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

Summary

The return on the Government Petroleum Fund in the first quarter of 2003 was -1.71 per cent measured in terms of the currency basket that corresponds to the composition of the Fund's benchmark portfolio.

The first quarter return on the ordinary equity portfolio (excluding the Environmental Fund) was -7.76 per cent measured by the benchmark portfolio's currency basket. Share prices in the main markets rose in the first couple of weeks in 2003, but showed a tendency to fall, particularly in Europe, from the second half of January and for the remainder of the quarter. The fixed income portfolio had a positive return for the quarter of 2.17 per cent, measured by the currency basket.

The return on the Petroleum Fund's ordinary portfolio in the first quarter of 2003 was 0.21 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Finance. An excess return was achieved through both equity and fixed income management.

The first quarter return on the Environmental Fund was negative at -8.20 per cent, measured in terms of the benchmark's currency basket.

During the quarter, capital equivalent to NOK 43.3 billion was transferred to the Petroleum Fund's international equity and fixed income portfolios. The market value of the Fund's total securities portfolio was NOK 682.0 billion at the end of the first quarter, which is an increase of NOK 73.0 billion since year-end. The increase is due partly to the addition of new capital and partly to the depreciation of the krone. Movements in the krone exchange rate have no effect on the Fund's international purchasing power, however.

1. Main figures

The return on the Government Petroleum Fund in the first quarter of 2003 was negative, at -1.71 per cent, measured in terms of the currency basket corresponding to the composition of the Fund's benchmark portfolio. Chart 1 shows that this was the eighth quarter with a negative return since the Petroleum Fund first invested in equities in 1998.

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

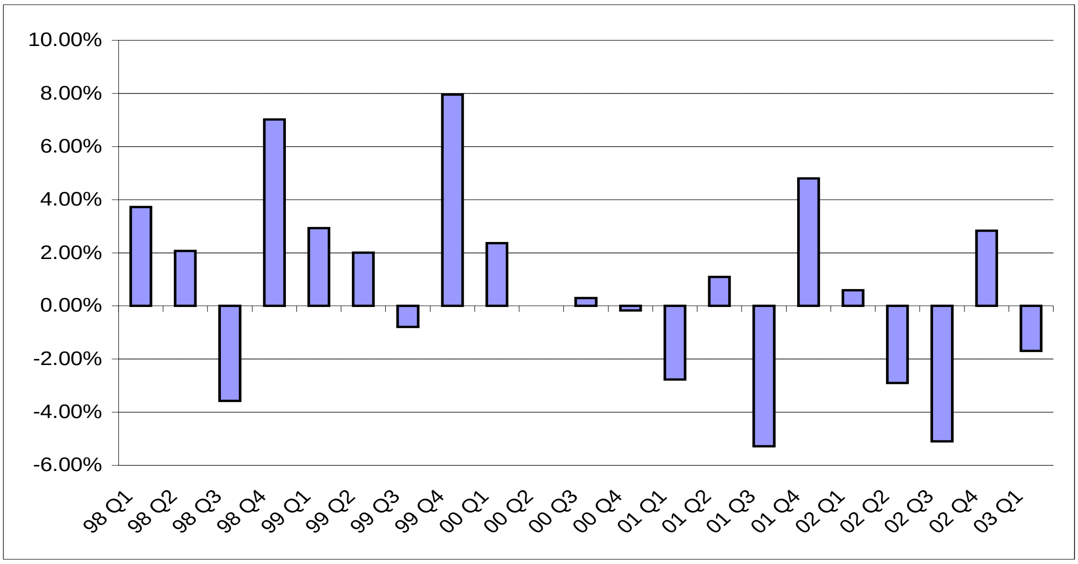
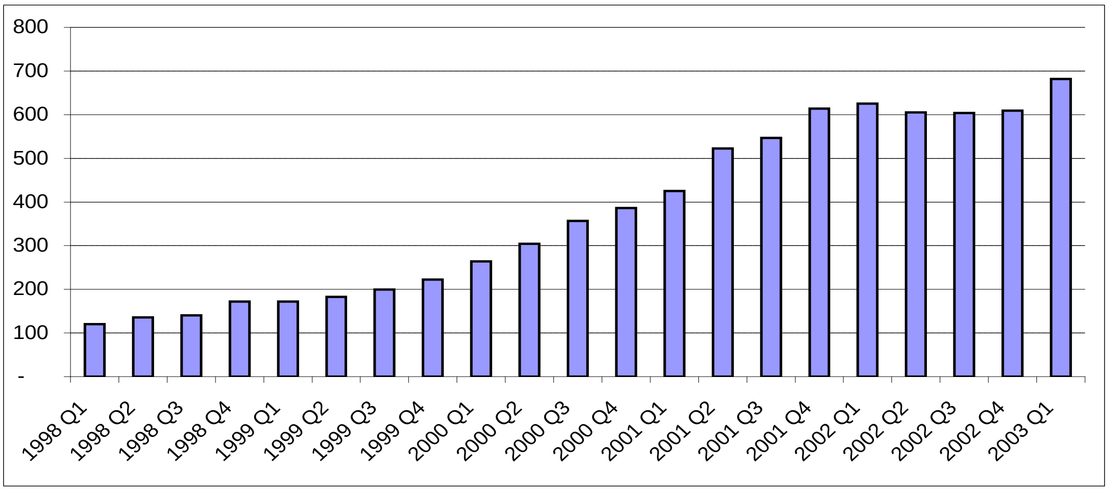


Chart 2 shows that the Petroleum Fund has grown from NOK 113 billion to NOK 682 billion since 1 January 1998, measured in NOK. The time profile of the developments in value is strongly influenced by the fluctuations in the krone exchange rate. Given an unchanged krone exchange rate against the currencies invested in, the rise in value, for example, would have been much more pronounced this past year. But over the period as a whole, developments in the value of 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, 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 2.03 per cent. Table 1 shows the return up to the end of the first quarter of 2003, calculated as an annual rate from 1 January for each of the years 1997 -2002. Price inflation is a weighted average of the price inflation rates in the countries in the benchmark portfolio defined by the Ministry of Finance.

The right-hand column shows that the average gross excess return has been 0.41 percentage point per year. This is the difference between the return on the actual portfolio and the return on the benchmark 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 4).

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

	Nominal annual return	Annual price inflation	Annual management costs	Annual net real return	Annual gross excess return
From 1 Jan 1997	3.69	1.58	0.08	2.03	0.41
From 1 Jan 1998	2.70	1.54	0.08	1.08	0.42
From 1 Jan 1999	1.21	1.69	0.08	-0.56	0.47
From 1 Jan 2000	-2.01	1.82	0.08	-3.91	0.27
From 1 Jan 2001	-3.95	1.71	0.08	-5.74	0.29
From 1 Jan 2002	-5.12	2.15	0.09	-7.36	0.39

Chart 3 shows cumulative rates of return from 1 January 1998 for the fixed income and equity portfolios separately. During these 21 quarters, there has been a cumulative negative nominal return on equity investments of -14.6 per cent and a positive nominal return on fixed income investments of 38.4 per cent.

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

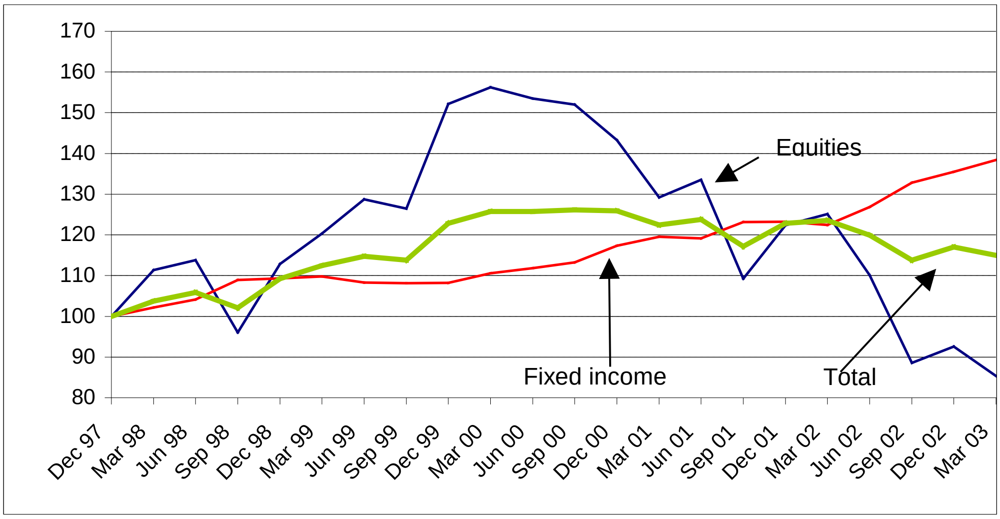


Chart 4 shows the cumulative return on the Petroleum Fund since 1 January 1998. The return to the end of the first quarter 2003 was 15.1 per cent. During the same period, the return on the benchmark was 12.6 per cent. The difference between the actual return and the return on the benchmark is the excess return achieved by Norges Bank. The cumulative gross excess return since 1998 is 2.5 percentage point, which corresponds to NOK 7.0 billion.

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

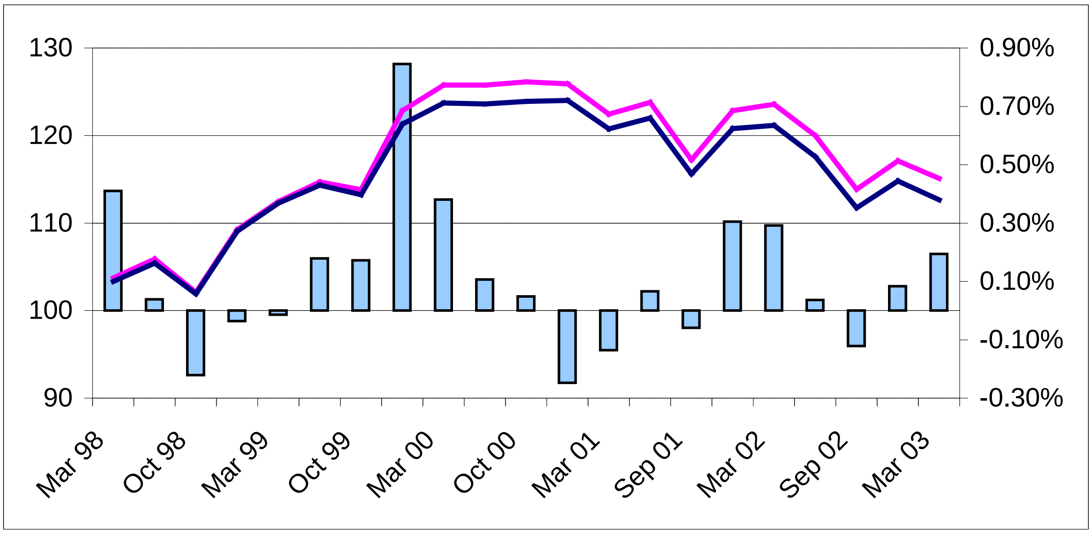
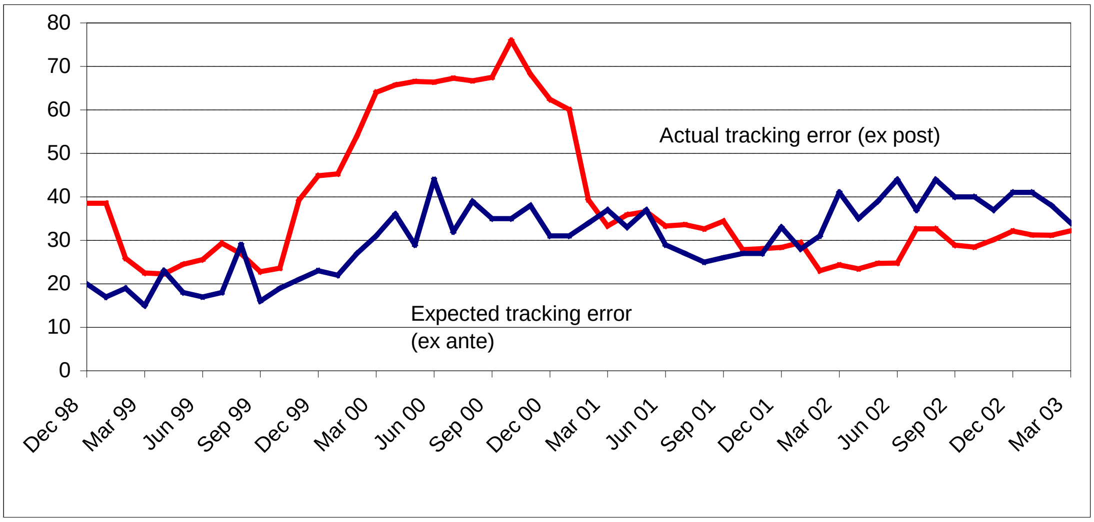


Chart 5 shows developments in relative market risk from December 1998, measured in two different ways. In the guidelines from the Ministry of Finance, 'expected tracking error' (which is explained in Chapter 6 below) is used as a measure of market risk. In retrospect, we can use the variation in the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

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



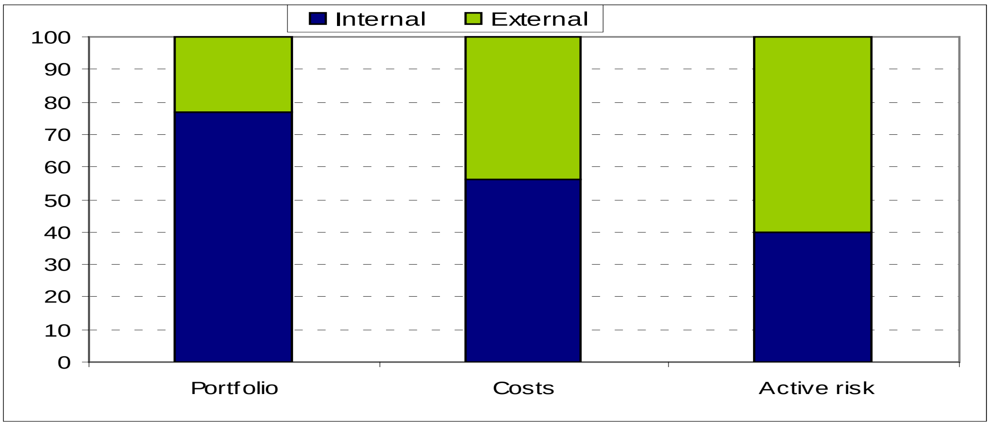
Since 2001, the ex ante and ex post figures have been very similar. However, both expected tracking error and actual tracking error may fluctuate considerably even when the degree of active management is unchanged. This is because the measures are influenced by different types of market developments, such as changes in correlations between the various asset classes and securities. Expected tracking error has consistently remained well below the limit for relative market risk in the Petroleum Fund's portfolio set by the Ministry of Finance.

The information ratio is a widely used measure of the skill of operational managers. The information ratio is the ratio between the gross excess return for the year and relative market risk (measured here as the actual standard deviation of the return differential). The average information ratio for the Fund from the first quarter of 1998 to the first quarter of 2003 has been 1.00, measured as an annualised rate. The management objective is to achieve an information ratio of at least 0.2-0.3.

Chart 6 shows some key figures associated with the distribution of external and internal management. It shows that at the end of the first quarter, 22 per cent of the Petroleum Fund was managed by external managers. At the same time, expenses in connection with external management accounted for 44 per cent of total management costs. The market risk associated with external management represented about 60 per cent of the total risk associated with management.

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

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



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

2. Mandate

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

At the same time, the long-term (strategic) equity benchmark portfolio was changed in such a way that all companies in the new region excluding Europe will be weighted according to market capitalisation. This change will be made in several steps. When the change has been completed, the Petroleum Fund benchmark portfolio will contain equal holdings in companies listed on stock exchanges in the US, Asia and Oceania. The Fund's holdings in European companies will still be somewhat higher than holdings in companies listed on stock exchanges outside Europe.

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

The asset classes and regional weightings in the actual benchmark are changed constantly as a result of changes in market prices for the securities in the benchmark. The monthly transfers of new capital to the Petroleum Fund are used to bring the asset class and regional weightings back as close to the original weightings as possible, providing this does not necessitate selling anything from the existing portfolio. Thus, even after the transfer of new capital, there may be some difference between the strategic benchmark and the actual benchmark. The latter provides the basis for managing risk and measuring the performance of the Petroleum Fund.

If the actual benchmark differs substantially from the strategic benchmark over time, full rebalancing will be triggered. The actual benchmark portfolio was fully rebalanced in the first quarter of 2003. The weightings in both the actual and the strategic benchmark at the end of the first quarter are shown in Table 1. The weightings in the fixed income benchmark apply to the foreign currency in which the securities are issued. The share for each country in the euro area is therefore not listed.

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

Table 2: Benchmark portfolio at 31 March 2003 for the Petroleum Fund's ordinary portfolio (excluding the Environmental Fund). Per cent

	Equities		Fixed income	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark	Actual benchmark	Strategic benchmark	Actual benchmark
Asset class weightings	**40.0**	**38.8**	**60.0**	**61.2**
Belgium		0.7		
Finland		1.2		
France		6.8		
Greece		0.3		
Ireland		0.5		
Italy		3.0		
Netherlands		3.5		
Portugal		0.3		
Spain		2.7		
Germany		4.2		
Austria		0.2		
Euro area countries (EUR)		*23.4*		*47.6*
UK (GBP)		18.6		5.6
Denmark (DKK)		0.6		1.0
Switzerland (CHF)		5.1		0.6
Sweden (SEK)		1.6		0.8
Turkey		0.1		
Total Europe	**50.0**	**49.4**	**55.0**	**55.6**
US (USD)		33.2		32.0
Brazil		0.2		
Canada (CAD)		1.5		2.5
Mexico		0.2		
Total America			**35.0**	**34.5**
Australia (AUD)		2.3		0.6
Hong Kong		1.1		
Japan (JPY)		9.1		8.8
New Zealand (NZD)		0.1		0.2
Singapore (SGD)		0.4		0.3
South Korea		0.9		
Taiwan		1.3		
Total Asia and Oceania			**10.0**	**9.9**
Total Americas, Asia and Oceania	**50.0**	**50.6**		

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

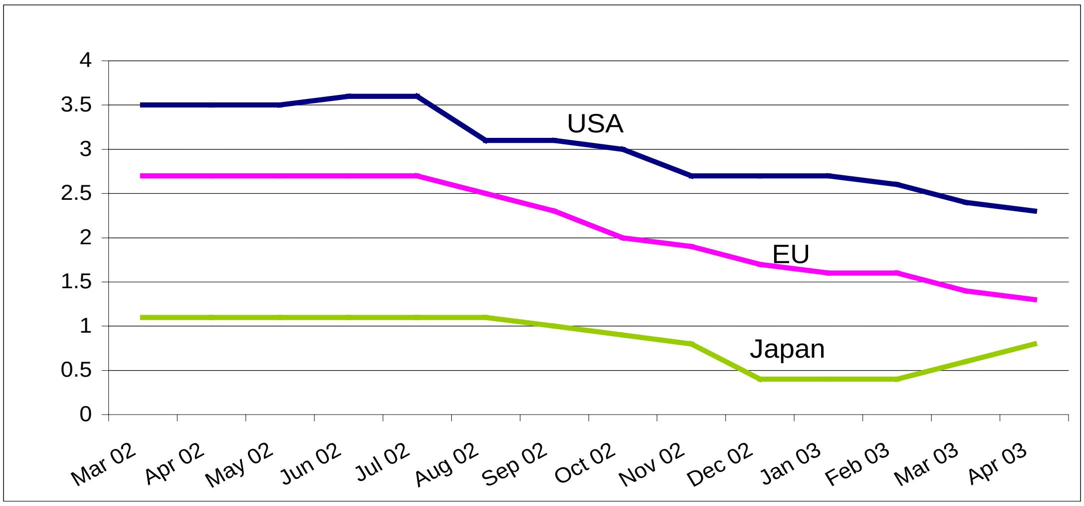
At the time of establishment in 2001, the Environmental Fund's benchmark had the same distribution among the main regions of Europe, the Americas and Asia/Oceania as the ordinary portfolio had at that time. Over time, the regional weightings vary with developments in market capitalisation values, and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

3. Market developments

3.1. Main features

Chart 7 shows how economists' expectations concerning growth in the main markets in 2003 have changed over the past twelve months. Expectations regarding growth in Japan have been low for a long time, but have not been revised downwards in pace with expectations regarding growth in the US and Europe. This is because Japan has benefited from strong demand in Asia, which has become a more important trading partner for Japan than the US. Despite rising unemployment in Japan, domestic consumer demand has been stronger than expected. However, the general picture in Japan remains unchanged. Owing to substantial overcapacity and weak profitability, many companies are unable to service or repay their debt. This in turn exerts pressure on the banking sector, which is reluctant to lend capital.

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.

The Japanese government has attempted to stimulate demand in the economy through deficit budgeting. This has led to a substantial increase in government debt in recent years, and the debt is now so large that it limits the possibility of stimulating the economy through fiscal policy. The central bank has attempted to boost growth by keeping interest rates, at least nominal rates, very low. Since further interest rate reductions are not feasible, the central bank has considered more direct monetary policy measures in recent years, and among other things has purchased equities in the market.

Chart 7 shows that expectations concerning economic growth in Europe and the US have fallen in the past year. A substantial share of the increase in demand in the global economy is still attributable to consumers in the US. Lower interest rates and rising house prices combined with substantial tax cuts have until now increased purchasing power in the US. A large portion of this demand has been focused on imported goods, and the trade deficit was substantial in the first quarter of 2003.

A number of economists are expecting US consumer demand to level off this year as a result of smaller tax cuts, higher unemployment and less of a reduction in interest rates. The depreciation of USD may have a positive effect on the internationally exposed sector, however. Many hope that investment demand will pick up and compensate for slower growth in consumer demand. Improved cash flow and less debt than previously make it possible for companies to increase their investment. However, an increase in investment is usually connected with an increase in consumer demand, not a stable or declining trend, as is the case now.

The euro appreciated against USD in the first quarter. This will gradually exert pressure on profitability and jobs in Europe’s export sector, at a time when unemployment is already rising in Europe. The EU Stability and Growth Pact, whereby governments are committed to ensuring that public deficits do not exceed a certain limit, places constraints on public sector efforts to stimulate demand. Monetary policy in Europe is based on inflation targeting, not demand in the economy. However, although inflation was higher than the target of 2 per cent, the European Central Bank cut interest rates by 0.25 percentage point, to 2.5 per cent, at the beginning of March.

Developments in the first quarter indicate continued weak economic growth in the US and Europe. This may be partly related to higher oil prices and political uncertainty surrounding the crisis in Iraq. In addition, the SARS virus has already reduced travel to Asia and may have a strong negative impact on the economy. In the past few weeks, projections for growth in 2003 have been revised downwards for several Asian countries, as a result of the consequences of SARS.

3.2 Fixed income markets

Yields on 10-year government bonds have been relatively stable in the US and Europe, whereas in Japan corresponding yields have fallen from approximately 0.9 per cent to 0.75 per cent. Chart 8 shows that government bond yields have been roughly 4 per cent in the US, whereas in Europe they have been somewhat higher. Government bond yields troughed at the beginning of March, when it became clear that a war in Iraq was inevitable and there was considerable uncertainty about the consequences for the world economy. After the war began on 20 March, however, long rates have risen again.

The yield levels in Europe and the US are relatively similar, in part because both regions appear to be in the same cyclical phase. Nevertheless, the US has been several months ahead, in terms of both developments in the real economy and monetary policy response. One difference has been that the government budget deficit has increased more sharply in the US than in Europe. The increased supply of government bonds has not entailed a different path for government bond yields in the US as compared with yields in Europe.

Government bond yields in Japan have fallen, partly because the demand for credit in the economy is small and because the market expects new monetary policy measures from the Japanese central bank. The market has expected the central bank to repurchase a large volume of long government bonds and simultaneously implement other measures to increase liquidity in the market. Thus far, however, the appointment of a new central bank governor in Japan has not resulted in monetary policy changes.

Credit spreads in the US have been narrowing since last autumn (see Chart 10). Credit spreads widened at the beginning of March , however, before the war in Iraq and have since narrowed again. Enterprises have experienced a period marked by attempts to reduce their debt burden. Investments and other costs have been cut in order to repay debt. Those enterprises that have not had adequate revenues to repay debt have tried to extend the loan period. This process began a couple of years ago and has not been completed yet. Many investors are currently buying bonds with credit risk because they assume that the yields will gradually fall as enterprises are able to reduce their debt ratio.

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

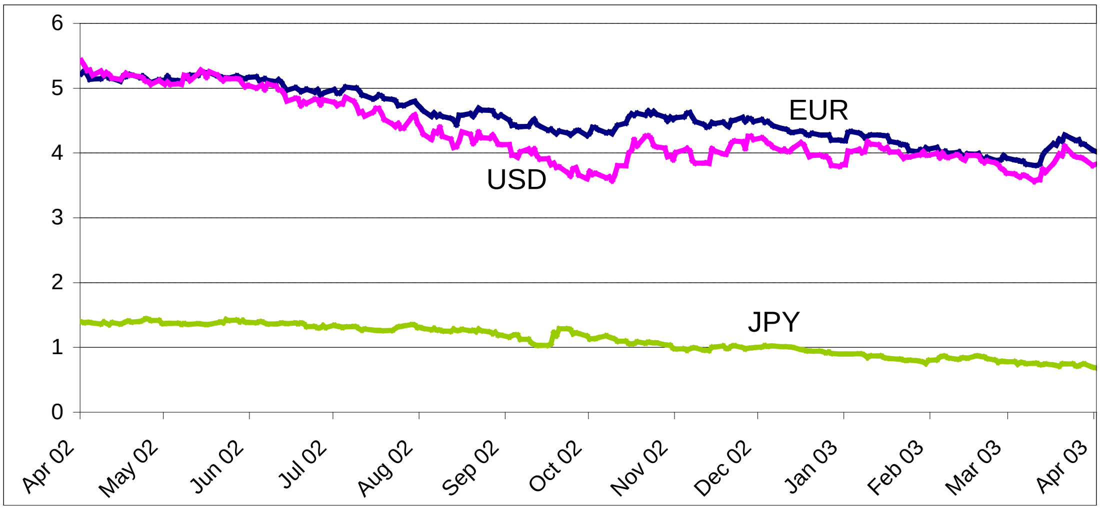


Chart 9: Movements in Lehman Global Aggregate government bond indices in the main markets in the last 12 months (31.12.02 = 100)

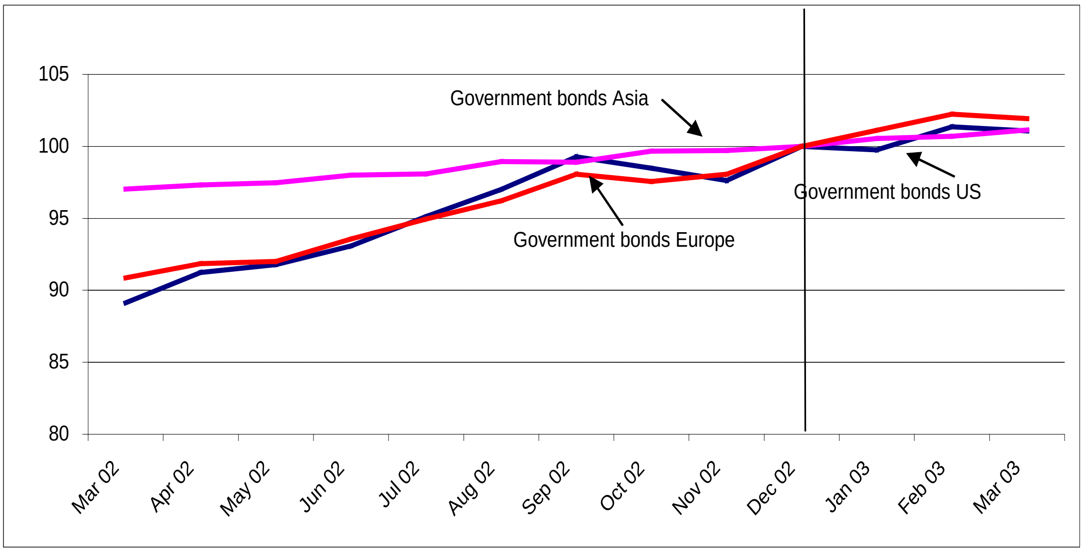
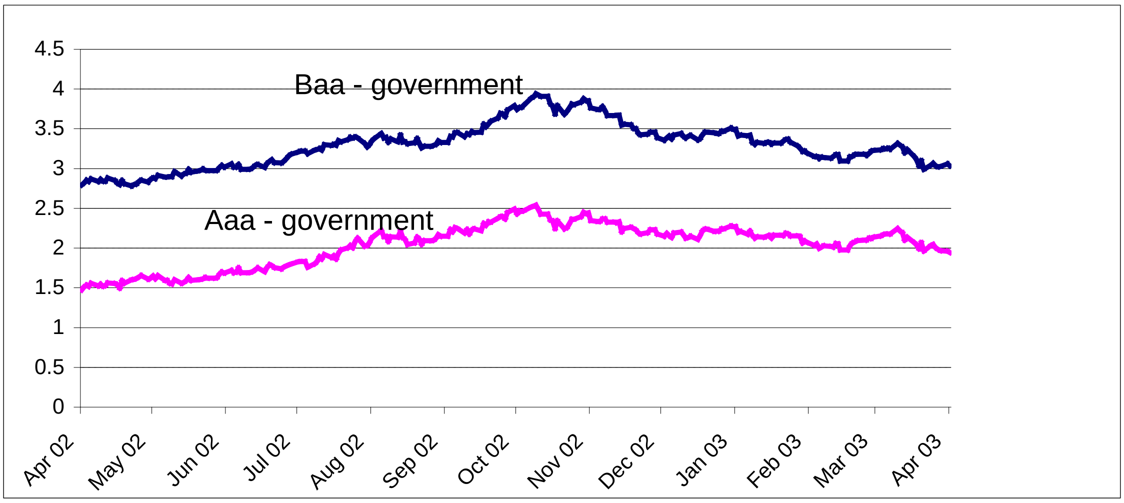


Chart 10: Credit spread in USD: Yield on bonds in Moody's rating classes Baa and Aaa minus yield on government bonds in the last 12 months



3.3 Equity markets

Equity prices fell in all three of the main markets in the first quarter of 2003 (see Chart 11). Prices rose until mid-January in the US and Europe, but have since fallen sharply, particularly in Europe. Overall for the quarter, the index return in Europe was -15.6 per cent, whereas it was -3.6 per cent in the US. In Japan, prices remained stable until mid-February, but as a result of the decline towards the end of the quarter, the overall index return was -8.0 per cent.

In the first quarter, Europe also experienced a serious case of accounting irregularities.   The share price for the Dutch food provider Ahold plunged after the irregularities were discovered. Many investors have also become more sceptical to the information value of accounts from some financial institutions and especially from some life insurance companies. This has contributed to a considerable decline in the German and Dutch stock markets, among others, so far this year. At the same time, high oil prices, a weaker growth outlook for the economy, the crisis in Iraq and a stronger euro have put pressure on European stock markets.

Table 3 shows that in the first quarter, the return on all of the main sectors in the FTSE index, measured in terms of the Fund's basket of currencies, was negative. Prices fell least in the IT sector where the return was -3.3 per cent. In general, price-earning ratios appear to be more similar in different sectors than has been the case previously. If we look at the pricing across regions, investors still value US stocks higher in relation to corporate earnings and other normal measures of valuation. After being very low, earnings are picking up in all the main markets. The increase in earnings is not very strong, however, and is being fuelled more by cost reductions than higher sales revenues.

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

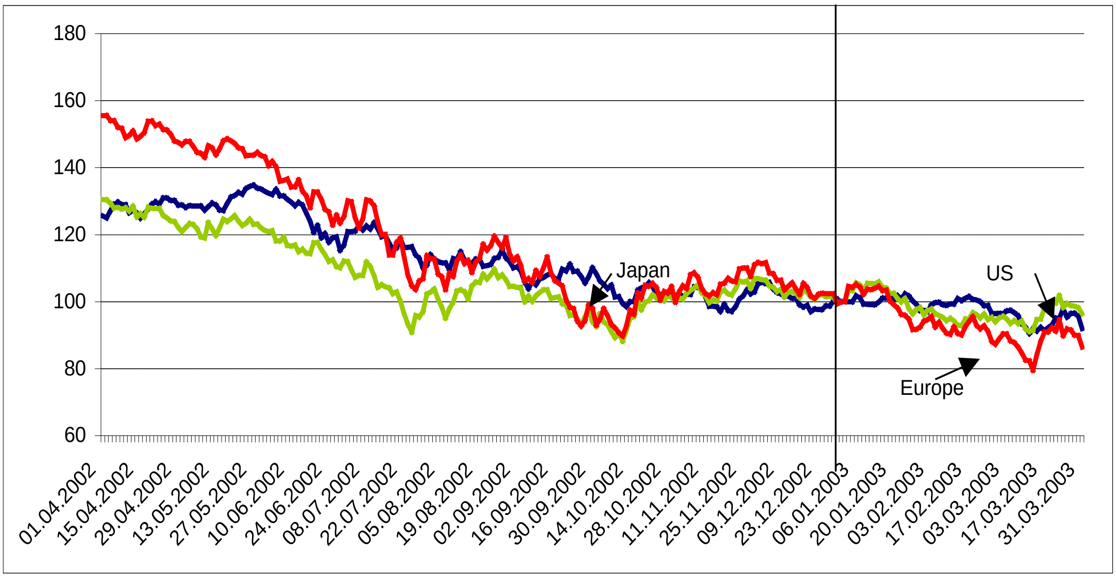


Table 3: Return on the FTSE All-World Equity Index in 2003, measured in terms of USD and the Fund's currency basket. Per cent. Main sectors and the 10 largest sub-sectors

	USD	NOK	Currency basket
Commodities	**-3.81**	**0.76**	**-5.40**
- of which oil and gas	-3.46	1.12	-5.06
Basic industries	**-7.88**	**-3.50**	**-9.40**
General industrials	**-5.58**	**-1.10**	**-7.15**
Cyclical consumer goods	**-9.74**	**-5.46**	**-11.23**
Non-cyclical consumer goods	**-3.31**	**1.28**	**-4.91**
- of which pharmaceuticals and biotech	-1.18	3.51	-2.82
Cyclical services	**-3.63**	**0.95**	**-5.22**
- of which general retailers	-0.12	4.62	-1.77
-of which media and photography	-5.72	-1.24	-7.28
Non-cyclical services	**-8.88**	**-4.56**	**-10.39**
- of which telecommunication services	-8.25	-3.89	-9.77
Utilities	**-3.23**	**1.36**	**-4.83**
Financial services	**-7.21**	**-2.80**	**-8.74**
- of which banks	-5.33	-0.84	-6.90
- of which insurance companies	-13.84	-9.75	-15.27
- of which financial institutions	-5.11	-0.60	-6.68
Information technology	**-1.64**	**3.03**	**-3.27**
- of which information technology hardware	-0.78	3.93	-2.42
- of which software and computer services	-2.78	1.84	-4.39

4. Management of the Fund

The market value of the Petroleum Fund's currency portfolio at the end of 2002 was NOK 609.0 billion. On 31 January the Ministry of Finance transferred NOK 19.6 billion to the Fund's krone account, on 28 February NOK 14.4 billion, and on 31 March a further NOK 9.3 billion. On the same dates, equivalent amounts in foreign currency were transferred to the securities portfolio. Total transfers to the Petroleum Fund's portfolio of international securities in the first quarter were thus equivalent to NOK 43.3 billion. At the end of the quarter, the market value of the Petroleum Fund's combined securities portfolio was NOK 682.0 billion.

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

	Ordinary equity portfolio*	Fixed income portfolio	Environmenta l Fund	Petroleum Fund overall
31 March 2002	262 520	360 718	1 794	625 032
30 June 2002	232 780	371 145	1 438	605 363
30 Sept. 2002	218 496	383 911	1 149	603 556
31 Dec. 2002	229 834	378 017	1 159	609 010
31 March 2003	**264 400**	**416 440**	**1 133**	**681 973**

* Up to and including 30 September 2002, including the tactical asset allocation portfolio.

At the ends of both December and January, the weights in the actual benchmark portfolio deviated substantially from the weights in the strategic benchmark portfolio, and in the first quarter the Petroleum Fund's actual benchmark portfolio was fully rebalanced. At the same time, the actual portfolio was adjusted accordingly.

The rebalancing took place in two stages: at end-February, the asset class weights in the actual benchmark portfolio were brought back to 40 per cent for equities and 60 per cent for fixed income instruments. At the same time, the regional weights in the equity benchmark were adjusted to 50 per cent for Europe and 50 per cent for the Americas, Asia and Oceania. At end-March the rebalancing was completed by restoring the regional weightings in the fixed income benchmark to the strategic weights. The rebalancing was carried out efficiently and with lower transaction volumes and costs than has been the case with previous full rebalancings. This was largely attributable to the division into two stages.

4.1. Management of the fixed income portfolio

The market value of the fixed income portfolio increased in the first quarter from NOK 378.0 billion to NOK 416.4 billion. The increase is partly due to the NOK 9.3 billion in new capital that was transferred to the fixed income portfolio on 31 March, partly to the portfolio's positive return in the quarter, and partly to the appreciation of investment currencies against NOK. On 28 February, NOK 4.2 billion was transferred from the fixed income to the equity portfolio, in connection with the rebalancing described above.

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

In the fixed income portfolio, three sub-portfolios are indexed: government-guaranteed bonds, corporate bonds and asset-backed bonds. Most of the portfolio, that is to say the first two sub-portfolios and asset-backed loans in Europe, are indexed internally. Asset-backed loans in the US are indexed by external managers, however. In the first quarter, capital was transferred to one new manager, TCW, with a mandate of this kind.

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

4.2. Management of the equity portfolio

New capital in the amount of NOK 19.6 billion was transferred to the ordinary equity portfolio on 31 January, and on 28 February a further NOK 18.6 billion, of which NOK 4.2 billion from the fixed income portfolio. At the end of the first quarter, the market value of the equity portfolio was NOK 264.4 billion, which was an increase of NOK 34.6 billion since the beginning of the quarter. The increase is partly due to the addition of new capital and partly to an appreciation of the investment currencies against NOK.

At the end of the quarter, about 59 per cent of the equity portfolio was being managed internally in Norges Bank. Approximately 28 per cent is under active management in selected sectors, while the remainder is largely under enhanced index management, where various techniques are used to take advantage of special pricing situations. Some portfolios are also being held internally prior to transfer to external active managers.

About 41 per cent of the equity portfolio is managed externally. More than 75 per cent of this is active management in regional mandates, while the remainder is external management in sector mandates.

In the first quarter of 2003, capital was transferred to four new external mandates for management: Schroder Investment Management Ltd has received capital for both a sector mandate and an active mandate for companies that are too small for inclusion in the Fund’s benchmark portfolio (small cap); Alpha Investment Management Pty has been awarded an active regional mandate, and Alliance Capital Management LP has been awarded a sector mandate.

5. The return on the Fund

In the first quarter of 2002, the Petroleum Fund, including the Environmental Fund, had a return of -1.71 per cent, measured in terms of the benchmark’s currency basket. Measured in NOK, the total return in the first quarter was a positive 4.69 per cent. The difference is due to NOK depreciating during the quarter by an average of 6 per cent against the currencies in the benchmark portfolio, so that the Fund’s currency basket appreciated in value relative to NOK. This has no effect on the international purchasing power of the Fund, however.

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

	Measured in terms of the Fund's currency basket		**Measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Difference
January	-1.23	-1.26	0.27	0.23	0.03
February	0.02	0.00	3.10	3.08	0.02
March	-0.49	-0.62	1.29	1.15	0.14
First quarter	-1.69	-1.88	4.71	4.51	0.19
+ Adjustment for extraordinary costs and taxes					0.02
= Gross excess return in first quarter					0.21

Table 5 shows that the Petroleum Fund's ordinary portfolio (excluding the Environmental Fund) had a return for the quarter of -1.69 per cent. The return in January and March was negative, and the return in February was approximately zero. Table 6 shows the returns on the equity and fixed income portions of the ordinary portfolio separately. In terms of the Fund's currency basket, the equity portfolio had a negative return of -7.76 per cent in the quarter, while the return on the fixed income portfolio was positive at 2.17 per cent.

Table 6 shows return figures for the total portfolio, measured against various currencies. The US dollar appreciated against the currency basket in the first quarter, and as a result the return measured in USD was strongly negative, at -17.88 per cent. If we measure against the euro instead, we obtain a return of -1.21 per cent for the period. The return measured in terms of an import-weighted currency basket was a positive 3.17 per cent.

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

	Equities	**Fixed income**	**Environmental Fund**	**Total**
The Petroleum Fund's currency basket	-7,76	2,17	-8,20	-1,71
Import-weighted currency basket	-3,18	7,24	-3,65	3,17
USD	-22,93	-14,64	-23,30	-17,88
EUR	-7,29	2,69	-7,74	-1,21
NOK	-1,75	8,82	-2,22	4,69

Table 5 shows that the ordinary portfolio outperformed the benchmark by 0.19 percentage point in the first quarter, according to the index supplier's calculation of the benchmark return. However, this difference does not provide a correct picture of the excess return Norges Bank achieves through its management. Even if Norges Bank had followed the benchmark portfolio exactly (indexing), the actual return would not have been identical to the benchmark return calculated by the index supplier.

Extraordinary transactions costs accrued in the first quarter in connection with the investment of new capital in markets and with the rebalancing of the benchmark portfolio. The Petroleum Fund has also paid tax on share dividends in a number of countries. None of these cost components are deducted when the index supplier calculates the return on the benchmark. Adjustments have been made in Table 5 for these components, which together amounted to 0.02 per cent of the total portfolio. Following these adjustments, the gross excess return achieved through the management of the Petroleum Fund in the first quarter was 0.21

percentage point, which was equivalent to about NOK 1.3 billion. Income from securities lending accounted for about NOK 60 million of this amount. Both equity and fixed income management contributed positively to the excess return. The largest contributions were attributable to external equity and fixed income management.

Table 7 shows that in the first quarter the Environmental Fund had a return of -8.20 per cent measured in terms of the currency basket and -2.22 per cent measured in NOK. The return was 0.04 percentage point lower than the return on the benchmark. The benchmark return in the first quarter was 0.12 percentage point lower than the return on a comparable benchmark from which no companies had been excluded according to 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
January	-4.92	-4.89	-3.48	-3.45	-0.03
February	-1.67	-1.65	1.35	1.38	-0.02
March	-1.81	-1.82	-0.05	-0.06	0.01
First quarter	-8.20	-8.16	-2.22	-2.18	-0.04
Memorandum: Ordinary benchmark with country weights as in the Environmental Fund				-2.06	-0.12

Methodology for calculating returns

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

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

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

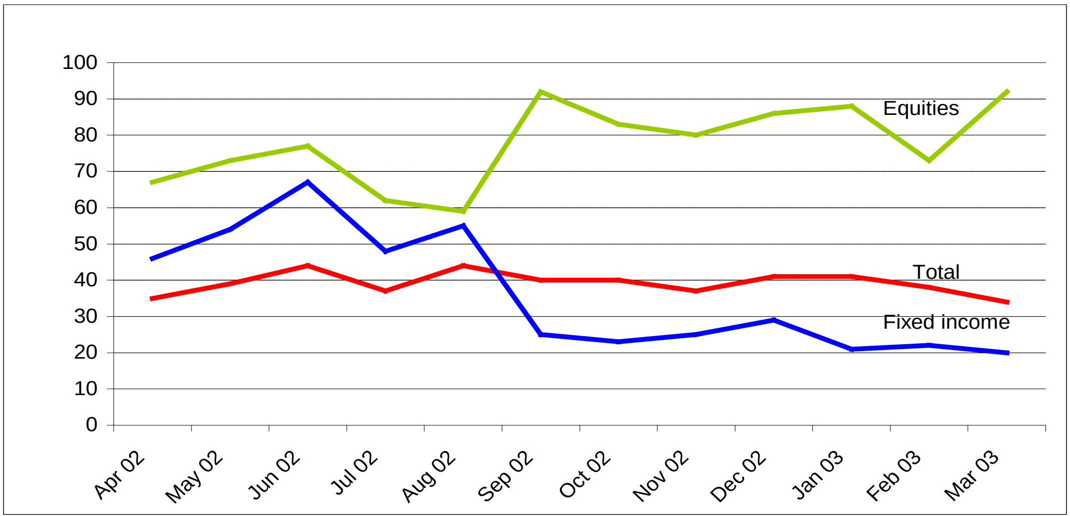
The NOK return on the currencies in the benchmark is calculated as the geometrical difference between the returns in NOK and in local currency, measured in terms of the currency distribution of the benchmark portfolio. This indicates how much the Norwegian krone has appreciated or depreciated in relation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

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

6. Risk exposure

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

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



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

The relative market risk in the Environmental Fund at the end of March was 18 basis points, measured as expected tracking error in relation to the benchmark for this portfolio. The Ministry of Finance has imposed an upper limit of 100 basis points.

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

Table 8: The fixed income portfolio as at 31 March 2003, by credit rating. Per cent of market value

Moody's		Standard & Poors	
Rating	Per cent of total	Rating	Per cent of total
Aaa	68.36	AAA	66.78
Aa	12.23	AA	17.38
A	14.58	A	8.08
Baa	3.80	BBB	4.26
Ba	0.04	BB	0.04
Lower	0.01	Lower	0.00
No rating	0.97	No rating	3.46

Table 9 provides an overview of other risk limits stipulated in the Ministry of Finance's Regulation on the Management of the Government Petroleum Fund and guidelines for the ordinary portfolio, and of actual exposure. Management has been in compliance with the risk exposure limits stipulated by the regulation and the guidelines throughout the quarter.

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

Section	Risk	Limits	Actual				
			31.03.02	**30.06.02**	**30.09.02**	**31.12.02**	**31.03.03**
§ 4	Market risk	Maximum 1.5 percentage point tracking error	0.4	0.4	0.4	0.4	0.3
§ 5	Asset mix	Bonds 50-70%	57.9	61.5	63.7	62.2	61.2
		Equities 30-50%	42.1	38.5	36.3	37.8	38.8
§ 6	Currency mix	Europe 40-60%	49.6	51.1	49.7	50.0	49.4
	equities	Americas/Asia/Oceania 40-60%	50.4	48.9	50.3	50.0	50.6
	Emerging markets	< 5% of equity portfolio	2.2	2.6	2.6	2.5	2.4
	Currency mix	Europe 45-65%	54.9	56.6	56.8	58.2	55.6
	interest rates	The Americas 25-45%	35.2	33.6	33.8	32.5	34.5
		Asia/Oceania 0-20%	9.9	9.9	9.4	9.3	9.9
§ 7	Interest rate risk	Modified duration 3-7	5.3	5.2	5.3	5.3	5.3
§ 8	Credit risk*	Maximum 20% in bank deposits	4.7	2.5	4.3	3.6	5.5
§ 11	Holding	Maximum 3% of a company	2.6	2.6	2.8	2.6	2.9

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

Expected tracking error

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

7. Management costs

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

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

	Q1 2003		**Q1 2002**	
	NOK 1000	Basis points	NOK 1000	Basis points
Fees to external equity managers, excluding performance-based fees	49 506		35 569	
Costs of equity custodian and settlement	8 138		9 570	
Other costs, equity management	40 223		27 887	
Total equity management	**97 867**	**16**	**73 026**	**12**
Performance-based fees to external equity managers	*11 108*		*16 083*	
Fees to external fixed-income managers, excluding performance-based fees	*9 036*		4 858	
Custodian costs fixed income	11 949		5 019	
Other costs, fixed income management	39 633		25 673	
Total fixed income management	**60 618**	**6**	**35 549**	**4**
Performance-based fees to external fixed-income managers	3 217		1 274	
Total management costs, excluding performance-based fees	**158 485**	**10**	**111 365**	**7**
Total management costs	**172 810**	**11**	**128 722**	**8**

Annualised, the costs in the table are equivalent to 0.16 per cent (16 basis points) of the average equity portfolio and 0.06 per cent (6 basis points) of the average fixed income portfolio. In addition to the above costs come performance-based fees to external equity managers and external fixed income managers of NOK 11 million and NOK 3 million respectively. The amounts are determined by the managers' total excess returns over the past four quarters. Equity costs including these performance-related fees constitute 18 basis points and fixed income costs 7 basis points of average sub-portfolios.

For the portfolio as a whole, annualised management costs excluding performance-based fees amounted to 10 basis points of the average market value at the beginning of each of the three months in the first quarter. Because of the strong krone exchange rate, the average market value in the first quarter was NOK 633 billion, which is substantially lower than the expected average market value for the whole year. Costs accrued in the first quarter can, however, be expected to account for about one fourth of the costs for the whole year. Calculated as a share of market value, costs can thus be expected to be lower on an annual basis than they are in the first quarter.

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

8. Reporting of accounts

Table 11 shows the mix of different instruments as presented in Norges Bank's accounts at the end of the last five quarters. Table 12 shows the book return, which in the first quarter was NOK 29 643 million prior to the deduction of Norges Bank's management remuneration.

The accounts figures are based on holdings including unsettled trades (except cash). The figures indicate market values based on verified price information. Investments in foreign currency are converted to NOK at market rates as at 31 March quoted on WM/Reuters London. The recorded value of the Petroleum Fund deviates from the market value in Table 4 above because management remuneration has not been deducted in the table above, and because different assessment principles have been used for some items (see the box in section 5 on methodology for calculating returns). Similarly, there are small deviations in the accounting return figures.

Off the balance sheet, financial futures with a total market value of NOK 63 343.8 million had been purchased and financial futures with a market value of NOK 31 758.1 million had been sold at 31 March 2003. Options on futures with a total market value of NOK 2.1 million had been purchased. Interest rate swaps with a total market value of NOK 104 525.8 million had been purchased and swaps for NOK 105 863.8 million had been sold. Foreign exchange with a total contract value of NOK 17 813.1 million had also been bought and sold forward.

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

Table 11: The Petroleum Fund's international portfolio distributed by instrument, at 31 March 2003. In thousands of NOK

	31.03.02	30.06.02	30.09.02	31.12.02	31.03.03
Short-term assets, incl. deposits in foreign banks	16 024 677	2 699 820	7 270 772	9 877 743	20 987 757
Money market investments in foreign financial institutions against collateral in the form of securities	117 783 989	111 666 155	174 327 946	188 229 945	197 996 074
Borrowing from foreign financial institutions against collateral (securities)	-130 281 198	-125 929 639	-152 080 172	-209 803 763	-250 821 420
Foreign interest-bearing securities	365 329 261	388 938 848	359 025 773	394 253 546	455 885 378
Foreign equities	256 209 363	227 800 284	215 039 688	226 354 150	257 973 804
Forward contract adjustments	4 703	157 506	-2 138	122 752	-3 082
Total portfolio before remuneration for management	**625 070 795**	**605 332 974**	**603 581 869**	**609 034 373**	**682 018 511**
Accrued management remuneration*	-130 000	-260 000	-391 000	-559 835	-184 505*
Total portfolio recorded value	**624 940 795**	**605 072 974**	**603 190 869**	**608 474 538**	**681 834 006**

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

Table 12: Book return on the Petroleum Fund's international portfolio at 31 March 2003. In thousands of NOK

Book return	31.03.02	30.06.02	30.09.02	31.12.02	31.03.03
Interest income	4 927 613	9 919 129	13 864 562	18 705 159	4 989 924
Dividends	1 071 776	2 635 581	3 701 793	4 428 514	1 576 118
Exchange rate adjustment	-16 538 659	-72 943 773	-81 254 669	-104 109 677	43 969 450
Unrealised securities loss/gain	3 245 737	-15 562 677	-44 113 967	-27 071 528	-17 271 494
Realised securities gain	-5 350 807	-8 888 435	-15 151 178	-19 934 100	-3 642 108
Brokers' commissions	-2 487	-1 030	3 274	-877	-6 926
Forward exchange trading	-214	72	4 691	4 681	-903
Gains/losses futures	105 566	-969 702	-2 232 270	-2 032 369	29 215
Book return on investments	**-12 541 475**	**-85 810 835**	**-125 177 764**	**-130 010 197**	**29 643 277**
Accrued management remuneration	-130 000	-260 000	-391 000	-559 835	-184 505

Net return market value	**-12 671 475**	**-86 070 835**	**-125 568 764**	**-130 570 032**	**29 458 772**