NBIM
Norges Bank Investment Management

NBIM Quarterly Performance Report First quarter 2007

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

Norges Bank Investment Management
05/2007

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1. Introduction and key figures

1.1 Upswing in the capital markets

The upswing in prices in the capital markets contributed to a positive 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 return in the first quarter of between 1.4 and 1.5 per cent measured in the relevant currency basket. The Government Petroleum Insurance Fund, which is invested only in fixed income instruments, generated a return of 0.8 per cent.

The upswing in global equity markets continued in the first quarter of 2007. However, the strong growth in prices was interrupted by a downturn in prices at the end of February. The correction was far smaller than the one in May 2006, and prices fell by approximately 6 per cent before the markets rallied. Prices in all of the main markets were higher at the end of the quarter than at the end of 2006. The price of oil and other raw materials rose during the quarter, and companies in the basic materials sector saw the strongest gains. With the exception of IT, prices increased in all sectors. Prices in the bond markets also climbed during the quarter.

Global equity markets have performed strongly over the last four years (see Chart 1-1). Since the beginning of 2003, the returns on the Japanese, European and US markets have been 114, 93 and 71 per cent respectively. An index of equities in 24 emerging markets rose 216 per cent in the same period.

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

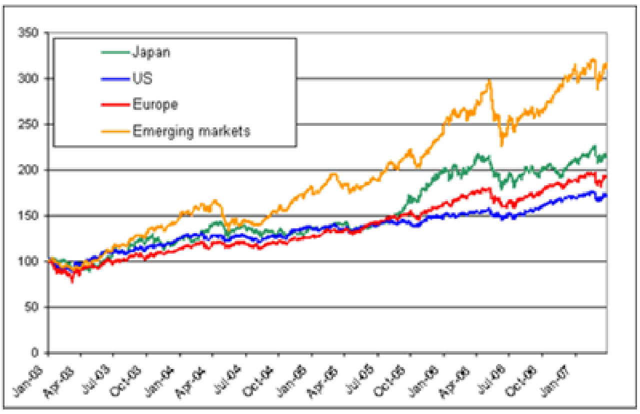
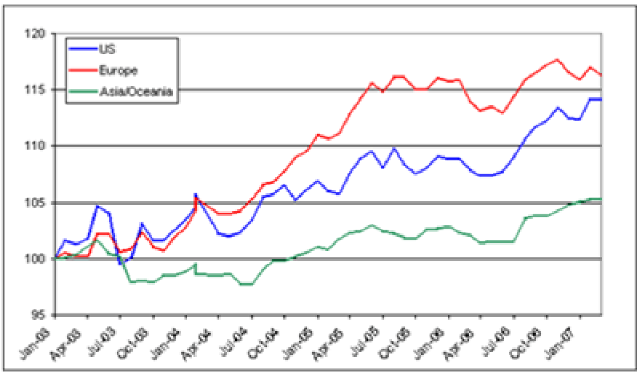


Chart 1-2 shows returns on the bond markets measured as the change in the Lehman Global Aggregate government bond indices since 1 January 2003. The indices for Europe, America and Asia/Oceania rose by 16.3, 14.1 and 5.3 per cent respectively during the period.

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



Return of 1.48 per cent on the Government Pension Fund – Global

The return on the Government Pension Fund – Global in the first quarter of 2007 was 1.48 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 2.59 per cent, and the return on the fixed income portfolio was 0.74 per cent. The return on the Pension Fund's portfolio was 0.09 percentage point higher 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 1,876.2 billion.

Return of 1.43 per cent on the investment portfolio

The return on the investment portfolio in Norges Bank's foreign exchange reserves in the first quarter of 2007 was 1.43 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 2.33 per cent, and the return on the fixed income portfolio was 0.80 per cent. The return on the investment portfolio was 0.02 percentage point higher than the return on the benchmark portfolio defined by Norges Bank's Executive Board. The market value of the portfolio at the end of the quarter was NOK 224.3 billion.

Return of 0.81 per cent on the Government Petroleum Insurance Fund

The return on the Government Petroleum Insurance Fund in the first quarter of 2007 was 0.81 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. The return on the Petroleum Insurance Fund's portfolio was 0.06 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Petroleum and Energy. The market value of the portfolio at the end of the quarter was NOK 15.1 billion.

1.2 Total assets under management NOK 2,119 billion

NOK 93.4 billion was transferred to the Government Pension Fund – Global in the first quarter. This is the largest amount transferred during a single quarter in the history of the fund. There was a return on investment of NOK 30 billion, while a stronger krone in relation to the investment currencies reduced the market value of the portfolio by NOK 31 billion. A Assets under management totalled NOK 2,119 billion at the end of the first quarter of 2007 (see Table 1-1).

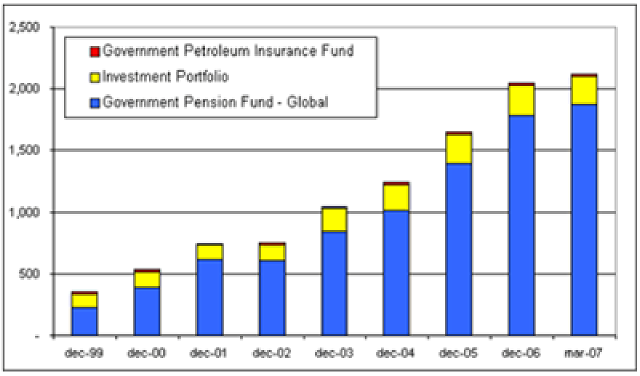
Table 1-1: Return in the first quarter and market value on 31 March 2007

	Return in currency		Return in NOK			NOK
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return	Market value in billions
Government Pension Fund						

– Global	1.48	1.39	-0.05	-015	0.09	1 876
Investment portfolio	1.43	1.41	-0.11	-0.13	0.02	224
Government Petroleum Insurance Fund	0.81	0.74	-0.67	-0.74	0.06	15
Total						**2 119**[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 Excess return of NOK 1.8 billion in the first 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. There was a positive excess return on all of the portfolios managed by NBIM in the first quarter. The aggregate excess return on the portfolios managed by NBIM was NOK 1.8 billion.

Chart 1-4: Cumulative gross excess return from 1 January 1998 to 31 March 2007. In millions of NOK

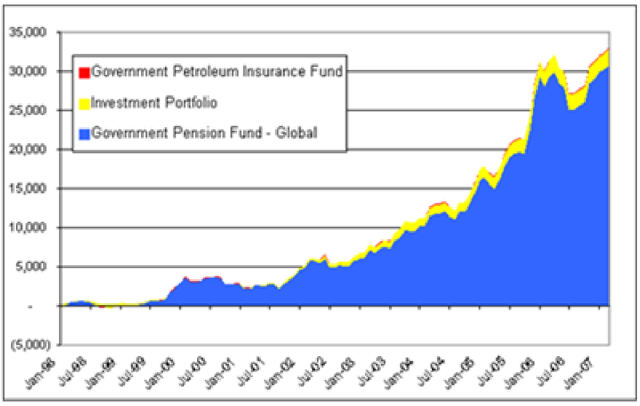


Chart 1-4 shows the cumulative excess return since the formation of NBIM in January 1998. The aggregate excess return during the period is NOK 33.0 billion. This breaks down into NOK 30.7 billion on the Government Pension Fund – Global, NOK 2.2 billion on the investment portfolio, and NOK 0.1 billion on the Government Petroleum Insurance Fund.

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 31 March 2007. Annualised

	Last 12 months	Last 3 years	Last 5 years	Since 01.01.98
Return/excess return[2]				
Pension Fund	5.57	5.95	4.49	5.75
Benchmark portfolio	5.52	5.43	4.03	5.27
Excess return	0.05	0.52	0.46	0.48
Investment portfolio	5.45	4.86	4.91	5.52
Benchmark portfolio	5.38	4.66	4.64	5.32
Excess return	0.07	0.21	0.27	0.19
Insurance Fund	3.12	1.16	4.97	3.27
Benchmark portfolio	3.03	1.04	4.83	3.19
Excess return	0.09	0.13	0.14	0.08
Standard deviation[3]				
Pension Fund	8.55	7.47	9.23	8.41

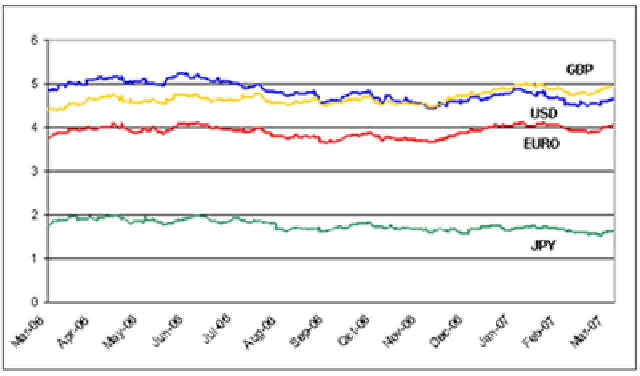
Investment portfolio	8.59	7.27	8.00	7.06
Insurance Fund	7.52	6.52	7.13	6.43
Tracking error[4]				
Pension Fund	0.28	0.34	0.31	0.37
Investment portfolio	0.16	0.12	0.17	0.23
Insurance Fund	0.05	0.06	0.07	0.15
Information ratio (IR)[5]				
Pension Fund	0.16	1.55	1.51	1.28
Investment portfolio	0.45	1.70	1.61	0.86
Insurance Fund	1.75	2.01	2.00	0.54

2.Market developments

Fixed income markets

There were only small movements in bond yields in the main markets viewed over the first quarter as a whole. Ten-year government bond yields fell by about 0.05 percentage points in both the US and Japan, while yields in the euro area and the UK rose by 0.12 and 0.18 percentage points respectively (see Chart 2-1).

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



The upswing in the global economy in recent years continued in the first quarter of 2007. Growth accelerated in the largest European economies. Activity levels in the Chinese economy are still high, with GDP growth in excess of 10 per cent. Growth in the US has slowed slightly, due mainly to a weaker housing market.

Healthy growth in the global economy contributed to an increase in bond yields in the largest markets at the beginning of the year. This trend reversed in February, due partly to rising oil prices and greater uncertainty about the impact of a weaker housing market in the US and softer indicators for the US economy. The increase in bond prices was also due to investors moving out of equities and into government bonds in connection with the downturn in global equity markets. From mid-March, yields recovered somewhat as the equity markets picked up again.

The decreasing rate of growth in the US is related to a stagnating housing market. Both sales of homes and growth in house prices have been falling, and there has been a decrease in housing starts. However, the labour market has continued to perform strongly, and unemployment has fallen. This has helped growth in private consumption to hold up. Inflation is slightly higher than the Federal Reserve's target, and the Federal Reserve has kept its key interest rates unchanged since mid-2006 despite the falling rate of economic growth.

The countries in the euro area continue to undergo an economic upswing fuelled largely by export growth and increased investment. The German export sectors have made a particular contribution to the upswing. Investment growth in the euro countries has accelerated, while private consumption has grown more moderately. Employment in the euro area has risen, and unemployment has fallen by a percentage point in the last year. The European Central Bank raised its key interest rate by 25 basis points to 3.75 per cent at the beginning of March.

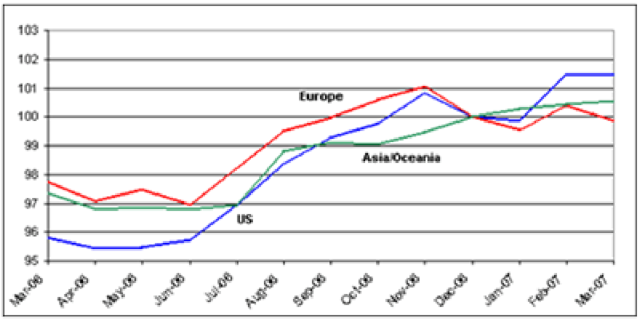
Growth in the UK economy accelerated in 2006 and continued to do so into 2007. The upswing is being driven by strong domestic demand. Investment activity has increased as a result of good profitability in industry, but there has been a slightly more moderate increase in domestic consumption. Unemployment is low, and there has been a slight increase in the rate of inflation in recent months. The influx of foreign labour grew after the enlargement of the EU in 2004 and has probably helped to alleviate the pressure in the labour market and prevent an increase in wage growth. The Bank of England has been raising interest rates gradually since August 2006. Its key rate was raised a further 25 basis points in January and stood at 5.25 per cent at the end of the quarter.

Economic growth in Japan remains strong. It is being driven primarily by a strong export sector and buoyant domestic demand. Investment growth in particular has been high. There are few signs of this economic growth having led to higher inflation in Japan, and there was actually a slight fall in inflation in the first quarter. The Bank of Japan raised its key rate by 25 basis points to 0.5 per cent in the first quarter.

Growth in the Chinese economy remains strong and reached double digits for the fourth year in a row in 2006. There is strong growth in industrial output and continued growth in the export industries. There was a slight increase in consumer prices in the first quarter, and the People's Bank of China raised its key rate by 27 basis points in March. The central bank also increased the deposit reserve ratio during the quarter.

Chart 2-2 shows movements in the Lehman Global Aggregate government bond indices in the main markets over the last 12 months. The first quarter of 2007 brought returns of -0.1 per cent in Europe, 0.6 per cent in Asia, and 1.4 per cent in the US.

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



The spread between yields on corporate and government securities (credit spread) is small and fell further until mid-February, before climbing again until the end of the quarter. This increase was related to the sharp downturn in global equity markets, which prompted greater demand for lower-risk securities. The increase in the credit spread was relatively modest by historical standards.

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

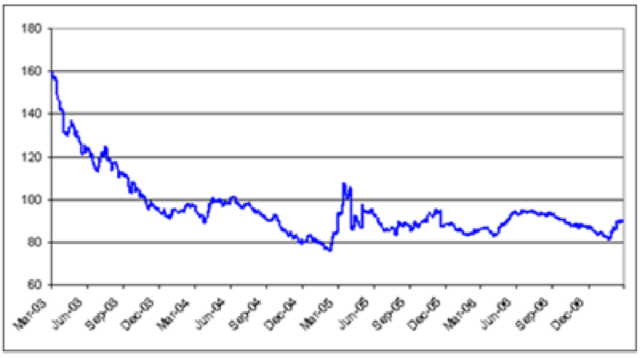
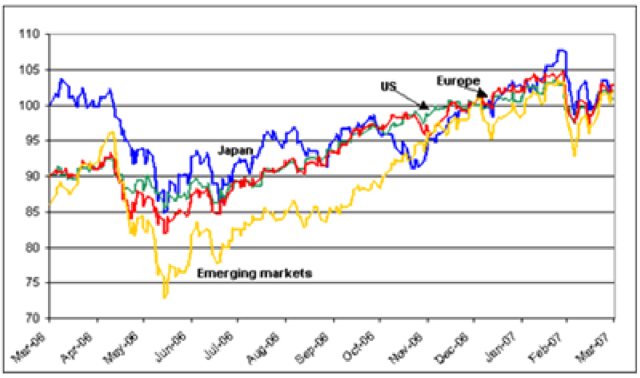


Chart 2-3 shows movements in the spread between corporate bonds with a good credit rating and government bonds in the US over the last four years.

Equity markets

Global equity prices gained until mid-February, before falling sharply until the end of the first week in March, and then trended upwards 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 (31.12.06 = 100). In local currencies



Over the quarter as a whole, prices in Europe, Japan, the US and emerging markets rose by 2.8, 2.0, 0.9 and 2.1 per cent respectively. Prices fluctuated most in emerging markets and in the Japanese equity market.

After a long period of relatively low volatility and gradually rising prices, equity prices fell significantly at the end of February. The global downturn was triggered by a sharp drop on the Shanghai Stock Exchange. At their lowest, prices were approximately 6 per cent down in developed markets and almost 10 per cent down in emerging markets.

This drop in equity prices was probably related to increased uncertainty about the growth outlook in the US and fears of negative effects on the global economy. This may have contributed to some players choosing to take their profits after the significant upswing in prices in the preceding months. After a brief period of stable prices, the markets rallied, and much of the downturn was reversed in the second half of March.

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 first quarter of 2007. With the exception of IT, there was a positive return in all of the main sectors in the first quarter. Basic Materials performed particularly well, but sectors such as Utilities and Industrials also saw strong price growth.

Table 2-1: Return on the main sectors and the ten largest sub-sectors of the FTSE All-World Index in the first quarter of 2007. Measured against USD, NOK and the benchmark portfolio's currency basket. Per cent

	USD	NOK	Currency basket
Oil & Gas	**0.37**	**-1.60**	**-0.09**
Oil & Gas Producers	-0.25	-2.21	-0.71
Basic Materials	**10.42**	**8.25**	**9.91**
Industrials	**5.10**	**3.04**	**4.62**
Consumer Goods	**3.61**	**1.58**	**3.13**
Health Care	**1.10**	**-0.89**	**0.63**
Pharmaceuticals & Biotechnology	0.00	-1.96	-0.46
Consumer Services	**4.15**	**2.10**	**3.67**
General Retailers	3.83	1.79	3.35
Media	1.00	-0.98	0.54
Telecommunications	**3.83**	**1.79**	**3.35**
Fixed Line Telecommunications	3.91	1.87	3.43
Utilities	**5.78**	**3.71**	**5.29**
Financials	**0.46**	**-1.51**	**0.00**
Banks	0.32	-1.65	-0.14
Nonlife Insurance	-0.13	-2.09	-0.59
General Financial	-1.52	-3.45	-1.97
Technology	**-1.96**	**-3.89**	**-2.42**
Software & Computer Services	-2.10	-4.02	-2.55
Hardware & Equipment	-1.89	-3.82	-2.35
Total[7]	**2.46**	**0.45**	**1.99**

3. Government Pension Fund – Global

Key figures for the first quarter of 2007

- Market value NOK 1,876.2 billion on 31 March
- Return in international currency:
  - Overall: 1.48 per cent
  - Equity portfolio: 2.59 per cent
  - Fixed income portfolio: 0.74 per cent
- Excess return 0.09 percentage point
- Annualised management costs (excluding performance-based fees) 0.07 per cent of assets under management
- Transfers of new capital NOK 93.4 billion
- Eight new external equity mandates
- One new external fixed income mandate

The fund's market value

The fund's market value was NOK 1,876.2 billion at the end of the first quarter, an increase of NOK 92.5 billion during the quarter. New capital equivalent to NOK 93.4 billion was transferred to the fund. This is the largest amount transferred during a single quarter in the history of the fund. There was a positive return on investment of NOK 26.7 billion, while a stronger krone in relation to the investment currencies decreased the value of the fund by NOK 27.6 billion. A change in the krone exchange rate has no effect, however, on the fund's international purchasing power.

Table 3-1 shows the market value of the fund at the end of the last five quarters and the change in market value in the first quarter of 2007 due to transfers of new capital, the return on the fund 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.

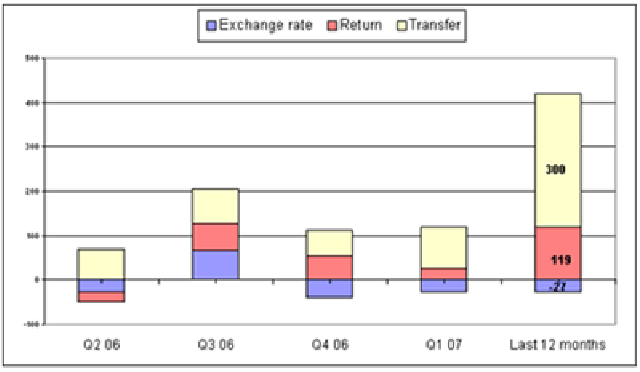
Table 3-1: Changes in the fund's market value over the last 12 months. In millions of NOK

	Equity management	Fixed income management	Total
31 March 2006	606 890	877 019	1 483 909

30 June 2006	609 879	895 143	1 505 022
30 September 2006	687 887	1 024 385	1 712 272
31 December 2006	**725 922**	**1 057 761**	**1 783 683**
Transfers of new capital	19 142	74 276	93 419
Return on investment	18 678	8 006	26 684
Change in krone value	- 11 107	- 16 483	- 27 589
31 March 2007	**752 636**	**1 123 561**	**1 876 197**

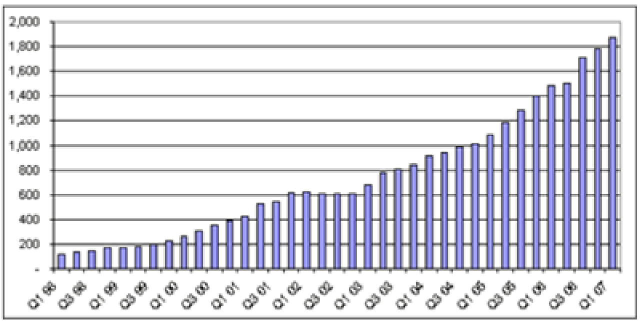
The fund has grown by NOK 392 billion in the last 12 months (see Chart 3-1). NOK 299 billion has been transferred to the fund, the return on the fund has been NOK 119 billion, and a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 26 billion. The chart shows that a weaker krone increased the value of the fund in the third quarter of 2006, while movements in the krone reduced the value of the fund in each of the other quarters.

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



Since 1 January 1998, the fund has grown by NOK 1,763 billion (see Chart 3-2). NOK 1,428 billion has been transferred to the fund during the period, and the return on the fund measured in international currency has increased the value of the fund by NOK 455 billion, while a stronger krone in relation to the investment currencies has reduced the value of the fund by NOK 120 billion.

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



Return on the fund

The return on the fund in the first quarter of 2007 was 1.48 per cent measured in terms of the currency basket corresponding to the composition of the fund's benchmark portfolio. There was a positive return in each of the three months in the quarter. Measured in terms of the currency basket, the quarter as a whole brought a return on the equity portfolio of 2.59 per cent and a return on the fixed income portfolio of 0.74 per cent.

Measured in NOK, the aggregate return in the first quarter was -0.05 per cent. The lower return in NOK terms is due to the approximately 1.5 per cent appreciation of the krone against the currencies in the benchmark portfolio during the quarter. It was mainly in February 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 first quarter measured in various currencies.

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

	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
January	0.50	0.46	0.27	0.22	0.05
February	0.36	0.34	-0.70	-0.72	0.02
March	0.61	0.58	0.39	0.36	0.03

Q1	**1.48**	**1.39**	**-0.05**	**-0.15**	**0.09**

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

	Equities	Fixed income	Total
Fund's currency basket	2.59	0.74	1.48
Import-weighted currency basket	3.25	1.39	2.13
USD	3.07	1.21	1.95
EUR	2.10	0.26	0.99
NOK	1.04	-0.78	-0.05

The return achieved by Norges Bank on the actual portfolio is measured in relation to the return on the benchmark portfolio defined by the Ministry of Finance. The difference between the return figures is the gross excess return achieved by Norges Bank. In the first quarter, the return on the fund was 0.09 percentage point higher than the return on the benchmark portfolio, which equates to approximately NOK 1.7 billion. Internal fixed income and equity management generated the largest excess return.

Over the last 12 months, the cumulative excess return has been 0.05 percentage point. Excess returns on investment management are usually assessed over a longer time period than one year. The red line in Chart 3-3 shows developments in the three-year rolling excess return over the last three years. At the end of the first quarter of 2007, the annualised excess return based on figures for the last three years was 0.52 percentage point.

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

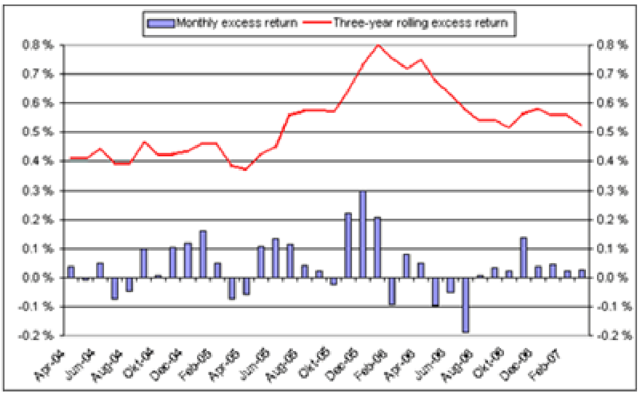


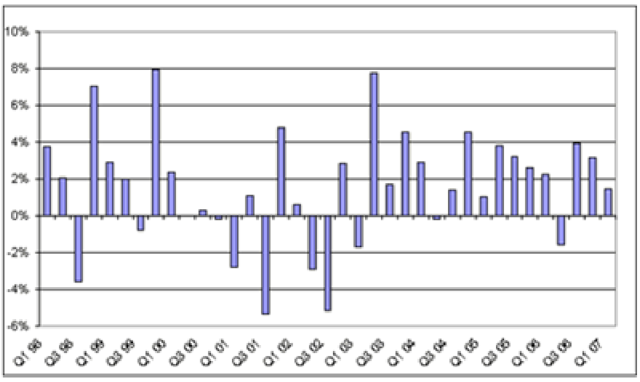
Table 3-4 shows the three-year annualised excess return broken down by asset class and between external and internal management. Equity management as a whole contributed around 62 per cent of the excess return. Internal equity and fixed income management contributed clearly more than external management.

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

	External management	Internal management	Total	Excess return within each asset class
Equity management	0.13	0.19	0.32	0.81
Fixed income management	0.04	0.16	0.20	0.32
Total	**0.17**	**0.35**	**0.52**	

Transaction costs are incurred when new capital is phased into the fund. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital at NOK 162.4 million in the first quarter of 2007. This equates to 0.17 per cent of the total amount transferred, i.e. NOK 93.4 billion, and 0.01 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 1.52 per cent. There has been a positive return in 27 out of 37 quarters. Chart 3-4 shows the quarterly returns.

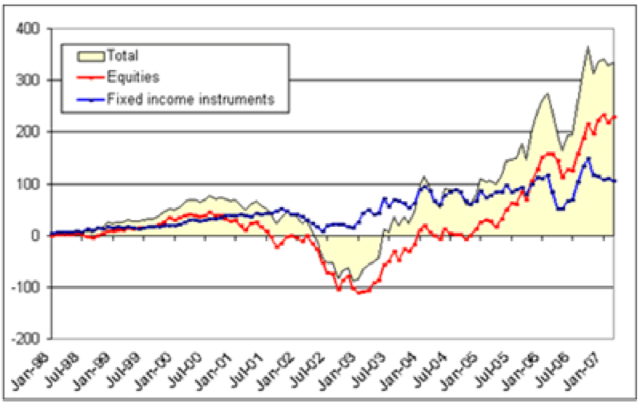
Table 3-5: Annual rates of return on the fund up to the end of the first quarter of 2007 measured in terms of the benchmark portfolio's currency basket. Per cent per year

	Gross annual return	Annual inflation[8]	Annual management costs	Annual net real return	Annual gross excess return
Since 01.01.97	6.48	1.75	0.09	4.56	0.46
Since 01.01.98	6.21	1.75	0.09	4.29	0.48
Since 01.01.99	5.84	1.85	0.09	3.83	0.52
Since 01.01.00	4.96	1.93	0.10	2.88	0.42
Since 01.01.01	5.37	1.92	0.10	3.29	0.45
Since 01.01.02	6.93	2.06	0.10	4.67	0.51
Since 01.01.03	9.88	2.09	0.10	7.52	0.57
Since 01.01.04	9.06	2.25	0.10	6.55	0.57
Since 01.01.05	9.12	2.20	0.10	6.67	0.58
Since 01.01.06	7.57	2.10	0.10	5.25	0.20

Since 1997, the fund has generated an annualised annual gross return of 6.5 per cent. Once management costs and inflation are deducted, the annual net real return is 4.6 per cent. Table 3-5 shows the annualised return up to the end of the first quarter of 2007 since 1 January in each of the years from 1997 to 2006. The right-hand column in the table shows that the gross excess return has averaged 0.46 percentage point per year since 1 January 1997.

The cumulative return on the fund from 1 January 1998 until the end of the first quarter of 2007 was NOK 335 billion. This is shown by the yellow area in Chart 3-5. The equity portfolio, which makes up around 40 per cent of the fund, accounted for NOK 229 billion, or 68 per cent, of the cumulative return on the fund.

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

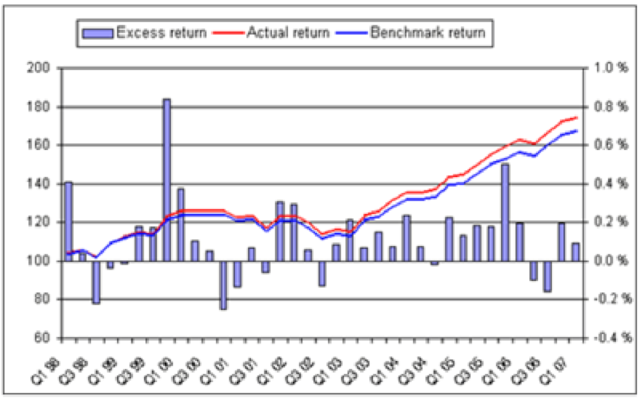


The red line in the chart shows the cumulative return on the equity portfolio. Between August 2001 and November 2004, the cumulative return on the equity portfolio was negative. It is the strong upswing in global equity prices over the last four years that accounts for the return on the fund. The average purchase price of equity investments was 32.9 per cent lower than their market value at the end of the first quarter.

The blue line in the chart shows that the return on the fixed income portfolio has been far more stable. The cumulative return on the fixed income portfolio was NOK 106 billion at the end of the quarter. The average purchase price of fixed income investments was 12.8 per cent lower than their market value at the end of the first quarter.

Since 1998, the cumulative return on the benchmark portfolio has been 67.4 per cent, whereas the actual return has been 74.6 per cent (see Chart 3-6). The cumulative gross excess return measured in terms of the currency basket has been 7.2 percentage points, or NOK 30.7 billion.

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

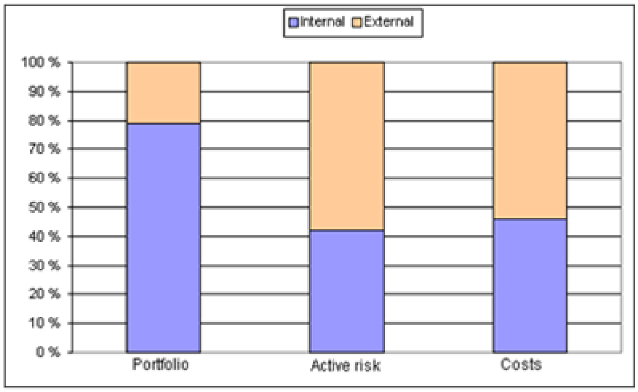


Internal and external management

At the end of the first quarter, 21 per cent of the fund was managed by external investment managers. Costs associated with external management accounted for 54 per cent of total management costs. External management accounted for approximately 58 per cent of the 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 first quarter amounted to 0.21 and 0.05 per cent respectively of assets under management. External managers with specialist expertise are used to achieve sufficient breadth and scope in active management.

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



Fixed income management

The market value of the fixed income portfolio increased by NOK 65.8 billion to NOK 1,123.6 billion in the first quarter. NOK 74.3 billion was transferred to the portfolio, and there was a positive return on investment of NOK 8.0 billion, while a stronger krone decreased the value of the portfolio by NOK 16.5 billion. At the end of the quarter, about 89 per cent of the fixed income portfolio was managed internally by Norges Bank.

Capital was transferred to one new mandate assigned to an external manager in the first quarter of 2007: Diversified Credit Investments LLC was awarded a specialist mandate in the US.

Equity management

The market value of the equity portfolio was NOK 752.6 billion at the end of the first quarter, an increase of NOK 26.7

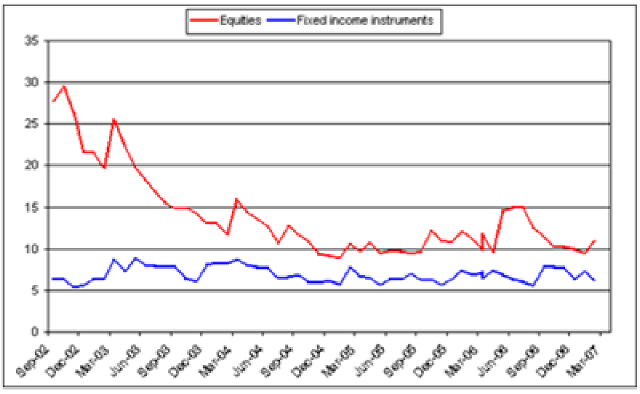
billion during the quarter. NOK 19.1 billion was transferred to the portfolio, and there was a positive return on investment of NOK 18.7 billion, while a stronger krone decreased the value of the portfolio by NOK 11.1 billion. At the end of the quarter, about 65 per cent of the portfolio was managed internally by Norges Bank.

Capital was transferred to eight new mandates assigned to an external equity manager during the quarter: Wellington Management Company LLP was awarded all eight mandates in different sectors. This was part of the restructuring of two existing mandates with the same manager.

Market risk

Fluctuations in the global equity and fixed income markets lead to variations in the market value of the fund. The fund's expected volatility is a statistical measure which estimates the "normal" variations in the market value of the fund over the next year. As illustrated in Chart 3-8, the equity portfolio's absolute volatility increased slightly in the first quarter of 2007, but was still well below the levels seen in late 2002 and early 2003. When it comes to the fixed income portfolio, there were far smaller changes in market risk during the period. This stability reflects the way that prices in the fixed income markets normally fluctuate far less than equity prices.

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

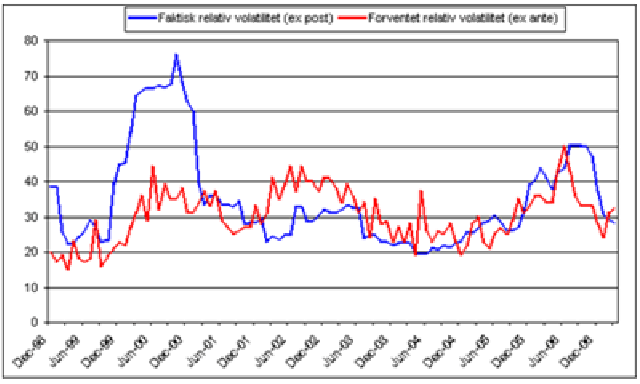


The Ministry of Finance has set a limit on the extent to which the fund's portfolio may differ from the benchmark portfolio. This has been accomplished by setting a limit for the expected deviation between the returns on the actual portfolio and the benchmark portfolio. This limit for relative market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

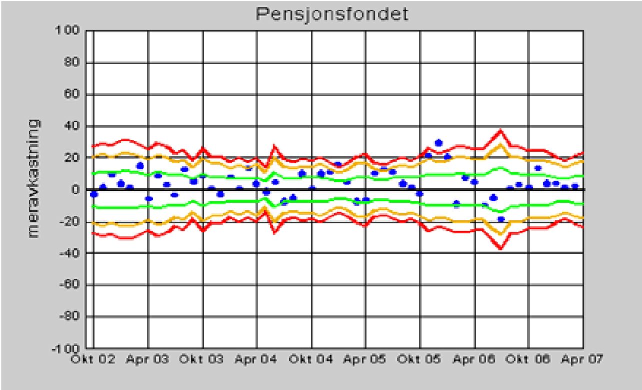
The red line in Chart 3-9 shows developments in expected tracking error since December 1998. The chart shows that there has been a slight decrease in expected tracking error since mid-2006. Expected tracking error was 32 basis points at the end of the quarter. In retrospect, we can use the variation 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 (blue diamonds) and the confidence interval measured by the standard deviation.

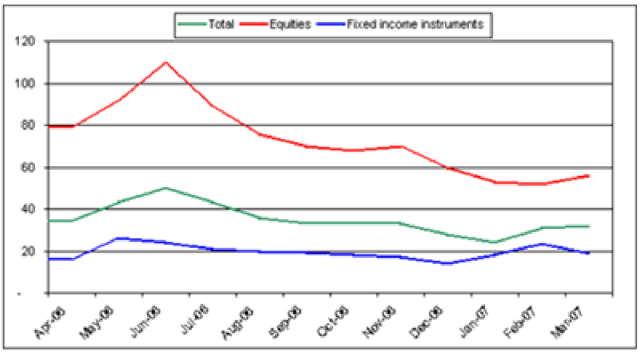
Chart 3-10: Confidence interval for risk and realised excess return. Basis points



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 3-11 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 an indicator of skill in active management. It is the ratio of gross excess return for the year to relative market risk (measured here as the actual standard deviation of the gross excess return). The average information ratio for the fund from the first quarter of 1998 to the first quarter of 2007 was 1.28, annualised. Table 3-6 provides a historical overview of the information ratio for the fund as a whole and for each asset class.

Table 3-6: Information ratios

Period	Fund	Equities	Fixed income
Last 12 months	0.16	-0.32	2.05
Since 2002	1.64	0.96	3.11
Since 1999	1.36	1.05	2.08

Compliance with management guidelines

Through the Regulation on the Management of the Government Pension Fund – Global and guidelines for investments, the Ministry of Finance has set limits for risk and exposure . These limits and the portfolio's actual exposure are shown in Table 3-7. There were no breaches of the investment guidelines during the quarter.

Table 3-7: Risk and exposure limits stipulated in the regulation and guidelines

	Risk	Limits	Actual				
			31.03.06	30.06.06	30.09.06	31.12.06	31.03.07
§5	Market risk	Maximum tracking error 1.5 percentage point	0.34	0.50	0.33	0.28	0.32
§4	Asset mix	Fixed income 50-70%	59.1	59.5	59.8	59.3	59.9
		Equities 30-50%	40.9	40.5	40.2	40.7	40.1
§4	Market distribution, equities[10]	Europe 40-60%	48.5	49.0	49.1	50.1	49.7
		Americas and Africa 25-45%		36.1	35.5	34.4	35.0
		Asia and Oceania 5-25%		14.9	15.4	15.5	15.3
		Americas, Africa, Asia and Oceania 40-60%	51.5				

	Currency distribution, fixed income [10]	Europe 50-70%	55.5	60.8	59.8	60.4	59.7
		Americas and Africa 25-45%	34.2	32.6	34.7	34.3	35.0
		Asia and Oceania 0-15%	10.4	6.6	5.5	5.3	5.3
§6	Ownership stake	Maximum 5% of a company	3.9	4.7	4.5	4.5	4.5

Table 3-8 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).

Table 3-8: The bond portfolio on 31 March 2007 by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	Percentage of total	Rating	Percentage of total
Aaa	54.6	AAA	51.4
Aa	16.4	AA	12.2
A	15.7	A	17.9
Baa	8.0	BBB	8.6
Ba	0.5	BB	0.8
Lower	0.3	Lower	0.2
No rating	4.5	No rating	8.9

Costs

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

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

Table 3-9: Management costs in the first quarter of 2007. In thousands of NOK and as a percentage of the average portfolio

	Q1 2007		Q1 2006	
	NOK 1 000	Per cent	NOK 1 000	Per cent
Internal costs, equity management	64 440		51 866	
Custodian and settlement costs	22 725		23 870	
Total costs, internal equity management	**87 165**	**0.08**	**75 736**	**0.08**
Internal costs, fixed income management	66 211		43 968	
Custodian and settlement costs	26 112		18 262	
Total costs, internal fixed income management	**92 323**	**0.04**	**62 230**	**0.03**
Minimum fees to external managers	125 118		87 929	
Performance-based fees to external managers	42 905		131 406	
Other costs, external management	38 660		28 284	
Total costs, external management	**206 683**	**0.21**	**247 619**	**0.33**
Total management costs	**386 171**	**0.09**	**385 585**	**0.11**
Total management costs excluding performance-based fees	**343 266**	**0.08**	**254 179**	**0.07**

Annualised, costs in the first quarter of 2007 amounted to 0.09 per cent of the average market value of the fund (see Table 3-9). Excluding performance-based fees to external managers, costs amounted to 0.08 per cent of the market value of the fund. By way of comparison, costs in the first quarter of 2006 amounted to 0.07 per cent of market value. For internal equity management, there was no change in the ratio of costs to assets under management from the first quarter of 2006 to the first quarter of 2007. For internal fixed income management, this ratio increased from 0.03 to 0.04 per cent of market value. The increase in costs for fixed income management is due primarily to the introduction of a new portfolio management system which will enable expansion in the uses of instruments in fixed income management. Several IT projects are also being implemented with a view to reducing operational risk in fixed income management. External costs in relation to assets under management were lower in the first quarter of 2007 than in the first quarter of 2006, due to a substantial drop in performance-based fees to external managers.

Costs are distributed between internal and external management using a cost distribution key for internal costs and custodian costs. External management accounted for approximately 54 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 0.05 per cent, compared with 0.21 per cent for external management.

4. Norges Bank's foreign exchange reserves

Key figures for the first quarter of 2007

Investment portfolio

- Market value NOK 224.3 billion on 31 March
- Return in international currency:
    - Overall: 1.43 per cent
    - Equity portfolio: 2.33 per cent
    - Fixed income portfolio: 0.80 per cent
- Excess return 0.02 percentage point

Buffer portfolio

- NOK 93.4 billion transferred to the Government Pension Fund – Global
- NOK 38.8 billion transferred from the State's Direct Financial Interest in petroleum activities (SDFI)
- NOK 34.4 billion transferred from Norges Bank's own foreign exchange purchases
- Market value NOK 3.2 billion on 31 March
- Return of 0.2 per cent measured in NOK

The investment portfolio's market value

The investment portfolio's market value was NOK 224.3 billion at the end of the first quarter, a decrease of NOK 0.2 billion during the quarter. There was a positive return on investment of NOK 3.2 billion, while a stronger krone against the currencies in which the portfolio is invested reduced its value by NOK 3.4 billion. A change in the krone exchange rate has no effect, however, on the portfolio's international purchasing power.

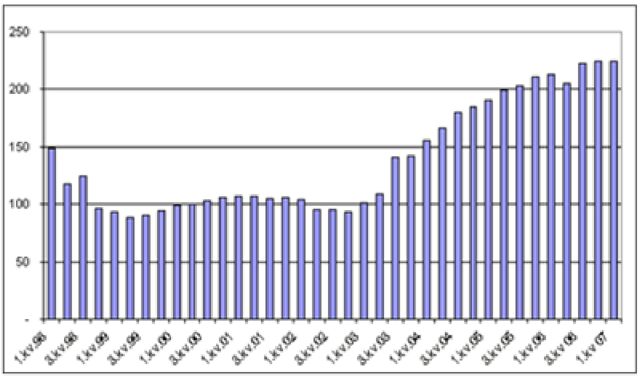
Table 4-1 shows the market value of the portfolio at the end of the last five quarters, and the change in market value in the first quarter of 2007 due to transfers of new capital, the return on the portfolio in international currency, and changes in the international value of the krone .

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

	Equity management	Fixed income management	Total
31 March 2006	83 495 122	129 174 397	212 669 519
30 June 2006	79 754 316	125 933 545	205 687 861
30 September 2006	87 672 298	135 406 787	223 079 085
31 December 2006	**92 142 834**	**132 373 948**	**224 516 782**
Transfers of new capital	-	-	-
Return on investment	2 131 982	1 040 664	3 172 646
Change in krone value	-1 414 525	-2 006 539	-3 421 064
31 March 2007	**92 860 291**	**131 408 073**	**224 268 364**

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

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



Return on the portfolio

The return on the investment portfolio in the first quarter of 2007 was 1.43 per cent measured in terms of the benchmark portfolio's currency basket (see Table 4-2). Measured in NOK, the aggregate return in the first quarter was -0.11 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 first quarter of 2007. Per cent

	Return measured in terms of the benchmark currency	Return measured in NOK

	basket				
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
January	0.42	0.46	0.18	0.22	-0.04
February	0.29	0.29	-0.77	-0.77	-0.01
March	0.71	0.65	0.49	0.42	0.07
Q1	**1.43**	**1.41**	**-0.11**	**-0.13**	**0.02**

The gross actual return on the investment portfolio in the first quarter was 0.02 percentage points higher than the return on the benchmark portfolio. In absolute terms, the excess return for the first quarter of 2007 was NOK 51 million. Internal fixed income management generated a positive excess return, while equity management made a negative contribution.

Transaction costs were incurred in the first quarter in connection with the phasing in of a new benchmark portfolio for the investment portfolio. The direct and indirect transaction costs relating to this are estimated at NOK 31.7 million.

Since 1 January 1998, the average quarterly return measured in international currency has been 1.47 per cent. Chart 4-2 shows the quarterly returns. There has been a negative return in seven out of 37 quarters.

Chart 4-2: Quarterly returns 1998-2007 measured in terms of the portfolio's currency basket. Per cent

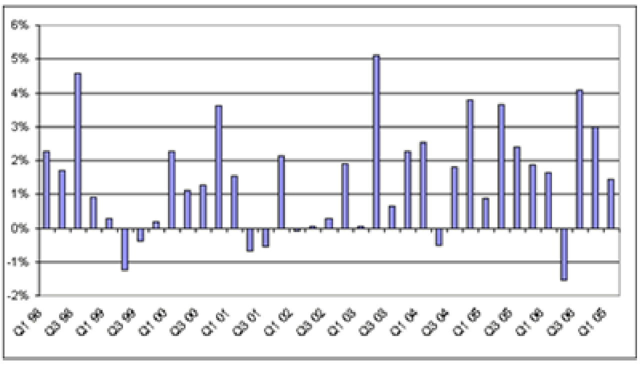


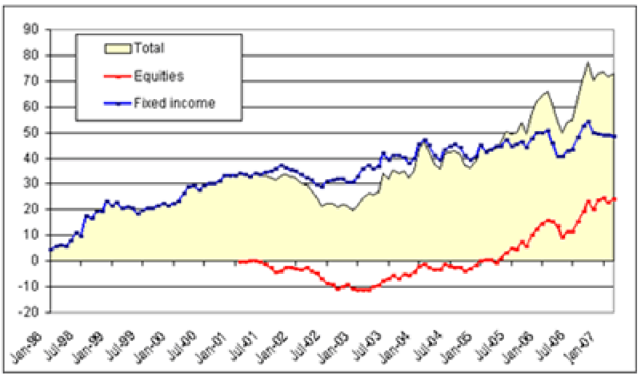
Table 4-3 shows the percentage return on the investment portfolio since 1998. The return has been calculated in relation to the portfolio's currency basket. Until the end of 2000, the entire portfolio was invested in government or government-guaranteed bonds. Since 2001, however, some of the portfolio 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	5.95	1.81	0.06	4.01	0.20
Since 01.01.99	5.49	1.91	0.06	3.45	0.23
Since 01.01.00	6.44	1.99	0.07	4.30	0.24
Since 01.01.01	6.12	1.97	0.07	4.01	0.26
Since 01.01.02	6.84	2.09	0.07	4.58	0.29
Since 01.01.03	7.97	2.11	0.06	5.67	0.27
Since 01.01.04	7.87	2.29	0.06	5.39	0.18
Since 01.01.05	7.94	2.24	0.06	5.51	0.22
Since 01.01.06	7.03	2.14	0.06	4.73	0.13

The table shows that the annual net real return since 1 January 1998 has been 4.01 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: Cumulative return on the fund 1998-2007. In billions of NOK



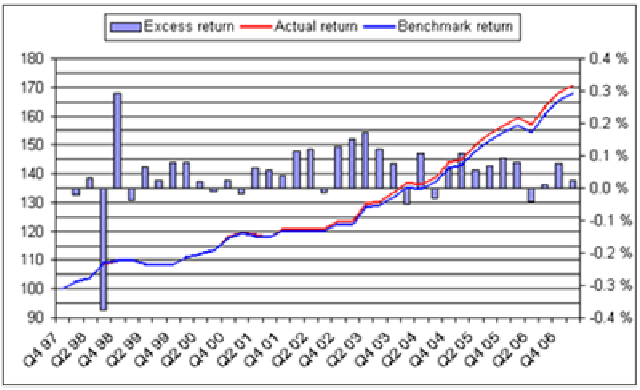
The cumulative return on the fund from 1 January 1998 until the end of the first quarter of 2007 was NOK 73 billion. This is shown by the yellow area in Chart 4-3. The equity portfolio accounts for NOK 24 billion, or 33 per cent, of the cumulative return. The red line in the chart shows the cumulative return on the equity portfolio. From January 2001, when the first equity investments were made, to April 2005, there was a negative cumulative return on the equity portfolio.

The blue line in the chart shows that the return on the fixed income portfolio has been far more stable. The cumulative return on the fixed income portfolio was NOK 49 billion at the end of the quarter. This corresponds to 67 per cent of the aggregate cumulative return during the period.

The cumulative return since 1 January 1998 has been 70.7 per cent for the actual portfolio and 67.8 per cent for the benchmark portfolio (see Chart 4-4). The difference between the two return figures is the gross excess return achieved through management, a total of 2.9 percentage points since 1998.

In absolute terms, the excess return has been NOK 2.2 billion. The chart also shows that a positive excess return has been achieved in 28 of the 37 quarters since 1 January 1998.

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



Fixed income management

The market value of the fixed income portfolio decreased by NOK 1.0 billion to NOK 131.4 billion in the first quarter. A positive return on fixed income investments increased the value of the portfolio by NOK 1.0 billion, while a stronger krone reduced its value by NOK 2.0 billion. 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.

Equity management

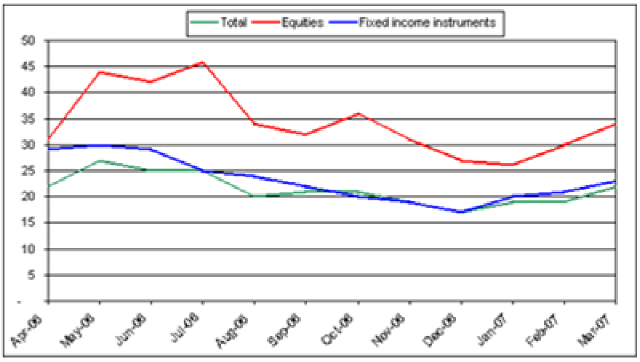
The market value of the equity portfolio increased by NOK 0.7 billion to NOK 92.9 billion during the quarter. A positive return on equity investments increased the value of the portfolio by NOK 2.1 billion, while a stronger krone reduced its value by NOK 1.4 billion. A change in the krone exchange rate 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 0.86.

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	0.45	-1.51	1.69
Since 2002	1.67	-0.57	2.69
Since 1999	1.34	n/a[12]	2.04

Compliance with management guidelines

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

Table 4-5: Risk and exposure

Risk		Actual				
		31.03.06	30.06.06	30.09.06	31.12.06	31.03.07
Market risk (percentage points)	Tracking error	0.16	0.25	0.21	0.17	0.22
Asset mix	Fixed income	60.74	61.23	60.70	58.96	58.61
	Equities	39.26	38.77	39.30	41.04	41.42
Market distribution, equities	Europe	50.00	50.91	51.18	52.40	53.45
	Americas	36.58	35.58	35.51	34.61	33.29
	Asia and Oceania	13.42	13.51	13.31	12.99	13.26
Market distribution, fixed income	Europe	56.43	61.34	58.42	59.70	60.16
	Americas	37.38	32.44	35.70	35.01	34.18
	Asia and Oceania	6.19	6.22	5.88	5.29	5.66
Ownership stake (per cent)	Ownership stake max. 5%	0.68	0.82	0.95	1.27	2.29

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 31 March 2007 by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	**Percentage of total**	**Rating**	**Percentage of total**
Aaa	54.26	AAA	51.00
Aa	17.36	AA	11.71
A	13.00	A	15.26
Baa	7.31	BBB	7.90
Ba	1.45	BB	2.26
Lower rating	1.02	Lower rating	0.59
No rating	5.60	No rating	11.28

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 quarter of 2007, NBIM's total costs associated with the management of the investment portfolio, including performance-based fees, amounted to NOK 38.4 million, which corresponds to 0.07 per cent (annualised) of the average portfolio.

Buffer portfolio

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

Table 4-7 provides an overview of transfers of capital to the buffer portfolio and the Government Pension Fund – Global in the first quarter of 2007. A total of NOK 38.8 billion was transferred to the portfolio from the State's Direct Financial Interest in petroleum activities (SDFI) during the quarter. A further NOK 34.4 billion was transferred to the portfolio through Norges Bank's purchases of foreign exchange in the market during the quarter.

A total of NOK 93.4 billion was transferred to the Government Pension Fund – Global in the first quarter of 2007.

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

Period	Transferred from SDFI	Foreign exchange purchased in the market	Transferred to Government Pension Fund – Global	Market value at end of period
January	13 369	12 536	35 064	14 204
February	14 051	9 797	33 370	4 680
March	11 371	12 096	24 985	3 205
Q1	**38 791**	**34 429**	**93 419**	**-**

Size and return

The market value of the buffer portfolio was NOK 3.2 billion at the end of the first quarter of 2007, compared with NOK 23.7 billion at the end of 2006. The return on the buffer portfolio during the quarter was 0.2 per cent measured in NOK. In absolute terms, there was a negative return of NOK 285 million.

5. Government Petroleum Insurance Fund

Key figures for the first quarter of 2007

- Market value NOK 15.1 billion on 31 March
- Return of 0.81 per cent in international currency
- Return of -0.67 per cent measured in NOK
- Excess return 0.06 percentage point
- Claims paid NOK 14.6 million

The fund's market value

The market value of the fund's international portfolio was NOK 15.1 billion at the end of the first quarter of 2007. In addition, the balance on the working account was NOK 127 million. The market values of the Petroleum Insurance Fund's foreign exchange portfolios at the end of each of the last five quarters are shown in Table 5-1.

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

	31.03.06	30.06.06	30.09.06	31.12.06	31.03.07
EUR	6 906	7 389	7 696	7 596	7 544
GBP	2 073	2 220	2 349	2 343	2 293
USD	4 835	5 092	5 492	5 248	5 246
Total market value	**13 814**	**14 701**	**15 537**	**15 187**	**15 084**

Return on the fund

The return on the fund in the first quarter of 2007 was 0.81 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 -0.67 per cent. The difference is due to the appreciation of the krone during the quarter against the currencies included in the benchmark portfolio. The return on the fund was 0.06 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
January	-0.17	-0.18	-0.30	-0.32	0.00
February	1.06	1.03	-0.05	-0.07	0.03
March	-0.08	-0.11	-0.32	-0.35	0.02
Q1	**0.81**	**0.74**	**-0.67**	**-0.74**	**0.06**

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

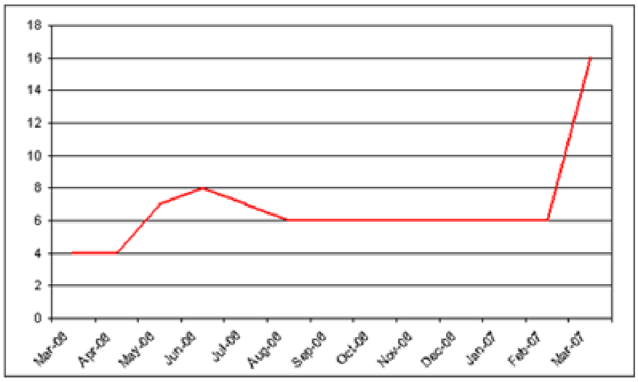
The entire portfolio is managed internally by Norges Bank and has always been kept very close to the benchmark. The portfolio is invested primarily in government bonds and other bonds included in the Lehman Global Aggregate index's "Government-related" sub-sector. In addition, the portfolio may be invested 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 14.6 million were made during the quarter.

Market risk

The guidelines from the Ministry of Petroleum and Energy establish a limit for market risk associated with the actual portfolio in relation to market risk associated with the benchmark portfolio. This relative market risk must always be less than a tracking error of 0.75 percentage point. Relative market risk remained well below this upper limit throughout the first quarter of 2007 (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 first quarter.

Table 5-3: The portfolio's modified duration by currency on 31 March 2007

Currency	Actual portfolio	Benchmark portfolio
EUR	3.95	3.90
GBP	4.10	4.00
USD	4.03	4.08
Total	**4.00**	**3.98**

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 first quarter of 2007.

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

Risk	Limits	Actual				
		31.03.06	**30.06.06**	**30.09.06**	**31.12.06**	**31.03.07**
Market risk	Maximum tracking error 0.75 percentage point	0.04	0.08	0.06	0.06	0.16
Interest rate risk	Modified duration max. 5	3.92	3.98	3.98	3.93	4.00

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 31 March 2007 by credit rating

Moody's		Standard & Poor's	
Rating	Percentage of total market value	Rating	Percentage of total market value
Aaa	68.23	AAA	58.78
Aa	24.99	AA	16.29
A	6.78	A	21.56
No rating[13]	0	No rating	3.37

Costs

The management agreement between the Ministry of Petroleum and Energy and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Petroleum Insurance Fund's portfolio. For 2007, a remuneration rate of 0.06

per cent of the average market value of the portfolio was stipulated. Remuneration of NOK 2.3 million was accrued during the first quarter of 2007.

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 in the first quarter was NOK -898 million before deduction of Norges Bank's management remuneration.

Table 1: The Pension Fund's international portfolio on 31 March 2007 by instrument. In millions of NOK

	31.03.06	**31.12.06**	**31.03.07**
Short-term assets/debt, incl. deposits in foreign banks	-3 436	6 918	11 520
Money market investments in foreign financial institutions against collateral in the form of securities	556 186	619 746	699 614
Borrowing from foreign financial institutions against collateral in the form of securities	-456 642	-728 414	-715 624
Foreign fixed income securities	785 047	1 166 941	1 142 421
Foreign equities	603 624	720 256	738 388
Adjustment of forward contracts and derivatives	-775	-1 777	-129
Total portfolio before management remuneration	**1 484 004**	**1 783 670**	**1 876 190**
Accrued management remuneration	-386	-1 526	-386
Accrued advisory fees		-5	
Net portfolio	**1 483 618**	**1 782 139**	**1 875 804**
Off-balance-sheet items (in millions of NOK)	**31.03.06**	**31.12.06**	**31.03.07**
Liabilities			
Derivatives and forward contracts sold	933 480	1 228 557	1 437 240
Derivatives and forward contracts purchased	892 746	1 241 246	1 438 064
Rights			
Options sold	7 657	24 154	65 972
Options purchased	36 675	131 203	88 938

There is a slight difference in the market value used in the return calculations (see Table 3-1) and the accounts to 31 March 2007. This is due partly to different valuation methods for money market investments.

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

Table 2: Book return on the Pension Fund's international portfolio to 31 March 2007. In millions of NOK

	31.03.06	**31.12.06**	**31.03.07**
Interest income	8 010	43 014	13 518
Dividends	3 024	14 232	3 411
Exchange rate adjustments[14]	-27 447	-24 232	-25 854
Unrealised gains/losses on securities	-8 444	13 592	-9 970
Realised gains/losses on securities	23 224	47 482	17 407
Brokers' commissions	-17	-6	-51
Gains/losses on futures	369	-3 329	-6
Gains/losses on options	56	126	-91
Gains/losses on equity swaps	758	2 174	-595
Gains/losses on interest rate swaps	2 970	3 183	1 333
Book return on investments	**2 503**	**96 236**	**-898**
Accrued management remuneration	-386	-1 526	-386
Accrued advisory fees		-5	
Net return	**2 117**	**94 705**	**-1 284**

1.2 The investment portfolio

Table 1: The investment portfolio on 31 March 2007 by instrument. In millions of NOK

	31.03.06	**31.12.06**	**31.03.07**
Short-term assets/debt, incl. deposits in foreign banks	-4 353	-9 593	-11 559
Money market investments in foreign financial institutions against collateral in the form of securities	69 274	77 501	86 658
Borrowing from foreign financial institutions against collateral in the form of securities	-67 157	-99 350	-104 123

Foreign fixed income securities	134 460	163 757	162 660
Foreign equities	84 461	92 300	90 068
Adjustment of forward contracts and derivatives	175	-100	561
Total portfolio	**216 860**	**224 515**	[15] **224 266**
Off-balance-sheet items	**31.03.06**	**31.12.06**	**31.03.07**
Liabilities			
Derivatives and forward contracts sold	179 303	200 684	228 162
Derivatives and forward contracts purchased	157 815	202 861	232 650
Rights			
Options sold	4 973	8 851	16 910
Options purchased	7 901	21 656	16 841

Table 2: Book return on the investment portfolio to 31 March 2007. In millions of NOK

Return on the investment portfolio	**31.03.06**	**31.12.06**	**31.03.07**
Interest income	1 431	6 695	1 479
Dividends	424	2 017	491
Exchange rate adjustments	-3 970	-4 298	-3 159
Unrealised gains/losses on securities	-1 186	1 265	-2 249
Realised gains/losses on securities	1 762	4 626	2 671
Brokers' commissions	-1	-5	-1
Gains/losses on futures	91	114	12
Gains/losses on options	8	26	-8
Gains/losses on equity swaps	8	130	11
Gains/losses on interest rate swaps	619	448	505
Other operating expenses	-14	-64	-18
Net return	**-828**	**10 954**	**-266**

1.3 Buffer portfolio

Table 1: The buffer portfolio on 31 March 2007 by instrument. In millions of NOK

	31.03.06	**31.12.06**	**31.03.07**
Short-term assets/debt, incl. deposits in foreign banks	37	12 447	1 858
Money market investments in foreign financial institutions against collateral in the form of securities	18 298	8 510	23 394
Adjustment of forward contracts and derivatives	-8	0	9
Amounts payable to Government Pension Fund – Global, unsettled transfers	-20 181	0	-24 985
Total portfolio as per accounts	**-1 854**	**20 957**	**276**
Unsettled contracts not recognised	6 186	2 731	2 929
Foreign exchange for management	**4 332**	**23 688**	**3 205**
Off-balance-sheet items	**31.03.06**	**31.12.06**	**31.03.07**
Liabilities			
Derivatives and forward contracts sold	1 689	0	17 619
Derivatives and forward contracts purchased	1 689	0	17 619

Table 2: Book return on the buffer portfolio to 31 March 2007. In millions of NOK

Return	**31.03.06**	**31.12.06**	**31.03.07**
Interest income	172	580	266
Exchange rate adjustments	-206	-1 414	-544
Other operating expenses	0	-1	-1
Net return	**-34**	**-835**	**-279**

1.4 Government Petroleum Insurance Fund

Table 1: The Petroleum Insurance Fund's international portfolio by instrument on 31 March 2007. In thousands of NOK

	31.03.06	**31.12.06**	**31.03.07**
Short-term assets/debt, incl. deposits in foreign banks	-292 689	-61 495	-210 567
Money market investments in foreign financial institutions against collateral in the form of securities	2 888 074	2 768 751	3 230 844
Borrowing from foreign financial institutions against collateral in the form of securities	0	0	0
Foreign fixed income securities	11 265 328	12 611 428	12 070 404

Adjustment of forward contracts and derivatives	-1 215	-3 381	-5 352
Total portfolio before management remuneration	**13 859 498**	**15 315 302**	**15 085 328**
Management remuneration due	-2 141	-8 741	-2 273
Total portfolio	**13 857 357**	**15 306 561**	**15 083 055**
Off-balance-sheet items (in thousands of NOK)	**31.03.06**	**31.12.06**	**31.03.07**
Derivatives and forward contracts sold	804 257	1 025 453	1 022 132
Derivatives and forward contracts purchased	803 043	1 022 070	1 016 780

Table 2: Book return on the Government Petroleum Insurance Fund to 31 March 2007. In thousands of NOK

	31.03.06	31.12.06	31.03.07
Interest income	150 514	663 863	176 266
Exchange rate adjustments	-238 604	-96 302	-221 108
Unrealised gains/losses on securities	-247 371	-279 557	-10 344
Realised gains/losses on securities	-2 778	-37 234	-45 526
Other operating expenses	5	5	0
Book return on investments	-338 235	250 775	-100 711
Accrued management remuneration	-2 141	-8 741	-2 273
Net return	**-340 376**	**242 034**	**-102 985**

Appendix 2: Mandate and benchmark portfolio

1. Government Pension Fund – Global

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

The Ministry of Finance has 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. An overview of the companies excluded from the investment universe at the end of the first quarter of 2007 can be found in Section 4 of Appendix 2.

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 an important 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 .

Benchmark portfolio on 31 March 2007. Per cent

	Equities		Fixed income	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**40.0**	**60.0**	**60.0**
Belgium		0.8		
Finland		0.9		

France		8.2		
Greece		0.5		
Ireland		0.6		
Italy		3.2		
Netherlands		2.7		
Portugal		0.3		
Spain		3.3		
Germany		5.7		
Austria		0.4		
Euro area (EUR)		*26.5*		*47.8*
UK (GBP)		16.2		9.7
Denmark (DKK)		0.6		0.7
Switzerland (CHF)		4.8		0.5
Sweden (SEK)		2.0		1.2
Total Europe	**50.0**	**50.1**	**60.0**	**59.8**
US (USD)		31.0		33.1
Brazil		0.8		
Canada (CAD)		2.0		2.0
Mexico		0.5		
South Africa		0.7		
Total Americas and Africa	**35.0**	**34.9**	**35.0**	**35.1**
Australia (AUD)		2.5		0.2
Hong Kong		1.2		
Japan (JPY)		8.5		4.5
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.4		0.2
South Korea		1.3		
Taiwan		1.0		
Total Asia and Oceania	**15.0**	**15.0**	**5.0**	**5.0**

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.

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 first quarter of 2007.

The table above shows the weights in the actual benchmark on 31 March 2007. The weights in the fixed income benchmark apply to the currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

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

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

Norges Bank's Executive Board lays down guidelines for the management of the foreign exchange reserves and has delegated responsibility to the Governor for issuing supplementary rules. NBIM manages the investment portfolio in accordance with guidelines laid down by the Executive Board and the Governor of Norges Bank. The Executive Board's guidelines are available on Norges Bank's website. On 29 November 2006, various changes were made to the benchmark portfolio for the fixed income portfolio. The regional weights for the fixed income portfolio were revised slightly (Americas from 37 to 35 per cent and Europe from 58 to 60 per cent), the down-weighting rule for unsecured and securitised bonds issued by the large federal mortgage institutions in the US was adjusted, and the New Zealand and Singapore currencies were included in the fixed income benchmark. These changes were implemented in the first quarter of 2007.

If combined holdings in the foreign exchange reserves and the Government Pension Fund – Global exceed 5 per cent, a special report must be submitted to the Executive Board. The Executive Board has laid down joint guidelines for corporate governance in the two funds, and has also ruled that companies which the Ministry of Finance has decided to exclude from the Pension Fund should also be excluded from the foreign exchange reserves. Section 4 of Appendix 2 provides an overview of the companies that have been excluded from the investment universe.

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 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 .

The table below shows the weights in the actual benchmark on 31 March 2007. The weights in the fixed income benchmark apply to the currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

Benchmark portfolio on 31 March 2007. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**41.5**	**60.0**	**58.5**
Belgium		0.8		
Finland		0.9		
France		8.7		
Greece		0.5		
Ireland		0.6		
Italy		3.3		
Netherlands		2.8		
Portugal		0.3		
Spain		3.5		
Germany		6.0		
Austria		0.4		
Euro area (EUR)		*28.0*		*48.0*
UK (GBP)		17.1		9.7
Denmark (DKK)		0.6		0.7
Switzerland (CHF)		5.1		0.5
Sweden (SEK)		2.1		1.2
Total Europe	**50.0**	**52.9**	**60.0**	**60.1**
US (USD)		29.1		32.9
Brazil		0.7		
Canada (CAD)		1.9		2.0
Mexico		0.4		
South Africa		0.6		
Total Americas and Africa	**35.0**	**32.8**	**35.0**	**34.9**
Australia (AUD)		2.4		0.2
Hong Kong		1.2		
Japan (JPY)		8.1		4.5
New Zealand (NZD)		0.1		0.1
Singapore (SGD)		0.4		0.2
South Korea		1.3		
Taiwan		1.0		
Total Asia and Oceania	**15.0**	**14.4**	**5.0**	**5.1**

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 31 March 2007.

Benchmark portfolio on 31 March 2007. Per cent

Currency	**Strategic benchmark portfolio**	**Actual benchmark portfolio**

EUR	50.0	50.1
GBP	15.0	15.3
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 20 companies from the fund's investment universe. The decisions were based on recommendations from the Council on Ethics. The background for the exclusions is discussed in greater detail in press releases from the Ministry of Finance. The Council's recommendations are available at http://www.regjeringen.no/en/sub/Styrer-rad-utvalg/ethics_council.html?id=434879. The table below provides an overview of the companies that have been excluded from the fund. The same companies have also been excluded from the investment universe for Norges Bank's foreign exchange reserves.

Companies excluded from the investment universe by the Ministry of Finance as at 31 March 2007

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[16]
31 August 2005	Manufacture of key components for cluster bombs	Alliant Techsystems Inc., US EADS Company N.V., Netherlands[17] EADS Finance B.V., Netherlands[16] General Dynamics Corporation, US L-3 Communications Holdings Inc., US Lockheed Martin Corporation, US Raytheon Company, US Thales SA, France
31 December 2005	Involved in the production of nuclear weapons	BAE Systems Plc, UK Boeing Company, US Finmeccanica SpA, 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	Wal-Mart Stores Inc. Wal-Mart de Mexico S.A
31 May 2006	Damage to the environment	Freeport McMoRan Copper and Gold Inc.
31 March 2007	Damage to the environment	DSD Gold Limited, South Africa

Appendix 3: Methodology for the calculation of return 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.[18] 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.[19]

The return in local currency is obtained by calculating the geometrical difference between the fund's return in NOK and the return on the currency basket. The currency basket corresponds to the currency weights in the benchmark portfolio, and the return indicates how much the krone has appreciated/depreciated against the currencies in the benchmark portfolio.

The excess return emerges as an arithmetical difference between the returns on the actual portfolio and the benchmark portfolio.

Returns are calculated in a separate system and then reconciled with the accounting system. Differences between market values in the return models and 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.

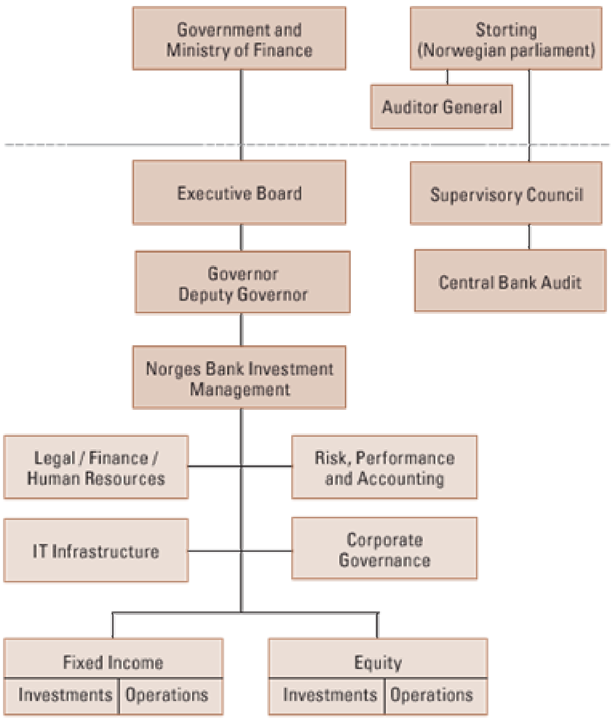
Norges Bank estimates transaction costs associated with phasing in new capital into the Pension Fund. New capital is transferred to the fund in the form of cash. When the capital is invested in securities (equities and fixed income instruments), both direct and indirect costs will be incurred. In line with normal market practice, Norges Bank has used a model that calculates direct and indirect transaction costs individually since the beginning of 2005. Indirect transaction costs comprise three main components: liquidity costs, market impact and opportunity costs. Norges Bank's model calculates transaction costs in the fixed income portfolio based on the full bid-ask spread. Indirect transaction costs in the equity portfolio are estimated using StockFactsPro®. Market impact in the fixed income market is a function of sector, market conditions, transaction size, size of the loan issued, and liquidity of the issuer. In most cases, the contributions from these variables are negligible.

Appendix 4: Definition of expected tracking error

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

Appendix 5: Norges Bank Investment Management (NBIM)

Norges Bank organisation chart as at 1 January 2007



NBIM is a separate business area at Norges Bank. The Executive Director of NBIM reports to the Governor of Norges Bank. The Executive Board has overriding responsibility for Norges Bank's operations (see organisation chart). The Supervisory Council is the Bank's overseeing body and adopts the Bank's budget. Norges Bank's audit department, Central Bank Audit, reports to the Supervisory Council and is responsible for operational auditing of investment management operations. The Office of the Auditor General is responsible for the final audit of the Government Pension Fund – Global and the Government Petroleum Insurance Fund, and bases its work partly on material from Central Bank Audit.

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

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

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

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

NBIM has separate business lines for equity and fixed income management. The heads of Equities and Fixed Income are responsible for all portfolio investments and returns, strategic planning and cost management within their respective area. Each business line has a Chief Operating Officer who is responsible for support and analysis functions, transactions and IT systems. The Chief Operating Officers report both to their respective business line manager and to the Executive Director of NBIM. In addition, NBIM has departments which are organisationally independent of the two business lines and report directly to NBIM's Executive Director. These departments are responsible for corporate governance, 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 the first quarter of 2007, NBIM had a total of 135 permanent employees.

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1 The value of the buffer portfolio, which amounted to about NOK 3.2 billion on 31 March 2007, is included in the total.
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 an indicator of 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.
6 Corporate securities with a credit rating of AAA from Standard & Poor's.
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.
8 Inflation is calculated as a weighted average of the increase in consumer prices in the countries included in the benchmark portfolio.
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.
10 The Ministry of Finance changed the regional weights in 2006, cf. discussion in the Revised National Budget for 2006.
11 Weighted average of consumer price inflation in the countries included in the benchmark portfolio in the years in question.
12 The first equity investments were made in 2001.
13 If a security has no rating from Moody's, it will have an approved rating from one of the two other approved agencies (S&P or Fitch). The same is the case for S&P.
14 The exchange rate adjustments in the accounts are calculated on the basis of the Pension Fund's actual composition. Income and expenses are translated at the exchange rate on the transaction date, and assets and liabilities are translated at the market rate at the end of the month. This figure will differ from the estimated exchange rate effect in the measurement of returns. When measuring returns, the exchange rate effect is calculated on the basis of the benchmark's currency composition at the beginning of each month and associated exchange rate movements.
15 There is a difference in the market value used in the return calculations (see Table 4-1) and the accounts to 31 March 2007. This is due partly to different valuation methods for money market investments.

16 Kerr-McGee (now merged with Anadarko Petroleum) was included again from 30 June 2006.
17 In a letter to Norges Bank dated 21 March 2006, EADS stated that the company no longer has investments in the production of cluster munitions. On 10 May 2006, the Ministry of Finance announced that the Council on Ethics had reconsidered the basis for excluding EADS. The Ministry has decided to follow the Council's recommendation that EADS remain excluded from the investment universe, due to the company being involved in the production of key components for nuclear weapons.
18 Lehman Global Aggregate (LGA) and FTSE for fixed income and equity instruments respectively.
19 WM/Reuters Closing Spot Rates, fixed at 4 p.m. London time.

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