Management of the Government Petroleum Fund
Report for third quarter 2003

Summary

The return on the Government Petroleum Fund in the third quarter of 2003 was 1.68 per cent measured in terms of the currency basket corresponding to the composition of the Fund's benchmark portfolio. In the first three quarters of 2003, total return was 7.68 per cent.

The return on the equity portfolio in the third quarter was 4.24 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 on the fixed income portfolio, however, was slightly negative in the third quarter, -0.15 per cent measured in terms of the currency basket.

The return on the Petroleum Fund's ordinary portfolio in the third quarter was 0.15 percentage point higher than the return on the benchmark portfolio that has been defined by the Ministry of Finance. The Fund reports an excess return of 0.49 percentage point for the first three quarters of 2003.

The third quarter return on the Environmental Fund was 4.99 per cent measured in terms of the benchmark portfolio's currency basket. In the first nine months of 2003, total return was 11.14 per cent.

The market value of the Fund's total securities portfolio was NOK 803.3 billion at the end of the third quarter, which is an increase of NOK 27.8 billion during the quarter and an increase of NOK 194.3 billion since year-end.

The increase in market value in the third quarter is a result of positive returns and the transfer of new capital. A stronger krone in relation to the currencies in which the Fund is invested contributed to reducing the Fund's market value by approximately NOK 7.4 billion in the third quarter. This has no effect on the international purchasing power of the Fund. NOK 21.9 billion in new capital was transferred to the Fund, while the return on invested capital, measured in international currencies, amounted to roughly NOK 13.3 billion.

1. Key figures

The return on the Government Petroleum Fund in the third quarter of 2003 was 1.68 per cent, measured in terms of the currency basket of the Fund's benchmark portfolio.

Chart 1 shows the quarterly return since the Fund first invested in equities in 1998. In 14 of the 23 quarters, the return on the Petroleum Fund has been positive.

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

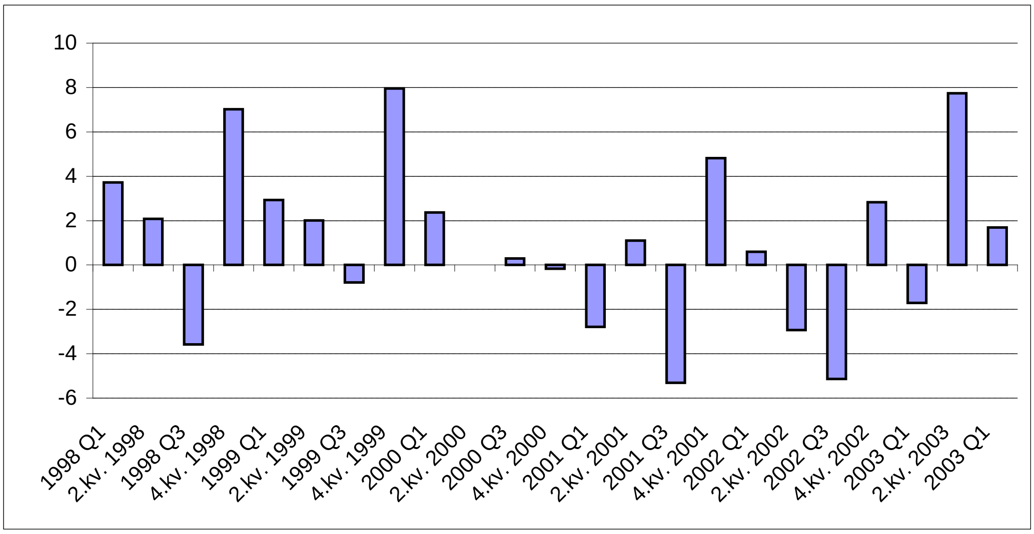
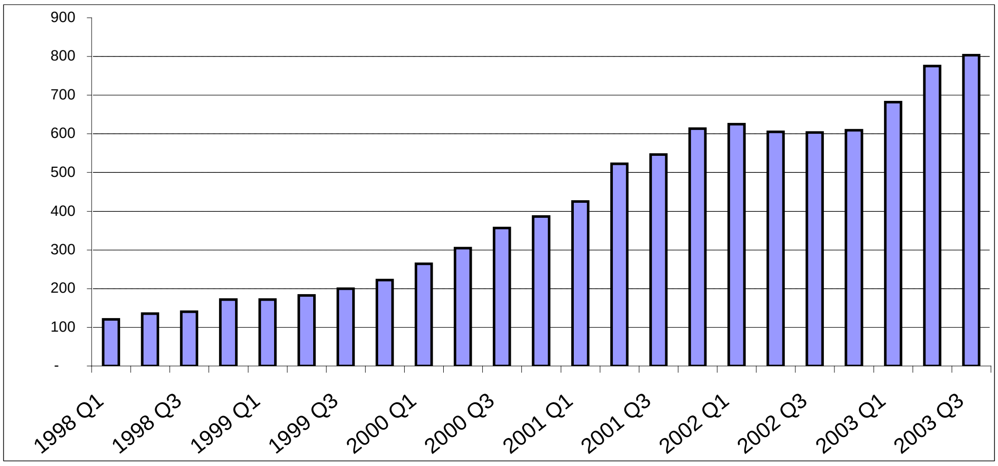


Chart 2 shows that the Petroleum Fund measured in NOK has grown from NOK 113 billion to NOK 803 billion since 1 January 1998. Fluctuations in the krone exchange rate have a strong impact on the time profile of changes in value. If the krone exchange rate against the currencies in which the Fund is invested remains constant, the increase in value would, for example, have been more pronounced in 2002 due to substantial transfers to the Fund. Over the period as a whole, however, changes in value 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 3.16 per cent. Table 1 shows the return to the end of the third 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 price inflation in the countries in the benchmark portfolio as 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 since 1 January 1997. This is the difference between the return on the actual portfolio and the return on the benchmark portfolio, 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 third quarter of 2003, measured in terms of the Fund's currency basket. Per cent per year

	Gross annual return	Annual price inflation	Annual management costs	Annual net real return	Annual gross excess return
From 01.01.97	4.82	1.53	0.08	3.16	0.41
From 01.01.98	4.10	1.49	0.08	2.49	0.42
From 01.01.1999	3.04	1.62	0.08	1.33	0.47
From 01.01.2000	0.67	1.71	0.08	-1.09	0.29
From 01.01.2001	0.02	1.58	0.08	-1.62	0.32
From 01.01.2002	1.47	1.81	0.09	-0.43	0.42

Chart 3 shows the cumulative return from 1 January 1998 for the fixed income and equity portfolios. During these 23 quarters, the cumulative nominal return has been 2.85 per cent on equity investments and 42.01 per cent on fixed income investments.

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

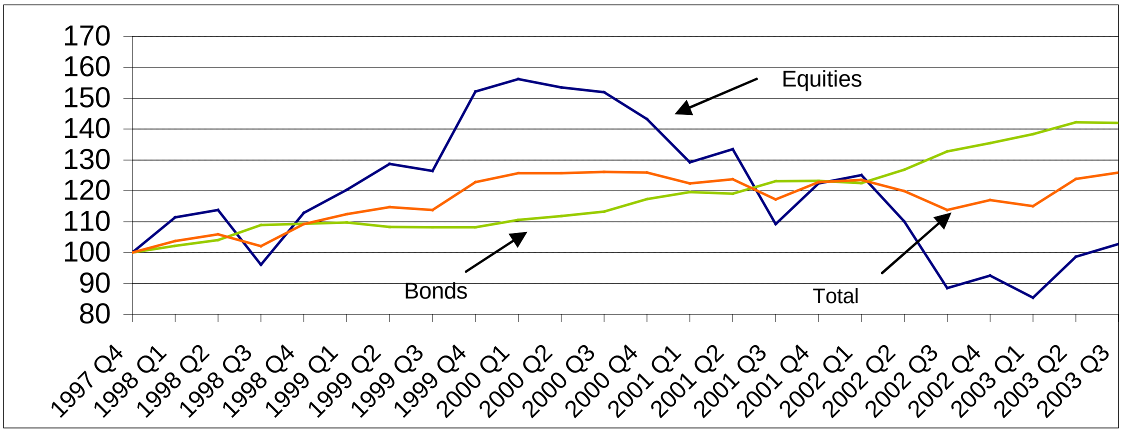


Chart 4 shows the cumulative return on the Petroleum Fund since 1 January 1998. The return to the end of the third quarter 2003 was 26.1 per cent. During the same period, the return on the benchmark portfolio was 23.1 per cent. The difference between the actual return and the return on the benchmark portfolio is the excess return achieved by Norges Bank. The cumulative gross excess return since 1998 is 3.01 percentage point, corresponding to NOK 8.7 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) 1998-2003

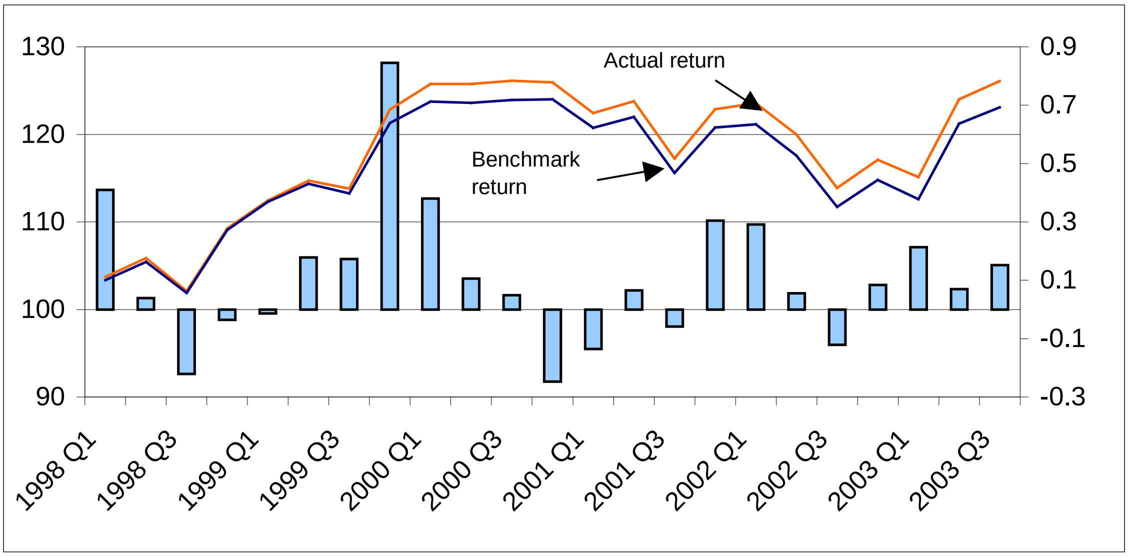
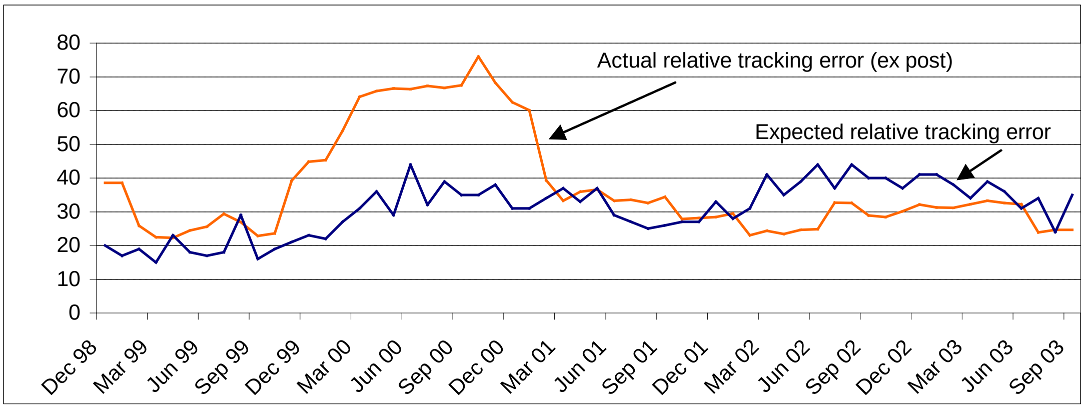


Chart 5 shows developments in relative market risk from December 1998, measured in two different ways. In the guidelines from the Ministry of Finance, expected tracking error (which is explained in Section 6 below) is used as a measure of market risk. In retrospect, we can use the variation in the difference between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual market risk. In 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)



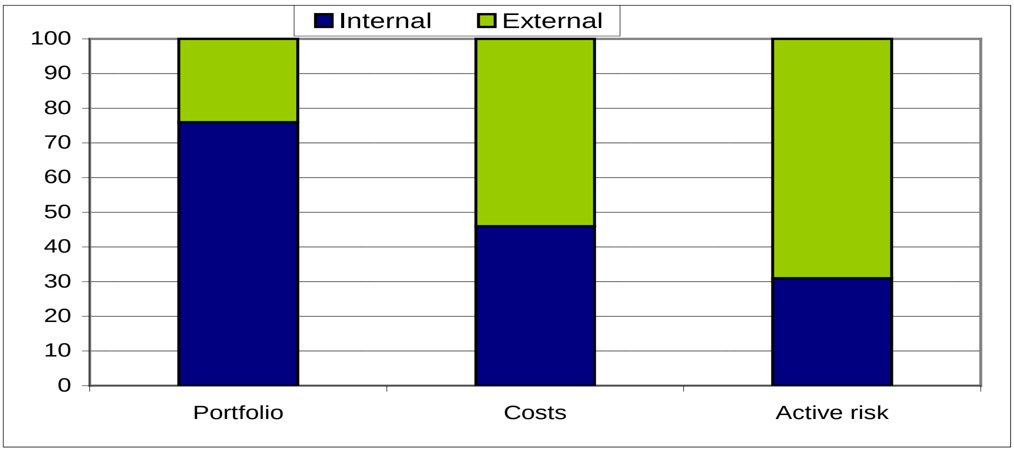
Both expected tracking error and actual tracking error may fluctuate considerably even when the degree of active management remains unchanged. This is because the measures are influenced by various market developments, such as changes in market volatility and in correlations between the various asset classes and securities. Expected tracking error has consistently remained well below the limit for relative market risk in the Petroleum Fund's portfolio as 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 first quarter of 1998 to the third quarter of 2003 has been 1.05, measured as an annualised rate. Norges Bank's management objective is to achieve an information ratio of at least 0.2-0.3.

Chart 6 shows key figures associated with the distribution of external and internal management. At the end of the third quarter, 24 per cent of the Petroleum Fund was managed by external investment managers. At the same time, expenses in connection with external management accounted for 54 per cent of total management costs. The market risk associated with external management accounted for about 69 per cent of the total risk associated with management of the Fund.

The market risk taken by external managers is mainly associated with active management, while the risk associated with internal management is largely connected with enhanced indexing. Active management is clearly more expensive than index management, and this is one reason that unit costs are far higher for external management than for internal management. However, comparable management (active or passive) is also less expensive when using internal managers than external managers. The internal managers have limited 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 shown in the graph is based on summation of the value at risk (VaR) of each mandate, disregarding the correlation between mandates.

2. Mandate:

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

At the same time, the long-term (strategic) benchmark portfolio for equities was changed so that all companies in the new region outside Europe are now weighted according to market capitalisation. This change is being implemented in several stages. As a result, the Petroleum Fund’s benchmark portfolio contains equal weights in companies listed on stock exchanges in the Americas and in Asia and Oceania. The Fund’s ownership stake in European companies will still be somewhat higher than in companies listed on stock exchanges outside of Europe.

The Petroleum Fund’s strategic benchmark, which has been defined by the Ministry of Finance, 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 Petroleum Fund’s benchmark portfolio (excluding the Environmental Fund), while fixed income instruments shall account for 60 per cent. The equity portion of the benchmark consists of securities listed on stock exchanges in Europe (50 per cent) and in the Americas/Asia/Oceania (50 per cent). The regional distribution in the fixed income benchmark is 55 per cent in Europe, 35 per cent in North America and 10 per cent in Asia/Oceania.

The Ministry of Finance changed the benchmark for the equity portfolio in its letter of 21 August 2003 with effect at market close on 19 September 2003. On this date, FTSE introduced new main indices and the Ministry decided that the Petroleum Fund's benchmark index should be based on FTSE’s sub-indices which contain large and medium-sized companies. The change applies to the Petroleum Fund's ordinary portfolio and to the Environment Fund. The new benchmark index for the ordinary portfolio contains roughly 2200 companies compared with 1800 in the former benchmark portfolio.

The asset classes and regional weights in the actual benchmark normally differ somewhat from the strategic weights described above. The actual weights change continuously 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 weights back as close to the original weights 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. The actual benchmark is brought completely back into line with the strategic benchmark only if it deviates too substantially over time from the strategic benchmark.

Table 2 shows the weights in the actual benchmark and the strategic benchmark at the end of the third quarter. The weights in the fixed income benchmark apply to the currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

Table 2: Benchmark at 30 September 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 portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**41.0**	**60.0**	**58.8**
Belgium		0.7		
Finland		1.0		
France		6.8		
Greece		0.3		
Ireland		0.5		
Italy		2.9		
Netherlands		3.4		
Portugal		0.3		
Spain		2.5		
Germany		4.5		
Austria		0.1		
Euro area countries (EUR)		*23.0*		*47.1*
UK (GBP)		17.4		6.2
Denmark (DKK)		0.5		0.9
Switzerland (CHF)		5.0		0.5
Sweden (SEK)		1.5		0.8
Turkey		0.1		
Total Europe	**50.0**	**47.5**	**55.0**	**55.5**
US (USD)		35.8		33.0
Brazil		0.3		
Canada (CAD)		1.5		1.6
Mexico		0.3		
Total Americas			**35.0**	**34.5**
Australia (AUD)		2.0		0.7
Hong Kong		1.1		
Japan (JPY)		9.0		8.8
New Zealand (NZD)		0.1		0.2
Singapore (SGD)		0.3		0.3
South Korea		0.9		
Taiwan		1.2		
Total Asia and Oceania			**10.0**	**9.9**
Total Americas, Asia and Oceania	**50.0**	**52.4**		

The Ministry of Finance has set a limit for the market risk allowed in relation 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 Section 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. In each country, the benchmark portfolio for the Environmental Fund is the same as the benchmark for the Petroleum Fund's ordinary equity portfolio, 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 portfolio are reviewed quarterly by an external consulting company selected by the Ministry of Finance.

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

3. Market developments

3.1. Highlights

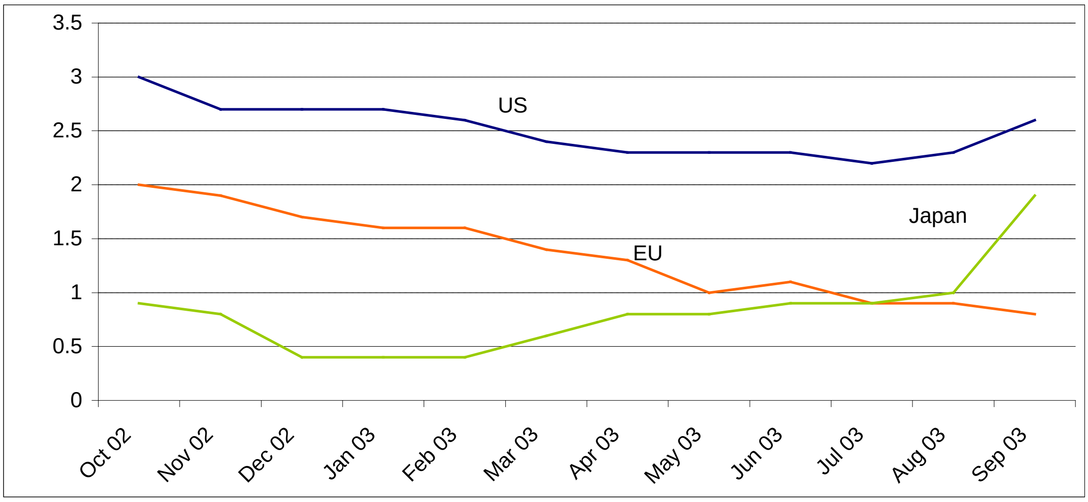
Growth forecasts for the Japanese economy were adjusted upwards in the third quarter from just below 1 per cent to just below 2 per cent. Growth forecasts in the US were also adjusted upwards somewhat, and the average growth forecast from a range of economists is 2.6 per cent for 2003. Expected annual growth in Europe is 0.8 per cent, which is somewhat lower than projections at the beginning of the third quarter. Chart 7 shows the average GDP growth expectations for Japan, the US and the EU in 2003 among many market participants.

Economic activity in Japan has risen sharply in the last few months. This growth is primarily driven by a strong export sector and particularly by increased exports to China. A large portion of these exports consists of capital goods that are being used to build new industrial capacity in China for Japanese companies. This is part of a general trend where Japanese, Korean and American companies are moving an increasing portion of their production to China, in part to be able to sell their products in local Chinese markets, but also to become more competitive when selling their products in international markets.

The US economy has been stimulated by tax cuts that became effective in summer 2003. Household demand has been further stimulated by a reduction in long-term interest rates. The low interest rate levels have also led to high demand for new and resale homes. Many households have increased their mortgages and used the money to buy consumer goods. In addition to strong consumer demand in the US, investment demand, especially relating to IT equipment, appears to be picking up.

Growth in Europe is being impeded by a stronger currency as well as by weak private consumption and investment demand. Growth in the retail sector has been sluggish in the euro area this year, in contrast with developments in the US. Unemployment has risen, leading to higher expenditure on unemployment benefits and pensions. Combined with a reduction in tax payments, this has exerted further pressure on government finances. Portugal, France, Germany and Italy expect a budget deficit of more than 3 per cent of GDP in 2003.

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.

Even though economic growth in the US and Japan is expected to be stronger in 2003 than previously assumed, there has been no substantial upward revision of the inflation projections for 2003 or 2004. This partly reflects considerable excess capacity in the global economy and partly China's new standing as a very competitive producer of inexpensive goods. India is developing into a substantial exporter of services, but the volume of exports is not yet sufficient to affect prices for services in the rest of the global economy.

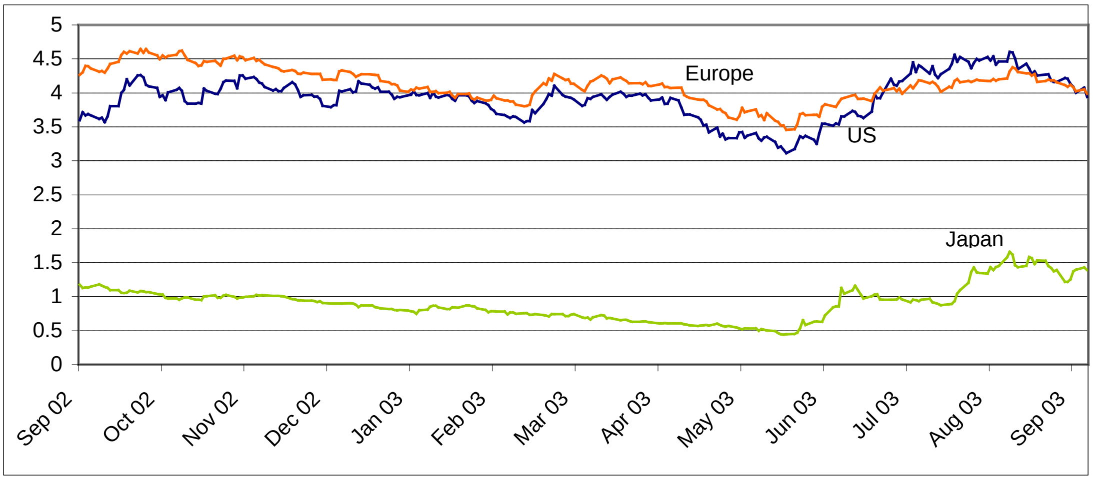
The dollar appreciated in pace with steadily improving figures from the US economy in the first half of the third quarter. This trend changed following the most recent G7 joint communiqué where the largest countries voiced their support of more flexible exchange rates. The foreign exchange market perceived this as criticism of the large and frequent interventions in the foreign exchange market by many Asian central banks. The Japanese yen and the Chinese yuan in particular have received considerable attention. These currencies have also appreciated since the G7 meeting.

3.2. Fixed income markets

Bond yields in the US and Japan have risen in pace with expectations of economic growth in the respective economies. Bond yields have risen somewhat less in the European markets. The rise in bond yields has been especially pronounced in Japan where 10-year government bond yields have climbed from 0.5 per cent to approximately 1.5 per cent. Bond yields have not been this high in Japan since 2000. On the other hand, US and European bond yields have returned to levels prevailing before May 2003.

The government budget deficits in the US and Europe are rising compared with 2002. A considerable portion of the deficits will be financed by issuing bonds, which in isolation will contribute to higher interest rates. So far, low inflation in the global economy combined with high demand in Asia for US government bonds has counteracted the effect of the increased supply. The inflation rate in the US has been falling since the beginning of 2002. Inflation is falling because productivity is high at the same time as wage growth is weak, and because import prices are not increasing in spite of a weaker dollar.

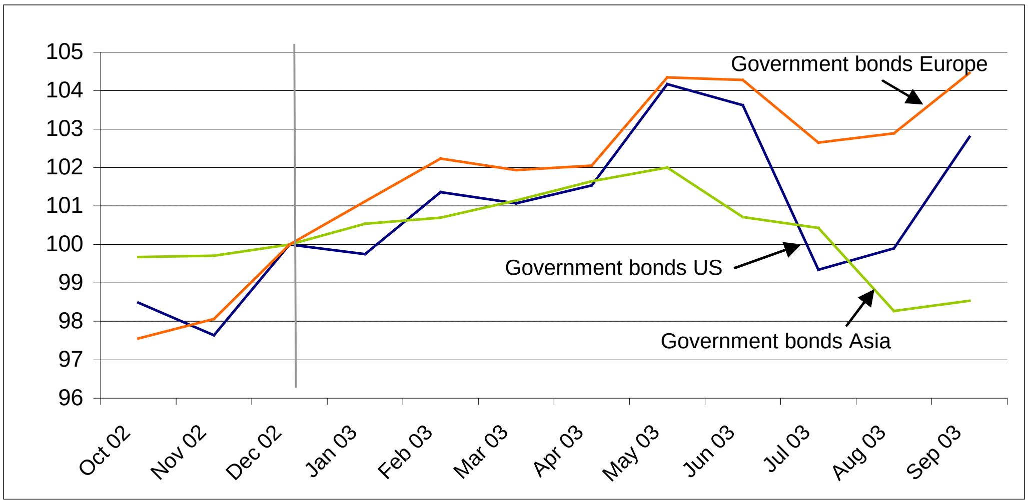
Chart 8: Developments in the most important bond markets in the last 12 months. Yields on government bonds with approximately 10 years to maturity. Per cent per year



The inflation rate in Europe differs across countries, but a weak labour market and a stronger euro have contributed to maintaining a relatively stable inflation rate which is slightly higher than in the US. Investors are pricing long-term government bonds at about the same level in Europe and the US, indicating that inflation expectations in these two areas are quite similar.

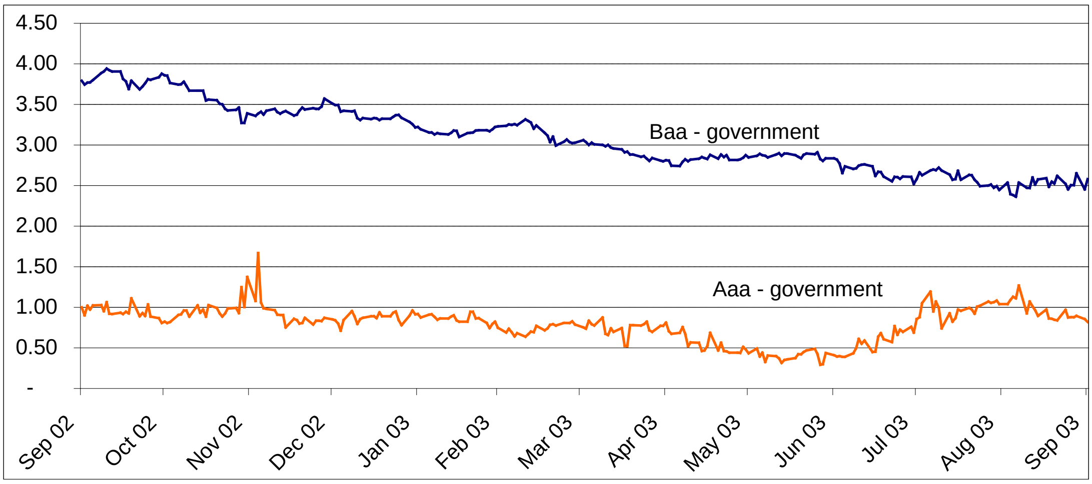
Japanese yields, on the other hand, indicate expectations of continued deflation in the years ahead. An increased activity level in the economy or a change in behaviour among the large bond investors in Japan can, however, cause wide fluctuations in yields. The Japanese bond market is dominated by a few large domestic institutions.

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 rate that creditworthy US borrowers must pay and that paid by the US government has generally narrowed during the third quarter. Growth in the economy was unexpectedly high in the second and third quarters, especially in the US and Japan. Corporate earnings will normally rise and the risk of bankruptcy will fall when economic growth picks up. This means that investors will accept a lower yield spread between bonds with credit risk and government bonds. The graph below shows that as early as March/April 2003, investors expected economic growth to pick up, since the difference between the interest rate that creditworthy US borrowers had to pay and that paid by the US government had already fallen.

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

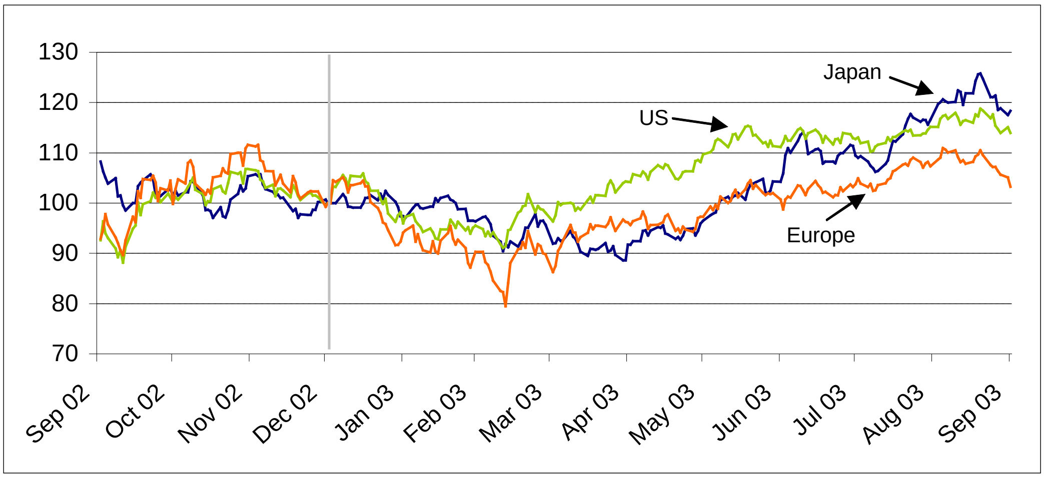


In addition to general economic developments, a number of other factors contribute to developments in the yield spread. Company attitude about how much debt is acceptable in the balance sheet is one such parameter. After the technology bubble burst in 2000, companies in most business sectors wanted to reduce their debt. Companies have succeeded in reducing debt as interest rates have fallen, which has contributed to reducing yield spreads.

3.3. Equity markets

The rise in equity prices worldwide continued in the third quarter. Price rises were substantial, especially in the Asian, South American and Eastern European markets. Equity prices have risen more sharply for small companies than for large companies, and more for technology and cyclical sectors than for other sectors. This is in line with what may be expected when investors expect increasing growth in the global economy. In this situation, equity investors look for stocks, sectors and countries which they assume are most sensitive to a broad economic recovery.

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



Prices began to rise as early as March, long before the war in Iraq was concluded, and the rise continued through the end of the third quarter. The sharp gains in the second quarter were driven by a decline in the risk premium after investors understood that the war in Iraq would not be as destructive to the energy infrastructure in the Middle East as many had previously feared.

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

Sector	**USD**	**NOK**	**Currency basket**
Commodities	**3.18**	**0.86**	**1.78**
- of which oil and gas extraction	0.76	-1.51	-0.62
Basic industries	**10.75**	**8.26**	**9.24**
General industrials	**10.14**	**7.66**	**8.64**
- of which diversified industrials	**11.15**	**8.65**	**9.63**
Cyclical consumer goods	**-0.65**	**-2.88**	**-2.00**
Non-cyclical consumer goods	-3.77	-5.93	-5.08
- of which pharmaceuticals and biotechnology	**3.62**	**1.29**	**2.21**
Cyclical services	5.22	2.85	3.79
- of which retail trade	-1.17	-3.39	-2.52
Non-cyclical consumer goods	**0.13**	**-2.13**	**-1.24**
- of which telecommunications	-1.47	-3.69	-2.81
Utilities	**1.04**	**-1.23**	**-0.33**
Financials	**6.41**	**4.02**	**4.96**
- of which banks	4.59	2.23	3.16
- of which insurance companies	5.61	3.23	4.17
- of which other financial service providers	10.24	7.76	8.74
Information technology	**13.60**	**11.04**	**12.05**
- of which hardware	17.36	14.72	15.76
- of which software and computer services	7.82	5.40	6.35

After the war was over, the focus shifted from the situation in Iraq to corporate earnings in the US. Earnings in the third quarter were higher than expected, which contributed to a further rise in prices. Earnings were strong for a number of reasons. Companies in the energy sector delivered better results because oil and gas prices were relatively high in the preceding months. A weaker dollar contributed to improved results throughout the quarter for export-oriented companies providing technology and consumer goods. A sharp rise in domestic demand in the US since the summer has also boosted corporate earnings.

Increased growth in demand from the US and Asia has contributed to higher earnings in Japanese export companies. After the SARS epidemic was under control, growth in demand from China has been vigorous. Increased interest from international investors in particular has contributed to the upswing in the Japanese equity market. Equity prices, particularly in the steel, technology and banking sectors, have risen sharply during the third quarter.

Developments have in general been somewhat weaker in the European equity markets than in the other main markets. In addition to weak economic developments, the depreciation of the dollar has contributed to a more difficult competitive situation for export companies.

4. Management of the Fund

At the beginning of the third quarter, the market value of the Petroleum Fund’s portfolio invested in international capital markets was NOK 775.5 billion. The Ministry of Finance transferred NOK 5.9 billion to the Fund’s krone account on 31 July, NOK 8.0 billion on 29 August and a further NOK 8.0 billion on 30 September. Equivalent amounts in foreign currency were transferred to the securities portfolio on the same dates. At the end of the quarter, the market value of the Petroleum Fund's combined securities portfolio was NOK 803.3 billion.

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

	Ordinary equity portfolio	Fixed income portfolio	Environmental Fund	Petroleum Fund total
30 September 02	218 443	383 911	1 149	603 504
31 December 02	229 834	378 017	1 159	609 010
31 March 03	264 400	416 440	1 133	681 973
30 June 03	318 915	455 273	1 335	775 523
31 July 03	327 202	447 097	1 372	775 671
31 August 03	345 565	466 721	1 449	813 735
30 September 03	329 446	472 465	1 389	803 299

During the third quarter, the Fund’s market value increased by NOK 27.8 billion. NOK 21.9 billion reflected a transfer of new capital, while NOK 13.3 billion was the return measured in international currencies. During the quarter, the krone appreciated against the currencies in which the Fund is invested, reducing the market value by approximately NOK 7.4 billion. This has no effect on the international purchasing power of the Fund, however.

4.1. Management of the fixed income portfolio

The market value of the fixed income portfolio increased in the third quarter from NOK 455.2 billion to NOK 472.5 billion. A total of NOK 21.9 billion was transferred to the fixed income portfolio during the quarter. The market value increased less than the value of the transfer, however, partly because the return on the portfolio was negative in the quarter and partly because the currencies in which the Fund is invested depreciated against the Norwegian krone.

At the end of the quarter, about 91 per cent of the fixed income portfolio was managed internally by Norges Bank. The investment strategies used are enhanced indexing and active management. Both external and internal mandates have been awarded.

In the fixed income portfolio, three sub-portfolios are indexed: government-guaranteed bonds, corporate bonds and collateralised bonds. Most of the portfolio, i.e. the first two sub-portfolios and European collateralized bonds, are indexed by internal managers. US mortgage-backed bonds are indexed by external managers.

About 9 per cent of the fixed income portfolio is managed externally. This portion includes the mandates for US mortgage-backed bonds and active mandates with a variety of strategies for outperforming the benchmark.

In the third quarter of 2003, capital was transferred to one external fixed income manager; Bridgewater Associates Inc. has been awarded a global mandate.

4.2. Management of the equity portfolio

At the end of the third quarter, the market value of the equity portfolio was NOK 329.4 billion, an improvement of NOK 10.5 billion since the beginning of the quarter. There were no capital transfers to the equity portfolio in the third quarter, and the increase in market value is due to a positive return, which more than offset the appreciation of the krone.

At the end of the quarter, about 55 per cent of the equity portfolio was managed internally by Norges Bank. Of this, 17 per cent, representing the finance, telecommunications, energy, media and trade sectors, is managed actively, while an enhanced indexing strategy is employed to manage the remainder.

In the third quarter of 2003, capital has been transferred to three external managers; Wellington Management Company and Franklin Advisers have received two sector mandates each. Two of the sector mandates are global and two are limited to the US market. In addition, Gartmore Investment has been awarded a regional mandate.

5. The return on the Fund

In the third quarter of 2003, the return on the Petroleum Fund, including the Environmental Fund, was 1.68 per cent, measured in terms of the benchmark portfolio's currency basket. Measured in NOK, the total return in the third quarter was 0.77 per cent. The difference is due to an appreciation of the krone by an average of about 0.9 per cent against the currencies in the benchmark portfolio during the quarter, resulting in a depreciation of the value of the Fund's currency basket relative to the krone. However, this has no effect on the international purchasing power of the Fund.

Table 5 shows that the return on the Petroleum Fund's ordinary portfolio (excluding the Environmental Fund) was 1.68 per cent in the third quarter. The return was positive in all three months of the quarter. The table shows that the ordinary portfolio outperformed the benchmark by 0.13 percentage point in the third 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 achieved by Norges Bank in its management of the Fund. Even if Norges Bank had followed the benchmark portfolio exactly (indexing), the actual return would not have been identical to the benchmark return as calculated by the index supplier.

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

	Return measured in terms of the benchmark's currency basket		Return measured in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Difference
Q1	-1.69	-1.88	4.71	4.51	0.19
Q2	7.73	7.70	10.11	10.08	0.03
July	0.13	0.17	-0.75	-0.71	-0.04
August	1.26	1.14	3.88	3.75	0.12
September	0.28	0.23	-2.27	-2.31	0.05
Q3	1.68	1.55	0.76	0.63	0.13
Year to date	7.68	7.31	16.17	15.78	0.39
Adjustment for extraordinary costs and taxes, year to date					0.09
= Gross excess return so far in 2003					0.49

Extraordinary transaction costs have accrued in the third quarter in connection with the investment of new capital. 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 portfolio. In Table 5, adjustments have been made for these components, which amounted to 0.02 per cent of the total portfolio. With these adjustments, gross excess return in the third quarter was 0.15 percentage point, which was equivalent to about NOK 1.2 billion. Income from securities lending accounted for about NOK 91 million of this amount.

Gross excess return for the first three quarters of 2003 was 0.49 percentage point. The largest contribution in the first three quarters came from externally managed equity portfolios, although internally managed equity portfolios as well as internally and externally managed fixed income portfolios also made substantial contributions to returns. Adjustments for costs not included when calculating the benchmark return accounted for 0.09 percentage point of the gross excess return.

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 return on the equity portfolio was 4.24 per cent in the third quarter, while the return on the fixed income portfolio was -0.15 per cent. Table 6 also shows the return on the total portfolio, measured in terms of various currencies. The US dollar depreciated against the currency basket in the third quarter, and as a result the return in USD improved by 3.09 per cent. The euro return was 1.66 per cent for the period. The return in terms of an import-weighted currency basket was -0.95 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	4.24	-0.15	4.99	1.68
Import-weighted currency basket	1.54	-2.74	2.27	-0.95
USD	5.68	1.23	6.44	3.09
EUR	4.21	-0.18	4.96	1.66
NOK	3.30	-1.05	4.04	0.77

Table 7 shows that the third quarter return on the Environmental Fund was 4.99 per cent measured in terms of the currency basket and 4.04 per cent in NOK. The return was 0.06 percentage point lower than the return on the benchmark portfolio. The Environmental Fund underperformed the benchmark by 0.09 percentage point in the first three months as a whole. The benchmark return for the first three quarters of 2003 was 0.09 percentage point lower than the return on a comparable benchmark portfolio where no companies had been excluded on the basis of environmental criteria.

Table 7: Return on the Environmental Fund in the first 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
Q1	-8.20	-8.16	-2.22	-2.18	-0.04
Q2	15.32	15.29	17.87	17.84	0.03
July	3.67	3.68	2.76	2.77	-0.01
August	2.98	2.98	5.64	5.64	0.00
September	-1.66	-1.61	-4.16	-4.11	-0.04
Q3	4.99	5.05	4.04	4.10	-0.06
Year to date	**11.14**	**11.22**	**19.91**	**19.99**	**-0.09**
Note: Ordinary benchmark with country weights as in the Environmental Fund				**20.08**	**-0.09**

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, i.e. 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 income, dividends, withholding tax, changes in securities holdings and prices are accounted for on an accruals basis when calculating returns. Income and expenses relating to unsettled transactions are recognised on the trade date. The return is compared with the return on the benchmark portfolio. The return differential is defined here as an arithmetic difference between the returns on the actual portfolio and the benchmark portfolio.

Normally, transfers of capital to the Petroleum Fund and between the Fund's equity and fixed income portfolios are only made on the last business day of each month. The return for each month can then be calculated easily by looking at changes in market value. The geometrical return is used for longer periods, such as quarterly and annual return and return so far this year: This means that the return indices for each sub-period are multiplied. This return is thus a time-weighted return on the returns for the individual months.

The return is calculated in both NOK and local currency. The total return in NOK is calculated on the basis of the total market value of each individual currency, measured in NOK. WM/Reuters exchange rates are used for converting local currencies to NOK.

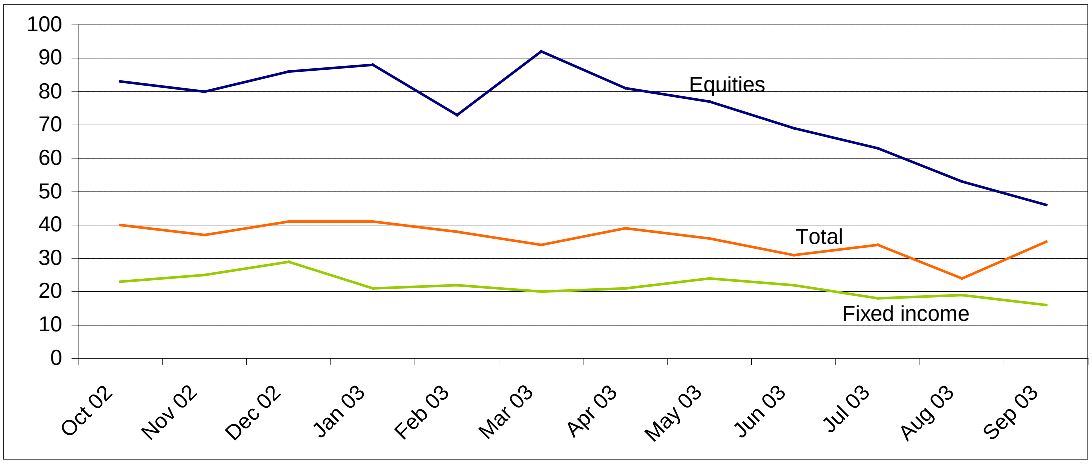
The NOK return on the currencies in the benchmark is calculated as the geometrical difference between the return in NOK and the return in local currency, measured in terms of the currency distribution in the benchmark portfolio. This indicates how much the Norwegian krone has appreciated or depreciated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

Returns are calculated in separate models and then reconciled with the accounting system. Differences between the returns calculated in the models and those in the accounts are a result 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 on the market risk associated with the actual portfolio relative to the benchmark portfolio. This relative market risk shall always be less than an expected tracking error of 1.5 percentage points (150 basis points), as measured in the RiskManager risk model. Chart 12 shows that in the third quarter of 2003, relative market risk remained well within the limit. Expected tracking error has not been higher than approximately 35 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 connection with equity management than in connection with fixed income management, in part because equity markets fluctuate more than fixed income markets. As a result, an equity position is more risky than a fixed income position of the same size. Another contributing factor is that a larger portion of the equity portfolio has been under active management. The difference has narrowed, however, in the last two quarters. This may be partly because the active management of the equity portfolio has been spread over a larger number of mandates and partly because absolute volatility in the equity markets has declined.

The Environmental Fund's relative market risk at the end of September was 28 basis points, measured as expected tracking error in relation to this portfolio's benchmark. The Ministry of Finance has stipulated an upper limit of 100 basis points for the Environmental Fund.

Expected tracking error

The Ministry of Finance uses *expected tracking error* to measure the market risk associated with management of the Petroleum Fund. This measure is defined as the expected value of the standard deviation of the difference between the annual returns on the Fund and the benchmark. When deviations from the benchmark are controlled by setting an upper limit for expected tracking error, it is highly probable that the actual return will lie within a band around the return on the benchmark. The lower the limit for tracking error, the narrower the band will be. An expected tracking error of 1.5 percentage points or 150 basis points means that in two out of three years, the actual return on a portfolio that remains unchanged over time will not deviate from the benchmark return by more than plus/minus 1.5 percentage points.

Table 8 shows the composition of the bond portfolio (fixed income portfolio excluding cash) based on Moody's and Standard and Poor's (S&P) credit ratings. In the table, government bonds and government-guaranteed bonds without credit ratings have been given 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 state when it issues bonds in a foreign currency. According to the Ministry of Finance's guidelines for credit risk, the Petroleum Fund may not normally be invested in securities with a credit rating lower than Baa from Moody's, BBB from S&P or BBB from Fitch.

Nevertheless, up to 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 30.09.03, by credit rating. Per cent of market value

Moody's		Standard & Poor's	
Rating	Per cent of total	Rating	Per cent of total
Aaa	61.59	AAA	60.12
Aa	14.00	AA	20.15
A	17.21	A	10.50
Baa	5.39	BBB	6.36
Ba	0.11	BB	0.09
Lower	0.00	Lower	0.00
No rating	1.69	No rating	2.79

Table 9 provides an overview of other risk exposure 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. In the third quarter, there was one breach of the Regulation on Management of the Government Petroleum Fund. One external manager converted surplus liquidity to NOK. This is a breach of Section 2 which states that all cash deposits shall be denominated in foreign currency. The breach was discovered at the time of settlement and the transaction was reversed shortly thereafter.

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

Section	Risk	Limits	Actual					
			31.12.02	31.03.03	30.06.03	31.07.03	31.08.03	30.09.03
§ 4	Market risk	Maximum 1.5 percentage point tracking error	0.4	0.3	0.3	0.3	0.4	0.4
§ 5	Asset mix	Bonds 50-70%	62.2	61.2	58.8	57.7	57.5	58.9
		Equities 30-50%	37.8	38.8	41.2	42.3	42.5	41.1
§ 6	Currency mix	Europe 40-60%	54.8	49.4	49.1	49.1	48.3	47.7
	equities	Americas/Asia/Oceania 40-60%	45.2	50.6	50.9	50.9	51.7	52.3
	Emerging markets	< 5% of equity portfolio	2.5	2.4	2.2	2.4	2.7	2.6
	Currency mix fixed income	Europe 45-65%	58.2	55.6	54.9	54.8	54.9	55.6
		Americas: 25-45%	32.5	34.5	35.7	35.4	35.2	34.6
		Asia/Oceania 0-20%	9.3	9.9	9.4	9.9	10.0	9.8
§ 7	Interest rate risk	Modified duration 3-7	5.3	5.3	5.5	5.2	5.2	5.3
§ 8	Credit risk*	Maximum 20% in bank deposits	3.6	5.5	4.5	6.2	3.1	3.6
§ 11	Ownership interest	Maximum 3% of a company	2.6	2.9	2.5	2.9	2.7	2.7

- Bank deposits include reinvested cash collateral from securities lending. For other credit risk limits, see Table 8.
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7. Management costs

Table 10 provides an overview of the costs of managing the Petroleum Fund in the first three quarters of 2003. These costs comprise fees to external managers and custodian institutions and Norges Bank's internal operating expenses. In addition to the 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 spread over the three funds by means of a set of internal prices. The internal costs also include all support functions provided by other parts of Norges Bank.

The increase in absolute costs from 2002 is due largely to the increase in the size of the portfolio. The relatively large increase in costs related to equity custodians and settlements is attributable to a number of factors: Norwegian value added tax is now paid on some of these services; the portfolio has been split into a larger number of custodial accounts than previously; and the transaction volume was high in connection with restructuring the equity portfolio in the first three quarters of 2003.

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

	2003		2002	
	In thousands of NOK	Basis points	In thousands of NOK	Basis points
Fees to external equity managers, excluding performance-based fees	141 570		95 580	
Costs of equity custodians and settlement	47 601		29 757	
Other costs, equity management	102 224		102 537	
Total equity management	**291 395**	**14**	**227 874**	**12**
Performance-based fees to external equity managers	*38 241*		*39 822*	
Fees to external fixed-income managers, excluding performance-based fees	23 140		15 594	
Costs of fixed income custodians and settlement	32 375		16 599	
Other costs, fixed income management	109 413		93 312	
Total fixed income management	**164 928**	**5**	**125 506**	**4**
Performance-based fees to external fixed-income managers	*22 027*		*9 177*	
Total management costs, excluding performance-based fees	**456 323**	**9**	**353 380**	**8**
Total management costs	**516 591**	**10**	**402 379**	**9**

Annualised, the costs in the table are equivalent to 0.14 per cent (14 basis points) of the average equity portfolio and 0.05 per cent (5 basis points) of the average fixed income portfolio. Performance-based fees to external equity managers and external fixed income managers of NOK 38 million and NOK 22 million respectively come in addition to these costs. The amounts are determined on the basis of the managers' total excess return over the last four quarters. Including these performance-based fees, costs related to management of the equity portfolio represent 15 basis points and costs related to management of the fixed income portfolio amount to 6 basis points of the average sub-portfolios.

For the portfolio as a whole, annualised management costs excluding performance-based fees amounted to 9 basis points of the average market value in the first three quarters of 2003. The average market value has been NOK 707 billion, which is appreciably lower than the expected average market value for the year as a whole.

The management agreement between the Ministry of Finance and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Petroleum Fund's portfolios. The remuneration for 2003 shall be equal to actual management costs and no more than 10 basis points of average total assets. Performance-based fees to external managers shall nevertheless be covered even if they exceed this upper limit. Agreements concerning performance-based fees, which are in accordance with the principles established by the Ministry of Finance, have been entered into with the majority of external active managers.

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 was NOK 5 935 million in the third quarter before deduction of Norges Bank's management remuneration.

The account figures are based on holdings including traded but unsettled transactions (except cash). All securities are valued at current market values supplied by independent third party sources. Investments in foreign currency have been converted to NOK at market rates as quoted on WM/Reuters London on 30 September. The recorded value of the Petroleum Fund's portfolio deviates from the market value in Table 4 above because management remuneration has not been deducted in this table, and because different calculation 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 balance sheet, financial futures with a total market value of NOK 50 900.7 million had been purchased and financial futures with a market value of NOK 43 398.2 million had been sold at 30.09.03. Options on futures with a total market value of NOK 8.9 million had been purchased and options on futures worth NOK 8.5 million had been sold. Interest rate swaps with a total market value of NOK 128 410.0 million had been purchased and swaps valued at NOK 129 336.7 million had been sold. Forward exchange with a total contract value of NOK 19 508.9 million had also been bought and sold.

In Table 12, income and expenses in foreign currency are converted to 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 September 2003. In thousands of NOK

	30.09.02	31.12.02	31.03.03	30.06.03	30.09.03
Short-term assets, incl. deposits in foreign banks	7 270 772	9 877 743	20 987 757	4 614 969	8 793 694
Money market investments in foreign financial institutions against collateral in the form of securities	174 327 946	188 229 945	197 996 074	231 690 203	247 242 425
Borrowing from foreign financial institutions against collateral in the form of securities	-152 080 172	-209 803 763	-250 821 420	-302 943 078	-261 330 966
Foreign interest-bearing securities	359 025 773	394 253 546	455 885 378	530 029 565	483 411 144
Foreign equities	215 039 688	226 354 150	257 973 804	312 215 805	325 183 886
Adjustments on forward contracts	-2 138	122 752	-3 082	-37 255	104 872
Total portfolio before remuneration for management	**603 581 869**	**609 034 373**	**682 018 511**	**775 570 209**	**803 405 055**
Accrued management remuneration	-391 000	-559 835	* -184 505	* -342 232	* -528 286
Total portfolio	**603 190 869**	**608 474 538**	**681 834 006**	**775 227 977**	**802 876 769**

* 11 695 000 is management remuneration for previous years.

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

Book return	30.09.2002	31.12.2002	31.03.2003	30.06.2003	30.09.2003
Interest income	13 864 562	18 705 159	4 989 924	9 552 586	14 923 666
Dividends	3 701 793	4 428 514	1 576 118	4 308 050	5 917 817
Exchange rate adjustment	-81 254 669	-104 109 677	43 969 450	63 075 338	55 310 312
Unrealised securities loss/gain	-44 113 967	-27 071 528	-17 271 494	25 955 900	31 271 734
Realised securities gain	-15 151 178	-19 934 100	-3 642 108	-3 806 718	-2 963 386
Brokers' commissions	3 274	-877	-6 926	-18 576	-18 009
Forward exchange trading	4 691	4 681	-903	-766	-1 004
Gain/loss futures	-2 232 270	-2 032 369	29 215	992 812	1 460 431
Gain options				46 729	138 438
Book return on investments	**-125 177 764**	**-130 010 197**	**29 643 276**	**100 105 353**	**106 040 000**
Accrued management remuneration	-391 000	-559 835	-184 505	-342 232	-528 286
Net return market value	**-125 568 764**	**-130 570 032**	**29 458 771**	**99 763 121**	**105 511 714**