NBIM
Quarterly Performance Report
Second quarter 2006

Government Pension Fund – Global
Norges Bank's foreign exchange reserves

- Investment portfolio
- Buffer portfolio

Government Petroleum Insurance Fund

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

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1. Introduction and key figures

1.1 Downturn in equity prices

Global equity prices continued to rise until mid-May, but fell sharply over the following month, especially in emerging markets and Japan. Companies in the IT sector fared worst, while companies in the energy and oil sectors performed best. As in the first quarter, bond prices in the main markets fell during the second quarter. It was only the second quarter since 1 January 1998 with negative returns in both the equity and bond markets.

The drop in prices, especially in the equity markets, contributed to a negative return on all of the portfolios managed by NBIM. The Government Pension Fund – Global and the investment portfolio in Norges Bank's foreign exchange reserves both generated a negative return of just over 1.5 per cent measured in the relevant currency basket in the second quarter. The Government Petroleum Insurance Fund, which is invested only in fixed income instruments, generated a negative return of 0.07 per cent.

Despite the drop in prices in the second quarter of 2006, global equity markets have performed strongly in recent years. Since the beginning of 2003, an index of equities in 24 emerging markets has risen by 153 per cent. In Japan, Europe and the US, the increase during the period has been 94, 64 and 51 per cent respectively (see Chart 1-1).

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

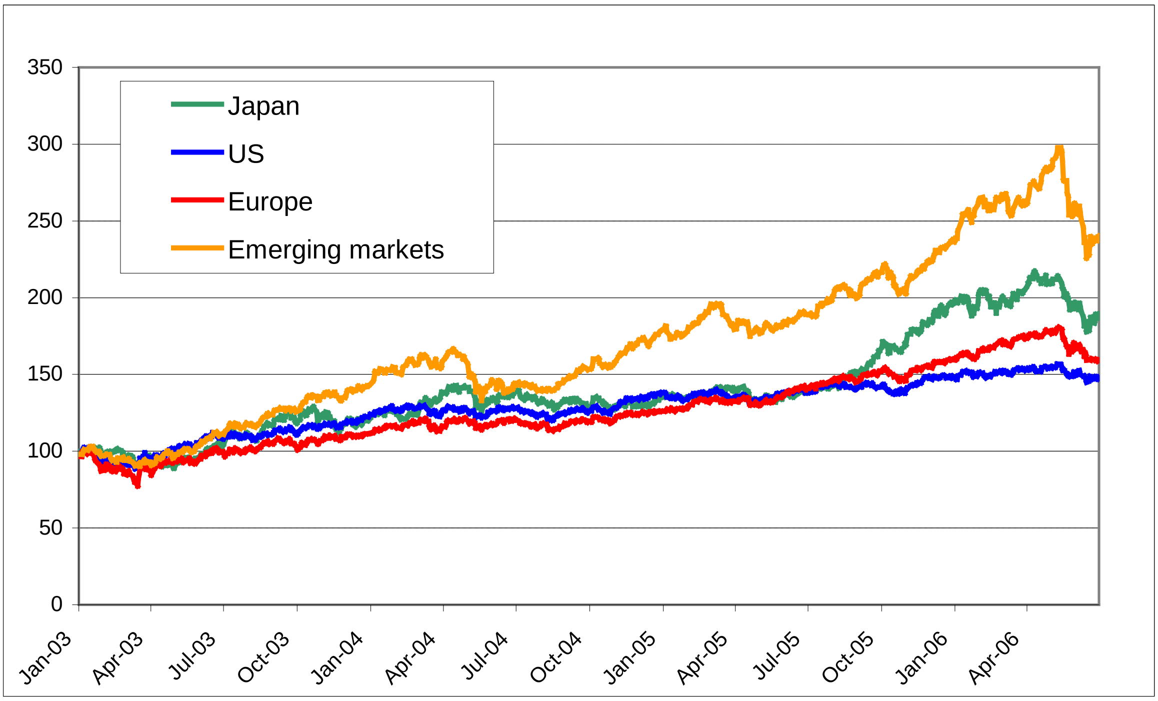
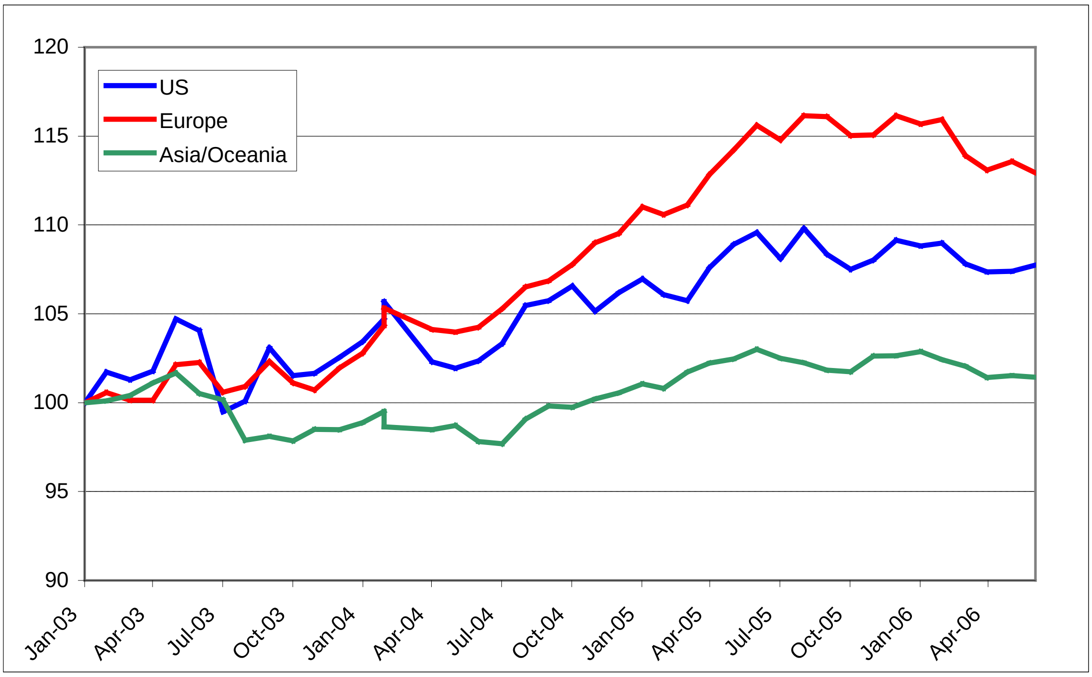


Chart 1-2 shows returns on the bond markets measured as the change in the Lehman Global Aggregate government bond indices since 1 January 2003. The indices for

Europe, America and Asia/Oceania rose by 12.9, 7.7 and 1.4 per cent respectively during the period.

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



Return of -1.55 per cent on the Government Pension Fund – Global
The return on the Government Pension Fund – Global in the second quarter of 2006 was -1.55 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 -3.31 per cent, and the return on the fixed income portfolio was -0.39 per cent. The return on the Pension Fund's portfolio was 0.10 percentage point lower than the return on the benchmark portfolio defined by the Ministry of Finance. The market value of the portfolio at the end of the quarter was NOK 1,505.0 billion.

Return of -1.53 per cent on the investment portfolio
The return on the investment portfolio in Norges Bank's foreign exchange reserves in the second quarter of 2006 was -1.53 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 -3.14 per cent, and the return on the fixed income portfolio was -0.47 per cent. The return on the investment portfolio was 0.04 percentage point lower than the return on the benchmark portfolio defined by Norges Bank's Executive Board. The market value of the portfolio at the end of the quarter was NOK 205.7 billion.

Return of -0.07 per cent on the Government Petroleum Insurance Fund
The return on the Government Petroleum Insurance Fund in the second quarter of 2006 was -0.07 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 the same as the return on the benchmark portfolio defined by the Ministry of Petroleum and Energy. The market value of the portfolio at the end of the quarter was NOK 14.7 billion.

1.2 Total assets under management NOK 1,729 billion

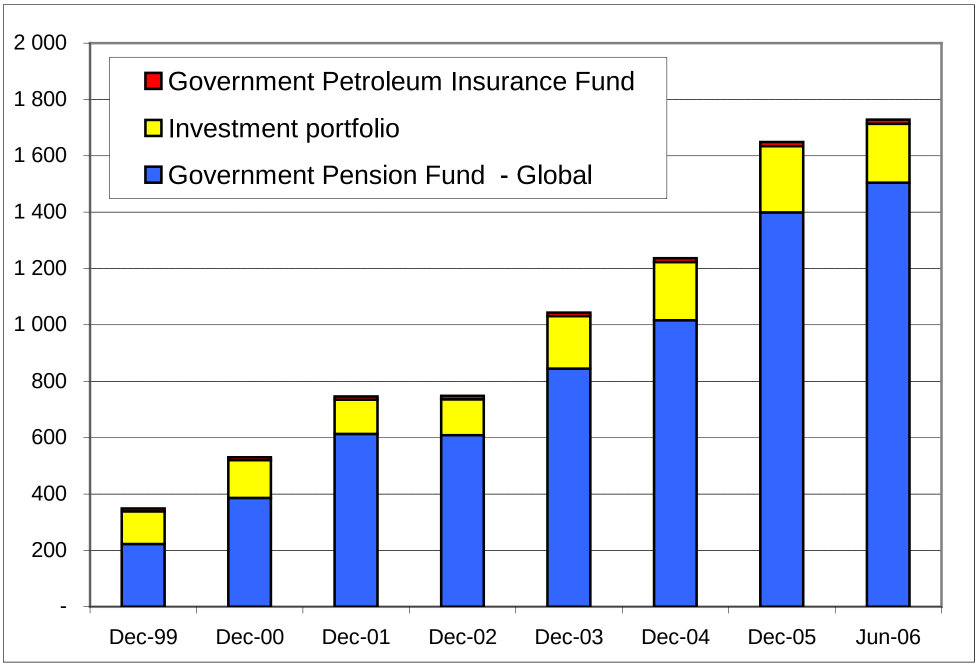
Assets under the management of NBIM grew by NOK 14 billion during the second quarter. Transfers of new capital totalled NOK 69 billion, while a negative return on investment and a stronger krone in relation to the investment currencies reduced the market value of the assets by NOK 25 billion and NOK 30 billion respectively. Assets under management totalled NOK 1,729 billion at the end of the second quarter of 2006 (see Table 1-1).

Table 1-1: Return in the second quarter and market value on 30 June 2006

	Return in currency		Return in NOK			NOK
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return	Market value in billions
Government Pension Fund – Global	-1.55	-1.45	-3.30	-3.20	-0.10	1 505
Investment portfolio	-1.53	-1.48	-3.28	-3.24	-0.04	209
Government Petroleum Insurance Fund	-0.07	-0.08	-3.97	-3.99	0.01	15
Total						**1 729**[1]

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

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



1.3 Negative excess return of NOK 1.5 billion in the second quarter

NBIM's management is measured against benchmark portfolios defined by its clients. One important goal for its management is to generate a higher return over time on the actual portfolios than on the benchmark portfolios. In the second quarter the Government Pension Fund – Global and the investment portfolio both generated a

[1] The value of the buffer portfolio, which amounted to about NOK 3.5 billion on 30 June 2006, is included in the total.

negative excess return. The aggregate negative excess return on the portfolios managed by NBIM was NOK 1.5 billion.

Chart 1-4 shows the cumulative excess return since the formation of NBIM in January 1998. The aggregate excess return during the period is NOK 29.8 billion. This breaks down into NOK 27.7 billion on the Government Pension Fund – Global, NOK 2.0 billion on the investment portfolio, and NOK 0.1 billion on the Government Petroleum Insurance Fund.

Chart 1-4: Cumulative gross excess return from 1 January 1998 to 30 June 2006. In millions of NOK

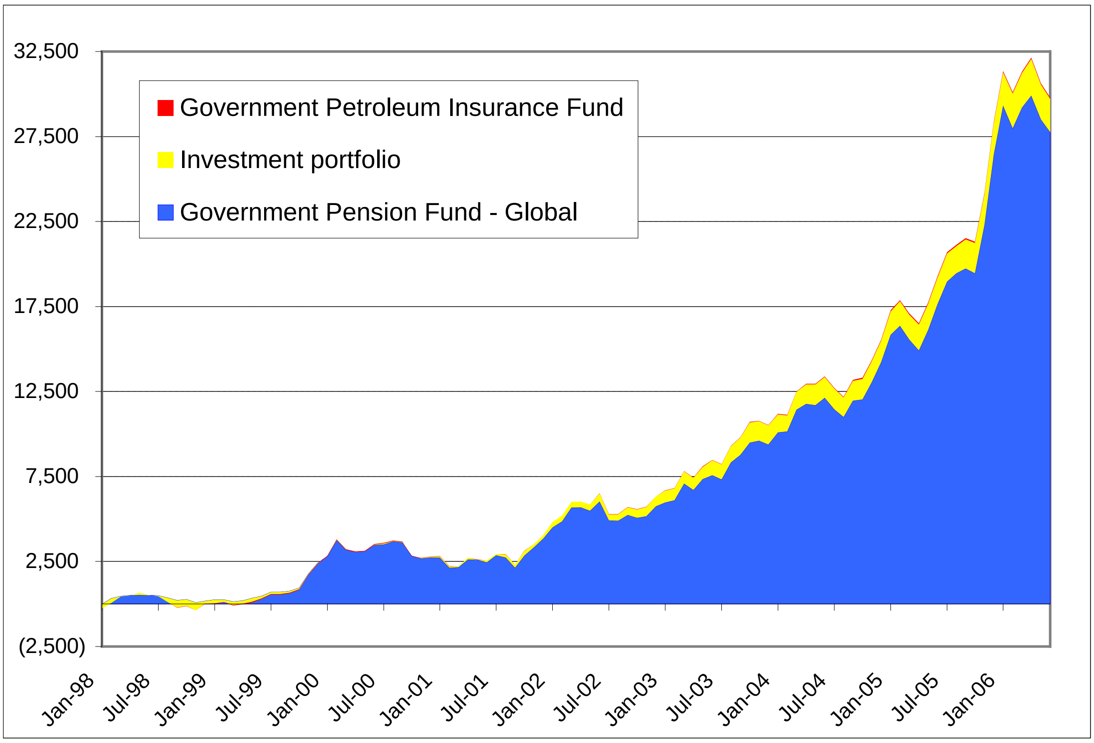


Table 1-2 provides an overview of risks and returns since 1 January 1998 for the portfolios managed by NBIM.

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

	Last 12 months	Last 3 years	Last 5 years	Since 01.01.98
Return/excess return[2]				
Pension Fund	4.23	6.21	1.60	5.18
Benchmark portfolio	3.45	5.58	1.08	4.68
Excess return	0.78	0.63	0.53	0.50
Investment portfolio	2.14	3.84	2.48	4.95
Benchmark portfolio	1.95	3.62	2.20	4.75
Excess return	0.19	0.22	0.28	0.20
Insurance Fund	-1.67	1.20	4.16	2.97
Benchmark portfolio	-1.72	1.08	4.01	2.89
Excess return	0.05	0.12	0.14	0.08
Standard deviation[3]				
Pension Fund	8.26	8.21	9.08	8.48
Investment portfolio	7.77	7.65	7.55	7.00
Insurance Fund	6.53	7.06	6.87	6.41
Tracking error[4]				
Pension Fund	0.44	0.32	0.30	0.38
Investment portfolio	0.14	0.15	0.17	0.23
Insurance Fund	0.02	0.06	0.08	0.16
Information ratio (IR)[5]				
Pension Fund	1.76	1.90	1.74	1.27
Investment portfolio	1.36	1.39	1.61	0.81
Insurance Fund	2.03	1.92	1.83	0.50

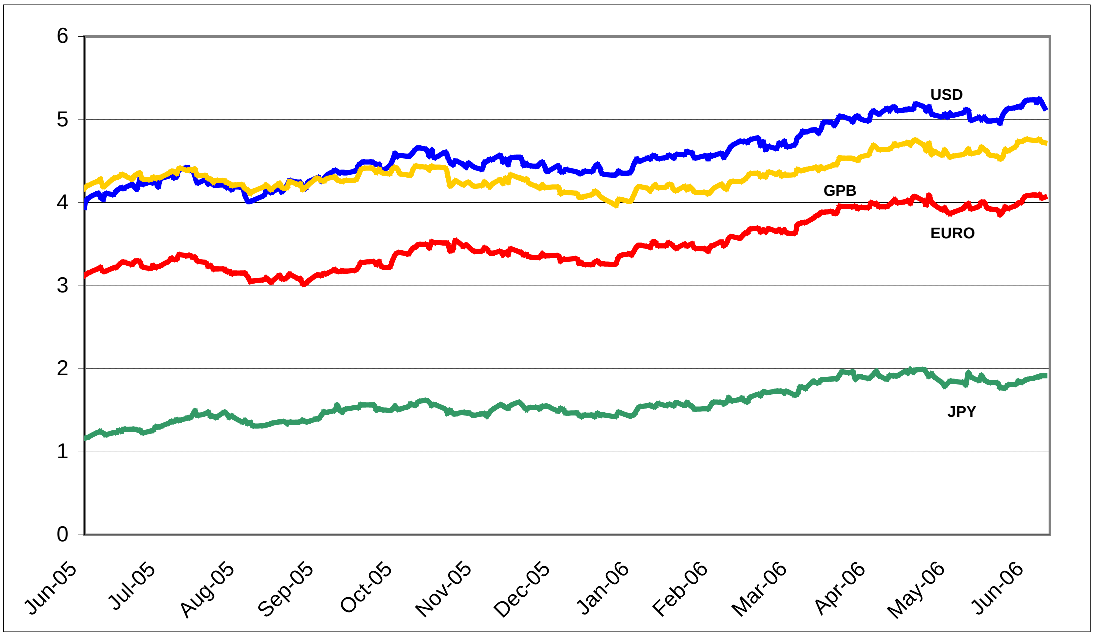
[2] When calculating the returns on the actual and benchmark portfolios, monthly returns are used which are linked together using geometrical methods. The figures are percentages and have been annualised. The excess return is calculated using arithmetical methods.
[3] The standard deviation is a measure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

2. Market developments

Fixed income markets

Bond yields in the main markets rose during the second quarter. Ten-year government bond yields increased by about 0.30 percentage point in the US, the euro area and the UK, and by 0.15 percentage point in Japan (see Chart 2-1). Since the beginning of the year, yields have risen furthest in the US and the euro area, where ten-year yields have climbed by about 0.75 percentage point.

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



Although there were signs of a slight slowdown in US economic growth, growth in the global economy remained strong in the second quarter. Growth in the US was driven primarily by domestic factors, such as private and public consumption and high investment activity in industry. Unemployment fell slightly, hitting its lowest level since 2001 at the end of June. Excluding food and energy, there was a slight increase in the rate of inflation and inflation expectations in the US during the first half of the year. The Federal Reserve continued its gradual tightening of monetary policy, raising its policy rate by 0.5 percentage point to 5.25 per cent during the quarter.

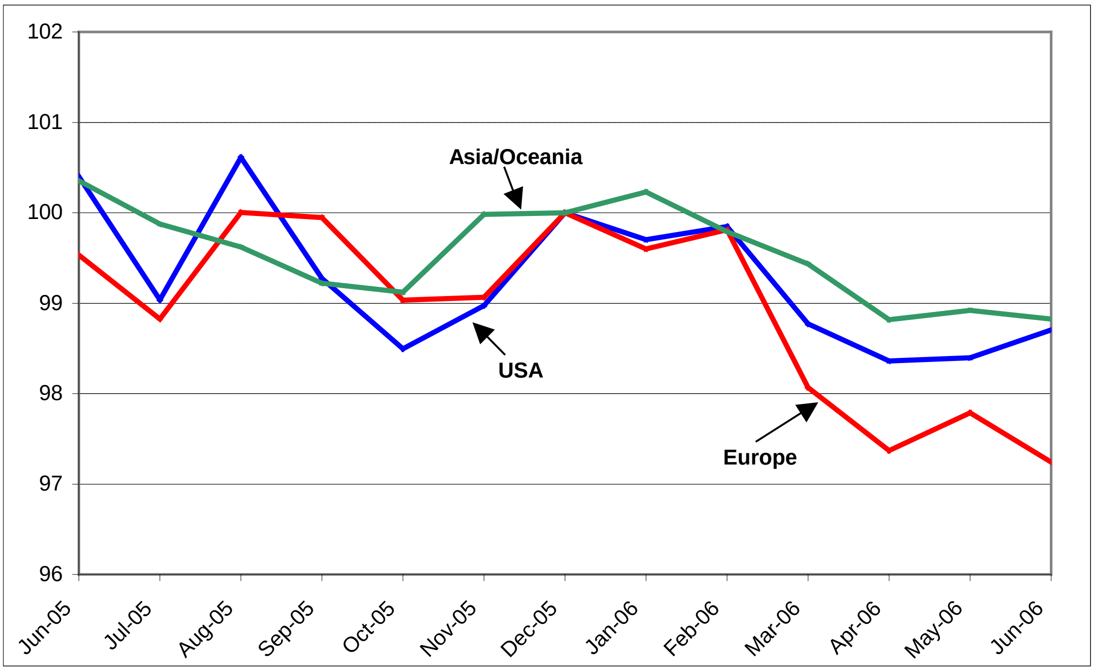
In Japan, economic growth is strong, and the figures for GDP growth were revised upwards during the first half of the year. This upward revision was due particularly to an upswing in domestic investment and strong growth in domestic private demand. There is considerable optimism in industry, and confidence indicators for large firms are at their highest for several years. There are signs of a moderate increase in the rate of inflation in Japan too. The Bank of Japan kept its policy rates unchanged in the second quarter, but signalled that they would be raised in the coming months.

Economic growth in China remained strong in the second quarter. A widening trade surplus and rising investment are factors contributing to this growth. Figures published in May showed growth in both industrial output and retail sales. The rate of inflation is rising slightly in China too, and the People's Bank of China raised the required level of bank deposit reserves from July.

Growth in the UK and the euro area is broad-based. Firms are showing good profitability, and industrial confidence indicators are high. This has to do with good growth in the export industry and an upswing in the housing market. There was a slight increase in the rate of inflation during the quarter. The European Central Bank raised its policy rate by 25 basis points to 2.75 per cent during the second quarter.

Chart 2-2 shows movements in the Lehman Global Aggregate government bond indices in the main markets over the last 12 months. The second quarter of 2006 brought returns of -0.8 per cent in Europe, -0.6 per cent in Asia, and -0.1 per cent in the US.

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



The spread between yields on corporate and government securities (credit spread) fell further until mid-May, and then climbed again through to the end of the quarter. The increase in the credit spread coincided with the slide in equity prices. However, the credit spread remains low, which has to do with firms' good earnings growth. This has led to reduced debt levels and better debt service capacity. The global default rate has held at low and stable levels in recent months.

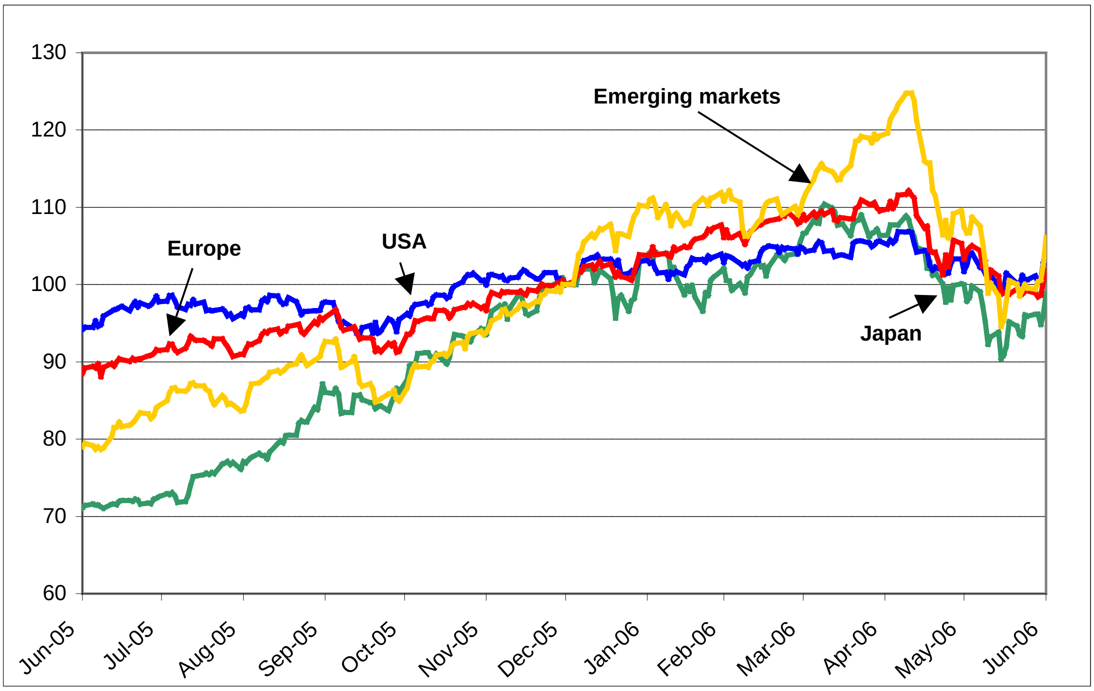
Chart 2-3 shows movements in the spread between corporate bonds with a good credit rating and government bonds in the US.

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

Equity markets

Global equity prices rose until mid-May, before falling sharply through to mid-June. Prices then trended upwards from mid-June until the end of the quarter (see Chart 2-4).

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



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

Over the quarter as a whole, prices in Europe, Japan, the US and emerging markets fell by 2.9, 7.4, 1.4 and 5.1 per cent respectively. Nevertheless, with the exception of Japan, all of the main markets produced a positive return for the first half of the year.

Signs of rising inflation and expectations of continued global monetary policy tightening were probably factors which contributed to the downturn in prices in May. The sharpest drop in prices was in emerging markets, but there were also substantial decreases in the main markets. There were no particular fundamental factors to trigger the downturn in prices. Instead, it is likely that many investors demanded a higher risk premium for investing in the equity markets than before. This resulted in the restructuring of portfolios in favour of lower-risk investments such as government bonds. Equity prices then recovered slightly from mid-June onwards.

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

	USD	NOK	Currency basket
Oil & Gas	**3.77**	**-1.61**	**-0.60**
Oil & Gas Producers	3.95	-1.44	-0.43
Basic Materials	**2.86**	**-2.47**	**-1.47**
Industrials	**-1.58**	**-6.68**	**-5.73**
Consumer Goods	**-0.37**	**-5.53**	**-4.57**
Health Care	**-1.12**	**-6.25**	**-5.29**
Pharmaceuticals & Biotechnology	1.27	-3.98	-3.00
Consumer Services	**-0.45**	**-5.62**	**-4.65**
General Retailers	-3.82	-8.81	-7.88
Media	3.49	-1.88	-0.88
Telecommunications	**1.06**	**-4.17**	**-3.19**
Fixed Line Telecommunications	2.30	-3.00	-2.01
Utilities	**5.16**	**-0.29**	**0.73**
Financials	**-0.97**	**-6.10**	**-5.14**
Banks	0.20	-5.00	-4.03
Nonlife Insurance	-2.47	-7.52	-6.58
General Financial	-4.61	-9.55	-8.63
Technology	**-7.34**	**-12.14**	**-11.24**
Software & Computer Services	-5.85	-10.73	-9.81
Hardware & Equipment	-8.13	-12.90	-12.01
Total[7]	**-0.56**	**-5.71**	**-4.75**

Table 2-1 shows equity price movements in the main sectors and the ten largest sub-sectors of the FTSE All-World Index in the second quarter of 2006. The technology sector fared particularly badly, but health care, financials and industrials were also among the worst-performing sectors. Apart from utilities, the oil and gas sector produced the strongest performance.

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

3. Government Pension Fund – Global

Key figures for the second quarter of 2006

- Market value NOK 1,505.0 billion on 30 June
- Return of -1.55 per cent in international currency
- Return of -3.31 per cent on the equity portfolio
- Return of -0.39 per cent on the fixed income portfolio
- Excess return -0.10 percentage point
- Annualised management costs (excluding performance-based fees) 0.07 per cent of assets under management
- Transfers of new capital NOK 69.6 billion
- Four new external equity mandates
- Three new external fixed income mandates

The fund's market value

The fund's market value was NOK 1,505.0 billion at the end of the second quarter, an increase of NOK 21.1 billion during the quarter. New capital equivalent to NOK 69.6 billion was transferred to the fund. A stronger krone in relation to the investment currencies and a negative return in international currency reduced the value of the fund by NOK 26.1 billion and NOK 22.4 billion respectively. A change in the krone exchange rate has no effect, however, on the fund's international purchasing power.

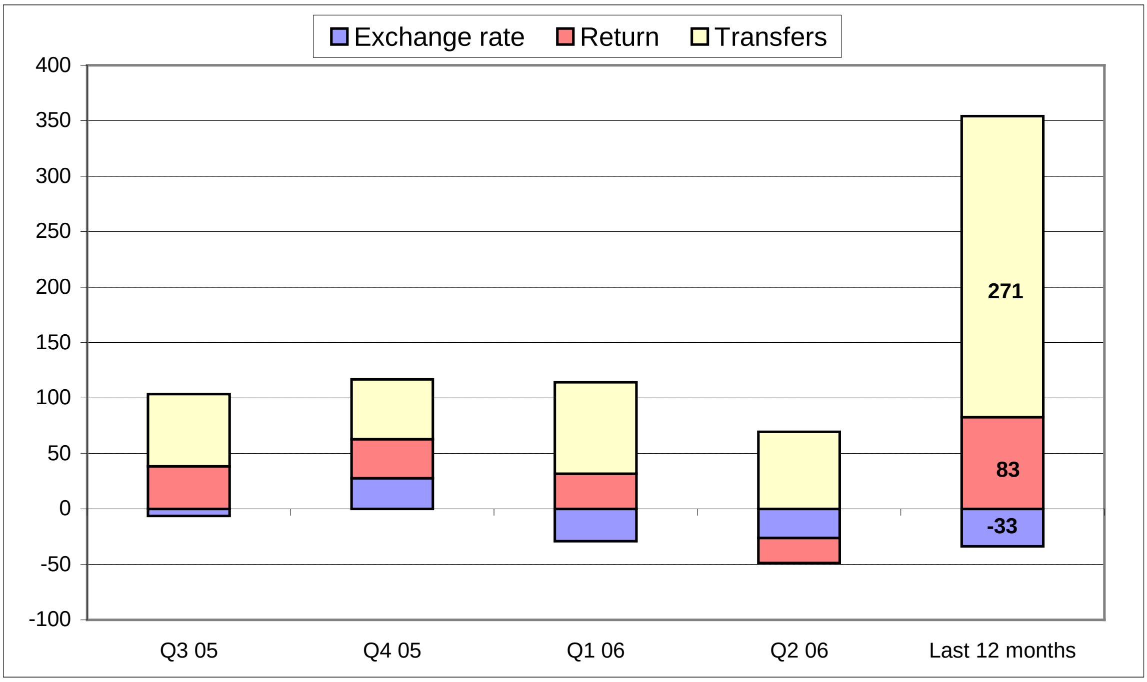
Table 3-1 shows the market value of the fund at the end of the last five quarters, and the change in market value in the second quarter of 2006 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone. For the accounting values, see Tables 1 and 2 in Appendix 1.1.

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

	Equity management	Fixed income management	Total
30 June 2005	472 436	711 491	1 183 927
30 September 2005	522 691	758 454	1 281 145
31 December 2005	582 305	816 746	1 399 050
31 March 2006	**606 890**	**877 019**	**1 483 909**
Transfers of new capital	32 854	36 697	69 550
Return	- 19 080	-3 293	- 22 372
Change in krone value	- 10 785	- 15 280	- 26 066
30 June 2006	**609 879**	**895 143**	**1 505 022**

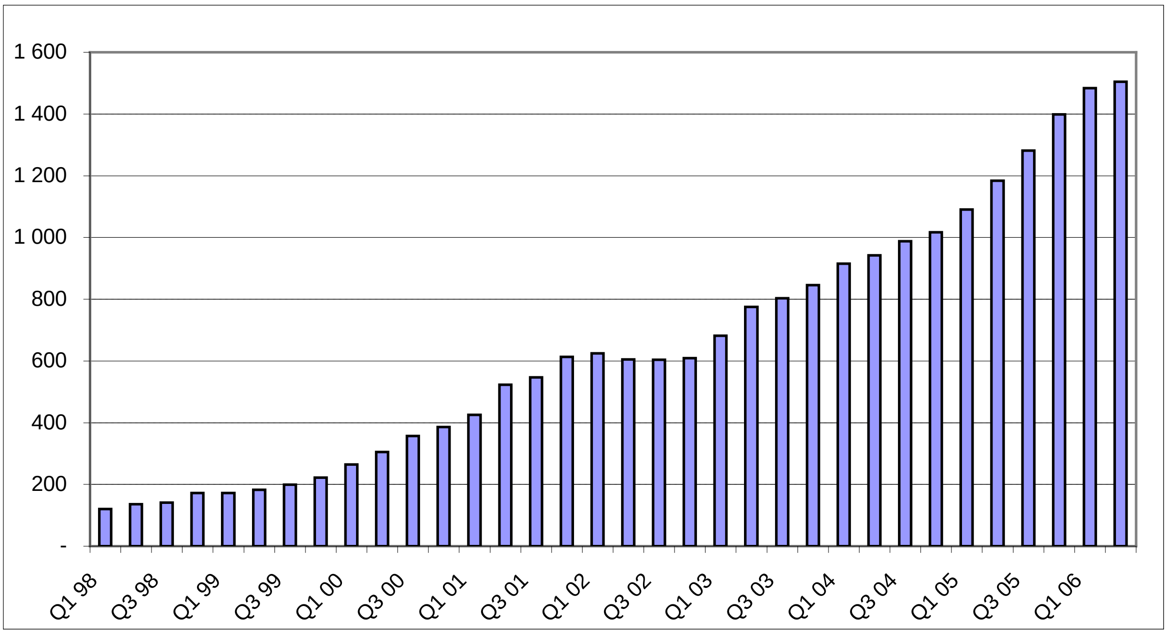
The fund has grown by NOK 321 billion in the last 12 months (see Chart 3-1). NOK 271 billion has been transferred to the fund, the return on the fund has been NOK 83 billion, and a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 33 billion. The chart shows that a weaker krone increased the value of the fund in the fourth quarter of 2005, while movements in the krone so far this year have reduced the value of the fund by more than NOK 55 billion.

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



Since 1 January 1998, the fund has grown by NOK 1,392 billion (see Chart 3-2). NOK 1,198 billion has been transferred to the fund during the period. The return on the fund measured in international currency has increased the value of the fund by NOK 315 billion, whereas a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 121 billion.

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



Return on the fund

The return on the fund in the second quarter of 2006 was -1.55 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. The return was positive in April and June, but negative in May following a sharp drop in equity prices. Over the quarter as a whole, the return on the equity portfolio was -3.31 per cent. The fixed income portfolio generated a return of -0.39 per cent measured in terms of the currency basket.

Measured in NOK, the aggregate return in the second quarter was -3.30 per cent. The difference is due to the approximately 1.8 per cent appreciation of the krone against the currencies in the benchmark portfolio during the quarter. It was mainly in April and May that the krone appreciated against the investment currencies. Table 3-2 shows the monthly return measured in terms of the benchmark portfolio's currency basket and in NOK, while Table 3-3 shows the return in the second quarter measured in various currencies.

Table 3-2: Return on the fund in the second quarter of 2006. Per cent

	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
Q1	**2.24**	**2.04**	**0.25**	**0.06**	**0.20**
April	0.09	0.04	-3.17	-3.22	0.05
May	-1.80	-1.70	-2.21	-2.11	-0.10
June	0.17	0.22	2.12	2.18	-0.05
Q2	**-1.55**	**-1.45**	**-3.30**	**-3.20**	**-0.10**
Year to date	0.66	0.56	-3.05	-3.14	0.09

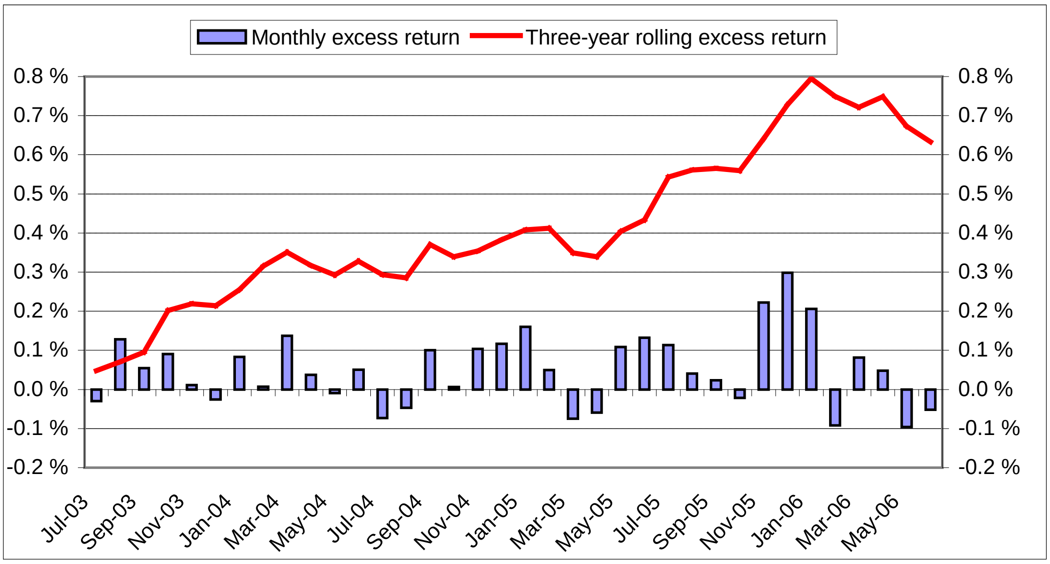
Table 3-3: Return in the second quarter of 2006 measured in different currencies. Per cent

	Equities	**Fixed income**	**Total**
Fund's currency basket	-3.31	-0.39	-1.55
Import-weighted currency basket	-3.84	-0.94	-2.09
USD	0.17	3.19	1.99
EUR	-5.20	-2.34	-3.47
NOK	-5.02	-2.16	-3.30

The return achieved by Norges Bank on the actual portfolio is measured in relation to the return on the benchmark portfolio defined by the Ministry of Finance. The difference between the return figures is the gross excess return achieved by Norges Bank. During the second quarter, the return on the fund was 0.10 percentage point lower than the return on the benchmark portfolio. In absolute terms, the negative excess return was approximately NOK 1.4 billion. Internal equity, internal fixed income and external fixed income management all contributed a positive excess return, while external equity management generated a negative excess return.

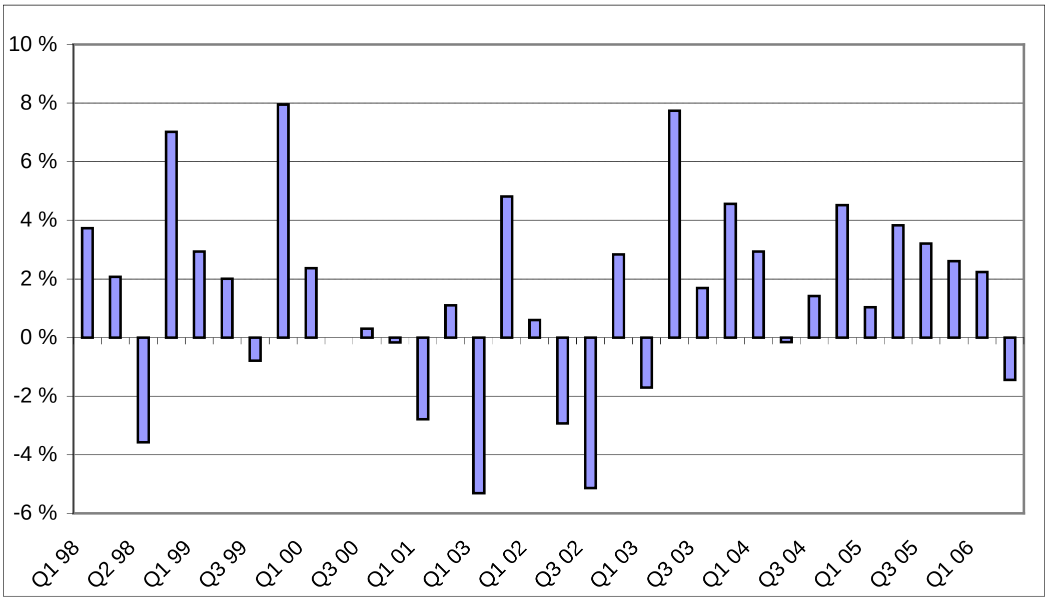
Over the last 12 months, the cumulative excess return has been 0.78 percentage point. During the three years to the end of the second quarter of 2006, the annualised excess return was 0.63 percentage point (see Chart 3-3).

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



Transaction costs are incurred when new capital is phased in. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital in the second quarter of 2006 at NOK 258.9 million. This amounted to 0.37 per cent of the total amount transferred, i.e. NOK 69.6 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.

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



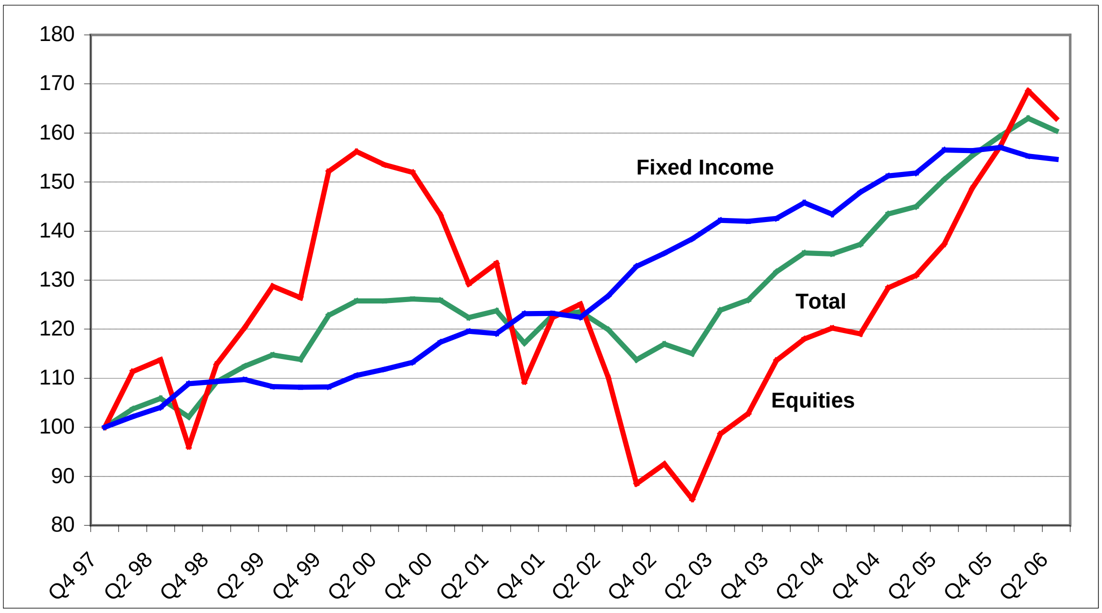
Since the first equity investments were made in 1998, the average quarterly return measured in terms of the benchmark portfolio's currency basket has been 1.45 per cent. There has been a negative return in ten out of 34 quarters. Chart 3-4 shows the quarterly returns.

Since 1997, the fund has generated an annualised annual gross return of 6.1 per cent. Once management costs and inflation are deducted, the annual net real return is 4.1 per cent. Table 3-4 shows the annualised return up to the end of the second quarter of 2006 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 0.47 percentage point per year since 1 January 1997.

Table 3-4: Annual rates of return on the fund up to the end of the second quarter of 2006 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	6.07	1.78	0.09	4.12	0.47
Since 01.01.98	5.72	1.78	0.09	3.78	0.50
Since 01.01.99	5.26	1.90	0.09	3.20	0.53
Since 01.01.00	4.19	2.00	0.10	2.06	0.44
Since 01.01.01	4.51	1.99	0.10	2.37	0.46
Since 01.01.02	6.12	2.17	0.10	3.76	0.54
Since 01.01.03	9.45	2.25	0.10	6.93	0.64
Since 01.01.04	8.21	2.52	0.10	5.45	0.66
Since 01.01.05	7.74	2.62	0.10	4.88	0.76

Chart 3-5: Index for cumulative return 1998-2006

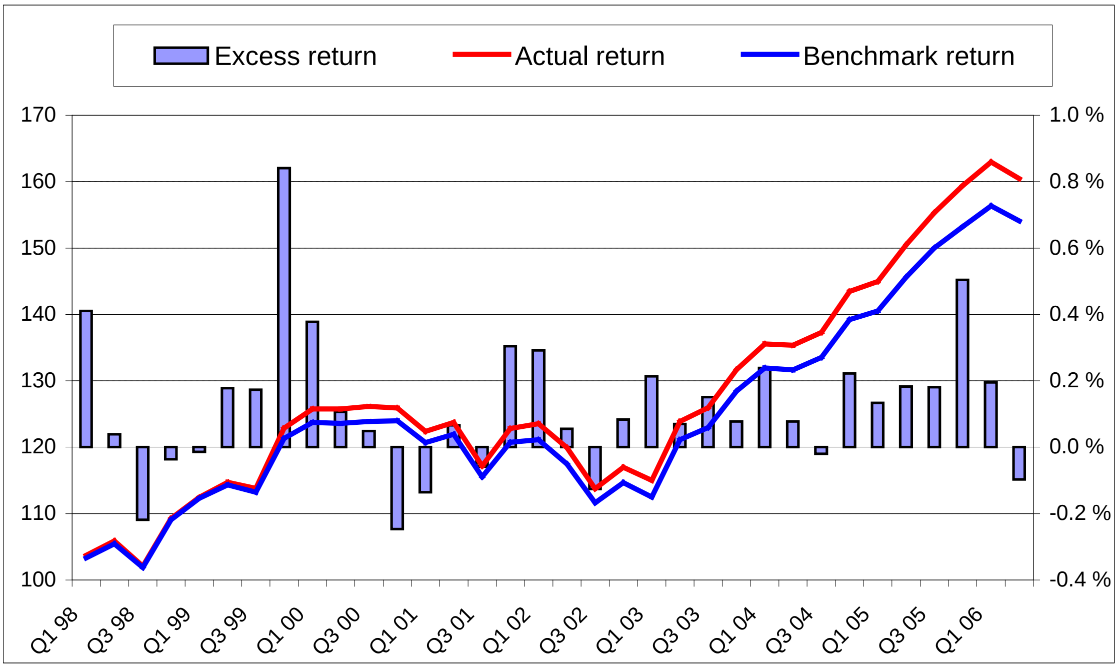


[8] Inflation is calculated as a weighted average of the increase in the consumer price index in the countries included in the benchmark portfolio.

The cumulative return on the fund from 1 January 1998 until the end of the second quarter of 2006 was 60.4 per cent (see Chart 3-5). During this period, the cumulative return on the equity portfolio was 63.0 per cent, and the cumulative return on the fixed income portfolio was 54.7 per cent. However, this difference in returns does not provide an accurate picture of the profitability of the two asset classes. The fund invested substantial amounts in both the equity and the bond markets during the period. The market value of its equity holdings at the end of the quarter was 33.0 per cent higher than the average purchase price. The equivalent figure for the fund's bond holdings was 14.6 per cent. Thus equity investments have been more profitable than Chart 3-5 would suggest.

Since 1998, the cumulative return on the benchmark portfolio has been 54.1 per cent, whereas the actual return has been 60.4 per cent (see Chart 3-6). The cumulative gross excess return measured in terms of the currency basket has been 6.4 percentage points, or NOK 27.8 billion.

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

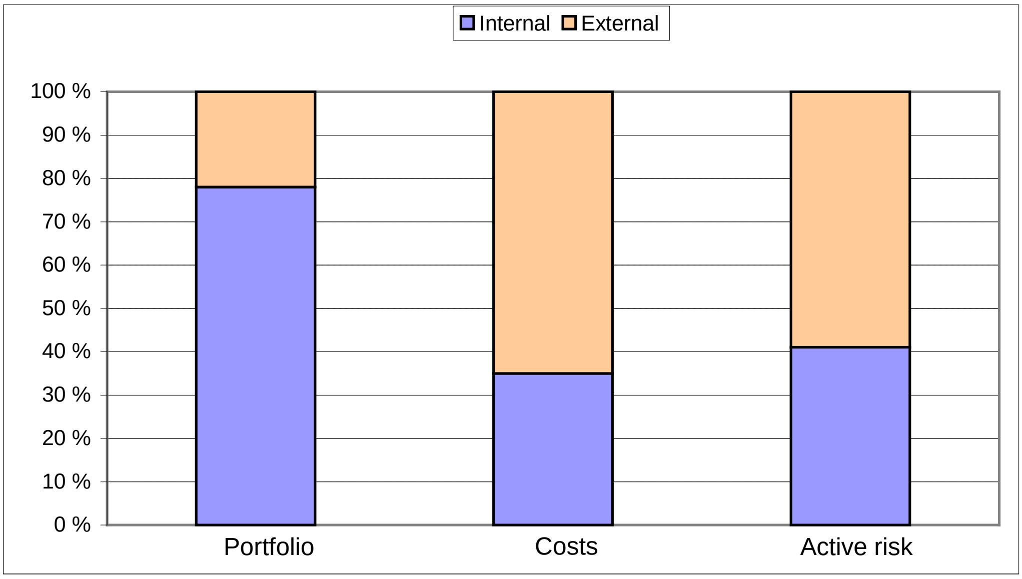


<u>Internal and external management</u>

At the end of the second quarter, 22 per cent of the fund was managed by external investment managers. Costs associated with external management accounted for 65 per cent of total management costs. External management accounted for approximately 59 per cent of the overall risk associated with active management (see Chart 3-7).

The external managers are primarily engaged in active management, whereas a larger part of the internal management is based on enhanced indexing. Active management is clearly 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 second quarter amounted to 0.31 and 0.040 per cent respectively of assets under management. External managers with specialist expertise are used to achieve sufficient breadth and scope in active management, and the excess return from external managers has clearly exceeded the additional costs.

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



<u>Fixed income management</u>

The market value of the portfolio increased by NOK 18.1 billion to NOK 895.1 billion in the second quarter. NOK 36.7 billion was transferred to the portfolio during the period. A negative return on investment and a stronger krone reduced the value of the portfolio by NOK 3.3 billion and NOK 15.3 billion respectively. At the end of the quarter, about 90 per cent of the portfolio was managed internally by Norges Bank.

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

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

About 10 per cent of the portfolio is managed by external managers. Besides the mandates for US securitised bonds, this portion includes active mandates with a variety of strategies for outperforming the benchmark. The choice of external

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[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.

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

In the second quarter of 2006, capital was transferred to three new mandates assigned to external managers: Putnam Advisory Company LLC was awarded both a mandate for specialist management in the US and a global mandate, while Insight Investment Management Ltd. was awarded a mandate for specialist management in Europe.

Equity management

The market value of the equity portfolio was NOK 609.9 billion at the end of the second quarter, an increase of NOK 3.0 billion during the period. NOK 32.9 billion was transferred to the portfolio during the period. A negative return on investment reduced the value of the portfolio by NOK 19.1 billion, while a stronger krone reduced its value by NOK 10.8 billion.

At the end of the quarter, about 62 per cent of the portfolio was managed internally by Norges Bank. Part of the portfolio is managed in an enhanced indexing portfolio. Other internal active management has been built up gradually in recent years, and consists of portfolio managers focusing both on fundamental analysis-based stock-picking in the financial, telecommunication, energy, media and trade sectors globally, and on relative value strategies. All managers operate within a long-short portfolio. This means that each manager borrows equities from the internal index portfolio or in the market. Thus there is further specialisation between active strategies and indexing and financing internally. Nor does Norges Bank have to choose between internal and external active management, as the internal active positions do not lay claim to the assets under management.

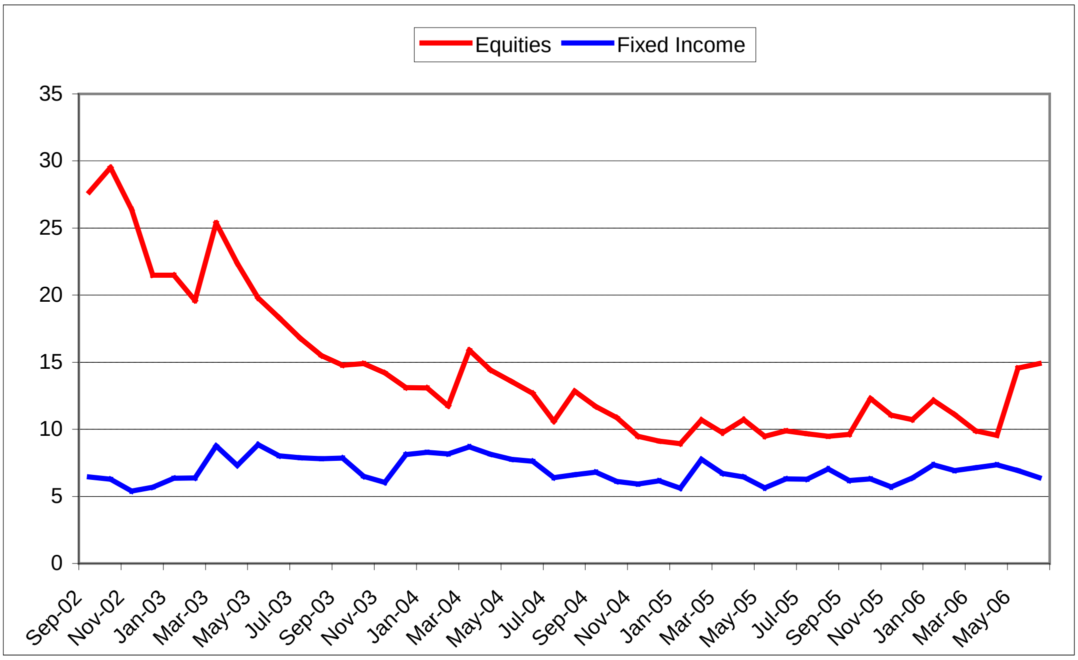
Just under 40 per cent of the portfolio is managed by external managers. All of the external equity mandates have defined their own benchmark portfolios and risk limits. The regional mandates have benchmark portfolios consisting of the companies included in the FTSE index for a geographical region, such as Continental Europe, the UK, the US and Japan. The sector mandates have benchmark portfolios in sectors such as finance, technology, health care, oil and gas, utilities, trade, media and telecommunications. Over the last couple of years, Norges Bank has increased the proportion of specialist sector mandates.

Capital was transferred to four new mandates assigned to external equity managers during the quarter: AllianceBernstein LP, GLG Partners and T. Rowe Price Associates Inc. were awarded regional mandates, while Janus Capital Management LLC was awarded a sector mandate.

Market risk

The Fund's absolute market risk, measured as the expected tracking error for the return in NOK, fluctuates with market volatility. Chart 3-8 shows that the absolute tracking error for the equity portfolio increased slightly during the second quarter of 2006. Nevertheless, volatility is still well below the level measured in the fourth quarter of 2002. Changes in the market risk associated with the fixed income portfolio have been far less dramatic.

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

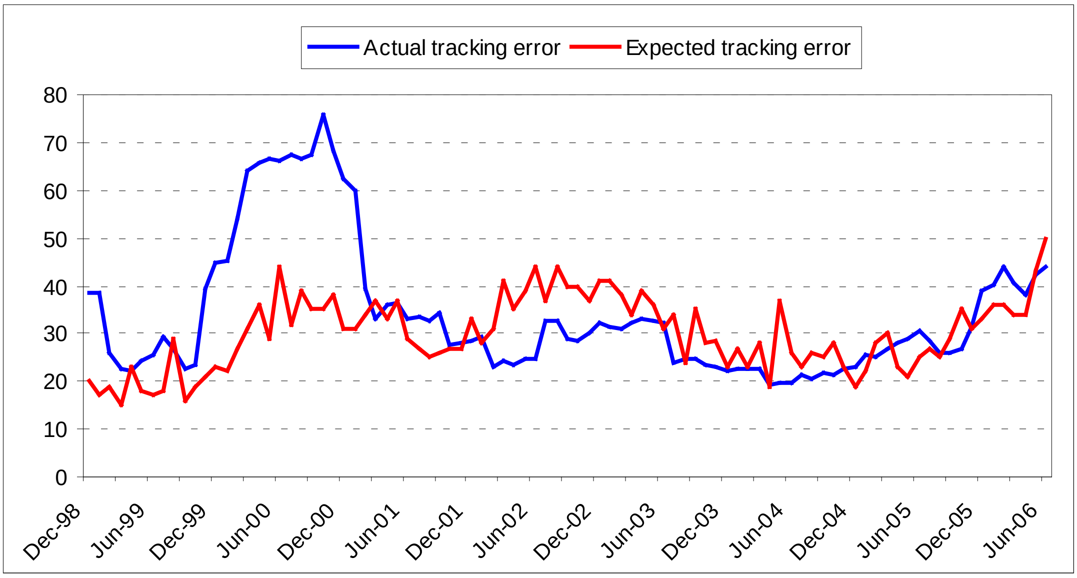


The Ministry of Finance has set a limit on the extent to which the fund's portfolio may differ from the benchmark portfolio. This has been accomplished by setting a limit for the expected deviation between the returns on the actual portfolio and the benchmark portfolio. This limit for relative market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

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

The red line in Chart 3-9 shows developments in expected tracking error since December 1998. The chart shows that there has been a slight increase in expected tracking error over the last 12 months. Expected tracking error was 50 basis points at the end of the quarter. In retrospect, we can use the variation in the deviation between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual relative market risk (the blue line in the chart). This tracking error is annualised using 12-month rolling windows.

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



Norges Bank tests whether the actual excess return on the fund varies in line with what might be expected based on the risk model used. This is illustrated in Chart 3-10. The chart shows the realised monthly excess return from October 2002 (diamonds) and the confidence interval measured by the standard deviation. The model indicates that in approximately 67 per cent of cases, the actual return should be within the interval formed by the green lines. The equivalent figures for the orange and red intervals are 95 and 99 per cent respectively. The chart indicates that the actual return is in line with what might be expected based on the risk model used. Analyses of longer time series give similar results.

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

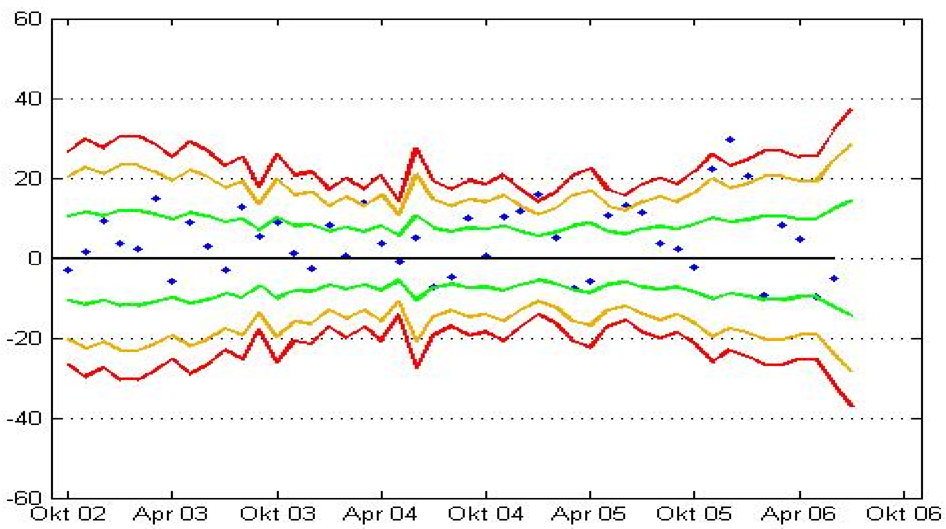
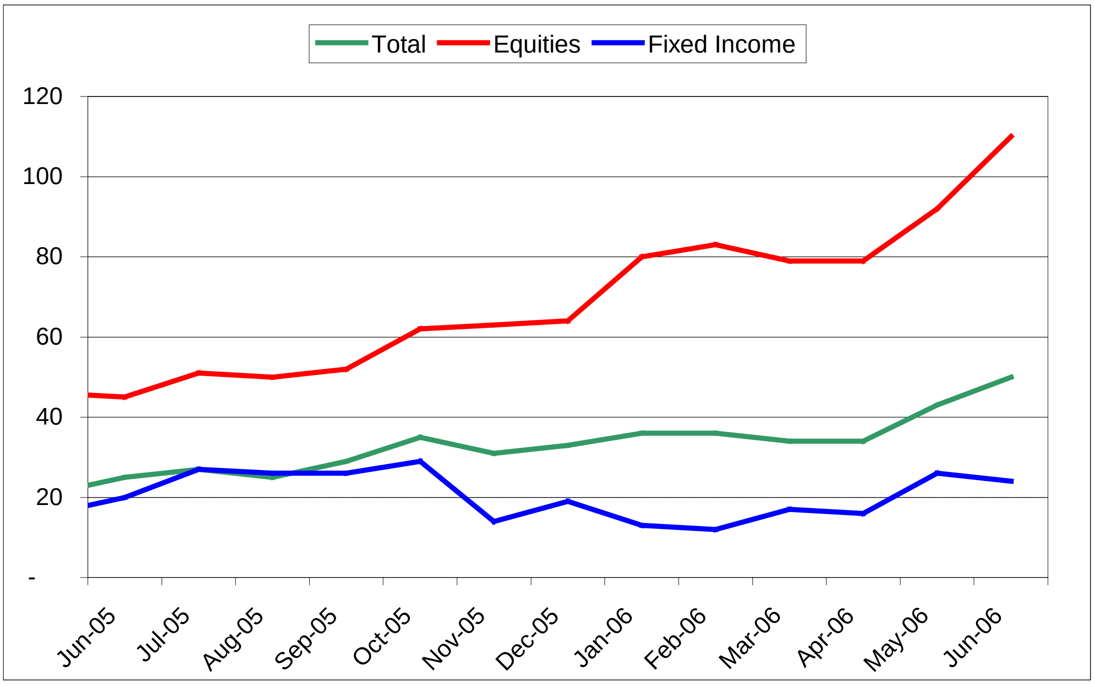


Chart 3-11 shows developments in expected tracking error in the equity and fixed income portfolios over the last 12 months. Relative market risk is higher in equity management than in fixed income management.

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



Information ratio

The information ratio is a measure of skill in active management. It is the ratio of gross excess return for the year to relative market risk (measured here as the actual standard deviation of the gross excess return). The average information ratio for the Fund from the first quarter of 1998 t

o the second quarter of 2006 was 1.27, annualised. Table 3-5 provides a historical overview of the information ratio for the fund as a whole and for each asset class.

Table 3-5: Information ratios

Period	Fund	Equities	Fixed income
Last 12 months	1.76	1.37	2.64
Since 2002	1.75	1.08	3.24
Since 1999	1.38	1.12	2.02

Guidelines for management

Through the Regulation on the Management of the Government Pension Fund – Global and guidelines for investments, the Ministry of Finance has set limits for risk and exposure. These limits and the portfolio's actual exposure are shown in Table 3-6. There were no significant breaches of the investment guidelines during the quarter.

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

	Risk	Limits	Actual				
			30.06.05	**30.09.05**	**31.12.05**	**31.03.06**	**30.06.06**
§ 5	Market risk	Maximum tracking error 1.5 percentage point	0.25	0.29	0.33	0.34	0.50
§ 4	Asset mix	Fixed income 50-70%	60.1	59.2	58.4	59.1	59.5
		Equities 30-50%	39.9	40.8	41.6	40.9	40.5
§ 4	Market distribution, equities[10]						
		Europe 40-60%	47.7	47.7	47.3	48.5	49.0
		Americas and Africa 25-45%					36.1
		Asia and Oceania 40-60%					14.9
		Americas, Africa, Asia and Oceania 40-60%	52.3	52.3	52.7	51.5	
	Currency distribution, fixed income	Europe 45-65%	54.7	54.5	55.1	55.5	60.8
		Americas and Africa 25-45%	35.1	35.3	34.8	34.2	32.6
		Asia and Oceania 0-20%	10.2	10.2	10.1	10.4	6.6
§ 6	Ownership stake	Maximum 5% of a company	3.0	3.0	2.7	3.9	4.7

Table 3-7 shows the composition of the bond portfolio (fixed income portfolio excluding cash) based on credit ratings from Moody's and Standard & Poor's (S&P). In the table, government securities and government-guaranteed bonds without credit ratings have been given the credit rating of the issuing country. In addition to bonds, the fixed income portfolio contains fixed income instruments with shorter maturities. These all have credit ratings of P-1 from Moody's and A-1 from S&P.

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

Moody's		**Standard & Poor's**	
Rating	Percentage of total	Rating	Percentage of total
Aaa	44.11	AAA	41.38
Aa	19.97	AA	21.64
A	21.17	A	17.31
Baa	9.15	BBB	9.83
Ba	0.59	BB	0.71
Lower	0.10	Lower	0.13
No rating	4.91	No rating	9.00

Costs

The Management Agreement between the Ministry of Finance and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Government Pension Fund – Global. For 2006, this remuneration is to cover the Bank's actual costs, provided that these costs are less than 0.10 per cent of the fund's

[10] The regional weights in the benchmark portfolio for equity investments were altered to 15 per cent for Asia and Oceania, 50 per cent for Europe and 35 per cent for Americas and Africa with effect from 31 May 2006.

average market value. Fees to external managers for excess return achieved are also covered. Norges Bank has entered into agreements concerning performance-based fees with the majority of external active managers in accordance with principles approved by the Ministry of Finance.

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

Annualised, costs in the first half of 2006 amounted to 0.10 per cent of the average market value of the fund (see Table 3-8). Excluding performance-based fees to external managers, costs amounted to 0.07 per cent of the market value of the fund. By way of comparison, costs in the first half of 2005 amounted to 0.08 per cent of market value. For internal management, there was no change in the ratio of costs to assets under management from the first half of 2005 to the first half of 2006. For external management, the ratio increased, due mainly to a rise in performance-based fees to external managers.

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

	First half 2006		First half 2005	
	NOK 1 000	Per cent	1000 NOK 1 000	Per cent
Internal costs, equity management	96 396		74 965	
Custodian and fund administration costs	43 775		25 165	
Total costs, internal equity management	**140 171**	**0.08**	**100 130**	**0.08**
Internal costs, fixed income management	76 886		71 527	
Custodian and fund administration costs	33 756		28 412	
Total costs, internal fixed income management	**110 642**	**0.03**	**99 939**	**0.03**
Minimum fees to external managers	194 441		168 882	
Performance-based fees to external managers	225 392		116 046	
Other costs, external management	55 645		52 847	
Total costs, external management	**475 478**	**0.31**	**337 775**	**0.29**
Total management costs	**726 291**	**0.10**	**537 844**	**0.10**
Total management costs excluding performance-based fees	**500 899**	**0.07**	**421 798**	**0.08**

Costs are distributed between internal and external management using a cost distribution key for internal costs and custodian costs. External management accounted for approximately 65 per cent of costs, whereas only about 21 per cent of the fund's portfolio is managed externally. The unit cost of internal management was approximately 0.04 per cent, compared with 0.31 per cent for external management.

4. Norges Bank's foreign exchange reserves

Key figures for the second quarter of 2006

Investment portfolio

- Market value NOK 205.7 billion on 30 June
- Return of -1.53 per cent in international currency
- Return of -3.14 per cent on the equity portfolio
- Return of -0.47 per cent on the fixed income portfolio
- Excess return -0.04 percentage point
- Equity portion raised to 40 per cent
- Four new external management mandates

Buffer portfolio

- NOK 69.6 billion transferred to the Government Pension Fund – Global
- NOK 40.7 billion transferred from the State's Direct Financial Interest in petroleum activities (SDFI)
- NOK 28.3 billion transferred from Norges Bank's own foreign exchange purchases
- Market value NOK 3.5 billion on 30 June
- Return of -1.5 per cent measured in NOK

The investment portfolio's market value

The investment portfolio's market value was NOK 205.7 billion at the end of the second quarter, a decrease of NOK 7.0 billion during the quarter. A negative return on investment accounted for NOK 3.1 billion of this decrease, while a stronger krone against the currencies in which the portfolio is invested reduced its value by a further NOK 3.9 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

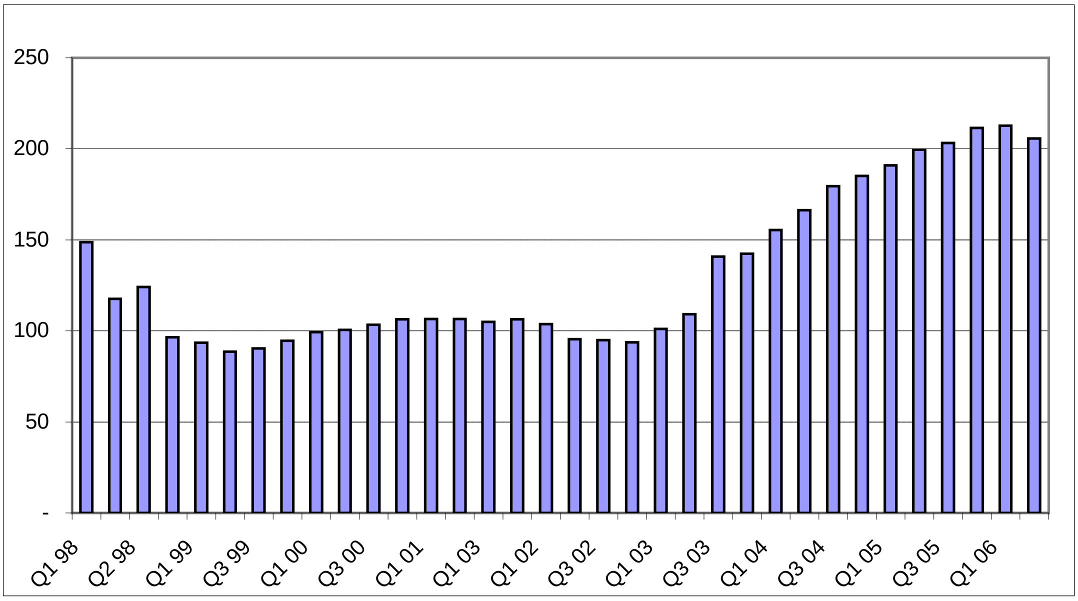
Table 4-1 shows the market value of the portfolio at the end of the last five quarters, and the change in market value in the second quarter of 2006 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone.

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

	Equity management	Fixed income management	Total
30 June 2005	61 529	137 989	199 519
30 September 2005	66 005	137 209	203 213
31 December 2005	70 669	140 817	211 486
31 March 2006	**83 495**	**129 174**	**212 670**
Transfers of new capital	332	-332	-
Return	- 2 526	-594	-3 120
Change in krone value	-1 547	-2 315	-3 862
30 June 2006	**79 754**	**125 934**	**205 688**

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

Chart 4-1: Market value of the investment portfolio 1998-2006. In billions of NOK



Return on the portfolio

The return on the investment portfolio in the second quarter of 2006 was -1.53 per cent measured in terms of the benchmark portfolio's currency basket (see Table 4-2). This is the lowest quarterly return since 1 January 1998. Measured in NOK, the aggregate return in the second quarter was -3.28 per cent. The return measured in NOK was lower because the krone appreciated in relation to the currencies in the benchmark portfolio during the quarter.

Table 4-2: Return on the investment portfolio. Actual and benchmark portfolios in the second quarter of 2006. Per cent

	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
Q1	**1.62**	**1.54**	**-0.37**	**-0.45**	**0.08**
April	0.06	0.00	-3.22	-3.28	0.06
May	-1.75	-1.69	-2.15	-2.10	-0.06
June	0.17	0.21	2.14	2.19	-0.05
Q2	**-1.53**	**-1.48**	**-3.28**	**-3.24**	**-0.04**
Year to date	0.07	0.04	-3.64	-3.67	0.04

The gross actual return on the investment portfolio was 0.04 percentage points lower than the return on the benchmark portfolio. In absolute terms, the negative excess return for the second quarter of 2006 was NOK 86 million. External fixed income management generated a positive excess return, while both internal fixed income and internal equity management made a negative contribution.

Transaction costs were incurred during the quarter in connection with the completion of the increase in the equity portion of the portfolio to 40 per cent. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital in the second quarter of 2006 at NOK 709,000. This is 0.21 per cent of the total amount transferred, i.e. NOK 332 million. The benchmark portfolio has not been adjusted for these transaction costs. This means that the excess return reported is lower than it would have been if the costs associated with phasing in new capital had been excluded.

Since 1 January 1998, the average quarterly return measured in international currency has been 1.35 per cent. Chart 4-2 shows the quarterly returns. There has been a negative return in seven out of 34 quarters.

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

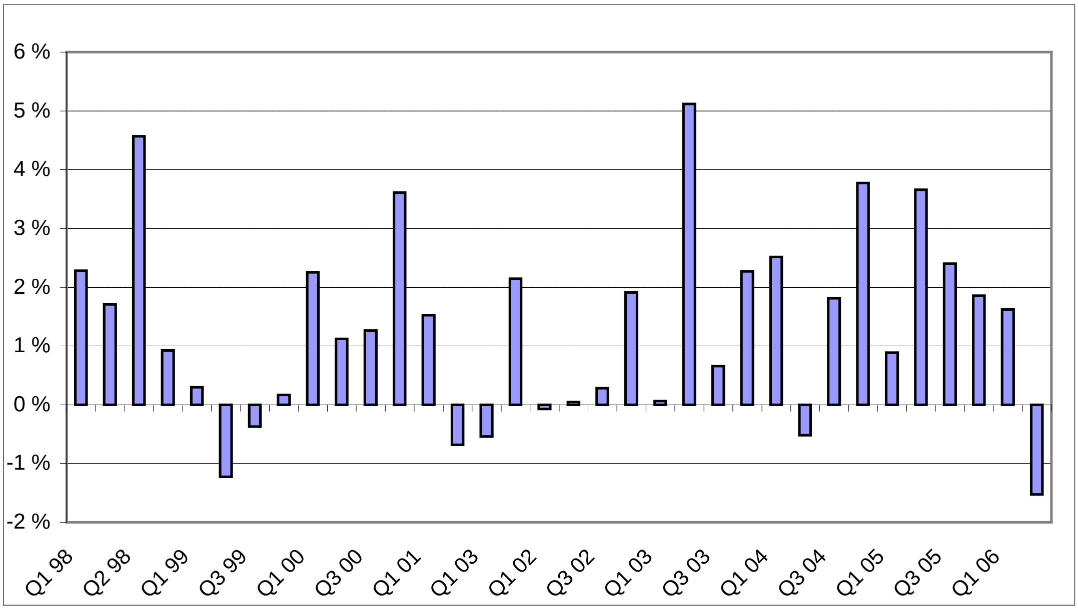


Table 4-3 shows the percentage return on the investment portfolio since 1998. The return has been calculated in relation to the portfolio's currency basket. Until the end of 2000, the entire portfolio was invested in government or government-guaranteed bonds. Since 2001, however, some of the portfolio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

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

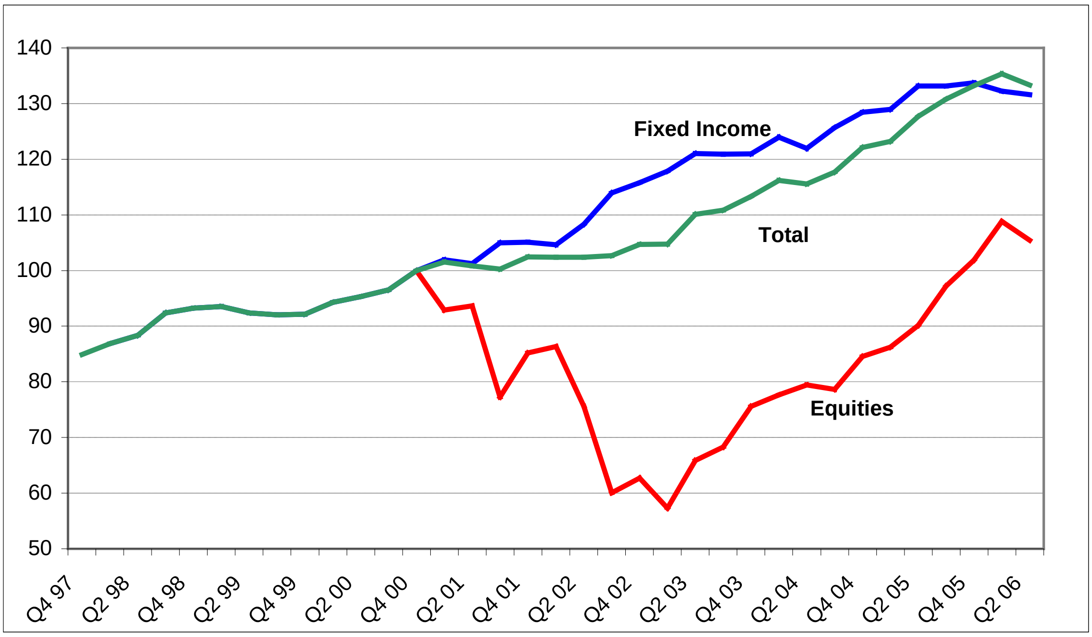
	Nominal annual return	Annual inflation[11]	Management costs	Annual net real return	Annual gross excess return
Since 01.01.98	5.45	1.84	0.06	3.48	0.20
Since 01.01.99	4.88	1.97	0.06	2.80	0.23
Since 01.01.00	5.84	2.06	0.07	3.64	0.25
Since 01.01.01	5.37	2.05	0.07	3.18	0.28
Since 01.01.02	6.03	2.21	0.07	3.66	0.31
Since 01.01.03	7.15	2.27	0.06	4.72	0.29
Since 01.01.04	6.71	2.57	0.06	3.97	0.19
Since 01.01.05	6.02	2.68	0.06	3.19	0.25

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

The table shows that the annual net real return since 1 January 1998 has been 3.48 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 0.20 percentage point per year since 1 January 1998.

Chart 4-3 shows the cumulative return from 1 January 1998 for the fixed income and equity portfolios. The cumulative return on fixed income investments for the period as a whole has been 54.9 per cent. Since the first equity investments were made in January 2001, the cumulative return has been 31.6 per cent on the fixed income portfolio and 5.4 per cent on the equity portfolio.

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

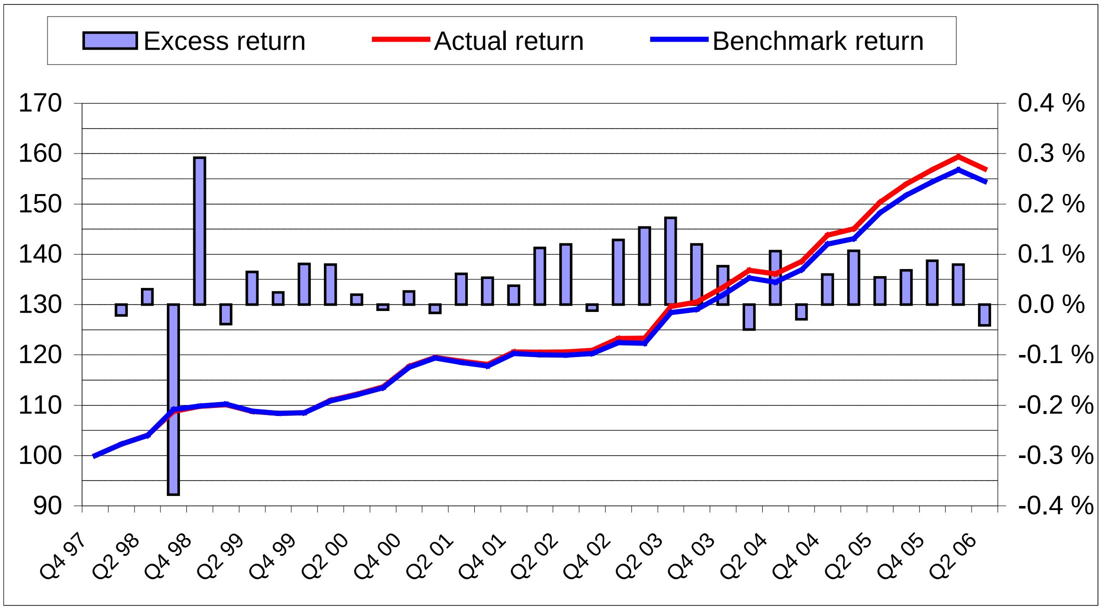


However, this difference in returns does not provide an accurate picture of the profitability of the two asset classes. Substantial amounts have been transferred from bonds to equities since January 2001. The equity portion of the portfolio was 40 per cent at the end of the quarter. The market value of its equity holdings at the end of the quarter was 11.2 per cent higher than the average purchase price. Thus equity investments have been more profitable than Chart 4-3 would suggest.

The cumulative return since 1 January 1998 has been 57.0 per cent for the actual portfolio and 54.5 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 2.5 percentage points since 1998.

In absolute terms, the excess return has been NOK 2.0 billion. The chart also shows that a positive excess return has been achieved in 25 of the 34 quarters since 1 January 1998.

Chart 4-4: Index for cumulative actual return and benchmark return (31.12.97 = 100, left-hand scale) and quarterly gross excess return in percentage points (right-hand scale) 1998-2006



<u>Fixed income management</u>
The market value of the portfolio fell by NOK 3.2 billion to NOK 125.9 billion in the second quarter. The decrease was due to NOK 0.3 billion of the fixed income portfolio being switched to equities. A negative return on fixed income investments and a stronger krone contributed NOK 0.6 billion and NOK 2.3 billion respectively to the decrease in value. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

About 85 per cent of the portfolio is managed internally by Norges Bank using both enhanced indexing, where the main purpose is to achieve the same market exposure as the benchmark, and active strategies designed to outperform the benchmark.

In the second quarter of 2006, capital was transferred to four new mandates assigned to external managers: Smith Breeden Associates Inc. was awarded two mandates for specialist management in the US, while Lehman Brothers Asset Management LLC and Hyperion Capital Management Inc. were each awarded one mandate for specialist management in the US.

<u>Equity management</u>
The market value of the equity portfolio fell by NOK 3.7 billion to NOK 79.8 billion during the quarter. A total of NOK 0.3 billion was transferred to the portfolio, there was a negative return on equity investments of NOK 2.5 billion, and a stronger krone reduced the value of the portfolio by NOK 1.5 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

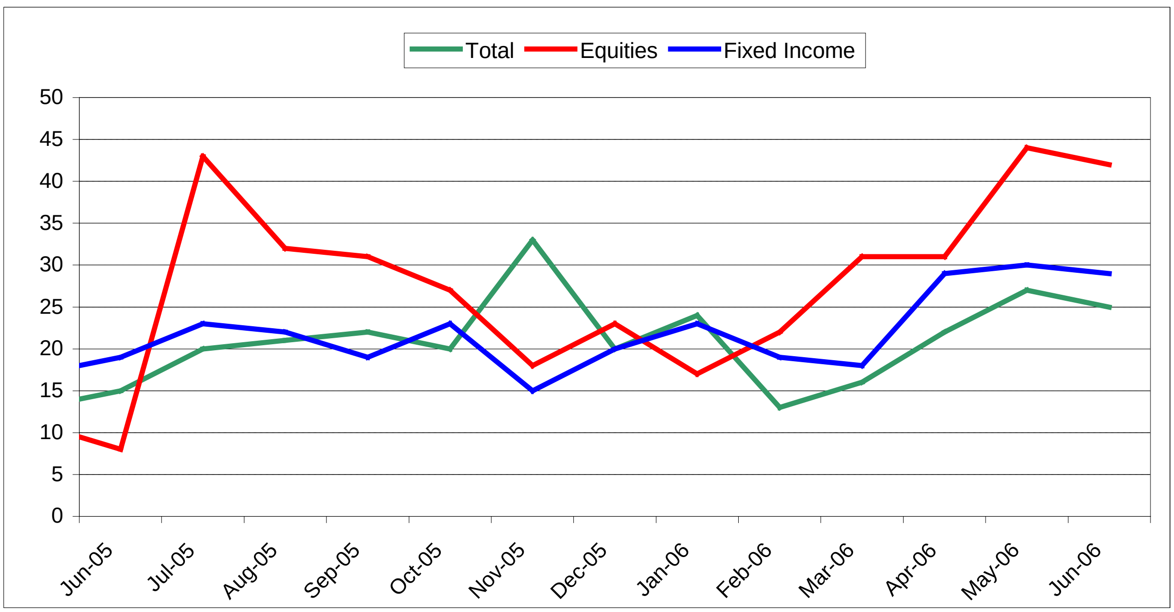
The entire equity portfolio was managed internally by Norges Bank at the end of the quarter.

Market risk

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

Chart 4-5 shows that relative market risk has remained well below the upper limit over the last 12 months. Expected tracking error was 0.25 percentage point at the end of the quarter.

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



Information ratio

The information ratio is a measure of skill in the operational management of the portfolio. It is the ratio of gross excess return for the year to relative market risk (measured here as the actual standard deviation of the gross excess return). Since 1 July 1998, the annual average information ratio has been 0.91.

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

Table 4-4: Information ratios

Period	Portfolio	Equities	Fixed income
Last 12 months	1.36	-0.51	3.06
Since 2002	1.67	-0.52	2.80
Since 1999	1.31	n/a	2.00

Guidelines for management

Table 4-5 provides an overview of risk and exposure in the investment portfolio at the end of each quarter over the last year. The management of the portfolio complied with the Executive Board's guidelines at all times during the second quarter.

Table 4-5: Risk and exposure

Risk		Actual				
		30.06.05	**30.09.05**	**31.12.05**	**31.03.06**	**30.06.06**
Market risk (percentage points)	Tracking error	0.15	0.22	0.31	0.16	0.25
Asset mix (per cent)	Fixed income	69.16	67.52	66.58	60.74	61.23
	Equities	30.84	32.48	33.42	39.26	38.77
Currency distribution (per cent)	Europe	49.14	49.32	48.56	50.00	50.91
	Americas	40.53	39.90	39.79	36.58	35.58
	Asia and Oceania	10.33	10.78	11.65	13.42	13.51
Ownership stake (per cent)	Ownership stake max. 5 per cent	0.33	0.45	0.97	0.68	0.82

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

Table 4-6: Bond portfolio on 30 June 2006 by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	**Percentage of total**	**Rating**	**Percentage of total**
Aaa	53.35	AAA	50.51
Aa	19.17	AA	17.33
A	14.93	A	11.53
Baa	6.33	BBB	7.19
Ba	1.40	BB	1.48
Lower rating	0.27	Lower rating	0.62
No rating	4.55	No rating	11.34

Costs

The costs incurred in NBIM's management activities consist partly of fees to external managers and custodian institutions, and partly of Norges Bank's internal operating costs. In the first half of 2006, NBIM's total costs associated with the management of the investment portfolio, including performance-based fees, amounted to NOK 62.4 million, which corresponds to 0.06 per cent (annualised) of the average portfolio.

Buffer portfolio

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

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

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

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

Period	Transferred from SDFI	Foreign exchange purchased in the market	Transferred to Government Pension Fund – Global	Transferred to investment portfolio	Market value at end of period
Q1	**46 115**	**16 175**	**82 366**	**-**	**-**
April	15 631	4 958	21 440	-	3 003
May	12 715	11 396	24 204	-	2 842
June	12 314	11 966	23 907	-	3 497
Q2	**40 660**	**28 321**	**69 550**	**-**	**-**
Year to date	86 775	44 496	151 916	-	-

Size and return

The market value of the buffer portfolio was NOK 3.5 billion at the end of the second quarter of 2006, compared with NOK 4.3 billion on 31 March 2006. The return on the buffer portfolio during the quarter was -1.5 per cent measured in NOK. In absolute terms, there was a negative return of NOK 255 million.

5. Government Petroleum Insurance Fund

Key figures for the second quarter of 2006

- Market value NOK 14.7 billion on 30 June
- Return of -0.07 per cent in international currency
- Return of -1.63 per cent measured in NOK
- Excess return 0.01 percentage point
- Claims paid NOK 98.4 million

The fund's market value

The market value of the fund's international portfolio was NOK 14.7 billion at the end of the second quarter of 2006. In addition, the balance on the working account was NOK 106.2 million. The market values of the Petroleum Insurance Fund's foreign exchange portfolios at the end of the second quarter of 2006 are shown in Table 5-1.

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

	30.06.05	30.09.05	31.12.05	31.03.06	30.06.06
EUR	7 096	7 036	7 038	6 906	7 389
GBP	2 123	2 098	2 120	2 073	2 220
USD	4 960	4 892	5 039	4 835	5 091
Total market value	**14 179**	**14 026**	**14 197**	**13 814**	**14 700**

Return on the fund

The return on the fund in the second quarter of 2006 was -0.07 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 -1.63 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 0.01 percentage point higher than the return on the benchmark portfolio.

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

	Measured in terms of the benchmark currency basket		Measured in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Return differential
Q1	**-0.71**	**-0.72**	**-2.38**	**-2.39**	**0.00**
April	-0.38	-0.38	-3.64	-3.63	0.00
May	0.26	0.26	-0.04	-0.04	0.00
June	0.05	0.04	2.12	2.11	0.01
Q2	**-0.07**	**-0.08**	**-1.63**	**-1.64**	**0.01**

Year to date	**-0.78**	**-0.80**	**-3.97**	**-3.99**	**0.01**

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

Management of the fund

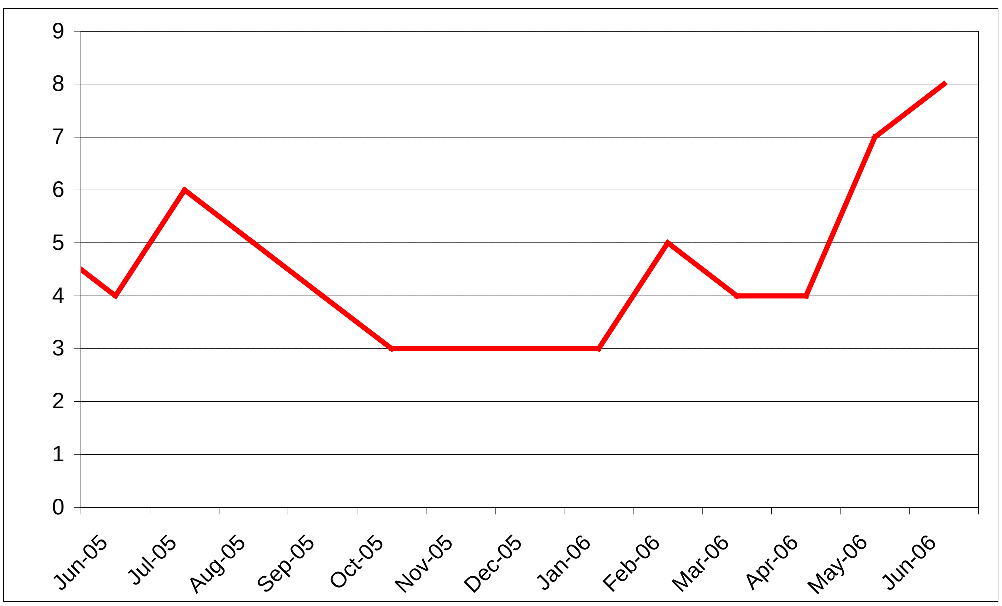
The entire portfolio is managed internally by Norges Bank and has always been kept very close to the benchmark. The portfolio is invested primarily in government bonds and other bonds included in the Lehman Global Aggregate index's "Government-related" sub-sector. In addition, the portfolio may be invested in German bonds issued against collateral in the form of loans to the public sector (öffentliche Pfandbriefe), in short-term money market instruments, and in unlisted fixed income derivatives.

Claims payments of NOK 88.4 million were made during the quarter. The balance on the working account was NOK 1,262 million at the end of the quarter.

Market risk

The guidelines from the Ministry of Petroleum and Energy establish a limit for market risk associated with the actual portfolio in relation to market risk associated with the benchmark portfolio. This relative market risk must always be less than a tracking error of 0.75 percentage point. Relative market risk remained well below this upper limit throughout the second quarter of 2006 (see Chart 5-1).

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



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

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

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

Guidelines for management

Table 5-4 provides an overview of the limits for risk exposure set out in the regulation and guidelines, and shows the portfolio's actual exposure in relation to these limits at the end of the quarter. There were no breaches of the guidelines during the second quarter of 2006.

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

Risk	Limits	Actual				
		30.06.05	**30.09.05**	**31.12.05**	**31.03.06**	**30.06.06**
Market risk	Maximum tracking error 0.75 percentage point	0.05	0.04	0.03	0.04	0.08
Interest rate risk	Modified duration max. 5	3.87	3.91	3.93	3.92	3.98

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

Table 5-5: The bond portfolio on 30 June 2006 by credit rating

Moody's		Standard & Poor's	
Rating	Percentage of total market value	Rating	Percentage of total market value
Aaa	69.86	AAA	62.71
Aa	25.99	AA	32.00
A	4.15	A	4.15
No rating[12]	0	No rating	1.14

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

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

Petroleum Insurance Fund's portfolio. For 2006, a remuneration rate of 0.06 per cent of the average market value of the portfolio was stipulated. Remuneration of NOK 4.2 million was accrued during the first half of 2006.

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 -48,408 million in the second quarter of 2006 prior to the deduction of Norges Bank's management remuneration.

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

	30.06.05	**31.12.05**	**30.06.06**
Short-term assets/debt, incl. deposits in foreign banks	4 603	23 784	-2 885
Money market investments in foreign financial institutions against collateral in the form of securities	279 341	558 979	689 872
Borrowing from foreign financial institutions against collateral in the form of securities	-404 918	-438 717	-529 545
Foreign fixed income securities	843 365	682 024	746 861
Foreign equities	468 492	576 683	600 826
Adjustment of forward contracts and derivatives	-6 902	-3 618	17
Total portfolio before management remuneration[13]	**1 183 981**	**1 399 135**	**1 505 146**
Management remuneration due	-538	-1 239	-726
Total portfolio	**1 183 443**	**1 397 896**	**1 504 420**

Off-balance-sheet items (in millions of NOK)	**30.06.05**	**31.12.05**	**30.06.06**
Liabilities			
Derivatives and forward contracts sold	473 441	798 223	1 134 791
Derivatives and forward contracts purchased	476 546	785 681	1 133 381
Rights			
Options sold	4 442	5 273	84 172
Options purchased	20 904	8 578	50 687

[13] 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.

There is a slight difference in the market value used in the return calculations (see Table 3-1) and the accounts to 30 June 2006. This is due partly to accounting provisions and different valuation methods for money market investments.
In Table 2, income and expenses in foreign currency have been translated into NOK at the exchange rate on the transaction date, and recognised as they have been earned or incurred according to the accruals principle.

Table 2: Book return on the Pension Fund's international portfolio to 30 June 2006. In millions of NOK

	30.06.05	31.12.05	31.03.06	30.06.06
Interest income	12 243	27 815	8 010	18 325
Dividends	6 348	10 309	3 024	8 909
Exchange rate adjustments	12 831	33 610	-27 447	-49 146
Unrealised gains/losses on securities	12 598	36 521	-8 444	-55 504
Realised gains/losses on securities	23 546	49 908	23 224	29 629
Brokers' commissions	-18	-19	-17	-25
Gains/losses on futures	92	1 250	369	-3 142
Gains/losses on options	-23	0	56	77
Gains/losses on equity swaps	265	1 239	758	1 402
Gains/losses on interest rate swaps	-1 227	1 756	2 970	3 570
Book return on investments	**66 655**	**162 388**	**2 503**	**-45 905**
Accrued management remuneration	-538	-1 239	-386	-726
Net return	**66 117**	**161 149**	**2 117**	**-46 631**

1.2 The investment portfolio

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

	30.06.05	31.12.05	30.06.06
Short-term assets/debt, incl. deposits in foreign banks	-5 511	-9 159	-941
Money market investments in foreign financial institutions against collateral in the form of securities	62 155	66 211	104 289
Borrowing from foreign financial institutions against collateral in the form of securities	-85 992	-61 002	-90 622
Foreign fixed income securities	168 188	146 676	120 212
Foreign equities	61 729	70 615	80 536
Adjustment of forward contracts and derivatives	-1 027	-377	378
Total portfolio	**199 542**	**212 962**	[14]**213 852**

Off-balance-sheet items	30.06.05	31.12.05	30.06.06
Liabilities			
Derivatives and forward contracts sold	83 563	137 043	196 015
Derivatives and forward contracts purchased	83 798	136 662	191 100

[14] There is a difference in the market value used in the return calculations (see Table 4-1) and the accounts to 30 June 2006. This is due primarily to a transfer between the investment portfolio and the buffer portfolio not yet settled.

Rights			
Options sold	792	759	10 835
Options purchased	4 223	1 448	6 568

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

Return on the investment portfolio	30.06.05	31.12.05	31.03.06	30.06.06
Interest income	2 094	5 067	1 431	3 087
Dividends	903	1 467	424	1 233
Exchange rate adjustments	2 483	5 570	-3 970	-7 608
Unrealised gains/losses on securities	3 093	5 318	-1 186	-8 888
Realised gains/losses on securities	2 901	5 390	1 762	3 357
Brokers' commissions	-2	-3	-1	-2
Gains/losses on futures	-195	-145	91	144
Gains/losses on options	-7	-3	8	10
Gains/losses on equity swaps	10	-13	8	91
Gains/losses on interest rate swaps	-146	440	619	784
Other operating expenses	-28	-44	-14	-33
Net return	**11 106**	**23 046**	**-828**	**-7 825**

1.3 Government Petroleum Insurance Fund

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

	30.06.05	31.12.05	30.06.06
Short-term assets/debt, incl. deposits in foreign banks	-240 697	32 040	-990 679
Money market investments in foreign financial institutions against collateral in the form of securities	3 339 559	2 854 221	2 104 500
Borrowing from foreign financial institutions against collateral in the form of securities	-494 126	0	-14 156
Foreign fixed income securities	10 850 021	11 312 548	12 491 997
Adjustment of forward contracts and derivatives	-1 168	-983	-1 664
Total portfolio before management remuneration	**13 453 589**	**14 197 825**	**13 859 999**
Management remuneration due	-4 060	-8 222	-4 156
Total portfolio	**13 449 529**	**14 189 603**	[15] **13 585 843**

Off-balance-sheet items (in thousands of NOK)	30.06.05	31.12.05	30.06.06
Derivatives and forward contracts sold	1 252 083	1 149 753	921 630
Derivatives and forward contracts purchased	1 250 928	1 148 770	919 964

[15] There is a difference in the market value used in the return calculations (see Table 5-1) and the accounts to 30 June 2006. This is due primarily to a transfer between the investment portfolio and the insurance portfolio not yet settled

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

	30.06.05	31.12.05	31.03.06	30.06.06
Interest income	269 542	559 657	150 514	299 431
Exchange rate adjustments	110 509	325 078	-238 604	-455 986
Unrealised gains/losses on securities	146 285	-18 437	-247 140	-370 349
Realised gains/losses on securities	25 176	15 285	-2 778	-36 248
Gains/losses on derivatives	639	811	-231	-683
Other operating expenses	-1	-6	5	5
Net return	**552 149**	882 309	-338 235	-563 830
Accrued management remuneration	-4 060	-8 222	-2 141	-4 156
Net return	**548 089**	**874 087**	**-340 376**	**-567 986**

Appendix 2: Mandate and benchmark portfolio

1. Government Pension Fund – Global

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

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

In the revised national budget of 2006 the Ministry of Finance announced its decision to change the regional weights for the Funds investments. The new weights for the equity-benchmark are Asia/Oceania 15 per cent, Europe 50 per cent, and Americas/Africa 35 per cent. The composition of the fixed-income benchmark is Asia/Oceania 5 per cent, Europe 60 per cent, and Americas 35 per cent. The upper and lower limit for the actual regional weights are ten percentage points above and then percentage points below the regional weights of the benchmark. The lower limit for fixed-income investments in Asia/Oceania is 0 per cent. The phasing-in has been carried out over time, and was completed in third quarter 2006.

The Ministry of Finance has adopted ethical guidelines for the fund's investments. These guidelines require that ethical issues be addressed through three mechanisms: *corporate* *governance* to promote long-term financial returns, *negative screening* and *exclusion of companies* to avoid complicity in unacceptable violations of fundamental ethical norms. Norges Bank is responsible for corporate governance in accordance with the guidelines from the Ministry of Finance. Norges Bank's Executive Board has approved principles of corporate governance. The government has appointed a Council on Ethics which is to advise the Ministry of Finance on negative screening and company exclusions. The Ministry makes the final decision on the exclusion of companies and instructs Norges Bank accordingly. With effect from 31. Mai 2006 the Ministry of Finance decided to exclude Wal-Mart and Freeport from the investment universe of the Fund. The background for the exclusion is explained in the press release dated 6 June 2006 from the Ministry. Appendix 4 shows the list of excluded companies from the investment universe at the end of second quarter 2006.

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

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

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

The strategic benchmark portfolio for the Pension Fund is composed of FTSE equity indices for large and medium-sized companies in 27 countries, and of Lehman Global Aggregate and Lehman Global Real fixed income indices in the currencies of 21 countries. Equities account for 40 per cent of the fund's strategic benchmark portfolio, while fixed income instruments account for 60 per cent. The equity portion of the benchmark consists of equities listed on stock exchanges in Europe (50 per cent), the Americas and Africa (35 per cent), and Asia and Oceania (15 per cent). The regional distribution in the fixed income benchmark is 60 per cent in Europe, 35 per cent in the Americas, and 5 per cent in Asia and Oceania.

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

Benchmark portfolio on 30 June 2006. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**40.6**	**60.0**	**59.4**
Belgium		0.7		
Finland		0.9		
France		8.0		
Greece		0.5		
Ireland		0.5		
Italy		3.2		
Netherlands		2.6		
Portugal		0.3		
Spain		3.1		
Germany		5.3		
Austria		0.3		
Euro area (EUR)		*25.5*		*48.1*
UK (GBP)		17.4		9.3
Denmark (DKK)		0.5		0.7
Switzerland (CHF)		5.0		0.5
Sweden (SEK)		1.8		1.1
Total Europe	**50.0**	**50.1**	**60.0**	**59.8**
US (USD)		31.8		32.2
Brazil		0.7		
Canada (CAD)		2.1		2.0
Mexico		0.4		
South Africa		0.6		
Total Americas and Africa	**35.0**	**35.5**	**35.0**	**34.2**
Australia (AUD)		2.1		0.2
Hong Kong		1.1		
Japan (JPY)		8.7		5.5
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.3		0.2
South Korea		1.3		
Taiwan		1.0		
Total Asia and Oceania	**15.0**	**14.4**	**5.0**	**6.0**

A substantial difference between the actual benchmark and the strategic benchmark over time will trigger full rebalancing. This kind of rebalancing did not occur in the second quarter of 2006.

The table above shows the weights in the actual benchmark on 30 June 2006. The weights in the fixed income benchmark apply to the currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

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

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

Norges Bank's Executive Board lays down guidelines for the management of the foreign exchange reserves and has delegated responsibility to the Governor for issuing supplementary rules. NBIM manages the investment portfolio in accordance with guidelines laid down by the Executive Board and the Governor of Norges Bank. The Executive Board's guidelines are available on Norges Bank's website. In November 2005, the Executive Board decided to increase the equity portion of the investment portfolio from 30 to 40 per cent. The phasing in of this higher proportion of equities was ongoing during the first quarter and was completed on 30 April 2006. With effect from 1 January 2006, the Executive Board decided that the maximum ownership stake in any one company be raised from three to five per cent.

If combined holdings in the foreign exchange reserves and the Government Pension Fund – Global exceed five per cent, a special report must be submitted to the Executive Board. The Executive Board has laid down joint guidelines for corporate governance in the two funds, and has also ruled that companies which the Ministry of Finance has decided to exclude from the Pension Fund should also be excluded from the foreign exchange reserves. With effect from 31. Mai 2006 the Ministry of Finance decided to exclude Wal-Mart and Freeport from the investment universe of the Fund. Appendix 4 shows the list of excluded companies from the investment universe at the end of second quarter 2006.

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 fixed income indices in the currencies of 18 countries. Equities account for 40 per cent of the fund's strategic benchmark portfolio, while fixed income instruments account for 60 per cent. The equity portion of the benchmark consists of equities listed on stock exchanges in Europe (50 per cent), the Americas and Africa (35 per cent), and Asia and Oceania (15 per cent). The regional distribution in the fixed income benchmark is 58 per cent in Europe, 37 per cent in the Americas, and 5 per cent in Asia and Oceania.

The table below shows the weights in the actual benchmark on 30 June 2006. The weights in the fixed income benchmark apply to the currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

Benchmark portfolio on 30 June 2006. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**38.9**	**60.0**	**61.1**
Belgium		0.8		
Finland		0.9		
France		8.1		
Greece		0.5		
Ireland		0.6		
Italy		3.2		
Netherlands		2.7		
Portugal		0.3		
Spain		3.2		
Germany		5.4		
Austria		0.3		
Euro area (EUR)		*25.9*		*47.3*
UK (GBP)		17.7		9.0
Denmark (DKK)		0.5		0.7
Switzerland (CHF)		5.1		0.6
Sweden (SEK)		1.8		1.1
Total Europe	**50.0**	**50.9**	**58.0**	**58.7**
US (USD)		30.9		33.0
Brazil		0.7		
Canada (CAD)		2.0		3.2
Mexico		0.4		
South Africa		0.6		
Total Americas, Middle East and Africa	**35.0**	**34.5**	**37.0**	**36.2**
Australia (AUD)		2.1		0.2
Hong Kong		1.1		
Japan (JPY)		8.7		4.8
New Zealand (NZD)		0.1		
Singapore (SGD)		0.3		
South Korea		1.3		
Taiwan		1.0		
Total Asia and Oceania	**15.0**	**14.5**	**5.0**	**5.0**

3. Government Petroleum Insurance Fund

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

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

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

Benchmark portfolio on 30 June 2006. Per cent

Currency	Strategic benchmark portfolio	Actual benchmark portfolio
EUR	50.0	50.3
GBP	15.0	15.1
USD	35.0	34.6
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 17 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

Date	Reason	Company
26 April 2002	Production of anti-personnel landmines	Singapore Technologies, Singapore
31 May 2005	Exploration of petroleum resources offshore Western Sahara	Kerr-McGee Corporation, US
31 August 2005	Manufacture of key components for cluster bombs	Alliant Techsystems Inc., US EADS Company N.V., Netherlands EADS Finance B.V., Netherlands 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	Breaches of human and labour rights (1) Damage to the environment (2)	Wal-Mart Stores Inc. (1) Wal-Mart de Mexico S.A (1) Freeport-McMoRan Copper and Gold Inc. (2)

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

The return calculations are based on internationally recognised standards.

All financial instruments are valued at market prices, and the index suppliers' prices are generally used for securities in the benchmark indices.[16] Bloomberg's prices are used for equities and fixed income securities that are not in the benchmark index. In addition, prices from Reech are used for some fixed income derivatives, and prices from some equity markets are taken directly from the local stock exchanges.

Interest expenses and income, dividends and withholding tax are accounted for on an accruals basis when calculating returns. Income and expenses relating to transactions not yet settled are recognised on the trade date.

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

The return is calculated in both NOK and local currency. The NOK return is calculated on the basis of market values in local currency translated into NOK using WM/Reuters exchange rates.[17]

The return in local currency is obtained by calculating the geometrical difference between the fund's return in NOK and the return on the currency basket. The currency basket corresponds to the currency weights in the benchmark portfolio, and the return indicates

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

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 calculated in the models and market values in the accounts are primarily due to different valuation principles for money market investments. Provisions are also made in the accounts to cover remuneration to Norges Bank as well as accrued income from securities lending.

Norges Bank estimates transaction costs related to phasing in new capital into the Fund. New capital is transferred to the Fund in the form of cash. When the capital is invested in securities (equities and fixed income instruments), both direct and indirect costs will be incurred. In line with normal market practice, Norges Bank has, since the beginning of 2005, used a model that calculates direct and indirect transaction costs separately. Indirect transaction costs comprise three main components: liquidity costs, market impact and opportunity costs. Norges Bank's model calculates transaction costs in the fixed income portfolio using 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 the liquidity of the issuer. In most cases, contributions from these variables are negligible.

Appendix 4: Definition of expected tracking error

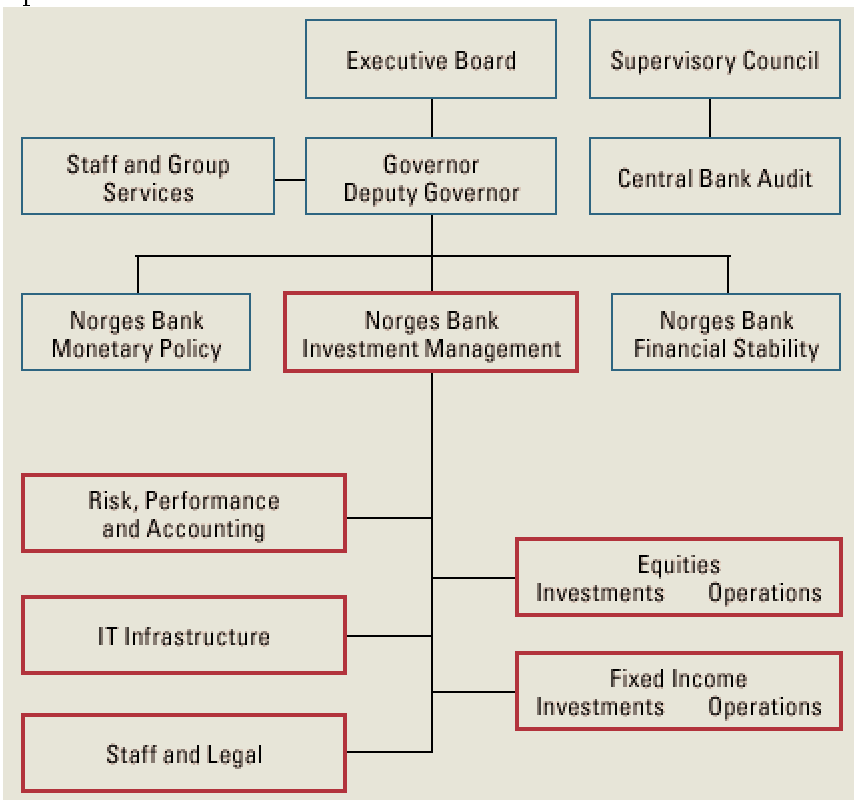
The Ministry of Finance has set the limit for relative market risk in the management of the Pension Fund on the basis of *expected tracking error*. This measure is defined as the expected value of the standard deviation of the difference between the annual return on the actual portfolio and the return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

Appendix 5: Norges Bank Investment Management (NBIM)

NBIM is a separate business area at Norges Bank. The Executive Director of NBIM reports to the Governor of Norges Bank. The Executive Board has overriding responsibility for Norges Bank's operations (cf. organisation chart).

The Supervisory Council is the Bank's overseeing body and adopts the Bank's budget. Norges Bank's Audit Department reports to the Supervisory Council and is responsible for operational auditing of investment management operations. The Office of the Auditor

General is responsible for the final audit of the Government Pension Fund – Global and the Government Petroleum Insurance Fund, and bases its work partly on material from the Audit Department.



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

NBIM has separate business lines for equity and fixed income management. The heads of Equities and Fixed Income are responsible for all portfolio investments and performance, strategic planning and cost management within their respective asset class. Each business line has a Chief Operating Officer who is responsible for support functions, transactions and IT systems. The Chief Operating Officers report both to their respective business line manager and to the Executive Director of NBIM. In addition, three departments which are organisationally independent of the two business lines report directly to NBIM's Executive Director. These departments are responsible for risk measurement, performance measurement, accounting, compliance with investment guidelines, negotiation of legal agreements, personnel policy, IT policy and administrative shared services. At the end of June 2006, NBIM had 132 permanent employees.