Norges Bank Investment Management
26. August 2003

Management of the Government Petroleum Fund
Report for the second quarter 2003

Summary

The return on the Government Petroleum Fund in the second quarter of 2003 was 7.74 per cent measured in terms of the currency basket that corresponds to the composition of the Fund's benchmark portfolio. The overall return in the first half of 2003 was 5.90 per cent.

The second quarter return on the equity portfolio was 15.56 per cent measured in terms of the benchmark portfolio's currency basket. Equity prices in all three main markets rose through the quarter. The return for the quarter on the fixed income portfolio was positive at 2.77 per cent, measured in terms of the currency basket.

The return on the Petroleum Fund's ordinary portfolio in the second quarter of 2003 was 0.07 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Finance. The overall excess return in the first half of 2003 was 0.31 percentage point.

The second quarter return on the Environmental Fund was 15.32 per cent measured in terms of the benchmark currency basket. The overall return in the first half of 2003 was 5.86 per cent.

During the quarter, capital equivalent to NOK 23.1 billion was transferred to the Petroleum Fund's international equity and fixed income portfolios. The market value of the Fund's total securities portfolio was NOK 775 billion at the end of the second quarter, which is an increase of NOK 93 billion during the quarter and an increase of NOK 166 billion since year-end.

The increase in market value is due to several factors: a positive return, the transfer of new capital and a depreciation of the krone against the currencies in which the Fund is invested. The depreciation of the krone exchange rate in the first half of 2003 accounted for about NOK 59 billion. This has no effect on the international purchasing power of the Fund. NOK 66 billion in new capital was transferred to the Fund, while the return on invested capital, measured in international currencies, amounted to about NOK 41 billion.

1. Main figures

The return on the Government Petroleum Fund in the second quarter of 2003 was positive, at 7.74 per cent, measured in terms of the currency basket corresponding to the composition of the Fund's benchmark portfolio. Chart 1 shows that since the Fund was first invested in equities in 1998, only the fourth quarter of 1999 has shown a higher return than this past quarter.

Chart 1: Quarterly return on the Petroleum Fund since 1998 measured in terms of the Fund's currency basket. Per cent

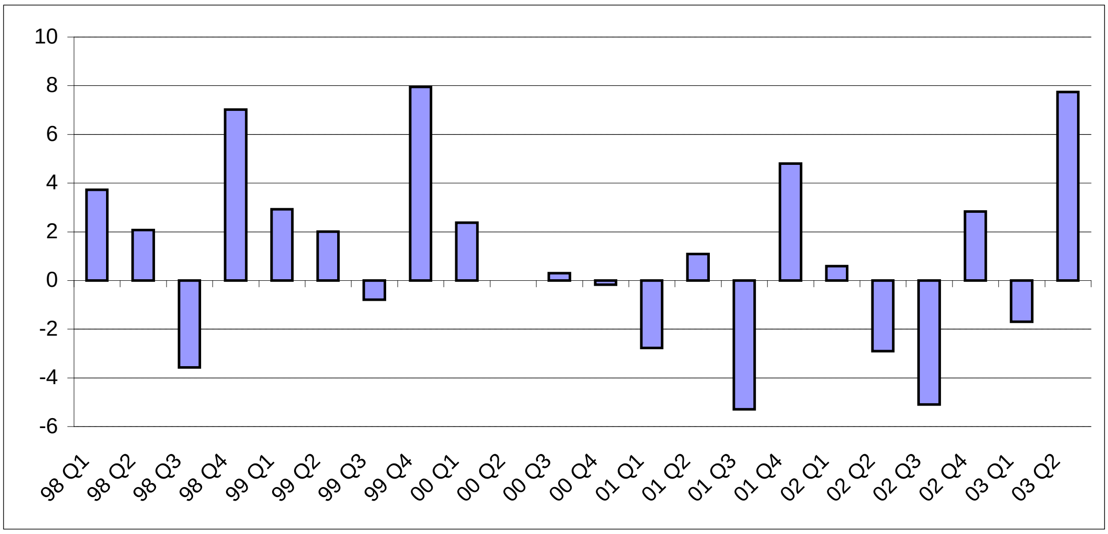
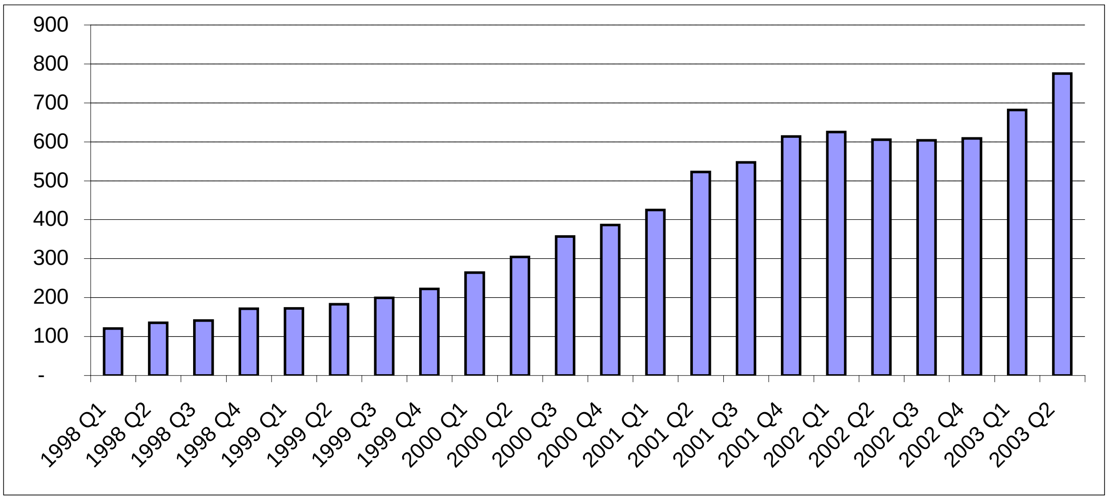


Chart 2 shows that the Petroleum Fund has grown from NOK 113 billion to NOK 775 billion since 1 January 1998, measured in NOK. The time profile of changes in value is strongly influenced by fluctuations in the krone exchange rate. For example, given an unchanged krone exchange rate against the currencies invested in, the rise in value would have been much more pronounced in 2002. Over the period as a whole, however, value changes measured in NOK corresponded more or less to developments in international purchasing power, i.e. the value measured in terms of the Fund's currency basket.

Chart 2: The market value of the Petroleum Fund 1998-2003. In billions of NOK



Since 1 January 1997, the annual net real return on the Petroleum Fund (after deductions for management costs and price inflation) has been 3.23 per cent. Table 1 shows the return up to the end of the second quarter of 2003, calculated as an annual rate from 1 January for each of the years 1997 -2002. Price inflation is a weighted average of the price inflation rates in the countries in the benchmark portfolio defined by the Ministry of Finance.

The right-hand column shows that the average gross excess return has been 0.41 percentage point per year. This is the difference between the return on the actual portfolio and the return on the benchmark, calculated as an arithmetic differential and then annualised. In this calculation, the benchmark return is adjusted for the accrued costs of operating the portfolio (see Section 5).

Table 1: Annual rates of return for the Petroleum Fund (including the Environmental Fund) up to the end of the second quarter of 2003, measured in terms of the Fund's currency basket. Per cent per year

	Nominal annual return	Annual price inflation	Annual management costs	Annual net real return	Annual gross excess return
From 01.01.97	4.76	1.52	0.08	3.23	0.41
From 01.01.98	3.99	1.48	0.08	2.51	0.42
From 01.01.99	2.85	1.60	0.08	1.25	0.47
From 01.01.00	0.27	1.70	0.08	-1.43	0.28
From 01.01.01	-0.61	1.55	0.08	-2.17	0.28
From 01.01.02	0.62	1.81	0.09	-1.19	0.36

Chart 3 shows cumulative rates of return from 1 January 1998 for the fixed income and equity portfolios separately. During these 22 quarters, there has been a cumulative negative nominal return on equity investments of -1.3 per cent and a positive nominal return on fixed income investments of 42.2 per cent.

Chart 3: Index for cumulative return on the Petroleum Fund's sub-portfolios (including the Environmental Fund, for equities) in the years 1998-2003. The Fund's currency basket as at 31 December 1997 = 100

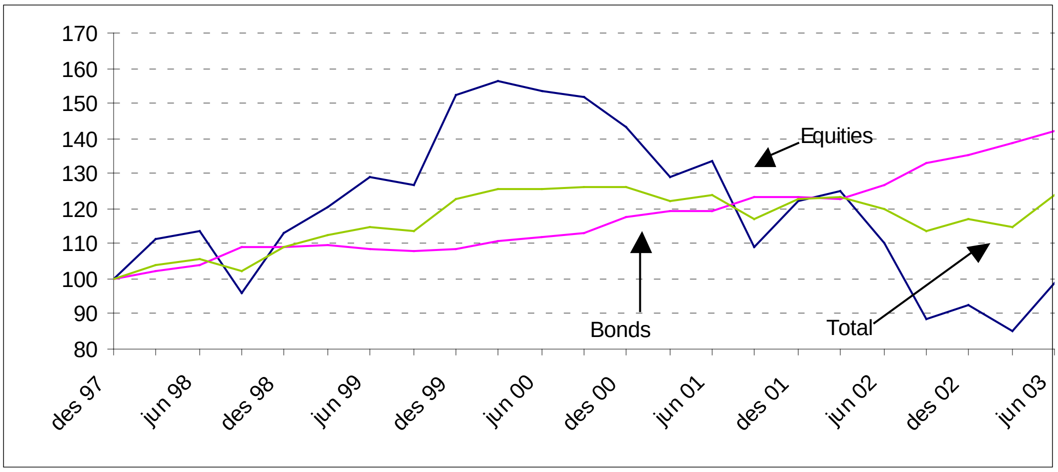


Chart 4 shows the cumulative return on the Petroleum Fund since 1 January 1998. The return up to the end of the second quarter of 2003 was 24.0 per cent. During the same period, the return on the benchmark was 21.3 per cent. The difference between the actual return and the return on the benchmark is the excess return achieved by Norges Bank. The cumulative gross excess return since 1998 is 2.7 percentage point, which corresponds to NOK 7.5 billion.

Chart 4: Index for cumulative actual return and benchmark return (left-hand axis) and quarterly gross excess return in percentage points (right-hand axis) 1998-2002

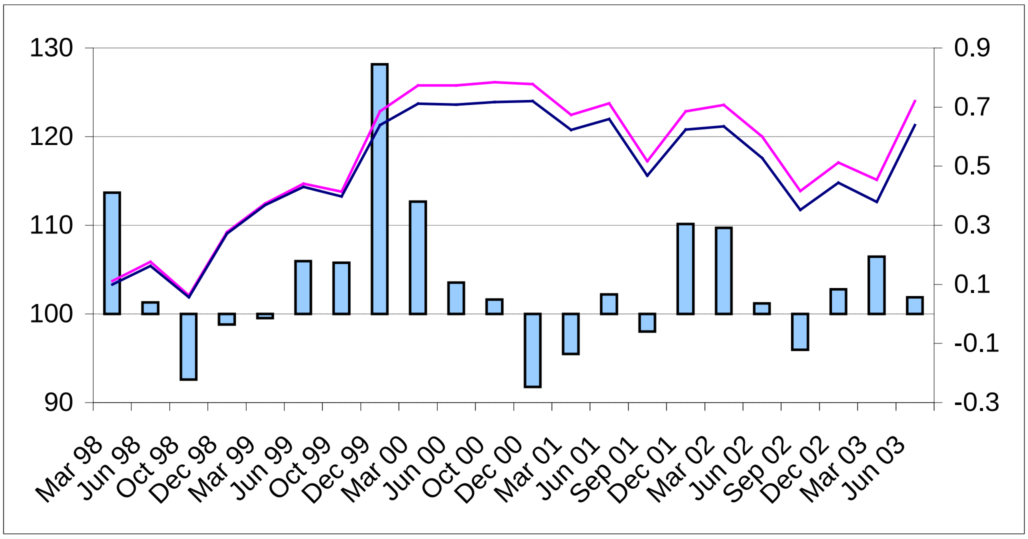
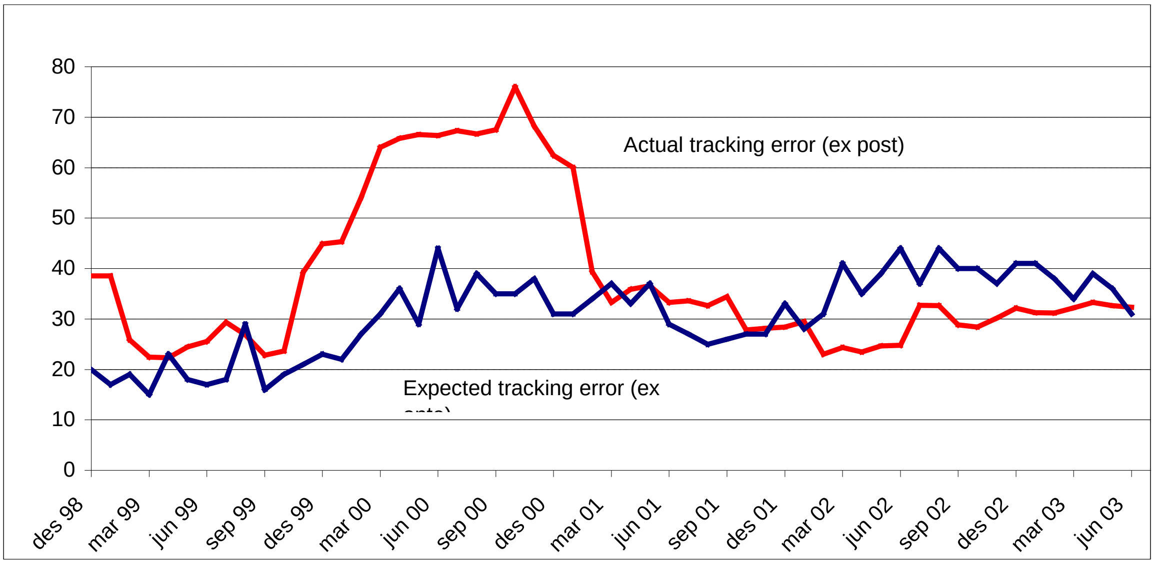


Chart 5 shows developments in relative market risk from December 1998, measured in two different ways. In the guidelines from the Ministry of Finance, 'expected tracking error' (which is explained in Chapter 6 below) is used as a measure of market risk. In retrospect, we can use the variation in the difference between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual market risk in the period. In Chart 5, this tracking error is calculated as an annualised rate using 12-month moving windows.

Chart 5: Relative market risk at the end of each month, measured ex ante by expected tracking error and ex post by calculated tracking error on the monthly return differential for the past 12 months. Figures in basis points (hundredths of a percentage point)



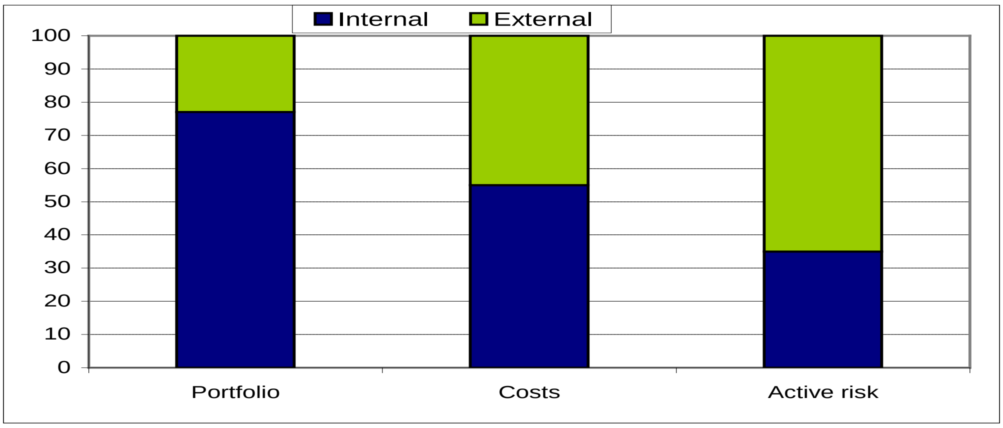
Both expected tracking error and actual tracking error may fluctuate considerably even when the degree of active management is unchanged. This is because the measures are influenced by different types of market developments, such as changes in market volatility and in correlations between the various asset classes and securities. Expected tracking error has consistently remained well below the limit for relative market risk in the Petroleum Fund's portfolio set by the Ministry of Finance.

The information ratio is a widely used measure of the skill of operational managers. The information ratio is the ratio between the gross excess return for the year and relative market risk (measured here as the actual standard deviation of the return differential). The average information ratio for the Fund from the second quarter of 1998 to the second quarter of 2003 has been 1.01, measured as an annual ratio. Norges Bank's management objective is to achieve an information ratio of at least 0.2-0.3.

Chart 6 shows some key figures associated with the distribution of external and internal management. It shows that at the end of the second quarter, 23 per cent of the Petroleum Fund was managed by external managers. At the same time, expenses in connection with external management accounted for 45 per cent of total management costs. The market risk associated with external management represented about 65 per cent of the total risk associated with management.

The market risk taken by external managers is largely associated with active management, while the risk in internal management is largely associated with enhanced indexing. Active management costs appreciably more than indexing, and this is one reason that unit costs are far higher for external than for internal management. However, comparable management is also less expensive with internal than with external managers. There is limited internal capacity for active management, however, and external managers are used to achieve sufficient breadth and scope in risk-taking.

Chart 6: Distribution of portfolio, management costs and active risk* between internal and external management. Per cent



* There is no absolutely correct method of calculating the distribution of active risk. The distribution in the chart is based on a summation of the risk (VaR) associated with internal and external mandates, irrespective of the correlation between the different mandates.

2. Mandate

Norges Bank manages the Government Petroleum Fund pursuant to a regulation issued by the Ministry of Finance on 3 October 1997, last amended on 18 December 2002 with effect from 1 January 2003. The rules concerning the regional distribution of equities were then changed, in that the two regions Americas and Asia/Oceania were combined into one region. The regulation now stipulates that equities listed on stock exchanges in Europe and equities listed on stock exchanges in the Americas, Asia and Oceania combined shall each constitute between 40 and 60 per cent of the ordinary equity portfolio.

At the same time, the long-term (strategic) equity benchmark portfolio was changed in such a way that all companies in the new region outside Europe will be weighted according to market capitalisation. This change is being made in several steps. It will result in the Petroleum Fund benchmark portfolio containing equally large ownership interests in companies listed on stock exchanges in the Americas, Asia and Oceania. The Fund's average ownership in European companies will still be somewhat higher than in companies listed on stock exchanges outside Europe.

The strategic benchmark defined by the Ministry of Finance for the Petroleum Fund is composed of FTSE equity indices in 27 countries and of Lehman Global Aggregate bond indices in the currencies of the 22 countries that are approved for fixed income investments. Equities shall account for 40 per cent of the benchmark portfolio for the Petroleum Fund (excluding the Environmental Fund) and fixed income instruments shall account for 60 per cent. The equity portion of the benchmark consists of securities listed in Europe (50 per cent) and in the Americas/Asia/Oceania (50 per cent). The regional distribution in the fixed income benchmark is Europe 55 per cent, North America 35 per cent and Asia/Oceania 10 per cent.

In a letter of 8 May, the Norwegian Ministry of Finance changed the benchmark for the fixed income portfolio, so that the Asia/Oceania portion now only comprises government bonds. The reason for this was that markets for non-government-guaranteed bonds are very limited and fairly illiquid in this region, so that a simplification of operational management can be achieved without substantially influencing expected performance and risk.

The asset classes and regional weightings in the actual benchmark normally differ slightly from the strategic weights as described above. The actual weightings change constantly as a result of changes in market prices for the securities in the benchmark. The monthly transfers of new capital to the Petroleum Fund are used to bring the asset class and regional weightings back as close to the original weightings as possible, providing this does not necessitate selling anything from the existing portfolio. Thus, even after the transfer of new capital, there may be some difference between the strategic benchmark and the actual benchmark. The latter provides the basis for managing risk and measuring the performance of the Petroleum Fund. Only if the actual benchmark differs too much from the strategic benchmark over time is the actual benchmark to be brought completely back into line with the strategic benchmark.

The weightings in both the actual and the strategic benchmark at the end of the first quarter are shown in Table 2. The weightings in the fixed income benchmark apply to the foreign currency in which the securities are issued. The share for each country in the euro area is therefore not listed.

Table 2: Benchmark portfolio at 30 June 2003 for the Petroleum Fund's ordinary portfolio (excluding the Environmental Fund). Per cent

	Equities		Fixed income instruments	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark	Actual benchmark	Strategic benchmark	Actual benchmark
Asset class weightings	**40.0**	**41.2**	**60.0**	**58,8**
Belgium		0.7		
Finland		1.1		
France		6.8		
Greece		0.4		
Ireland		0.5		
Italy		3.0		
Netherlands		3.5		
Portugal		0.3		
Spain		2.7		
Germany		4.8		
Austria		0.2		
Euro area countries (EUR)		*24.1*		*47.1*
UK (GBP)		18.3		5.8
Denmark (DKK)		0.6		0.9
Switzerland (CHF)		5.0		0.6
Sweden (SEK)		1.6		0.8
Turkey		0.1		
Total Europe	**50.0**	**49.7**	**55.0**	**55.3**
US (USD)		35.2		32.8
Brazil		0.2		
Canada (CAD)		1.6		2.1
Mexico		0.3		
Total America			**35.0**	**34.9**
Australia (AUD)		2.0		0.7
Hong Kong		0.9		
Japan (JPY)		7.6		8.6
New Zealand (NZD)		0.1		0.2
Singapore (SGD)		0.3		0.3
South Korea		0.9		
Taiwan		1.1		
Total Asia and Oceania			**10.0**	**9.8**
Total Americas, Asia and Oceania	**50.0**	**50.3**		

The Ministry of Finance has set a limit for the market risk the Petroleum Fund may have relative to the benchmark. In the ordinary portfolio, relative market risk, measured as expected tracking error in the RiskManager risk management system, shall always be less than 1.5 percentage points. Tracking error is explained in Chapter 6 below.

The Environmental Fund is a separate equity portfolio in the Petroleum Fund. It may be invested in the same countries as the ordinary equity portfolio, with the exception of emerging markets. The Environmental Fund's benchmark portfolio is the same as the benchmark for the Petroleum Fund's ordinary equity portfolio for each country, except that only companies that comply with specific requirements regarding environmental reporting or environmental management systems are included. The requirements regarding environmental reporting and certification have been stipulated by the Ministry of Finance. In accordance with these requirements, all companies in the benchmark are reviewed quarterly by an external consulting company selected by the Ministry of Finance.

At the time of establishment in 2001, the Environmental Fund's benchmark had the same distribution among the main regions of Europe, the Americas and Asia/Oceania as the ordinary portfolio had at that time. Over time, the regional weightings vary with developments in market capitalisation values, and are never restored to the original distribution. For the Environmental Fund, the limit for the relative market risk associated with management was set at 1 percentage point.

3. Market developments

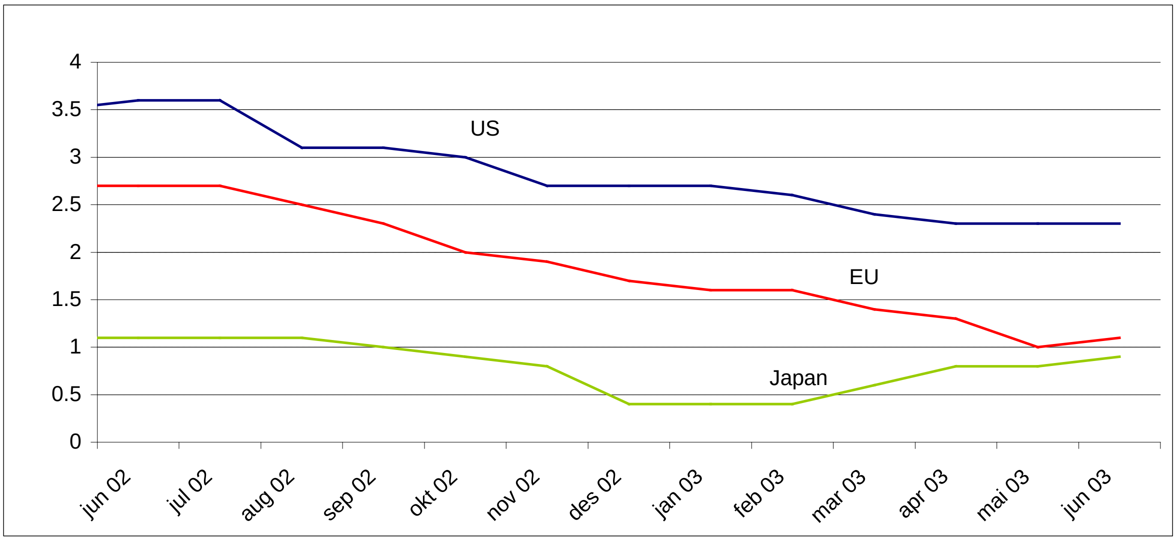
3.1. Main features

The growth outlook for Europe deteriorated through the second quarter. At the end of the quarter, average growth forecasts among a sample of economists came to around 1 per cent for 2003 (see Chart 7). In the course of the spring, the projected growth rate in the US stabilised at just over 2 per cent. In Japan, growth projections stabilised at just under 1 per cent.

Low interest rates in the US led to an increase in refinancing of home mortgages and in housing starts. Tax cuts were also adopted, which are expected to boost consumer demand later in the autumn. However, the business sector is still reluctant to increase investment. The US dollar has depreciated, particularly against the euro. thereby providing growth impulses for the US export industry,

Core inflation in the US is now about 1.5 per cent, and is still declining. The Federal Reserve has on several occasions expressed concern that inflation may be too low. On 25 June the Federal Reserve reduced the key rate from 1.25 to 1 per cent, in response concerns about deflation.

Chart 7: Expected GDP growth in 2003 in the US, the EU and Japan, measured at various times in the past 12 months. Per cent



Source: Consensus Economics Inc.

In Europe, the appreciation of the euro is an important part of the explanation for the downward revision of growth prospects. The European Central Bank's objective is inflation of just under 2 per cent, whereas the actual inflation rate is now fluctuating around a slightly higher level. The sharp appreciation of the euro is a drawback for the European export industry, but on the other hand will contribute to curbing inflation. On 5 June, the ECB lowered its key rate from 2.5 to 2 per cent.

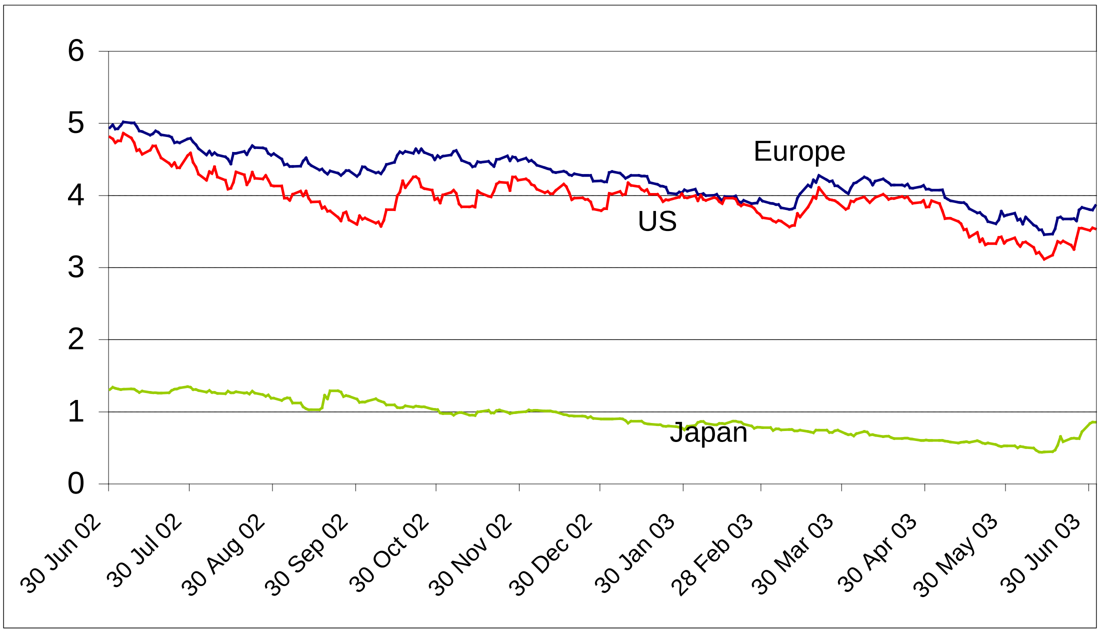
Expected growth in Japan is under 1 per cent, following an upward revision in the first quarter. The yen has appreciated against USD, but depreciated against the euro. These developments, coupled with strong Asian demand for Japanese goods, has somewhat improved the outlook for economic growth.

3.2. Fixed income markets

Bond yields in the three main regions, the US, Japan and Europe, showed roughly parallel developments through the second quarter. Yields dropped substantially from the beginning of the quarter to mid-June, followed by a rise of about 0.4 percentage point for 10-year yields in all three regions. Yields in the US and Europe nevertheless ended up about half a percentage point below the level at the beginning of the quarter. Only Japanese yields were slightly higher at the end of the quarter than at the beginning.

In the US, 10-year yields dropped from around 4 per cent at the beginning of the second quarter to slightly over 3 per cent just before the Federal Reserve cut the key rate on 25 June. The sharp decline in yields took place after statements interpreted as implying that the central bank would not raise the key rate even if economic growth should pick up. There have also been discussions concerning the possibility of further measures from the central bank if economic activity should not pick up despite lower interest rates. Investors appear to have interpreted this to the effect that the central bank might purchase long bonds in the market in order to bring down long-term yields.

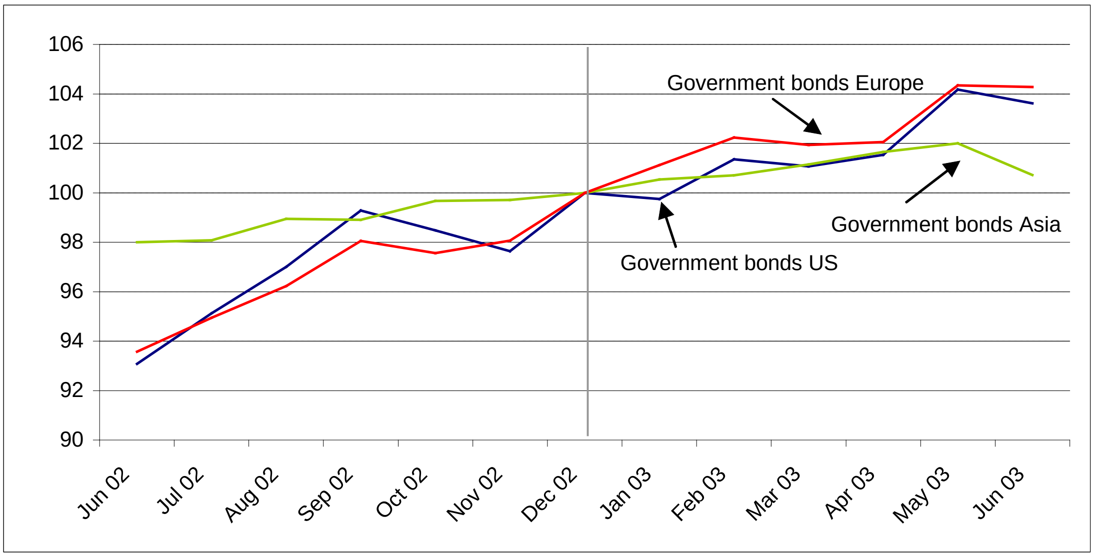
Chart 8: Developments in the most important bond markets in the last 12 months. Yields on government bonds with roughly 10 years to maturity. Per cent per year



The sharp reduction in yields in May can be interpreted as a reaction to expectations of a more active US monetary policy. There was no new information from the US, Japanese or European economies to indicate a deterioration in the outlook for economic growth. Equity prices continued rising in May, and this does not normally reflect expectations of weak economic growth.

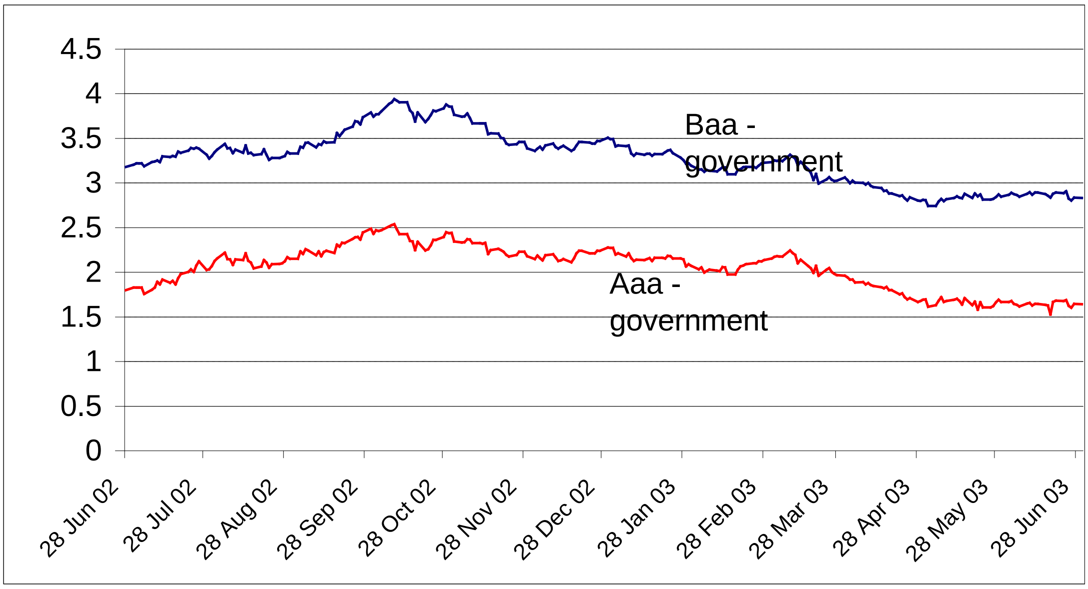
During the last few days of June, however, yields rose by almost half a percentage point. The mood in the bond market became more optimistic after a business sentiment indicator revealed signs that the US economy could be on the brink of a stronger recovery than previously expected. US inflation figures were also somewhat higher than the market had expected. The Federal Reserve cut the key rate by only 0.25 percentage point on 25 June, instead of the 0.5 percentage point expected by many. This was interpreted as a sign that long-term yields should increase.

Chart 9: Movements in Lehman Global Aggregate government bond indices in the main markets in the last 12 months (31.12.02 = 100)



The difference between the interest rates creditworthy US borrowers must pay and that paid by the US government fell sharply during the second quarter. There are several factors behind the narrowing of credit spreads. Businesses are in a period of cutbacks and debt repayment. These measures are boosting the financial soundness of the business sector, and thereby providing a basis for lower interest rate spreads between private and public sector borrowers. Demand for loans from the corporate sector has declined, but demand from the public sector has risen in pace with the growing budget deficit. In addition to these long-term trends, the end of the war in Iraq has eliminated a risk factor and hence increased the willingness of investors to take other risk. This has led to a narrowing of credit spreads, and at the same time influenced equity markets. Improved corporate results in the US in the first quarter contributed to the positive mood in the credit market.

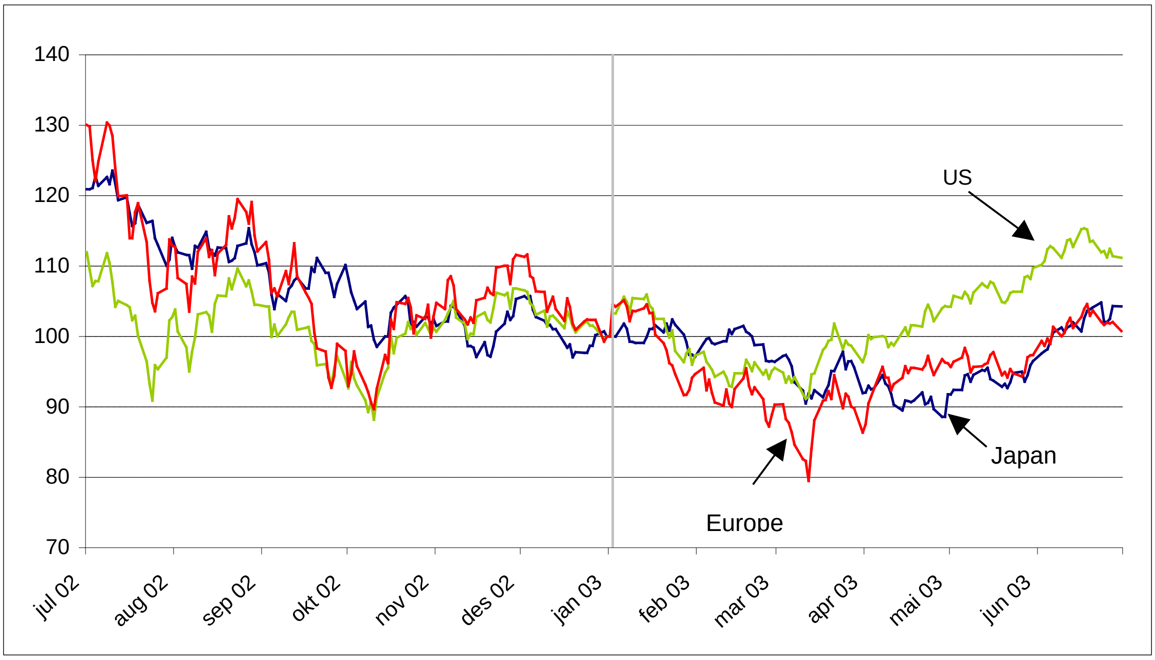
Chart 10: Credit spread in USD: Yield on bonds in Moody's rating classes Aaa and Baa minus yield on government bonds in the last 12 months



3.3. Equity markets

Chart 11 shows that equity prices rose in all three main markets in the second quarter. One important reason for this was that the war in Iraq was concluded rapidly without substantial US or British losses. The oil installations in Iraq were only slightly damaged, while those in neighbouring countries sustained no damage. Oil prices have declined somewhat since the war, although not as much as many had expected. Uncertainty regarding the economic consequences of the war has abated substantially.

Chart 11: Price performance in the FTSE equity indices in the main markets in the last 12 months. (31.12.02 = 100)



Investors in equities appear to have been of the opinion that a reduction in uncertainty justifies a lower risk premium in the equity market, and hence higher equity prices. The first quarter results of US joint-stock companies were also better than expected. Energy sector results were particularly good. In addition, there was political consensus in the US on a tax package with cuts to take effect in the summer already. However, there is some uncertainty as to how great an impact this tax package will have on private consumption and investment, because a large proportion of the tax relief is temporary, and because high-income groups will benefit the most. In addition to lower taxes, refinancing of home mortgages has increased households' cash holdings. Previous experience indicates that about half of these cash holdings will translate into higher consumer demand.

These impulses contributed to a substantial rise in prices in the US equity market in the second quarter. Equity markets in Europe recorded similar advances, despite the appreciation of the euro, and despite the fact that manufacturing is still troubled by strikes and a low volume of new orders. The explanation may be a contagion effect from the US. The ECB contributed with an interest rate cut of ½ percentage point on 5 June. This is a further sign that the weak economic developments in Europe in the last few years have increased the probability of labour market and government pension reform.

In Japan, the central bank has contributed to curbing the appreciation of the yen by intervening in the foreign exchange market. As a result, Japanese industry has maintained its competitiveness in relation to US industry, and strengthened its competitiveness against European industry. Japanese industry has also benefited from the relatively strong import demand from neighbouring Asian countries.

Table 3: Return on the main sectors and the ten largest sub-sectors in the FTSE All-World Index in 2003, measured in terms of USD, NOK and the Fund's currency basket. Per cent

Sector	USD	NOK	Currency basket
Commodities	**11.53**	**10.94**	**8.54**
- of which oil and gas extraction	11.87	11.28	8.87
Basic industries	**17.24**	**16.62**	**14.10**
General industrials	**18.39**	**17.77**	**15.22**
- of which diversified industrials	17.26	16.64	14.12
Cyclical consumer goods	**11.69**	**11.10**	**8.70**
Non-cyclical consumer goods	**12.24**	**11.65**	**9.23**
- of which pharmaceuticals and biotechnology	18.38	17.75	15.20
Cyclical services	**16.92**	**16.31**	**13.79**
- of which retail trade	20.03	19.39	16.81
Non-cyclical services	**21.02**	**20.39**	**17.78**
- of which telecommunications	21.21	20.57	17.96
Utilities	**17.27**	**16.65**	**14.12**
Financial services	**22.29**	**21.64**	**19.01**
- of which banks	24.37	23.72	21.04
- of which insurance companies	22.12	21.48	18.85
- of which other financial service providers	18.45	17.82	15.27
Information technology	**19.28**	**18.65**	**16.08**
- of which hardware	24.34	23.68	21.00
- of which software and computer services	12.27	11.68	9.26

4. Management of the Fund

At the beginning of the second quarter, the market value of the Petroleum Fund’s portfolio invested in international capital markets was NOK 682.0 billion. On 30 April, the Ministry of Finance transferred NOK 9.9 billion to the Fund’s krone account, on 30 May NOK 7.1 billion and on 30 June a further NOK 6.1 billion. On the same dates, equivalent amounts in foreign currency were transferred to the securities portfolio. At the end of the quarter, the market value of the Petroleum Fund's combined securities portfolio was NOK 775.5 billion.

Table 4: Market value of the Petroleum Fund’s sub-portfolios. In millions of NOK

	Ordinary equity portfolio	Fixed income portfolio	Environmenta l Fund	Petroleum Fund overall
31 Dec. 2002	229 834	378 017	1 159	609 010
31 March 2003	264 400	416 440	1 133	681 973
30 April 2003	280 136	418 162	1 196	699 493
30 May 2003	290 297	422 167	1 213	713 677
30 June 2003	**318 915**	**455 273**	**1 335**	**775 523**

During the second quarter, the Fund’s market value rose by NOK 93.6 billion. Of this amount, NOK 23.1 billion was due to the transfer of new capital, while about NOK 19 billion was due to the depreciation of NOK against investment currencies. This has no effect on the international purchasing power of the Fund, however. The remaining NOK 51 billion is positive return measured in international currencies.

4.1. Management of the fixed income portfolio

The market value of the fixed income portfolio increased in the second quarter from NOK 416 billion to NOK 455 billion. The increase is partly due to total transfers of NOK 17 billion in new capital to the fixed income portfolio, partly to the portfolio’s positive return in the quarter, and partly to the appreciation of investment currencies against NOK.

At the end of the quarter, about 90 per cent of the fixed income portfolio was being managed internally in Norges Bank. At the outset, the fixed income portfolio is managed by means of enhanced indexing, with the principle aim of achieving a market exposure in line with the benchmark portfolio, but special strategies are also used with a view to outperforming the benchmark with moderate market risk exposure. Active strategies are also employed in internal management in order to outperform the benchmark.

In the fixed income portfolio, three sub-portfolios are indexed: government-guaranteed bonds, corporate bonds and asset-backed bonds. Most of the portfolio, that is to say the first two sub-portfolios and asset-backed bonds in Europe, are indexed internally. Mortgage-backed bonds in the US are indexed by external managers, however.

About 10 per cent of the fixed income portfolio is managed externally. In addition to the mandates for mortgage-backed bonds in the US, there are also global mandates with various types of active strategies for outperforming the benchmark.

In the second quarter, an agreeement for global custodian services for fixed income instruments was entered into with Citibank N.A. The securities under internal management are to be kept together there, rather than distributed among several regional custodian institutions, as in the past.

4.2. Management of the equity portfolio

A total of NOK 6 billion was transferred to the ordinary equity portfolio during the quarter. At the end of the second quarter, the market value of the equity portfolio was NOK 319 billion, an increase of NOK 55 billion since the beginning of the quarter. The increase is partly due to the addition of new capital and partly to an appreciation of the investment currencies against NOK. However, most of the increase is due to return measured in international currencies.

At the end of the quarter, about 57 per cent of the equity portfolio was being managed internally in Norges Bank. Some 34 per cent is managed by enhanced indexing, where various techniques are used to take advantage of special pricing situations. About 16 per cent is active management in selected sectors. Some portfolios are also being held internally prior to transfer to external active managers.

About 43 per cent of the equity portfolio is managed externally. More than 70 per cent of this is active management in regional mandates, while the remainder is active management in defined business sectors.

In the second quarter of 2003, capital was transferred to three new mandates with external equity managers: Credit Suisse First Boston Asset Management, Wellington Management Company and Alliance Capital Management LP. All the mandates are for management in global business sectors.

5. The return on the Fund

In the second quarter of 2002, the Petroleum Fund, including the Environmental Fund, had a return of 7.74 per cent, measured in terms of the benchmark currency basket. Measured in NOK, the total return in the second quarter was 10.12 per cent. The difference is due to NOK depreciating by an average of about 2 per cent against the currencies in the benchmark portfolio during the quarter, so that the Fund's currency basket appreciated in value relative to NOK. This has no effect on the international purchasing power of the Fund, however.

Table 5: Return on the Petroleum Fund's ordinary portfolio. Actual and benchmark portfolios, second quarter 2003. Per cent

	Measured in terms of the Fund's currency basket		**Measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Difference
First quarter	-1.69	-1.88	4.71	4.51	0.19
April	3.74	3.81	1.12	1.19	-0.07
May	2.90	2.82	1.01	0.93	0.08
June	0.92	0.90	7.81	7.79	0.02
Second quarter	7.73	7.70	10.11	10.08	0.03
So far this year	5.90	5.68	15.29	15.05	0.24
+ Adjustment for extraordinary costs and taxes, first half year					0.07
= Gross excess return so far in 2003					0.31

Table 5 shows that the Petroleum Fund's ordinary portfolio (excluding the Environmental Fund) had a marginally lower return of 7.73 per cent for the second quarter. The return was positive in all three months of the quarter. Table 6 shows the returns on the equity and fixed income portions of the ordinary portfolio separately. In terms of the Fund's currency basket, the equity portfolio had a return of 15.56 per cent for the quarter, while the return on the fixed income portfolio was 2.77 per cent.

Table 5 shows that the ordinary portfolio outperformed the benchmark by 0.03 percentage point in the second quarter, according to the index supplier's calculation of the benchmark return. However, this difference does not provide a correct picture of the excess return Norges Bank achieves through its management. Even if Norges Bank had followed the benchmark portfolio exactly (indexing), the actual return would not have been identical to the benchmark return calculated by the index supplier.

Extraordinary transactions costs accrued in the second quarter in connection with the investment of new capital in markets. The Petroleum Fund also paid tax on share dividends in a number of countries. None of these cost components are deducted when the index supplier calculates the return on the benchmark. Adjustments have been made in Table 5 for these components, which together amounted to 0.04 per cent of the total portfolio. Following these adjustments, the gross excess return achieved through the management of the Petroleum Fund in the second quarter was 0.07 percentage point, which was equivalent to about NOK 0.5 billion. Income from securities lending accounted for about NOK 104 million of this amount.

The overall excess return in the first half of 2003 was 0.31 percentage point. The largest contributions in the first half of the year came from internal and external fixed income management and internal equity management. Of the 0.31 percentage point, adjustments for costs not included when calculating the benchmark return account for 0.07 percentage point.

Table 6 shows return figures for the total portfolio, measured against various currencies. The US dollar depreciated against the currency basket in the second quarter, and as a result the return measured in USD was more positive, at 10.71 per cent. If we measure against the euro instead, we obtain a return of 2.35 per cent for the period. The return measured in terms of an import-weighted currency basket was a positive 7.47 per cent.

Table 6: Return on the Petroleum Fund's sub-portfolios and total portfolio in the second quarter of 2003 measured against various benchmark currencies. Per cent

	Equities	Fixed income	Environmental Fund	Total
The Petroleum Fund's currency basket	15.56	2.77	15.32	7.74
Import-weighted currency basket	15.27	2.51	15.03	7.47
USD	18.75	5.60	18.49	10.71
EUR	9.79	-2.37	9.55	2.35
NOK	18.12	5.04	17.87	10.12

Table 7 shows that in the second quarter the Environmental Portfolio had a return of 15.32 per cent measured in terms of the currency basket and 17.87 per cent measured in NOK. The return was 0.03 percentage point higher than the return on the benchmark portfolio. However, overall in the first half of the year the actual portfolio underperformed the benchmark by -0.02 percentage point. The benchmark return in the first half of the year was 0.04 percentage point higher than the return on a comparable benchmark from which no companies had been excluded on the basis of environmental criteria.

Table 7: Return on the Environmental Fund in the second quarter of 2003. Per cent

	Measured in terms of the Fund's currency basket		Measured in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Difference
First quarter	-8.20	-8.16	-2.22	-2.18	-0.04
April	8.28	8.26	5.54	5.53	0.01
May	3.33	3.38	1.43	1.48	-0.05
June	3.07	3.01	10.10	10.04	0.07
Second quarter	15.32	15.29	17.87	17.84	0.03
So far this year	5.86	5.88	15.25	15.27	-0.02
Memorandum: Ordinary benchmark with country weights as in the Environmental Fund				15.23	0.04

Methodology for calculating returns

Calculation of returns is based on international standards. The return on the Petroleum Fund's portfolios is calculated according to the market value principle, ie the opening and closing values of the portfolios are valued at the relevant market prices at the beginning and end of the period. Interest expenses and revenues, dividends, withholding tax, changes in holdings and changes in securities prices are accounted for on an accruals basis when calculating returns. The trade date is used for recognising income and expenses for agreed, unsettled transactions. The return is compared with the return on the benchmark portfolio. The return differential takes the form of an arithmetic difference between the returns on the actual and benchmark portfolios.

Transfers of capital to the Petroleum Fund and between the Fund's equity and fixed income portfolios are normally made only on the last business day of each month. The return for each month can then easily be calculated by looking at changes in market value. The geometrical return is used for long periods, such as quarterly and annual return and return so far this year: the return indices for the individual periods are multiplied together. 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 total return in NOK is calculated on the basis of the total of the market values for each individual currency, measured in NOK. WM/Reuters exchange rates are used for converting local currencies to NOK.

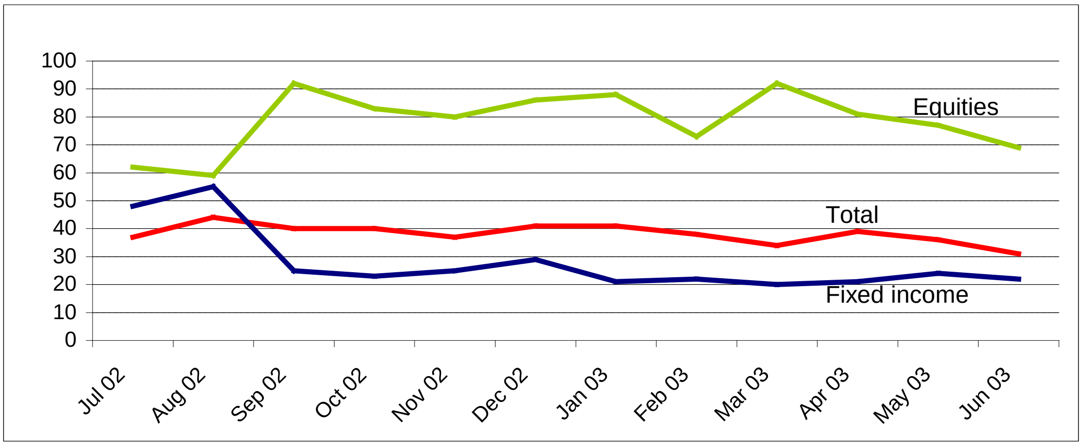
The NOK return on the currencies in the benchmark is calculated as the geometrical difference between the returns in NOK and in local currency, measured in terms of the currency distribution of the benchmark portfolio. This indicates how much the Norwegian krone has appreciated or depreciated in relation to the currency distribution of the benchmark portfolio.

The return calculations are carried out in separate models, which are reconciled with the accounting system. Differences between the returns calculated for the models and the accounts occur as a result of the application of different assessment principles, for example in the treatment of accrued interest and tax withholdings that have not been repaid. In the accounts, allocations are also made to cover remuneration to Norges Bank.

6. Risk exposure

The Ministry of Finance has set a limit for the market risk associated with the actual portfolio relative to the benchmark. This relative market risk shall always be less than 1.5 percentage points (150 basis points) of expected tracking error, as measured in the RiskManager risk model. Chart 12 shows that in the second quarter of 2003, relative market risk remained well below the upper limit. The deviations made from the benchmark portfolio did not bring expected tracking error higher than approximately 40 basis points.

Chart 12: Expected tracking error at each month-end for the last 12 months. In basis points (hundredths of a percentage point)



Relative risk is considerably higher in equity management than in fixed income management. Equity markets fluctuate more than fixed income markets, so that there is more risk associated with an equity management position than with a fixed income position of the same size. Another contributing factor is that there has been relatively more active management of the equity portfolio.

The relative market risk figures for the Environmental Fund at the end of June was 20 basis points, measured as expected tracking error in relation to the benchmark for this portfolio. The Ministry of Finance has imposed an upper limit of 100 basis points for the Enviromental Fund.

Expected tracking error

The Ministry of Finance uses the risk measure *expected tracking error* to manage the market risk of the Petroleum Fund. This measure is defined as the expected value of the standard deviation of the difference between the annual return on actual investments and the return on the benchmark portfolio. When deviations from the benchmark are restricted by setting an upper limit to expected tracking error, there is a high probability that the actual return will vary within a range around the return on the benchmark. The lower the limit placed on the tracking error, the narrower this range will be. An expected tracking error of 1.5 percentage points or 150 basis points means that the actual return on a portfolio that remains unchanged over time will deviate by less than 1.5 percentage points from the return on the benchmark in two out of three years.

Table 8 shows the composition of the bond portfolio (fixed income portfolio excluding short-term securities and cash) according to Moody's and Standard and Poor's credit ratings. In the table, government bonds and government-guaranteed bonds without credit ratings have been assigned the credit rating of the issuing country. For example, government-guaranteed issues from the city of Kobe, denominated in USD, have been rated Aa/AA, which is the rating given to the Japanese government for bonds in a foreign currency. According to the Ministry of Finance's credit risk guidelines, the Petroleum Fund may not normally invest in securities with a lower credit rating than Baa from Moody's, BBB from S&P or BBB from Fitch. Nevertheless, 0.5 per cent of the fixed income portfolio may be invested in paper with a rating of Ba from Moody's, BB from S&P or BB from Fitch.

Table 8: The fixed income portfolio as at 30 June 2003, by credit rating. Per cent of market value

Moody's		Standard & Poor's	
Rating	Per cent of total	Rating	Per cent of total
Aaa	68.97	AAA	68.13
Aa	11.45	AA	15.90
A	13.94	A	7.92
Baa	4.05	BBB	4.76
Ba	0.06	BB	0.05
Lower	0.00	Lower	0.00
No rating	1.53	No rating	3.24

Table 9 provides an overview of other risk limits stipulated in the Ministry of Finance's Regulation on the Management of the Government Petroleum Fund and guidelines for the ordinary portfolio, and of actual exposure. There were two infringements of the Regulation on Management of the Government Petroleum Fund. In the one case, an external manager had held over a period of time an equity instrument which was not listed on a permitted stock exchange. In the second case, an external manager made purchases bringing the Fund's ownership in a small company up to 3.3 per cent. This was discovered immediately, and the holding was reduced to under 3 per cent as rapidly as possible, which is to say after three days.

Table 9: Risk exposure limits as defined in the regulation and guidelines

Section	Risk	Limits	Actual				
			31.12.02	31.03.03	30.04.03	30.05.03	30.06.03
§ 4	Market risk	Maximum 1.5 percentage point tracking error	0.4	0.3	0.4	0.4	0.3
§ 5	Asset mix	Bonds 50-70%	62.2	61.2	59.9	59.3	58.8
		Equities 30-50%	37.8	38.8	40.1	40.7	41.2
§ 6	Currency mix	Europe 40-60%	54.8	49.4	49.6	49.8	49.1
	equities	Americas/Asia/Oceania 40-60%	45.2	50.6	50.4	50.2	50.9
	Emerging markets	< 5% of equity portfolio	2.5	2.4	2.2	2.1	2.2
	Currency mix	Europe 45-65%	58.2	55.6	55.2	56.1	54.9
	interest rates	The Americas 25-45%	32.5	34.5	35.2	34.7	35.7
		Asia/Oceania 0-20%	9.3	9.9	9.7	9.3	9.4
§ 7	Interest rate risk	Modified duration 3-7	5.3	5.3	5.4	5.4	5.5
§ 8	Credit risk*	Maximum 20% in bank deposits	3.6	5.5	4.7	4.9	4.5
§ 11	Holding	Maximum 3% of a company	2.6	2.9	2.6	2.6	2.5

* Bank deposits include reinvested cash collateral from securities lending. For other credit risk limits, see Table 8.

7. Management costs

Table 10 provides an overview of the costs of managing the Government Petroleum Fund in the first half of 2003. These costs consist partly of fees to external managers and custodian institutions and partly of the Bank's internal operating expenses. In addition to the Government Petroleum Fund, Norges Bank Investment Management manages the Government Petroleum Insurance Fund and the bulk of Norges Bank's foreign exchange reserves. The total internal costs are distributed between the three funds by means of a set of internal prices. The internal costs include not only Norges Bank Investment Management, but also all support functions provided by other parts of Norges Bank.

Table 10: Management costs in the first half of 2003. In thousands of NOK and annualised basis points of the average portfolio

	*First half of 2003		*First half of 2002	
	NOK 1000	Basis points	NOK 1000	Basis points
Fees to external equity managers, excluding performance-based fees	98 575		66 467	
Costs of equity custodian and settlement	33 233		16 565	
Other costs, equity management	66 261		63 401	
Total equity management	**198 069**	**15**	**146 433**	**12**
Performance-based fees to external equity managers	*20 494*		*29 365*	
Fees to external fixed-income managers, excluding performance-based fees	12 876		9 981	
Custodian costs fixed income	15 892		10 530	
Other costs, fixed income management	68 740		61 264	
Total fixed income management	**97 508**	**5**	**81 775**	**4**
Performance-based fees to external fixed-income managers	*14 476*		*3 367*	
Total management costs, excluding performance-based fees	**295 577**	**9**	**228 208**	**7**
Total management costs	**330 537**	**10**	**260 940**	**8**

The increase in absolute costs from 2002 is due largely to the increase in the size of the portfolio. The relatively larger increase in equity custodian and settlement costs are partly attributable to the facts that Norwegian value added tax is now paid on some of these services, the portfolio has been split up into more custodian accounts than previously, and there was a high transaction volume in connection with restructuring of the equity portfolio in the first half of 2003.

Annualised, the costs in the table are equivalent to 0.15 per cent (15 basis points) of the average equity portfolio and 0.05 per cent (5 basis points) of the average fixed income portfolio. In addition to the these costs come performance-based fees to external equity managers and external fixed income managers of NOK 20 million and NOK 14 million respectively. The amounts are determined by the managers' total excess returns over the past four quarters. Equity costs including these performance-related fees constitute 17 basis points and fixed income costs 6 basis points of average sub-portfolios.

For the whole portfolio, annualised management costs excluding performance-based fees amounted to 9 basis points of the average market value in the first half of the year. The average market value has been NOK 666 billion, which is appreciably lower than the expected average market value for the whole year.

The management agreement between the Ministry of Finance and Norges Bank sets out the principles for the remuneration payable to Norges Bank for managing the Petroleum Fund's portfolios. The remuneration for 2003 shall be equal to the actual management costs, within an upper limit of 10 basis points of average total assets. Performance-based fees to external managers for excess return achieved shall nevertheless be covered even if they exceed this upper limit. Agreements on performance-based fees have been concluded with the majority of external active managers, according to principles that have been approved by the Ministry of Finance.

8. Reporting of accounts

Table 11 shows the mix of different instruments as presented in Norges Bank's accounts at the end of the last five quarters. Table 12 shows the book return, which in the second quarter was NOK 70 462 million prior to the deduction of Norges Bank's management fee.

The accounts figures are based on holdings including unsettled trades (except cash). The figures indicate market values based on verified price information. Investments in foreign currency are converted to NOK at market rates as at 30 June quoted on WM/Reuters London. The recorded value of the Petroleum Fund deviates from the market value in Table 4 above because management remuneration has not been deducted in the table above, and because different assessment principles have been used for some items (see the box in section 5 on methodology for calculating returns). Similarly, there are small deviations in the accounting return figures.

Off the balance sheet, financial futures with a total market value of NOK 30 086.7 million had been purchased and financial futures with a market value of NOK 12 993.3 million had been sold at 30 June 2003. Options on futures with a total market value of NOK 4 299.5 million had been purchased and options on futures for NOK 32.1 million had been sold. Interest rate swaps with a total market value of NOK 128 976.2 million had been purchased and swaps for

NOK 131 535.7 million had been sold. Foreign exchange with a total contract value of NOK 17 901 million had also been bought and sold forward.

In Table 12, income and costs in foreign currency are converted into NOK according to the exchange rate on the transaction date, and are recognised as they are earned or accrued, according to the accruals principle.

Table 11: The Petroleum Fund's international portfolio distributed by instrument, at 30 June 2003. In thousands of NOK

	30.06.02	30.09.02	31.12.02	31.03.03	30.06.03
Short-term assets, incl. deposits in foreign banks	2 699 820	7 270 772	9 877 743	20 987 757	4 614 969
Money market investments in foreign financial institutions against collateral in the form of securities	111 666 155	174 327 946	188 229 945	197 996 074	231 690 203
Borrowing from foreign financial institutions against collateral (securities)	-125 929 639	-152 080 172	-209 803 763	-250 821 420	-302 943 078
Foreign interest-bearing securities	388 938 848	359 025 773	394 253 546	455 885 378	530 029 565
Foreign equities	227 800 284	215 039 688	226 354 150	257 973 804	312 215 805
Forward contract adjustments	157 506	-2 138	122 752	-3 082	-37 255
Total portfolio before remuneration for management	**605 332 974**	**603 581 869**	**609 034 373**	**682 018 511**	**775 570 209**
Accrued management remuneration	-260 000	-391 000	-559 835	-184 505*	-342 232*
Total portfolio recorded value	**605 072 974**	**603 190 869**	**608 474 538**	**681 834 006**	**775 227 977**

Table 12: Book return on the Petroleum Fund's international portfolio at 30 June 2003. In thousands of NOK

Book return	30.06.2002	30.09.2002	31.12.2002	31.03.2003	30.06.2003
Interest income	9 919 129	13 864 562	18 705 159	4 989 924	9 552 586
Dividends	2 635 581	3 701 793	4 428 514	1 576 118	4 308 050
Exchange rate adjustment	-72 943 773	-81 254 669	-104 109 677	43 969 450	63 075 338
Unrealised securities loss/gain	-15 562 677	44 113 967	-27 071 528	17 271 494	25 955 900
Realised securities gain	-8 888 435	-15 151 178	-19 934 100	-3 642 108	-3 806 718
Brokers' commissions	-1 030	3 274	-877	-6 926	-18 576
Forward exchange trading	72	4 691	4 681	-903	-766
Gains/losses futures	-969 702	-2 232 270	-2 032 369	29 215	992 812
Gains options					46 729
Book return on investments	**-85 810 835**	**-125 177 764**	**-130 010 197**	**29 643 276**	**100 105 353**
Accrued management remuneration	-260 000	-391 000	-559 835	-184 505*	-342 232*
Net return market value	**-86 070 835**	**-125 568 764**	**-130 570 032**	**29 458 771**	**99 763 121**

* Of this amount, NOK 11 695 000 is management remuneration owing for 2002.