

2002



SDFI AND PETORO AS



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This annual report covers the company's first full operating year, and presents figures, facts and formal accounts which detail the financial results achieved and the contribution made to value creation.

To boost understanding of the company, its context and its challenges, mandate, role, goals and strategies, a more informal section aims to complement the formal picture.

**Strategy:** Petoro's senior managers consider developments in 2002 and the company's future strategies.

**Gas competitor:** With special reference to the gas market, Vitaly Yusufov from the Ministry of Energy in Moscow has been asked to contribute a quest article about the way the world's largest gas nation is responding to the prospect of greater domestic gas consumption at the same time as demand is rising from the European market.

**Environmental debate:** Gunnar Berge, director-general of the Norwegian Petroleum Directorate, Reidar Nilsen, chair of the Norwegian Fishermen's Association, and Ane Hansdatter Kismul, head of the Nature and Youth environmental organisation, explain their views on an issue of great significance for Norwegian industry and society – petroleum operations off northern Norway.

**Balance:** Three Petoro personnel and psychiatrist Gerd-Ragna Bloch Thorsen talk about the importance of taking a balanced and holistic approach to life.



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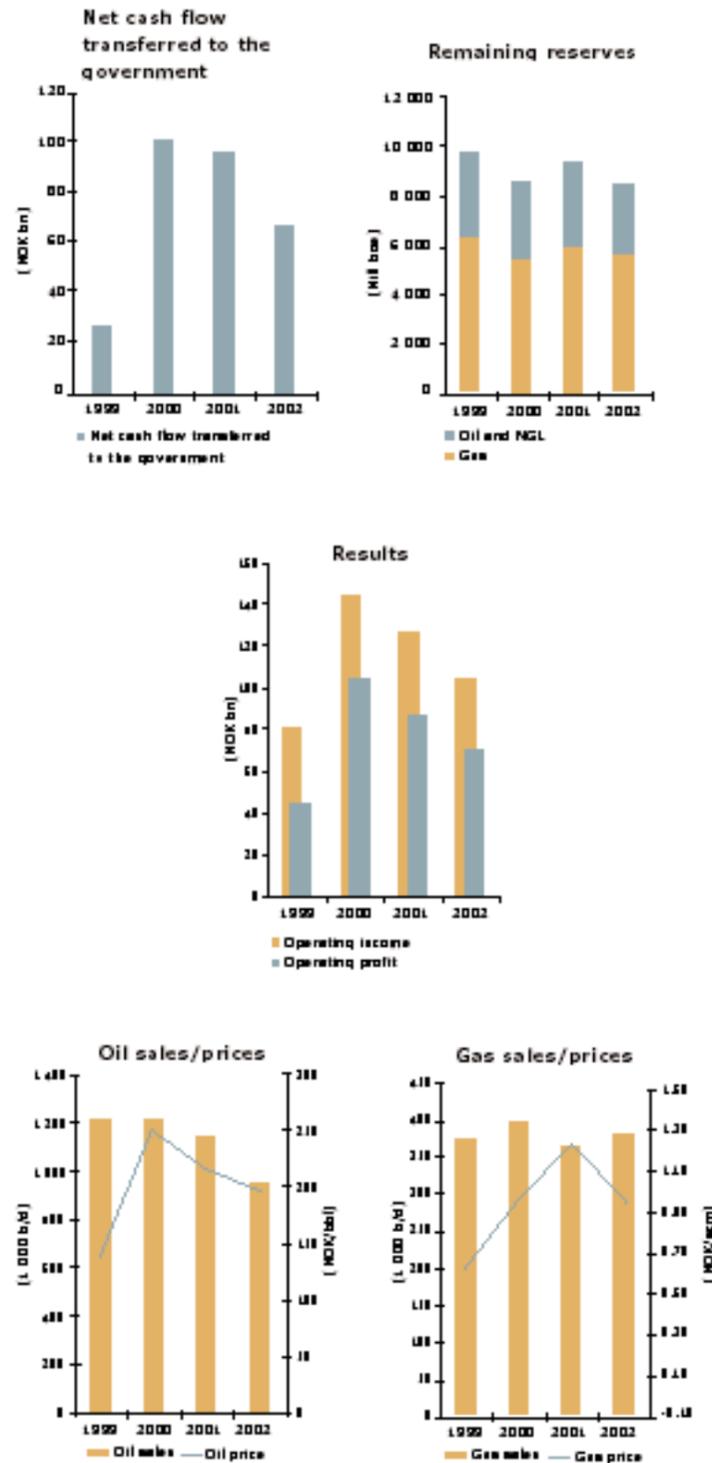


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## Key figures for the SDFI:



### Why the name? What does the logo signify?

The word "Petoro", which sounds a little strange to Norwegian ears, is said to originate from a visit to Oslo's Oro restaurant. It plays on the conversion of black, liquid petroleum from below ground into lasting value – symbolised by *oro*, the Spanish word for gold.

This means that the name harmonises fully with the company's mandate of creating the largest possible economic value creation from the Norwegian state's direct financial interest in petroleum operations.

The logo reinforces that message, with its forms derived from pre-Christian Greek symbolism. It combines the sign for the sun – signifying energy – with that for gold as the signifier of value. These two symbols overlap and underline one of the company's core values – collaboration.

Petoro manages huge amounts of energy, and is charged with creating the largest possible economic value from these volumes – without itself being an operator. To achieve that goal, the company must collaborate with operators and a number of other interests involved with the Norwegian continental shelf (NCS). It has a vision of how this can be accomplished: **Petoro – the best partner**



KJELL PEDERSEN



President and CEO of Petoro

## Total approach and value creation

**Change and dynamism characterise the global business community of which the petroleum industry forms part. Change opens new opportunities. We have seen that in the form of new areas for exploration and production in the former Soviet Union, Africa, south-east Asia and South America – and we will see the same in the Middle East and elsewhere.**

Opportunities also emerge from market changes. These could be provided by an established market seeking new sources of gas supply, as in the UK. They could also flow from economic growth, political upheavals, regulatory amendments and liberalisation.

This is the context in which Norway's oil and gas industry must position itself in order to create the largest possible economic value from domestic natural resources – to the benefit of our own community as well as of the broader European or global community which wants to buy our hydrocarbons.

Changes in the wider world – not least increased competition over oil company expertise and investment – also influence the Norwegian petroleum industry, of course. In addition, we are involved in a necessary restructuring process prompted by disappointing exploration results and the fact that

major existing fields are in a critical phase with regard to future production.

It is possible, perhaps even likely, that oil and gas operations on the NCS have passed their peak in terms of production and investment. But I have never faced a downhill slope with a greater upside for value creation. According to the Norwegian Petroleum Directorate, some 64 billion barrels of the roughly 86 billion originally in place on the NCS remain to be recovered.

However, oil and gas do not produce themselves – either from discoveries already made or from basins and structures where finds are still possible. As the NCS matures, producing its remaining oil and gas in a profitable manner will become ever more challenging.

But this is attainable if we want it. And the petroleum industry would thereby offer some of the most

interesting jobs in this country for decades to come. That applies to a number of technological, economic, HSE and – not least – management areas.

What concerns me is that the willingness to achieve this result must be followed up by specific and purposeful action in the two main areas of exploration and production from existing discoveries and fields.

Where exploration is concerned, the fact is that – despite the most sophisticated technical methods for preliminary investigation – we must ultimately drill wells to determine whether oil and gas really exist in the sub-surface. And we must drill where such deposits are most likely to be found. Before that can be done, we have to carry out detailed analyses of the impact of such operations on people and the environment and adopt measures – where required – to limit the risk of harm.

The other big challenge is to secure continued value creation from existing fields and areas. Obvious measures here include more efficient operation, vacuuming of prospects which can be tied back in time to existing installations, and the application of effective technology and methods for improving recovery. To achieve the right solutions, which position us for the future, we must also expect to have to jettison a number of “sacred cows” conceived in an era when the world looked different.

Maintaining and developing the expertise we need to achieve the results we want is a collective responsibility for Norwegian society. And it not least imposes a responsibility on the players to succeed in creating sufficiently powerful incentives which pull together in the right direction.

Each licence and company can still do a lot individually to secure the positive effects outlined above. In many cases, however, the full benefit cannot be secured until greater collaboration has been achieved between companies and across licences. We in Petoro have been particularly concerned with this issue, and it forms an important part of our value creation strategy.

We completed our first full operating year in 2002. As the licensee for the state’s direct financial interest, we accounted for a net cash flow of NOK 66 billion to the government’s coffers. Our oil and gas production reached 1.4 million barrels of oil equivalent per day. On behalf of the government, we invested more than NOK 14 billion. During the year, we hired about 60 competent and positive people who collaborated in defining strategies and areas on which to focus in order to fulfil the mandate from our owner – to

maximise the value of the substantial portfolio which we manage.

With this mandate and our position on the NCS, a natural role for Petoro is to be a proactive partner in ensuring efficient field development and operation – in part through coordination. However, collaboration between many partners is demanding. That applies not least where companies have unbalanced licence holdings and one person’s meat could become another’s poison.

Petoro alone has no chance of achieving such coordination. If we are to succeed in having our comprehensive approach adopted, we must use our understanding of each licence and our overview of

THE BEST PARTNER



the areas to develop convincing commercial proposals and then work closely with the operators and other licensees to implement these. We have reflected this approach in our vision – to be the best partner.

You can read more in this annual report about our strategies and areas of focus. I hope our commitment to a total perspective is reflected in our operations and plans. But I would emphasise that the need to take a comprehensive and coordinated approach does not absolve us from our responsibility as a company for our own operations and for creating the highest possible value from the portfolio for our owner. I hope this report also provides a good insight in that respect into the results we achieved last year.

Kjell Pedersen, president and CEO



Golfers in Petoro Active, from left Svend Benestad, Terje Holm and Frode Ramstad.

Petoro AS was established by the Ministry of Petroleum and Energy (MPE) on behalf of the Norwegian government on 9 May 2001. The company's object is to be responsible for and manage the commercial aspects of the state's direct financial interest (SDFI) in petroleum operations on the NCS, and activities associated with this.

As specified in section 11-8 of the Norwegian Petroleum Act, the board of Petoro AS is required to compile income and expenditure accounts for the SDFI. The board must also present a directors' report with a review of the SDFI assets managed by the company and associated resource accounts. Section 11-7, sub-section 1e specifies that the annual report and accounts for the SDFI must be submitted to the general meeting.

Article 12 of Petoro's articles of association specifies that the SDFI accounts must be compiled in accordance with the financial regulations for the government as specified by royal decree and in the financial instructions issued by the MPE. The board is also required to compile accounts for the SDFI in accordance with both accruals and cash principles.

Accordingly, the board has compiled the following reports for 2002:

- annual accounts on a cash basis, as required by the government's financial regulations
- annual accounts in accordance with the Norwegian Accounting Act (accruals principle) and Norwegian generally accepted accounting principles (NGAAP).

## SDFI Directors' report 2002

The cash flow generated by the SDFI portfolio in 2002 came to NOK 66.1 billion.

Net profit for 2002 totalled NOK 67 billion as against NOK

86.7 billion the year before, and profit before financial

items amounted to NOK 69.7

billion. Net financial items of NOK 2.7 billion related primarily

to net realised and unrealised currency loss, reflecting a steady

strengthening of the NOK against the USD. Total operating

income in 2002 came to NOK 103.7 billion as against

NOK 125.6 billion the year before. The main reasons for

the decline in operating income were the sale of roughly

21.5 per cent of the portfolio, and lower oil and gas prices

in NOK.



Oil accounted for 65 per cent of total operating income, gas for 20 per cent and natural gas liquids (NGL) for four per cent. Income generated from the portfolio's pipelines and land-based plants, and other income, accounted for 11 per cent. Total oil and gas production in 2002 was 1 415 million barrels of oil equivalent per day (boe/d). Adjusted for the restructuring of the portfolio, this represented a slight increase in output from 2001. The board regards the production result as very satisfactory.

Total oil income in 2002 came to NOK 67.7 billion on a production of 346 million barrels or 949 000 barrels per day. Adjusted for the sale of about 21.5 per cent of the portfolio, oil production declined by four per

cent from 2001. This reflects falling output from several of the large oil fields, such as Heidrun, Gullfaks and Norne. The average oil price did not change significantly, rising from USD 24 per barrel in 2001 to USD 24.2.

A strong NOK against the USD nevertheless meant that the oil price in NOK declined during 2002, from NOK 216 per barrel the year before to NOK 196. These factors are the main reason why the portfolio's income from oil declined by 13 per cent from 2001.

Income for the year from equity gas totalled NOK 20.7 billion on a volume of 22.3 billion standard cubic metres (scm) or 384 000 boe/d. Gas production made very good progress, and increased from 2001. Adjusted for the restructuring of the portfolio, income from gas nevertheless declined by 14 per cent from 2001 because of the strong NOK in relation to the EUR.

Investment in new and existing fields, plants and infrastructure in 2002 totalled NOK 14.3 billion as against NOK 15 billion the year before. The largest investments related to Troll Oil (NOK 1.9 billion), Grane (NOK 1.8 billion) and Heidrun (NOK 1.2 billion).

Exploration-related costs amounted to NOK 951 million in 2002, of which NOK 300 million was capitalised as an investment and the remainder recorded as exploration expenses in the income statement. In addition, NOK 220 million in exploration costs capitalised in earlier years were recorded as expenses in 2002.

At 31 December, the portfolio's expected oil, NGL and gas reserves comprised 8 483 million boe – a decline of 890 million boe from the year before. The reserve replacement rate was 33 per cent as against 83 per cent in 2001. Reserve replacement in 2001 related primarily to Kvitebjørn and Kristin. That compares with only minor reserve replacement in 2002, when Skirne/Byggve, Visund gas export and the Vigdis extension were the most important sources.

The book value of assets total NOK 134.4 billion at 31 December. These assets primarily (92 per cent) comprise operating facilities relating to field installations, pipelines and land-based plants, as well as current debtors.

Equity at 31 December amounted to NOK 119.4 billion. Long-term liabilities totalled NOK 11.2 billion, of which NOK 9.3 billion relates to provisions for future removal expenses. Current liabilities were NOK 3.7 billion.

Petoro implemented a performance management system in 2002 and defined targets for the portfolio's profitability and production. In addition to financial targets, the company set operational goals for the portfolio's production volume, operating costs and reserve replacement rate. The board is satisfied with progress on reaching goals in 2002, and will continue to give priority to work on meeting objectives for coming years.

The SDFI accounts have been prepared both on a cash basis and in relation to the Norwegian Accounting Act and NGAAP (accruals principle). All amounts cited in this report are based on NGAAP unless otherwise stated.

### Activities in 2002

The portfolio at 31 December 2002 comprised interests in 82 production licences and participation in 25 partnerships for pipelines and terminals. Following the integration of the gas transport system through the creation of Gassled, the number of partnerships will be reduced to 17.

With the formation of Petoro, all the partnerships in production licences where the company is a licensee have implemented a process for reviewing and revising their voting rules. Most of these processes had been completed at 31 December 2002.

#### **Troll Oseberg**

The board is very satisfied with production progress on Troll in 2002. This field contributes the largest income in the portfolio for both gas and oil production. As operator for Troll oil production, Norsk Hydro drilled a number of new horizontal multilateral wells with up to three branches during 2002. Partly because of this technological development, it has been possible to expand output even further.



A Troll oil production record of more than 444 000 barrels per day (b/d) was accordingly set on 8 April. The board believes that the challenge ahead will be to secure a good balance between oil and gas production in order to maximise value creation while also taking care of health, safety and the environment (HSE) in field operation.

The board has supported the operator's work on boosting Troll A compressor capacity in order to enhance production capacity to meet expected demand for Troll gas as pressure in the reservoir falls. An increase in capacity from about 85 scm/d to 120 scm/d will be available by October 2005 at the latest, and will provide the Troll partners with additional value creation from the field.

Licensees in the most important fields in the Oseberg area had their interests in these fields balanced out during 2002. The aim is to achieve synergies by

reducing administrative and operational costs, and to identify and realise new commercial opportunities in the area.

Tune has been developed with a subsea installation tied back to the Oseberg field centre. Plans called for the field to begin production on 1 October 2002. During the test phase, several cracks were discovered in the pipelines between Tune and Oseberg as well as in the risers on Oseberg. Swift preparation and approval of a revised plan for development and operation (PDO) and the laying of new pipelines made it possible to start production in November.

Byggve and Skirne were approved for development in 2002 on the basis of two subsea satellites tied back to the Heimdal platform. Production is due to start on 1 March 2004.

#### **Norwegian Sea oil, North Sea**

The Grane development project is on schedule, with production expected to start in the fourth quarter of 2003. Investment in this project has been below budget, with the overall estimate reduced by NOK 1 billion. An agreement on purchasing injection gas will open opportunities for boosting plateau production from 214 000 b/d to 250 000 (34 000 scm/d to 40 000).

#### **Tampen**

The Vigdis extension project embraces several small discoveries in production licence 089 between Statfjord, Gullfaks and Snorre. These are being developed with subsea production systems tied back to Snorre via Vigdis, and plans call for them to come on stream in December 2003.

The PDO and plan for installation and operation (PIO) for the Visund gas project embrace the gas export phase on this field, with production due to start in October 2005. Total investment in gas compression and a pipeline tied into the gas pipeline from Kvitebjørn is estimated at roughly NOK 2.7 billion, of which Petoro's share is 30 per cent.

The Tampen 2020 project was initiated by Statoil in June 2002 to study how integrated operational efficiency improvements and modifications could reduce costs for and improve recovery from fields in the Tampen area. Petoro gives high priority to this project and to area-wide thinking, and has participated actively in the project together with operator Statoil and the other partners.

#### **Norwegian Sea gas**

Work in the Ormen Lange partnership on completing a PDO went as planned. Two important milestones

for this field have now been passed: the choice of Nyhamna in Aukra local authority as a possible pipeline landfall, and the decision to base a possible field development on subsea installations with wellstream transfer to a new processing facility at Nyhamna. This development solution was also regarded as the best option by the board. A new appraisal well drilled in the second quarter confirmed earlier reserve estimates, and the uncertainties relating to the Storegga slide appear to have been clarified. Petoro is the largest licensee in Ormen Lange, with a 36 per cent interest.

Development of Kristin on the Halten Bank is now well under way. This field is regarded as particularly challenging because of the high pressure and temperature conditions in the reservoir. The board is satisfied that strengthened management and control of the project, combined with the award of all major procurement orders and fabrication contracts, have reduced several risk aspects of the development. The biggest challenge nevertheless remains the subsea system.

Major problems were uncovered on Åsgard in 2001 with leaking welds in the subsea installations and vibration in the export risers. Sub-standard connections and welds were improved during 2002, and Åsgard produced as planned during the second half of the year. This field's production makes a substantial contribution to portfolio income.

Petoro participated during 2002 in three deepwater exploration wells in production licences awarded in the 16th round. Great expectations had been aroused at the prospect of major discoveries in these licences – the Havsule, President and Solsikke prospects. The results were disappointing, however, in that only President yielded a small, non-commercial gas/condensate discovery. The Blåmeis prospect was also drilled towards the end of the year with a negative outcome. These results are disappointing, and show that the resource base for major new developments – and thereby the attractiveness of the NCS – is being put under pressure.

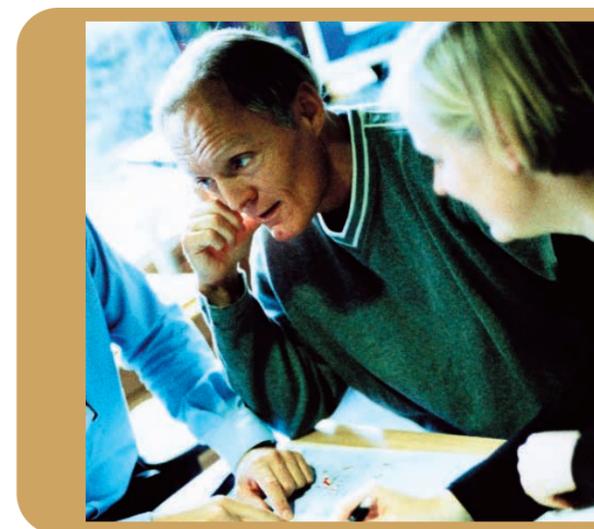
#### **Barents Sea**

A Snøhvit development based on producing liquefied natural gas was approved by the Storting on 7 March 2002. However, the project did not get under way until July because of an appeal by the Bellona environmental organisation to the Efta Surveillance Authority (ESA). Work on detailed design for the gas liquefaction plant and associated utilities to be installed on Melkøya island outside Hammerfest in northern Norway identified major weight and cost increases. The new investment estimate from the operator has increased by NOK 5.8 billion. Petoro's

share of Snøhvit is 30 per cent. Construction work, with blasting/levelling and a road tunnel to Melkøya, is on schedule. Snøhvit remains a challenging project with a tight schedule, and the board will continue to give priority to close supervision of this development in 2003.

#### **Pipelines and land-based plants**

Much of the gas pipeline system on the NCS has been integrated under a single owner in order to enhance the efficiency of Norwegian gas transport. Gassled initially embraces eight partnerships owning pipelines, terminals and processing plants: Åsgard Transport, Statpipe, Zeepipe, Franpipe, Europipe II, Norse Gas, Oseberg Gas Transport and Vesterled. The following



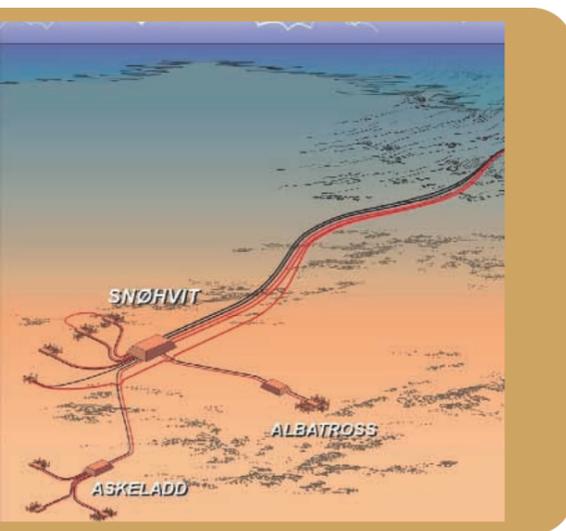
companies are involved: Petoro, Statoil, Norsk Hydro, TotalFinaElf, ExxonMobil, Shell, ConocoPhillips, Agip, Fortum and Norse Gas. Gassco is the operator.

The integration was subject to special consideration and approval by the authorities, and became operational on 1 January 2003. To improve the competitiveness of Norwegian gas and to ensure objective and transparent terms for gas transport, new regulations were introduced in 2002 on tariffs and access to pipelines. Petoro has an initial 39.5 per cent interest in Gassled, which will rise to 49 per cent in 2011.

Processing facilities at Kårstø will need to be expanded to handle new gas volumes from the Halten Bank and a higher carbon dioxide content in the gas. An expansion project is currently under way to equip the Kårstø complex to receive gas from Mikkel in the autumn of 2003. This development is on schedule

and under budget. A corresponding facility (DPCUII) is needed to receive gas from Kristin in 2005. A PIO was submitted in early 2003.

In addition to enhanced processing capacity, a carbon dioxide solution will be needed for the Kristin gas. Various options have been considered, and the operator proposed a solution in late 2002 based on combined carbon dioxide capture and enhanced ethane production (Craier). This project will be submitted for a decision in early 2003. If it is approved, DPCUII and Craier will be integrated and implemented as a joint project. A development of Ormen Lange will require new infrastructure. Petoro has participated actively in identifying good



development solutions, both as a field licensee and as a Gassled partner. The companies have considered various options for tying a pipeline from Ormen Lange/Nyhamna to existing infrastructure, and possible solutions for increased export capacity to market. Sleipner Riser was identified in 2002 as a tie-in point for the pipeline from Ormen Lange/Nyhamna. A new pipeline from Sleipner Riser to the UK would provide both new export opportunities to a market with rising demand for gas, and enhanced flexibility for Norwegian deliveries. In addition to a new line, the use of existing pipeline capacity in the UK is under consideration. A decision is expected during the first quarter of 2003.

In connection with the Troll group's decision to build a new extraction plant at Kollsnes, further assessments were made of solutions for handling NGL volumes in Vestprosess during 2002. It was also

resolved that the latter system will process Visund NGL. A new rock cavern store for propane was completed as planned.

**Health, safety and the environment**

Petoro implemented an integrated HSE management system in 2002 which commits the company's management to achieving specified targets in this area. The board has opted to focus attention on three indicators. These are the number of lost-time injuries and injuries requiring medical treatment per million working hours (known as the H2 frequency in Norway), serious incidents reported to the authorities, and carbon dioxide emissions. The board thereby wants to identify fields showing a negative trend in results, which accordingly require counter-measures. With its broad involvement on the NCS, Petoro's role will be to challenge operators and partnerships to identify and implement improvement measures. Several fatal accidents and a large number of serious incidents offshore mean that the industry cannot be satisfied with results in 2002.

In addition to activities in the partnerships, Petoro plays a key role in the Norwegian Oil Industry Association (OLF) and has representatives on the committee for operation and development, the management committee for the natural environment and the resource group for health and safety.

An HSE programme has been established for 2003, and follow-up will be channelled through the partnerships. Future commitments will include challenges relating to discharges of produced water as well as improving results for H2 and serious incidents on those fields which failed to reach their defined targets for 2002.

**Market conditions**

The SDFI is a substantial producer of oil and gas in north-western Europe. Statoil is responsible for marketing and sale of the petroleum produced from the SDFI under a special instruction issued to the company by the government.

Fairly substantial fluctuations characterised the oil market during 2002. Prices stood around USD 20 per barrel at the beginning of the year, before rising to about USD 30 at 31 December. Several factors influenced prices, including weak growth in the global economy, increased geopolitical uncertainty, Opec's ability to balance the market and – towards the end of the year – the general strike in Venezuela.

Growth was weak in the global economy and all the world's most important regions – the USA, Europe and Asia – during 2002, which helped to reduce the rise in demand for oil.

The global war against terrorism launched after 11 September 2001 created great uncertainty. Geopolitical conditions with their roots in the Middle East did not create specific problems for oil supplies, but increased fear of war is thought to have pushed up prices for this commodity.

In 2002, the Opec countries produced fairly substantially above their quotas. The relatively low price in November was widely attributed to a loss of market confidence in the organisation. Although Opec often exceeds its production targets, it has undoubtedly been important in maintaining a relatively high oil price during 2002. The position in Venezuela was also a substantial source of uncertainty for the global oil market in 2002.

Gas prices under the long-term contracts with European buyers were relatively high in 2002 as a result of high prices for oil products. The spot price for gas in Europe is largely determined by seasonal variations in demand – higher in winter than in the summer. Gas from the SDFI was piped to buyers in the UK, Germany, Belgium, France, Italy, Spain, the Netherlands, the Czech Republic, Poland and Austria.

Oil production in 2002 was three times higher than gas output, measured in oil equivalent. These proportions are expected to even out over time, and gas has a significantly longer time horizon than oil.



Stavanger, 21 February 2003

*Bente Rathe*  
Bente Rathe  
Chair

*Jørgen Lund*  
Jørgen Lund  
Deputy chair

*Ingelise Arntsen*  
Ingelise Arntsen

*Jan M Wennesland*  
Jan M Wennesland

*Olav K Christiansen*  
Olav K Christiansen

*Terje Holm*  
Terje Holm

*Marte Mogstad*  
Marte Mogstad

*Kjell Pedersen*  
Kjell Pedersen  
President and CEO

## Petoro AS Directors' report 2002

**Petoro AS was established by the Ministry of Petroleum and Energy (MPE) on behalf of the Norwegian government on 9 May 2001. The company's object is to be responsible for and manage the commercial aspects of the state's direct financial interest (SDFI) in petroleum operations on the NCS, and activities associated with this.**

**At 31 December 2002, Petoro held interests as a licensee in 82 production licences on the NCS and in 25 pipelines and receiving terminals. Following the integration of the gas transport system with the creation of Gassled, the number of partnerships for pipelines and terminals will be reduced to 17. Petoro manages the government's commercial interests in Mongstad Terminal DA, Etanor DA and Vestprosess DA, and its shares in Norse Gas AS.**

**The government is the majority shareholder in Statoil ASA and owner of the SDFI. On this basis, Statoil handles sales and marketing of the government's petroleum. Petoro is responsible for ensuring that Statoil discharges this duty in accordance with the government's sales and marketing instruction.**

**Petoro is also responsible for presenting separate annual accounts for the SDFI portfolio, and SDFI cash flows are accordingly excluded from the limited company's annual report.**

**The company's business office is in Stavanger.**

### Activities in 2002

The company's overall goal is to create the highest possible financial value, on a commercial basis, from the SDFI portfolio. Its key duties are accordingly:

- managing the SDFI in those partnerships where it has holdings at any given time
- monitoring Statoil's sale of the petroleum produced

from the SDFI, as specified in the sales and marketing instruction issued to Statoil

- financial management, including accounting, for the SDFI.

To fulfil these three main duties, the company has defined two principal roles – licence monitor/financial manager and proactive partner.

The monitoring role includes continuous and operational follow-up of the individual partnerships and supervision of Statoil's marketing and sale of the government's petroleum. It also embraces overall planning, budgetary, accounting and reporting work relating to the SDFI portfolio, as well as financial management of this activity.

To ensure effective management of the portfolio within the framework established for the company, Petoro must prioritise its work in the various production licences. Priorities are set on the basis of the relative value of each field in the portfolio, the complexity of the challenges involved and an assessment of where the company can best

Substantial resources were devoted by the company to monitoring the Snøhvit development. The board will continue to keep a close eye on this challenging gas liquefaction project in the Barents Sea, and pay particular attention to plans for executing the work.

Great attention was devoted by Petoro to the establishment of Gassled in 2002. This partnership represents substantial assets for the SDFI, and Petoro participated actively in the process of creating a new integrated ownership model for the various gas pipelines and treatment facilities. Petoro manages a 39.5 per cent holding – due to rise to 49 per cent in 2011 – in this important transport system.

Substantial efforts were devoted by Petoro in 2002 to defining its proactive partner role by establishing and operationalising the company's strategic areas of commitment and priorities. Based on Petoro's vision, overall goals and strategic direction, this work related to identifying areas and measures where Petoro can make a particular contribution to enhancing value creation. These efforts have laid a foundation for the company's attention and priorities in the time to come. Transfer of experience and application of best practice will occupy a key place in the work of identifying new opportunities to enhance value creation and profitability in the portfolio. Area-wide collaboration and coordination, improved recovery and early application of technology will be key strategic priorities.

The year was characterised by activities relating to the implementation of processes and procedures to discharge the company's principal duties effectively. Establishing information and communication technology (ICT) solutions was an important process during 2002, and particular mention can be made of the Documentum document handling and SAP financial management systems. During 2002, Petoro defined its critical success criteria by implementing a system of key performance indicators (KPI), including the specification of financial and operational targets for the portfolio and the establishment of performance targets for the company's principal duties.

### Market and sales

The Norwegian government pursues a common ownership strategy for Petoro and Statoil which allows the latter to sell the state's petroleum together with its own supplies. The overall aim of this sales arrangement is to achieve the highest possible combined value for petroleum belonging both to Statoil and the government, and to secure an equitable division of the total value creation.

Petoro's role is to ensure that Statoil discharges its duties in accordance with the government's



From left: Terje Holm (worker director), Marte Mogstad (worker director), Olav K Christiansen, Bente Rathe (chair), Jørgen Lund (deputy chair), Ingelise Arntsen and Jan M Wennesland.

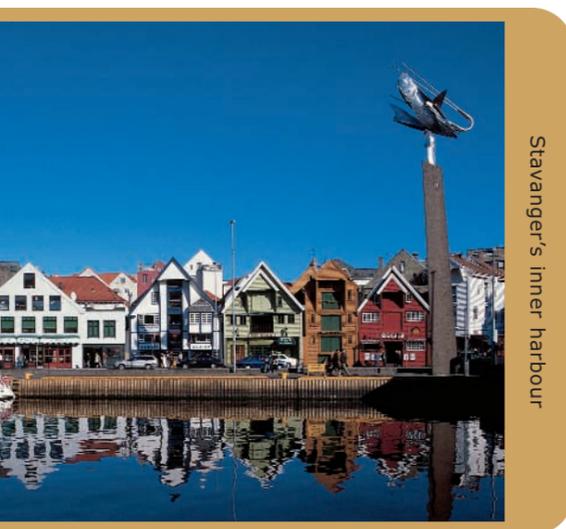
contribute to enhancing value creation. Fields and production licences with a lower priority will be subject to a minimum of monitoring, and their supervision could in certain cases be assigned to others under business management agreements. Principles for such contracts have been drawn up in 2002, and negotiations are under way with potential business managers.

Petoro made a significant contribution to monitoring the most important production licences in the portfolio during 2002. The board has prioritised important decision-making processes in the production licences. The board supported the two important milestones passed by Ormen Lange – the choice of Nyhamna in Aukra local authority as a possible pipeline landfall, and the decision to base a possible field development on subsea installations with wellstream transfer to a new processing facility at Nyhamna.

sales and marketing instruction. A framework for this supervision was constructed during 2002. The board attached particular importance to understanding the strategy and risk involved in selling the government's petroleum, and to following up selected issues. Procedures for discharging the supervisory function were established, and the first audits conducted in accordance with these.

#### Working environment and personnel

Petoro recruited and established an organisation during 2002 which totalled 52 people at 31 December. Further contracts of employment have been awarded, and the company expects to have 57 employees during the spring of 2003. The staff have



Stavanger's inner harbour

primarily been recruited from the oil industry, but other industrial, financial and consultancy companies are represented. Petoro is a knowledge company, with a number of university and college graduates among its personnel.

The company is developing a multidisciplinary organisation and mode of working. Responsibility for the total portfolio and the need to make assessments across production licences and partnerships underlines the necessity of basing work on a holistic approach. On the basis of the organisational structure, the goal is therefore to strengthen a mode of working which stimulates in-house and external collaboration. As part of efforts to create a motivated and focused organisation, meetings have been held with the full staff and the various specialist teams. The main agenda at these meetings has been to develop Petoro's core values and in-house guidelines, as well as securing adherence to its vision, goals,

strategic direction and performance targets. A working environment committee and a works council, with representatives from staff and management, were established during the year. Collaboration in these fora functioned well, and lays the basis for creating a good climate of cooperation in the company.

In December 2002, a workplace climate survey was conducted among all staff. Petoro will analyse the results from this exercise during 2003 and initiate measures in areas with a potential for improvement. The board has noted the positive feedback from employees with satisfaction.

Sickness absence was low in 2002, with short-term absence (one-three days) amounting to 0.4 per cent and long-term absence (more than three days) to 1.1 per cent. Total sickness absence was 1.5 per cent.

#### Health, safety and the environment

None of Petoro's employees or contractor personnel working on the company's premises suffered any injury during 2002. The occupational health service assisted with a survey of the physical working environment, which produced only minor observations. Local measures were implemented on noise and lighting.

Attention will be focused in future on keeping the injury level at zero and maintaining low sickness absence by building a good and stimulating working environment.

Petoro worked actively in 2002 to develop strategies and performance criteria, and to establish a plan for HSE-related activities. The company made purposeful efforts to ensure that HSE considerations are taken into account in everyday work. An integrated HSE management system was established during the year, and HSE is on the agenda at all regular management and town meetings.

The company developed an in-house HSE course in 2002. This has been taken by about 70 per cent of the target group, and the rest will complete it in early 2003. Courses on the regulatory regime were also held, and will continue in 2003. The Norwegian Petroleum Directorate carried out two inspections at Petoro in 2002 in respect of its licensee responsibilities, and the feedback was positive.

In collaboration with the safety delegate service, an HSE programme has been established for 2003 with requirements on activities and plans for internal audits. The board would emphasise that HSE work attracts great attention in Petoro and is very significant for its operations.

All work at Petoro is performed in accordance with official standards. The company's management of the SDFI portfolio could nevertheless involve accidental discharges to the sea or emissions to the air. As a result, Petoro actively pursues continuous improvement measures and implements activities designed to shape attitudes on and develop expertise about protecting the natural environment.

#### Prospects

The SDFI represents substantial assets and must be managed on a commercial basis in a long-term perspective. Operations on the NCS are extensive and contribute a large proportion of the government's overall revenues. These activities will remain substantial for several decades to come.

Petoro manages about 30 per cent of the asset value expected to be generated from the NCS. This value is spread over a large number of activities, in which the assets and the character of operations display little uniformity. The dominant players on the NCS are strong Norwegian and multinational companies. Its combination of a large portfolio and a small organisation presents Petoro with major challenges.

The board notes the disappointing results of drilling in the President, Havsule and Solsikke prospects in 2002, and points to the challenges posed by an increasingly mature continental shelf with fewer and smaller discoveries. At 31 December 2002, the portfolio comprised 2.9 billion barrels of oil reserves (including natural gas liquids and condensate) and 891 billion standard cubic metres of gas reserves (including Ormen Lange). Expressed in barrels of oil equivalent, this represented 34 per cent oil and 66 per cent gas. More than half the overall gas reserves lie in Troll. In the short term, oil production from the portfolio will be considerably higher than gas output. In the longer term, production from the portfolio is set to change from primarily oil-based to more gas-based. Forecasts are based on estimated reserves, and adjustments are expected as resources in higher resource classes are matured. Oil production will also be influenced by improved recovery, development of supplementary resources and possible

new discoveries, while the production portfolio for gas will be governed primarily by demand and the balance between oil and gas output.

#### Share capital and shareholder

The company's share capital at 31 December 2002 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the MPE on behalf of the Norwegian government.

#### Net profit and allocations

Income for the year consisted primarily of NOK 250 million in appropriations provided by the government to meet operating costs for Petoro AS, as well as NOK 3.8 million in interest on the company's surplus liquidity.

Operating expenses for the year related primarily to payroll expenses, external services from consultants before the company's own organisation was established, accounting services, administrative fees to Statoil, studies on special topics relating to the production licences, and implementation costs for ICT solutions.

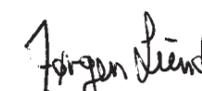
Net profit came to NOK 19.4 million. After covering the 2001 loss of NOK 8.5 million, the board proposes that NOK 10.9 million be transferred to the company's non-restricted equity.

Petoro's operating income takes the form of a contribution from the government, which is directly liable for the commitments accepted by the company under contract or in other forms. In accordance with section 3-3 of the Norwegian Accounting Act, the annual accounts have been prepared under the assumption that the company is a going concern.

NOK 234.6 million of the government contribution for the year met operating costs, NOK 1.3 million related to capitalised costs and NOK 8.5 million covered the loss for 2001, giving a total of NOK 244.4 million. In addition, estimated commitments relating to projects initiated in 2002 but completed by February 2003 came to NOK 4.9 million.

Stavanger, 21 February 2003

  
Bente Rathe  
Chair

  
Jørgen Lund  
Deputy chair

  
Ingelise Arntsen

  
Jan M Wennesland

  
Olav K Christiansen

  
Terje Holm

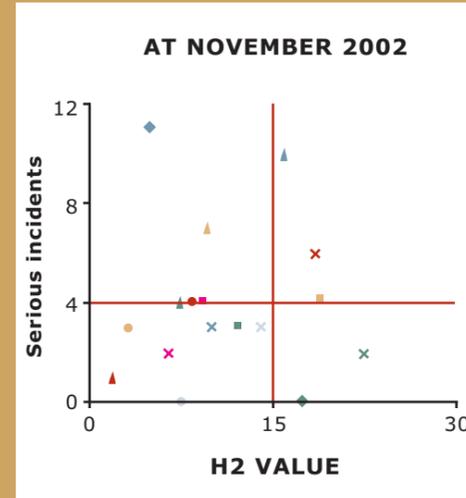
  
Marte Mogstad

  
Kjell Pedersen  
President and CEO

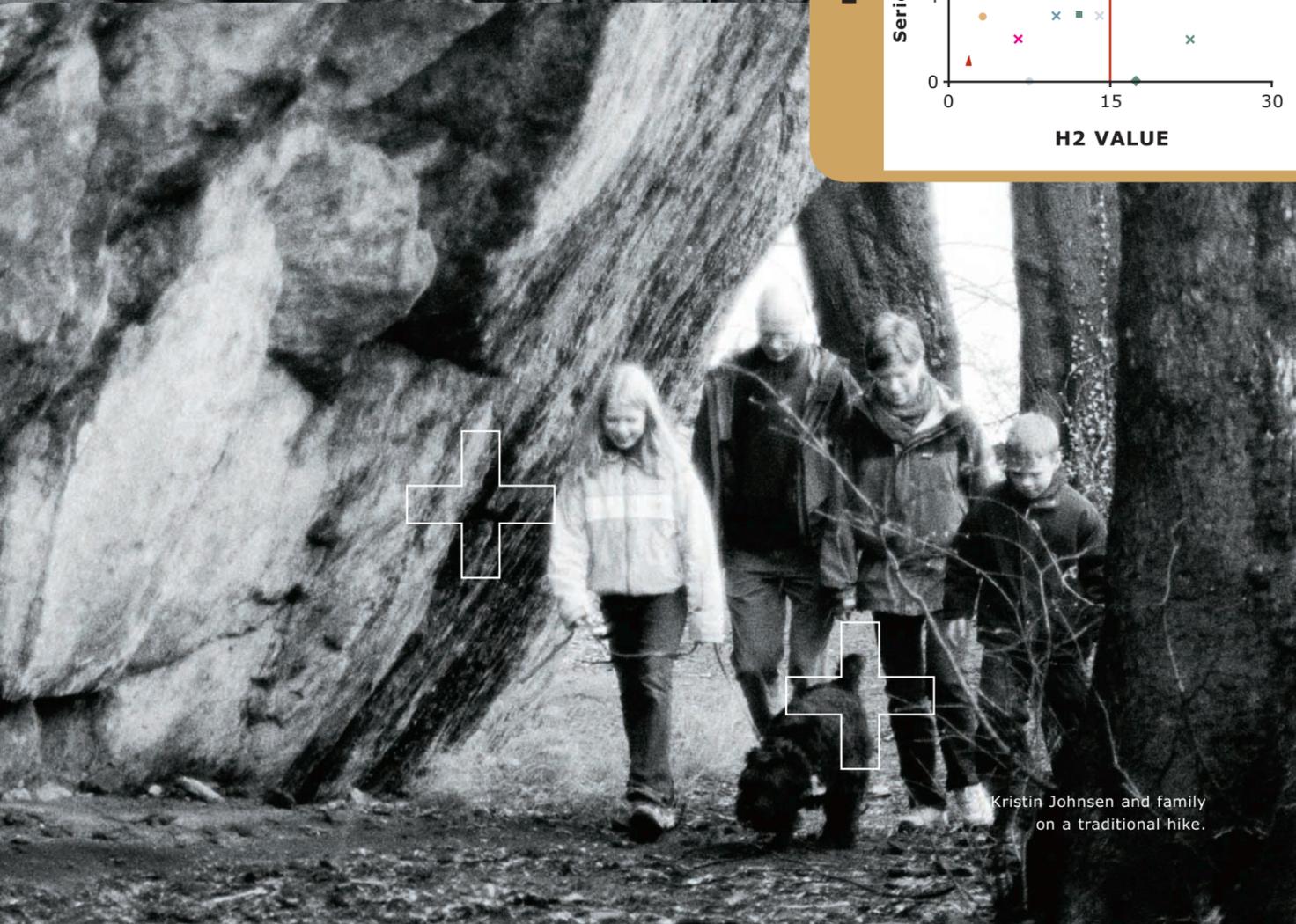


## Contributing to the transfer of best HSE practice

FIGURE 1



As the manager of the SDFI, Petoro is responsible for taking new steps in improving offshore safety. "Our interests span many fields and installations," notes Kjell Ravndal, vice president for health, safety, the environment and quality. "That allows us to help transfer experience between different licences and projects."



Kristin Johnsen and family on a traditional hike.

Health and safety goals for the 19 installations covering 12 oil and gas fields on which Petoro has opted to concentrate its own resources were met in part during the company's first full operating year. On the environmental side, emissions to the air and discharges to the sea were reduced – but that partly reflected the sale of SDFI assets. Discharges of produced water per unit of petroleum produced show a rising trend.

One of the 2002 targets related to the number of injuries per million working hours which required medical treatment and/or led to at least one day's absence – known in Norway as the H2 value. This was achieved on nine of the 12 fields.

Another principal objective involved reducing serious incidents on the 19 installations. A total of 72 such events were reported to the authorities, Mr Ravndal notes. "Although the average was within our target,

both the number and seriousness of some of these incidents give cause for concern."

Figure 1 shows a comparison of H2 and serious incidents. Fields appearing in the upper left or lower right quadrants are under observation, with action being considered. Immediate action is being taken on those fields which lie in the upper right quadrant.

Linking and comparing data from different fields and operators gives Petoro a better overall picture of the safety level than many other players can obtain.

"The risk picture can thereby look different, but we're also able to see other opportunities – not least for transfer of experience and best practice from one operator or field to another," says Mr Ravndal.

**Total discharges down, produced water up**  
Since Petoro's portfolio of fields on the NCS was

somewhat reduced through sales over the past couple of years, associated emissions and discharges also showed a declining trend. Emissions/discharges per unit produced accordingly provide a more representative picture of developments. The figures show trends over the past three years for the most important components released.

According to Mr Ravndal, the environmental impact factor (EIF) provides the best expression of the effect of discharges to the sea. However, the standards for determining the factor are not entirely clear. In this report, Petoro has accordingly opted to express discharges to the sea through total discharges of produced water, total discharges of oil, discharges of produced water per unit of oil delivered and discharges of oil per unit delivered (see the graphs).

All the figures show the proportion of total discharges which correspond to the SDFI in fields, transport systems and land-based terminals. Terminals in other countries are excluded.

Total discharges of produced water and oil fell sharply from 2000 to 2001, and this decline continued in 2002 – although not as strongly. However, discharges of produced water per cubic metre of oil produced again increased slightly in 2002 because of the rising water cut on a number of fields.

Emissions of carbon dioxide showed a slight decline from 2001 to 2002, reflecting a general trend on the NCS. This development is even clearer for emissions of nitrogen oxides, primarily reflecting reduced use of diesel engines for power generation.

The volume of non-methane volatile organic compounds (nmVOC) released is shown both in total and in relation to the quantity of oil delivered. The latter provides an appropriate indicator, since storage and loading of crude are the dominant emission sources. This figure shows that the amount released was very stable over the past three years, which reflects the fact that current plans for major emission-reducing measures have yet to be implemented.

An environmental strategy developed for Petoro during the autumn of 2002 reflects the company's responsibilities as a licensee. This strategy focuses on emissions to the air and discharges to the sea as key areas for supervision and monitoring in the licences.

A future commitment will relate to emissions of produced water and improved results for the H2 indicator and serious incidents on fields which failed to meet Petoro's 2002 targets. Another long-term goal is to achieve standardised monthly reporting of indicators considered important by Petoro.

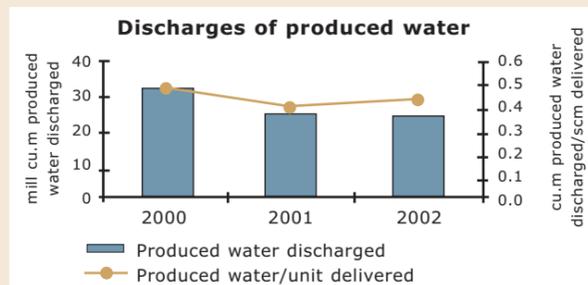


Figure 2 Discharges of produced water

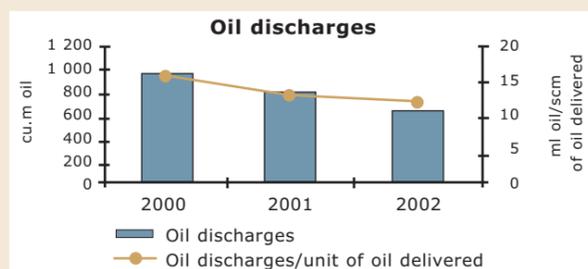


Figure 3 Discharges of oil

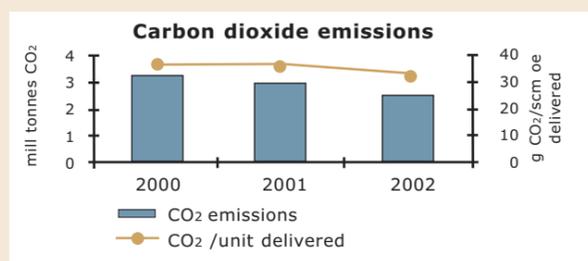


Figure 4 Carbon dioxide emissions

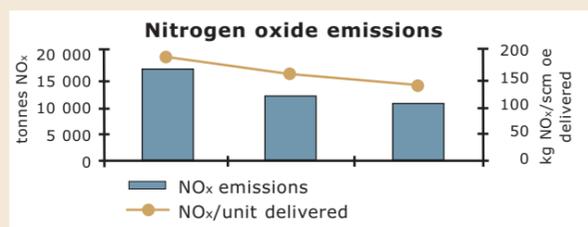


Figure 5 Nitrogen oxide emissions

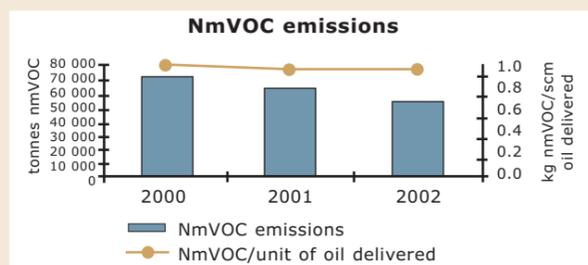


Figure 6 NmVOC emissions

Simplifying comprehensive safety procedures and making them more efficient is a further priority for Mr Ravndal, since this can save much work while improving safety.

"There's no contradiction between working efficiently and working in a safe and environmentally-acceptable way," he says. "It's a case of doing the right job correctly the first time. That requires good change control and the involvement of the organisation."

#### No in-house injuries

The figures and trends cited above relate to the SDFI portfolio. In addition, the company monitors HSE for its own employees. Mr Ravndal says he is gratified that no personnel in Petoro or contractors working on its premises suffered any injuries.

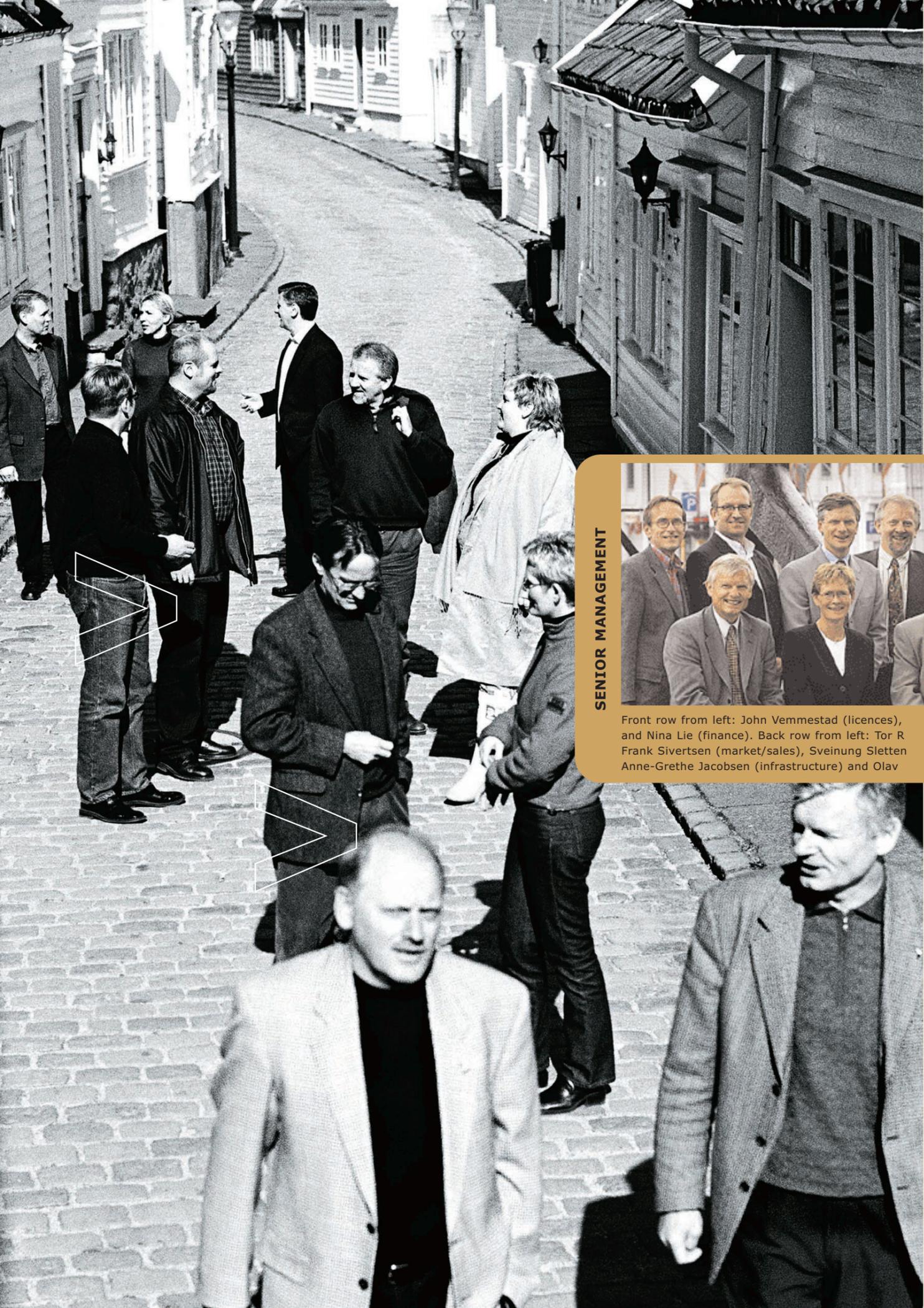
A total of 13 undesirable incidents were reported on which action was taken. Sickness absence came to 1.5 per cent, and broke down into 0.4 per cent

short-term and 1.1 per cent long-term absence. Attention in future will focus on maintaining zero injuries and achieving low sickness absence by creating a good and stimulating working environment. According to Mr Ravndal, a challenge for Petoro is to develop an in-house HSE culture which ensures that "people care" and accept a personal responsibility even when they are remote from where operations take place.

"To achieve this, we've put HSE items permanently on the agenda at meetings where status and the development of results are discussed. We've included an HSE topic at each town meeting. An annual family day is also being staged with the emphasis on HSE, where employees have an opportunity to 'care' together with their nearest and dearest."

Training in Petoro Active. From left: Elin Carlson, Carine Aarrefjord and Grete Willumsen.





## History created Petoro, Petoro is writing history

SENIOR MANAGEMENT



Front row from left: John Vemmestad (licences), and Nina Lie (finance). Back row from left: Tor R Frank Sivertsen (market/sales), Sveinung Sletten Anne-Grethe Jacobsen (infrastructure) and Olav

Ellinor Grude (human resources), Kjell Pedersen (CEO) Skjærpe (technology/ICT), Dag Omre (commercial), (external affairs), Kjell Ravndal (HSE/quality), Boye Sivertsen (legal).

Petoro is a result of decisions which will stand as milestones in Norwegian petroleum history – the partial privatisation of Statoil, the sale of state assets and the adjustment to gas market changes. In its first year of life, the company has itself helped to write new chapters in this history – Snøhvit, Gassled and Ormen Lange.

The political and financial treatment of these issues has been paralleled by the rapid progress of this newcomer to Norway's petroleum cluster. These developments have included the build-up of its organisation, information technology systems, pay and personnel solutions, processes and procedures for safeguarding health, safety and the environment, and in-house and external relations, and the definition of the company's short- and long-term goals and strategies.

By Sveinung Sletten, vice president external affairs, Petoro

Senior Petoro managers describe important aspects of the past year in this article, and outline their views on the company's future course in four strategic areas:

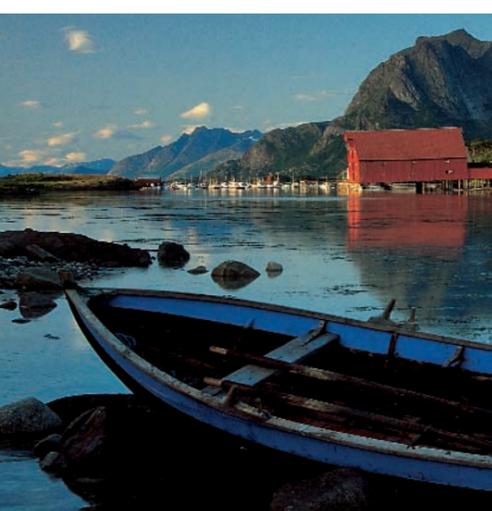
- field development and coordination in core areas
- value creation in the gas chain
- early applier of technology
- long-term access to reserves.

### Three tasks

Petoro's three principal tasks are to follow up the state's direct financial interest (SDFI) in production licences and partnerships, supervise the sale of the state's oil and gas, and provide financial management for both the SDFI and Petoro itself.

John Vemmestad is vice president for licence management and the man responsible for much of the first principal task. He says that 2002 was characterised by high production and that major projects passed important milestones.

Petoro has attached great importance to playing a demanding but constructive role in reaching the main



decisions for a possible Ormen Lange project, he notes. These include the choice of a development solution based on subsea field installations, landing to a processing plant at Nyhamna in mid-Norway and export from there.

In the Snøhvit licence, Petoro has been particularly concerned to establish a more realistic cost budget rooted in experience so far to keep costs and schedule under control. The company played a key role in a collaboration between the partners over a study which assessed critical components for the feasibility of building the land terminal. On Kristin, the partners have been particularly concerned about the technology challenges posed by the extraordinarily high reservoir pressure and temperature.

### Two roles

However, Mr Vemmestad is concerned that Petoro must not forget to monitor the major producing fields

on the NCS, and notes that these also have the largest upside. He is extremely pleased that both oil and gas production from Troll rose – with crude reaching a record daily output of 444 000 barrels in the spring. A 56 per cent interest means that this field clearly represents the largest single holding by value in the portfolio which Petoro manages.

In addition to the three tasks mentioned above, Petoro has defined two principal roles – it will act as a supervisor to safeguard the government's interests in each licence and partnership, and as a proactive partner for value creation beyond that achieved in the individual licence. It is as a proactive partner that Petoro intends to engage in its strategic priority areas. But Mr Vemmestad emphasises that the two roles are closely related.

"Through our supervisory role – the normal work in licences and partnerships – we win the experience, insight and oversight which ultimately allow us to identify the potential for further value creation," he observes. "That could be achieved through the unitisation of several licences in an area such as Tampen in the North Sea or the Norwegian Sea."

At the same time, he acknowledges that it would be impossible for a company with 60 employees to pursue active supervision of all the roughly 100 licences and partnerships with Petoro involvement. So the company worked actively in 2002 to lay the basis for agreements with others who could act as business managers on Petoro's behalf.

"We'll retain overall responsibility, but envisage that the operator or other licence partners can look after our interests in fields of limited financial or strategic significance to us," Mr Vemmestad explains.

### Coordination in core areas

Field development and coordination in core areas is one of Petoro's strategic priorities. Mr Vemmestad notes that the first steps have already been taken to coordinate fields in this area through the Tampen 2020 project. A key consideration here is that some of these developments are in the tail end of their life cycle and will need reorganisation and cost reductions to secure profitable production and thereby extend their economic lifetimes. Petoro has been concerned to ensure that the project sets clear and ambitious goals, that the various plans are well integrated and that attention is focused on improved recovery in the Tampen area.

Coordinated processing and transport are among the methods being considered for achieving necessary efficiency improvements. Interests in fields and infrastructure in the Tampen area are unevenly

distributed among many companies. That makes coordination more difficult, and Petoro accordingly wants to explore opportunities for achieving a balanced ownership structure which will be better able to reach decisions. Different solutions can be considered, such as commercial agreements, portfolio adjustments and – ultimately – unitisation.

Statoil became operator for all the Tampen area fields on 1 January 2003, and Petoro has actively supported that company's efforts to increase coordination.

Mr Vemmestad adds that Petoro is undoubtedly among the impatient players in the Tampen area. "The state stands to gain major value here if we succeed – and could lose heavily if we wait too long."

### Available pipelines

Against the background of changes in the European market, Norway's gas transport system and the ownership of its infrastructure of pipelines and plants has experienced a major restructuring.

The decisions to establish the Gassco operator company and Petoro were taken at the same time in 2001, with the former intended to secure a neutral operator and access regime for gas transport on the NCS. In addition, the gas owners reached agreement in 2002 on establishing Gassled to create common and coordinated ownership for most of the pipelines and terminals used to transport Norwegian gas. Petoro currently manages 39.5 per cent of Gassled, but this interest is due to rise to 49 per cent in 2011.

Anne-Grethe Jacobsen, vice president for Petoro's infrastructure department, says that the end of 2002 marked a crossroads in Norwegian gas operations.

"Not only have new players and constellations become involved in the business, but its framework conditions have also changed," she observes.

Value creation in the gas chain is the second of Petoro's four strategic priority areas, which partly involves looking at state interests in and the industrial structure of the transport system. This strategic work will lay the basis for defining what would best serve the government's commercial interests in offshore infrastructure.

The return which Gassled's owners can expect is limited. That is a consequence of the principle that earnings should derive primarily from producing rather than transporting oil and gas. How that will affect interest in being an owner of this "road network" for gas remains to be seen. Such interest will also depend on how much additional gas is discovered.

"In the short term, we appear to need more capacity to recover gas from fields in the Norwegian Sea," Ms Jacobsen notes. "But these deposits don't represent sufficient volumes to justify the cost of a large new pipeline. At the same time, the production profile for Ormen Lange means that a pipeline for this field could have spare capacity in the longer term to transport other gas. The desire to 'overinvest' in expanded capacity for the immediate future must be balanced against the need for high capacity utilisation and a profitable return."

### New pipeline to the UK

Gas from Ormen Lange is expected to have a big market potential in the British market. But volumes in the order of 20 billion cubic metres per year will require additional transport capacity. Plans call for a new line from Ormen Lange's receiving terminal at Nyhamna to the Sleipner area, which is a gas transport hub.

The question is how these volumes should be carried on to the UK. A new pipeline from the Sleipner area to eastern England has been proposed as the best solution by the Ormen Lange companies.

Ms Jacobsen does not exclude the possibility that there may be a need for capacity in the existing infrastructure as well as a new Norwegian pipeline.

### Oil and gas sales

One of Petoro's three principle tasks is to monitor the sales and marketing arrangement for oil and gas. This system means that Statoil sells the government's petroleum together with its own supplies. Petoro is responsible for monitoring that Statoil carries out its duties under this arrangement, and Frank Sivertsen, vice president for oil and gas market and sales, says that the company concentrates on ensuring the highest possible overall value creation and an equitable division.

"We look after the owner's commercial interests through a constructive relationship with Statoil," he explains. "It's important that we have a good understanding of the overall strategy for oil and gas sales. That lays the basis for good supervision and the highest possible revenues. We've attached considerable importance to constructing good processes and relationships, and have a very productive collaboration with Statoil today, while maintaining an orderly division of our roles." He adds that total petroleum sales from the SDFI portfolio are dominated today by oil. Developments in the oil market over the next five-six years will accordingly be very important for earnings.

"The picture looks different if we extend this horizon to 10 years, with gas as the dominant element in production. This area is developing very rapidly, so we're naturally also concerned about progress in the gas market. A potential exists for growth in demand both in Europe and the USA."

Where the strategic commitment to the gas chain is concerned, attention will focus in future on securing the value of the portfolio and identifying new opportunities.

Issues given special attention by Petoro in 2002 included Statoil's purchase of capacity at the Cove Point terminal, where liquefied natural gas from Snøhvit will be delivered to the American market, and the decision to build a gas store in the UK. The state has an economic interest in these projects, since they help to bring its gas to market along with Statoil's.

According to Mr Sivertsen, future market opportunities provide the authorities with an incentive to lay the basis for the industry to evaluate new areas. He believes appropriate measures to be considered in this context include the opening of new prospective areas on the NCS, the general framework conditions and the application of effective technology.

"And it's important that we're willing to adapt and develop the right expertise for handling new tasks and challenges. If we can manage that, we'll continue to face a long period of exciting jobs on the NCS."

#### Early use of technology

"Only 26 per cent of total expected resources on the NCS have been produced, according to the Norwegian Petroleum Directorate's estimate of 31 December 2002," says technology vice president Tor R Skjærpe. "In other words, there's a lot left."

He wants to stimulate and generate motivation in the industry through opening new areas, efficient operation of mature fields and improved recovery.

"Today's commitment is too low, our focus on the NCS is too negative, and we communicate in a less than constructive way. We must learn from experience elsewhere – such as the UK continental shelf, where increased investment was stimulated by tax adjustments and other means. And it helped! But it takes many years to change a trend, so we must get to grips with restructuring right now. And we must learn to see change in terms of exciting challenges and opportunities – not as something negative."

Petoro has defined three projects within its strategic priority of being an early applier of technology –

reduced discharges to the sea, improved recovery and a commitment to e-operation. The last of these relates to integrated operation and real-time management.

"We haven't been given any funds of our own for research and development," Mr Skjærpe explains. "Our arena is in the licences, where we want to be a proactive partner in promoting the adoption of efficient and forward-looking technology solutions."

People must accept reduced employment per field, he adds, but points out that the alternative could be shutting down production too early. He is convinced that future jobs will be even more

interesting. Recovering oil and gas in deeper water, from smaller and often more complex fields, and further from markets is becoming ever more challenging in both technical and financial terms.

"I'm pleased that early application of technology has been defined as one of our strategic priorities," Mr Skjærpe observes. "This means we'll be inquisitive and willing to adopt new solutions – but on commercial terms. To play this role, we must maintain a close dialogue not only with the operators and other licence partners but also with the supplies industry. It's important for winning support in licences that we can purchase high-quality external services to verify our ideas and proposals."

#### Long-term access to reserve

Petoro's fourth strategic area is long-term access to reserves. Commercial vice president Dag Omre, who has headed strategy work in the company and

is also responsible for this particular aspect of its activities, says that the NCS has a large resource potential. But a substantial proportion falls into the higher resource classes – in other words, represents more uncertain resources.

"Requirements for realising these assets are closely related to expertise in and relations between the oil companies and the supplies industry," Mr Omre believes. "But the ability of the authorities to collaborate and create a good industrial climate is also very important."

For Petoro, this means that it wants a constructive dialogue with its owner, the authorities and industry

operational targets were also defined in relation to the return on and earnings from the portfolio as well as production volume, operating costs and the reserve replacement rate. To measure these indicators over time and under varying price and exchange rate conditions, they have been adjusted to an oil price of USD 16 per barrel and an exchange rate of NOK 8 to the USD.

Nina Lie, vice president and chief financial officer, says that the company did a significant job during 2002 in establishing processes for in-house enterprise management. Implementation of ICT systems and tools was pursued with great intensity and speed. "But then we haven't been given a 'normal' cash flow to manage," says Ms Lie. "From that perspective, we undoubtedly had to put proper systems and routines in place very quickly. We've had to work hard to achieve this, but we've completed our first full operating year and laid a good basis for continued management of the company and the exciting portfolio we've been given to manage."

#### The best partner

In the autumn of 2001, Petoro had just one permanent employee in the shape of president Kjell Pedersen. The organisation grew to almost 60 employees during 2002. This staff has been recruited from 33 different companies, with different cultures and ways of meeting challenges and solving problems. That gives this newcomer an enviable diversity of expertise, experience and personalities.

"I've learnt more over the past year than for a long time," says Mr Skjærpe. "We've put able and positive people in place. There's a good ambience, which also found expression in a very positive climate survey. We've clarified our role with our owner, we've established values, and we've defined goals and strategies for our future work."

"We're a small organisation with big responsibilities," adds Olav Boye Sivertsen, vice president casual affairs. "We can turn that into a strength – few people but a broad overview and great ability to see contexts and opportunities for coordination gains. If we're going to be the best partner and a proactive contributor in the most important licences, it's crucial that we stick to our strategy and priorities. We must ignore nonpriority issues and avoid getting buried in too much detail. We must think value creation – and we must think along broad lines."



organisations. It plays an active role in such bodies as the top executives forum and the Norwegian Oil Industry Association (OLF), and maintains good contacts with the MPE, the Norwegian Petroleum Directorate and other government agencies.

#### Managing a huge cash flow

Financial management is Petoro's third principal task, and embraces monitoring and accounting for the huge cash flow generated from the portfolio. Operating revenues of NOK 103.7 billion for 2002 yielded a net cash flow to the government of NOK 66.1 billion.

Petoro's principal aim, acting on a commercial basis, is to create the largest possible economic value from the government's oil and gas portfolio. To measure the annual development in the portfolio's profitability, Petoro implemented a performance measurement system and identified a set of key performance indicators (KPI) in 2002. Specific financial and



## Russian gas – for domestic use or for exports?



One of the questions being asked about future Russian gas exports is whether economic growth will boost domestic consumption and thereby reduce volumes available for foreign sale.

Until recently, however, most Russians paid a fixed fee for gas to heat their homes. This was based on the number of people in the household, rather than actual consumption. Nor was it physically possible to regulate the temperature in many flats.

**So what will happen when domestic gas prices increase and Russians turn down the gas heaters?**

The Russian residential sector consumes 55 billion cubic metres (bcm) of gas per year – roughly equivalent to present Norwegian gas exports.

Russia's Ministry of Energy calculates that rationalisation and energy saving by households would alone liberate 15 bcm per year for export. That is not far short of planned annual deliveries of 20 bcm from the Ormen Lange field in the Norwegian Sea.

But this is only a small example of the potential available to the world's largest gas nation, which produced just under 600 bcm in 2002.

According to the national energy strategy, annual output in 2020 could exceed 700 bcm – half the reserves in Norway's massive North Sea Troll field.

Three-quarters of this production is expected to come from new fields. Russia has gas for many users.

## Russian gas in Europe: position and prospects

The gas directive adopted by the European Union in 1998 was intended to provide a basis for creating an open single market for natural gas in Europe and for increasing competition while taking due account of security of supply.

Basic principles for reform of the natural gas market were set by the directive. But countries have a considerable freedom of action in defining a regulatory framework for the supply of natural gas which best suits the specifics of their gas and energy markets.

Non-EU countries willing to accede to the EU will most probably have to follow and implement the directive's basic provisions sooner or later.

Implementing the directive gives European countries an opportunity to reform their gas supply systems, enhance economic efficiency and maximise the benefits to consumers.

But Europe's particular supply position — growing import dependency and relatively few producers — raises the challenge of introducing effective competition whilst sustaining security of supply in both short and long term.

In this respect, the geographical structure of supply, the balance between indigenous production and imports, and diversification of gas flows from the major producers are among key issues defining future security of supply.

### Demand growth

Most European gas analysts believe that the continent's gas demand will grow strongly over the next 20 years. The share of natural gas in Europe's

primary energy supply is projected to reach about one-third in 2020.

According to *International Energy Outlook 2001* from the US Department of Energy, oil accounts at present for about 44 per cent of primary energy consumption in western Europe (up one per cent from 1990), gas for 22 per cent (up six per cent), coal 13 per cent (down eight per cent), nuclear 14 per cent (up two per cent) and other energy sources eight per cent (no change).

If these trends persist, and annual growth in gas consumption remains unchanged at an estimated 3.3 per cent compared to 1.1 per cent for energy

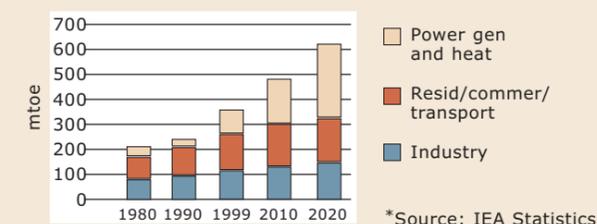


Vitaly Yusufov, a consultant to the Russian Energy Ministry, has written this article, specially commissioned for Petoro's annual report, about Russia's role and strategy as a gas exporter to Europe.

in general, the share of gas is likely to reach as high as 29 per cent by 2010.

The increase in demand for natural gas will be stimulated by its obvious ecological and technological advantages as a fuel, albeit the overall level of demand will depend on the price. Most of the increase in demand is expected to come from power generation, where natural gas is particularly cost-effective and is gradually replacing other fuels.

### Europe gas demand\*



Gas penetration of other sectors is already relatively high at a European level. The diagram at the foot of the previous column illustrates the changes in the structure of gas demand (by sectors) in Europe until 2020.

### Europe depending on imports

According to BP's *Statistical Review of World Energy* for June 2002, European gas reserves represented only 3.1 per cent of the world's total proven reserves of 171.7 trillion cubic metres (tcm) in 2001.

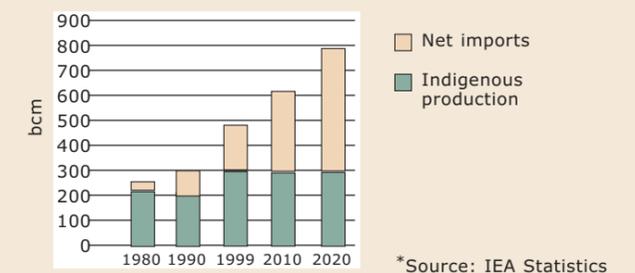
At current levels of production, these reserves — mainly concentrated in the Netherlands and the North Sea — will last for 20 to 30 years.

Prospects for increasing proven reserves are vague, and those in central and eastern European countries are unable to influence the situation significantly. Most European countries already have a high gas import dependency. Roughly 40 per cent of the gas now consumed in OECD Europe is bought from abroad.

The volume of additional demand is subject to various uncertainties, such as economic activity and industrial production.

Other factors will be the impact of liberalisation on gas prices relative to other types of fuel, the competitiveness of gas in power generation (although one can be quite confident about this), national and EU policies, and so forth.

### OECD Europe gas balance 1\*



But it is clear from today's trends that import dependency is set to increase. The diagram above, based on International Energy Agency (IEA) data, shows that the degree of dependency could exceed 60 per cent in 2020.

According to Cedigaz, the outlook for the balance between gas supply sources and increasing European consumption indicates that the consumption potential not covered by existing long-term contracts is going to reach about 100 bcm in 2010.

### Europe gas balance 2\*

(amounts in bcm)

	1990	2000	2010
Production	241.5	302.4	218
Exports	62.2	108.9	-
Imports	198.0	305.9	393
Consumption	377.3	499.4	712
Not contracted	-	-	101

\* Sources: Cedigaz 1992, Cedigaz 2001; Fred Thacker, European natural gas, FT Energy, 1999

### The need for investment

Whether this prognosis is fulfilled depends on many factors of a global nature, such as the growth rate



The Zapolyarnoe field

for the world economy and the outcome of European gas market liberalisation. But it may become a reality should the EU's declared goal of bringing down gas prices for the end consumer be achieved.

On the other hand, the potential demand for additional amounts of gas may turn out to be smaller if the producers manage to maintain a favourable price balance. In either case, there are enough reserves close to Europe to supply potential demand. A large share of future European needs is already secured under long-term contracts. But more supply projects need to be developed for 2015-2020 and beyond.

European gas consumer markets also face a relatively high concentration of production in the hands of a few large players – Russia, Algeria and in the North Sea. It is plain that Europe must be able to attract new gas supply projects, not only to cover future demand but also to avoid becoming a victim of producer concentration.

These objectives can be met by preserving an attractive environment for gas industry investment and development while creating open, competitive, liquid and flexible gas markets.

Statistics for the past five years show that more than 50 per cent of gas reaching the European market came from four major sources – Russia, Algeria, Norway and the Netherlands. As the leading supplier, Russia managed to supply about 25 per cent of the total volume.

### Russia maintains leading position

Russia is continuing to position itself as the largest long-term natural gas supplier to the expanding European market, delivering to 20 western and central European countries.

In recent decades, Russia has delivered more than 2.4 tcm of gas to Europe, and a further 2.2 tcm is contracted on a long-term "take or pay" basis under agreements running to 2020. The Russians currently supply almost 130 bcm of gas to Europe annually, with Gazprom assessments indicating a possible increase to 175-195 bcm by 2010.

Western Europe is the primary foreign market for Russian natural gas. About 70 per cent of former Soviet Union (FSU) exports go to this region.

The leading buyers are the EU countries, importing over three-fifths of a total FSU export volume which came to 87.8 bcm for western Europe in 2002. According to Gazexport, Germany bought 32.2 bcm of Russian gas in 2002, Italy 19.3 bcm and France 11.4 bcm.

Central Europe traditionally plays a important role in Russia's gas exporting policy owing to its geographical proximity and the dominant position of Russian gas in the region. It took some 30 per cent of Russia's exports to Europe in 2002, or 41.6 bcm.

Russia accounts for about 90 per cent of all central European gas imports and 60 per cent of total gas consumption in the region.

Among the major buyers of Russian gas are Hungary, with 9.1 bcm in 2002, Slovakia with 7.7 bcm, the Czech Republic with 7.4 bcm and Poland with 7.3 bcm.

### Diversification of supply

Contemporary European gas market developments are favourable for the importing countries in terms of opportunities for diversification of gas supply sources.

This is greatly stimulated by the creation of a well-developed gas transmission system and by the political aspirations of all the central European countries importing Russian gas to join Nato and the EU. One of the key conditions in this process is the need to diversify gas supply flows – in other words, to reduce the share of Russian gas. And the process of import diversification is already well under way.

Slovenia has been taking Algerian gas in addition to Russian deliveries for a number of years, while the Czech Republic has a contract with Norway.

Hungary is buying gas from Ruhrgas and Gaz de France. Poland began importing from Norway in 2000, and has a contract with Denmark since 2001. Similar developments cannot be excluded in the foreseeable future.

Such diversification is quite clearly a natural process. So Gazprom is going to face a challenge in maintaining its level of physical deliveries, if not its share of total supplies to Europe.

Russia's gas industry accordingly faces prospects for growth in European consumption, intensifying

competition among the major suppliers, and ambitions to diversify supply and other consequences of the liberalisation process in Europe.

It will therefore have to strike a very difficult balance between the need to export more gas to Europe and the need to satisfy growing domestic demand, while taking account of possible competition from the central Asian countries.

That also applies to the industry's most important player, Gazprom, which provides over 90 per cent of Russian gas production. This company's production accounted for almost 530 bcm of Russia's 598 bcm of natural gas output in 2002. Under the current



Construction work, Zapolyarnoe field

Russian energy strategy, total production in 2020 could exceed 700 bcm, with 76 per cent coming from new fields. Gazprom output is likely to remain stable, with the bulk of the production increase coming from other producers.

Today's most important gas fields, in the north of western Siberia, are set to decline in the near future. That calls for a variety of measures to increase total supplies to domestic and export markets.

### New Russian gas fields

One response will be gas from new fields. Commissioned in late 2001, Zapolyarnoe is already capable of compensating for the decline in production and has a potential of 100 bcm per annum by 2005 and yet another 24 bcm by 2008.

Northern continental shelf resources include in particular the Shtockman field in the Barents Sea,

### Consumption in Europe and market shares of major suppliers\*

(amounts in bcm)

Year	Consumption in Europe	Supply: Russia	Supply: Algeria	Supply: Norway	Supply: Netherlands
1998	459.7	116.4 (25.3%)	48.5 (10.6%)	44.1 (9.6%)	29.8 (6.5%)
1999	473.1	121.1 (25.5%)	54.5 (11.5%)	46.4 (9.8%)	30.7 (6.5%)
2000	477.6	120.0 (25.1%)	56.9 (11.9%)	46.3 (9.7%)	32.3 (6.8%)
2001	489.9	117.5 (24.0%)	57.6 (11.8%)	46.4 (9.5%)	37.1 (7.6%)
2002	506.2	129.4 (25.6%)	60.4 (11.9%)	50.8 (10.0%)	40.6 (8.0%)
2003	520.3	134.0 (25.8%)	61.9 (11.9%)	53.3 (10.2%)	42.7 (8.2%)

\*Sources: Cera; Gazprom

which is closely connected to Gazprom's recently-announced north European pipeline project.

And the vast resources of the Yamal peninsula, approved for development over the next two decades, could provide more than 250 bcm annually.

An optimal solution would take development of Yamal resources into account and use existing gas transport capacity, while increasing "independent" gas production from new fields located close to the pipeline infrastructure and expanding imports from central Asia.

Meanwhile, the "independent" producers supplied about 34 bcm of gas to the market in 2002. This amount has remained roughly the same over the past few years, mainly because existing barriers make it impossible for oil companies to sell their gas successfully. Very few options exist for using such associated gas, with flaring on the field as a traditional solution which still consumes substantial volumes – up to 20 per cent.

It can also be used in oil field operations, including reinjection and electricity generation. This is probably the most cost-effective option currently available, but only a fraction of total gas production can typically be utilised in that way.

Finally, the oil companies can sell the gas or products derived from it at artificially low prices inside Russia.

#### Pricing policy for investments

Although the existing domestic market price of roughly USD 21 per 1 000 cubic metres makes it unattractive for independent producers to develop their natural gas reserves, the present government policy of gradually increasing regulated domestic prices will allow them to develop their gas fields.

However, today's low price does not take account of the required rate of return on investment in the production and transmission infrastructure, and can only be subsidised by export revenues.

The Federal Energy Commission increased the regulated gas price twice in 2002 – by 20 per cent in February and by another 15 per cent in July.

These rises were sufficiently above the inflation rate to make them more than symbolic and to provide some basis for a future fair gas price, which can in turn encourage additional volumes for consumption and exports. The rises enabled Gazprom to move into the black on domestic market operations in 2002.

#### Energy saving – and new supply sources

Natural gas comprises over 50 per cent of Russia's primary energy consumption. The power generation sector, which consumes more than 140 bcm annually, is 70 per cent dependent on gas.

This distorted structure has been validated by extremely low gas prices, which helped to solve cost-effectiveness and ecology issues for the country's electricity sector.

Changing the structure of the fuels balance after significant price rises offers a big potential for gas savings of up to 10 per cent of the total consumed in power generation.

The Zapolyarnoe field has the potential to produce 100 bcm annually from 2005



According to evaluations available in the Ministry of Energy, rationalisation and energy saving measures for residential consumption alone (55 bcm per annum) could potentially provide another 15 bcm for export.

Until recently, 80 per cent of charges in this sector depended not on the volume of consumption, but on the number of people living in a building and so forth.

The absence of meters and regulating equipment in homes meant there was no motivation to save, and in many cases no physical opportunities to do so either.

Its geographical location makes Russia a convenient transit route for the gas coming from central Asian countries such as Turkmenistan, Kazakhstan and Uzbekistan.

Additional volumes from these countries will make their way to the European market and be competitive owing to the relatively short distances and low production costs.

#### Importance of long-term contracts

A final factor, but probably one of the most important for the Russian gas industry, is its huge need for investment, given the severe development conditions in and remoteness of its main producing regions.

According to the IEA, the volume of investment required will be up to USD 30 billion until 2005, and another 130 billion up to 2020.

The terms applied by European financial institutions should in that case be similar to those applied for financing the major oil and gas companies.

To sum up, it is vital to emphasise that work is now under way to tackle many of the existing general drawbacks in Russia's gas industry.

A new energy strategy being elaborated in the Ministry of Energy is scheduled for presentation to the government for approval in May 2003.

This comprehensive document will not only concern the country's gas industry, but also make it a key issue for consideration in view of its vital importance to the national economy and world energy markets.

The strategy will cover all the challenges facing the Russian energy sector, which have found some reflection in this article. And it will provide some solutions for a country with a third of the world's natural gas reserves and the ability to use them wisely for the sake of its own energy security and that of its neighbours.

In this respect, it would be hard to exaggerate the importance of the existing system of long-term contracts. Secure and stable supplies from Russia can only be maintained by a systematic and large-scale investment in Russian production and transport systems.

So Russia sees keeping the existing long-term contracts and obligations for consumers to take and pay for agreed volumes as a means of providing the needed security of supply for Europe. This will also allow the European capital required for development of gas fields and the transport system to be successfully attracted.

At the same time, it should be possible to accommodate a partial reduction in the share of long-term take or pay contracts, replacing them with spot deliveries of gas.



## Keeping balanced



From left: Jan Rosnes, Jørn-Atle Borsheim and Ragnar Sandvik.

The inability to laugh spontaneously provides a signal that something is wrong, says psychiatrist Gerd-Ragna Bloch Thorsen. She points to new studies which show that every other worker in Norway has either personally gone sick, or knows a colleague who has done so, because they can no longer cope at work.

Burn-out and maintaining a balance between work and leisure are issues in many companies – including

**Petoro. Three of its employees report a heavy workload but great personal enthusiasm during the company's start-up phase. All have taken paternity leave in this period, raising their awareness of the need for a balanced life.**

By Bjørn Rasen, [rasen@tacticus.no](mailto:rasen@tacticus.no)

Many proverbs have been coined about people's attitude to work. Dr Bloch Thorsen quotes one she believes in: "Work as if you are going to live for ever. Live as if you were going to die tomorrow."

Many of the people who visit her office at the Rogaland psychiatric hospital in Stavanger are not prepared to wait. So it is tempting to ask whether she manages to keep her own workload under control. She admits to working hard, and says it suits her. Knowing the warning signs is one thing, she points out. Taking notice of them is another. Such signals can be painful enough and may take dozens

of forms, such as insomnia, back problems, irritation, alcohol abuse, and neglect of family and friends.

The key is to find the right balance in life. And this will differ from person to person. To avoid burn-out, each individual must know where they fall on the scale and move to the right position.

A growing number of people are aware of the problem, but by no means everyone manages to do anything about their own situation. The other side of the coin is burn-out – the new plague. But this is no ordinary illness, and a diagnosis will not usually be made.

Dr Bloch Thorsen notes that 10 000 people in Japan collapse and die every year for no obvious reason other than complete exhaustion.

The two young men who greet me in Petoro's canteen look fit enough. Through the window, we have a panoramic view of Stavanger's inner harbour. The outlook for the two economists, who are both around 30 years old, is also good. They work in a business and a company with major challenges – and opportunities. Both Jørn-Atle Borsheim and Ragnar Sandvik have been involved from the earliest days of Petoro. It is no secret that they spent many hours in the office during the initial period. That does not appear a problem to them – the work has been interesting and both feel they have done a useful job and exercised influence.

During 2002, Mr Sandvik took a total of 12 weeks of paternity leave and accumulated holiday to devote all his energies to the family.

"That was an all-out effort to salve my bad conscience," he admits.

The break proved an eye-opener for him. Life changed abruptly from two people and a lot of work to three people and no work. On returning to Petoro, he found it easier to prioritise his time.

"I'm still under pressure to get things done during the day. All the same, I have the opportunity to balance work with leisure. Petoro has put this in focus."

Mr Borsheim is soon due to start his own spell of paternity leave. He has been prepared to work hard early in his professional career, when he has plenty of energy. This is when the vice starts closing, he feels. And he also believes that it will be difficult to turn over his work to other people. He will suddenly no longer be where things are happening. In addition, colleagues may end up with his workload as well as their own.

Two out of three workers in Norway are plagued by exhaustion during the working week. The gap between extreme tiredness and burn-out can be short. Part of the reason is that the workload on individuals has increased – perhaps not in hours, but through a substantial hardening in demands for efficiency and productivity over recent years. A lot of jobs have become more hectic, and many feel unable to cope with this increase in tempo.

"You're responsible for setting your own limits, rather than expecting your boss to see the signals – or to even be capable of seeing them," says Dr Bloch Thorsen.

If people are committed to the job, things usually go well. But those who put in the same amount of work without being driven by its content can find the balance tilting the wrong way. When a job has value and is a source of pride, people can put up with a lot. It is when they make personal compromises – ethical or professional – that the scales get upset.

Dr Bloch Thorsen highlights the quality of work. If everything someone does has to be 100 per cent, they wear themselves out. Some things must be perfect, but people also need to accept 80 per cent quality in other cases. The challenge lies in identifying which is which.

Many face difficulties here. Dr Bloch Thorsen points to "project" work, where employees are often expected to give a little extra in the most critical phase. In a number of jobs, however, everything becomes a project. As soon as one is finished, the next begins. That converts them from projects into a mode of working – and one which demands periods when the individual worker can catch up with themselves and get professionally refreshed.

In Dr Bloch Thorsen's view, few people would be content with having every arena in balance at all times. Humans can also benefit from a little adversity. "I believe it does everyone good to fail an exam once, and learn that it's possible to go on making progress regardless. People who've only experienced good times aren't particularly interesting."

She notes that many Norwegians do not work hard because they find it enjoyable, but because they must for financial reasons. Every fifth person puts in too much effort in order to achieve career goals or make money.

"Certain groups, such as highly-educated personnel in the oil industry, opt to work hard in order to earn NOK 700 000 per year. They have a choice – earn half as much and gain more leisure and less pressure at work. That's not a relevant option to many Norwegians."

A majority of people in Norway dream of more free time, even if they enjoy their jobs. Dr Bloch Thorsen says that everyone needs job-free zones.

"That also applies to single people. They have their own right to a private life and shouldn't always be regarded as the ones who're available to work extra at any time – either in the week or on public holidays."

"When you don't have children, the day has enough hours," comments Jan Rosnes, who has joined our

table in the Petoro canteen. With a few more years of experience as a worker and family man than his two colleagues, he has taken a conscious approach to finding a balance between work and leisure. He once quit a job because it was difficult to combine with his perception of a good family life.

He has returned from his third spell of paternity leave, this time for 11 weeks, and reassures his colleagues that leaving their jobs for a period is only unpleasant for a brief period on the way out.

"Seen in a broader perspective, my absence means little. It was a positive experience for me to be at home. In my experience, the world approves of it afterwards."

His job involves a lot of deadlines. But he believes the company takes an understanding view of flexible working, allowing him to combine both job and family.

Mr Sandvik says that single people undoubtedly feel under a different kind of pressure over working hours: "If you've got kids, it's easier to leave or to take time off."

In the kind of demanding jobs this trio hold, recharging batteries is essential. Mr Rosnes says that the time spent with his family restores his energy levels. In addition, he "must" train at least once a week. He makes it clear that conscience is not the driving force: "You have to be proactive and define your boundaries in advance."

Mr Sandvik's batteries recharge when he is in balance with his surroundings – when employer, family and friends have a shared understanding of how much commitment should be made to each of them.

According to Mr Borsheim, the effort put into a job does not necessarily have to be measured in hours. It is the results which count. And he needs a sense of contributing something important: "I look at what the job involves as much as what it pays. Getting the opportunity to realise yourself is an important driving force."

Human resources vice president Ellinor Grude believes Petoro's small organisation is a strength. "Everyone's visible and we can care about each other."

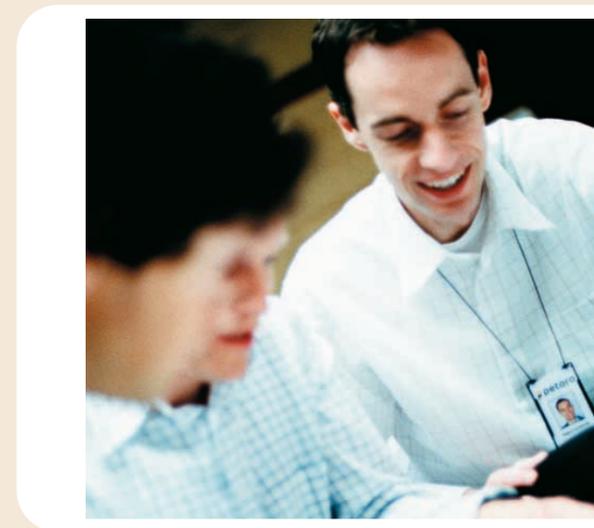
Motivation has been and remains a key factor in Petoro, she notes. "The excitement lies in the work we do."

Ms Grude describes the employees as people who want to contribute and create something. "The

challenge lies in the way we manage to cooperate, both in-house and with our offshore licence partners."

Petoro is conscious of the need to maintain motivation after the initial phase, which began when the company was founded in 2001. Expertise needs to be developed further. The first two years have involved a steep learning curve from just being in Petoro. Eventually, Ms Grude wants the workforce to supplement on-the-job training with external conferences and courses. Enhancing professional know-how is crucial.

The other side of the coin is unpleasant and expensive. Burn-out takes time to overcome,



and Dr Bloch Thorsen says it can require two years to get back on an even keel. And when the employee concerned returns to work, it is often with a built-in vulnerability and sadness. They understand that they have damaged themselves to no advantage, and are no longer as energetic as before their collapse.

When somebody notices the symptoms, there is no point in them screwing up their determination to continue. They must make the right choices – and getting them right is where life's difficulty lies.



## Oil, fishing and the environment – a long coexistence

### 1970-75:

- The first discoveries have been made. Ekofisk comes on stream
- White Paper no 25 on the petroleum industry's place in Norwegian society deals with the relationship between oil, fishing and the environment

### 1975-80

- The oil industry is required to pay for clearing waste from the bed of the North Sea



Norway has enjoyed the blessings of the oil adventure, but has also been very concerned with its hazards. On the one hand are revenues, expertise development, industrial progress, internationalisation and the other positive impulses. On the other are fears over the pace of development, social change, inflation, brain drains from other industries, safety and – centrally – possible harm to the environment.

(part of it proves to hail from shipping – and fishing)

- Controversy over a “moderate” pace of offshore development and environmental impact

### 1980-85:

- The industry extends north of the 62nd parallel in 1980 after considerable debate
- Midgard is the first discovery and Draugen the first development in these northern waters

### 1985-90:

- A new Petroleum Act provides for impact assessments
- Detailed studies of the Norwegian Sea and the Skagerrak – impact on birds and fish, how possible oil slicks would drift, effects on tourism, fish farming and life in the shore zone

### 1990-95:

- These studies are sewn together into impact assessments by a team of academics
- Comments from public consultation are included

in White Paper no 26 of 1994, which recommends further opening of the Norwegian Sea to exploration – including deepwater areas and Nordland VI. Tight restrictions on when and how drilling should be conducted

- No blocks are awarded in the Skagerrak for various reasons

### 1995-2000:

- Before Norway's 15th licensing round in 1996, the oil companies receive a joint letter from the environmental organisations with the clear message that anyone who starts drilling in Nordland VI will face campaigns in Norway and abroad
- But the companies apply, and Statoil and Norsk Hydro also secure Nordland VI acreage.
- Petroleum minister Marit Arnstad in the first Bondevik government wants to reduce the pace of oil operations because the economy is overheated and to balance Norway's position as an energy producer with its role as an environmental pioneer
- Petroleum-free fishing zones are mentioned, but do not attract much attention at this time
- Brent Spar sharpens the focus on environmental issues in international and Norwegian oil companies.

### 2000- :

- Marine biologists discover that alkyl phenols have unfortunate effects on fish
- Just before the general election, Labour environment minister Siri Bjerke halts Hydro's plans for an exploration well in production licence 219 on Nordland VI – even though the company has fulfilled the requirements for drilling in the area
- Petroleum minister Einar Steensnæs in the second Bondevik government adopts a “greener” profile than most of his predecessors
- Petroleum-free fishing zones become an element in the public debate
- Further operations north of the Lofoten islands are put on hold in anticipation of an impact assessment, which is due to be ready in the late autumn of 2003
- Lack of new discoveries, failure by Norwegian companies to win development contracts, concerns over the competitiveness of domestic industry and lower exploration activity than for many years
- Mr Steensnæs announces in the spring of 2003 that he will use awards in the 18th licensing round in 2004 to stimulate increased activity

## Fish and oil moving closer, greens applying the brakes

**Oil, fish and the environment – after 30 years of coexistence in the North Sea, only ripples can be seen off western Norway. But the waves are running high in the debate on whether and where petroleum operations can be pursued in the Norwegian and Barents Seas.**

By Sveinung Sletten, vice president external affairs, Petoro

We invited Gunnar Berge, director general of the Norwegian Petroleum Directorate, fishermen's association chair Reidar Nilsen and Ane Hansdatter Kismul, who heads the Nature and Youth environmental movement, to discuss the issues – without any expectation that common ground could be found.

Just before this trio meet at Stjørdal near Trondheim, the latest reports suggest that the fishermen are close to an agreement with the Norwegian Oil Industry Association (OLF) on petroleum operations off northern Norway.

Ms Kismul is not happy at that news. "We've seen a dramatic shift in the fishermen's association since its last national congress," she observes, and stares at Mr Nilsen – who was elected to his present position at that congress.

The story proves premature, with the fishermen denying that they have reached any deal or given a green light for drilling in environmentally-sensitive northern waters. But Mr Nilsen confirms that talks with the OLF have been under way for some time.

### In favour

"We see that the oil industry is moving north, not least because politicians and others in the region are strongly in favour," he says.

"We want to be involved, so that we can present our demands and ensure that the oil industry shows the necessary consideration. The best way to achieve this is through cooperation with the petroleum sector. But we're sticking to our insistence on zero discharges to the sea and on the oil industry keeping out of the way of fishing, we expect the impact assessment now under way to be completed as planned, and we want certain special areas to be closed to the petroleum industry."

Mr Nilsen was chair of the association's Finnmark branch when the Snøhvit development in that northernmost Norwegian county was being planned.

"We've been attacked by the environmental movement for our role on Snøhvit," he notes. "My response would be that we were involved in discussions on this project from the start, and collaborated over the plans with Statoil. That eliminated any fears about the development among most of us fishermen."

Fishing was ridden over roughshod in the early years of Norway's offshore business, Mr Nilsen adds. "We're now in discussion with the oil industry on a number

He believes the environmental challenges in northern waters are not necessarily tougher than or wholly different in principle than those faced in the North Sea. But he stresses that, as operations move into new areas, other issues arise which must be tackled.

"The revival of this discussion has perhaps more to do with an enhanced awareness of environmental issues today, not least in terms of climate change. Relations with the fishing industry have improved gradually over time. Mr Nilsen's description of earlier conditions may well be correct, but they're clearly unacceptable. The petroleum industry must reach an understanding with the fishing sector. Trust is very important here."

### Never enough studies

A key topic has been whether the impact assessment currently under way for petroleum operations in the northern Norwegian Sea and the Barents Sea will provide an adequate basis for deciding on continued activity and new licences in these waters.

Ms Kismul is worried that the assessment will be carried out so quickly that it fails to come up with genuinely new facts, and points to the damaging effects of alkyl phenols on fish recently identified by scientists – and covered in the impact study.

Impact assessments have been conducted in northern waters for almost 20 years, Mr Nilsen points out. Nevertheless, the fishermen's association continues to insist that the current exercise must be completed before new licences are awarded. Where alkyl phenols are concerned, he notes that evidence of harm has been obtained under artificially high concentrations of these substances, and that their impact has been limited because they do not affect fish genes.

He asks whether an impact assessment could ever be carried out which would persuade Nature and Youth to accept petroleum activities in these waters.

"We'll never be in favour of such operations there, under any circumstances," Ms Kismul concedes.

### Better placed

Mr Berge points out that the oil industry has been and remains a very minor source of oil spills to the sea and that other sources, such as shipping, are far more important. He notes that the industry has very good data regarding its spills, but that many other sectors cannot claim the same. While by no means underplaying the spill from a production blowout on Ekofisk in 1977, he emphasises that no such uncontrolled release has occurred on the NCS as a result of exploration operations over the 35 years they have lasted.

of issues, such as designing subsea installations for overtrawling. My experience indicates that collaboration is the right route to follow, and I believe that view has broad support in the association."

Ms Kismul remains critical. "Nature and Youth has collaborated closely with the fishermen, and there was never any doubt about their association's scepticism over increased exploration activity in the north. When Snøhvit was under discussion, its demands included a five-year moratorium on development. All that's now been reversed. But not every fisherman has changed their mind!"

### Trust very important

Mr Berge finds today's discussion and arguments very similar to debates which raged in the 1970s. "We drilled in the North Sea for 20 years before opening any part of the NCS north of the 62nd parallel, in part because we wanted to be sure we could operate safely."



From left: Gunnar Berge, Ane Hansdatter Kismul and Reidar Nilsen

"In that context, it's important to remember that safety on rigs and platforms has radically improved," Mr Berge says. "So we're better placed in many respects to pursue this business in northern waters than when we started in the North Sea."

"But I've read, on the contrary, that safety has been declining in recent years and that your own safety director is unhappy," objects Ms Kismul.

"What safety director Magne Ognedal has talked about is the safety of offshore personnel," Mr Berge explains. "Discharges to the sea have declined per unit produced. It's technically possible to achieve zero discharges today, which should be the requirement for oil operations in the north. Problems will continue to exist in achieving zero discharges from existing production installations. The issue there is more one of reducing harmful discharges to zero."

He adds that it is 20 years since Snøhvit was discovered, and that the industry has gained much experience over this period in tackling the challenges facing it.

According to Mr Berge, a widespread misunderstanding prevails about how far the petroleum and fishing industries are in conflict over areas. People think that platforms, with their safety zones, block access to large parts of the sea.

"If we add together all the platforms and safety zones on the NCS today, we end up with about 100 square kilometres," he notes, and calls this very modest compared with the total sea area in question.

#### **Good solution beats a bad one**

For her part, Ms Kismul refers to the definition of risk as a product of the probability that something will happen and the consequences if it does. Both these risk factors are very much present in the Barents Sea, as a relatively new exploration area.

She believes in principle that the world should limit its consumption of fossil fuels, and this view colours her position on exploration off northern Norway. But she does not completely reject dialogue on specific issues.

"I think that a better solution beats a bad one – even if I feel that the issue shouldn't have been raised in the first place. But I don't know how much trust we can have in the industry when we see how it drove through an issue like Snøhvit. Great pressure was brought to bear to get development going quickly – and when the cost overruns subsequently emerge, they admit that the work underpinning their assessments wasn't good enough."

Turning to Mr Nilsen, she adds: "You should have looked after the interests of the fishing industry and applied the precautionary principle. Instead, you play down the problem of alkyl phenols. That's not the best starting point for a dialogue."

#### **Too easy to just say no**

"Saying no would perhaps have been the easiest solution," responds Mr Nilsen. "But my association doesn't take such a simplistic approach. We see the oil industry coming, and we want to be on the inside when it arrives so that we can exert influence and promote our interests and demands. And where safety is concerned, I'd point out that Russian oil shipments are at least as risky as the operations planned in the Barents Sea..."

"Even riskier," agrees Ms Kismul.

"Should the Norwegian oil industry achieve greater leadership in the area through its own operations, however, we might be able to help achieve more overall safety in the region – including transport, exploration and production on the Russian side," Mr Nilsen continues. "Because the Russians are coming."

Ms Kismul is sceptical about constant references to pollution by others – be they industries or nations. Discharges by the petroleum industry are its own problem, she emphasises.

"If the petroleum sector is interested in making northern waters safer, it won't achieve that by adding additional hazards. We must pause a little here and not take it for granted that Norway is going to live on oil and gas in future."

"I agree that we should be offering the Russians our expertise," says Mr Berge. "We can and should extend collaboration with them. For our part, the NPD has recruited a person to serve as energy attaché at the Norwegian embassy in Moscow. We've cooperated with the Russians over safety for many years. I believe a collaboration on developing Russian offshore fields will open great opportunities, not least for Norwegian industry."

On the greenhouse gas issue, he says that Norway is moving from being primarily a source of oil to becoming a gas producer.

"Our gas will be extensively used in Europe to replace heavy oil and coal in generating electricity, which the European nations see as a significant contribution to meeting their Kyoto targets. It would be a little strange if we in Norway were to refrain from a gas production which yields such clear environmental benefits."

#### **Petroleum-dependent**

Asked whether Norway has become too dependent on petroleum, Ms Kismul notes that it is 20 years since the oil industry was modern – about the same time that golfball typewriters were all the rage.

"We're finished with the typewriters, and I don't want my part of Norway to rely on something as outdated as the petroleum sector. We must reduce greenhouse gas emissions by 60-80 per cent. That calls for long-term thinking. The problem is that, when we have so much oil, we don't develop cheap alternative energy."

"As long as we put the revenues in a petroleum fund, we'll manage to handle the economic aspect," says Mr Berge. "But it's undoubtedly a dilemma, as Ms Kismul notes, that we're not making a big enough commitment to developing other energy sources. At the same time, it's unrealistic to imagine that we could convert fully to alternatives to fossil fuels except at a huge cost to our prosperity. In the meantime, it's important to acknowledge that gas is much better environmentally than heavier hydrocarbons."

"Strictly speaking, we might be able to find good arguments against the petroleum industry from a 'central bank' perspective," observes Mr Nilsen. "The oil revenues have undoubtedly meant that we Norwegians have adopted an economic standard which creates problems for domestic industry – including the fisheries – in many contexts. But we can't ignore the positive impact of this industry on the national economy and living standards. And I must also add that it's hard to see how we're going to sustain Norwegian fishing without fossil fuel."

#### **Hydrogen future**

"You could fuel your boats with hydrogen," Ms Kismul responds.

"That would be very expensive," replies Mr Nilsen.

Mr Berge adds that hydrogen as a fuel is far in the future as well as costly. "And we anyway need an energy source to produce it. If that's hydropower or wind energy, all well and good. But people in the USA are thinking of using fossil fuels to produce hydrogen. And if we're going to bring an area like Africa up to a reasonable standard of living, we'll boost energy consumption – and cheap fossil fuels would then be the first choice."

"We agree on the need for energy in developing countries," says Ms Kismul. "But that doesn't have to be fossil. Rising sea levels as a result of greenhouse emissions threaten 200 million people. It will take several hundred years to stabilise the atmosphere."

If we continue burning fossil fuels at present levels for several more decades, such stabilisation could become impossible."

#### **Veto for nature**

The question then is whether maintaining a dialogue between oil, fishing and environmental interests would be worthwhile, given their clear and principled disagreement on many issues.

Mr Nilsen says that he is keen to discuss many things with Nature and Youth, such as the position of marine mammals. "I believe we would benefit from maintaining the dialogue, even if we can't agree on everything. But I think we should focus on specific



issues. I like to solve problems, not cultivate them."

"It's crucially important that fishing interests, the petroleum industry and the authorities are in continuous dialogue and cooperate closely over issues affecting these two sectors," says Mr Berge. "I also believe that the environmental movement can play an important role and exert great influence. But it can't have a veto."

"I don't demand a veto on behalf of Nature and Youth," says Mr Kismul. "But nature has a kind of veto. The greenhouse effect is something we must respond to. Nature and Youth has been constructive. We've made proposals, including petroleum-free zones. I believe there's a majority in favour of that kind of management thinking, and I want to see a debate on where we should draw the boundaries."

## Income statement

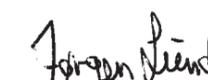
All figures in NOK mill	Notes	2002	2001	2000
OPERATING INCOME				
Operating income	3, 4	103 709	125 562	143 969
<b>Total operating income</b>		<b>103 709</b>	<b>125 562</b>	<b>143 969</b>
OPERATING EXPENSES				
Exploration expenses		871	1 265	1 545
Depreciation and amortisation expenses	2	14 855	18 334	17 505
Provision for removal		1 461	2 006	2 020
Other operating expenses	5	16 870	17 639	18 719
<b>Total operating expenses</b>		<b>34 057</b>	<b>39 244</b>	<b>39 789</b>
<b>Operating profit</b>		<b>69 652</b>	<b>86 318</b>	<b>104 180</b>
FINANCIAL ITEMS				
Financial income		1 664	580	719
Financial expenses		4 337	210	127
<b>Net financial items</b>		<b>(2 673)</b>	<b>370</b>	<b>592</b>
<b>Net profit for the year</b>		<b>66 980</b>	<b>86 688</b>	<b>104 772</b>

## Balance sheet at 31 December

All figures in NOK mill	Notes	2002	2001	2000
Intangible fixed assets		826	13	
Tangible fixed assets	2	122 619	131 178	
Other fixed assets		79	17	
<b>Fixed assets</b>		<b>123 524</b>	<b>131 207</b>	<b>158 997</b>
Stocks		308	258	
Debtors		10 488	10 581	
Bank deposits		37	49	
<b>Current assets</b>		<b>10 832</b>	<b>10 888</b>	<b>14 650</b>
<b>Total assets</b>		<b>134 356</b>	<b>142 094</b>	<b>173 647</b>
Equity at 1 Jan		127 302	156 502	
Paid from/(to) government in the year		(74 852)	(115 888)	
Net profit		66 980	86 688	
<b>Equity</b>	14	<b>119 429</b>	<b>127 302</b>	<b>156 502</b>
Long-term removal liabilities	10	9 342	9 210	
Other long-term liabilities	11	1 878	1 006	
<b>Long-term liabilities</b>		<b>11 220</b>	<b>10 216</b>	<b>12 276</b>
Trade creditors		1 212	2 199	
Other current liabilities		2 495	2 377	
<b>Current liabilities</b>		<b>3 707</b>	<b>4 576</b>	<b>4 869</b>
<b>Total equity and liabilities</b>		<b>134 356</b>	<b>142 094</b>	<b>173 647</b>

Stavanger, 21 February 2003

  
Bente Rathe  
Chair

  
Jørgen Lund  
Deputy chair

  
Ingelise Arntsen

  
Jan M Wennesland

  
Olav K Christiansen

  
Terje Holm

  
Marte Mogstad

  
Kjell Pedersen  
President and CEO

## Cash flow statement

All figures in NOK mill

	2002	2001	2000
<b>Cash flow from operating activities</b>			
Cash receipts from operations	101 878	126 715	142 313
Cash disbursements to operations	(17 763)	(18 741)	(23 001)
Net financial outflow	(2 038)	370	593
<b>Net cash flow provided by operational activities</b>	<b>82 078</b>	<b>108 344</b>	<b>119 905</b>
<b>Cash flow from investment activities</b>			
Investments	(13 140)	(16 513)	(21 512)
<b>Cash flow provided by investment activities</b>	<b>(13 140)</b>	<b>(16 513)</b>	<b>(21 512)</b>
<b>Cash flow from financing activities</b>			
Change in current liabilities	(1 851)	1 032	(1 152)
Change in long-term liabilities	642	1 685	1 799
Net transfer to the government	(66 082)	(94 548)	(99 040)
Pro and contra from government sale	(1 684)		
<b>Cash flow provided by financing activities</b>	<b>(68 975)</b>	<b>(91 831)</b>	<b>(98 393)</b>
Increase in bank deposits onshore partnerships*	37		

\* Change in principle: recorded in previous years under cash flow from operating activities. The change from 1 January-31 December 2002 corresponds to the final balance at 31 December 2002.

## Notes

### ACCOUNTING PRINCIPLES

#### Accounts prepared on a cash basis (cash accounting)

Starting Proposition no 36 (2000-2001) on the ownership of Statoil and future management of the SDFI allocates Petoro the licensee role for the state's direct financial interest (SDFI) in petroleum operations and responsibility for managing these assets.

Expenses and revenues for the SDFI appear in the government's accounts and budgets. As specified in the above-mentioned proposition, SDFI assets are not included in the accounts for Petoro, but appear in the accounts for the SDFI. The accounts prepared on a cash basis use the gross method to record production licences with net profit agreements. In other words, net payments to the SDFI in a licence in one year are recorded as income and net payments from the SDFI are recorded as expenses.

The main difference between accounts using the accruals principle and those calculated on a cash basis is that the latter include investment and exclude depreciation. In addition, corrections are made to income, expenses and investments for changes in receivables and liabilities. With cash accounting, realised currency losses/gains relating to operating expenses and income are classified as operating expenses and income, while accounts using the accruals principle shows such losses/gains as financial expenses/income so that they have no effect on the operating result.

#### Accounts prepared in accordance with the Norwegian Accounting Act (accruals principle)

The accounts are prepared in accordance with the principles in the Norwegian Accounting Act and associated standards (Norwegian generally-accepted accounting principles - NGAAP).

#### General rule for valuation and classification of assets and liabilities

Assets intended for permanent ownership or use in the business are classified as fixed assets. Other assets are classed as current assets. Creditors due within one year are classified as current assets. Classification of current and long-term liabilities is based on the same criteria.

Fixed assets are carried at historical cost with a deduction for planned depreciation. Should the fair value of a fixed asset be lower than the book value, and this decline is not expected to be temporary, the asset will be written down to its fair value. Current assets are valued at the lower of historic cost and fair value.

#### Foreign currencies

Current transactions in foreign currencies during a month are translated and carried in NOK at the exchange rate prevailing on the final day of the previous month. Monetary items in foreign currencies are valued at the exchange rate prevailing on the balance sheet date. Realised and unrealised currency gains/losses are carried as net financial income or expenses.

#### Stocks

Purchased goods are valued in the balance sheet at the lower of historical cost (Fifo) or actual value. The SDFI has no holdings of crude oil which have passed the norm price point. Materials for normal consumption in connection with the operation of oil and/or gas fields are recorded as expenses at the time of acquisition.

#### Debtors

Other debtors are carried at face value less provision for expected loss. This provision is based on an individual assessment of each debtor.



SDFI

SDFI

#### **Bank deposits**

Bank deposits include the SDFI's share of bank deposits in partnerships with apportioned liability (onshore partnerships) in which the SDFI has an interest.

#### **Income taxes**

The SDFI is exempt from tax in Norway.

#### **Financial instruments**

Financial instruments are valued at their market value on the balance sheet date. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are not recorded as income.

#### **Charged against income**

In addition to ordinary operating expenses, the following are recorded as expenses:

- expenses in the exploration phase which are not expected to result in profitable petroleum production
- dry wells
- interest charges and other financial expenses
- operating preparations relating to field installations and production facilities on land
- procurement of spare parts in the production phase
- expenses relating to repairs and maintenance.

#### **Capitalised**

Investments are capitalised in accordance with the Accounting Act and NGAAP. The following are also capitalised:

- expenses relating to exploration drilling in anticipation of a final assessment – should the discovery prove commercial, the expenses are classified as fixed assets in the balance sheet
- expenses incurred by the project organisation for fields under development
- development expenses incurred after approval of the plan for development and operation until production from the field begins.

#### **Depreciation**

Ordinary depreciation on oil and gas production facilities is calculated for each field and field-dedicated transport system using the unit of production method. Before 2002, these fixed assets were depreciated on the basis of proven reserves defined in accordance with the rules prepared by the US Securities and Exchange Commission. For 2002, the NPD's reserve estimates have been applied. These estimates are based on expectations and, in order to depreciate expected proven reserves, the fixed assets are depreciated on the basis of 85 per cent of the NPD's reserves for fields in production. Ordinary depreciation for transport systems used by several fields is calculated on a straight-line basis over the remaining licence period at 31 December 2002. Other tangible fixed assets are depreciated on a straight-line basis over their expected economic lifetime.

#### **Income recognition**

The SDFI recognises the income from its sold share of oil and gas when the products are delivered to the customer. In accordance with the sales and marketing instruction, all oil is sold to Statoil.

Gas and gas borrowing agreements are accrued using the sales method. This means that the borrower records the sale as income on delivery to the buyer. At the same time, a provision is made for the expected future cost of producing and possibly transporting the gas to be returned. When lending gas, the lower of production expense and estimated net present value of the future sales price is capitalised as a pre-paid expense.

Current liabilities arising because too much crude oil has been lifted in relation to the SDFI's share of the production partnership are valued at production cost, while current receivables due from the other partners in the production partnerships are valued at the lower of production cost and fair value.

#### **Purchases and sales between fields and/or transport systems**

Internal expenses and revenues relating to purchases and sales between fields and/or transport systems in which the SDFI has a financial interest are eliminated.

#### **Transfer of proprietary rights between licences**

Proprietary rights are transferred (normally on completion) in some cases from the licence which has paid an investment to the licence in which the investment has been made. The paying licence then retains the right of use to the capital equipment. In the accounts, the paying licence retains the investment as an asset and depreciates it as if the proprietary right had remained with that licence.

#### **Interests in joint enterprises**

The SDFI's interests in licence partnerships (joint ventures) relating to the production of petroleum from the NCS are included under the respective items in the income statement and balance sheet.

#### **Cessation and removal expenses**

Under the licence terms, the authorities can require the licensees to remove offshore installations when their production life comes to an end. The size of such removal expenses will depend on the requirements imposed by the authorities in respect of the removal concept for permanent installations, pipeline systems and so forth. After taking account of the likelihood of removal, the SDFI's obligation - including decommissioning of the installation - is calculated using the unit of production method. This obligation relates mainly to fields in production. Since the SDFI does not pay tax, and is accordingly excluded from the government's statutory reimbursement scheme for removal expenses, a provision equal to the full expected share of removal expenses has been made in the SDFI accounts.

#### **Contingent liabilities**

Probable and quantifiable losses are charged against income.

**NOTE 1 – TRANSFER OF ASSETS**

In connection with the partial privatisation of Statoil in 2001, the government resolved to restructure its proprietary interests in oil and gas on the NCS. The aim has been to achieve a balance between safeguarding government revenues, continuing to develop the Norwegian oil industry and the competitiveness of the NCS, and securing long-term gas management. The assets sold to Statoil represented about 15 per cent of the SDFI's pre-transfer value. Work on restructuring the portfolio was completed by the government in 2002, when further sales totalling some 6.5 per cent of the SDFI's value were made to other oil companies.

The asset sales in 2001 were recorded using the pooling of interests method, since they occurred between units under common control, while those in 2002 were carried out between independent parties. The pooling of interests method means that assets in the SDFI accounts are reduced by the book value of the transferred assets with equity as the contra entry, while income statement and balance sheet values for the assets transferred from Statoil to the government have been combined with the SDFI's other assets on the basis of historical book values. For the 2002 sales between independent parties, the assets have been reduced in the SDFI accounts by their book value. In accordance with the requirements of NGAAP, the company calculated a gain from the 2002 sales which is reflected in the SDFI's income statement. The gain is calculated at the date payment for and transfer of the assets took place.

In accordance with the sales agreements, payment for the transferred assets has been a matter between the government and each buyer independently of the SDFI accounts kept by Petoro. To calculate the gain on the 2002 sales, however, the payments are recorded as required by NGAAP in the SDFI's accounts with equity as the contra entry. The subsequent pro and contra settlements of cash flows from the sold assets passed in 2002 via the SDFI. In 2001, these were a matter between the government and Statoil and were excluded from the SDFI accounts.

A review of the calculations used to determine the cash payment for the transferred assets has not been completed, and could involve changes to the payment.

The annual accounts for 2002 have been prepared in accordance with the SDFI portfolio before the transfer of assets up to the date when the assets were transferred to the buyers, and in accordance with the portfolio after the transfers. Transfer dates varied from buyer to buyer, but fell in 2002 between 2 May and 4 December. The transfer date in 2001 was 31 May.

Assets sold in fields, pipelines and land-based plants in 2002:

<b>Field, etc</b>	<b>Interest sold %</b>
Oseberg Unit	17.1838
Oseberg South	4.7600
Oseberg East	11.8000
Tune	10.0000
Grane	13.6000
Oseberg Transport System	2.4000
Gyda	30.0000
Heidrun	6.0000
Njord	22.5000
Fram	30.0000
Tambar	30.0000
Draugen	10.0000
Brage	20.0000

The sales sum in 2002 totalled NOK 8.8 billion, and the gain calculated in accordance with NGAAP was NOK 1.6 billion. The calculated gain represents the sales sum less a net amount of NOK 6.8 billion in fixed assets, NOK 1.9 billion in pro and contra settlement and NOK 1.5 billion in adjustments to removal liabilities and working capital. Fixed capital and the real investment account on a cash basis – see the capital accounts on page 61 – are not affected by the gain calculation made under NGAAP. The accounts for real investments and fixed capital have been corrected by NOK 6.5 billion in write-down on net fixed assets. See note 2.

**NOTE 2 – SPECIFICATION OF FIXED ASSETS**

All figures in NOK mill	Historic cost at 31.12.2001	Addition 2002	Sale 2002	Disposals 2002	Accumulated depreciation 31.12.2001	Depreciation 2002	Book value at 31.12.2002
<b>Fields under development</b>							
Fram	139	125	(264)				
Grane	2 282	1 805	(964)				3 123
Kristin	30	315					346
Kvitebjørn	920	810					1 730
Skirne/Byggve	79	105					184
Snøhvit	126	557					683
<b>Sub-total</b>	<b>3 575</b>	<b>3 718</b>	<b>(1 228)</b>				<b>6 065</b>
<b>Fields in operation</b>							
Brage	3 991	64	(295)		(3 520)	(154)	85
Draugen	9 179	369	(609)		(5 457)	(772)	2 710
Ekofisk II	1 355	122			(337)	(99)	1 040
Gullfaks	22 038	808			(16 279)	(1 233)	5 334
Gyda	2 870	11	(209)		(2 654)	(18)	
Heidrun	22 896	1 208	(1 180)		(10 242)	(1 479)	11 203
Heimdal	1 806	17			(1 776)	3	50
Huldra	1 872	152			(115)	(581)	1 327
Jotun	263	35			(194)	(21)	83
Njord	2 416	9	(734)	(57)	(1 318)	(102)	214
Norne	6 624	337			(2 952)	(887)	3 121
Oseberg South	3 344	184	(156)		(648)	(277)	2 447
Oseberg Unit	22 924	546	(1 187)		(19 389)	(504)	2 389
Oseberg East	2 444	219	(216)		(1 057)	(327)	1 063
Snorre	12 194	672			(5 312)	(890)	6 664
Statfjord North	1 489	33			(909)	(93)	520
Statfjord East	1 207	143			(936)	(69)	345
Sygna	481	29			(185)	(83)	241
Tambar	394	4	(331)		(25)	(41)	
Tordis	1 786	191			(1 300)	(151)	526
Troll Gas	18 538	439			(2 406)	(590)	15 980
Troll Oil	25 654	1 947			(15 909)	(2 462)	9 230
Tune	1 114	552	(295)			(3)	1 369
Varg	593	24			(581)	(23)	13
Veslefrikk	3 585	180			(2 551)	(147)	1 067
Vigdis	1 740	111			(1 164)	(195)	491

	Historic cost at 31.12.2001	Addition 2002	Sale 2002	Disposals 2002	Accumulated depreciation 31.12.2001	Depreciation 2002	Book value at 31.12.2002
<b>Fields in operation</b>							
Visund	3 327	282			(749)	(330)	2 530
Åsgard	17 578	362			(1 402)	(1 254)	15 285
<b>Sub-total</b>	<b>193 701</b>	<b>9 047</b>	<b>(5 212)</b>	<b>(57)</b>	<b>(99 366)</b>	<b>(12 784)</b>	<b>85 327</b>
<b>Pipelines and terminals</b>							
Dunkerque Terminal	176				(25)	(8)	143
Etanor	814	6			(46)	(41)	734
Europipe II	3 305	1			(351)	(155)	2 800
Franpipe	4 435	20			(654)	(199)	3 602
Haltenpipe	1 145				(237)	(46)	863
Mongstad Terminal	585	2			(519)	(12)	55
Norsea Gas*	4						4
Oseberg Gas Transport	762	13			(43)	(35)	697
Oseberg Transport System	2 694	15	(26)		(2 091)	(82)	511
Statpipe	6 599	233			(4 979)	(141)	1 711
Troll Oil Pipeline I and II	908				(437)	(99)	372
Vesterled	570	22			(7)	(31)	553
Vestprosess	680	51			(81)	(36)	615
Zeepipe/Europipe I	16 483				(4 442)	(703)	11 338
Zeepipe Terminal	196				(81)	(7)	109
Åsgard Transport	3 859	12			(248)	(190)	3 432
<b>Sub-total</b>	<b>43 217</b>	<b>375</b>	<b>(26)</b>		<b>(14 242)</b>	<b>(1 787)</b>	<b>27 537</b>
<b>Total fixed assets excl capitalised exploration expenses</b>							
	240 493	13 140	(6 466)	(57)	(113 609)	(14 571)	118 930
Addition sale		184					184
Capitalised exploration expenses	6 680	300	(382)	(422)	(2 388)	(283)	3 505
<b>Total tangible fixed assets – accruals principle</b>							
	247 173	13 624	(6 848)	(479)	(115 997)	(14 855)	122 619
Other assets	31						31
Conversion to cash basis	(8 356)	(759)	382	422	2 388	283	(5 640)
Reclassification		(57)		57			
<b>Total fixed assets on cash basis</b>	<b>238 848</b>	<b>12 808</b>	<b>(6 466)</b>		<b>(113 609)</b>	<b>(14 571)</b>	<b>117 010</b>

**NOTE 3 – SPECIFICATION OF OPERATING INCOME**

All figures in NOK mill	2002	2001
Troll Oseberg	43 266	56 154
Tampen	17 265	26 849
Norwegian Sea	31 629	39 674
Pipelines and land-based plants	10 829	8 253
Others	1 774	6 925
Norm price adjustment		(301)
Net profit agreements	316	531
Other income	2 944	
Elimination internal sales	(4 314)	(12 523)
<b>Total - accruals principle</b>	<b>103 709</b>	<b>125 562</b>
Conversion to cash basis	(3 773)	3 027
<b>Total - cash basis</b>	<b>99 935</b>	<b>128 589</b>

**NOTE 4 – SPECIFICATION OF OPERATING INCOME BY PRODUCT**

All figures in NOK mill	2002	2001
Crude oil and NGL*	71 798	94 748
Gas	22 609	25 751
Transport, processing and other income	8 986	4 532
Net profit agreements	316	531
<b>Total - accruals principle</b>	<b>103 709</b>	<b>125 562</b>
Conversion to cash basis	(3 773)	3 027
<b>Total - cash basis</b>	<b>99 935</b>	<b>128 589</b>

\* Including condensate

**NOTE 5 – SPECIFICATION OF OPERATING EXPENSES**

All figures in NOK mill	2002	2001
Troll Oseberg	9 357	16 459
Tampen	3 268	4 196
Norwegian Sea	4 856	6 220
Pipelines and land-based plants	1 725	1 022
Others	366	2 320

All figures in NOK mill	2002	2001
Other operating costs	1 611	
Elimination internal purchases	(4 314)	(12 523)
<b>Total - accruals principle</b>	<b>16 870</b>	<b>17 639</b>
Conversion to cash basis	894	(872)
<b>Total - cash basis</b>	<b>17 764</b>	<b>16 766</b>

#### NOTE 6 – INTEREST RATES

Interest on the government's fixed capital is included in the accounts. The amount of interest is calculated as specified in Proposition no 1 Amendment no 7 (1993-1994) to the Storting (the Finance Bill), and in item 5.5 in the letter of award to Petoro AS from the Ministry of Petroleum and Energy for 2002.

#### NOTE 7 – CASH BALANCE

All figures in NOK mill	2002
Account for real investment	117 010
Fixed capital at 31.12.2002	(117 010)

#### NOTE 8 – GOVERNMENT PETROLEUM INSURANCE FUND

Transfers from the Government Petroleum Insurance Fund relate to settlements of insurance claims. The amount is added to operating expenses in the accounts compiled on a cash basis.

#### NOTE 9 – RELATED PARTIES

Statoil is the buyer of the government's oil, condensate and NGL. Total sales of oil, condensate and NGL to Statoil came to NOK 71 929 million (376 million boe) for 2002 and NOK 94 748 million (452 million boe) for 2001.

Statoil markets and sells the government's natural gas together with its own production. The government receives the market value for these sales. In 2002, the government sold lean gas worth NOK 119 million to Statoil. The government reimburses Statoil for the costs associated with the transport of lean gas as well as the purchase of lean gas for onward sale. This amounted to NOK 7 950 million in 2002.

Open accounts with Statoil relating to these income and expense items are included under debtors and current liabilities respectively in the balance sheet, and come to USD 841 million and EUR 152 million as well as negative amounts of NOK 208 million and GBP 4 million.

In addition to the above-mentioned amounts, the SDFI accounts include other open transactions with Statoil which relate primarily to provisions in connection with year-end closing as well as transactions relating to

long-term obligations under the sales and marketing instruction. See note 11. Open accounts and transactions relating to activities in the production licences are not included in the above-mentioned amounts.

#### NOTE 10 – CESSATION/REMOVAL

Provision for the estimated cost of future cessation and removal of production installations is made in accordance with the unit of production method, based on the volume produced during the licence period. Provision for riser platforms is made on a straight-line basis over the licence period.

Great uncertainty attaches to the estimated cost of possible future removals. Total future cessation and removal expenses for installations in production at December 2002 are put at NOK 17 billion. After adjusting for sales, the accumulated provision for future cessation and removal at 31 December amounted to NOK 9 342 million as against NOK 9 210 million a year earlier.

#### NOTE 11 – OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprise:

- Debt relating to the agreement between Statoil and El Paso on the acquisition of sales and processing rights in the USA for LNG from the Snøhvit field. This debt will be settled in accordance with the sales and marketing instruction.
- Debt relating to Statoil's agreement on the acquisition of rights to build an underground gas store in the UK. This debt will be settled in accordance with the sales and marketing instruction.
- The SDFI's share of borrowed gas
- Prepayment from Electrabel for gas purchases.
- Compensation to gas buyers in connection with buy-out of stock liabilities.

Liabilities falling due longer than five years total NOK 1 204 million.

#### NOTE 12 – LEASES/CONTRACTUAL OBLIGATIONS

Leases represent operations-related contractual obligations for the chartering of rigs, supply ships and stand-by vessels as well as the leasing of helicopters, bases and so forth as specified by the individual operator. The figures represent cancellation costs.

Year	Amounts in NOK mill
2003	875
2004	368
2005	270
2006	219
2007	86
Thereafter	164

In addition to the above-mentioned leasing commitments, the company has concluded a charter for carriers to ship LNG from the Snøhvit field. The capital element in this charter amounts to about USD 440 million for a 20-year period. Charter charges will be payable from the start of production in 2006.

When licences to explore for and produce oil and gas are awarded, the participants undertake to drill a certain number of wells. At 31 December, the company is committed to participating in three wells with an expected cost to the company of NOK 50 million.

The company has also accepted contractual obligations relating to the development of new fields, represented by the development cost of the field. This amounts to NOK 7 024 million for 2003 and thereafter NOK 11 323 million – a total of NOK 18 347 million. In addition, the company is committed through approved production licence budgets to production and investment costs in coming years which are on a par with 2002.

#### NOTE 13 – OTHER LIABILITIES

The SDFI could be affected by possible legal actions and disputes in which the company is involved as a participant in production licences, fields, pipelines and land-based plants and as a partner in common sales of gas with Statoil. The company does not think that the outcome of these cases will have any substantial effect on the SDFI's financial position, results or cash flow.

#### NOTE 14 – EQUITY

All figures in NOK mill	2002	2001
Cash transfer to the Bank of Norway	(370 307)	(304 225)
Capital contribution	9 082	9 082
Accumulated earnings at 1 Jan 02	443 784	357 096
Transfer of interests in 2001-02	(30 109)	(21 339)
Net profit for the year	66 980	86 688
<b>Total equity</b>	<b>119 429</b>	<b>127 302</b>

The cash transfer to the Bank of Norway is the amount which the government has received from the SDFI (payments from the SDFI minus payments to the SDFI, with the exception of NOK 9 082 million in capital contribution).

The capital contribution is the sum paid to Statoil at 1 January 1985 for the assets acquired by the SDFI from Statoil (repaid on debt owed by Statoil to the government). Accumulated earnings at 1 January are the accumulated operating profit since the SDFI was established on 1 January 1985.

Accumulated transfer of interests relates to the sales of 15 per cent of the SDFI portfolio in 2001 and 6.5 percent in 2002. The amount for 2002 is shown as the accumulated effect on equity of the NOK 21 339 million and NOK 8 770 million in sales for 2001 and 2002 respectively.

The transfer of assets from the SDFI to Statoil in 2001 has been recorded using the pooling of interests method, since it occurred between units under common control. This method means that assets in the SDFI accounts are reduced by the book value of the transferred assets with equity as the contra entry.

Asset transfers in 2002 occurred between independent parties. These transfers are recorded using the transaction principle with associated calculation of accounting gain and loss.

#### NOTE 15 – SALES AND MARKETING INSTRUCTION

The Norwegian government pursues a common ownership strategy to maximise the combined value of its shareholding in Statoil and its own oil and gas interests through the SDFI. This finds expression in the sales and marketing instruction, which sets specific terms for selling the government's oil, NGL, condensate and natural gas. The overall aim of this sales arrangement is to achieve the highest possible combined value for petroleum belonging both to Statoil and the government, and to secure an equitable division of the total value creation.

#### NOTE 16 – EXPECTED OIL AND GAS RESERVES

<sup>1</sup> Unaudited	2002		2001		2000	
Oil* in mill bbl	Oil	Gas	Oil	Gas	Oil	Gas
Gas in bn scm						
Expected reserves at 1 Jan	3 376	953	4 510	1 157	4 840	1 167
Change in estimates	156	(21)	(113)	(20)	15	(8)
Extensions and discoveries	28	2	90	37	94	21
Improved recovery	31		11		32	1
Purchase of reserves						
Sale of reserves	(361)	(22)	(697)	(200)		
Production	(354)	(21)	(425)	(21)	(471)	(24)
<b>Expected reserves at 31 Dec</b>	<b>2 876</b>	<b>891</b>	<b>3 376</b>	<b>953</b>	<b>4 510</b>	<b>1 157</b>

Expected reserves at 31 December 2002 totalled 8 483 million barrels of oil equivalent.

Estimated reserves in production at 31 December 2002 totalled 2 463 million barrels of oil, condensate and NGL and 588 billion scm of gas.

\*) Oil includes NGL and condensate.

#### Definition

Expected reserves represent the estimated value of resources in resource categories 1-3 of the NPD's resource classification system, as specified in the guidelines for classification of petroleum resources on the NCS.

Estimated reserves in production are the sum of remaining recoverable, marketable and deliverable quantities of petroleum which are in production, and also include cases in which production has been temporarily shut down. These quantities satisfy resource category 1F in the NPD classification.

### Appropriation accounts on a cash basis

Expenses and income	Notes	
Removal		87
Pro and contra settlement (payments)		1 977
Investment	2	12 808
<b>Total expenses</b>		<b>14 872</b>
Pro and contra settlement (receipts)		(294)
Operating income	3, 4	(99 935)
Operating expenses	5	17 764
Exploration and field development expenses		1 011
Depreciation	2	14 571
Interest on fixed capital	6	6 363
<b>Operating profit</b>		<b>(60 226)</b>
Depreciation	2	(14 571)
Transfer from Govt Petroleum Insurance Fund	8	(285)
Interest on fixed capital	6	(6 363)
<b>Total income</b>		<b>(81 738)</b>
<b>Cash flow (net income from the SDFI)</b>		<b>(66 866)</b>

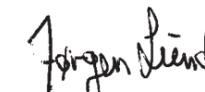
### Capital accounts on a cash basis

Items	Notes		
Open account Statoil			
Real investment before write-down		123 476	
Write-down	1, 2	(6 466)	
Account for real investment	2, 7	117 010	117 010
<b>Total</b>			<b>117 010</b>
Open account government 1 Jan 02			784
Total costs		14 872	
Total revenues		(81 738)	
Cash flow		(66 866)	(66 866)
Net transfer to the government			66 082
<b>Open account government 31 Dec 02</b>			<b>0</b>
Fixed capital 1 Jan 02			(125 239)
Investment for the year			(12 808)
Depreciation for the year			14 571
Write-down	1, 2		6 466
Fixed capital at 31 Dec 02	2, 7		(117 010)
<b>Total</b>			<b>(117 010)</b>

Stavanger, 28 February 2003



Bente Rathe  
Chair



Jørgen Lund  
Deputy chair



Ingelise Arntsen



Jan M Wennesland



Olav K Christiansen



Terje Holm



Marte Mogstad



Kjell Pedersen  
President and CEO

**OVERVIEW OF SDFI ASSETS IN FIELDS, PIPELINES  
AND LAND-BASED PLANTS**

	At 31.12.2002	At 31.12.2001
<u>Unitised fields</u>	<u>Interest</u>	<u>Interest</u>
Brage Unit	14.26%	34.26%
Grane Unit	30.00%	43.60%
Halten Bank West (Kristin)	18.90%	18.90%
Heidrun Unit	58.16%	64.16%
Heimdal Unit	20.00%	20.00%
Huldra Unit	31.96%	31.96%
Jotun Unit	3.00%	3.00%
Njord Unit	7.50%	30.00%
Norne Unit	54.00%	54.00%
Ormen Lange	36.00%	36.00%
Oseberg South Unit	33.60%	38.36%
Oseberg Unit	33.60%	50.78%
Snorre Unit	30.00%	30.00%
Snøhvit Unit	30.00%	30.00%
Statfjord East Unit	30.00%	30.00%
Sygna Unit	30.00%	30.00%
Tor Unit	3.69%	3.69%
Troll Unit	56.00%	56.00%
Visund Unit	30.00%	30.00%
Åsgard Unit	35.50%	35.50%
<u>Fields</u>		
Draugen	47.88%	57.88%
Ekofisk	5.00%	5.00%
Eldfisk	5.00%	5.00%
Embla	5.00%	5.00%
Fram	0.00%	30.00%
Gullfaks	30.00%	30.00%
Gullfaks South	30.00%	30.00%
Gyda	0.00%	30.00%
Kvitebjørn	30.00%	30.00%
Oseberg East	33.60%	45.40%
Skirne/Byggve	30.00%	30.00%
Statfjord North	30.00%	30.00%
Tambar	0.00%	30.00%
Tordis	30.00%	30.00%
Tune	40.00%	50.00%
Varg	30.00%	30.00%
Veslefrikk	37.00%	37.00%
Vigdis	30.00%	30.00%

	At 31.12.2002	At 31.12.2001
<u>Shut-in fields</u>	<u>Interest</u>	<u>Interest</u>
Froy Unit	41.62%	41.62%
East Frigg	1.46%	1.46%
West Ekofisk	5.00%	5.00%
Cod	5.00%	5.00%
Edda	5.00%	5.00%
<u>Pipelines and land facilities</u>		
<u>Oil pipelines</u>		
Frostpipe	30.00%	30.00%
Oseberg Transport System (OTS)	48.38%	50.78%
Troll Oil Pipelines I + II	55.77%	55.77%
Grane Oil Pipeline	43.60%	43.60%
Kvitebjørn Oil Pipeline	30.00%	30.00%
<u>Land-based plants for oil</u>		
Mongstad Terminal DA	35.00%	35.00%
<u>Gas pipelines</u>		
Europipe II	45.01%	45.01%
Franpipe	60.00%	60.00%
Haltenpipe	57.81%	57.81%
Norpipe AS - gas pipeline	25.00%	25.00%
Oseberg Gas Transport (OGT)	49.28%	50.78%
Statpipe	33.25%	33.25%
Vesterled	60.00%	60.00%
Zeepipe	55.00%	55.00%
Åsgard Transport	46.95%	46.95%
Norne Gas Export	54.00%	54.00%
Draugen Gas Export	47.88%	57.88%
Grane Gas Pipeline	30.00%	43.60%
Heidrun Gas Export	58.16%	64.16%
Kvitebjørn Gas Transport	30.00%	30.00%
Troll Gas Pipeline	56.00%	56.00%
<u>Land-based plants for gas</u>		
Dunkerque Terminal DA	39.00%	39.00%
Etanor DA	62.70%	62.70%
Zeepipe Terminal JV	26.95%	26.95%
Emden Terminal	25.00%	25.00%
Vestprosess DA	41.00%	41.00%
Kollsnes	56.00%	56.00%
Snøhvit gas liquefaction plant	30.00%	30.00%

For a complete list of interests in the various production licences, see [www.petro.no](http://www.petro.no)

## Income statement

## RESOURCE ACCOUNTS

Resource accounts for the state's direct financial interests on the NCS are reported in accordance with the requirements of the Petroleum Act. The tables present reserves in resource classes 1-3 and resources in resources classes 4-8.

Resource classes		oil and NGL* mill scm	gas bn	o.e mill scm
Resource classes 1 til 8				
Resource classes 1-3	Reserves	457.28	889.97	1 347.25
Resource classes 4	Resources in early planning	81.88	175.45	257.33
Resource classes 5	Recovery likely but not clarified	17.70	13.50	31.20
Resource classes 6	Recovery not very likely	4.16	1.22	5.38
Resource classes 7	Resources which have not been evaluated	46.66	2.02	48.68
Resource classes 8	Prospects	23.51	18.62	42.14
<b>Total</b>		<b>631.18</b>	<b>1 100.78</b>	<b>1 731.97</b>

\* Including condensate

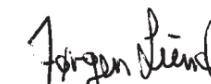
All figures in NOK 1 000	Notes	2002	2001
Government contribution	1	250 000	50 000
Other income		197	
<b>Total operating income</b>		<b>250 197</b>	<b>50 000</b>
Payroll expenses	2	53 994	5 908
Ordinary depreciation	3	295	33
Administrative fees	12	11 931	17 344
Accounting fees	11	29 893	4 507
Office expenses	10	14 893	238
ICT expenses		36 434	239
Other operating expenses	9	87 144	30 792
<b>Total operating expenses</b>		<b>234 584</b>	<b>59 061</b>
<b>Operating profit/(loss)</b>		<b>15 613</b>	<b>(9 061)</b>
Financial income		3 931	538
Financial expenses		(157)	
<b>Net financial result</b>		<b>3 775</b>	<b>538</b>
<b>NET PROFIT/(LOSS) FOR THE YEAR</b>		<b>19 388</b>	<b>(8 523)</b>

## TRANSFERS

Transfer of uncovered loss	-	(8 523)
Coverage of uncovered loss	8 523	-
Transfer to other equity	10 865	-
<b>Total transfers</b>	<b>19 388</b>	<b>(8 523)</b>

Stavanger, 21 February 2003

  
Bente Rathe  
Chair

  
Jørgen Lund  
Deputy chair

  
Ingelise Arntsen

  
Jan M Wennesland

  
Olav K Christiansen

  
Terje Holm

  
Marte Mogstad

  
Kjell Pedersen  
President and CEO

## Balance sheet at 31 December

All figures in NOK 1 000	Notes	2002	2001
<b>ASSETS</b>			
<b>Fixed assets</b>			
Operating equipment, fixtures, fittings, office machines, etc	3	1 315	216
<b>Total tangible fixed assets</b>		<b>1 315</b>	<b>216</b>
<b>Total fixed assets</b>		<b>1 315</b>	<b>216</b>
<b>Current assets</b>			
Other debtors	4	3 105	2 026
Cash and bank deposits	5	73 296	17 743
<b>Total current assets</b>		<b>76 401</b>	<b>19 770</b>
<b>Total assets</b>		<b>77 716</b>	<b>19 986</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Paid-in capital</b>			
Share capital (10 000 shares at NOK 1 000)	6	10 000	10 000
<b>Total paid-in capital</b>		<b>10 000</b>	<b>10 000</b>
<b>Retained earnings</b>			
Uncovered loss		-	(8 523)
Other equity		10 865	-
<b>Total retained earnings</b>	<b>7</b>	<b>10 865</b>	<b>(8 523)</b>
<b>Total earnings</b>		<b>20 865</b>	<b>1 477</b>
<b>Liabilities</b>			
Pension liabilities	2, 8	3 455	666
<b>Total provisions</b>		<b>3 455</b>	<b>666</b>
<b>Current liabilities</b>			
Trade creditors		27 062	10 467
Withheld taxes and social security		5 591	1 316
Other current liabilities		20 744	6 060
<b>Total current liabilities</b>	<b>12</b>	<b>53 397</b>	<b>17 843</b>
<b>Total liabilities</b>		<b>56 852</b>	<b>18 509</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>77 716</b>	<b>19 986</b>

## Cash flow statement

All figures in NOK 1 000	2002	2001
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash generated from this year's operations*	19 683	(8 490)
+/- Change in debtors	(1 079)	(2 026)
+/- Change in trade creditors	16 595	10 467
+/- Change in other accrued items	21 748	8 042
<b>Net cash flow provided by operating activities</b>	<b>56 947</b>	<b>7 992</b>
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		
- Investment in tangible fixed assets	(1 394)	(249)
<b>Net cash flow provided by investing activities</b>	<b>(1 394)</b>	<b>(249)</b>
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		
+ Proceeds from share issue		10 000
<b>Net cash flow provided by financing activities</b>		<b>10 000</b>
Net change in liquid assets	55 553	17 743
+ Cash and cash equivalents at 1 January	17 743	
<b>Cash and cash equivalents at 31 December</b>	<b>73 296</b>	<b>17 743</b>
* This figure is obtained as follows:		
Net profit/loss for the year	19 388	(8 523)
+ Ordinary depreciation	295	33
<b>Cash generated from this year's operations</b>	<b>19 683</b>	<b>(8 490)</b>

## Notes

### ACCOUNTING PRINCIPLES

#### Valuation and classification of assets and liabilities

Assets intended for permanent ownership or use in the business are classified as fixed assets. Other assets are classed as current assets. Creditors due within one year are classified as current assets. Classification of current and long-term liabilities is based on the same criteria.

Fixed assets are carried at historical cost with a deduction for planned depreciation. Should the fair value of a fixed asset be lower than the book value, and this decline is not expected to be temporary, the asset will be written down to its fair value. Fixed assets with a limited economic lifetime are depreciated on a straight-line basis over their economic lifetime.

Current assets are valued at the lower of historic cost and fair value.

Current liabilities are carried at nominal value.

#### Debtors

Other debtors are carried at face value less provision for expected loss. This provision is based on an individual assessment of each debtor.

#### Bank deposits, etc

Bank deposits include bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase.

#### Pensions

The pension plan is treated for accounting purposes in accordance with the Norwegian Accounting Standard for Pension Costs. This standard requires the company's pension plan to be treated as a defined benefit plan. Future pension benefits are calculated on the basis of a straight-line earning of pension benefits and the estimated salary at the time of retirement. Deviations from estimates and effects of changes in assumptions are amortised over the remaining years of service if they exceed 10 per cent of the greater of pension liabilities and pension funds. Changes in the pension plan are spread over the remaining years of service.

The estimated liability at 31 December is applied when calculating accrued pension liabilities. The estimated liability is corrected every year in accordance with a statement from the life insurance company showing the accrued liability. Employer's national insurance contributions (NIC) are included in the figures. Pension funds are valued at their fair value.

#### Government contribution

The company has received fees from the government for services provided to the Ministry of Petroleum and Energy. An operating grant for the company is appropriated by the Storting (parliament) for the specific fiscal year. This operating contribution is presented as operating income in the accounts.

#### Income taxes

The company is exempt from tax under section 2-30 of the Income Tax Act.

#### Day of foundation

Petoro AS was established on 9 May 2001, and 2002 was its first full operating year.

### NOTE 1 – GOVERNMENT CONTRIBUTION

The company received an operating contribution totalling NOK 250 million from the Norwegian government in 2002. NOK 234.6 million of the government contribution for the year covered operating costs, NOK 1.3 million related to capitalised costs and NOK 8.5 million covered the loss for 2001, giving a total of NOK 244.4 million. In addition, estimated commitments relating to projects initiated in 2002 but completed by February 2003 came to NOK 4.9 million.

### NOTE 2 – PAYROLL EXPENSES, NUMBER OF EMPLOYEES, BENEFITS, LOANS TO EMPLOYEES, ETC

Payroll expenses	2002	2001
all figures in NOK 1 000		
Pay	34 216	3 787
National insurance contributions	6 667	760
Pensions (see note 8)	9 235	666
Other benefits	3 876	695
<b>Total</b>	<b>53 994</b>	<b>5 908</b>

Employees at 31 Dec	52	5
Employees with a signed contract who had not started work at 31 Dec 2002	5	29

The company had an average of 40 employees during the fiscal year.

Petoro AS subsidises the difference between interest rates set by the market for housing loans to employees and a standard rate set by the Storting. This subsidy totalled NOK 129 694 in 2002.

Remuneration of senior executives	Pay	Recorded pension liabil	Other benefits
all figures in NOK 1 000			
President and CEO	2 276	696	131
Working chair (excl director's fees)	1 064		33

The president can choose to retire on a full pension upon reaching the age of 60. Should he exercise this right, he must make himself available to the company for 25 per cent of full-time work until the age of 62.

Director's fees	2002	2001
Director's fees paid	1 049	613

### NOTE 3 – TANGIBLE FIXED ASSETS

All figures in NOK 1 000	Equipment, etc	ICT
Purchase cost 1 Jan 02	249	
Additions (purchased)	1 098	296
Disposals		
<b>Purchase cost at 31 Dec 02</b>	<b>1 347</b>	<b>296</b>
Accumulated depreciation	301	27
Book value at 31 Dec 02	1 046	269
Depreciation for the year	268	27
Economic life	3/5 years	3 years
Depreation plan	straight-line	straight-line
Annual hire of tangible fixed assets not recorded in the balance sheet	559	5 587

**NOTE 4 – OTHER DEBTORS**

Other debtors consist in their entirety of pre-paid costs, relating primarily to rent, insurance, licences and subscriptions for market information.

**NOTE 5 – BANK DEPOSITS**

Bank deposits comprise NOK 2 821 361 in withheld tax.

**NOTE 6 – SHARE CAPITAL AND SHAREHOLDER INFORMATION**

The share capital of the company at 31 December 2002 comprised 10 000 shares with a nominal value of NOK 1 000 each.

All the shares are owned by the MPE on behalf of the Norwegian government.

**NOTE 7 – EQUITY**

All figures in NOK 1 000	Share capital	Other equity
<b>Equity at 1 Jan 02</b>	<b>10 000</b>	<b>(8 523)</b>
Current-year changes in equity:		
Paid-in equity		
Capital expansion		
Net profit		19 388
<b>Equity at 31 Dec 02</b>	<b>10 000</b>	<b>10 865</b>

**NOTE 8 – PENSION COSTS, FUNDS AND LIABILITIES**

The company has a collective pension plan for its employees. This liability embraced 52 people at 31 December 2002.

All figures in NOK 1 000	2002	2001
Net present value of benefits earned during the year	3 028	584
Accrued employer's NIC	427	82
Net pension costs (incl employer's NIC)	3 455	666
Estimated benefit liability	9 125	584
Estimated market value of pension fund	6 097	
(Pre-paid pension)/net pension liability before empl NIC	3 028	584
Accrued employer's NIC	427	82
(Pre-paid pension)/net pension liability before empl NIC	3 455	666

An actuarial calculation has been carried out by the life insurance company on the basis of information from Petoro AS. The following assumptions have been applied in this calculation:

	2002	2001
Discount rate	6%	7%
Expected increase in pensions/NI base rate	3%	3%
Expected increase in salaries	3%	5%

Commonly-used assumptions in the insurance industry are applied as the basis for actuarial assumptions concerning demographic factors and retirement.

**NOTE 9 – AUDITOR'S FEES**

Fees charged to the Petoro AS accounts for the external auditor in 2002 totalled NOK 204 046 for regular auditing of the financial accounts. In addition came the following consultancy fees paid to Deloitte & Touche:

Audit work on SDFI accounts	NOK	1 016 432
Participation in partner audits	NOK	726 144
Legal support, primarily to clarify VAT for the SDFI*	NOK	622 407
Audit of pro and contra in connection with disposals	NOK	656 704

\*invoiced by Deloitte & Touche Advokater DA

**NOTE 10 – LEASES**

Petoro will move into new offices during 2003. The company has signed a lease for office premises with Smedvig Eiendom AS. This lease runs for 12 years after the year in which occupancy begins, with a right to extend this period by another five years. The expected annual rent is NOK 5.4 million. While waiting for the new building to be completed, Petoro rented other office premises during 2002. NOK 4.4 million in rent was charged to the accounts.

**NOTE 11 – AGREEMENT WITH ACCENTURE**

Petoro has concluded an agreement with Accenture under which the latter will provide transaction processing and system applications for keeping the SDFI and Petoro AS accounts. This agreement has been concluded for five years, with an option for a further two years. Fees charged to the accounts in 2002 for transaction processing and system applications amounted to NOK 24.2. In addition to the main agreement, Petoro has purchased accounting services from Accenture in connection with the take-over of the accounting function from Statoil.

**NOTE 12 – RELATED PARTIES**

Statoil ASA and Petoro AS have the same owner and are accordingly related parties. Petoro purchased services in 2002 relating to the transfer of the SDFI accounts from Statoil to Petoro, administrative services in licences, and other services. NOK 13.7 million was charged to the accounts in 2002 for the purchase of services from Statoil. These services have been purchased at market price on the basis of hours worked. At 31 December 2002, Petoro owed NOK 1.3 million to Statoil. This amount is included under current liabilities in the balance sheet.



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