Management of the Government Petroleum Fund
Report for the third quarter of 2004

Summary

In the third quarter of 2004, the return on the Government Petroleum Fund, including the Environmental Fund, was 1.42 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 three quarters of 2004 was 4.23 per cent.

The return on the equity portfolio in the third quarter was -0.99 per cent measured in terms of the benchmark portfolio's currency basket. This reflects a fall in share prices through the quarter in the three main markets, the US, Europe and Japan in particular. The return on the fixed income portfolio was 3.12 per cent measured in terms of the currency basket following interest rate reductions in the US as well as in the euro area and Japan.

The return on the Petroleum Fund's ordinary portfolio in the third quarter of 2004 was 0.02 percentage point lower than the return on the benchmark portfolio defined by the Ministry of Finance. The actual return for the first three quarters as a whole was 0.30 percentage point higher than the benchmark return.

The third quarter return on the Environmental Fund was -1.59 per cent measured in terms of the benchmark portfolio currency basket and -3.59 per cent measured in NOK. The return for the first three quarters as a whole was 3.97 per cent measured in terms of the currency basket and 4.48 per cent measured in NOK.

The Petroleum Fund's market value was NOK 988.1 billion at the end of the third quarter, which is an increase of NOK 45.8 billion since the beginning of the quarter and an increase of NOK 142.8 billion since year-end 2003.

The increase in market value in the third quarter is a result of both positive returns measured in international currency and the transfer of new capital. NOK 52.1 billion in new capital was transferred to the Fund, while the return on invested capital, measured in international currencies, amounted to roughly NOK 13.5 billion. A stronger krone in relation to the currencies in which the Petroleum Fund is invested reduced the value of the Fund by NOK 19.8 billion during the quarter. Changes in the krone exchange rate have no effect on the Fund's international purchasing power.

1. Key figures

The return on the Government Petroleum Fund in the third quarter of 2004 was 1.42 per cent measured in terms of the currency basket corresponding to the composition of the Fund's benchmark portfolio. Chart 1 shows the quarterly return on the Petroleum Fund since 1998.

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

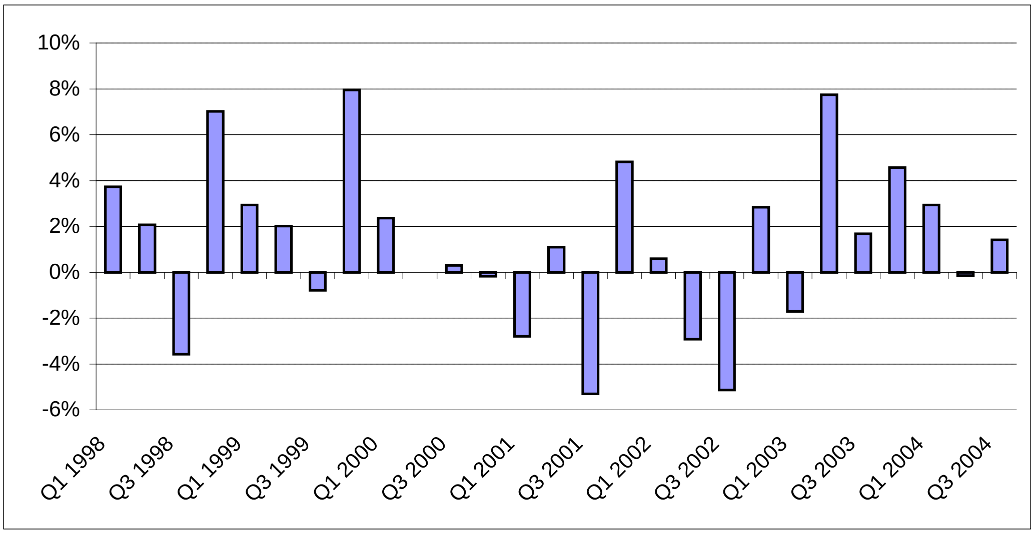
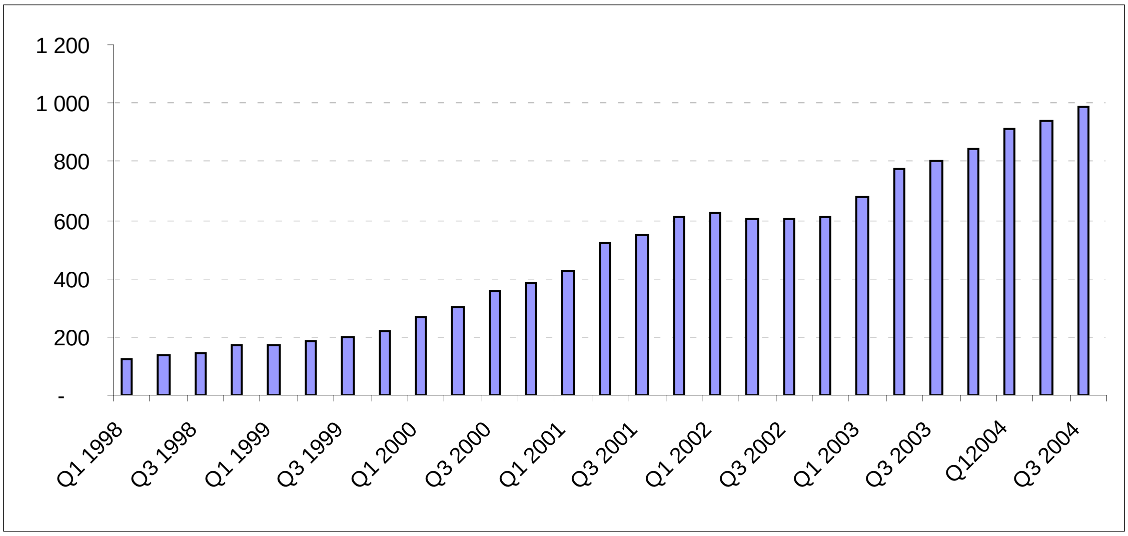


Chart 2 shows that the Petroleum Fund measured in NOK has increased from NOK 113 billion to NOK 988 billion since 1 January 1998.

Chart 2: The market value of the Petroleum Fund 1998-2004, measured 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 3.62 per cent. Table 1 shows the return to the end of the third quarter of 2004, annualised from 1 January for each of the years 1997-2003. Price inflation is a weighted average of price inflation in the countries in the benchmark portfolio.

The right-hand column of the table shows that the average gross excess return has been 0.39 percentage point per year since 1 January 1997. This is the annualised difference between the return achieved by Norges Bank and the annualised return on the benchmark portfolio.

Table 1: Annual rates of return on the Petroleum Fund up to the end of the third quarter of 2004, measured in terms of the Fund's currency basket. Per cent

	Gross annual return	Annual price inflation	Annual management costs	Annual net real return	Annual gross excess return
From 01.01.97	5.35	1.59	0.08	3.62	0.39
From 01.01.98	4.81	1.57	0.08	3.11	0.42
From 01.01.99	4.05	1.68	0.08	2.25	0.46
From 01.01.00	2.37	1.77	0.08	0.51	0.31
From 01.01.01	2.33	1.70	0.08	0.54	0.33
From 01.01.02	4.14	1.90	0.09	2.11	0.40
From 01.01.03	9.58	1.89	0.10	7.45	0.47

Chart 3 shows cumulative rates of return from 1 January 1998 for the fixed income and equity portfolios. During these 27 quarters, the cumulative nominal return has been 19.1 per cent on equity investments and 47.9 per on bonds and other fixed income instruments.

Chart 3: Index for cumulative return on sub-portfolios in the Petroleum Fund in the period 1998-2004 (including Environmental Fund)

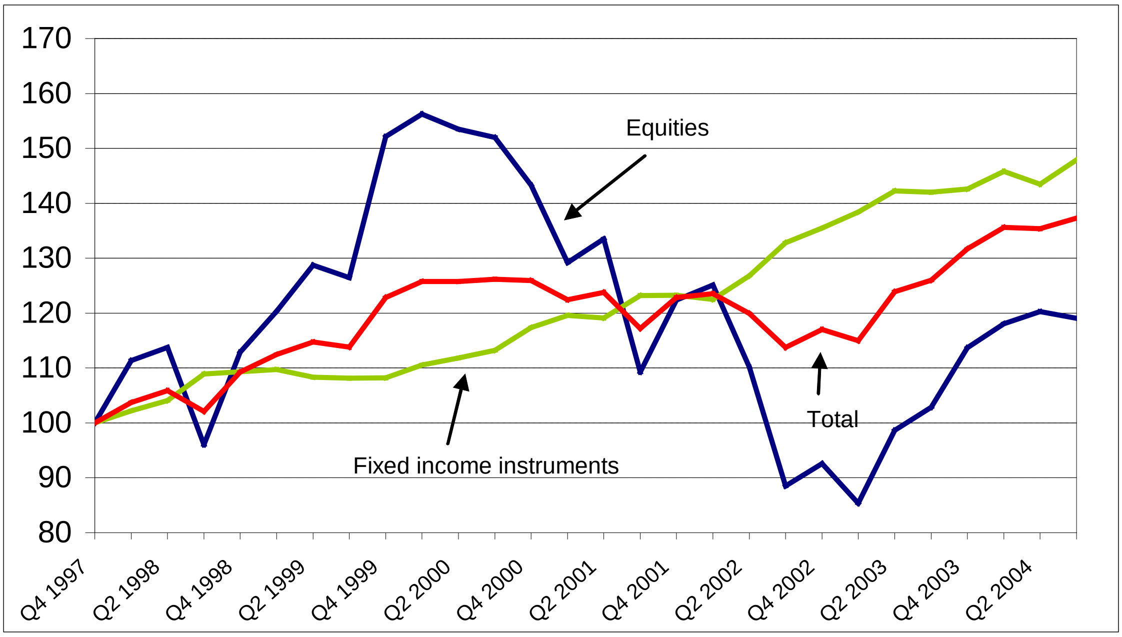


Chart 4 shows the cumulative return on the Petroleum Fund as a whole since 1 January 1998. The return up to the end of the third quarter of 2004 was 37.4 per cent. During the same period, the return on the benchmark portfolio was 33.6 per cent. The difference between the actual return and the return on the benchmark portfolio is the excess return achieved by Norges Bank. Since 1998, the cumulative excess return measured in terms of the currency basket has been 3.8 percentage points, which corresponds to NOK 12.0 billion.

Chart 4: Index for cumulative actual return and benchmark return measured in terms of the Fund's currency basket (left-hand scale) and quarterly gross excess return in percentage points (right-hand scale)

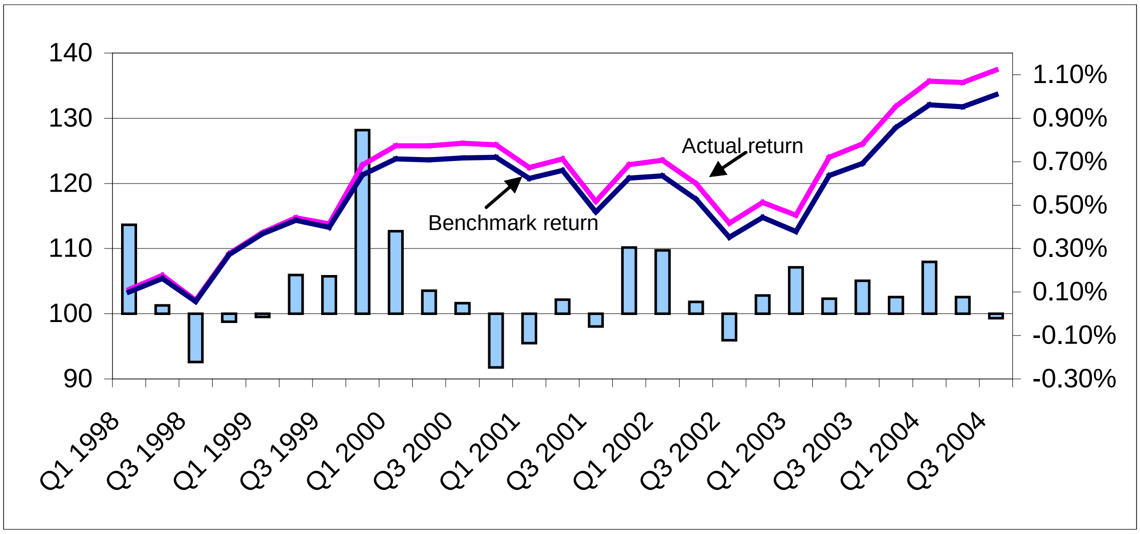
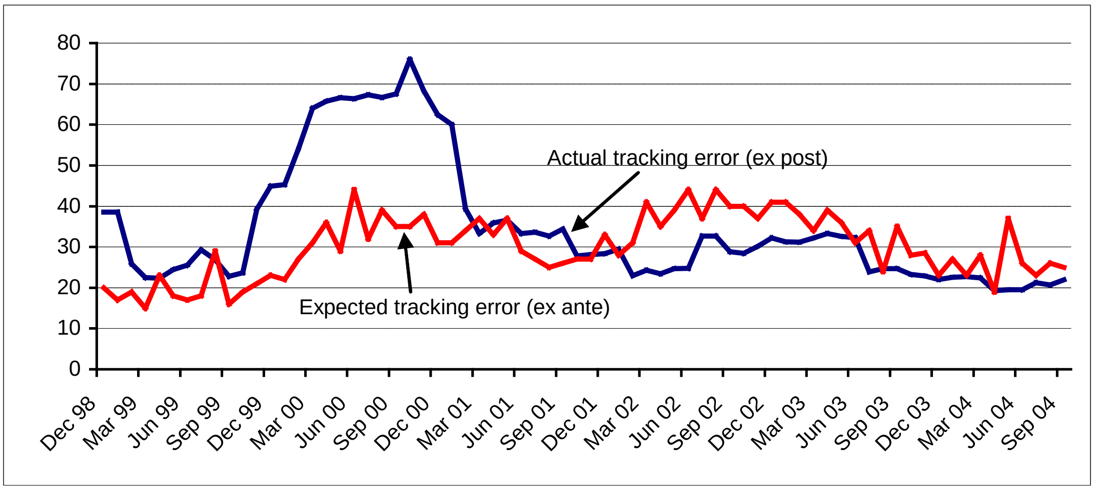


Chart 5 shows developments in relative market risk from December 1998, measured in two different ways. In the guidelines from the Ministry of Finance, expected tracking error (often called relative or active risk - which is explained in Section 6 below) is used as a measure of market risk. In retrospect, we can use the variation in the excess return, i.e. the difference between the returns on the actual portfolio and the benchmark portfolio as a measure of the risk taken by Norges Bank. In Chart 5, this actual tracking error is annualised using 12-month moving windows.

Chart 5: Relative market risk at the end of each month in the period 1999-2004, measured by expected tracking error and actual tracking error (in basis points)

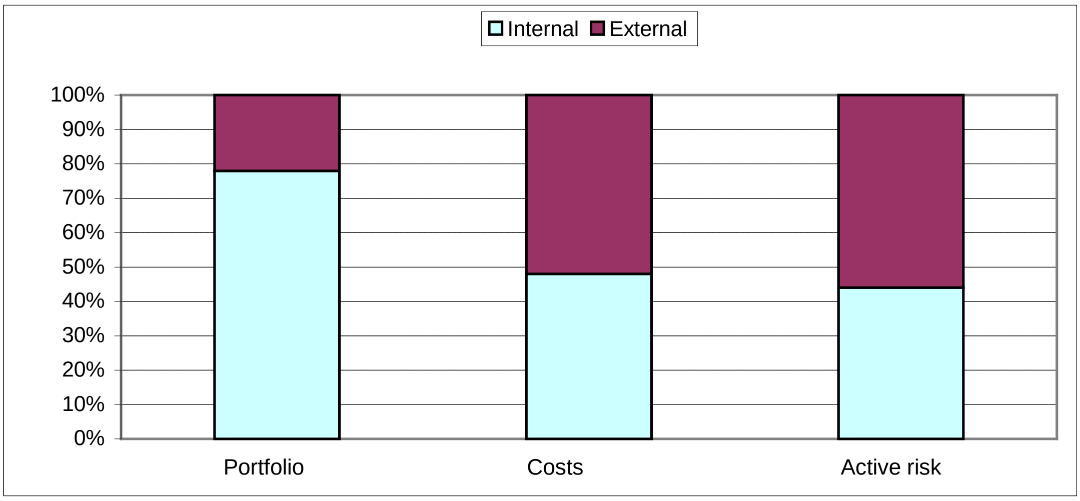


Both expected and actual tracking error may fluctuate considerably, even when the degree of active management remains unchanged. This is because the measures are influenced by various market developments, such as changes in correlations between the various asset classes and securities. Expected tracking error has been well below the 1.5 percentage point limit stipulated by the Ministry of Finance for relative market risk in the Petroleum Fund's portfolio.

The information ratio is commonly used to measure the skill of managers. The information ratio is the ratio between the excess return for the year and relative market risk (measured here as actual tracking error). The average information ratio for the Fund from the first quarter of 1998 to the end of the third quarter of 2004 has been 1.09, annualised. In comparable international investment management, an information ratio of more than 0.2-0.3 is often regarded as a solid result.

Chart 6 shows some key figures related to the distribution of external and internal management. It shows that at the end of the third quarter, 23 per cent of the Petroleum Fund was managed by external managers. At the same time, costs in connection with external management accounted for 52 per cent of total management costs. The active risk associated with external management accounted for about 56 per cent of the total risk associated with active management.

Chart 6: Distribution of portfolios, management costs and active risk* between internal and external management



* There is no absolutely correct method of calculating the distribution of active risk. The distribution in the chart is based on summation of the value at risk (VaR) of each mandate, disregarding the correlation between the mandates.

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 of the reasons why unit costs are far higher for external management than for internal management. Another reason is that internal management of large portfolios is cost-effective compared with buying management services in the market due to economies of scale in capital management. The internal managers have limited capacity for active management, however, and external managers with specialised expertise are used to achieve sufficient breadth and scope in risk taking.

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 2003 with effect from 1 January 2004. The Petroleum Fund's investment universe was expanded at this time to include a number of new countries.

The Ministry of Finance has defined a strategic benchmark portfolio for the Petroleum Fund pursuant to the Petroleum Fund Regulation. The benchmark portfolio is composed of the FTSE equity indices for 27 countries and the Lehman Global Aggregate bond indices in the currencies of 21 countries. Equities shall account for 40 per cent of the strategic benchmark portfolio of the Petroleum Fund, excluding the Environmental Fund, and fixed income instruments shall account for 60 per cent. In the equity portion of the benchmark, securities listed on European and other regions' stock exchanges account for 50 per cent each. The regional distribution in the fixed income benchmark is as follows: 55 per cent in Europe, 35 per cent in the US and 10 per cent in Asia/Oceania.

The asset classes and regional weights in the actual benchmark normally differ somewhat from the strategic weights described above. The actual weights change as a result of changes in market prices for the securities in the benchmark. New capital is normally transferred to the Petroleum Fund at the end of each month. This capital is used to bring the asset class and regional weights in the benchmark back as close to the original weightings as possible, providing this does not necessitate selling anything in the actual portfolio. Thus, even after the transfer of new capital, there may be a difference between the weights in the strategic benchmark and the weights in the actual benchmark. The actual benchmark provides the basis for managing risk and measuring the performance of the Petroleum Fund. The actual benchmark will be brought back in line with the strategic benchmark only if it deviates substantially from the strategic benchmark over time.

Table 2 shows the weights in the actual benchmark and the strategic benchmark. The weights in the fixed income benchmark apply to the foreign currency in which the securities are issued. Therefore, the weights for each country in the euro area are not shown.

The Ministry of Finance has set a limit for how much the Petroleum Fund's actual portfolio may deviate from the benchmark portfolio. 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. The limit for the Environmental Fund is 1 percentage point. Tracking error is explained in Section 6.

The Environmental Fund is a separate equity portfolio with the same regional distribution as the ordinary equity portfolio. It may be invested in the same countries as the ordinary equity portfolio, with the exception of emerging markets. Companies must comply with environmental reporting requirements or have an environmental management system to be included in the Environmental Fund's benchmark portfolio. The environmental requirements have been stipulated by the Ministry of Finance. In accordance with these requirements, all companies in the benchmark portfolio are reviewed quarterly by a consulting company selected by the Ministry of Finance.

When the Environmental Fund's benchmark portfolio was established in 2001, its regional distribution was the same as the regional distribution of the ordinary portfolio. Over time, the regional weights vary with developments in market values, and they are never restored to the original weights.

Table 2: The benchmark portfolio at 30 September 2004 for the Petroleum Fund's ordinary portfolio (excluding the Environmental Fund). Per cent

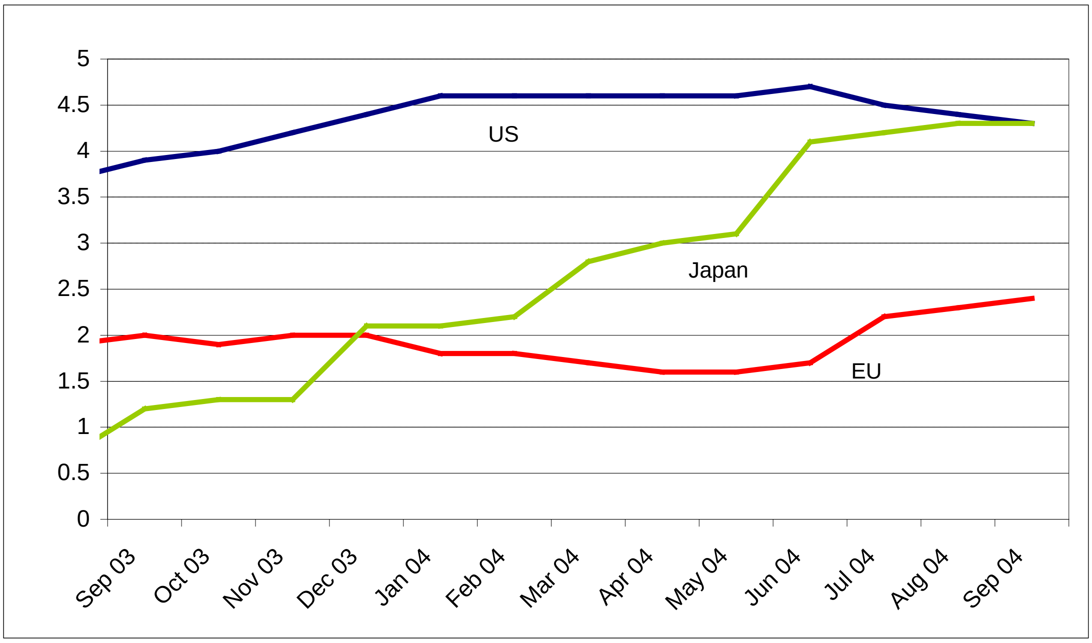
	Equities		**Fixed income instruments**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**39.7**	**60.0**	**60.3**
Belgium		0.9		
Finland		0.9		
France		7.3		
Greece		0.3		
Ireland		0.6		
Italy		3.1		
Netherlands		3.5		
Portugal		0.3		
Spain		2.8		
Germany		5.2		
Austria		0.2		
Euro area countries (EUR)		*25.1*		*46.3*
UK (GBP)		18.4		6.8
Denmark (DKK)		0.6		0.9
Switzerland (CHF)		5.0		0.5
Sweden (SEK)		1.9		0.8
Total Europe	**50.0**	**51.0**	**55.0**	**55.4**
US (USD)		34.5		33.2
Brazil		0.4		
Canada (CAD)		1.7		1.4
Mexico		0.3		
South Africa		0.5		
The Americas / Middle East / Africa			**35.0**	**34.6**
Australia (AUD)		1.8		0.4
Hong Kong		0.9		
Japan (JPY)		7.0		9.0
New Zealand (NZD)		0.1		0.2
Singapore (SGD)		0.3		0.3
South Korea		0.8		
Taiwan		0.9		
Total Asia and Oceania			**10.0**	**9.9**
The Americas / Middle East / Africa / Asia / Oceania	**50.0**	**49.0**		

3. Market developments

3.1 Highlights

Chart 7 shows how analysts' expectations concerning economic growth in 2004 have changed over the past twelve months. Growth expectations in the US were stable and high in the first half of 2004, but fell somewhat in the third quarter reflecting somewhat weaker consumer demand in the last few months. This may be related to rising oil and petrol prices. Short-term interest rates have edged up, inventories have risen slightly and new orders have declined, particularly in the export industry. Nevertheless, leading indicators still point towards high economic growth in the US.

Chart 7: Expected GDP growth in 2004 in the euro area, the US and Japan, measured at various times in 2003-2004. Per cent



Source: Consensus Economics Inc.

Economic growth has been strong in Japan and a number of the Asian economies in the last year. Growth in Japan reflects strong international demand for Japanese electronics and capital goods. GDP growth in both the US and Japan is projected at a little less than 4.5 per cent in 2004.

In spite of stronger economic growth in the EU in recent months, GDP growth is projected at a little less than 2.5 per cent, considerably lower than in the US and Japan. Growth has been dampened by low domestic demand and by strong European currencies measured against the USD.

3.2 Fixed income markets

Yields on 10-year government bonds have fallen in all the main markets in the third quarter. The decline was sharpest in the US, where yields dropped from about 4.6 per cent at the beginning of the quarter to about 4.1 per cent at the end of the quarter. In the Japanese and European fixed income markets, yields fell from 0.25 to 0.35 percentage point. Chart 8 shows that yields were 4.0 per cent in the euro area, 1.4 per cent in Japan and 4.8 per cent in the UK at the end of the quarter.

Long bond yields have fallen despite an increase in prices for oil and other commodities in the third quarter. This may indicate that the market does not expect rising commodity prices to push inflation up in the long term, but that higher prices will dampen underlying inflation by reducing consumers' purchasing power.

Higher metal prices may also indicate that economic activity in China remains high. Growth in China may increase exports of inexpensive goods to the US and Europe, which may contribute to holding prices down in the West.

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

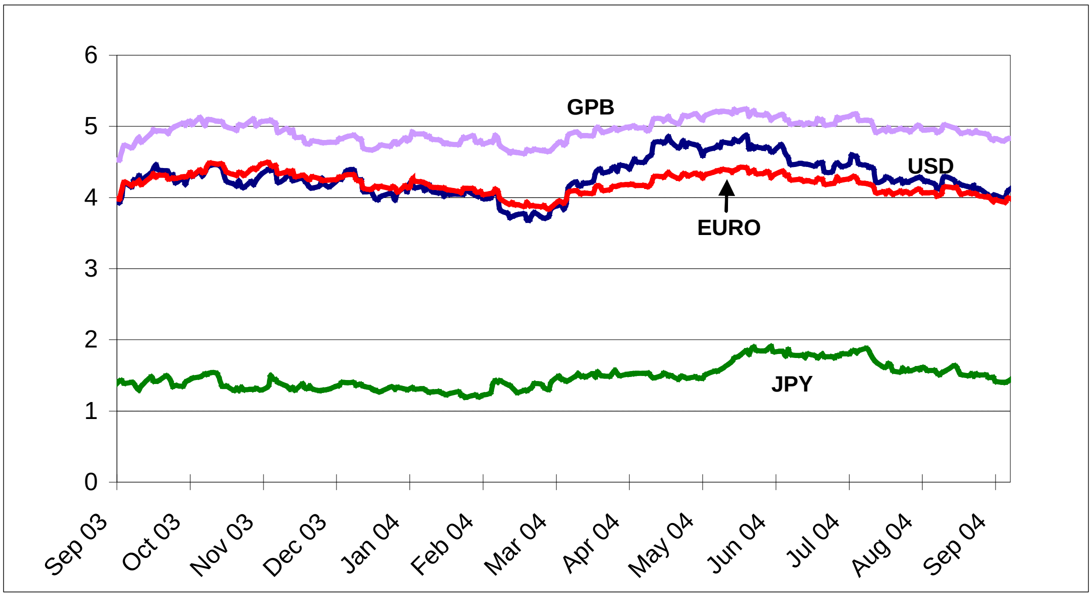


Chart 9 shows changes in value in the Lehman Global Aggregate government bond indices. Yields in the third quarter of 2004 were 3.3 per cent in the US, 2.5 per cent in Europe and 2.0 per cent in Asia.

Chart 9: Movements in Lehman Global Aggregate government bond indices in the main markets in the last 12 months (31.12.03 = 100). In local currencies

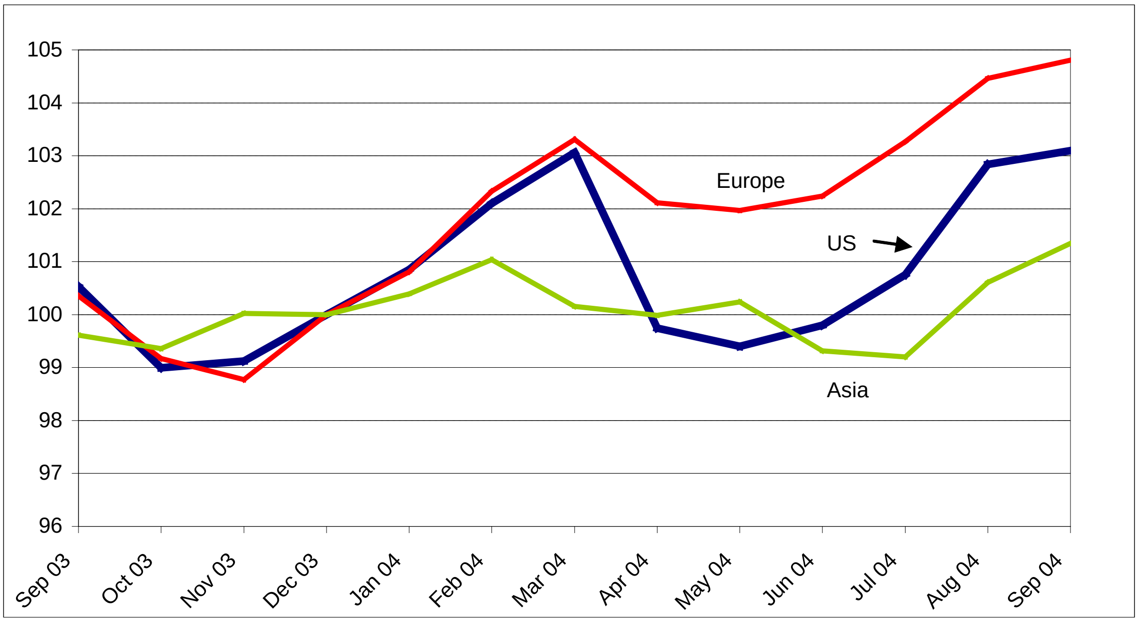
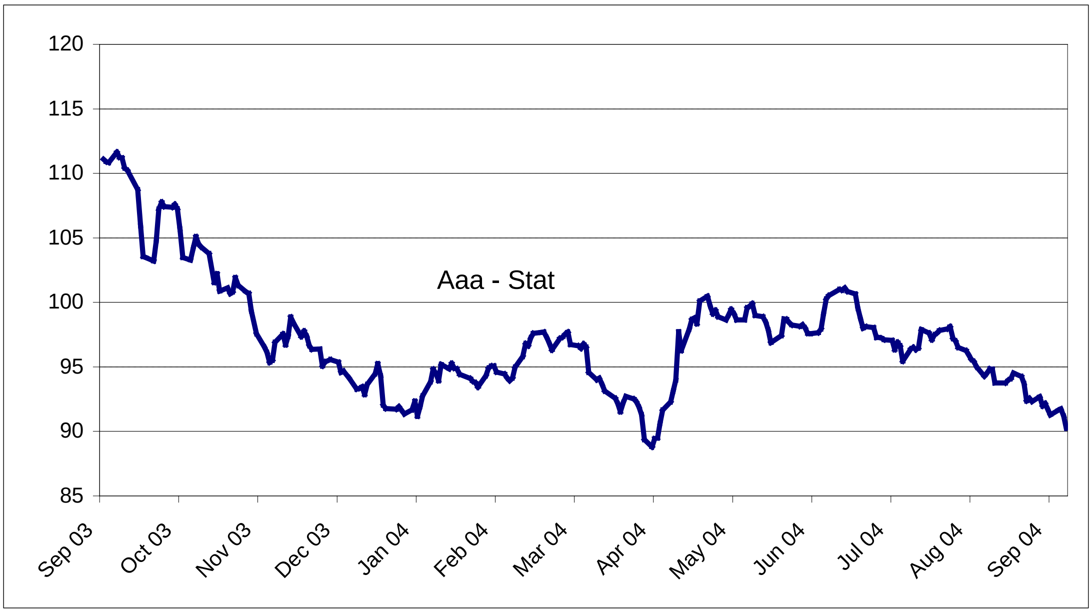


Chart 10 shows that the yield differential between bonds with credit risk and government securities in the US narrowed in the third quarter. This development reflects solid profitability and a low debt/equity ratio in the corporate sector.

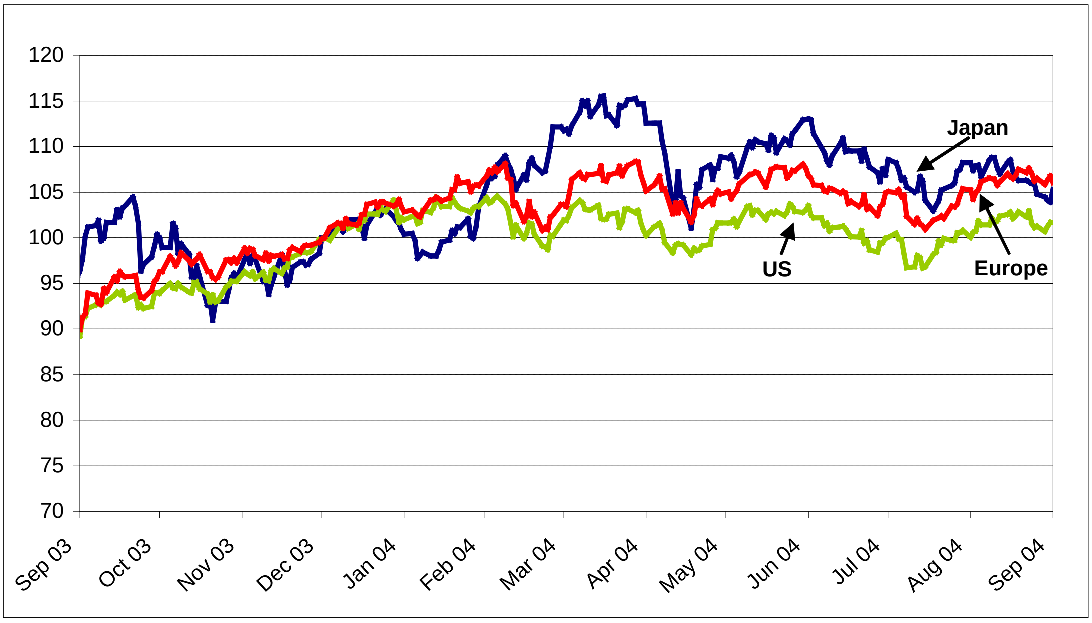
Chart 10: The difference between yields on corporate bonds[1] and yields on government securities in the US (in basis points)



3.3 Equity markets

Chart 11 shows that equity prices fell in the most important equity markets until mid-August, and then rose until the end of the quarter. For the quarter as a whole, equity prices fell in all the main markets. Equity markets declined by 6.8 per cent in Japan, 1.8 per cent in the US and 0.7 per cent in Europe.

Chart 11: Developments in the FTSE equity indices for the main markets from September 2003 to September 2004 (31.12.03 = 100)



[1] Corporate bonds with a AAA credit rating from Standard & Poor's

The decline in equity prices in the first part of the third quarter was related to the fact that published economic data concerning the US economy showed weaker growth. There were also signs of more muted growth in China. Data contradicting this impression became available during the quarter and prices rose again. The renewed strength of Chinese demand has pushed up commodity prices in particular recently. Equity prices have risen most sharply, therefore, in the oil and gas and mining sectors during the quarter.

Developments have been weakest in the IT sector this past quarter and in particular in the semiconductor and telecommunications equipment industries. Developments have also been sluggish in the area of consumer goods production. The consumer goods sector has been squeezed by higher energy and commodity prices but also by more intense competition. The weak developments in the IT sector may be a reaction to the upswing since the winter of 2003. The situation is currently marked by rising inventories and pressure on prices because output exceeds demand.

Table 3 shows equity price movements in the main sectors and in the ten largest sub-sectors in the FTSE world index in the third quarter of 2004.

Table 3: Performance of the main sectors and the ten largest sub-sectors of the FTSE world index in the third quarter of 2004, measured in USD, in NOK and in terms of the Fund's currency basket

	USD	NOK	Currency basket
Commodities	**11.22**	**8.01**	**10.27**
- of which oil and gas	10.03	6.86	9.08
Basic industries	**4.17**	**1.17**	**3.28**
General industrials	**-1.11**	**-3.96**	**-1.96**
Cyclical consumer goods	**-3.18**	**-5.97**	**-4.01**
Non-cyclical consumer goods	**-4.41**	**-7.16**	**-5.23**
- of which pharmaceuticals and biotechnology	-2.56	-5.38	-3.40
Cyclical services	**-1.63**	**-4.47**	**-2.48**
- of which retail trade	0.10	-2.79	-0.77
- of which media and photography	-4.56	-7.31	-5.38
Non-cyclical services	**1.68**	**-1.25**	**0.80**
- of which telecommunications	2.80	-0.17	1.91
Utilities	**5.92**	**2.86**	**5.01**
Financials	**1.30**	**-1.62**	**0.43**
- of which banks	2.76	-0.20	1.88
- of which insurance companies	-3.61	-6.39	-4.44
- of which other financial institutions	-1.37	-4.21	-2.22
Information technology	**-9.76**	**-12.37**	**-10.54**
- of which hardware	-12.78	-15.30	-13.53
- of which software and computer services	-4.56	-7.31	-5.38

4. Management of the portfolio

The market value of the Petroleum Fund's international portfolio was NOK 988.1 billion at the end of the quarter. During the quarter, the Fund's market value rose by NOK 45.8 billion. The Ministry of Finance transferred NOK 52.1 billion to the Fund in the third quarter. Effective 1 July 2004, these transfers came from Norges Bank's foreign exchange reserves as cash rather than as securities as before (cf. Revised National Budget for 2004). The return on invested capital measured in international currency was NOK 13.5 billion, while a stronger krone in relation to the currencies in which the Petroleum Fund is invested reduced the market value of the Fund by NOK 19.8 billion during the quarter. Changes in the krone exchange rate have no effect on the Fund's international purchasing power.

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 2003	329 446	472 465	1 389	803 299
31 December 2003	359 648	484 141	1 517	845 306
31 March 2004	383 474	530 251	1 622	915 347
30 June 2004	390 214	550 499	1 644	942 357
30 September 2004	391 353	595 203	1 585	988 141

4.1. Management of the fixed income portfolio

The market value of the fixed income portfolio increased by NOK 44.7 billion to NOK 595.2 billion in the third quarter. A total of NOK 39.2 billion was transferred to the fixed income portfolio during the quarter. The positive returns in the fixed income markets increased the value of the portfolio by NOK 17.4 billion, whereas a stronger krone in relation to the currencies in which the Fund is invested reduced the value of the fixed income portfolio by NOK 11.9 billion.

At the end of the quarter, about 90 per cent of the fixed income portfolio was managed internally by Norges Bank. The investment strategies being used are enhanced indexing, where the primary objective is to achieve the same market exposure as the benchmark, and active management, a strategy designed to outperform the benchmark.

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 collateralised bonds, are indexed by internal managers. US mortgage-backed bonds are indexed by external managers.

About 10 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, capital was transferred to four new active mandates that have been assigned to external managers: TCW Asset Management Company and Putnam Advisory LLC received capital for mandates for US mortgage-backed bonds, and Nomura Asset Management and Daiwa SB Investments received capital for a regional mandate for Japan.

4.2. Management of the equity portfolio

At the end of the third quarter, the market value of the ordinary equity portfolio was NOK 391.4 billion, an increase of NOK 1.1 billion since the beginning of the quarter. NOK 12.9 billion was transferred to the ordinary equity portfolio during the quarter. A negative return on equity investments reduced the market value of the portfolio by NOK 3.8 billion, while a stronger krone reduced the value by NOK 7.9 billion.

At the end of the quarter, approximately 59 per cent of the equity portfolio was being managed internally by Norges Bank. Approximately 23 percent, representing the financial, telecommunications, energy, media and trade sectors, was under active management, while an enhanced indexing strategy was being employed to manage the remainder.

About 41 per cent of the equity portfolio is managed externally. This portion includes regional mandates and sector mandates with a variety of active strategies for outperforming the benchmark.

In the third quarter, capital was transferred to seven new active mandates that have been assigned to external managers: Primecap Management Company, T Rowe Price Associates Inc., Fidelity Pensions Management and Legg Mason Capital Management Inc. (two mandates) received capital for regional mandates and OrbiMed Capital LLC and Gartmore Investment Limited received capital for sector mandates.

5. The return on the Fund

In the third quarter, the return on the Petroleum Fund, including the Environmental Fund, was 1.42 per cent, measured in terms of the benchmark currency basket. Measured in NOK, the total return in the third quarter was -0.65 per cent. The difference is due to an appreciation of the krone through the quarter, which resulted in a depreciation of 2.0 per cent in the Fund's currency basket against 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 1.42 per cent in the third quarter. The return was negative in July, but positive in both August and September. The table shows that the return on the ordinary portfolio was 0.02 percentage point lower than the return on the benchmark as it is calculated by the index supplier. As of 1 January 2004, the benchmark return has been adjusted for taxes paid by Norges Bank on share dividends.

Table 5: Return on the Petroleum Fund's ordinary portfolio. Actual portfolio and benchmark portfolio in the third quarter of 2004. Per cent

	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Differential
Q1	2.93	2.69	5.70	5.46	0.24
Q2	-0.15	-0.23	-0.26	-0.34	0.08
July	-0.67	-0.59	-0.27	-0.20	-0.07
August	1.04	1.09	0.13	0.18	-0.05
September	1.05	0.95	-0.51	-0.61	0.10
Q3	**1.42**	**1.44**	**-0.65**	**-0.63**	**-0.02**
Year to date	4.23	3.93	4.73	4.44	0.30

Until the third quarter 2004, the return on the ordinary portfolio has been 0.30 percentage point, which amounts to approximately NOK 2.6 billion. So far this year, the externally managed equity portfolios and the internally managed fixed income portfolios have contributed most to the excess return, although the internally managed equity portfolios and the externally managed fixed income portfolios have also outperformed their benchmarks.

Table 6 shows the return on the equity portfolio and the fixed income portfolio. In terms of the Fund's currency basket, the return on the equity portfolio was -0.99 per cent in the quarter, while the return on the fixed income portfolio was 3.12 per cent. The table also shows the return on the total portfolio (including the Environmental Fund) measured in USD, EUR and against an import-weighted currency basket.

Table 6: Return on the Petroleum Fund's sub-portfolios and total portfolio in the third quarter of 2004 measured against various benchmark currencies. Per cent

	Equities	**Fixed income**	**Environmental Fund**	**Total**
The Fund's currency basket	-0.99	3.12	-1.59	1.42
Import-weighted currency basket	-1.52	2.56	-2.12	0.87
USD	-0.12	4.01	-0.73	2.30
EUR	-2.15	1.90	-2.75	0.22
NOK	-3.01	1.01	-3.59	-0.65

Methodology for calculating returns[2]

The calculation of returns is based on international standards. The return is calculated according to the market value principle, i.e. 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 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 by looking at changes in market value. The geometrical return is used for longer periods, such as quarterly and annual return and return to date. This means that the return indices for each sub-period are multiplied. This return is thus a time-weighted product of the returns for the individual months.

The return is calculated in both NOK and local currency. The total return in NOK is found by totalling the market values in NOK of all currencies. WM/Reuters exchange rates[3] are used for converting local currencies to NOK.

The NOK return on the benchmark portfolio is calculated as the geometric difference between the return in NOK and the return 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 measured against the benchmark portfolio's currency distribution.

Returns are calculated in separate models and then reconciled with the accounting system. There may be differences between the returns calculated in the models and the returns in the accounts due to the use of different assessment principles, for example in the treatment of accrued interest and tax withholdings not yet refunded. In the accounts, allocations are also made to cover the management fee paid to Norges Bank by the Ministry of Finance.

The returns have not been adjusted for costs related to phasing new capital into the markets. From the third quarter of 2004, new capital has been transferred as cash. When the capital is invested in securities (equities and fixed income instruments), both direct and indirect costs are incurred. There is no standard market practice for calculating such costs. Based on a number of assumptions and a simplified model, which does not include the market impact related to the purchase of securities, Norges Bank has estimated the costs associated with phasing in new capital at NOK 96 million in the third quarter of 2004. This amounted to 0.18 per cent of the amount transferred, which was NOK 52.1 billion, and 0.01 per cent of the market value of the Petroleum Fund.

Table 7 shows that the third quarter return on the Environmental Fund was -1.59 per cent measured in terms of the currency basket and -3.59 per cent measured in NOK. The actual return was approximately in line with the benchmark return. The benchmark return in the third quarter was 0.20 percentage point lower than the return on a comparable benchmark from which no companies had been excluded on the basis of environmental criteria. Since 1

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[2] An article available on Norges Bank's website provides more details about the calculation of returns. See "Performance Measurement Methodology" published in 2000.
[3] WM/Reuter Closing Spot Rates, fixed at 4 pm London time.

January, the benchmark return for the Environmental Fund was 0.53 percentage point lower 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 third quarter of 2004. Per cent

	Measured in terms of the Fund's currency basket		**Measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Differential
Q1	4.14	4.13	6.94	6.93	0.01
Q2	1.45	1.47	1.34	1.36	-0.02
July	-2.77	-2.75	-2.38	-2.36	-0.01
August	0.09	0.09	-0.81	-0.81	-0.00
September	1.13	1.11	-0.44	-0.45	0.02
Q3	-1.59	-1.59	-3.59	-3.60	0.00
Year to date	3.97	3.99	4.48	4.49	-0.01
Note: Ordinary benchmark in Q 3 with country weights as in the Environmental Fund				**-3.39**	**-0.20**

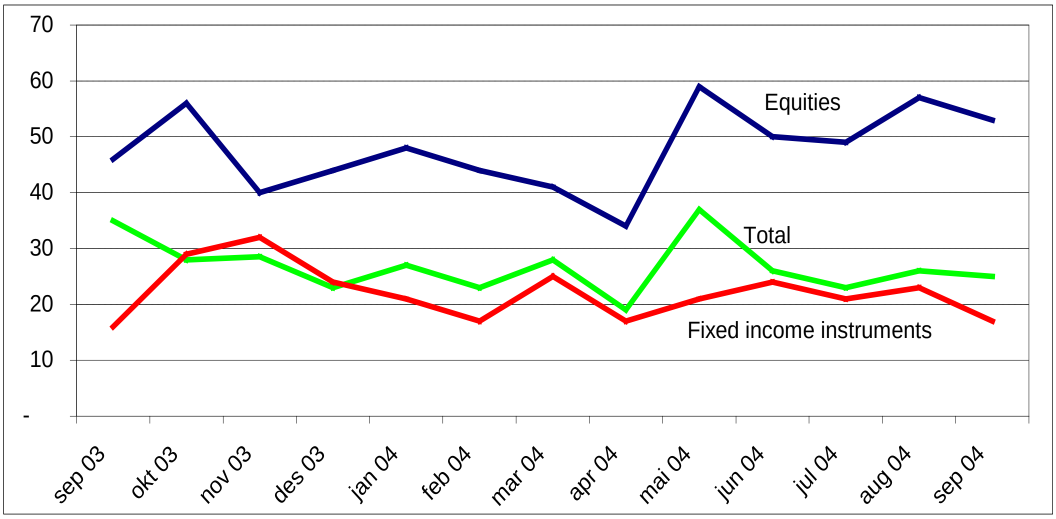
6. Risk

The Ministry of Finance has set a limit to 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). Chart 12 shows that in the third quarter of 2004, relative market risk remained well below the upper limit. At the end of the quarter, expected tracking error for the total portfolio was 26 basis points.

Relative risk is higher in equity management than in fixed income management. Equity markets fluctuate more than fixed income markets, and 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 Environmental Fund's relative market risk at the end of September was 10 basis points, measured as expected tracking error in relation to this portfolio's benchmark. The Ministry of Finance has imposed an upper limit of 100 basis points.

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



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 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. 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 securities with ratings of Ba, BB or BB from Moody's, S&P or Fitch, respectively. All fixed income instruments have a credit rating from at least one of the agencies. Besides bonds, the fixed income portfolio also contains fixed income instruments with shorter maturities. These all have a credit rating of P-1 from Moody's and A-1 from Standard & Poor's.

Table 8: The fixed income portfolio at 30 September 2004 by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	Per cent of total	Rating	Per cent of total
Aaa	54.49	AAA	50.79
Aa	16.91	AA	22.77
A	19.19	A	13.54
Baa	7.77	BBB	8.92
Ba	0.20	BB	0.25
Lower	0.00	Lower	0.00
No rating	1.44	No rating	3.73

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 during the quarter. The figures show that positions were within these limits throughout the quarter.

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

§	Risk	Limits	Actual				
			30.09.03	31.12.03	31.03.04	30.06.04	30.09.04
§ 4	Market risk	Maximum 1.5 percentage point tracking error	0.4	0.2	0.3	0.3	0.3
§ 5	Asset mix	Fixed income instruments 50-70%	58.9	57.4	58.0	58.5	60.3
		Equities 30-50%	41.1	42.6	42.0	41.5	39.7
§ 6	Market distribution equities	Europe 40-60%	47.7	49.2	47.8	47.3	50.0
		The Americas, Middle East/Africa, Asia and Oceania 40-60%	52.3	50.8	52.2	52.7	50.0
	Emerging markets	< 5% of equity portfolio	2.6	2.7	3.1	2.6	2.7
	Currency distribution fixed income	Europe 45-65%	55.6	56.4	54.9	54.8	55.3
		The Americas and Middle East/Africa 25-45%	34.6	34.0	35.0	35.4	35.0
		Asia/Oceania 0-20%	9.8	9.6	10.1	9.7	9.7
§ 7	Interest rate risk	Modified duration 3-7	5.3	5.4	5.3	5.5	5.6
§ 11	Ownership interest	Maximum 3% of a company	2.7	2.6	2.7	2.7	2.7

7. Management costs

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 2004 shall be equal to actual management costs and no more than 0.10 per cent of average total assets. Performance-based fees to external managers shall nevertheless be covered even if they exceed this upper limit. Norges Bank has entered into agreements concerning performance-based fees with the majority of external active managers, in accordance with the principles that have been approved by the Ministry of Finance.

Table 10 provides an overview of costs associated with the management of the Petroleum Fund in the first three quarters of 2004. 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 an allocative key. The internal costs also include all support functions provided by other parts of Norges Bank.

Table 10: Management costs in the first three quarters of 2004. In thousands of NOK and in basis points, annualised, of the average portfolio

	2004		2003	
	NOK 1000	Per cent	1000 NOK 1000	Per cent
Internal costs, equity management	130 896		102 224	
Costs of equity custodian and settlement	58 587		47 601	
Total costs, equity management	**189 483**	**0.08**	**149 825**	**0.09**
Internal costs, fixed income management	121 193		109 413	
Costs of fixed income custodians	28 082		32 375	
Total costs, fixed income management	**149 275**	**0.03**	**141 788**	**0.05**
Minimum fees to external managers	180 235		164 710	
Performance-based fees to external managers	148 373		60 268	
Total costs, external management	**328 608**	**0.16**	**224 978**	**0.14**
Total management costs	**667 366**	**0.10**	**516 591**	**0.10**
Total management costs, excluding performance-based fees	**518 993**	**0.08**	**456 323**	**0.09**

Excluding performance-based fees to external managers, management costs totalled NOK 519 million in the first nine months of 2004. Annualised, the costs amounted to 0.08 per cent (8 basis points) of the average market value of the Fund.

Excluding fees for external managers, costs associated with equity management amounted to 0.08 percent of the average equity portfolio in the first three quarters. The comparable figure for fixed income management was 0.03 per cent. Performance-based fees to external managers amounted to NOK 148 million. These fees are determined on the basis of the external managers' total excess return over the last 12 months. Management costs for the entire portfolio totalled NOK 667 million in the first nine months of 2004. External management accounted for approximately 52 per cent of total costs, whereas about 22 per cent of the Petroleum Fund is managed externally. Annualised, the total costs amount to 0.10 per cent (10 basis points) of the average market value of the Fund.

8. Reporting of accounts

Table 11 shows the distribution of different instruments as presented in Norges Bank's accounts at the ends of the last five quarters. Off-balance sheet items are shown in a separate table. Table 12 shows the book return, which in the third quarter was NOK – 6 315 million prior to the deduction of Norges Bank's management fee.

Table 11: The Petroleum Fund's international portfolio distributed by instrument, at 30 September 2004. In thousands of NOK

	31.09.2003	31.12.2003	31.03.2004	30.06.2004	30.09.2004
Short-term assets, incl. deposits in foreign banks	8 373 828	20 159 575	13 450 907	-3 178 275	-30 235 874
Money market investments in foreign financial institutions against collateral in the form of securities	247 242 425	287 041 828	279 864 129	461 264 065	453 393 742
Borrowing from foreign financial institutions against collateral in the form of securities	-261 330 966	-298 603 119	-311 010 300	-410 186 755	-429 229 543
Foreign interest-bearing securities	484 665 659	482 341 421	554 996 405	510 284 611	613 805 297
Foreign equities	325 244 242	354 346 887	378 561 266	385 239 797	384 666 795
Adjustment of forward contracts and derivatives	-821 946	72 774	-555 003	-959 721	-4 171 094
Total portfolio before remuneration for management	**803 373 243**	**845 359 367**	**915 307 404**	**942 463 721**	**988 229 323**
Management remuneration due*	-528 286	-772 595	-962 868	-448 123	-667 366
Total portfolio, recorded value	**802 844 957**	**844 586 772**	**914 344 535**	**942 015 598**	**987 561 957**

*Management remuneration due at the end of the first quarter of 2004 includes remuneration for 2003 and an adjustment of NOK 772 595 for a previous period.

Off-balance sheet items (in NOK 1000)	30.09.2003	31.12.2003	31.03.2004	30.06.2004	30.09.2004
Forward exchange contracts sold	-19 508 884	-25 395 459	-26 235 470	-33 074 909	-30 594 274
Future sold	-43 398 154	-35 942 356	-135 240 732	-125 873 033	-50 442 511
Equity swaps sold	0	-13 340	-543 176	-2 646 383	-3 897 226
Interest rate swaps sold	-129 336 721	-175 568 502	-194 724 825	-363 569 782	-401 111 395
Liabilities sold	**-192 243 758**	**-236 919 657**	**-356 744 203**	**-525 164 107**	**-486 045 406**
Forward exchange contracts purchased	19 508 884	25 395 459	26 235 470	33 074 909	30 594 274
Futures purchased	50 900 741	47 628 021	117 672 014	113 943 091	81 482 879
Equity swaps purchased	0	13 526	535 574	2 078 643	5 667 609
Interest rate swaps purchased	128 409 960	175 545 354	194 169 293	362 614 141	396 889 890
Liabilities purchased	**198 819 585**	**248 582 360**	**338 612 351**	**511 710 784**	**514 634 651**
Futures options sold	-8 485	-4 323 667	-16 564 927	-35 643 955	-16 000 652
Equity options sold	0	0	0	0	-2 348
Rights sold	**-8 485**	**-4 323 667**	**-16 564 927**	**-35 643 955**	**-16 003 001**
Futures options purchased	8 894	4 331 315	24 464 671	36 878 601	20 087 665
Interest rate swaps options	0	0	0	0	0
Rights purchased	**8 894**	**4 331 315**	**24 464 671**	**36 878 601**	**20 087 665**

The accounts 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 are converted to NOK at market rates as at 30 September quoted on WM/Reuters London. 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 return figures.

Table 12: Book return on the Petroleum Fund's international portfolio at 30 September 2004. In thousands of NOK

Book return	30.09.2003	31.12.2003	31.03.2004	30.06.2004	30.09.2004
Interest income	14 891 853	19 560 414	6 094 222	13 382 773	19 954 327
Dividends	5 917 817	6 996 199	2 011 768	5 152 824	6 876 999
Exchange rate adjustment	55 310 312	45 985 725	21 582 056	21 357 284	1 964 762
Unrealised securities losses/gains	30 903 736	55 786 976	11 235 128	-3 567 631	1 280 993
Realised securities losses/gains	-2 963 386	633 103	7 442 408	10 549 393	13 812 821
Brokers' commissions	-18 009	-16 458	5 810	7 093	- 22 869
Forward exchange trading	-1 004	-976	1 332	29 666	-67 407
Gains/losses futures	1 460 431	2 039 765	29 670	-37 857	-155 296
Gains/losses options	136 155	135 947	-6 609	11 674	19 949
Gains/losses equity swaps	0	257	-16 808	37 004	165 544
Gains/losses interest rate swaps	370 281	1 292 862	-511 121	-705 034	-3 927 908
Book return on investments	**106 008 187**	**132 413 815**	**47 867 858**	**46 217 190**	**39 901 915**
Accrued management remuneration	-528 286	-772 595	-190 273	-448 123	-667 366
Net return	**105 479 901**	**131 641 219**	**47 677 585**	**45 769 067**	**39 234 549**

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