparatory and advisory committee to strengthen and streamline its work on risk management, the rules and limits for real estate management and major investment decisions. The committee consists of two of the Executive Board's external members and is chaired by one of the Deputy Governors.

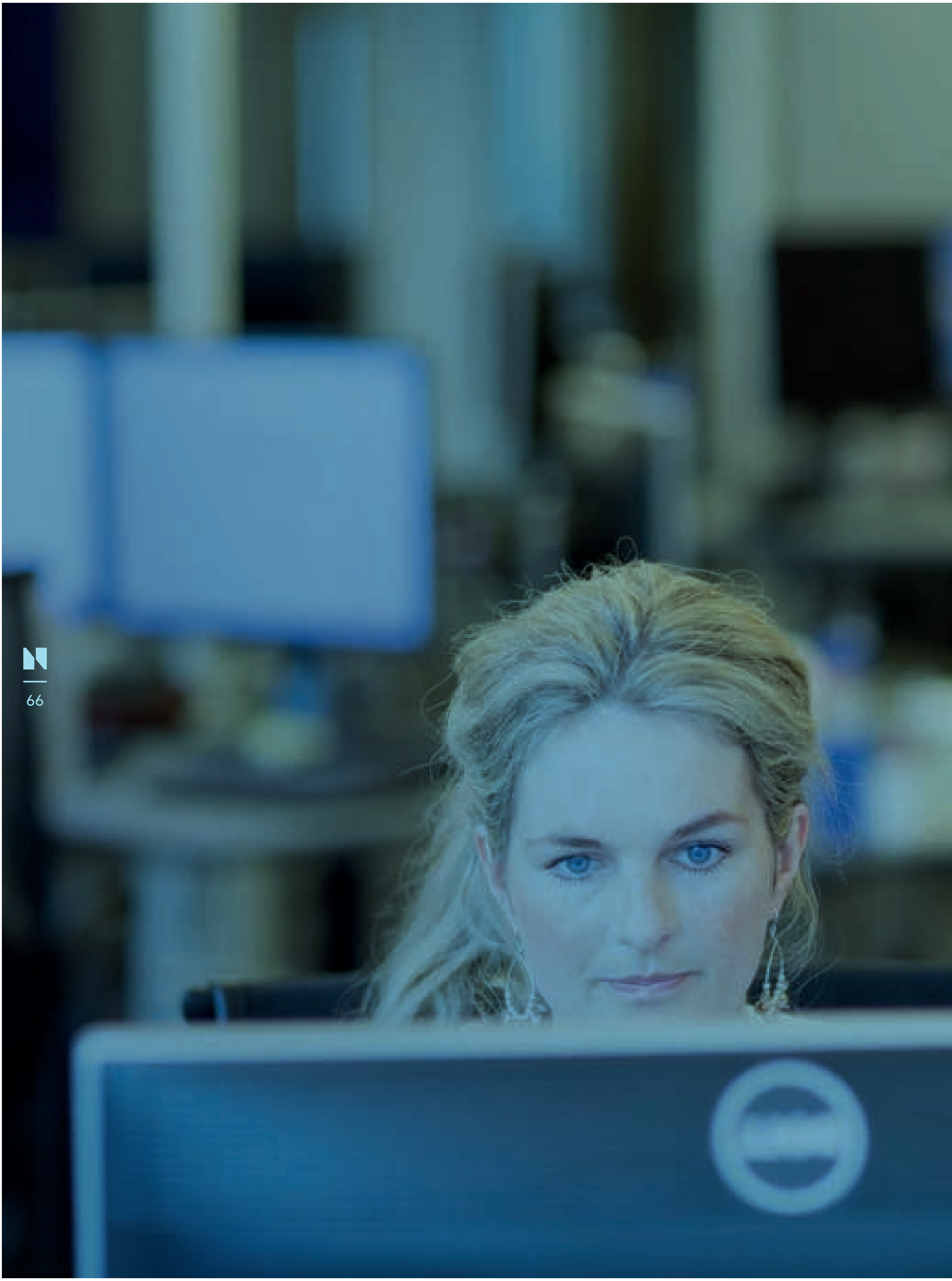
Investments of 750 million dollars or more must be approved by the Real Estate Investment Board (REIB). REIB also makes a recommendation to the Executive Board on investment decisions above 1.5 billion dollars. The REIB comprises the CEO of Norges Bank Investment Management, the CEO of Norges Bank Real Estate Management, the Chief Risk Officer at Norges Bank Investment Management and two external members.

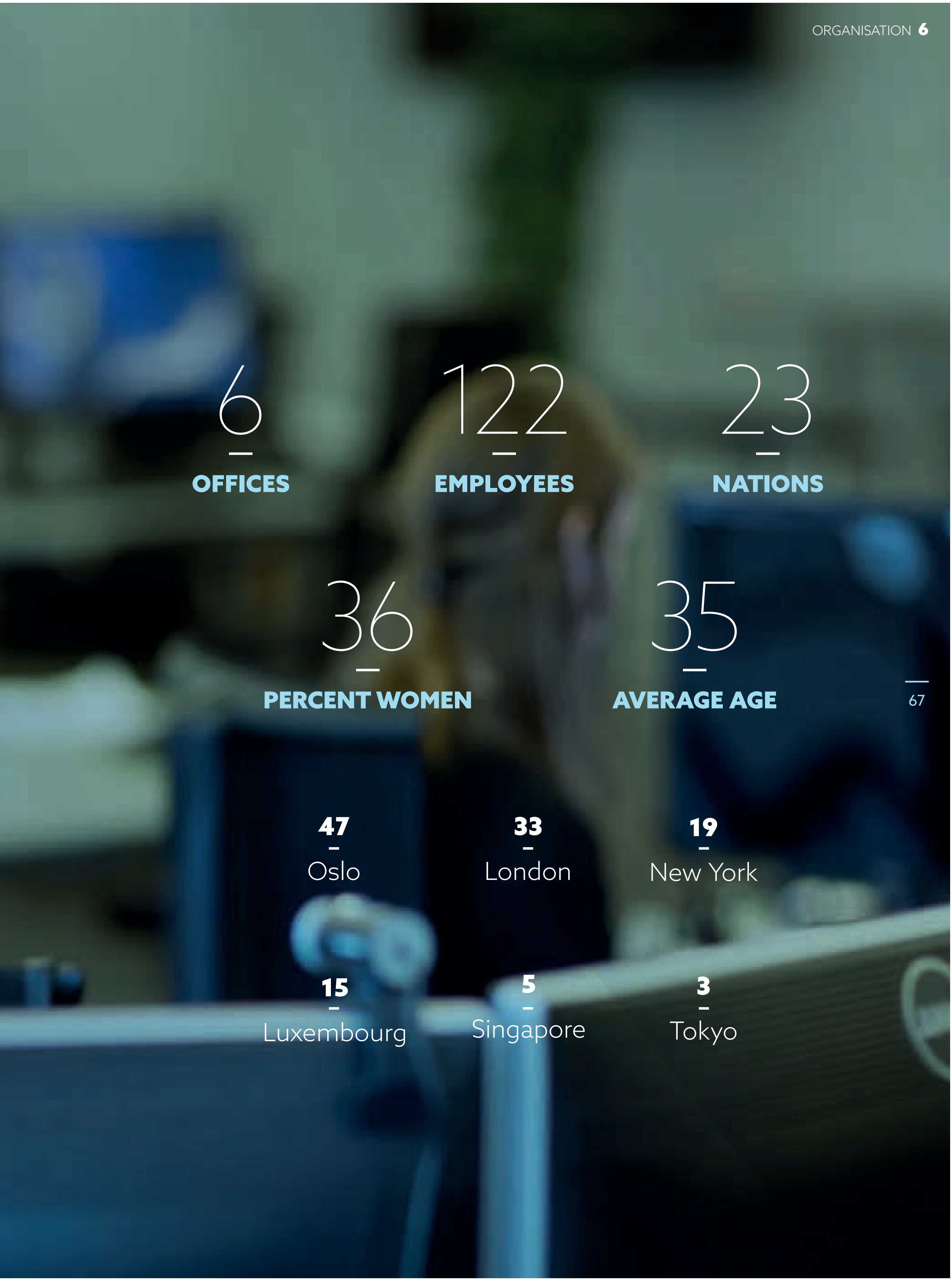
All significant investments are considered by committees with internal and external members. All processes are well documented and conducted rigorously.

IMPLEMENTATION

Once an investment decision has been approved by the relevant bodies, the transaction documents are finalised. Generally, a subsidiary of Norges Bank Real Estate Management will enter into the purchase contract. The actual closing of the transaction and transfer of the purchase price vary from market to market.

Transparency about the management of the fund and the results achieved is important. We report the return on our real estate investments each quarter and announce all purchases and sales above 25 million dollars on the fund's website at www.nbim.no, normally when the contract is signed. In some cases, however, special considerations may mean that a transaction is disclosed at an earlier or later stage. All purchases and sales are reflected in the annual holdings list on our website.





6
OFFICES

122
EMPLOYEES

23
NATIONS

36
PERCENT WOMEN

35
AVERAGE AGE

47 Oslo

33 London

19 New York

15 Luxembourg

5 Singapore

3 Tokyo

6.3 ORGANISATION

A global organisation

Norges Bank Real Estate Management's workforce grew to more than 100 in 2015 as we continue to build a global organisation to manage the fund's unlisted real estate investments.

The number of employees at Norges Bank Real Estate Management rose in line with an ever larger real estate portfolio. By the end of 2015, the team had grown to a total of 122 people of 23 different nationalities at offices in Oslo, London, New York, Singapore, Tokyo and Luxembourg.

A new real estate office was opened in Tokyo in October 2015, and a separate real estate unit was created at Norges Bank Investment Management's offices in Singapore during the year.

We recruited new staff to both the investment department and various support functions during the year. The offices in Oslo and London saw the greatest growth in staff numbers in 2015.

Staff have mainly been recruited externally, but some have come from various parts of Norges Bank Investment Management and Norges Bank.

Chart 21 Employees by office location as at 31 December 2015

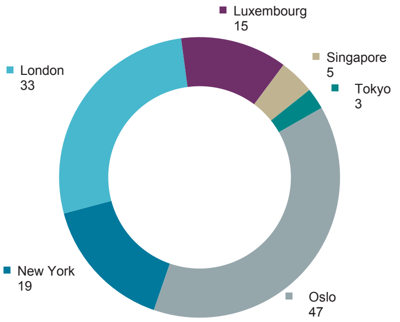
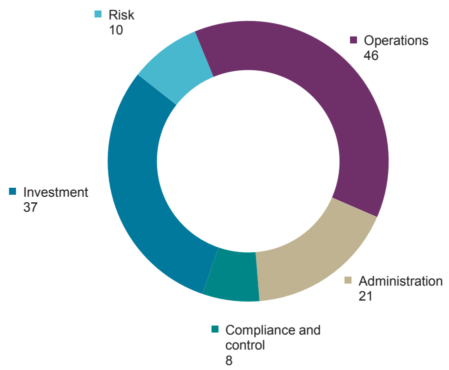


Chart 22 Employees by area as at 31 December 2015



ISSN 2464-3351 | Design: Brandlab
Photo: Norges Bank Investment Management/Hans
Fredrik Asbjørnsen, Shutterstock, istock
Getty images, Corbis, Plainpicture/Johner, Wikipedia
Paper: Galerie Art Silk 300 g / Matt 150 g
Production: 07 Media AS | Printed ex. 700

NORGES BANK REAL ESTATE MANAGEMENT
Bankplassen 2, P.O. Box 1179 Sentrum, NO-0107 Oslo, Norway
T: +47 24 07 30 00, www.nbim.no