Management of the Government Petroleum Fund
Report for first quarter 2004

Summary

The return on the Government Petroleum Fund in the first quarter of 2004 was 2.93 per cent measured in terms of the currency basket corresponding to the composition of the Fund's benchmark portfolio.

The first quarter return on the ordinary equity portfolio (excluding the Environmental Fund) was 3.83 per cent measured in terms of the benchmark portfolio's currency basket. Equity prices in all three main markets, and particularly in Japan, rose through the quarter. The first quarter return on the fixed income portfolio was also positive, at 2.24 per cent measured in terms of the currency basket.

The return on the Petroleum Fund's ordinary portfolio in the first quarter of 2004 was 0.24 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Finance. Both equity and fixed income portfolio managers achieved an excess return.

In the first quarter of 2004, the return on the Environmental Fund was 4.14 per cent measured in terms of the benchmark's currency basket.

The market value of the Fund's combined portfolio of securities was NOK 915.3 billion at the end of the first quarter, which is an increase of NOK 70.0 billion since year-end. The increase in market value is due to several factors: a positive return, the transfer of new capital and a weaker krone against the currencies in which the Fund is invested. NOK 22.1 billion in new capital was transferred to the Fund, while the return on invested capital, measured in international currencies, amounted to NOK 26.1 billion. NOK 21.8 billion of the value increase was due to the depreciation of the krone against the investment currencies. However, the change in the krone exchange rate has no effect on the Fund's international purchasing power.

1. Key figures

The return on the Government Petroleum Fund in the first quarter of 2004 was 2.93 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 since the Fund first invested in equities in 1998. The first quarter of 2004 was the fourth consecutive quarter with positive returns.

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

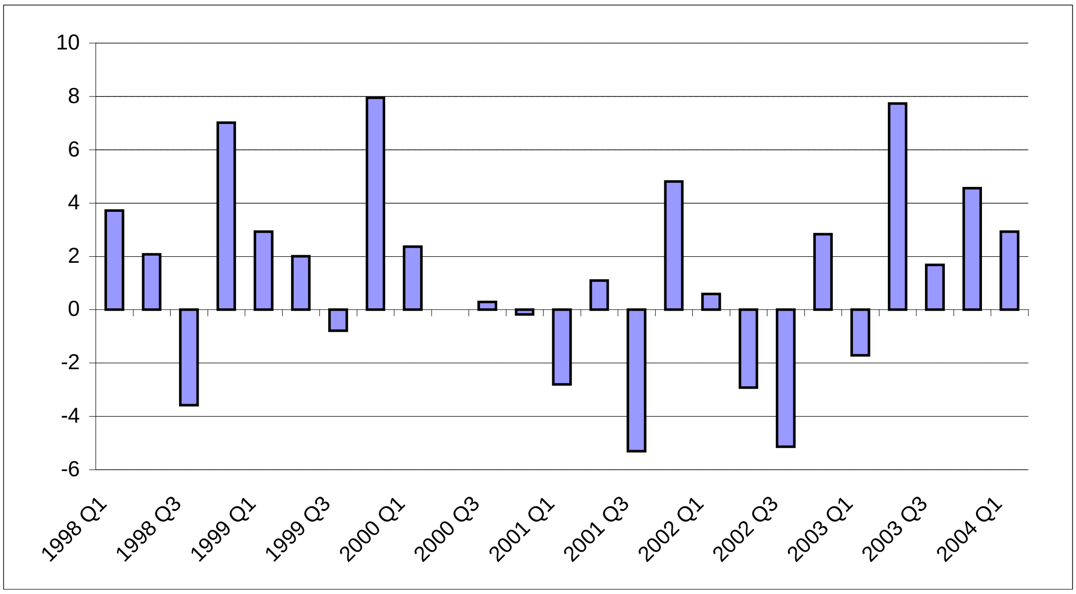
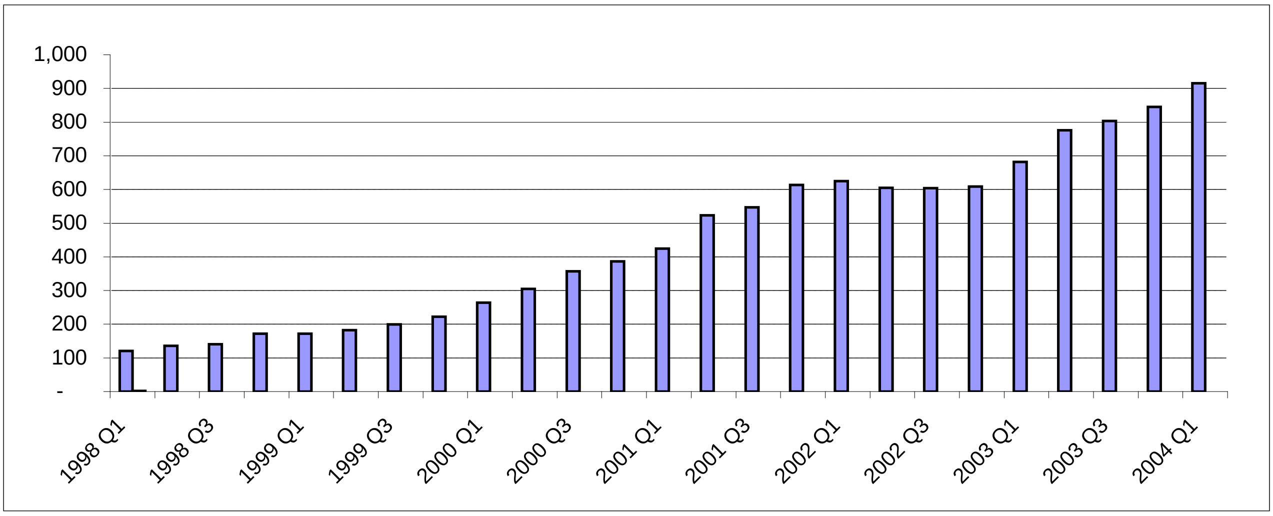


Chart 2 shows that the Petroleum Fund has grown from NOK 113 billion to NOK 915 billion since 1 January 1998, measured in NOK. Fluctuations in the krone exchange rate have a strong impact on the time profile of changes in value. For example, if the krone had remained stable against the investment currencies, the increase in value would have been sharper in 2002, whereas in 2003, the depreciation of the krone in isolation contributed to increase the market value of the Fund. For the period as a whole, however, changes in value measured in NOK virtually correspond 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 1998-2004. 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 3.84 per cent. Table 1 shows the annualised return up to the end of the first quarter of 2004, from 1 January for each of the years in the period 1997 -2004. Price inflation is a weighted average of price inflation in the countries in the benchmark portfolio which has been defined by the Ministry of Finance.

The right-hand column shows that the average gross excess return has been 0.43 percentage point per year since 1 January 1997. This is the arithmetic difference between the annualised return on the actual portfolio and on the benchmark portfolio.

Table 1: Annual rates of return for the Petroleum Fund (including the Environmental Fund) up to the end of the first quarter of 2004, measured in terms of the Fund's currency basket. Per cent per year

	Gross annual return	Annual price inflation	Annual management costs	Annual net real return	Annual gross excess return
From 01.01.97	5.55	1.56	0.08	3.84	0.43
From 01.01.98	4.99	1.53	0.08	3.33	0.44
From 01.01.1999	4.20	1.65	0.08	2.43	0.49
From 01.01.2000	2.35	1.73	0.08	0.52	0.33
From 01.01.2001	2.30	1.65	0.08	0.57	0.37
From 01.01.2002	4.50	1.86	0.09	2.50	0.47
From 01.01.2003	12.52	1.82	0.10	10.41	0.63

Chart 3 shows the cumulative return from 1 January 1998 for the fixed income and equity portfolios. During these 25 quarters, the cumulative nominal return has been 18.05 per cent on equity investments and 45.79 per cent on fixed income investments.

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

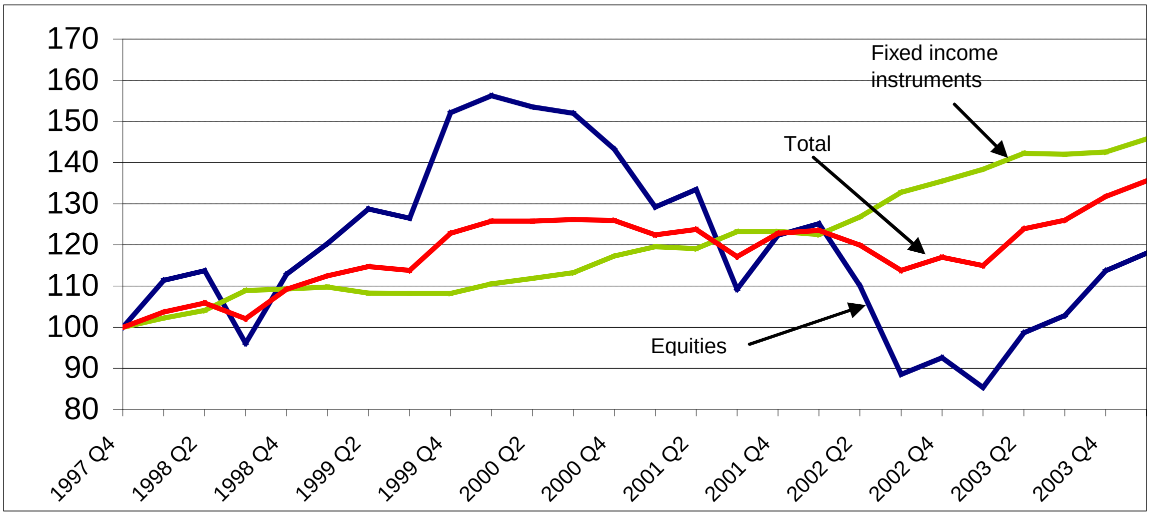


Chart 4 shows the cumulative return on the Petroleum Fund since 1 January 1998. The return to the end of the first quarter 2004 was 35.7 per cent. During the same period, the return on the benchmark portfolio was 32.1 per cent. The difference between the actual return and the return on the benchmark portfolio is the excess return achieved by Norges Bank. Since 1998, the cumulative gross excess return measured in terms of the currency basket has been 3.6 percentage points, which corresponds to NOK 11.4 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)

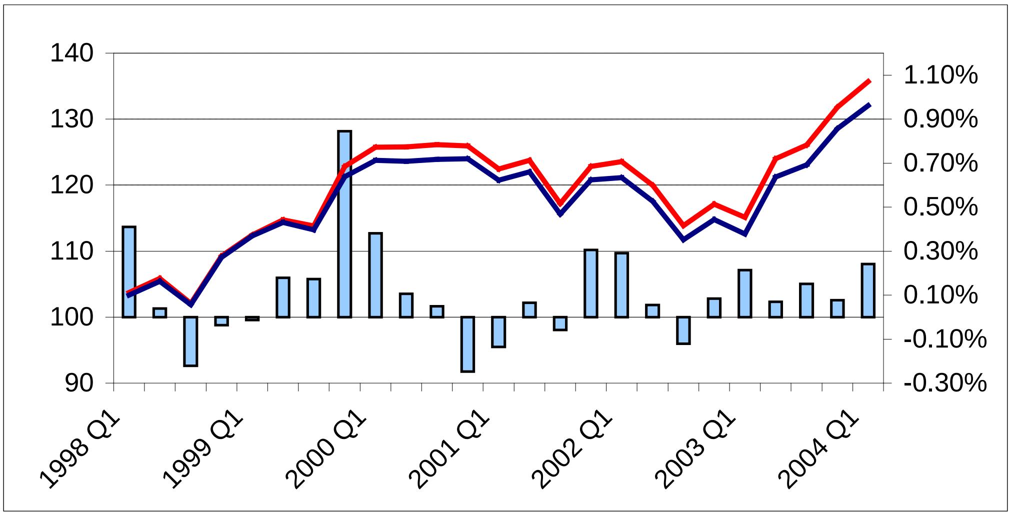
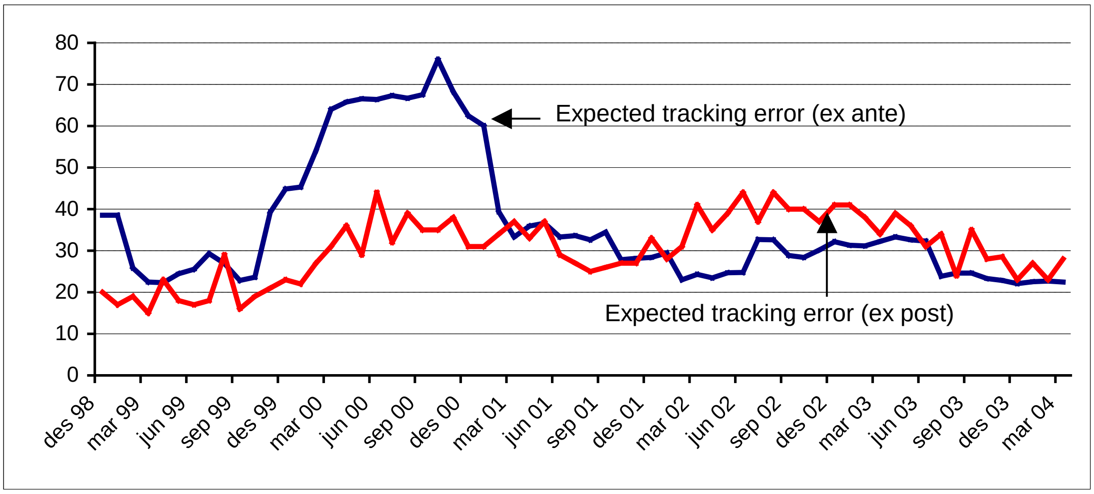


Chart 5 shows developments in relative market risk from December 1998, measured in two different ways. In the guidelines from the Ministry of Finance, expected tracking error (which is explained in Section 6 below) is used as a measure of market risk.

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. Figures in basis points



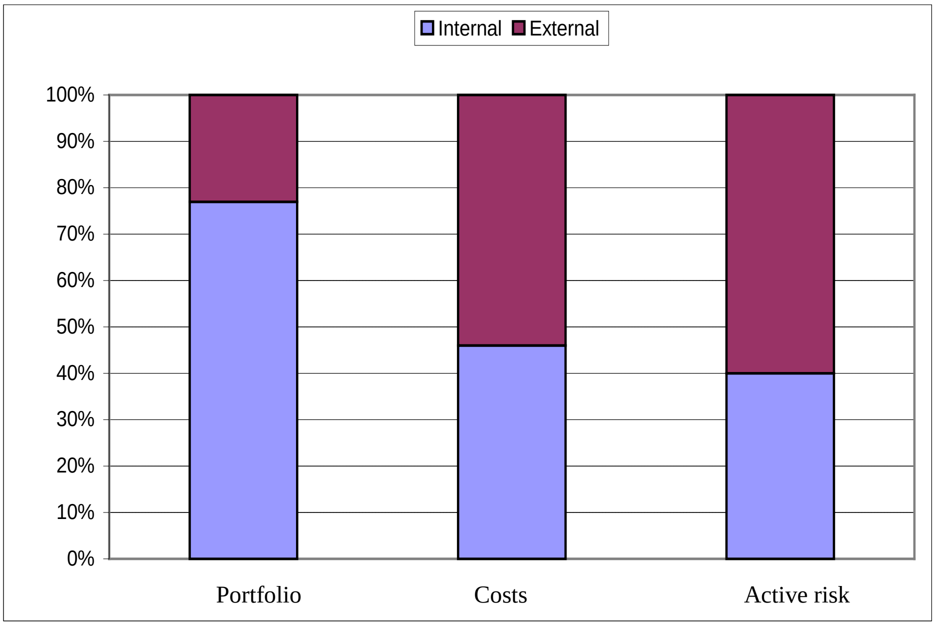
In retrospect, we can use the variation in the difference between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual market risk. In Chart 5, this tracking error is calculated as an annualised rate using 12-month moving windows.

Both expected tracking error and actual tracking error may fluctuate considerably even when the degree of active management remains unchanged. This is because the measures are influenced by various market developments, such as changes in market volatility and in correlations between the various asset classes and securities. Tracking error has consistently remained well below the limit for relative market risk in the Petroleum Fund's portfolio that has been stipulated 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 2004 has been 1.12, measured as an annualised rate. In comparable international investment management, an information ratio of 0.2 – 0.3 is often regarded as a good result.

Chart 6 shows some key figures related to the distribution of external and internal management. It shows that at the end of the first 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 54 per cent of total management costs. The market risk associated with external management accounted for approximately 60 per cent of the total risk associated with management of the Fund.

Chart 6: Distribution of portfolios, 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 summation of the value at risk (VaR) of each mandate, disregarding the correlation between 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. However, comparable management (active or passive) is also less expensive when internal rather than external managers are used. The internal managers have limited capacity for active management, however, and external managers 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 box below presents the new country list. The country list indicates the markets and currencies in which the Fund is permitted to invest. Within this country list, the Ministry has specified countries and markets in which the Fund *shall* be invested (benchmark portfolio), unless Norges Bank wishes to draw on the allocated limit for active risk. With effect from 1 February 2004, the Ministry decided that South Africa would replace Turkey in the Fund's equity benchmark. Turkey is still part of the list of countries in which the Fund may be invested.

The Petroleum Fund's investments (new countries in italics):

Country list for equity investments:

Europe:	Austria, Belgium, *Cyprus*, *Czech Republic*, Denmark, Finland, France, Germany, Greece, *Hungary*, *Iceland*, Ireland, Italy, the Netherlands, *Poland*, Portugal, Spain, Sweden, Switzerland, Turkey and the UK
Americas:	The Americas: Brazil, Canada, Mexico, the US and *Chile*
Asia and Oceania:	Australia, Hong Kong, Japan, New Zealand, Singapore, South Korea, Taiwan, Thailand, *China*, *India*, *Indonesia*, *Malaysia*, and *the Philippines*
Middle East and Africa	*Israel and South Africa*

Fixed income investments issued in the currency of the following countries:

Europe:	Austria, Belgium, *Cyprus, Czech Republic*, Denmark, Finland, France, Germany, Greece, *Hungary, Iceland*, Ireland, Italy, the Netherlands, *Poland*, Portugal, Spain, Sweden, Switzerland, and the UK
Americas:	The Americas: Canada, the US and *Mexico*
Asia and Oceania:	Australia, Hong Kong, Japan, New Zealand, Singapore and *South Korea*
Africa:	*South Africa*

Benchmark portfolio for the Petroleum Fund's investments (new countries in italics):

Equity investments:

Europe:	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden, Switzerland and the UK
Americas:	Brazil, Canada, Mexico and the US
Asia and Oceania:	Australia, Hong Kong, Japan, New Zealand, Singapore, South Korea and Taiwan
Africa:	*South Africa*

Fixed income investments:

Europe:	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden, Switzerland and the UK
Americas:	Canada and the US
Asia and Oceania:	Australia, Japan, New Zealand and Singapore

The Petroleum Fund's strategic benchmark, which has been defined by the Ministry of Finance, is composed of the FTSE equity indices in 27 countries and of the Lehman Global Aggregate bond indices in the currencies of 21 countries Equities shall account for 40 per cent of the Petroleum Fund's strategic benchmark portfolio excluding the Environmental Fund, and fixed income securities shall account for 60 per cent. In the equity portion of the benchmark, securities listed on European stock exchanges accounted for 50 per cent, and other regions combined for 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 weights in the actual benchmark normally differ somewhat from the strategic weights described above. The actual weights change continuously as a result of changes in market prices for the securities in the benchmark. The monthly transfers of new capital to the Petroleum Fund are used to bring the asset class and regional weights back as close to the original weights as possible, providing this does not necessitate selling anything from the existing portfolio. Thus, even after the transfer of new capital, there may be some difference between the strategic benchmark and the actual benchmark. The actual benchmark provides the basis for managing risk and measuring the performance of the Petroleum Fund. The actual benchmark is 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 at the end of the quarter. The weightings in the fixed income benchmark apply to the currency in which the securities are denominated, and shares of the euro weighting are therefore not listed for individual euro area countries.

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

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

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

Table 2: Benchmark at 31 March 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**	**41,9**	**60,0**	**58,1**
Belgium		0.7		
Finland		1.1		
France		6.9		
Greece		0.3		
Ireland		0.4		
Italy		2.8		
Netherlands		3.3		
Portugal		0.3		
Spain		2.6		
Germany		4.9		
Austria		0.2		
Euro area countries (EUR)		*23.6*		*46.4*
UK (GBP)		17.4		6.6
Denmark (DKK)		0.5		0.7
Switzerland (CHF)		4.9		0.5
Sweden (SEK)		1.7		0.7
Total Europe	**50.0**	**48.1**	**55.0**	**54.9**
US (USD)		35.2		33.4
Brazil		0.3		
Canada (CAD)		1.6		1.4
Mexico		0.3		
South Africa		0.4		
The Americas / Middle East / Africa			**35.0**	**34.9**
Australia (AUD)		1.9		0.5
Hong Kong		1.0		
Japan (JPY)		8.7		9.3
New Zealand (NZD)		0.1		0.2
Singapore (SGD)		0.3		0.3
South Korea		1.0		
Taiwan		1.2		
Total Asia and Oceania			**10.0**	**10.2**
The Americas / Middle East / Africa / Asia / Oceania	**50.0**	**51.9**		

3. Market developments

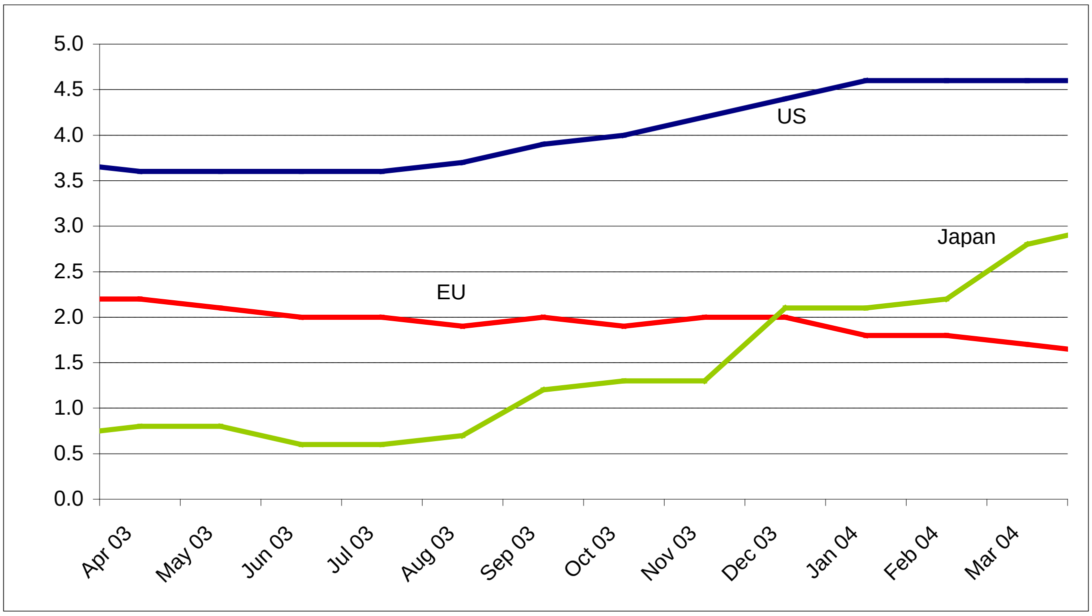
3.1. Highlights

Chart 7 shows changes over the last twelve month in economists' expectations of growth in the main markets in 2004. Since August 2003, expectations for growth in both the US and Japan have gradually been revised upwards, whereas growth expectations have been falling in the EU. At the end of the first quarter, expected growth was 4.6 per cent in the US and just under 3 per cent in Japan. This is considerably higher than in the EU area where expected growth was 1.6 per cent at the end of the first quarter.

Expected growth in the Japanese economy has been revised upwards by just under 2.5 percentage points since the summer of 2003. This reflects increasing demand, especially from other Asian countries, for Japanese goods. China is developing both its infrastructure and production capacity and is an important export market for Japanese industry. The rest of Asia is also experiencing strong growth driven by exports to other countries in the region, and to China in particular. This has contributed to reducing unemployment and boosting investment in Asia.

Expectations for growth in the US remained fairly stable in the first quarter. There has been no clear increase in employment despite high economic growth and company indications of a desire to increase employment. Figures for new orders and capital goods production indicate that investment demand remains high and US exports are rising at a faster pace than imports.

Chart 7: Expected GDP growth in 2004 in the US, the EU and Japan, measured at various times in the past 12 months. Per cent



Source: Consensus Economics Inc.

Growth expectations for Europe have been falling in the first quarter despite a recovery elsewhere in the global economy. Developments in a number of Central European countries and especially in Germany are marked by weak private domestic demand. Developments are more positive, however, in the UK and Spain. Wage growth is higher than in the rest of Europe and employment is increasing more than in neighbouring countries. House prices are also rising more sharply in these countries, making a positive contribution to household demand. The euro has depreciated against the US dollar in the first quarter, a development that has had a positive impact on the export sector in the euro area.

3.2. Fixed income markets

Yields on 10-year government bonds have been relatively stable in the UK and Japan, whereas in the US and the euro area corresponding yields have fallen by approximately 0.4 percentage point. Chart 8 shows that interest rate developments in the US and the euro area have been approximately the same in the last half year, whereas interest rates in the UK have been higher. The interest rate in Japan, which is considerably lower, was 1.45 per cent at the end of the first quarter.

The long-term interest rate level in the US is historically low. The main reason for this is persistently low inflation. This is due to more intense international competition, high productivity growth and relatively low capacity utilisation in the period after the technology bubble burst in 2000.

The interest rate level in Japan is also affected by international conditions, but domestic factors have also contributed to low interest rates. Very high private domestic saving and persistently low inflation have characterised the Japanese economy in the last ten years. The central bank in Japan has maintained its zero-interest-rate policy over the past year, despite a strong upward revision of expected growth in Japan.

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

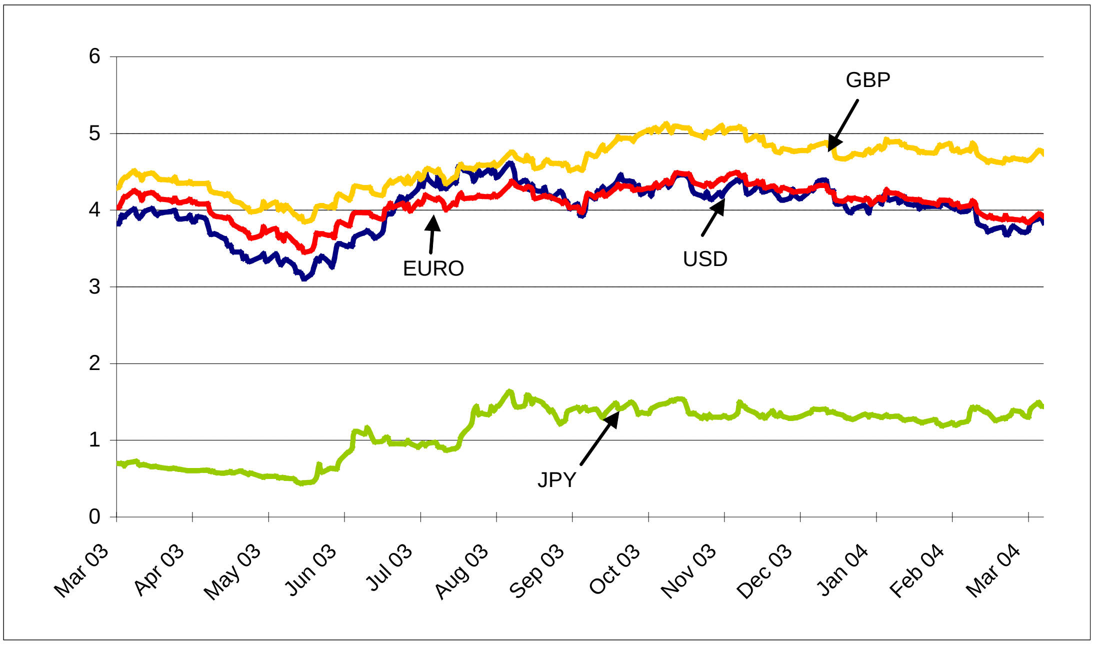
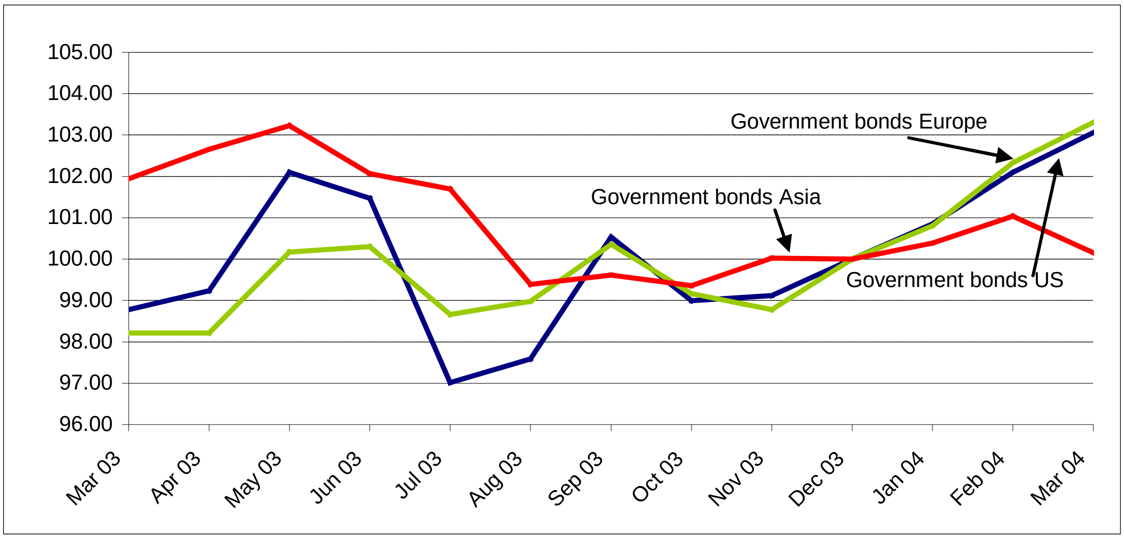


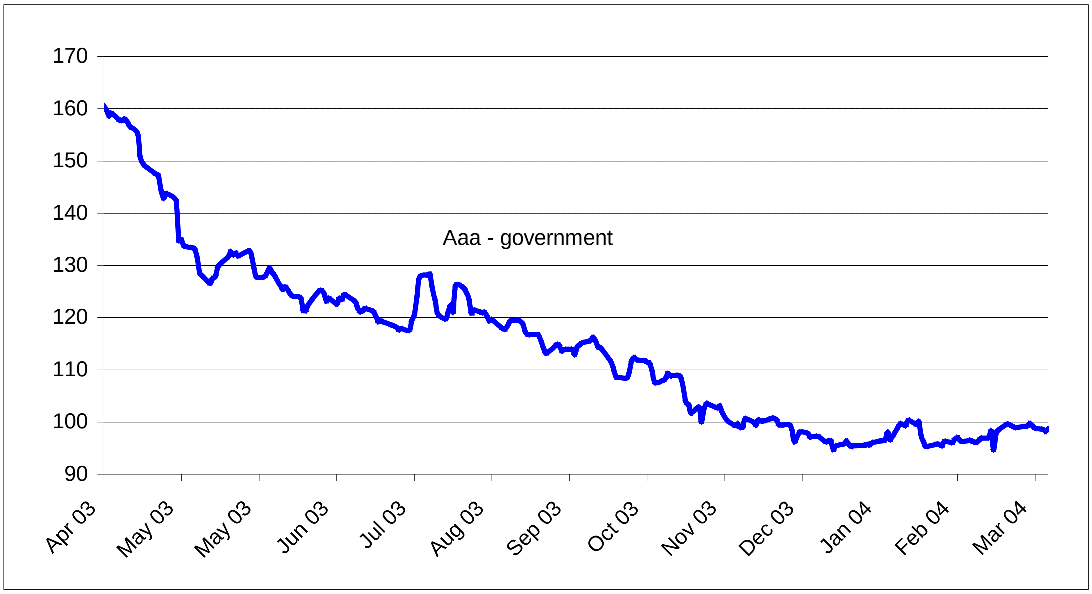
Chart 9 shows changes in value in the Lehman Global Aggregates' government bond indices. Returns on bonds in the US and Europe have been approximately 3 per cent since the beginning of the year, whereas returns on Japanese bonds have been close to zero.

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



The yield differential between bonds with credit risk and government bonds in the US stabilised in the first quarter after a sharp decline through 2003 (see Chart 10). The US economy is still experiencing earnings growth and companies' interest burden is record low. Investors are also far more willing to take risk than they were a couple of years ago.

Chart 10: The difference between yields on credit securities[1] and government securities in the US.



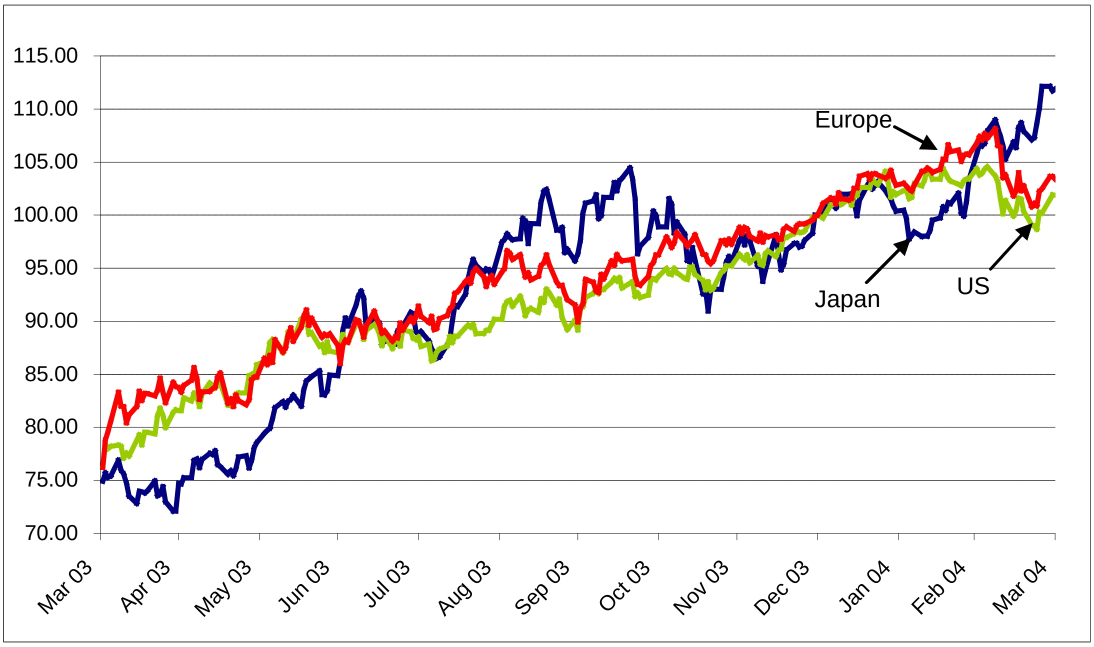
[1] Corporate securities with an AAA credit rating from Standard & Poor's

3.3. Equity markets

Equity prices rose in all three of the main markets in the first quarter of 2004 (see Chart 11). In the US and Europe, however, this positive trend was reversed at the end of February. Equity prices fell even more sharply after the terrorist attack in Madrid on 11 March. Developments in the European and US equity markets have largely been synchronised, but for the quarter as a whole, price developments were somewhat weaker in the US than in Europe.

Prices moved up sharply in the Japanese equity market, with an index return of 11.9 per cent for the quarter as a whole. Developments were positive in major Asian equity markets like Korea and Taiwan in the first quarter. Many companies in these countries have benefited from strong export demand, especially for technology goods like mobile phones and other consumer electronics. Domestic demand has also increased in these countries and strengthened expectations of future earnings.

Chart 11: Changes in value in the FTSE equity indices in the main markets in the last 12 months. (31.12.03 = 100)



In the early phase of the recovery that began in March 2003, the cyclical sectors experienced the greatest improvement in the US. The situation shifted somewhat in the first quarter of 2004. The winners included oil and energy, bank and insurance and non-alcoholic beverages. Oil, gas and petrol prices have been extraordinarily high this past winter, and this has contributed to a rise in prices for oil and energy shares. Developments in the technology sector in Europe have been weak, while growth in sectors like tobacco, gas and real estate has been solid.

Table 3 shows that in the first quarter, the return was positive on all of the main sectors in the FTSE index, measured in terms of the Fund's basket of currencies. Among the sub-sectors, retail trade and financial institutions had the highest return, while developments in the IT software and service sectors were weakest.

Table 3: Return on the main sectors and the ten largest sub-sectors in the FTSE All-World Index in the first quarter of 2004, measured against USD, NOK and the Petroleum Fund's currency basket. Per cent

	USD	NOK	Currency basket
Commodities	**2.83**	**6.12**	**3.34**
- of which oil and gas extraction	3.23	6.53	3.74
Basic industries	**2.64**	**5.93**	**3.16**
General industrials	**3.77**	**7.09**	**4.29**
Cyclical consumer goods	**3.05**	**6.35**	**3.57**
Non-cyclical consumer goods	**1.76**	**5.02**	**2.27**
- of which pharmaceuticals and biotechnology	-2.10	1.03	-1.61
Cyclical services	**4.30**	**7.64**	**4.82**
- of which retail trade	8.57	12.05	9.12
- of which media and photography	-1.38	1.78	-0.88
Non-cyclical services	**1.78**	**5.04**	**2.29**
- of which telecommunications	2.66	5.94	3.17
Utilities	**5.43**	**8.80**	**5.95**
Financial services	**5.14**	**8.51**	**5.67**
- of which banks	3.42	6.73	3.94
- of which insurance companies	4.50	7.85	5.02
- of which other financial service providers	8.62	12.10	9.16
Information technology	**1.27**	**4.51**	**1.78**
- of which hardware	3.80	7.12	4.32
- of which software and computer services	-3.05	0.06	-2.56

4. Management of the Fund

The market value of the Petroleum Fund's international portfolio was NOK 915.3 billion at the end of the first quarter. The Ministry of Finance transferred NOK 7.0 billion to the Fund's krone account on 31 January, NOK 6.9 billion on 29 February and a further NOK 8.2 billion on 31 March. Equivalent amounts in foreign exchange were transferred to the securities portfolio on the same dates.

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
31 March 2003	264 400	416 440	1 133	681 973
30 June 2003	318 915	455 273	1 335	775 523
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**

During the first quarter, the Fund's market value increased by NOK 70.0 billion. NOK 22.1 billion reflected a transfer of new capital, while NOK 26.1 billion was the return measured in international currencies. During the quarter, the krone depreciated against the currencies in which the Fund is invested, increasing the market value by approximately NOK 21.8 billion.

The depreciation of the krone has no effect, however, on the international purchasing power of the Fund.

4.1. Management of the fixed income portfolio

The market value of the fixed income portfolio increased by NOK 46.1 billion, to NOK 530.3 billion, in the first quarter. A total of NOK 22.1 billion was transferred to the fixed income portfolio during the quarter. NOK 11.5 billion reflected the return, whereas NOK 12.5 billion reflected the depreciation of the krone in relation to the investment currencies.

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 and active management. Both external and internal mandates have been assigned.

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 first quarter of 2004 capital was transferred to external fixed income managers with new mandates: Insight Investment Management Ltd and European Credit Management have been allocated mandates for investment in Europe.

4.2. Management of the equity portfolio

At the end of the first quarter, the market value of the equity portfolio was NOK 383.5 billion, an increase of NOK 23.9 billion since the beginning of the year. No capital was transferred to the equity portfolio in the first quarter. The increase was due to a return of NOK 14.6 billion, and the depreciation of the krone contributed NOK 9.3 billion.

At the end of the quarter, about 63 per cent of the equity portfolio was managed internally by Norges Bank. Of this, 17 per cent, representing the finance, telecommunications, energy, media and trade sectors, is managed actively, while an enhanced indexing strategy is employed to manage the remainder.

In the first quarter of 2004, capital was transferred to external managers with two new mandates: a regional mandate in the US was assigned to Wellington Management Company LCP , and a global sector mandate was assigned to Sector Asset Management.

5. The return on the Fund

In the first quarter of 2004, the return on the Petroleum Fund, including the Environmental Fund, was 2.93 per cent, measured in terms of the benchmark portfolio’s currency basket. Measured in NOK, the total return in the first quarter was 5.70 per cent. The difference is due to a depreciation of the krone by an average of about 2.69 per cent against the currencies in the benchmark portfolio during the quarter, resulting in an appreciation in the value of the Fund's currency basket relative to the krone. However, this has no effect on the international purchasing power of the Fund.

Table 5 shows that the return on the Petroleum Fund's ordinary portfolio (excluding the Environmental Fund) was also 2.93 per cent in the first quarter. The return was positive in all three months of the quarter. The table shows that the ordinary portfolio outperformed the benchmark by 0.24 percentage point in the first quarter, according to the index supplier's calculation of the benchmark return. 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 and benchmark portfolios, first quarter 2004. Per cent

	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Return
January	1.23	1.15	6.29	6.21	0.08
February	1.57	1.56	1.91	1.90	0.01
March	0.11	-0.04	-2.43	-2.56	0.14
Q1	2.93	2.69	5.70	5.46	0.24

This amounts to an excess return of approximately NOK 2.1 billion. NOK 55 million of this was income from securities lending. The externally managed equity portfolios made the largest contribution to excess return, although internally managed equity portfolios as well internally managed fixed income portfolios also made substantial contributions to returns.

Table 6 shows the return on the equity portfolio and fixed income portfolio. In terms of the benchmark portfolio's currency basket, the return on the equity portfolio was 3.83 per cent in the first quarter, while the return on the fixed income portfolio was 2.24 per cent. Table 6 also shows the return on the total portfolio, measured in terms of various currencies. The US dollar appreciated marginally against the currency basket in the first quarter, and as a result the return measured in USD was somewhat lower, at 2.42 per cent. The return measured against the euro was 5.12 per cent for the period. The return measured in terms of an import-weighted currency basket was 2.79 per cent.

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

	Equities	**Fixed income**	**Environmental Fund**	**Total**
The Petroleum Fund's currency basket	3.83	2.24	4.14	2.93
Import-weighted currency basket	3.69	2.11	4.00	2.79
USD	3.32	1.74	3.62	2.42
EUR	6.04	4.42	6.36	5.12
NOK	6.62	5.00	6.94	5.70

Methodology for calculating returns[2]

The calculation of returns is based on international standards. The return on the Petroleum Fund's portfolios is calculated according to the market value principle, i.e. the opening and closing values of the portfolios are valued at the relevant market prices at the beginning and end of the period. Interest expenses and 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 easily by looking at changes in market value. The geometrical return is used for longer periods, such as quarterly and annual return and return so far this year. This means that the return indices for each sub-period are multiplied. This return is thus a time-weighted return on the returns for the individual months.

The return is calculated in both NOK and local currency. The total return in NOK is calculated on the basis of the total market value of each individual currency, measured in NOK. WM/Reuters exchange rates[3] are used for converting local currencies to NOK.

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

Returns are calculated in separate models and then reconciled with the accounting system. Differences between the returns calculated in the models and those in the accounts are a result of different assessment principles, for example in the treatment of money market investments and tax withholdings that have not been refunded. In the accounts, allocations are also made to cover remuneration to Norges Bank.

Table 7 shows that the first quarter return on the Environmental Fund was 4.14 per cent measured in terms of the currency basket and 6.94 per cent measured in NOK. The return was 0.01 percentage point higher than the return on the benchmark portfolio. The benchmark return in the first quarter was 0.69 percentage point lower than the return on a comparable benchmark from which no companies had been excluded according to environmental criteria.

[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.

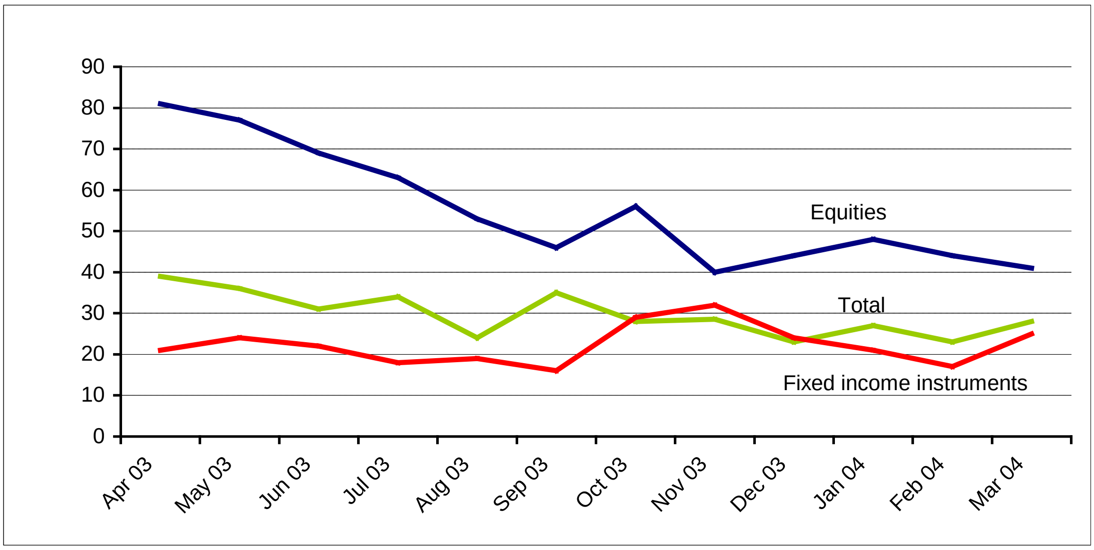
Table 7: Return on the Environmental Fund in the first quarter of 2004. Per cent[4]

	Measured in terms of the Fund's currency basket		Measured in NOK		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Return
January	2.06	2.06	7.16	7.17	0.00
February	1.86	1.84	2.20	2.18	0.01
March	0.18	0.18	-2.35	-2.35	0.00
Q1	4,14	4,13	6,94	6,93	0,01
Memorandum: Ordinary benchmark with country weights as in the Environmental Fund				**7.62**	**-0.69**

6. Risk exposure

The Ministry of Finance has set a limit on the market risk associated with the actual portfolio relative to the benchmark portfolio. This relative market risk shall always be less than an expected tracking error of 1.5 percentage points (150 basis points), as measured in the RiskManager risk model. Chart 12 shows that in the first quarter of 2004, relative market risk remained well within the limit. Expected tracking error has not been higher than approximately 30 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 higher in equity management than in fixed income management, in part because equity markets fluctuate more than fixed income markets. As a result, an equity position is more risky than a fixed income position of the same size. Another contributing factor is that a larger portion of the equity portfolio has been under active management. The difference has narrowed, however, in the last year. This may be partly because the active management of the equity portfolio has been spread over a larger number of mandates and partly because absolute volatility in the equity markets has declined.

[4] The benchmark for the Environmental Fund is not corrected for tax paid by Norges Bank on share dividends.

The relative market risk in the Environmental Fund at the end of March was 13 basis points, measured as expected tracking error in relation to the benchmark for this portfolio. The Ministry of Finance has stipulated an upper limit of 100 basis points for the Environmental Fund.

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

Table 8 shows the composition of the bond portfolio (fixed income portfolio excluding cash) based on Moody's and Standard and Poor's (S&P) credit ratings. In the table, government securities 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 contains fixed income instruments with shorter maturities. These all have credit ratings of P-1 from Moody's and A-1 from S&P.

Table 8: The fixed income portfolio at 31 March 2004, by credit rating. Percentage of market value

Moody's		Standard & Poor's	
Rating	Per cent of total	Rating	Per cent of total
Aaa	53.39	AAA	48.65
Aa	17.89	AA	25.95
A	20.00	A	12.78
Baa	6.87	BBB	8.11
Ba	0.14	BB	0.15
Lower	0.00	Lower	0.00
No rating	1.71	No rating	4.36

Table 9 provides an overview of the 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. 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

$	Risk exposure	Limits	Actual				
			31.03.03	30.06.03	30.09.03	31.12.03	31.03.04
§ 4	Market risk	Maximum 1.5 percentage point tracking error	0.3	0.3	0.4	0.2	0.3
§ 5	Asset mix	Fixed income instruments 50-70%	61.2	58.8	58.9	57.4	58.0
		Equities 30-50%	38.8	41.2	41.1	42.6	42.0
§ 6	Market distribution equities	Europe 40-60%	49.4	49.1	47.7	49.2	47.8
		The Americas, Middle East/Africa, Asia and Oceania 40-60%	50.6	50.9	52.3	50.8	52.2
	Emerging markets	< 5% of equity portfolio	2.4	2.2	2.6	2.7	3.1
	Currency mix fixed income	Europe 45-65%	55.6	54.9	55.6	56.4	54.9
		The Americas and the Middle East/Africa 25-45%	34.5	35.7	34.6	34.0	35.0
		Asia/Oceania 0-20%	9.9	9.4	9.8	9.6	10.1
§ 7	Interest rate risk	Modified duration 3-7	5.3	5.5	5.3	5.4	5.3
§ 11	Ownership interest	Maximum 3% of a company	2.9	2.5	2.7	2.6	2.7

7. Management costs

Table 10 provides an overview of the costs of managing the Government Petroleum Fund in the first quarter 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 a set of internal prices. The internal costs also include all support functions provided by other parts of Norges Bank.

Annualised, the costs in the first quarter of 2004 amounted to 0.07 per cent of the average market value of the Fund, excluding performance-based fees to external managers. Reported costs in the first quarter are somewhat lower than may be expected in the last three quarters of the year. This is related to the accruals accounting of expenses.

Excluding management fees, costs associated with equity management amounted to 0.06 per cent of the average equity portfolio during the quarter. Comparable figures for fixed income management were 0.03 for the first quarter of 2004. Performance-based fees to external managers amounted to NOK 27.2 million. The amounts are determined on the basis of the managers' total excess return over the past year. Management costs for the entire portfolio totalled NOK 190 million in the first quarter. Costs may be apportioned to internal and external management by using allocative keys for shared overheads and custodian costs. External management accounted for an estimated 54 per cent of the costs, whereas about 23 per cent of the Fund's portfolio is managed externally.

Table 10: Management costs in the first quarter of 2004. In thousands of NOK and as a percentage of the average portfolio

	Q1 2004		Q1 2003	
	NOK 1000	Per cent	1000 NOK 1000	Per cent
Internal costs, equity management	33 241		40 223	
Costs of equity custodians and settlement	21 265		8 138	
Total costs, equity management	**54 506**	**0.06**	**48 361**	**0.08**
Internal costs, fixed income management	31 463		39 633	
Costs of fixed income custodians	7 449		11 949	
Total costs, fixed income management	**38 912**	**0.03**	**51 582**	**0.05**
Minimum fees to external managers	69 619		58 542	
Performance-based fees to external fixed-income managers	27 236		14 325	
Total costs, external management	**96 855**	**0.19**	**72 867**	**0.21**
Total management costs	**190 273**	**0.09**	**172 810**	**0.11**
Total management costs, excluding performance-based fees	**163 037**	**0.07**	**158 485**	**0.10**

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 established 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. Off-balance sheet items are shown in a separate table. Table 12 shows the book return, which was NOK 47 868 million in the first quarter prior to the deduction of Norges Bank's management remuneration.

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 have been converted to NOK at market rates at 31 March 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 accounting return figures.

In Table 12, income and expenses 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.

Table 11: The Petroleum Fund's international portfolio distributed by instrument, at 31.03.04. In thousands of NOK

	31.03.2003	30.06.2003	31.09.2003	31.12.2003	31.03.2004
Short-term assets, incl. deposits in foreign banks	20 692 635	4 032 013	8 373 828	20 159 575	13 450 907
Money market investments in foreign financial institutions against collateral in the form of securities	197 996 075	231 690 203	247 242 425	287 041 828	279 864 129
Borrowing from foreign financial institutions against collateral in the form of securities	-250 821 420	-302 943 078	-261 330 966	-298 603 119	-311 010 300
Foreign interest-bearing securities	457 498 503	533 085 800	484 665 659	482 341 421	554 996 405
Foreign equities	257 992 236	312 247 142	325 244 242	354 346 887	378 561 266
Adjustment of forward contracts and derivatives	-1 339 518	-2 541 871	-821 946	72 774	-555 003
Total portfolio before remuneration for management	**682 018 511**	**775 570 209**	**803 373 243**	**845 359 367**	**915 307 404**
Management remuneration due*	-184 505	-342 232	-528 286	-772 595	-962 868
Total portfolio	**681 834 006**	**775 227 977**	**802 844 957**	**844 586 771**	**914 344 536**

*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)	**31.03.2003**	**30.06.2003**	**31.09.2003**	**31.12.2003**	**31.03.2004**
Forward exchange contracts sold	-17 813 115	-17 900 785	-19 508 884	-25 395 459	-26 235 470
Futures sold	-31 758 104	-12 993 264	-43 398 154	-35 942 356	-135 240 732
Equity swaps sold	0	0	0	-13 340	-543 176
Interest rate swaps sold	-105 863 762	-131 535 564	-129 336 721	-175 568 502	-194 724 825
Liabilities sold	**-155 434 981**	**-162 429 614**	**-192 243 758**	**-236 919 657**	**-356 744 203**
Forward exchange contracts purchased	17 813 115	17 900 785	19 508 884	25 395 459	26 235 470
Futures purchased	63 343 781	30 086 662	50 900 741	47 628 021	117 672 014
Equity swaps purchased	0	0	0	13 526	535 574
Interest rate swaps purchased	104 525 824	128 976 219	128 409 960	175 545 354	194 169 293
Liabilities purchased	**185 682 719**	**176 963 666**	**198 819 585**	**248 582 360**	**338 612 351**
Futures options sold	0	0	-8 485	-4 323 667	-16 564 927
Equity options sold	0	0	0	0	0
Rights sold	**0**	**0**	**-8 485**	**-4 323 667**	**-16 564 927**
Futures options purchased	1 224	54 602	8 894	4 331 315	24 464 671
Equity options purchased	0	0	0	0	0
Rights purchased	**1 224**	**54 602**	**8 894**	**4 331 315**	**24 464 671**

Table 12: Book return on the Petroleum Fund's international portfolio at 31 March 2004. In thousands of NOK

Book return	31.03.2003	30.06.2003	31.09.2003	31.12.2003	31.03.2004
Interest income	4 989 924	9 552 586	14 891 853	19 560 414	6 094 222
Dividends	1 576 118	4 308 049	5 917 817	6 996 199	2 011 768
Exchange rate adjustment	43 969 450	63 075 338	55 310 312	45 985 725	21 582 056
Unrealised securities losses/gains	-17 228 000	27 211 534	30 903 736	55 786 976	11 235 128
Realised securities losses/gains	-3 642 108	-3 806 719	-2 963 386	633 103	7 442 408
Brokers' commissions	-6 926	-11 413	-18 009	-16 458	5 810
Forward exchange trading	-903	-766	-1 004	-976	1 332
Gains/losses futures	35 782	992 812	1 460 431	2 039 765	29 670
Gains options	-5 141	39 566	136 155	135 947	-6 609
Gains/losses equity swaps	0	0	0	257	-16 808
Gains/losses interest rate swaps	-44 921	-1 255 634	370 281	1 292 862	-511 121
Book return on investments	**29 643 276**	**100 105 353**	**106 008 187**	**132 413 815**	**47 867 857**
Accrued management remuneration	-184 505	-342 232	-528 286	-772 595	-190 273
Net return	**29 458 771**	**99 763 121**	**105 479 901**	**131 641 219**	**47 677 584**