

2Q|18

**GOVERNMENT
PENSION FUND
GLOBAL**

**QUARTERLY REPORT
/2018**

Second quarter 2018 in brief

1.8%

167 billion kroner

The Government Pension Fund Global returned **1.8** percent, or **167** billion kroner, in the second quarter of 2018.



**EQUITY
INVESTMENTS**

2.7%



**UNLISTED
REAL ESTATE
INVESTMENTS**

1.9%



**FIXED-INCOME
INVESTMENTS**

0.0%

The fund's equity investments returned **2.7** percent.
Investments in unlisted real estate returned **1.9** percent.
Fixed-income investments returned **0.0** percent.

The return on the fund's investments was **0.2** percentage point lower than the return on the benchmark index the fund is measured against.

8,337

billion kroner

The fund had a market value of **8,337** billion kroner at the end of the quarter and was invested **66.8** percent in equities, **2.6** percent in unlisted real estate and **30.6** percent in fixed income.



**EQUITY
INVESTMENTS**

66.8%



**UNLISTED
REAL ESTATE
INVESTMENTS**

2.6%



**FIXED-INCOME
INVESTMENTS**

30.6%

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Norges Bank Investment Management manages the Government Pension Fund Global. Our mission is to safeguard and build financial wealth for future generations.

Investments

EQUITIES

Equity investments, which accounted for 66.8 percent of the fund at the end of the quarter, returned 2.7 percent. Returns were positive in the first half of the period as the weakness from earlier in the year reversed. In the second half of the period, the prospect of increased trade barriers and a weaker growth outlook in Europe, China and emerging markets had an adverse effect. Political uncertainty in Italy impacted negatively on European financial markets.

Strongest return in North America

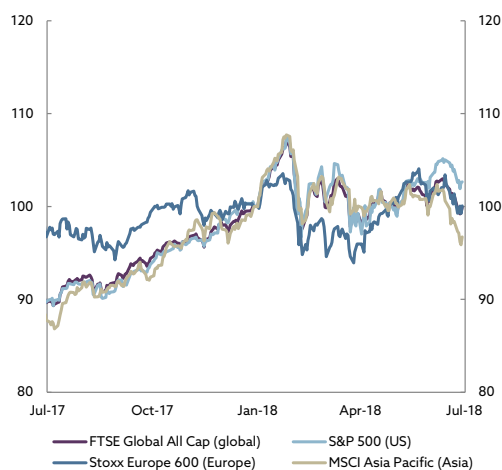
North American equities returned 7.3 percent and amounted to 40.0 percent of the equity portfolio. US stocks, which were the fund's single-largest market with 37.8 percent of its

equity investments, returned 7.3 percent, or 4.2 percent in local currency.

European shares returned 1.3 percent and accounted for 34.9 percent of the fund's equities. The UK, which was the fund's largest European market with 9.6 percent of its equity investments, returned 5.7 percent, or 9.0 percent in local currency.

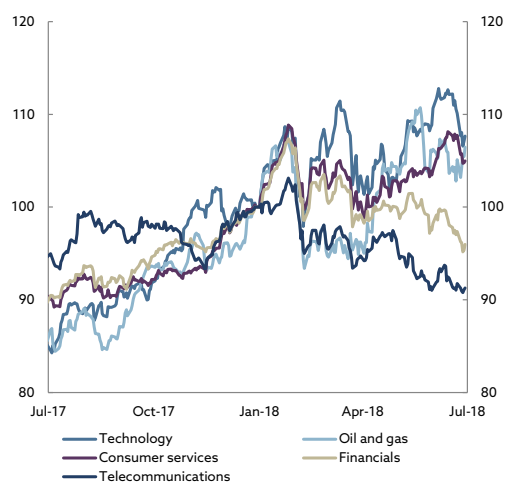
Stocks in Asia and Oceania returned -1.3 percent and made up 22.6 percent of the fund's equity investments. Japanese stocks returned -0.4 percent, or 0.7 percent in local currency, and amounted to 9.0 percent of equity investments.

Chart 1 Price developments in regional equity markets. Measured in US dollars, except for the Stoxx Europe 600, which is measured in euros. Indexed total return 31.12.2017 = 100



Source: Bloomberg

Chart 2 Price developments in various equity sectors in the FTSE Global All Cap Index. Measured in US dollars. Indexed total return 31.12.2017 = 100



Source: FTSE

Emerging markets returned -5.7 percent and accounted for 10.9 percent of the equity portfolio. The Chinese stock market, home to 4.0 percent of the fund's equity investments, returned -1.7 percent.

Oil and gas performs best

Oil and gas companies were the strongest performers in the second quarter, returning 13.0 percent thanks to higher oil prices in the wake of brisk demand and OPEC quota discipline.

Consumer services companies returned 6.3 percent. Retailers delivered stronger earnings than the market had anticipated and were the main driver behind the sector return. There

were also signs of higher spending, especially in North America.

Technology stocks returned 6.2 percent, with the largest global players leading the way. Software companies also contributed to the sector return.

Financials were the weakest performers in the second quarter, returning -1.4 percent. Banks in particular made a negative contribution to the sector return. In Europe, the publication of financial ratios and annual earnings contributed to the weak return. Lower growth expectations and mounting uncertainty also had an adverse effect.

Table 1 Return on the fund's equity investments in second quarter 2018 by sector. Measured in international currency. Percent

Sector	Return	Share of equity investments ¹
Financials	-1.4	23.6
Industrials	0.8	13.5
Consumer goods	0.0	12.6
Technology	6.2	12.3
Consumer services	6.3	10.9
Health care	5.9	10.0
Oil and gas	13.0	6.2
Basic materials	3.1	5.8
Utilities	2.9	2.6
Telecommunications	-1.1	2.6

¹ Does not sum up to 100 percent because cash and derivatives are not included.

Table 2 The fund's largest equity holdings as at 30 June 2018. Millions of kroner

Company	Country	Holding
Apple Inc	US	68 282
Amazon.com Inc	US	56 271
Microsoft Corp	US	56 144
Alphabet Inc	US	52 734
Royal Dutch Shell Plc	UK	52 512
Nestlé SA	Switzerland	46 529
Facebook Inc	US	34 269
Tencent Holdings Ltd	China	33 812
Roche Holding AG	Switzerland	31 343
Novartis AG	Switzerland	31 084

Individual stocks

The investment in consumer services company Amazon.com Inc made the most positive contribution to the return in the second quarter, followed by technology company Apple Inc and oil company Royal Dutch Shell Plc. The investments that made the most negative contributions were in financial services company Banco Santander SA, technology company Taiwan Semiconductor Manufacturing Co Ltd and financial services company Banco Bradesco SA.

The fund participated in 65 initial public offerings in the quarter. The largest was at financial services company AXA Equitable Holdings Inc, followed by technology company

Mercari Inc and consumer services company Ping An Healthcare and Technology Co Ltd. The offerings in which the fund invested the most were those in AXA Equitable Holdings Inc and the industrial companies GreenSky Inc and Graftech International Ltd.

RETURN IN INTERNATIONAL CURRENCY

The fund invests in international securities. Returns are generally measured in international currency – a weighted combination of the currencies in the fund’s benchmark indices for equities and bonds. This is known as the fund’s currency basket and consisted of 34 currencies at the end of the second quarter. Unless otherwise stated in the text, results are measured in this currency basket.

REAL ESTATE

Unlisted real estate investments amounted to 2.6 percent of the fund at the end of the second quarter and returned 1.9 percent.

The return on unlisted real estate investments depends on rental income, operating expenses, changes in the value of properties and debt, movements in exchange rates, and transaction costs for property acquisitions and disposals. Measured in local currency, rental income net of operating expenses made a positive contribution of 0.9 percentage point to the return in the second quarter, and changes in the value of properties and debt contributed 1.0 percentage point, while transaction costs and currency movements had only a marginal effect.

Unlisted and listed real estate investments are managed under a combined strategy for real estate. Investments in listed real estate returned 5.2 percent.

Announced acquisitions and disposals of unlisted real estate

In April, the fund sold eight logistics properties in France, the Netherlands and Spain held in partnership with Prologis, receiving 40.5 million euros, or around 390 million kroner, for its 50 percent stake.

In June, the fund acquired the leasehold interest in 30 Warwick Street in London alongside The Crown Estate. The fund paid 28.8 million pounds, or around 311 million kroner, for its 25 percent stake.

Table 3 Return on unlisted real estate investments in second quarter 2018

	Return
Rental income (percentage points)	0.9
Change in value (percentage points)	1.0
Transaction costs (percentage points)	0.0
Result of currency adjustments (percentage points)	0.0
Total (percent)	1.9

Table 4 Value of real estate investments as at 30 June 2018. Millions of kroner

	Value ¹
Unlisted real estate investments	220,425
Listed real estate investments	77,805
Total	298,230

¹ Including bank deposits and other receivables

FIXED INCOME

Fixed-income investments accounted for 30.6 percent of the fund at the end of the second quarter and returned 0.0 percent. Interest rates in most developed markets changed little during the quarter.

Varying returns on government bonds

Government bonds made up 56.4 percent of the fund's fixed-income investments at the end of the quarter and returned -0.6 percent. The fund's three largest holdings were of US, Japanese and German government bonds.

US Treasuries returned 3.1 percent, or 0.1 percent in local currency, and accounted for

22.9 percent of fixed-income investments, making them the fund's largest holding of government debt from a single issuer. The Federal Reserve raised its policy rate by 0.25 percentage point in June, in line with market expectations. The dollar strengthened against the fund's currency basket during the quarter.

Euro-denominated government bonds represented 11.8 percent of the fund's fixed-income holdings and returned -2.2 percent, or 0.0 percent in local currency. The European Central Bank (ECB) decided in June to reduce its bond purchases by half in the fourth quarter of 2018 and discontinue them altogether at the beginning of 2019. The market was affected by

Table 5 Return on the fund's fixed-income investments in second quarter 2018 by sector. Measured in international currency. Percent

Sector	Return	Share of fixed-income investments ¹
Government bonds ²	-0.6	56.4
Government-related bonds ²	-0.1	12.5
Inflation-linked bonds ²	2.4	4.8
Corporate bonds	0.8	23.8
Securitised bonds	-0.9	5.2

¹ Does not sum up to 100 percent because cash and derivatives are not included.

² Governments may issue different types of bonds, and the fund's investments in these bonds are grouped accordingly. Bonds issued by a country's government in the country's own currency are categorised as government bonds. Bonds issued by a country's government in another country's currency are government-related bonds. Inflation-linked bonds issued by governments are grouped with inflation-linked bonds.

Table 6 The fund's largest bond holdings as at 30 June 2018. Millions of kroner

Issuer	Country	Holding
United States of America	US	665,594
Japanese government	Japan	195,072
Federal Republic of Germany	Germany	112,260
UK government	UK	70,438
French Republic	France	53,887
Italian Republic	Italy	43,809
Spanish government	Spain	43,263
Mexican government	Mexico	40,223
South Korean government	South Korea	36,380
Australian government	Australia	35,399

a sharp rise in the risk premium on Italian government bonds in the wake of the country's elections in March. The euro weakened against the fund's currency basket during the quarter.

Japanese government bonds amounted to 7.5 percent of the fund's fixed-income holdings and returned -1.0 percent, or 0.1 percent in local currency. Ten-year yields in Japan are being kept close to zero as part of monetary policy. The yen weakened against the currency basket during the quarter.

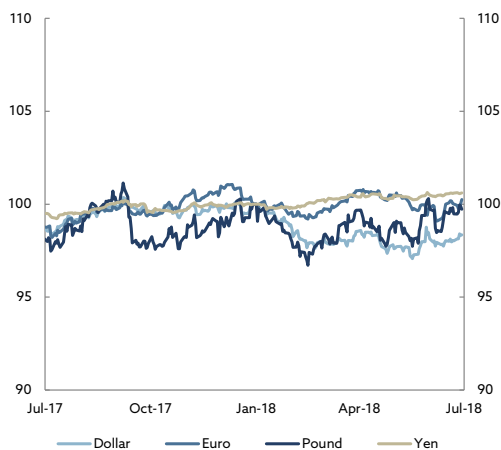
The fund also holds bonds from government-related institutions such as Kreditanstalt für Wiederaufbau (KfW), the European Investment

Bank (EIB) and Canada Housing Trust (Canhou). These bonds returned -0.1 percent and accounted for 12.5 percent of fixed-income investments.

Corporate bonds returned 0.8 percent and made up 23.8 percent of fixed-income investments at the end of the period. There was a moderate increase in the credit premium during the quarter.

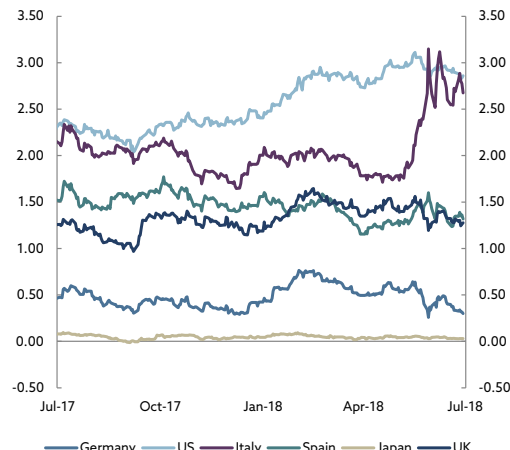
Securitised bonds, consisting mainly of covered bonds denominated in euros, returned -0.9 percent and made up 5.2 percent of fixed-income holdings.

Chart 3 Price developments for bonds issued in various currencies. Measured in local currencies. Indexed total return 31.12.2017 = 100



Source: Bloomberg Barclays Indices

Chart 4 10-year government bond yields. Percent



Source: Bloomberg

Inflation-linked bonds returned 2.4 percent and accounted for 4.8 percent of total fixed-income investments.

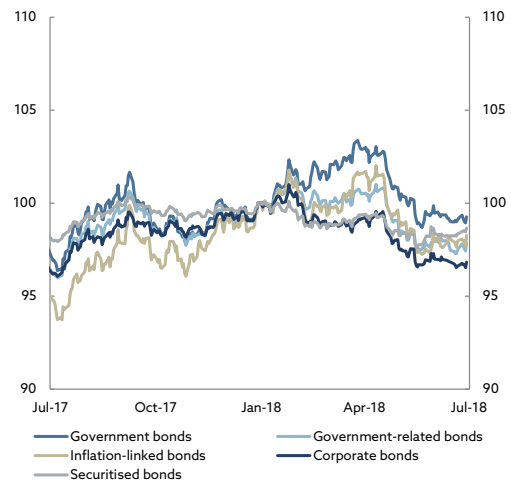
Changes in fixed-income holdings

Investments in dollars, euros, pounds and yen increased from 83.2 to 84.0 percent of fixed-income holdings during the quarter.

The market value of investments in bonds denominated in emerging-market currencies fell from 8.4 to 7.8 percent of total fixed-income investments.

The biggest increases in the market value of the fund’s government bond holdings in the second quarter were in US, Japanese and Belgian bonds. The biggest decreases were in bonds from Brazil, India and France.

Chart 5 Price developments for fixed-income sectors. Measured in US dollars. Indexed total return 31.12.2017 = 100



Source: Bloomberg Barclays Indices

Table 7 The fund’s fixed-income investments as at 30 June 2018 based on credit ratings. Percentage of bond holdings

	AAA	AA	A	BBB	Lower rating	Total
Government bonds	29.8	7.4	11.7	4.3	1.6	54.9
Government-related bonds	5.6	4.4	1.6	0.4	0.1	12.2
Inflation-linked bonds	3.8	0.4	0.2	0.2	0.0	4.6
Corporate bonds	0.2	2.1	8.3	12.1	0.6	23.2
Securitised bonds	4.2	0.8	0.1	0.1	0.0	5.1
Total	43.6	15.1	21.9	17.1	2.2	100.0

Management

We aim to leverage the fund's long-term outlook and considerable size to generate high returns and safeguard wealth for future generations.

The return on the fund is measured against a benchmark index set by the Ministry of Finance, which consists of a subindex for equities and a subindex for bonds. The benchmark index serves as a general limit for market and currency risk in the management of the fund and as a yardstick for market indices and the fund's return. The equity subindex is based on FTSE Group's Global All Cap stock index. The return on the equity part of the fund's benchmark index was 0.8 percentage point less than that on the FTSE Global All Cap, excluding Norway, in the second quarter. A lower weight of US stocks and a higher weight of European stocks than in the All Cap index contributed

negatively. The bond subindex is based on indices from Bloomberg Barclays Indices. The return on the bond part of the fund's benchmark index was in line with the Bloomberg Barclays Global Aggregate index, excluding Norwegian kroner and issuers.

The overall return on the fund in the second quarter was 0.2 percentage point lower than the return on the benchmark index from the Ministry of Finance.

The fund invests in listed equities, bonds and unlisted real estate. When we buy real estate, we sell bonds and equities at a ratio that keeps the currency risk unchanged. Separate benchmark indices are therefore set for equity and fixed-income management that are adjusted for the bonds and equities sold to finance real estate management. This permits a

Chart 6 The fund's quarterly return and accumulated annualised return. Percent

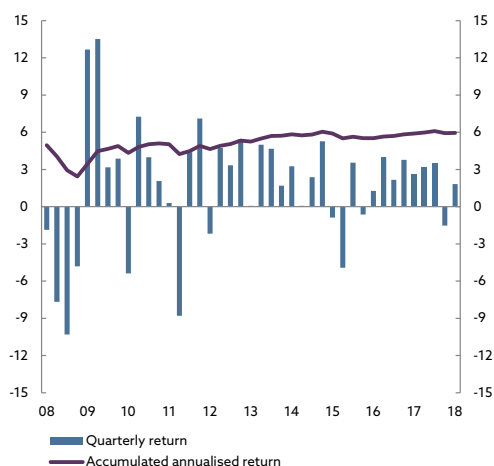
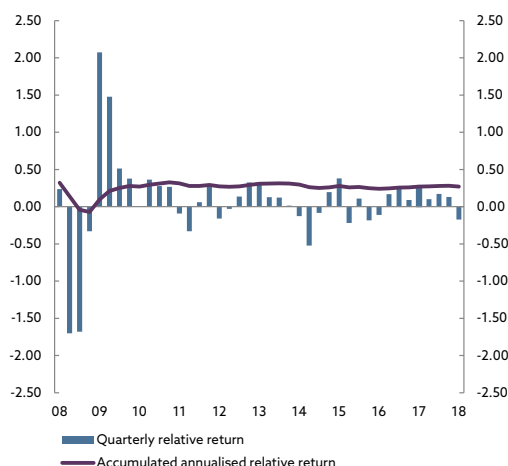


Chart 7 The fund's quarterly relative return and accumulated annualised relative return. Calculations based on aggregated equity and fixed-income investments until end of 2016. Percentage points



comprehensive approach to risk management for the fund. Unlisted and listed real estate investments are managed under a combined strategy for real estate.

The relative return is broken down between equity, fixed-income and real estate management, and an allocation effect between them.

Equity management contributed -0.16 percentage point to the fund's relative return. Consumer goods, oil and gas and industrials were the sectors that made the most negative contributions to the relative return, while basic materials made the most positive contribution. Broken down by country, equity investments in Australia and China made the most negative contributions to the relative return, and German stocks the most positive. An overweight of value stocks also made a negative contribution during the quarter.

Fixed-income management contributed -0.04 percentage point to the fund's relative return. Higher interest rates and weaker currencies in emerging markets such as Brazil, South Africa and Turkey, where the fund is invested more heavily than the benchmark index, made the most negative contributions to the relative return.

Real estate management contributed 0.03 percentage point to the fund's relative return in the second quarter, measured against the equities and bonds providing financing for real estate management. Both unlisted and listed real estate investments contributed to the excess return.

The relative return is also affected by an allocation effect between these management areas. In the second quarter, the contribution from this effect was 0.01 percentage point.

The fund's relative return can also be broken down by asset class, with listed real estate investments included in equity investments, and unlisted real estate investments measured against the benchmark from the Ministry of Finance. Decomposed in this way, equity investments contributed -0.17 percentage point to the fund's relative return, fixed-income investments -0.04 percentage point and unlisted real estate investments 0.00 percentage point. The allocation effect between asset classes was 0.04 percentage point.

RISK

The fund's market risk is determined by the composition of its investments and by movements in share prices, exchange rates, interest rates, credit risk premiums and property values. As no single measure or

Table 8 Contributions from management areas to the fund's relative return in second quarter 2018. Percentage points

	Total
Equity management	-0.16
Fixed-income management	-0.04
Real estate management	0.03
Allocation effect	0.01
Total	-0.17

analysis can fully capture the fund's market risk, we use a variety of measures and analyses – including expected volatility, factor exposures, concentration analysis and liquidity risk – to gain the broadest possible picture of this risk.

The fund's expected absolute volatility, calculated using the statistical measure

standard deviation, uses a three-year price history to estimate how much the annual return on the fund's investments can normally be expected to fluctuate. The fund's expected absolute volatility was 9.3 percent, or about 770 billion kroner, at the end of the second quarter, compared with 9.9 percent at the beginning of

Table 9 Key figures for the fund's risk and exposure

Limits set by the Ministry of Finance		30.06.2018
Allocation	Equity portfolio 50 - 80 percent of fund's market value ¹	66.7
	Unlisted real estate no more than 7 percent of fund's market value	2.6
	Fixed-income portfolio 20 - 50 percent of fund's market value ¹	31.6
Market risk	1.25 percentage points expected relative volatility for the fund's investments	0.3
Credit risk	Maximum 5 percent of fixed-income investments may be rated below BBB-	2.2
Ownership	Maximum 10 percent of voting shares in a listed company in the equity portfolio ²	9.6

¹ Derivatives are represented with their underlying economic exposure.

² Equity investments in listed and unlisted real estate companies are exempt from this restriction.

Chart 8 Expected absolute volatility of the fund. Percent (left-hand axis) and billions of kroner (right-hand axis)

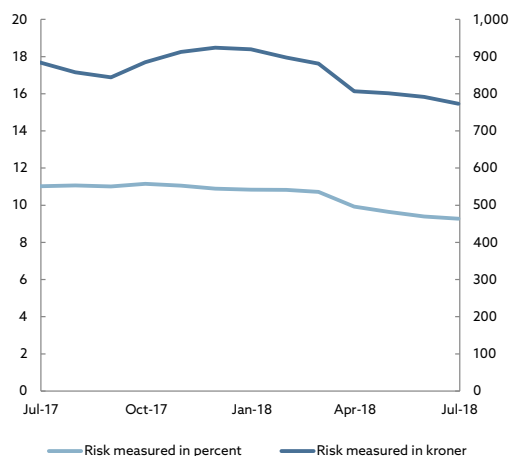
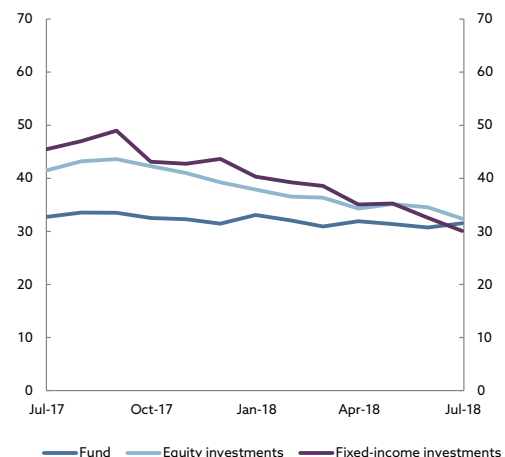


Chart 9 Expected relative volatility of the fund. Basis points



the quarter. The decrease was due mainly to lower volatility in equity markets.

We invest in real estate to create a more diversified portfolio. We expect real estate investments to have a different return profile to equities and bonds in both the short and the longer term. The relative risk that this entails will impact on calculations of the fund's expected relative volatility. As daily pricing is not available for our real estate investments, we use a model from MSCI to calculate the risk for the fund's unlisted real estate investments.

The Ministry of Finance and Norges Bank's Executive Board have set limits for how far the fund's investments may deviate from the benchmark index. One of these limits is expected relative volatility, or tracking error, which puts a ceiling on how much the return on these investments can be expected to deviate from the return on the benchmark index. All of the fund's investments, including unlisted real estate, are now included in the calculation of expected relative volatility and measured against the fund's benchmark index, which consists solely of global equity and bond indices. The limit for expected relative volatility for the fund is 1.25 percentage points. The actual level, including unlisted real estate, was 0.32 percentage point at the end of the quarter.

The Executive Board has also set a limit for expected shortfall between the return on the fund and the benchmark index. The fund is to be managed in such a way that the expected negative relative return in extreme situations does not exceed 3.75 percentage points. The actual level was 1.43 percentage points at the end of the quarter.

Operational risk management

Norges Bank's Executive Board sets limits for operational risk management and internal controls at Norges Bank Investment Management. It has decided there must be less than a 20 percent probability that operational risk factors will have a financial impact of 750 million kroner or more over a 12-month period, referred to as the Executive Board's risk tolerance.

Each quarter, Norges Bank Investment Management estimates the size of potential losses or gains arising over the next year because of unwanted operational events related to its investment management activities. The estimate is based on past events and an assessment of future risks and represents the fund's estimated operational risk exposure. Estimated operational risk exposure remained within the Executive Board's tolerance limit in the second quarter. A total of 130 unwanted operational events were registered in the quarter, with an estimated financial impact of 4.0 million kroner.

The Ministry of Finance has issued rules on the fund's management and is to be informed of any significant breaches of the specified limits. No such breaches were registered during the quarter, and we did not receive any notifications from local supervisory authorities of any significant breaches of market rules or general legislation.

RESPONSIBLE INVESTMENT

Responsible investment supports the fund's objective in two ways. First, we aim to promote long-term economic development for our investments. Second, we aim to reduce the financial risk associated with the environmental and social behaviour of the companies we invest in. We consider governance and sustainability issues that could impact on the fund's long-term return, and integrate these issues into our work on standard setting, ownership and sustainable investment.

Standard setting

We participated in four public consultations during the quarter. The first concerned listing criteria for the Singapore stock exchange. We believe that the introduction of a new dual-class share structure, where one class carries more votes than the other, could undermine the rights of minority shareholders.

We also responded to a consultation on voting rights in MSCI's indices. We believe that unequal voting rights can impair investors' ability to exercise their ownership rights.

We participated in a consultation on Japan's corporate governance code and the introduction of guidelines for investor and company engagement. We believe that the guidelines will be useful for investors and companies alike. We would welcome a higher ratio of independent board members and support the proposal to require them to play a role on remuneration and nomination committees.

Finally, we replied to the European Commission's consultation on the transmission of information for the exercise of shareholder rights. Voting is very important for active owners, and we are keen to see further harmonisation of EU rules to make it easier for shareholders to exercise their voting rights.

Ownership

The second quarter is the high season for shareholder meetings and accounts for around two-thirds of our voting during the year. We considered and voted on a total of 80,082 proposals at 6,975 meetings during the quarter. Voting is one of the most important instruments available to us for exercising our ownership rights.

On issues that we consider particularly important, we publish our voting intentions ahead of the shareholder meeting at selected companies. We did so on five occasions during the quarter.

We expressed our support for the proposed executive remuneration framework at The Weir Group Plc, which was broadly in line with our position on CEO remuneration. In our view the proposed policy improves transparency on potential maximum award levels, and strengthens the alignment of the long-term interests of executive management and shareholders.

We announced our support in advance for unbundled board elections at Boliden AB. For the first time, the company will undertake board elections as separate agenda items for each

board seat. In our view, individual vote count provides for enhanced board accountability by allowing shareholders to express support for each board candidate.

We supported the shareholder proposal on climate change reporting at TransCanada Corporation, and commended the board's willingness to support this shareholder proposal and its commitment to improving climate change disclosure.

We also supported the shareholder proposal related to disclosure of water-related risks at Imperial Oil Ltd. We believe public disclosure on relevant physical, regulatory or reputational water risks, and related responses, would enhance transparency and accountability on water management.

Finally, we supported the shareholder resolution at Kinder Morgan Inc, asking for a report reviewing methane emissions management. We communicated our expectation that companies with high emissions of greenhouse gases such as methane should have a strategy for transitioning to a low-emission energy system and should monitor and disclose these emissions.

Sustainable investment

We became a member of the UN's Action Platform for Sustainable Ocean Business during the quarter. The platform aims to develop a business leadership framework for the ocean and marine resources, facilitate partnerships and generate information on ocean sustainability. Our goal is to contribute to knowledge building and a global framework that can help companies in our portfolio reduce the risks and tap the opportunities associated with sustainable uses of the ocean.

We have supported a three-year research project at Columbia University Water Center on the financial implications of water and environmental risks in the mining industry. The project was completed this year, and the university published a synthesis report during the quarter. Columbia also developed a modelling tool to assist mining companies and investors in assessing the financial impacts of water risks. The models are open source and publicly available.

Key figures

Table 10 Return figures. Measured in the fund's currency basket. Percent

	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	Year-to-date 30.06.2018
FTSE Global All Cap index ¹	3.76	-2.23	5.33	3.92	2.16	1.45
Equity part of the fund's benchmark index	2.95	-2.26	4.68	4.30	2.99	0.63
The fund's equity investments	2.70	-2.22	4.96	4.31	3.37	0.42
Bloomberg Barclays Global Aggregate index ¹	0.13	-0.04	0.52	0.46	0.50	0.10
Fixed-income part of the fund's benchmark index	0.11	-0.44	0.65	0.70	1.09	-0.33
The fund's fixed-income investments	-0.02	-0.37	0.53	0.85	1.12	-0.39
The fund's unlisted real estate investments	1.85	2.50	1.97	2.68	2.05	4.40
Total return on fund	1.83	-1.53	3.49	3.15	2.60	0.27
Relative return on fund (percentage points)	-0.17	0.13	0.17	0.10	0.28	-0.04
Management costs	0.02	0.02	0.01	0.01	0.02	0.03
Return on fund after management costs	1.82	-1.55	3.47	3.14	2.59	0.24

¹ Excluding securities classified as Norwegian and securities denominated in Norwegian kroner, in accordance with equity and bond indices from the Ministry of Finance.

Table 11 Historical key figures as at 30 June 2018. Annualised data, measured in the fund's currency basket

	Since 01.01.1998	Last 10 years	Last 5 years	Last 3 years	Last 12 months
Fund return (percent)	5.95	7.00	8.16	6.26	7.04
Annual price inflation (percent)	1.80	1.55	1.40	1.55	2.30
Annual management costs (percent)	0.08	0.08	0.06	0.06	0.06
Net real return on fund (percent)	3.99	5.29	6.60	4.57	4.57
The fund's actual standard deviation (percent)	7.28	8.76	5.83	6.14	4.38
Relative return on fund (percentage points) ¹	0.27	0.21	0.15	0.21	0.24
The fund's tracking error (percentage points) ¹	0.68	0.85	0.35	0.33	0.30
The fund's information ratio (IR) ^{1,2}	0.41	0.29	0.40	0.61	0.75

¹ Based on aggregated equity and fixed-income investments until end of 2016.

² The fund's information ratio (IR) is the ratio of the fund's average monthly relative return to the fund's tracking error. The IR indicates how much relative return has been achieved per unit of relative risk.

Table 12 Key figures. Billions of kroner

	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017
Market value					
Equity investments	5,566	5,376	5,653	5,242	5,225
Unlisted real estate investments	220	217	219	199	199
Fixed-income investments	2,551	2,532	2,616	2,511	2,597
Market value of fund ¹	8,337	8,124	8,488	7,952	8,020
Accrued, not paid, management fees ¹	-3	-1	-5	-3	-2
Owner's capital ¹	8,335	8,123	8,484	7,949	8,018
Changes in value since first capital inflow in 1996					
Inflow/withdrawal of capital ²	-2	-6	-14	-10	-16
Paid management fees ²	0	-5	0	0	0
Return on fund	167	-171	337	192	202
Changes due to fluctuations in krone	47	-183	214	-250	-32
Total change in market value	213	-364	536	-68	153
Changes in value since first capital inflow in 1996					
Total inflow of capital ³	3,328	3,328	3,337	3,351	3,360
Return on equity investments	3,059	2,892	3,062	2,747	2,576
Return on unlisted real estate investments	62	58	53	49	44
Return on fixed-income investments	1,027	1,031	1,037	1,019	1,001
Management fees ⁴	-42	-41	-39	-38	-37
Changes due to fluctuations in krone	904	857	1,040	826	1,076
Market value of fund	8,337	8,124	8,488	7,952	8,020
Return on fund	4,147	3,980	4,151	3,814	3,622
Return after management costs	4,105	3,939	4,111	3,776	3,585

¹ The fund's market value shown in this table does not take into account the management fee. Owner's capital in the financial statements equals the fund's market value less accrued, not paid, management fees.

² Paid management fees are specified separately, and not included in Inflow/withdrawal of capital.

³ Total inflow of capital shown in this table is adjusted for accrued, not paid, management fees.

⁴ Management costs in subsidiaries, see Table 10.2 in the financial reporting section, are not part of the management fees. These have already been deducted from the fund's return before management fees.

Financial Reporting

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Income statement

Amounts in NOK million	Note	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Profit/loss on the portfolio before foreign exchange gain/loss						
Income/expense from:						
- Equities	4	167 545	173 700	-2 436	447 864	933 501
- Bonds	4	-3 781	26 689	-10 084	46 271	81 410
- Unlisted real estate	6	3 989	2 825	8 797	5 500	14 237
- Financial derivatives	4	607	-247	1 538	683	278
- Secured lending		1 491	951	2 812	1 816	3 532
- Secured borrowing		-445	-55	-849	-11	-345
Tax expense		-2 245	-2 261	-3 184	-3 288	-4 796
Interest income/expense		-5	-2	-3	-11	-16
Other income/expense		-5	-3	-2	-6	-11
Profit/loss on the portfolio before foreign exchange gain/loss		167 152	201 597	-3 410	498 818	1 027 790
Foreign exchange gain/loss	9	47 171	-32 358	-135 496	50 647	14 701
Profit/loss on the portfolio		214 323	169 239	-138 906	549 465	1 042 492
Management fee	10	-1 138	-1 276	-2 508	-2 453	-4 728
Profit/loss and total comprehensive income		213 184	167 963	-141 414	547 012	1 037 764

Balance sheet

Amounts in NOK million	Note	30.06.2018	31.12.2017
Assets			
Deposits in banks		13 021	11 027
Secured lending		167 463	185 046
Cash collateral posted		666	1 894
Unsettled trades		29 186	13 389
Equities	5	5 088 128	5 250 871
Equities lent	5	486 546	411 664
Bonds	5	2 083 422	2 080 061
Bonds lent	5	537 413	591 277
Unlisted real estate	6	217 827	217 160
Financial derivatives	5	4 594	9 025
Other assets		4 901	3 219
Total assets		8 633 167	8 774 633
Liabilities and owner's capital			
Liabilities			
Secured borrowing		244 339	260 136
Cash collateral received		6 423	5 804
Unsettled trades		42 968	15 905
Financial derivatives	5	2 124	3 919
Other liabilities		42	415
Management fee payable	10	2 508	4 728
Total liabilities		298 404	290 907
Owner's capital		8 334 763	8 483 727
Total liabilities and owner's capital		8 633 167	8 774 633

Statement of cash flows

Amounts in NOK million, receipt (+) / payment (-)	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Operating activities			
Receipts of dividend from equities	85 010	75 091	128 293
Receipts of interest from bonds	34 879	38 471	73 575
Receipts of interest and dividend from unlisted real estate subsidiaries	2 956	1 758	3 869
Net receipts of interest and fee from secured lending and borrowing	1 846	1 635	3 426
<i>Receipts of dividend, interest and fee from holdings of equities, bonds and unlisted real estate</i>	<i>124 691</i>	<i>116 955</i>	<i>209 163</i>
Net cash flow from purchase and sale of equities	-75 425	-91 488	-141 382
Net cash flow from purchase and sale of bonds	-43 242	9 767	17 878
Net cash flow to/from investments in unlisted real estate subsidiaries	1 569	-4 383	-17 234
Net cash flow financial derivatives	7 551	-3 047	-4 886
Net cash flow cash collateral related to derivative transactions	1 390	225	2 754
Net cash flow secured lending and borrowing	1 657	17 927	-21
Net payment of taxes	-4 487	-5 486	-6 786
Net cash flow related to interest on deposits in banks and bank overdraft	-9	-73	-84
Net cash flow related to other income/expense, other assets and other liabilities	-207	-1 490	-857
Management fee paid to Norges Bank ¹	-4 728	-3 731	-3 731
Net cash inflow/outflow from operating activities	8 760	35 176	54 813
Financing activities			
Inflow from the Norwegian government ²	1 762	-	-
Withdrawal by the Norwegian government ²	-9 799	-36 185	-60 837
Net cash inflow/outflow from financing activities	-8 037	-36 185	-60 837
Net change in cash			
Deposits in banks at 1 January	11 027	17 759	17 759
Net increase/decrease of cash in the period	723	-1 009	-6 024
Net foreign exchange gain/loss on cash	1 271	-477	-708
Deposits in banks at end of period	13 021	16 273	11 027

¹ Management fee shown in the *Statement of cash flows* for a period is the settlement of the fee that was accrued and expensed in the previous year.

² *Inflows/withdrawals* included here only represent transfers that have been settled in the period (cash principle). *Inflows/withdrawals* in the *Statement of changes in owner's capital* are based on accrued inflows/withdrawals.

Statement of changes in owner's capital

Amounts in NOK million	Inflows from owner	Retained earnings	Total owner's capital
1 January 2017	3 393 340	4 113 423	7 506 763
Total comprehensive income	-	547 012	547 012
Withdrawal during the period ¹	-36 000	-	-36 000
30 June 2017	3 357 340	4 660 435	8 017 775
1 July 2017	3 357 340	4 660 435	8 017 775
Total comprehensive income	-	490 752	490 752
Withdrawal during the period	-24 800	-	-24 800
31 December 2017	3 332 540	5 151 187	8 483 727
1 January 2018	3 332 540	5 151 187	8 483 727
Total comprehensive income	-	-141 414	-141 414
Inflow during the period ¹	1 850	-	1 850
Withdrawal during the period ¹	-9 400	-	-9 400
30 June 2018	3 324 990	5 009 773	8 334 763

¹ In the first two quarters of 2018 there was a net withdrawal from the krone account of NOK 12.3 billion. Of this, NOK 4.7 billion was used to pay the accrued management fee for 2017. In the first two quarters of 2017, there was a withdrawal from the krone account of NOK 39.7 billion. Of this, NOK 3.7 billion was used to pay the accrued management fee for 2016.

Notes to the financial reporting

Note 1 General information

INTRODUCTION

Norges Bank is Norway's central bank. The bank manages Norway's foreign exchange reserves and the Government Pension Fund Global (GPFG).

The GPFG shall support saving to finance future government expenditure and underpin long-term considerations relating to the use of Norway's petroleum revenues. The Norwegian Parliament has established the legal framework in the Government Pension Fund Act, and the Ministry of Finance has formal responsibility for the fund's management. The GPFG is managed by Norges Bank on behalf of the Ministry of Finance, in accordance with section 2, second paragraph of the Government Pension Fund Act and the management mandate for the GPFG issued by the Ministry of Finance. The Executive Board of Norges Bank has delegated day-to-day management of the GPFG to the Bank's asset management area, Norges Bank Investment Management (NBIM).

The Ministry of Finance has placed funds for investment in the GPFG in the form of a Norwegian krone deposit with Norges Bank (the *krone account*). Norges Bank manages the krone account in its own name by investing the funds in an investment portfolio consisting of equities, fixed-income securities and real estate. The GPFG is invested in its entirety outside of Norway.

In accordance with the management mandate for the GPFG, transfers are made to and from the krone account. When the Norwegian State's petroleum revenue exceeds the use of petroleum revenue in the fiscal budget, deposits will be made into the krone account. In the opposite situation, withdrawals will be made. Transfers to and from the krone account lead to a corresponding change in *Owner's Capital*.

APPROVAL OF THE QUARTERLY FINANCIAL STATEMENTS

The quarterly financial statements of Norges Bank for the second quarter of 2018, which only encompass the financial reporting for the GPFG, were approved by the Executive Board on 15 August 2018.

Note 2 Accounting policies

BASIS OF PREPARATION

The regulation on the financial reporting of Norges Bank (the regulation), which has been laid down by the Ministry of Finance, requires that Norges Bank's financial statements shall include the financial reporting for the GPFG, and that these shall be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The condensed interim financial reporting for the second quarter of 2018 is prepared in accordance with IAS 34 *Interim Financial Reporting*, subject to the exemptions and additions specified in the regulation. It is presented in Norwegian kroner and rounded to the nearest million kroner. Rounding differences may occur.

Except as described below, the quarterly financial statements are prepared using the same accounting policies and calculation methods as applied and disclosed in the annual report for 2017. The condensed interim financial reporting does not include all the information and disclosures required in annual financial statements and should therefore be read in conjunction with the annual report for 2017.

IFRS 9 *Financial Instruments* was implemented on 1 January 2018 and replaced IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, financial assets are classified based on the business model used for managing the assets and their contractual cash flow characteristics. The investment portfolio of the GPFG is managed in accordance with the management mandate issued by the Ministry of Finance, the investment mandate issued by the

Executive Board in Norges Bank and investment strategies established by the management of Norges Bank Investment Management. These mandates and strategies, including the risk management strategies, entail that financial assets are managed and evaluated based on fair values. All financial assets are therefore measured at fair value through profit or loss. This is in accordance with how financial assets were accounted for under IAS 39. The principles for classification and measurement of financial liabilities under IFRS 9 are the same as under IAS 39. Financial liabilities that are managed and evaluated on a fair value basis are designated at fair value through profit or loss. Financial derivatives are mandatorily accounted for at fair value through profit or loss, the same as under IAS 39. The implementation of IFRS 9 did not therefore have any impact on how financial instruments are accounted for.

USE OF ESTIMATES AND JUDGEMENT

The preparation of the financial statements involves the use of estimates and judgement that may affect reported amounts for assets, liabilities, income and expenses. Estimates and judgement are based on historical experience and expectations about future events that are considered probable at the time the quarterly financial statements are presented. Estimates are based on best judgement, however actual outcomes may deviate from estimates.

In cases where there are particularly uncertain estimates, this is described in the respective notes. For additional information on significant estimates and critical accounting judgements, see the relevant notes in the annual report for 2017.

Note 3 Returns per asset class

Table 3.1 Returns per asset class

	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	Year-to-date 30.06.2018
Returns in the fund's currency basket						
Return on equity investments (percent)	2.70	-2.22	4.96	4.31	3.37	0.42
Return on fixed-income investments (percent)	-0.02	-0.37	0.53	0.85	1.12	-0.39
Return on unlisted real estate investments (percent)	1.85	2.50	1.97	2.68	2.05	4.40
Return on fund (percent)	1.83	-1.53	3.49	3.15	2.60	0.27
Relative return on fund (percentage points)	-0.17	0.13	0.17	0.10	0.28	-0.04
Returns in Norwegian kroner (percent)						
Return on equity investments	3.52	-4.84	8.45	0.40	2.92	-1.49
Return on fixed-income investments	0.77	-3.03	3.87	-2.93	0.68	-2.29
Return on unlisted real estate investments	2.66	-0.24	5.36	-1.16	1.61	2.42
Return on fund	2.64	-4.16	6.92	-0.71	2.15	-1.63

For additional information on the methods used in the return calculations, see note 3 *Returns per asset class* in the annual report for 2017.

Note 4 Income/expense from equities, bonds and financial derivatives

Tables 4.1 to 4.3 specify the income and expense elements for *Equities*, *Bonds* and *Financial derivatives*, where the line

Income/expense shows the amount recognised in profit or loss for the respective income statement line.

Table 4.1 Specification of Income/expense from equities

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Dividends	57 669	49 774	87 835	78 484	128 846
Realised gain/loss	49 855	77 386	127 633	146 127	233 652
Unrealised gain/loss	60 021	46 540	-217 904	223 253	571 003
Income/expense from equities before foreign exchange gain/loss	167 545	173 700	-2 436	447 864	933 501

Table 4.2 Specification of Income/expense from bonds

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Interest	17 215	18 287	33 661	36 631	71 811
Realised gain/loss	-1 691	3 375	-5 711	3 624	9 283
Unrealised gain/loss	-19 305	5 027	-38 034	6 016	316
Income/expense from bonds before foreign exchange gain/loss	-3 781	26 689	-10 084	46 271	81 410

Table 4.3 Specification of Income/expense from financial derivatives

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Dividends	-	52	6	72	140
Interest	49	-51	311	-1 396	-1 933
Realised gain/loss	459	191	1 039	168	128
Unrealised gain/loss	99	-439	182	1 839	1 943
Income/expense from financial derivatives before foreign exchange gain/loss	607	-247	1 538	683	278

Note 5 Holdings of equities, bonds and financial derivatives

Table 5.1 Equities

Amounts in NOK million	30.06.2018		31.12.2017	
	Fair value including dividends	Accrued dividends	Fair value including dividends	Accrued dividends
Equities	5 574 674	8 935	5 662 535	6 111
Total equities	5 574 674	8 935	5 662 535	6 111
<i>Of which equities lent</i>	<i>486 546</i>		<i>411 664</i>	

Table 5.2 Bonds

Amounts in NOK million	Nominal value	30.06.2018		Nominal value	31.12.2017	
		Fair value including accrued interest	Accrued interest		Fair value including accrued interest	Accrued interest
Government bonds	1 315 067	1 438 042	10 225	1 304 201	1 458 828	10 712
Government-related bonds	311 133	319 348	1 861	305 185	316 787	1 938
Inflation-linked bonds	103 899	121 626	390	112 513	131 125	375
Corporate bonds	609 688	608 135	5 618	610 017	631 957	5 960
Securitised bonds	141 467	133 685	688	139 275	132 642	1 013
Total bonds	2 481 253	2 620 835	18 781	2 471 191	2 671 338	19 999
<i>Of which bonds lent</i>		<i>537 413</i>			<i>591 277</i>	

Table 5.3 Financial derivatives

Amounts in NOK million	Notional amount	30.06.2018		Notional amount	31.12.2017	
		Fair value Asset	Fair value Liability		Fair value Asset	Fair value Liability
Foreign exchange derivatives	308 676	3 564	1 490	252 601	770	2 687
Interest rate derivatives	34 692	832	634	34 225	1 304	1 232
Equity derivatives	1 134	198	-	7 379	6 951	-
Total financial derivatives	344 502	4 594	2 124	294 205	9 025	3 919



Note 6 Unlisted real estate

Investments in unlisted real estate are made through subsidiaries of Norges Bank, which exclusively constitute investments as part of the management of the GPFG. Subsidiaries presented in the balance sheet as *Unlisted real estate* are measured at fair value through profit or loss. Changes in fair value are recognised in the income statement and are presented as *Income/expense from unlisted real estate*.

The fair value of unlisted real estate is determined as the sum of the GPFG's share of the assets and liabilities in the underlying

subsidiaries, measured at fair value. For further information, see note 7 *Fair value measurement*.

Subsidiaries are financed through equity and long-term debt. Net income generated in the real estate subsidiaries may be distributed to the GPFG in the form of interest and dividends, as well as repayment of equity and loan financing provided from the GPFG to the subsidiary. There are no significant restrictions on distribution of dividends and interest from subsidiaries to the GPFG.

Table 6.1 provides a specification of the income statement line *Income/expense from unlisted real estate*, before foreign exchange gain/loss.

Table 6.1 Income/expense from unlisted real estate

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Dividends received	823	566	1 622	953	2 057
Interest received	1 085	445	1 334	805	1 812
Unrealised gain/loss	2 081	1 814	5 841	3 742	10 368
Income/expense from unlisted real estate before foreign exchange gain/loss	3 989	2 825	8 797	5 500	14 237

The change in the period for the balance sheet line *Unlisted real estate* is specified in table 6.2.

Table 6.2 Changes in carrying amounts unlisted real estate

Amounts in NOK million	30.06.2018	31.12.2017
Unlisted real estate, opening balance for the period	217 160	188 469
Payments to new investments ¹	478	14 771
Payments to existing investments ¹	548	5 167
Payments from existing investments ¹	-2 595	-2 704
Unrealised gain/loss	5 841	10 368
Foreign currency translation effect	-3 606	1 089
Unlisted real estate, closing balance for the period	217 827	217 160

¹ This represents net cash flows between the GPF and subsidiaries presented as *Unlisted real estate*. The GPF makes cash contributions to subsidiaries in the form of equity and long-term loan financing, to fund investments in real estate assets, primarily properties. Net income generated in subsidiaries may be distributed to the GPF through repayment of equity and long-term loan financing.

UNDERLYING REAL ESTATE COMPANIES

Real estate subsidiaries have investments in other non-consolidated, unlisted companies. These companies have in turn invested in real estate assets, primarily properties.

A further specification of *Unlisted real estate* is provided in the tables below. Table 6.3 specifies

the GPF's share of net income generated in the underlying real estate companies, which is the basis for *Income/expense from unlisted real estate* presented in table 6.1. Table 6.4 specifies the GPF's share of assets and liabilities in the underlying real estate companies which comprise the closing balance for *Unlisted real estate* as presented in table 6.2.

Table 6.3 Net income from underlying real estate companies

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Net rental income	2 197	2 121	4 492	4 134	8 579
Realised gain/loss	239	7	169	15	199
Fair value changes - properties ¹	1 649	1 233	4 830	2 555	8 375
Fair value changes - debt ¹	18	-32	258	-220	-420
Fair value changes - other assets and liabilities ¹	333	-100	-49	-157	-461
Transaction costs	-34	-31	-74	-47	-324
Interest expense external debt	-128	-146	-251	-307	-626
Tax expense payable	-91	-53	-144	-65	-140
External asset management - fixed fees ²	-127	-114	-264	-233	-482
External asset management - variable fees ²	-8	-6	-52	-76	-248
Internal asset management - fixed fees ³	-9	-7	-19	-15	-32
Operating costs within the limit from the Ministry of Finance ⁴	-25	-22	-44	-38	-97
Other costs	-25	-24	-55	-45	-88
Net income underlying real estate companies	3 989	2 825	8 797	5 500	14 237

¹ Comprises solely fair value changes of properties, debt, other assets and liabilities, and will therefore not reconcile with *Unrealised gain/loss* presented in table 6.1 which includes undistributed profits.

² Fixed and variable asset management fees are directly related to the underlying properties and are primarily linked to the operation and development of properties and leases. Variable fees to external managers are based on achieved performance over time.

³ Internal asset management is carried out on 100 percent owned properties by employees in a wholly-owned, consolidated subsidiary.

⁴ See table 10.2 for specification of operating costs that are measured against the management fee limit from the Ministry of Finance.

Table 6.4 Assets and liabilities underlying real estate companies

Amounts in NOK million	30.06.2018	31.12.2017
Properties	234 830	235 507
External debt	-17 170	-17 694
Net other assets and liabilities ¹	167	-653
Total assets and liabilities underlying real estate companies	217 827	217 160

¹ *Net other assets and liabilities* comprise cash, tax and operational receivables and liabilities.

AGREEMENTS FOR PURCHASES AND SALES OF REAL ESTATE

When purchasing and selling property, there will normally be a time period between entering into the agreement and completion of the transaction. Properties are recognised or

derecognised in the underlying real estate companies upon transfer of control. This will normally be the date the consideration is transferred and the transaction is completed. Transactions are normally announced when the agreement is entered into.

Table 6.5 provides an overview of announced agreements for purchases and sales of real estate which are not completed at the balance sheet date.

Table 6.5 Announced agreements for purchases and sales of real estate¹

Type	Property address	City	Ownership percent	Currency	Price in stated currency (million) ²	Quarter announced	Expected completion
Purchase	Schützenstrasse 26	Berlin	100.0	EUR	425	3Q 2017	4Q 2019

¹ Purchases and sales above USD 25 million are announced.

² The stated price is for the GPFG's share.

Note 7 Fair value measurement

INTRODUCTION

The fair value of the majority of assets and liabilities is based on quoted prices. If the market for a security or other assets and liabilities is not active, fair value is estimated by using standard valuation techniques.

Assets and liabilities are categorised in the fair value hierarchy in table 7.1 based on the level of valuation uncertainty. For an overview of valuation models and techniques, together with definitions and application of the categories of valuation uncertainty, see note 7 *Fair value measurement* in the annual report for 2017.

SIGNIFICANT ESTIMATE

Level 3 investments consist of instruments measured at fair value that are not traded or quoted in active markets. Fair value is determined using valuation techniques that use models with unobservable inputs. This implies substantial uncertainty regarding the estimation of fair value.

FAIR VALUE HIERARCHY

Table 7.1 Investments by level of valuation uncertainty

Amounts in NOK million	Level 1		Level 2		Level 3		Total	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Equities	5 537 636	5 616 897	27 349	34 265	9 689	11 373	5 574 674	5 662 535
Government bonds	1 405 755	1 417 376	32 287	41 452	-	-	1 438 042	1 458 828
Government-related bonds	274 545	271 415	42 535	43 151	2 268	2 221	319 348	316 787
Inflation-linked bonds	116 862	126 023	4 764	5 102	-	-	121 626	131 125
Corporate bonds	583 865	597 276	24 102	34 572	168	109	608 135	631 957
Securitised bonds	117 775	113 337	15 910	18 863	-	442	133 685	132 642
Total bonds	2 498 802	2 525 427	119 598	143 140	2 436	2 772	2 620 835	2 671 338
Financial derivatives (assets)	89	120	4 505	8 905	-	-	4 594	9 025
Financial derivatives (liabilities)	-	-	-2 124	-3 919	-	-	-2 124	-3 919
Total financial derivatives	89	120	2 381	4 986	-	-	2 470	5 106
Unlisted real estate	-	-	-	-	217 827	217 160	217 827	217 160
Other ¹	-	-	-78 535	-67 685	-	-	-78 535	-67 685
Total	8 036 527	8 142 444	70 793	114 706	229 952	231 305	8 337 271	8 488 454
Total (percent)	96.4	95.9	0.8	1.4	2.8	2.7	100.0	100.0

¹ Other consists of secured lending and borrowing positions, deposits in banks, unsettled trades, posted and received cash collateral and other assets and liabilities.

Valuation uncertainty for the GPF as a whole at the end of the second quarter of 2018 is virtually unchanged compared to the end of 2017. The majority of the total portfolio has low valuation uncertainty. At the end of the second quarter, 97.2 percent was classified as Level 1 or 2. Movements between levels in the fair value hierarchy are described below.

Equities

Measured as a share of total value, virtually all equities (99.3 percent) are valued based on official closing prices from stock exchanges and are classified as Level 1. A small number of equities (0.5 percent) are classified as Level 2. These are mainly equities for which trading has recently been suspended or illiquid securities

that are not traded daily. A few securities (0.2 percent) that are not listed, or where trading has been suspended over a longer period, have high uncertainty related to fair value and are classified as Level 3. Over 90 percent of the value of equities classified as Level 3 is attributable to one shareholding with a lock-in period, which was received as compensation following the merger of two companies in 2016. Due to the lock-in period, there has been significant use of unobservable inputs in the valuation of these shares, resulting in Level 3 classification.

Bonds

The majority of bonds (95.3 percent) are valued based on observable quotes in active markets and are classified as Level 1. A minority of bonds (4.6 percent) are valued based on other observable input than quotes included in Level 1 and are therefore classified as Level 2. These securities do not have a sufficient number of observable quotes or they are priced based on comparable liquid bonds. A few bonds (0.1 percent), that do not have observable quotes, are classified as Level 3.

Unlisted real estate

All unlisted real estate investments are classified as Level 3, since models are used to value the underlying assets and liabilities with extensive use of non-observable market inputs. All unlisted real estate investments are measured at the value determined by external

valuers. Exceptions to this policy are cases of newly acquired properties where the purchase price, excluding transaction costs, is normally considered to be the best estimate of fair value, or where there are indications that the value determined by external valuers does not reflect fair value so that adjustments to valuations are warranted.

MOVEMENTS BETWEEN LEVELS IN THE HIERARCHY

Reclassifications between Level 1 and Level 2

The relative share of equities classified as Level 1 or 2 has remained essentially unchanged compared to year-end 2017.

In the first quarter of 2018, the fund's holdings of Saudi Arabian participatory certificates were converted to shares in companies listed on the Saudi Arabian stock exchange, Tadawul. Participatory certificates were previously classified as Level 2 derivatives, while the shares received are classified as Level 1 equities. At year-end 2017, the participatory certificates had a carrying value of NOK 6 802 million.

There has been a small decrease in valuation uncertainty for bonds compared to year-end 2017. The majority of new purchases during the first half of the year have been within Level 1 and a number of Level 2 securities have matured or been sold.

Table 7.2 Changes in Level 3 holdings

Amounts in NOK million	01.01.2018	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign exchange gain/loss	30.06.2018
Equities	11 373	-	-339	-2	-671	233	-586	-319	9 689
Bonds	2 772	60	-17	-88	-77	632	-796	-50	2 436
Unlisted real estate ¹	217 160	-1 569	-	-	5 841	-	-	-3 606	217 827
Total	231 305	-1 509	- 356	- 90	5 093	865	-1 382	-3 975	229 952

Amounts in NOK million	01.01.2017	Purchases	Sales	Settle-ments	Net gain/loss	Trans-ferred into Level 3	Trans-ferred out of Level 3	Foreign exchange gain/loss	31.12.2017
Equities	11 863	97	-1 534	-48	-632	1 099	-258	786	11 373
Bonds	1 390	406	-327	-71	-33	1 457	-6	-44	2 772
Unlisted real estate ¹	188 469	17 234	-	-	10 368	-	-	1 089	217 160
Total	201 722	17 737	-1 861	-119	9 703	2 556	-264	1 831	231 305

¹ Purchases represent the net cash flow in the period between the GPFG and subsidiaries presented as *Unlisted real estate*.

The relative share of holdings classified as Level 3 is virtually unchanged from year-end 2017. In absolute terms, Level 3 holdings have

decreased by NOK 1 353 million from year-end 2017.

SENSITIVITY ANALYSIS FOR LEVEL 3 HOLDINGS

Table 7.3 Additional specification of Level 3 and sensitivities

Amounts in NOK million	Specification of Level 3 holdings 30.06.2018	Sensitivities 30.06.2018		Specification of Level 3 holdings 31.12.2017	Sensitivities 31.12.2017	
		Unfavourable changes	Favourable changes		Unfavourable changes	Favourable changes
Equities	9 689	-2 009	2 009	11 373	-2 409	2 409
Government-related bonds	2 268	-227	227	2 221	-222	222
Corporate bonds	168	-17	17	109	-11	11
Securitised bonds	-	-	-	442	-44	44
Total bonds	2 436	-244	244	2 772	-277	277
Unlisted real estate	217 827	-13 221	15 320	217 160	-12 969	14 988
Total	229 952	-15 474	17 573	231 305	-15 655	17 674

There is significant uncertainty associated with the fair value of holdings classified as Level 3, due to the use of unobservable inputs in the valuation. In the sensitivity analysis presented in table 7.3, reasonably possible alternative assumptions for the key unobservable inputs have been applied. The alternative fair value estimates, given for a favourable and unfavourable outcome, illustrate the sensitivity of the fair value estimates to changes in the key unobservable inputs.

Estimates for unlisted real estate values are particularly sensitive to changes in yields and assumptions influencing future revenues. In an

unfavourable outcome, an increase in the yield of 0.2 percentage point and a reduction in future market rents of 2 percent will result in a decrease in value of the unlisted real estate portfolio of approximately 6.1 percent or NOK 13 221 million. In a favourable outcome, a decrease in the yield of 0.2 percentage point and an increase in future market rents of 2 percent will increase the value of the unlisted real estate portfolio by 7.0 percent or NOK 15 320 million.

The sensitivity for equities and bonds classified as Level 3 is essentially unchanged compared to year-end 2017.

Note 8 Risk

MARKET RISK

Market risk is the risk of loss or a change in the market value of the portfolio, or parts of the portfolio, due to movements in equity prices, interest rates, real estate values, exchange rates and credit spreads. Norges Bank Investment Management measures market risk both for the

actual portfolio and the relative market risk for the holdings in the GPFG.

Asset class per country and currency

The portfolio is invested across several asset classes, countries and currencies as shown in table 8.1.



Table 8.1 Allocation by asset class, country and currency

Asset class	Market	Market value in percent by country and currency ¹		Market value in percent by asset class		Assets minus liabilities excluding management fee	
		30.06.2018	Market 31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Equities	Developed	88.9	Developed	89.0			
	US	37.5	US	35.4			
	UK	9.7	UK	9.7			
	Japan	8.9	Japan	9.1			
	Germany	5.6	Germany	6.1			
	France	5.1	France	5.1			
	Total other	22.2	Total other	23.6			
	Emerging	11.1	Emerging	11.0			
	China	4.1	China	3.6			
	Taiwan	1.7	Taiwan	1.6			
	India	1.1	India	1.2			
	Brazil	0.8	Brazil	0.9			
	South Africa	0.7	South Africa	0.7			
	Total other	2.8	Total other	3.0			
Total equities					66.76	66.60	5 565 939 5 653 440
Fixed income	Developed	92.2	Developed	90.5			
	US dollar	45.3	US dollar	44.9			
	Euro	27.0	Euro	25.8			
	Japanese yen	7.2	Japanese yen	6.7			
	British pound	4.5	British pound	4.6			
	Canadian dollar	2.8	Canadian dollar	3.2			
	Total other	5.4	Total other	5.3			
	Emerging	7.8	Emerging	9.5			
	Mexican peso	1.8	Mexican peso	1.6			
	South Korean won	1.1	South Korean won	1.4			
	Indonesian rupiah	0.9	Indonesian rupiah	0.9			
	Indian rupee	0.8	Indian rupee	0.7			
	Malaysian ringgit	0.6	Brazilian real	0.7			
	Total other	2.6	Total other	4.1			
Total fixed income					30.60	30.82	2 550 907 2 616 372
Unlisted real estate	US	47.2	US	46.2			
	UK	23.2	UK	23.5			
	France	16.0	France	16.6			
	Switzerland	3.9	Switzerland	3.9			
	Germany	3.6	Germany	3.5			
	Total other	6.1	Total other	6.3			
Total unlisted real estate					2.64	2.58	220 425 218 643

¹ Market value in percent by country and currency includes derivatives and cash.

At the end of the second quarter, the share of equities in the fund was 66.8 percent. This is an increase from 66.6 percent at year-end 2017. The bond portfolio's share of the fund was 30.6 percent at the end of the second quarter, down from 30.8 percent at year-end 2017.

Volatility

Risk models are used to quantify the risk of value changes associated with all or parts of the portfolio. One of the risk measures is expected volatility. Tables 8.2 and 8.3 present risk both in terms of the portfolio's absolute risk and in terms of the fund's relative risk measured against its benchmark index.

All the fund's investments, including investments in unlisted real estate, are included in the calculation of expected relative volatility,

and measured against the fund's benchmark index consisting of global equity and bond indices. The limit for the fund's expected relative volatility is 1.25 percentage points.

The Barra Private Real Estate 2 (PRE2) model from MSCI is used to calculate market risk for the fund's unlisted real estate investments. The model consolidates information from global listed and unlisted real estate markets to compose a risk profile for unlisted real estate investments, based on location and type of real estate.

The overall method applied in the calculations of expected absolute and relative volatility is explained in note 8 *Risk* in the annual report for 2017. This method is also applied to investments in unlisted real estate.

Table 8.2 Portfolio risk in terms of expected volatility, in percent

	Expected volatility, actual portfolio							
	30.06.2018	Min 2018	Max 2018	Average 2018	31.12.2017	Min 2017	Max 2017	Average 2017
Portfolio	9.3	9.3	11.0	10.1	10.8	10.7	11.2	11.0
Equities	12.4	12.3	13.7	13.1	13.6	13.6	14.1	14.0
Fixed income	7.9	7.8	9.4	8.5	9.4	9.4	9.8	9.7
Unlisted real estate	10.3	10.3	11.9	11.1	12.0	11.9	12.7	12.5

Table 8.3 Relative risk measured against the fund's benchmark index, expected relative volatility, in basis points

	Expected relative volatility							
	30.06.2018	Min 2018	Max 2018	Average 2018	31.12.2017	Min 2017	Max 2017	Average 2017
Portfolio	32	30	33	31	33	31	35	33

Risk measured in terms of expected volatility shows an expected annual change in the value of the fund of 9.3 percent, or approximately NOK 770 billion at the end of the second quarter, compared to 10.8 percent at year-end 2017. Expected volatility for the equity investments was 12.4 percent at the end of the second quarter, compared to 13.6 percent at year-end, while expected volatility for the fixed-income investments was 7.9 percent, compared to 9.4 percent at the end of 2017. The decrease in expected volatility is primarily due to smaller price fluctuations in the markets for the last three years than was the case at the end of 2017.

The fund's expected relative volatility, including unlisted real estate, was 32 basis points at the end of the second quarter, compared to 33 basis points at year-end 2017.

Expected shortfall is a tail risk measure that measures the expected loss in extreme market situations. The expected shortfall measure provides an estimate of the annualised expected loss for a given confidence level. Using historical simulations, relative returns of

the current portfolio and benchmark are calculated on a weekly basis from January 2007. The time horizon used in the simulations was changed in the second quarter, from the last ten years to the period from January 2007 until the end of the current reporting period. The expected shortfall at a 97.5 percent confidence level is given by the annualised average relative return, measured in the currency basket, for the 2.5 percent worst weeks.

The Executive Board has determined that the fund shall be managed in such a way that the annual expected shortfall does not exceed 3.75 percentage points. At the end of the second quarter, the annual expected shortfall was 1.43 percentage points, compared with 1.49 percentage points at year-end 2017.

CREDIT RISK

Credit risk is the risk of losses from issuers of bonds defaulting on their payment obligations. Credit risk for the bond portfolio is monitored, among other things, through the use of credit ratings.

Table 8.4 shows the distribution of the bond portfolio across different credit rating categories.

Table 8.4 Bond portfolio specified by credit rating

Amounts in NOK million, 30.06.2018	AAA	AA	A	BBB	Lower rating	Total
Government bonds	780 225	194 600	307 120	113 742	42 355	1 438 042
Government-related bonds	147 643	115 813	42 943	11 630	1 319	319 348
Inflation-linked bonds	100 323	10 245	6 090	4 968	-	121 626
Corporate bonds	5 896	55 472	216 263	315 930	14 574	608 135
Securitised bonds	109 641	19 931	2 471	1 642	-	133 685
Total bonds	1 143 728	396 060	574 886	447 913	58 249	2 620 835

Amounts in NOK million, 31.12.2017	AAA	AA	A	BBB	Lower rating	Total
Government bonds	724 614	214 529	292 828	174 394	52 463	1 458 828
Government-related bonds	141 463	119 116	44 171	10 719	1 318	316 787
Inflation-linked bonds	112 634	8 131	3 038	7 322	-	131 125
Corporate bonds	5 988	54 763	241 644	316 896	12 666	631 957
Securitised bonds	112 106	15 977	2 961	1 598	-	132 642
Total bonds	1 096 805	412 516	584 642	510 929	66 447	2 671 338

The proportion of bond holdings categorised with credit rating AAA increased to 43.6 percent at the end of the second quarter, compared to 41.1 percent at year-end 2017. The increase is primarily due to an increase in government bonds in this category. The share of bond holdings in the category *Lower rating* was reduced to 2.2 percent, from 2.5 percent at the end of 2017. The overall credit quality of the bond portfolio has improved slightly since year-end.

Counterparty risk

Counterparty risk is the risk of loss due to counterparty bankruptcy or other events leading to counterparties defaulting. The

method used to calculate the counterparty risk exposure arising from derivatives and foreign exchange contracts has been changed in 2018, from the Current Exposure Method to the new Standardised Approach for counterparty credit risk (SA-CCR). Both methods are issued by the Basel Committee on Banking Supervision, where the Current Exposure Method has been replaced by the new Standardised Approach for counterparty credit risk for derivatives and foreign exchange contracts. The new Standardised Approach seeks to improve the Current Exposure Method by considering collateral received and netting arrangements to a larger extent when calculating counterparty risk. The treatment of collateral has also been



further developed, and stressed periods in the financial markets are to a greater extent taken into account when calculating future expected risk exposure. At the end of the second quarter,

the new Standardised Approach has resulted in a somewhat higher counterparty risk exposure for the portfolio compared with the Current Exposure Method.

Table 8.5 shows counterparty risk by type of position.

Table 8.5 Counterparty risk by type of position

Amounts in NOK million	Risk exposure	
	30.06.2018	31.12.2017 ¹
Securities lending	63 698	71 150
Unsecured bank deposits ² and securities ³	22 421	14 008
Derivatives including foreign exchange contracts ⁴	19 245	18 769
Settlement risk towards broker and long-settlement transactions	8 160	2 598
Repurchase and reverse repurchase agreements	2 701	4 662
Participatory certificates ³	-	6 802
Total	116 225	117 989

¹ Certain comparative amounts have been restated to conform to current period presentation.

² Includes bank deposits in non-consolidated real estate subsidiaries.

³ In the first quarter of 2018, the fund's holdings of Saudi Arabian participatory certificates were converted to shares in companies listed on the Saudi Arabian stock exchange. Counterparty risk arises from these listed equities as they are considered to be unsecured.

⁴ Comparative amounts are based on the methodology used at year-end 2017.

Note 9 Foreign exchange gain/loss

SIGNIFICANT ESTIMATE

Gains and losses on financial instruments are due to changes in the price of the instrument (before foreign exchange gain/loss) and changes in foreign exchange rates (foreign exchange gain/loss). These are presented separately in the income statement. The method of allocating total gain/loss in Norwegian kroner to a security element and a foreign exchange element is an estimate, as different methods will result in different allocations. For further information on the method used, see note 10 *Foreign exchange gains and losses* in the annual report for 2017.



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The market value of the fund in Norwegian kroner is impacted by changes in foreign exchange rates. See table 8.1 in note 8 *Risk* for an overview of the allocation of the GPFG's

investments per asset class, country and currency. The change in the fund's market value due to changes in foreign exchange rates is presented in table 9.1.

Table 9.1 Specification of Foreign exchange gain/loss

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Foreign exchange gain/loss - USD/NOK	98 255	-63 891	-6 425	-67 976	-126 868
Foreign exchange gain/loss - EUR/NOK	-21 108	56 010	-46 157	71 936	111 425
Foreign exchange gain/loss - JPY/NOK	-1 760	-17 323	7 553	4 999	-8 367
Foreign exchange gain/loss - GBP/NOK	-12 922	6 304	-15 423	10 970	20 745
Foreign exchange gain/loss - other	-15 294	-13 458	-75 044	30 718	17 766
Foreign exchange gain/loss	47 171	-32 358	-135 496	50 647	14 701

Note 10 Management costs

Management costs comprise all costs relating to the management of the fund. These are mainly incurred in Norges Bank, as well as in subsidiaries of Norges Bank, exclusively established as part of the management of the GPFG's investments in unlisted real estate.

MANAGEMENT COSTS IN NORGES BANK

The Ministry of Finance reimburses Norges Bank for costs incurred in connection with the management of the GPFG, in the form of a management fee. The management fee is equivalent to the actual costs incurred by Norges Bank, including performance-based fees to external managers, and is expensed in the income statement line *Management fee*. Costs included in the management fee are specified in table 10.1.

Table 10.1 Management fee

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date		Year-to-date		2017	
			30.06.2018	Basis points	30.06.2017	Basis points		Basis points
Salary, social security and other personnel-related costs	301	291	605		624		1 325	
Custody costs	104	98	188		197		404	
IT services, systems, data and information	140	169	295		323		657	
Research, consulting and legal fees	67	53	136		86		252	
Other costs	103	53	188		117		251	
Allocated costs Norges Bank	43	43	86		85		161	
Base fees to external managers	215	221	462		430		755	
Management fee excluding performance-based fees	973	928	1 960	4.7	1 862	4.8	3 804	4.8
Performance-based fees to external managers	165	348	548		591		924	
Total management fee	1 138	1 276	2 508	6.0	2 453	6.4	4 728	6.0

MANAGEMENT COSTS IN SUBSIDIARIES

Management costs incurred in subsidiaries consist of operating costs related to the management of the unlisted real estate portfolio. These costs are expensed directly in the portfolio result and are not part of the

management fee. Management costs incurred in non-consolidated and consolidated subsidiaries are presented in the income statement as *Income/expense from unlisted real estate* and *Other income/expense*, respectively. These costs are specified in table 10.2.

Table 10.2 Management costs, real estate subsidiaries

Amounts in NOK million	2Q 2018	2Q 2017	Year-to-date 30.06.2018	Year-to-date 30.06.2017	2017
Salary, social security and other personnel-related costs	5	6	12	12	33
IT services, systems, data and information	11	9	19	17	42
Research, consulting and legal fees	11	7	16	10	23
Other costs	3	4	7	8	17
Total management costs, real estate subsidiaries	30	26	54	47	116
<i>Of which management costs non-consolidated subsidiaries</i>	25	22	44	38	97
<i>Of which management costs consolidated subsidiaries</i>	5	4	10	9	19

UPPER LIMIT FOR REIMBURSEMENT OF MANAGEMENT COSTS

The Ministry of Finance has established an upper limit for the reimbursement of management costs and Norges Bank is only reimbursed for costs incurred within this limit. Performance-based fees to external managers are reimbursed in addition to this limit.

For 2018, the sum of total management costs incurred in Norges Bank and its subsidiaries, excluding performance-based fees to external managers, is limited to 7 basis points of average

assets under management. In accordance with guidelines from the Ministry of Finance, average assets under management is calculated based on the market value of the portfolio in Norwegian kroner at the start of each month in the calendar year.

Management costs measured against the upper limit amount to NOK 2 014 million year-to-date. This consists of management costs in Norges Bank (excluding performance-based fees to external managers) of NOK 1 960 million and management costs in subsidiaries of

NOK 54 million. This corresponds to 4.8 basis points of assets under management on an annual basis.

Total management costs including performance-based fees to external managers amount to NOK 2 562 million year-to-date. This corresponds to 6.2 basis points of assets under management on an annual basis.

OTHER OPERATING COSTS IN SUBSIDIARIES

In addition to the management costs presented in table 10.2, other operating costs are also incurred in subsidiaries related to the ongoing maintenance, operation and development of properties and leases. These are not costs related to investing in real estate, they are costs

of operating the underlying properties once they are acquired. Therefore, they are not defined as management costs. Other operating costs are expensed directly in the portfolio result and are not part of the management fee. They are also not included in the costs measured against the upper cost limit.

Other operating costs incurred in non-consolidated companies are presented in the income statement line *Income/expense from unlisted real estate*. See table 6.3 in note 6 *Unlisted real estate* for further information. Other operating costs incurred in consolidated subsidiaries are expensed in the income statement line *Other income/expense*.

Report on Review of Interim Financial Information

Introduction

We have reviewed the financial reporting for the investment portfolio of the Government Pension Fund Global. Subsidiaries of Norges Bank that exclusively constitute investments as part of the management of the investment portfolio are included in the financial reporting. The financial reporting comprises the balance sheet as at 30 June 2018, the income statement, the statement of changes in owner's capital, and the statement of cash flows for the six-month period then ended, and selected explanatory notes. The Executive Board and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily to persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with international standards on auditing, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the EU.

Oslo, 15 August 2018

Deloitte AS

Henrik Woxholt
State Authorized Public Accountant (Norway)

Translation has been made for information purposes only.



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