Management of the Government Petroleum Fund
Report for the third quarter of 2005

Summary

The return on the Government Petroleum Fund in the third quarter of 2005 was 3.21 per cent measured in terms of the currency basket corresponding to the composition of the Fund's benchmark portfolio. The overall return in the first three quarters of 2005 was 8.27 per cent.

The return on the equity portfolio was 8.24 per cent in the third quarter. There was an upswing in prices in all of the main markets during the quarter. The fixed income portfolio generated a slightly negative return of -0.07 per cent measured in terms of the currency basket. Prices fell in the US and Japan but rose somewhat in the European bond markets.

The return on the Petroleum Fund's portfolio in the third quarter of 2005 was 0.18 percentage point higher than the return on the benchmark portfolio defined by the Ministry of Finance. The overall excess return in the first three quarters of 2005 was 0.53 percentage point.

The market value of the Fund's combined portfolio of securities was NOK 1 281.1 billion at the end of the third quarter, an increase of NOK 97.2 billion during the quarter. The increase in market value is a result of a positive return, NOK 38.2 billion measured in international currency, and the supply of new capital, NOK 65.3 billion. A stronger krone in relation to the investment currencies reduced the value of the Fund by NOK 6.3 billion. A change in the krone exchange rate has no effect, however, on the Fund's international purchasing power.

1. Key figures

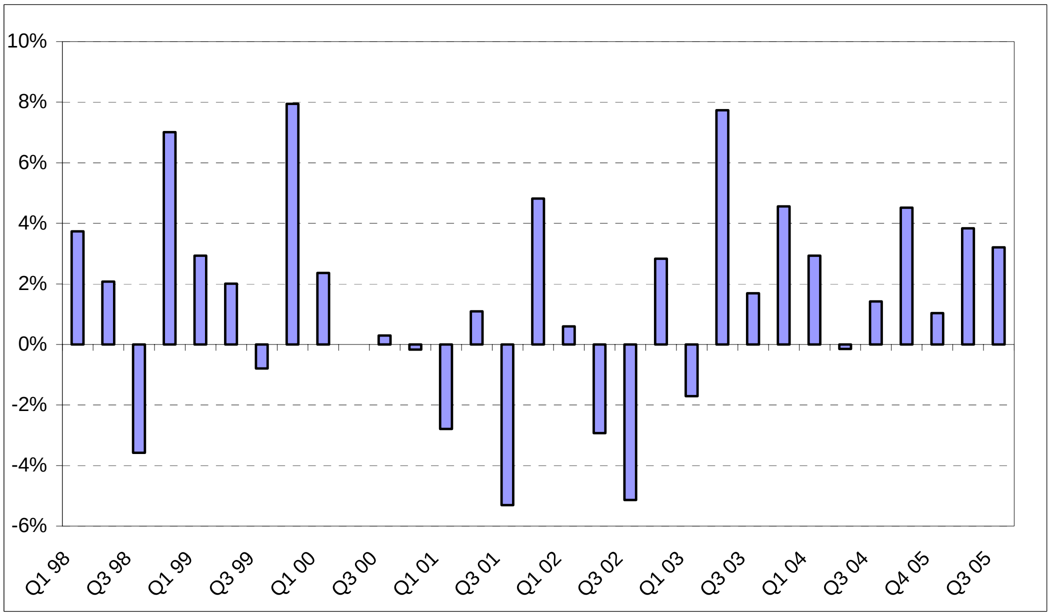
The return on the Government Petroleum Fund in the third quarter of 2005 was 3.21 per cent measured in terms of the currency basket corresponding to the composition of the Fund's benchmark portfolio. Measured in terms of the benchmark portfolio's currency basket, the return on the equity portfolio was 8.24 per cent during the quarter, while the return on the fixed income portfolio was -0.07 per cent. Table 1 shows return figures measured against various currencies.

Table 1: Return on the Petroleum Fund in the third quarter of 2005 measured against various benchmark currencies. Per cent

	Equities	Fixed income	Total
Fund's currency basket	8.24	-0.07	3.21
Import-weighted currency basket	7.71	-0.55	2.71
USD	7.84	-0.43	2.83
EUR	8.29	-0.02	3.26
NOK	7.62	-0.64	2.62

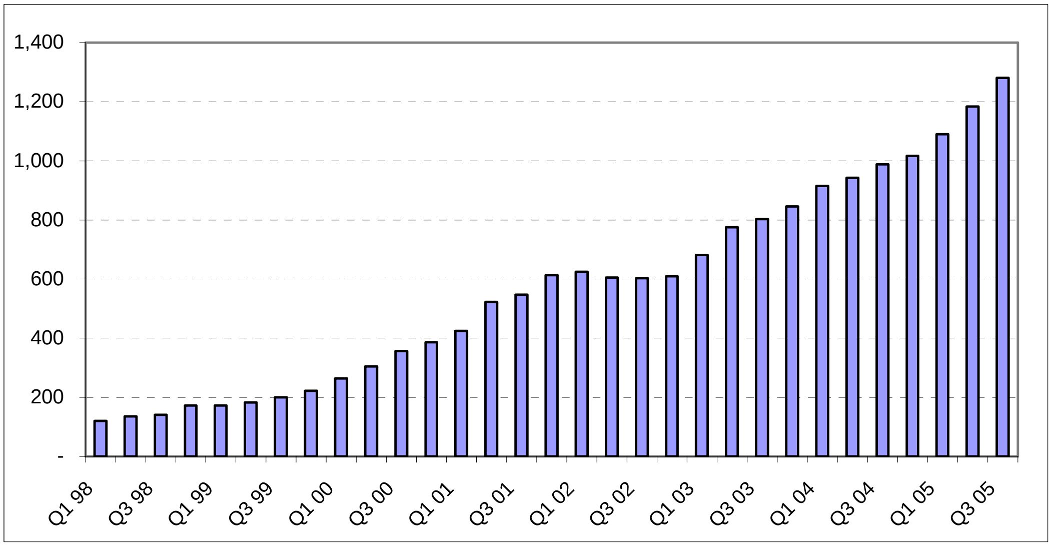
Since the first equity investments were made in 1998, the average quarterly return measured in terms of the benchmark portfolio's currency basket has been 1.49 per cent. Chart 1 shows the quarterly return.

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



Since 1 January 1998, the Petroleum Fund has grown by NOK 1 168 billion (see Chart 2). NOK 992 billion has been added to the Fund during these years. The return measured in international currency has increased the value of the Fund by NOK 268 billion, whereas a stronger krone in relation to the investment currencies has reduced the value of the Fund by NOK 92 billion. A change in the krone exchange rate has no effect, however, on the Fund's international purchasing power.

Chart 2: The market value of the Petroleum Fund 1998-2005. In billions of NOK



Since 1 January 1997, the annual net real return on the Petroleum Fund (after deductions for management costs and inflation) has been 4.3 per cent. Table 2 shows the return up to the end of the third quarter of 2005, annualised from 1 January for each of the years 1997-2004. Inflation is a weighted average of consumer price inflation in the countries represented in the benchmark portfolio.

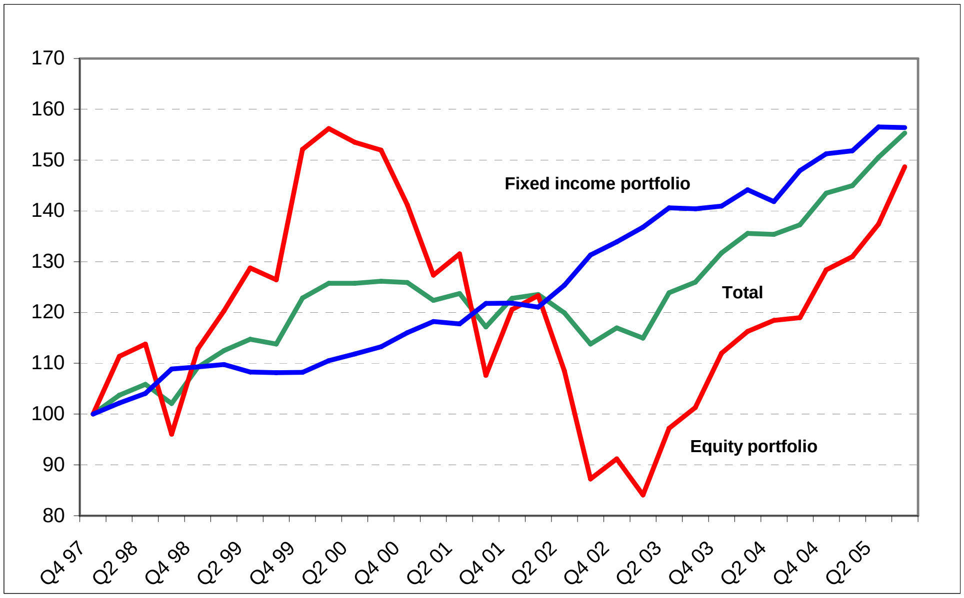
Table 2: Annual rates of return for the Petroleum Fund up to the end of the third quarter of 2005 measured in terms of the benchmark portfolio's currency basket. Per cent per year

	Gross annual return	Annual inflation	Annual management costs	Annual net real return	Annual gross excess return
From 01.01.97	6.21	1.75	0.09	4.30	0.45
From 01.01.98	5.85	1.75	0.09	3.94	0.47
From 01.01.99	5.35	1.87	0.09	3.32	0.51
From 01.01.00	4.17	1.98	0.09	2.05	0.39
From 01.01.01	4.52	1.97	0.10	2.41	0.41
From 01.01.02	6.47	2.19	0.10	4.09	0.49
From 01.01.03	10.87	2.29	0.10	8.29	0.60
From 01.01.04	9.89	2.69	0.10	6.91	0.61

The return achieved by Norges Bank on the actual portfolio is measured in relation to the return on the benchmark portfolio defined by the Ministry of Finance. The difference between the return figures is the gross excess return achieved by Norges Bank. The column at the far right of Table 2 shows that the average gross excess return has been 0.45 percentage point per year since 1 January 1997.

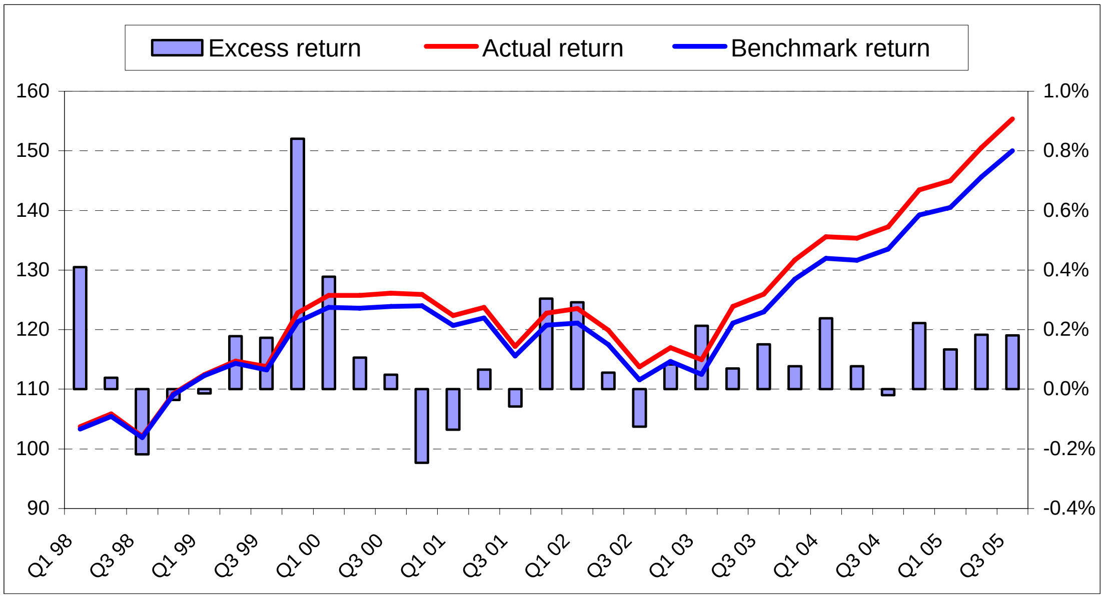
The cumulative return on the Petroleum Fund from 1 January 1998 until the end of the third quarter of 2005 was 55.4 per cent (see Chart 3). During this period the cumulative return on the equity portfolio was 48.7 per cent and the cumulative return on the fixed income portfolio was 56.4 per cent.

Chart 3: Index for cumulative return on the sub-portfolios in the Petroleum Fund (1998-2005)



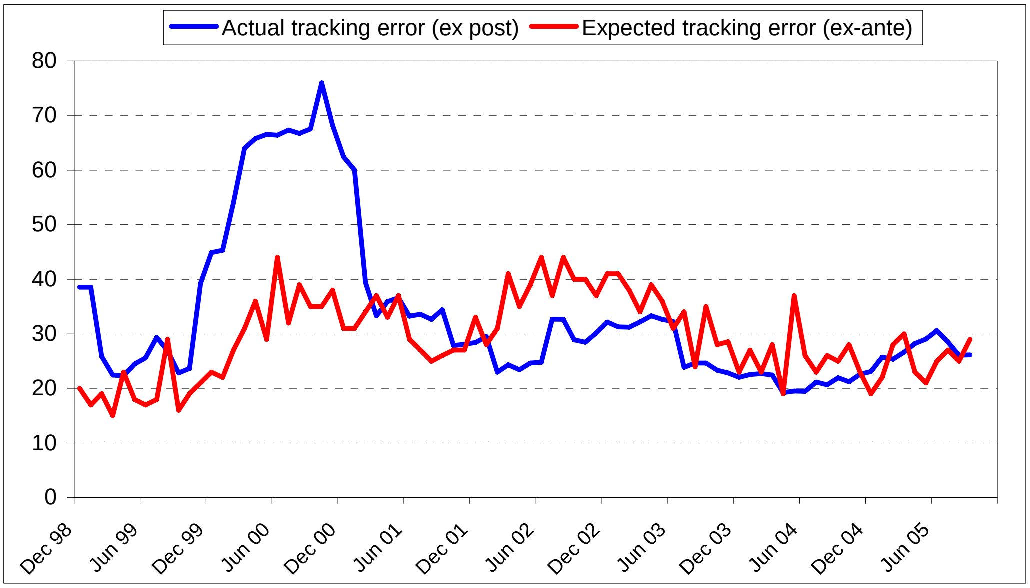
Since 1998, the cumulative return on the benchmark portfolio has been 50.0 per cent, whereas the actual return has been 55.4 per cent (see Chart 4). The cumulative gross excess return measured in terms of the currency basket has been 5.3 percentage points, which corresponds to NOK 19.7 billion.

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



The Ministry of Finance has set a limit on the extent to which the Fund's portfolio may differ from the benchmark portfolio. This has been accomplished by setting a limit for the expected deviation between the returns on the actual portfolio and the benchmark portfolio. This limit for relative market risk in the management of the Petroleum Fund has been set at an expected tracking error of 1.5 percentage points (explained in Section 5 below). The red line in Chart 5 shows developments in expected tracking error since December 1998.

Chart 5: Expected tracking error and actual tracking error at the end of each month in the period 1999-2005. Basis points



In retrospect, we can use the variation in the deviation between the returns on the actual and benchmark portfolios (i.e. the variation in excess return) as a measure of actual relative market risk (the blue line in the chart). This tracking error is annualised using 12-month rolling windows.

Both expected and actual tracking error may fluctuate considerably, even when the degree of active management is unchanged. This is because these measures are influenced by various market developments, such as changes in market volatility and changes 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 stipulated by the Ministry of Finance.

The information ratio is a measure of skill in the operational management of the Fund. It is the ratio of gross excess return for the year to relative market risk (measured here as the actual standard deviation of the return differential). The average information ratio for the Fund from the first quarter of 1998 to the third quarter of 2005 was 1.23, annualised. Table 3 provides a historical overview of the information ratio for the Fund as a whole and for each asset class.

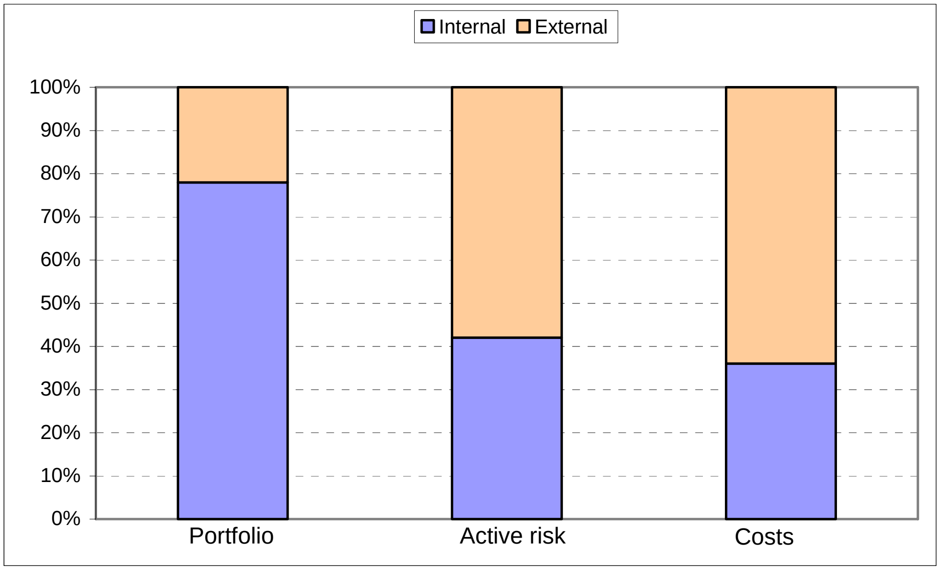
Table 3: Information ratios

Period	Petroleum Fund	Equities	Fixed income
Last 12 months	2.75	2.03	2.81
Since 2002	1.91	1.09	3.25
Since 1999	1.35	1.11	1.91

At the end of the third quarter, 22 per cent of the Petroleum Fund was managed by external investment managers. Costs associated with external management accounted for 64 per cent of total management costs. External management accounted for approximately 58 per cent of the overall risk associated with active management (see Chart 6).

The external managers are primarily engaged in active management, whereas a larger part of the internal management is based on enhanced indexing. Active management is clearly more expensive than index management, and this partly explains why unit costs for external management are far higher than unit costs for internal management. However, comparable management is also less expensive when internal rather than external managers are used. External managers with specialist expertise are used to achieve sufficient breadth and scope in active management, and the excess return from external managers has clearly exceeded the additional costs.

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



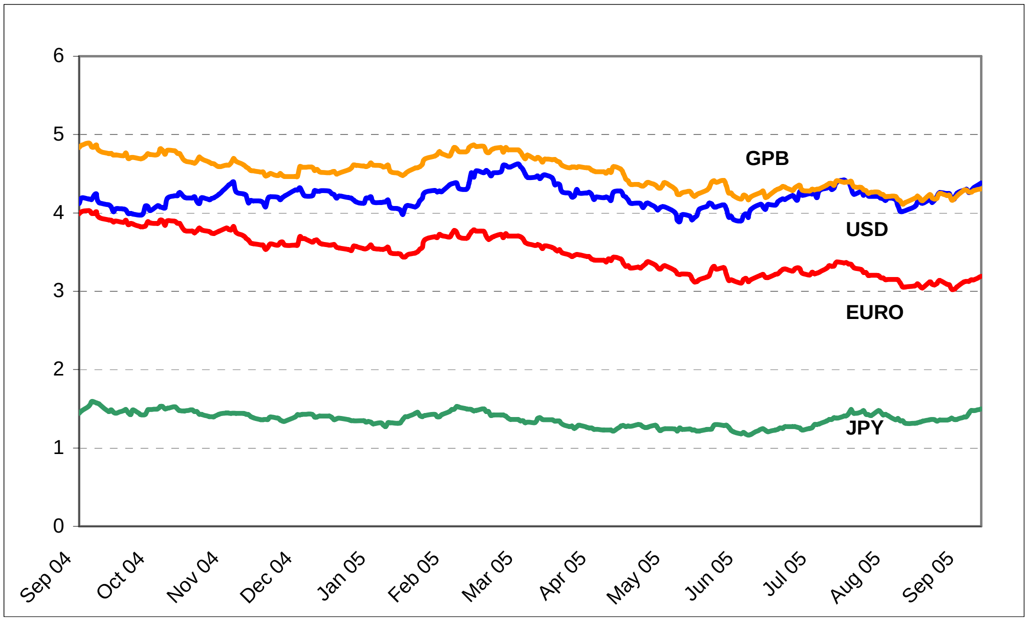
*There is no absolutely correct method of calculating the distribution of active risk. The distribution in the chart is based on summation of the value at risk (VaR) of internal and external mandates, disregarding the correlation between the different mandates.

2. Market developments

Fixed income markets

The main markets were characterised by rising bond yields in the third quarter. Ten-year government bond yields rose by between 0.30 and 0.40 percentage point in the US and Japan, and by approximately 0.10 percentage point in Europe (see Chart 7).

Chart 7: Developments in the most important bond markets in the last 12 months. Yields on government bonds with approximately ten years to maturity. Per cent per year



Bond yields in the US climbed at the beginning of the quarter after key economic figures indicated stronger growth than anticipated. The figures revealed growth in output, signs of rising domestic demand, and growth in employment. In the weeks following the devastation in New Orleans, the trend reversed and long-term yields fell. This was related to expectations that high oil and petrol prices would lead to a shift in demand away from other consumption. This could then have a dampening effect on consumer demand and growth in the US. Towards the end of the quarter, yields rose across all maturities due to expectations that the effects of the devastation left by the hurricanes would be transitory, and that the Federal Reserve would continue to increase the key interest rate at a measured pace.

Long-term bond yields in the US have been relatively stable over the last 12 months as a whole even though the Federal Reserve has raised its key rate from 2.25 to 3.75 per cent during the period. This is an indication that long-term inflation expectations are relatively stable. Demand for US government bonds from pension funds and Asian central banks has also helped to keep bond yields low.

Economic growth has been far slower in the euro area than in the US, and both key interest rates and bond yields have shown different developments. The European Central Bank (ECB) has kept its key rates unchanged since June 2003. At the same time, long-term yields have fallen, with the result that ten-year bond yields were around 1 percentage point lower in Germany than in the US at the end of the quarter.

Economic growth in Japan has picked up during the year, fuelled particularly by growth in private domestic demand. Surveys of growth expectations in various business sectors also suggest growing optimism. Higher energy prices mean that inflation is on its way up from the deflationary levels seen in previous years. Together these factors have led to an upswing in long-term yields.

Chart 8: Movements in Lehman Global Aggregate government bond indices in the main markets during the last 12 months (31.12.04 = 100)

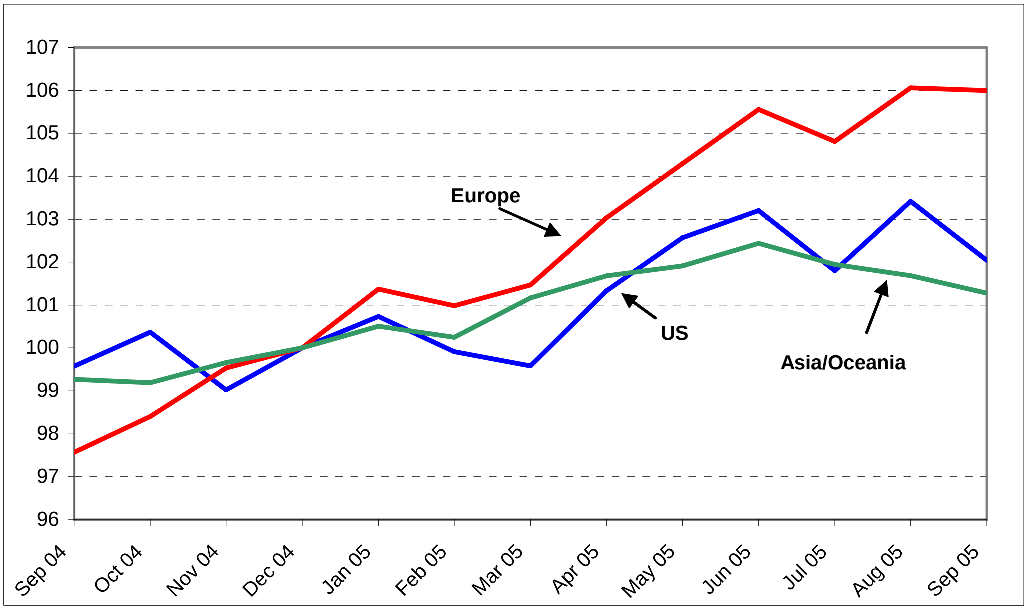
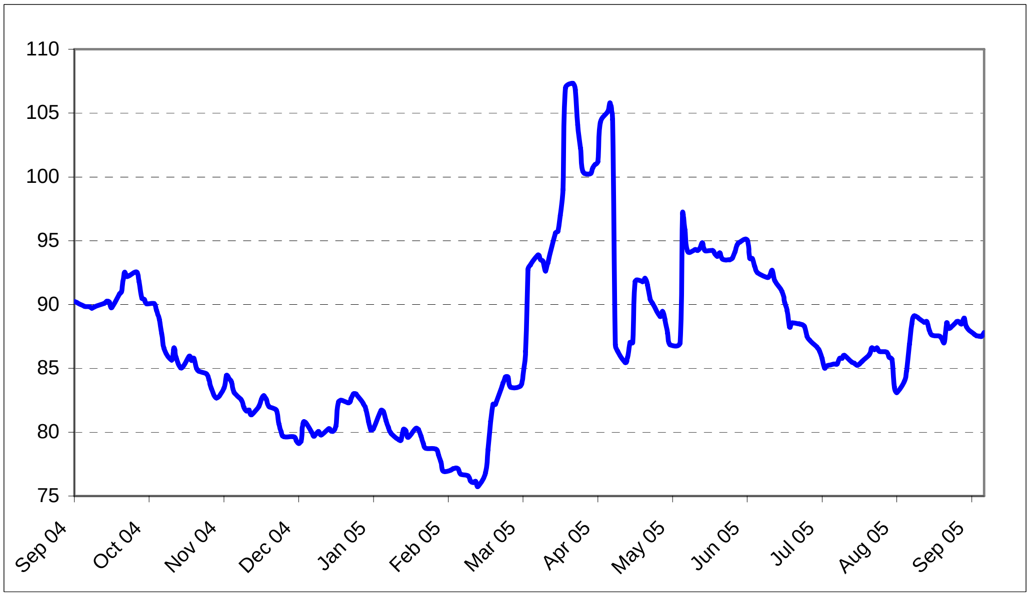


Chart 8 shows developments in the Lehman Global Aggregate government bond indices in the main markets during the last 12 months. The third quarter of 2005 brought yields of 0.4 per cent in Europe, -1.1 per cent in Asia and -1.1 per cent in the US.

Chart 9: The spread between yields on corporate securities[1] and government securities in the US. Basis points



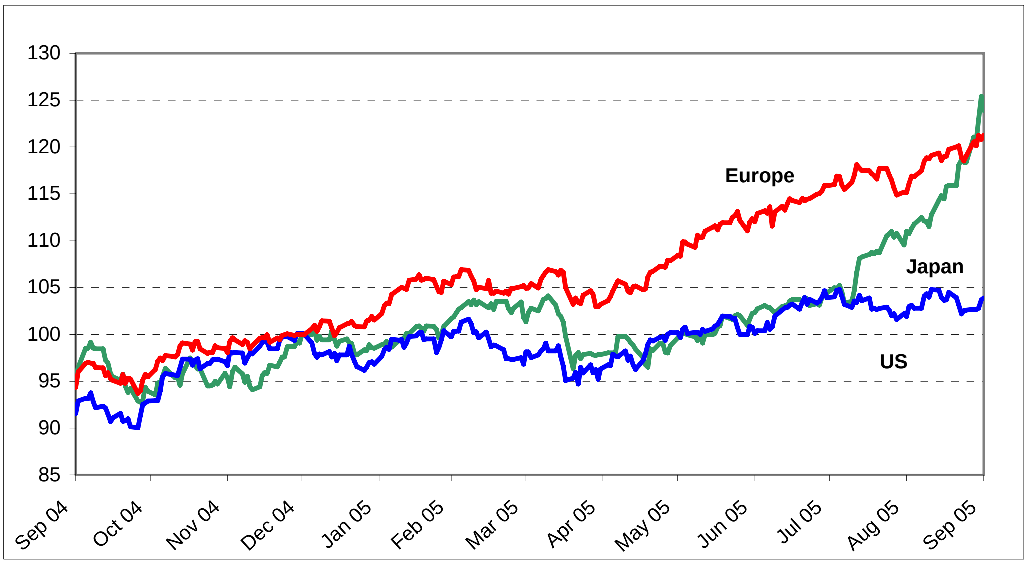
[1] Corporate securities with a credit rating of AAA from Standard & Poor's.

The spread between yields on corporate and government securities (credit spread) in the US narrowed somewhat during the third quarter (see Chart 9). Credit spreads have remained relatively low, especially for companies with high credit ratings, despite two major bankruptcy filings in the airline sector (Delta and Northwest). This may be seen in relation to a general rise in equity prices and growth in the US economy.

Equity markets

Prices in the most important equity markets rose during the third quarter (see Chart 10). The upswing was particularly strong in Japan and Europe, where prices as measured by the FTSE index climbed 21.0 and 8.2 per cent respectively. US equity prices gained 3.8 per cent.

Chart 10: Movements in the FTSE equity indices for the main markets during the last 12 months. (31.12.04 = 100). In local currencies



One reason for the substantial differences in returns across markets is that the various industrial sectors have different weights in different markets. However, developments in the same sector have also varied across regions in some cases. For example, the US car industry has performed poorly as it has concentrated largely on the production of large cars with high fuel consumption. Japanese and Korean carmakers, on the other hand, are at the other end of the scale, producing smaller and more fuel-efficient cars. This is one of the reasons why Japanese production of transport equipment performed extremely well in the third quarter, while the same sector in the US performed poorly. The strong economic growth in China also had a positive impact on Japan, which exports large quantities of metals and machinery to China. Several domestic sectors in Japan also had high earnings as a result of stronger domestic demand and increased borrowing in Japan.

The situation in Europe has differed somewhat from the situation in Japan and the US. Domestic demand has been far weaker in Europe than in Japan and has not made a strong contribution to the upswing in equity prices. Most sectors in Europe, with the exception of oil, have had higher earnings than comparable sectors in the US.

Besides car production, sectors such as financial services, telecommunications and media have performed poorly so far this year in the US despite continued solid earnings.

Table 4 shows equity price movements in the main sectors and in the ten largest sub-sectors of the FTSE All-World Index in the third quarter of 2005. Of the main sectors, resources and cyclical consumer goods performed best. Sub-sectors related to oil production and the processing of petroleum products made a major contribution to the rise in prices in the resources sector. The production of cars and car parts performed well in the cyclical consumer goods sector.

Table 4: Return on the main sectors and the ten largest sub-sectors of the FTSE All-World Index in the third quarter of 2005. Measured against USD, NOK and the benchmark portfolio's currency basket. Per cent

	USD	**NOK**	**Currency basket**
Resources	**19.91**	**19.66**	**20.35**
- of which oil and gas	18.36	18.12	18.80
Basic industries	**9.54**	**9.31**	**9.94**
General industries	**7.11**	**6.88**	**7.50**
Cyclical consumer goods	**11.09**	**10.86**	**11.50**
Non-cyclical consumer goods	**5.24**	**5.03**	**5.63**
- of which pharmaceuticals and biotechnology	3.83	3.61	4.21
Cyclical services	**2.54**	**2.32**	**2.91**
- of which retail trade	-0.07	-0.28	0.29
- of which media and photography	1.94	1.73	2.31
Non-cyclical services	**4.21**	**4.00**	**4.60**
- of which telecommunications	4.93	4.71	5.31
Utilities	**7.62**	**7.40**	**8.01**
Financials	**6.54**	**6.32**	**6.93**
- of which banks	6.00	5.78	6.39
- of which insurance companies	6.90	6.67	7.29
- of which financial institutions	6.48	6.26	6.87
Information technology	**6.15**	**5.93**	**6.55**
- of which hardware	6.92	6.70	7.31
- of which software and services	4.82	4.60	5.20
Total*	**7.41**	**7.19**	**7.80**

*The composition of the Petroleum Fund's benchmark portfolio differs from the FTSE All-World Index, and therefore the return on it will also be different.

3. Management of the portfolio

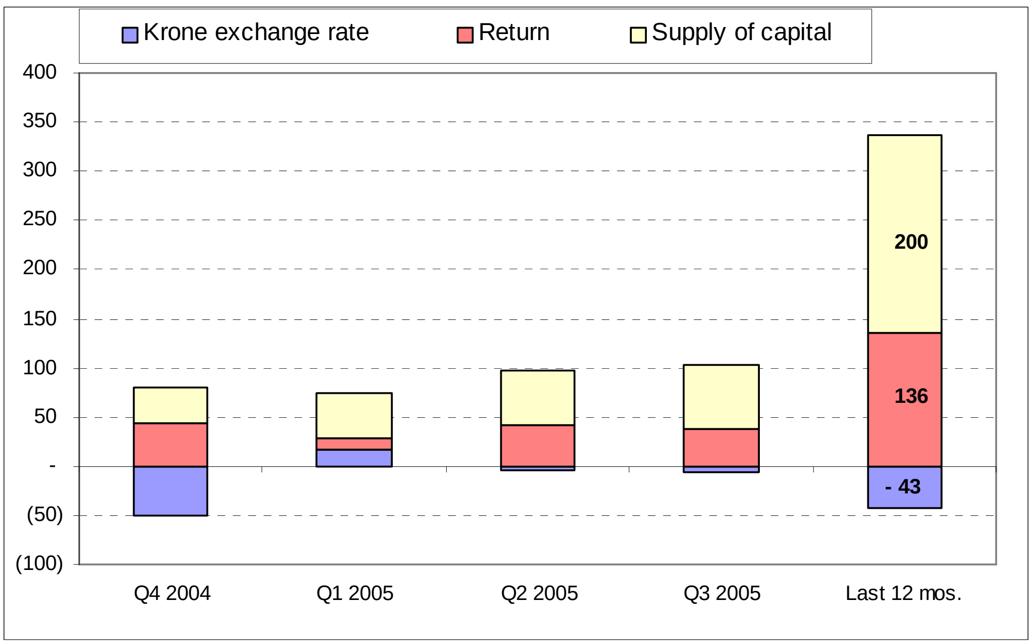
At 30 September 2005, the market value of the Petroleum Fund's international portfolio was NOK 1 281.1 billion. The Fund's market value rose by NOK 97.2 billion during the third quarter. Table 5 shows the market value of the Fund at the end of the last five quarters, and the change in market value in the third quarter of 2005 due to the supply of new capital, return in international currency and changes in the international value of the Norwegian krone. See Tables 10 and 11 in Section 7 for accounting values.

Table 5: Market value of the Petroleum Fund's sub-portfolios at the end of the last five quarters, and changes in market value in the third quarter of 2005. In millions of NOK

	Equity portfolio	**Fixed income portfolio**	**Petroleum Fund total**
30 September 2004	392 938	595 203	988 141
31 December 2004	416 298	600 104	1 016 402
31 March 2005	435 467	654 674	1 090 141
30 June 2005	**472 436**	**711 491**	**1 183 927**
Supply of new capital	14 032	51 258	65 290
Return	38 764	-561	38 204
Change in krone value	-2 541	-3 734	-6 276
30 September 2005	**522 691**	**758 454**	**1 281 146**

The Petroleum Fund has grown by NOK 293 billion in the last 12 months (see Chart 11). NOK 200 billion has been transferred to the Fund and the return on the Fund has been NOK 136 billion. A stronger krone in relation to the investment currencies has reduced the value of the Fund by NOK 43 billion, without this having any effect on the Fund's international purchasing power. The chart shows that the krone appreciated primarily in the fourth quarter of 2004, whereas so far this year movements in the krone have contributed to increasing the value of the Fund.

Chart 11: Quarterly change in the market value of the Fund in the last 12 months due to supply of capital, return and the effects of changes in the international value of the Norwegian krone. In billions of NOK



Please refer to Appendix 1 for a description of both the management mandate and the composition of the benchmark portfolio. The phasing-in of inflation-indexed government bonds was implemented at the end of the third quarter (see discussion in the National Budget 2005). With effect from 31 August 2005, the Ministry of Finance decided that eight companies should be excluded from the Petroleum Fund's investment universe. The decision, which was based on a recommendation from the Petroleum Fund's Advisory Council on Ethics, was in accordance with the ethical guidelines that entered into force on 1 December 2004. The grounds for the exclusion are discussed in more detail in a press release issued by the Ministry of Finance on 2 September 2005.

Companies excluded from the Petroleum Fund's investment universe

Name	Country	Date of exclusion
Alliant Techsystems Inc.	US	31 August 2005
EADS Co (European Aeronautic Defence and Space Company) N.V.	Netherlands	31 August 2005
EADS Finance B.V.	Netherlands	31 August 2005
General Dynamics Corporation	US	31 August 2005
L-3 Communications Holding Inc.	US	31 August 2005
Lockheed Martin Corporation	US	31 August 2005
Raytheon Company	US	31 August 2005
Thales SA	France	31 August 2005
Kerr-McGee Corporation	US	31 May 2005
Singapore Technologies Engineering Ltd.	Singapore	26 April 2002

Management of the fixed income portfolio

The market value of the fixed income portfolio increased by NOK 47.0 billion to NOK 758.5 billion in the third quarter. At the end of the quarter about 90 per cent of the fixed income portfolio was managed internally by Norges Bank. There are two types of management: enhanced indexing and active management. Both external and internal mandates have been established to manage the portfolio.

Enhanced indexing is used to manage three sub-portfolios: government-guaranteed bonds, corporate bonds and securitised bonds. Most of the index portfolio is managed internally, whereas US mortgage-backed bonds are indexed by external managers.

About 10 per cent of the fixed income portfolio is managed by external managers. This portion includes the mandates for US mortgage-backed bonds and active mandates with a variety of strategies for outperforming the benchmark.

Capital was transferred to two new mandates assigned to external managers in the third quarter of 2005: Babson Capital Management LLC and Smith Breeden Associates Inc. were awarded specialist mandates in the US.

Management of the equity portfolio

The market value of the equity portfolio was NOK 522.7 billion at the end of the third quarter, an increase of NOK 50.3 billion during the quarter.

At the end of the quarter, about 60 per cent of the equity portfolio was managed internally by Norges Bank. All internal equity portfolios are managed actively and with analysis-based active management in the financial, telecommunications, energy, media and trade sectors. The Bank also uses global sector allocation strategies and enhanced indexing in all sectors.

Capital was transferred to five new mandates assigned to external equity managers in the third quarter of 2005: MFS Investment Management, Barrow Hanley Mewhinney & Strauss Inc., Aberdeen Asset Management, NWQ Investment Management Company LLC and Fidelity Pensions Management were awarded regional mandates.

4. Return on the Petroleum Fund

The return on the Petroleum Fund in the third quarter of 2005 was 3.21 per cent measured in terms of the benchmark portfolio's currency basket (see Table 6). There was a positive return in each of the three months in the quarter. The strong performance of the equity markets contributed to the positive return. Measured in NOK, the total return in the third quarter was 2.62 per cent. The difference is due to the 0.6 per cent appreciation of the krone against the currencies in the benchmark portfolio during the quarter. This has no effect, however, on the Fund's international purchasing power.

Table 6: Return on the Petroleum Fund. Actual and benchmark portfolios in the third quarter of 2005. Per cent

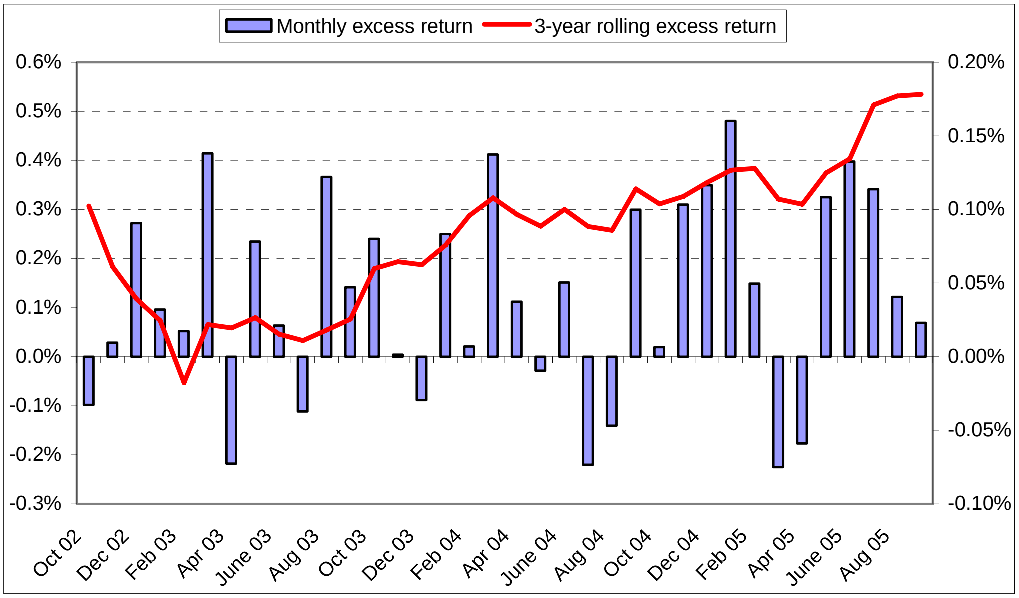
	Return measured in terms of the benchmark currency basket		**Return measured in NOK**		
	Actual portfolio	Benchmark portfolio	Actual portfolio	Benchmark portfolio	Excess return
Q1	**1.03**	**0.90**	**2.76**	**2.63**	**0.13**
Q2	**3.83**	**3.65**	**3.44**	**3.26**	**0.18**
July	1.32	1.21	0.23	0.11	0.11
August	0.68	0.64	0.19	0.15	0.04
September	1.17	1.15	2.19	2.17	0.02
Q3	**3.21**	**3.03**	**2.62**	**2.44**	**0.18**
Year to date	8.27	7.75	9.08	8.56	0.53

During the third quarter, the excess return on the Petroleum Fund in relation to the benchmark portfolio was 0.18 percentage point or approximately NOK 2.1 billion. External equity managers made the main contribution to this excess return, but other portfolio managers also made positive contributions.

In the last 12 months, the cumulative excess return has been 0.76 percentage point. In the three years to the end of the third quarter of 2005, the annualised excess return was 0.53 percentage point (see Chart 12).

Transaction costs are incurred when new capital is phased in. Norges Bank has estimated the direct and indirect transaction costs associated with phasing in new capital in the third quarter of 2005 at NOK 124.4 million. This was 0.19 per cent of the total amount transferred, i.e. NOK 65.3 billion, and 0.01 per cent of the market value of the Petroleum Fund at the beginning of the quarter. The benchmark portfolio has not been adjusted for these transaction costs. This means that the excess return reported is lower than it would have been if the costs associated with the phasing in of new capital had been excluded. Appendix 2 provides information concerning the methodology for calculating transaction costs.

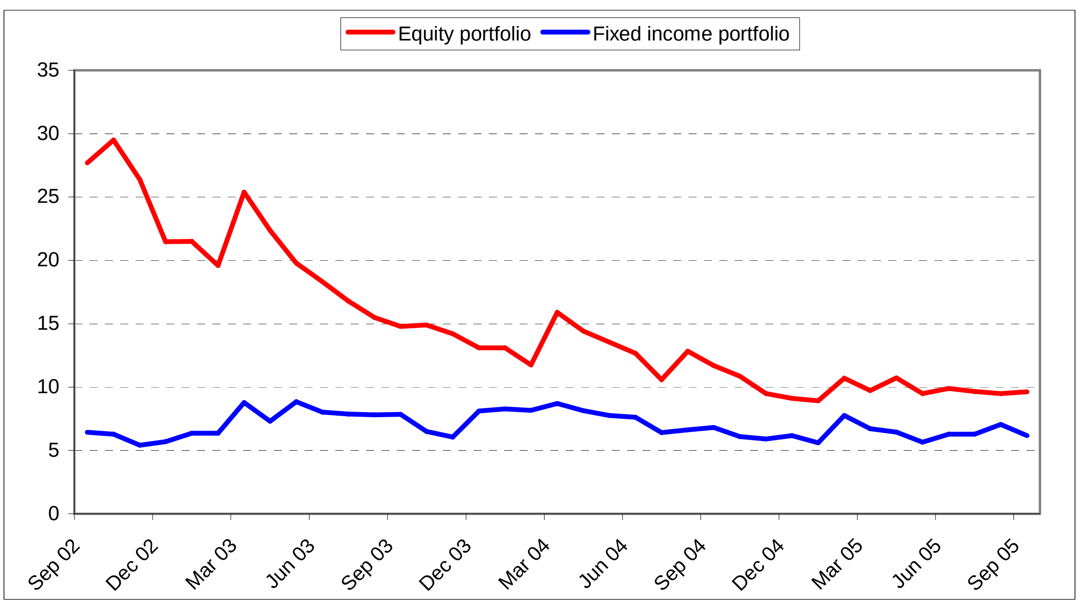
Chart 12: Monthly (right-hand scale) and three-year rolling excess return (left-hand scale). Per cent



5. Risk

The Petroleum Fund's absolute market risk, measured as the expected tracking error for the return in NOK, fluctuates with market volatility. Chart 13 shows that the absolute tracking error for the equity portfolio at the end of the third quarter of 2005 was roughly one-third of the level measured at the end of the third quarter of 2002. Changes in the market risk associated with the fixed income portfolio have been far smaller.

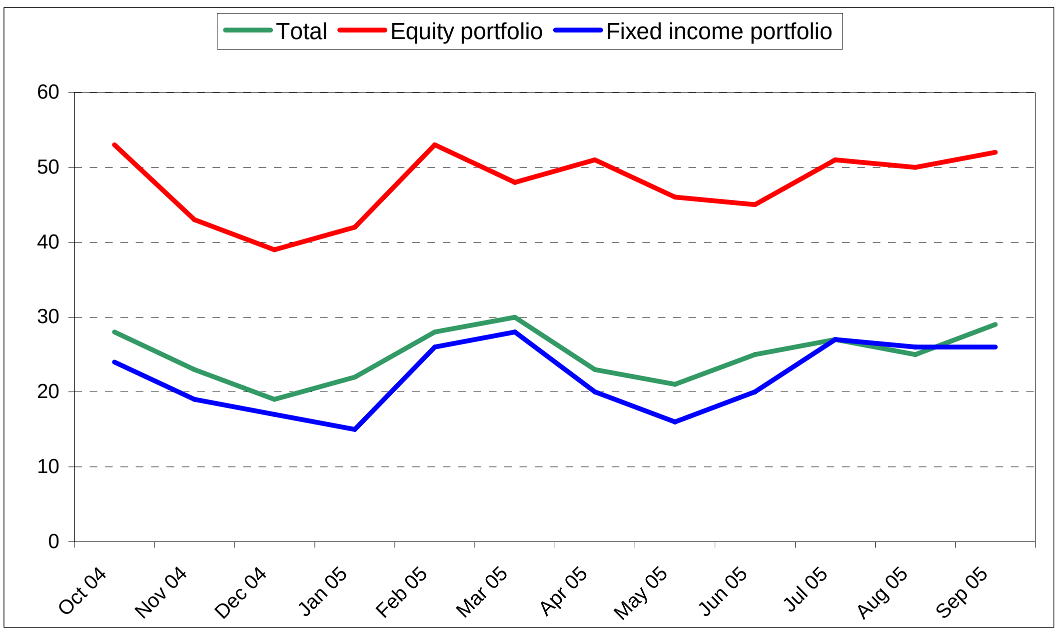
Chart 13: Absolute tracking error at each month-end. Basis points. Measured in NOK



The Ministry of Finance has set a limit for the market risk in the actual portfolio relative to the benchmark portfolio. This relative market risk must always be less than an expected tracking error of 1.5 percentage points (150 basis points), as measured in the RiskManager risk model. In the third quarter of 2005, relative market risk remained well below this upper limit. Deviations from the benchmark portfolio did not push expected tracking error above about 30 basis points.

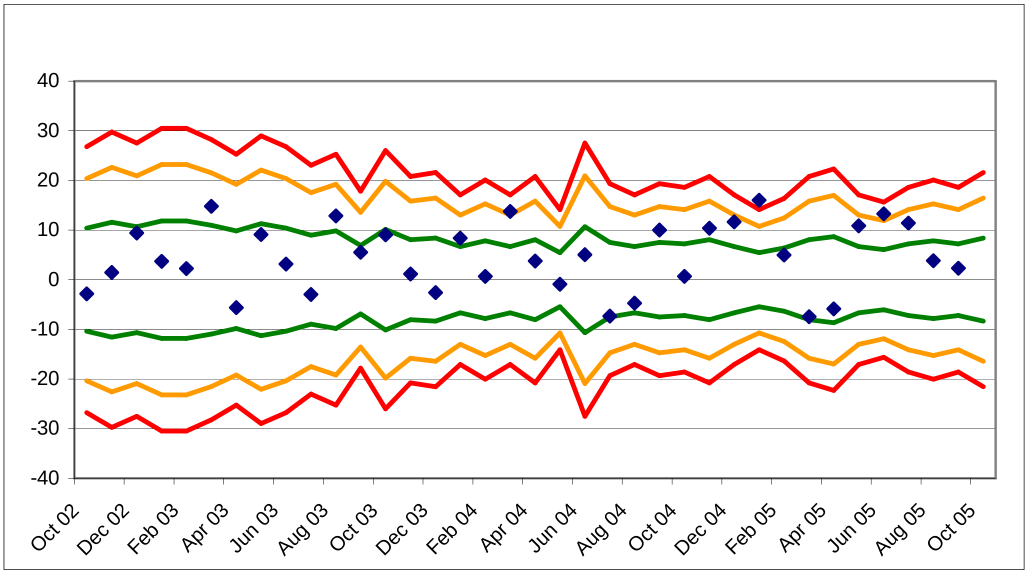
Expected tracking error
The Ministry of Finance has set the limit for relative market risk in the management of the Petroleum Fund in relation to the risk measure *expected tracking error*. This measure is defined as the expected value of the standard deviation of the difference between the annual returns on the actual portfolio and the benchmark. When deviations from the benchmark are controlled by means of 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. Given an expected tracking error of 1.5 percentage points or 150 basis points, the actual return on the portfolio will probably deviate from the benchmark return by less than 1.5 percentage points in two out of three years.

Chart 14: Expected tracking error at each month-end in the last 12 months. Basis points. Measured in NOK



Relative market risk is higher in equity management than in fixed income management. This is because equity markets fluctuate more than fixed income markets, so that there is more risk associated with an equity position than with a fixed income position of the same size. It is also related to the fact that the degree of active management has been somewhat higher in equity management than in fixed income management.

Chart 15: Confidence interval for risk and realised excess return for the Petroleum Fund. Basis points



Norges Bank tests whether actual excess return on the Petroleum Fund varies in line with what might be expected based on the risk model used. This is illustrated in Chart 15. The chart shows the realised monthly excess return from October 2002 (diamonds) and the confidence interval measured by the standard deviation. The model indicates that in approximately 67 per cent of cases, the actual return should be within the interval formed by the green lines. The equivalent figures for the orange and red intervals are 95 and 99 per cent respectively. The chart indicates that the actual return is in line with what might be expected based on the risk model used. Analyses of longer time series give similar results.

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 Standard & Poor's (S&P) or BBB from Fitch. Nevertheless, up to 0.5 per cent of the fixed income portfolio may be invested in securities with a rating of Ba, BB or BB as the highest rating from one of the three agencies. Table 7 shows the composition of the bond portfolio (fixed income portfolio excluding cash) based on credit ratings from Moody's and S&P.

Table 7: The fixed income portfolio at 30 September 2005 by credit rating. Percentage of market value

Moody's		**Standard & Poor's**	
Rating	Percentage of total	Rating	Percentage of total
Aaa	53.83	AAA	51.16
Aa	15.94	AA	21.14
A	19.88	A	13.22
Baa	6.32	BBB	7.34
Ba	0.35	BB	0.43
Lower	0.00	Lower	0.02
No rating*	3.70	No rating	6.69

*If a security has no rating from Moody's, it will have a rating from one of the other agencies (S&P or Fitch). The same is the case for S&P.

In the table, government securities and government-guaranteed bonds without credit ratings have been given the credit rating of the issuing country. In addition to 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.

Through the Regulation on the Management of the Government Petroleum Fund and guidelines for investments, the Ministry of Finance has set limits for risk and exposure. Table 8 presents these limits and the portfolio's actual exposure.

There were two minor breaches of the investment guidelines during the quarter. One was in connection with securities lending where the collateral received was reinvested in a security issued by a Norwegian company. The other was the purchase of an equity which was not listed on an approved exchange. In both cases the sums involved were modest, and the positions have been closed.

Table 8: Risk and exposure limits stipulated in the regulation and guidelines

	Risk	**Limits**	**Actual**				
			30.09.04	**31.12.04**	**31.03.05**	**30.06.05**	**30.09.05**
§ 4	Market risk	Maximum tracking error 1.5 percentage points	0.26	0.20	0.30	0.25	0.29
§ 5	Asset mix	Fixed income 50-70%	60.3	59.0	60.1	60.1	59.2
		Equities 30-50%	39.7	41.0	39.9	39.9	40.8
§ 6	Market distribution, equities	Europe 40-60%	50.0	49.0	49.4	47.7	47.7
		The Americas, Middle East/Africa, Asia and Oceania 40-60%	50.0	51.0	50.6	52.3	52.3
	New markets	< 5% of equity portfolio	2.7	3.0	3.3	3.6	3.8
	Currency distribution, fixed income	Europe 45-65%	55.3	56.0	54.4	54.7	54.5
		The Americas and Middle East/Africa 25-45%	35.0	34.2	35.7	35.1	35.3
		Asia/Oceania 0-20%	9.7	9.8	9.9	10.2	10.2
§ 7	Interest rate risk	Modified duration 3-7	5.6	5.6	5.7	6.0	6.1
§ 11	Ownership stake	Maximum 3% of a company	2.6	2.7	2.6	3.0	3.0

6. Management costs

The Management Agreement between the Ministry of Finance and Norges Bank establishes the principles for Norges Bank's remuneration for managing the Petroleum Fund's portfolios. For 2005 this remuneration is to cover the Bank's actual costs, provided that these costs are less than 0.10 per cent of the Fund's average market value. Fees to external managers for excess return achieved are also covered. Norges Bank has entered into agreements concerning performance-based fees with the majority of external active managers in accordance with principles approved by the Ministry of Finance.

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. Fees to external managers and external settlement and custodian institutions are invoiced separately for each fund. The other operating costs are overheads shared by all the funds managed by Norges Bank Investment Management. These shared overheads are distributed among the three funds by means of a cost distribution key. Besides costs incurred directly by Norges Bank Investment Management, these overheads include the cost of support functions provided by other parts of Norges Bank. These latter costs are calculated in accordance with the guidelines that apply to business operations at Norges Bank.

Annualised, costs during the first three quarters of 2005 amounted to 0.10 per cent of the average market value of the Fund (see Table 9). Excluding performance-based fees to external managers, costs amounted to 0.08 per cent of the market value of the Fund, representing no change in relation to the first three quarters of 2004. For internal management there was a slight decrease in the ratio of costs to assets under management in the first three quarters of 2005 relative to the same period in 2004. For external management the ratio increased, due mainly to an increase in fees to external managers.

Table 9: Management costs in the first three quarters of 2005. In thousands of NOK and as a percentage of the average portfolio

	2005		**2004***	
	NOK 1 000	Per cent	NOK 1 000	Per cent
Internal costs, equity management	112 860		97 900	
Custodian and fund administration costs	39 499		38 324	
Total costs, internal equity management	**152 359**	**0.07**	**136 224**	**0.08**
Internal costs, fixed income management	110 947		110 830	
Custodian and fund administration costs	33 387		23 870	
Total costs, internal fixed income management	**144 334**	**0.03**	**134 700**	**0.04**
Minimum fees to external managers	258 564		180 235	
Performance-based fees to external managers	197 419		148 373	
Other costs, external management	80 036		67 835	
Total costs, external management	**536 019**	**0.29**	**396 443**	**0.26**
Total management costs	**832 712**	**0.10**	**667 366**	**0.10**
Total management costs excluding performance-based fees	**635 293**	**0.08**	**518 993**	**0.08**

*The distribution of costs between internal and external management in the first three quarters of 2004 has been restated to provide comparable figures.

Costs are distributed between internal and external management using a cost distribution key for internal costs and custodian costs. External management accounted for approximately 64 per cent of costs, whereas only about 22 per cent of the Fund's portfolio is managed externally. The unit cost of internal management was approximately 0.04 per cent, compared with 0.29 per cent for external management.

7. Reporting of accounts

Table 10 shows the distribution 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 11 shows the book return, which in the third quarter was NOK 32 092 million before deduction of Norges Bank's management remuneration.

Table 10: The Petroleum Fund's international portfolio by instrument at 30 September 2005. In thousands of NOK

	30.09.2004	31.12.2004	31.03.2005	30.06.2005	30.09.2005
Short-term assets, incl. deposits in foreign banks	-9 314 439	9 154 482	16 610 470	4 603 337	6 912 263
Money market investments in foreign financial institutions against collateral in the form of securities	432 512 541	380 117 331	428 782 315	279 340 857	474 742 891
Borrowing from foreign financial institutions against collateral in the form of securities	-429 229 543	-406 193 548	-414 346 235	-404 917 926	-443 772 446
Foreign interest-bearing securities	613 805 297	631 256 143	637 099 993	843 365 252	738 291 783
Foreign equities	384 626 561	407 673 369	427 485 816	468 491 790	511 821 267
Adjustment of forward contracts and derivatives	-4 171 094	-5 548 358	-5 441 346	-6 901 991	-6 633 264
Total portfolio before management remuneration*	**988 229 323**	**1 016 459 420**	**1 090 191 013**	**1 183 981 319**	**1 281 362 494**
Management remuneration due	-667 366	-984 136	-278 362	-537 844	-832 712
Advisory services	0	-4 169	0	0	0
Total portfolio	**987 561 957**	**1 015 471 115**	**1 089 912 651**	**1 183 443 475**	**1 280 529 782**

There is a small difference in market value between the reporting of returns (see Table 5) and financial reporting as of 30 September 2005. This is due to book allocations and different valuation methods for money market investments.

In Table 11, income and expenses in foreign currency have been translated into NOK at the exchange rate on the transaction date, and recognised as they have been earned or incurred according to the accruals principle.

Off-balance sheet items (in NOK 1 000)	**30.09.2004**	**31.12.2004**	**31.03.2005**	**30.06.2005**	**30.09.2005**
Forward exchange contracts sold	-30 594 274	-16 837 972	-17 470 264	-35 667 277	-40 991 591
Futures sold	-50 442 511	-118 994 375	-49 590 848	-45 442 363	-44 235 336
Equity swaps sold	-3 897 226	-8 115 796	-5 836 592	-24 623 338	-29 289 818
Interest rate swaps sold	-401 111 395	-390 663 205	-523 281 509	-367 707 657	-524 779 992
Liabilities sold	**-486 045 406**	**-534 611 348**	**-596 179 213**	**-473 440 635**	**-639 396 737**
Forward exchange contracts purchased	30 594 274	16 837 972	17 470 264	35 667 277	40 991 591
Futures purchased	81 482 879	114 744 349	39 891 287	56 353 691	27 462 129
Equity swaps purchased	5 667 609	9 489 246	2 921 660	23 823 850	35 149 379
Interest rate swaps purchased	396 889 890	385 089 073	517 985 864	360 701 334	518 010 572
Liabilities purchased	**514 634 651**	**526 160 641**	**578 269 075**	**476 546 153**	**621 613 672**
Futures options sold	-16 000 652	-2 231 822	-2 725 582	-4 441 572	-289 581
Interest rate swap options sold	-2 348	0	0	0	0
Rights sold	**-16 003 001**	**-2 231 822**	**-2 725 582**	**-4 441 572**	**-289 581**
Futures options purchased	20 087 665	3 992 457	15 684 846	20 903 887	5 430 441
Rights purchased	**20 087 665**	**3 992 457**	**15 684 846**	**20 903 887**	**5 430 441**

Table 11: Book return on the Petroleum Fund's international portfolio at 30 September 2005. In thousands of NOK

Return on the Petroleum Fund	**30.09.2004**	**31.12.2004**	**31.03.2005**	**30.06.2005**	**30.09.2005**
Interest income	19 931 210	26 046 307	6 746 125	12 243 012	20 715 470
Dividends	6 900 116	8 246 151	2 154 460	6 348 413	8 542 694
Exchange rate adjustments*	1 897 354	-46 791 318	16 057 298	12 831 176	6 788 816
Unrealised gains/losses on securities	1 280 993	28 575 975	-10 332 170	12 597 879	28 533 299
Realised gains/losses on securities	13 812 821	21 581 006	12 785 955	23 546 287	34 301 216
Brokers' commissions	-22 869	-49 031	-8 616	-17 534	-18 397
Gains/losses on futures	-155 296	251 854	49 483	92 475	656 264
Gains/losses on options	19 949	21 021	-3 429	-22 551	-3 966
Gains/losses on equity swaps	165 544	393 109	14 040	264 995	127 455
Gains/losses on interest rate swaps	-3 927 908	-5 337 664	500 471	-1 226 754	-893 946
Book return on investments	**39 901 915**	**32 937 408**	**27 963 618**	**66 657 398**	**98 748 904**
Accrued management remuneration	-667 366	-984 136	-278 362	-537 844	-832 712
Advisory services	0	-4 169	0	0	0
Net return	**39 234 549**	**31 949 103**	**27 685 255**	**66 119 554**	**97 916 192**

*The exchange rate adjustment in the accounts in the table above is calculated on the basis of the actual composition of the Petroleum Fund. Income and expenses are converted using the exchange rate prevailing on the transaction date, and assets and liabilities are converted to the market rate prevailing at the end of the month. This figure will differ from the estimated exchange rate effect in the measurement of returns. In measuring returns, the exchange rate effect is calculated on the basis of the benchmark’s composition of currencies at the beginning of each month and appurtenant exchange rate adjustments.

APPENDICES:

1. Mandate and benchmark portfolio

The Ministry of Finance has delegated the operational management of the Government Petroleum Fund to Norges Bank, with a mandate stipulated in a regulation and written guidelines issued by the Ministry. A management agreement which further defines the relationship between the Ministry of Finance as delegating authority and Norges Bank as operational manager has also been drawn up.

According to the regulation, Norges Bank is to seek to achieve the highest possible return within the limits set out in the regulation. The Bank's strategy for achieving an excess return has been presented in previous annual reports. The Ministry of Finance is informed about the Bank's management activities by means of quarterly and annual reports, which are also published.

The Ministry of Finance has specified countries and currencies that are to be included in the Fund's benchmark portfolio. The benchmark portfolio consists of specific equities and fixed income instruments, and reflects the delegating authority's investment strategy for the Petroleum Fund. The benchmark portfolio provides an important basis for managing risk in the operational management of the Fund and for evaluating Norges Bank's management performance.

The strategic benchmark portfolio for the Petroleum Fund is composed of FTSE equity indices for large and medium-sized companies in 27 countries and of Lehman Global Aggregate fixed income indices in the currencies of 21 countries. Equities account for 40 per cent of the Petroleum Fund's strategic benchmark portfolio, while fixed income instruments account for 60 per cent. The equity portion of the benchmark consists of equities listed on European exchanges (50 per cent) and equities listed on stock exchanges in the Americas, Asia, Oceania and Africa (50 per cent). The regional distribution in the fixed income benchmark is 55 per cent in Europe, 35 per cent in the Americas and 10 per cent in Asia/Oceania.

Asset class weights and regional weights change continuously as a result of changes in market prices for the securities in the benchmark portfolio. The monthly transfers to the Petroleum Fund are to be used to bring the asset class weights and regional weights back as close to the original weights as possible, providing this does not necessitate selling any of the existing portfolio. Thus, even after the transfer of new capital, the strategic benchmark described above may differ slightly from the actual benchmark. The actual benchmark provides the basis for managing risk and measuring the performance of the Petroleum Fund.

Benchmark at 30 September 2005 for the Petroleum Fund's ordinary portfolio. Per cent

	Equities		**Fixed income**	
Country for equity benchmark Currency for fixed income benchmark	Strategic benchmark portfolio	Actual benchmark portfolio	Strategic benchmark portfolio	Actual benchmark portfolio
Asset class weights	**40.0**	**39.9**	**60.0**	**60.1**
Austria		0.3		
Belgium		0.8		
Finland		0.9		
France		7.4		
Germany		5.2		
Greece		0.4		
Ireland		0.5		
Italy		3.2		
Netherlands		2.5		
Portugal		0.2		
Spain		3.2		
Euro area (EUR)		*24.7*		*44.3*
UK (GBP)		17.8		8.2
Denmark (DKK)		0.6		0.8
Sweden (SEK)		1.8		0.9
Switzerland (CHF)		4.8		0.5
Total Europe	**50.0**	**49.7**	**55.0**	**54.7**
US (USD)		35.3		33.4
Brazil		0.6		
Canada (CAD)		2.2		1.9
Mexico		0.4		
South Africa		0.6		
Total Americas, Middle East & Africa			**35.0**	**35.4**
Australia (AUD)		1.7		0.4
Hong Kong		0.9		
Japan (JPY)		6.6		9.0
New Zealand (NZD)		0.1		0.2
Singapore (SGD)		0.3		0.4
South Korea		0.9		
Taiwan		0.8		
Total Asia & Oceania			**10.0**	**9.9**
Total Americas, Middle East, Africa, Asia & Oceania	**50.0**	**50.3**		

A substantial difference between the actual benchmark and the strategic benchmark over time will trigger full rebalancing. Rebalancing of this kind did not occur in 2004.

The table above shows the weights in the actual benchmark at 30 September 2005. The weights in the fixed income benchmark apply to the foreign currency in which the securities are issued. Therefore, the weight for each country in the euro area is not listed.

The Ministry of Finance has adopted ethical guidelines for the Petroleum Fund's investments. The ethical basis for the Petroleum Fund is to be promoted using the following three mechanisms:

- *Corporate governance* based on the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises in order to promote long-term financial returns
- *Negative screening* from the investment universe of companies that either themselves or through entities they control produce weapons which, in normal use, violate fundamental humanitarian principles
- *Exclusion of companies* from the investment universe where there is deemed to be an unacceptable risk of contributing to:

    - Gross or systematic violation of human rights, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour and other child exploitation
    - Gross violation of individual rights in war or conflict situations
    - Severe environmental degradation
    - Gross corruption
    - Other particularly serious violations of fundamental ethical norms

Norges Bank is responsible for corporate governance in accordance with the guidelines from the Ministry of Finance. The Executive Board has approved a set of principles for Norges Bank's corporate governance. The government has appointed an Advisory Council on Ethics which is to advise the Ministry of Finance on negative screening and exclusion of companies. The Ministry makes the final decision on the exclusion of companies and instructs Norges Bank accordingly.

2. Calculation of transaction costs for phasing in new capital

Norges Bank estimates transaction costs associated with phasing in new capital into the Petroleum Fund. In line with normal market practice, Norges Bank has used a model that calculates direct and indirect transaction costs individually since the beginning of 2005. Indirect transaction costs comprise three main components: liquidity costs, market impact and opportunity costs. Norges Bank's model calculates liquidity costs as the bid-ask spread for fixed income instruments and half the bid-ask spread for equities. Market impact is not taken into account in the fixed income portfolio, whereas market impact is estimated in the equity portfolio using StockFactsPro®. Market impact in the fixed income market is a function of sector, market conditions, transaction size, size of the loan issued, and liquidity of the issuer. In most cases, the contributions from these variables are negligible.