petoro

2003

SDFI and Petoro AS

CONTENTS

PETORO IN BRIEF

Acting on a commercial basis, Petoro will create the highest possible economic value from the state's direct financial interest (SDFI) on the Norwegian continental shelf.

The company serves as the licensee for the SDFI in production licences, with the same rights and obligations as the other licensees.

Petoro's main duties are:
- to follow up the state's direct interests in production licences and other joint ventures
- to monitor marketing and sales of the government's oil and gas
- financial management.

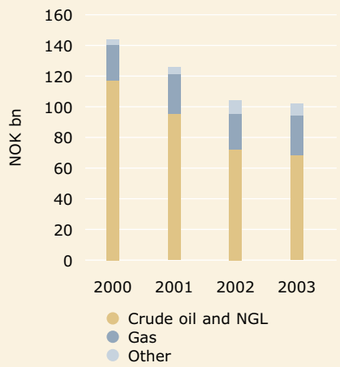
The company moved into a new building at Øvre Strandgate 124 in Stavanger during the autumn of 2003. Its 56 employees have been recruited from 30-odd enterprises, including the major oil companies and suppliers on the NCS as well as banks, other financial institutions and consultants.

Petoro's management team is portrayed below. Seated from left: Nina Lie, chief financial officer, Olav Boye Sivertsen, legal affairs, Ellinor Grude, human resources, John Vemmestad, licence management, and Sveinung Sletten, external affairs. Standing from left: Tor Rasmus Skjærpe, technology and ICT, Kjell Pedersen, president and CEO, Laurits Haga, marketing and sales, and Dag Omre, commercial.

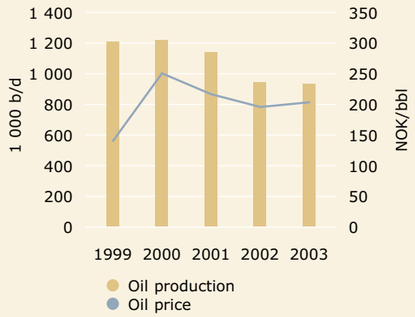
Petoro – the best partner

KEY FIGURES FOR THE SDFI

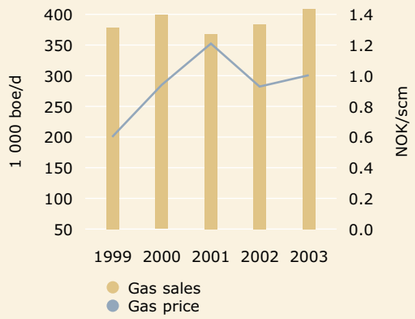
Revenue



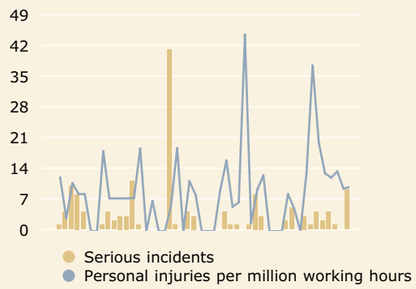
Oil production/price



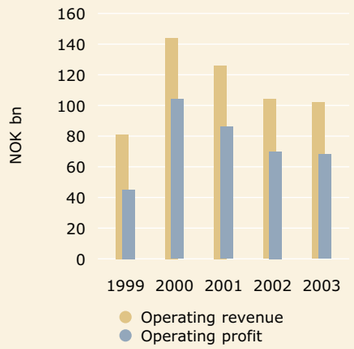
Gas sales/price



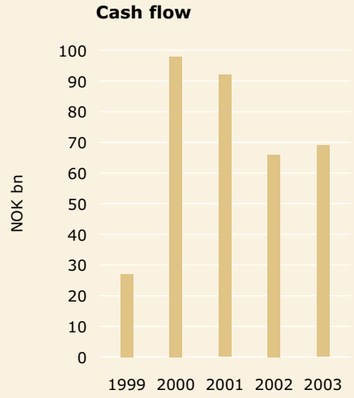
Serious incidents and personal injuries per facility in 2003



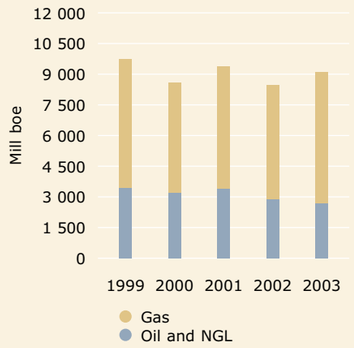
Profit



Cash flow



Remaining reserves



PETORO IN 2003

The official opening of Petoro's new offices in Stavanger by prime minister Kjell Magne Bondevik on 24 October (above), marked the end of the start-up period for the new company.

After the first full operating year with its own organisation in place, Petoro can report good results on the Norwegian continental shelf (NCS) and important contributions to value creation:

- Overall oil and gas sales from the SDFI portfolio: 1.35 million boe/d
- Oil and gas revenue for the SDFI: NOK 101.7 billion
- Net profit NOK 68 billion, and net cash flow to the government NOK 69 billion
- Ormen Lange and the Langeled pipeline developments sanctioned by the licensees
- Grane on stream
- Area-based management committee for Tampen established
- Sharper industry focus on costs and better use of expertise for smarter/more efficient operation, through the opportunities offered by information and communication technology combined with fibreoptic cables linking offshore and land

AT THE CROSSROADS

The state’s direct financial interest (SDFI) in Norwegian petroleum operations achieved good financial results in 2003. Net profit and cash flow were higher than in the year before, despite the sale of 6.5 per cent of the SDFI portfolio during 2002. We are very satisfied with a sales volume of 1.35 million barrels of oil equivalent per day and a net cash flow of NOK 69 billion to the government. With important decisions on the development of the Ormen Lange gas field and a new gas pipeline to the UK, we have also laid the basis for further progress and high value creation on the NCS for many years to come.

Despite such good results and strong oil prices, it will be important to take some steps precisely in order to ensure high value creation and long-term activity on the NCS. Norway’s petroleum sector is at a crossroads in this respect, and must choose between continuing on its present path or striking out in a different direction. I am convinced that the right answer will be to take the new road.

But I also accept that the choice is not equally obvious to everyone. The production curve for oil and gas remains roughly what it has been during recent decades – steadily rising towards a peak in a couple of years from now, followed by a sharp decline. We have lived with versions of this curve over the years, and the downturn has been steadily postponed. So why change direction now?

I would respond with the following observations:

- exploration activity has been low for several years
- two large and a couple of smaller licensing rounds in recent years have yielded disappointing results
- once Kristin, Snøhvit and Ormen Lange have been completed, possible projects to fill fabrication yards, maintain production curves and expand the Government Petroleum Fund are both small and uncertain
- we are passing our peak, but with major opportunities for continued value creation if we do things a little differently.

Kjell Pedersen, president and CEO.

“It will be important to take some steps precisely in order to ensure high value creation and long-term activity on the NCS.”

As I read the signpost at the crossroads, the way straight ahead is the "decline scenario" which the government does not want Norway to follow. If we take this path, things will continue to be done more or less as before. The downturn will be sharper than necessary, huge quantities of oil and gas will remain in the ground, and many, many billions of kroner in value creation will be lost.

It would be a misunderstanding to regard the decline scenario as an almost inconceivable worst case. On the contrary, even this road requires us to invest money and expertise in exploration, development and operation. A sense that we can lean back and largely carry on as before – keep to the well-worn path where we feel secure – represents a threat in itself.

The sign pointing to the new road reads "the long-term scenario", which is the way the government wants to go. In my view, this is the path to take if we are to make the best possible use of the opportunities nature has so generously provided. It could be more rocky, making bigger demands on our ability to manoeuvre, and it could offer other challenges. But I also think the journey will be more exciting - and I am convinced that it will take us in the right direction.

The long-term scenario makes demands on all the players in the petroleum sector. It is important that we ask ourselves how we can respond to these requirements – instead of simply passing them on to the next person.

Asking whether the arrangements and conditions established when the production curve on the NCS was rising are equally relevant, efficient and appropriate after the peak has been passed is right and important for the industry.

However, the industry must also accept a share of responsibility for the fact that NCS operating costs are among the highest in the world. Companies need to set ambitious goals on smarter/more efficient operation to cut unit costs – both by reducing expenses and by increasing production. I hope that the Kon-Kraft report on NCS costs will be helpful to the industry in this respect. We at Petoro have served as a coordinator for this project, and will seek to apply the experience gained to the work of reducing unit costs in the licences where we are involved.

The unions should accept that reducing unit costs can enhance value creation and thereby help to extend the producing life of fields. Employees should be open to new methods and technology which can safeguard profitability and thereby ensure that their jobs endure for longer.

The industry must set ambitious goals for reducing unit costs, says Kjell Pedersen (left). He is seated next to Eivind Reiten, president and CEO of Norsk Hydro.

"The long-term scenario makes demands on all the players in the petroleum sector. It is important that we ask ourselves how we can respond to these requirements – instead of simply passing them on to the next person."

For their part, the authorities should be open to considering whether present statutes, regulations and other frame conditions are appropriate for helping to achieve the long-term scenario. New arrangements which could add to costs need to be subjected to a strict cost-benefit analysis before being adopted. The authorities should admit the industry to those parts of the NCS which are most prospective – after assuring themselves that the job can be done safely and in an environmentally-acceptable manner.

Norway is in the privileged position of still possessing huge oil and gas resources as a basis for value creation. And while we are waiting for large – but also more uncertain – discoveries in new areas, we can take satisfaction from the fact that a substantial proportion of our resources are found in better-known regions with lower risk and proximity to infrastructure. Improved recovery from producing fields and supplementary discoveries close to existing platforms and transport facilities are key elements here.

An important requirement for converting many of these mature resource into profitable reserves is that existing process and transport installations can be used. This represents another reason why ensuring continued profitable operation of such facilities is important. At Petoro, we have opted to make reducing unit costs a priority precisely in order to enhance the attractiveness of investing capital and expertise in continued production and the largest possible value creation for many years to come.

Early application of technology is a characteristic feature of the new road. Continuing to develop an expertise which makes it possible to adopt new and more effective technological solutions presents a challenge to operators, other licensees, the supplies industry, research institutions and the authorities. We all bear a responsibility in this context.

If we do the job properly, the NCS can remain attractive to international expertise and investment capital for several decades to come. And more than that – success on the home front will strengthen Norwegian companies in the competition for assignments in the international petroleum arena. Technological development is once again critical here.

It might be appropriate to conclude by mentioning a player with whom the petroleum industry must continue to maintain good relations – the Norwegian education system. I believe we can jointly motivate young people to show greater interest in Norway's most important industry, to appreciate that it has a longer and more exciting future than most other businesses in this country, and to recognise that it needs new, able employees – even after the production peak has been passed.

Stavanger, April 2004

Kjell Pedersen
President and CEO

SDFI
DIRECTORS' REPORT 2003

Net cash flow from the state's direct financial interest (SDFI) on the NCS came to NOK 69 billion in 2003 as against NOK 66.1 billion the year before. Net income for the year was NOK 68 billion, compared with NOK 67 billion in 2002. This improvement primarily reflects increased gas sales and lower net currency expenses as well as high oil and gas prices. These factors were partly offset by reduced oil sales as well as the disposal of 6.5 per cent of the portfolio in 2002.

Petoro's object is to hold responsibility for and to attend to the commercial aspects related to the state's direct involvement in petroleum activities on the NCS, and all activities related hereto.

Highlights:

- Oil and gas sales in 2003 averaged 1 349 000 barrels of oil equivalent (boe) per day.
- Expected reserves of oil, NGL and gas at 31 December 2003 totalled 9 091 million boe, an increase of 608 million from the year before. This rise primarily reflects the decision to develop Ormen Lange.
- Troll is the largest asset in the SDFI portfolio. Oil production from this field made very good progress in 2003. Studies have also been initiated with a view to increasing Troll gas output substantially over the next few years.
- Production from the Oseberg and Tampen areas of the North Sea increased by comparison with the year before. Gas output rose from the Norwegian Sea, while oil production from these waters declined.
- Major development projects in the portfolio during 2003 include Snøhvit and Kristin, which present major challenges. Petoro participated as a partner in important development decisions for such projects as Ormen Lange and the Langeled gas trunkline to the UK.

Cash flow generated from the portfolio and transferred to the government totalled NOK 69 billion as against NOK 66.1 billion in 2002. Net income for 2003 came to NOK 68 billion, while income before financial items was NOK 68.1 billion. Net financial expenses of NOK 179 million related primarily to net realised and unrealised currency losses arising from a stronger exchange rate for the Norwegian krone against the US dollar.

Total operating revenue was NOK 101.7 billion as against NOK 103.7 billion in 2002. The principal reason for the decline in operating revenue from 2002 was the disposal of about 6.5 per cent of the portfolio in 2002. Oil and NGL revenue from the portfolio declined, while gas revenue rose from the year before. Oil and gas prices were higher in 2003, but that was partly offset by a weakening of the US dollar against the Norwegian krone.

The board is well satisfied with the portfolio's financial results for 2003.

Oil and gas production averaged 1 341 000 boe per day. Increased gas sales from existing gas fields failed to compensate fully for the decline in oil output from several mature fields. Adjusted for the restructuring of the portfolio, production declined by two per cent from 2002.

Total revenue for the year from oil and NGL was NOK 67.7 billion on sales of 343 million barrels or a daily average of 940 000 barrels. Production of oil and NGL declined by nine per cent from 2002, reflecting the disposal of assets in substantial oil fields in 2002 and declining output from a growing number of developments. Well and equipment problems also reduced production from several key oil fields. The average oil price for the year was USD 28.8 per barrel, an increase of 19 per cent from 2002. A strong Norwegian krone in 2003 nevertheless meant that the oil price in this currency averaged NOK 203 per barrel, only four per cent above the year before. These represent the main reasons why the portfolio's oil revenue declined by six per cent compared with 2002.

Revenue for the year from equity gas totalled NOK 25.3 billion as against NOK 22.6 billion in 2003. The volume of equity gas sold was 23.7 billion standard cubic metres (scm) or 409 000 boe per day as against 384 000 in 2002. Gas production increased by six per cent from 2002, primarily because of a full operating year on Tune and higher sales from Åsgard. The board is satisfied with the high gas sales for the year and the high level of gas production from Troll.

Total investment in new and existing fields, plants and infrastructure in 2003 totalled NOK 15.2 billion as against NOK 14 billion the year before. The largest investments related to Snøhvit, Troll Gas, Troll Oil, Heidrun and Kristin.

Exploration-related costs amounted to NOK 623 million in 2003, of which NOK 183 million was capitalised as an investment and the remainder recorded as exploration expenses in the income statement. The previous year's exploration expenses totalled NOK 951 billion.

At 31 December, the portfolio's expected oil, NGL and gas reserves comprised 9 091 million boe – an increase of 608 million boe from the year before, primarily as a result of the decision to develop Ormen Lange. The reserve replacement rate was 225 per cent as against 33 per cent in 2001.

The book value of assets totalled NOK 135.5 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 118.4 billion. Long-term liabilities totalled NOK 11.1 billion, of which

NOK 10.5 billion relates to provisions for future removal expenses. Current liabilities were NOK 6 billion.

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 2003

Petoro's overall objective is to create the highest possible financial value from the SDFI portfolio. During 2003, the company focused its efforts on the most important production licences, transport systems and land-based facilities in the portfolio. This focus and prioritisation builds on the significance by value of each joint venture in the portfolio, which decisions remain to be taken, the extent of concurrent interests in the joint ventures, and Petoro's opportunities for contributing to value added.

Within that focus, the company contributed actively in 2003 to good technical and commercial solutions, and exerted substantial influence on important decisions in individual joint ventures.

Troll

The portfolio's 56 per cent holding in Troll is the largest single asset managed by Petoro. Troll achieved an average daily oil output of 364 000 barrels. This success can primarily be attributed to increased well and process capacity as well as technological progress – including the use of multilateral wells.

Extensive studies indicate that gas offtake from Troll A can be increased without significantly affecting oil reserves in the field. On that basis, Petoro pressed actively for an expansion in gas production during 2003. The company will continue to pay great attention to forthcoming decisions on a further increase in gas offtake and the development of the next major gas phase on Troll.

Oseberg area/Grane

Several fields in the Oseberg area produced well above target in 2003. Two new subsea developments were approved for the area, tied back to Oseberg South and the Oseberg field centre. Over the year, Petoro pushed for a reduction in operating costs for the area. Balanced licensee interests across the whole Oseberg area have significantly simplified commercial agreements. This forms a good basis for effective area solutions, which are the focus of Petoro's attention. The partnership has established an Oseberg 2015 project, which will seek in 2004 to verify the potential for increased value creation from the area.

Grane began producing oil on 23 September, three weeks ahead of schedule and 10 per cent below budget. This field is due to reach a plateau production of just over 210 000 barrels per day during the first half of 2005. Its expected recoverable reserves exceed 700 million barrels of oil.

Tampen area

Production from this part of the North Sea was above target in 2003. Statoil became operator of all the Tampen fields on 1 January 2003. During the year, Petoro supported the development of a new area-based mode of operation which was implemented in January 2004. This approach is intended to provide more efficient work processes by securing synergies. The estimated potential for cost savings is in excess of NOK 1 billion per year.

Improved recovery through increased circulation of water and gas has been in focus on Gullfaks and Snorre. Petoro has secured agreement for changes to the drainage strategy which include expanded water injection and have increased both reserves and resources.

The recovery potential from possible carbon dioxide injection in Gullfaks was assessed by the operator in 2003, with an improved recovery method due to be selected in the second quarter of 2004. Petoro is working to ensue good studies, since carbon dioxide injection would be a trailblazing project which combined environmental benefits with improved recovery.

Petoro proposed in 2003 that an extended-reach well should be drilled from Gullfaks to produce the Gulltopp satellite. This development solution will contribute to big savings and improved profitability by comparison with a traditional subsea development.

Norwegian Sea

Oil production from this part of the NCS was substantially below target in 2003, primarily because output from Draugen, Norne and Heidrun declined as a result of technical and transport problems. Åsgard production was eight per cent under the 2003 target because of a fire in the flare stack on the B platform early in the year.

The Kristin development is a very challenging project, and the board paid close attention to this development over the year. This focus will be maintained in 2004. The operator's overall cost estimate for the project in current money is unchanged from the plan for development and operation (PDO). Predrilling of the high-temperature/high-pressure (HTHP) wells began in August, a month behind the latest timetable. Combined with problems encountered in drilling the first well, this means that the drilling programme is considerably behind schedule. Measures to recover the delay have been initiated. An updated reservoir model indicates that longer and horizontal wells could be relevant to expand the field's reserves. A solution of that kind would raise total investment from the PDO estimate, but would also increase production and reserves.

Ormen Lange passed an important milestone when the licensees resolved to submit a PDO for the field and a plan for installation and operation (PIO) covering the Langeled transport system. Petoro has sought an increase in daily processing capacity from 60 to 70 million scm. Unitisation negotiations were pursued by the Ormen Lange licensees while the PDO was being prepared. As a result of these discussions, the SDFI holding was increased from 36 to 36.475 per cent.

A decision was taken in November to continue the Norne satellite project, and plans call for the PDO to be ready in May 2004. Oil production will be tied back to the Norne ship for processing and export. Petoro has served as chief negotiator for Norne Unit during tariff negotiations with Norne Satellites.

Barents Sea

The Snøhvit development involved substantial construction activity on Melkøya island outside Hammerfest in 2003, as well as design and fabrication of the subsea production facilities and the building of the process plant at the Dragados yard in Spain. This project, and construction of the process plant in particular, is behind its original schedule. The operator and the partners are working on extraordinary measure to ensure delivery to Melkøya in the summer of 2004. The board will again pay close attention to progress with this challenging project during 2004.

Production licences in the exploration phase

Petoro participated in a number of exploration wells during 2003. Hydrocarbons were proven in the Naglfar, Ellida and Sklinna prospects in the Norwegian Sea, and

"Substantial influence on important decisions in individual joint ventures."

these discoveries are under evaluation. Two wildcats in the Norne area were disappointing, while one in production licence 195 southwest of Florø yielded traces of hydrocarbons and will be evaluated. An appraisal well on Varg South, south of the Sleipner area, has confirmed an earlier discovery. Evaluations are under way to determine whether these resources are commercial. A discovery made in the Ringhorne area (production licences 169 and 027) is also under evaluation.

Pipelines and land-based plants

The integration of the Norwegian gas transport system in the Gassled joint venture became operational on 1 January 2003. Petoro took the initiative during the year to identify and implement the operational benefits anticipated from integrating the system.

At the request of the authorities, the Troll licensees have undertaken extensive commercial work to separate the Kollsnes facilities from Troll and transfer them to Gassled. At the same time, the Kollsnes operatorship was transferred from Statoil to Gassco. Through its active participation, Petoro has safeguarded the government's assets in this process.

A major challenge in 2003 was the Langeled project for a pipeline from Nyhamna via Sleipner Riser to Easington in the UK to export Ormen Lange gas. The PIO for this development was submitted in December 2003 to the Ministry of Petroleum and Energy for approval. The SDFI has a 32.716 per cent interest in Langeled.

Health, safety and the environment

The board is not satisfied with the overall HSE results for the portfolio. Most fields and installations fulfilled the company's targets for serious incidents and personal injuries, but these goals were not met on certain fields. The company worked in 2003 for the operators to institute measures which can improve HSE results.

The latter are monitored in accordance with the company's management system, where measures and actions directed at the operators are discussed and approved in dedicated HSE meetings. Petoro has held regular bilateral management meetings with the largest operators, where HSE is a fixed item on the agenda and where developments and measures are discussed.

A project was pursued by Petoro in 2003 to monitor operator work on the zero discharge report, which was submitted to the Norwegian Pollution Control Authority (SFT) in June. Petoro considers it important to identify the main contributors to discharges and to support operator efforts to find cost-effective solutions for meeting the target of zero harmful discharges to the sea by the end of 2005.

Markets and sales

Petoro is responsible for supervising Statoil to see that it markets and sells the government's petroleum in accordance with the marketing and sales instruction issued by the general meeting of Statoil ASA. This instruction specifies that the overall objective is to achieve the highest possible combined value for the petroleum belonging to both Statoil and the government, and to ensure an equitable division of total value creation.

Petoro focused in 2003 on checking Statoil's marketing and sales activities, including its marketing and sales strategy and risks, issues of great significance in value terms, matters of principle and questions relating to incentives.

The most important events in 2003 related to the clarification of a treaty between Norway and the UK which,

among other elements, will facilitate gas trading between the two countries. This will lay the basis for a significant increase in Norwegian gas exports to the British market. Statoil also concluded substantial new long-term gas sales contracts with European buyers, and long-term purchase agreements for liquefied natural gas delivered to the Cove Point terminal in the USA.

Oil production from the portfolio will show a declining trend in coming years, while gas output is expected to increase. Demand for gas should grow at a time when other European production is in decline. That opens opportunities for increased sales of Norwegian gas – particularly to the UK, where domestic production is expected to fall fairly sharply.

Major variations in economic growth and oil prices characterised 2003. The world economy performed weakly in the early part of the year, when oil prices exceeded USD 30 per barrel – partly because of the great uncertainty inspired by the possibility of war in Iraq. Oil stocks were also relatively low and the balance between supply and demand in the market reasonably good.

The Iraq war prompted oil prices to fall below USD 25 per barrel in March. Demand in the oil market nevertheless proved stronger than expected, and prices rose again in April. Oil prices in April were largely at the upper end of the Opec range of USD 22-28 per barrel.

While world economic growth remained weak through the first and second quarters, it began rising towards the end of this period and continued to recover into the third quarter. The US economy grew by 8.2 per cent in July-September, its best performance for a very long time. This contributed to a strong expansion in the world economy during the second half, particularly in the USA and Asia. Apart from high US growth, demand for oil – especially from China – increased sharply. That helped to sustain the price of crude, with the average price for dated Brent in 2003 being USD 28.8 per barrel.

Similarly, the price of gas was relatively high during 2003, since most of the significant long-term European sales contracts are indexed against oil products.

The market expects oil prices to stay relatively high during 2004. Strong growth in the world economy, relatively low stocks of oil and a relatively tight balance between supply and demand all argue for a high oil price. Market forecasts indicate that UK gas prices will exceed their 2003 level by a fairly substantial margin. Long-term gas contracts indexed against oil products are also likely to be high in 2004, in line with the expected oil price.

Stavanger, 24 February 2004

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

Terje Holm
Worker director

Marte Mogstad
Worker director

Kjell Pedersen
President and CEO

PETORO AS
DIRECTORS' REPORT 2003

Petoro´s overall goal is to create the highest possible financial value from the SDFI portfolio. The objectives for managing the SDFI relate to efficient and profitable production in the short and long term, profitable expansion of reserves, efficient and profitable development and operation, and safety of people and the environment. Furthermore, Petoro wants to secure the highest possible revenue through active supervision of oil and gas sales. The substantial assets involved, plus the fact that they are managed for the government's account, mean that good financial management is necessary.

The board is satisfied with the results achieved for the SDFI portfolio in 2003. During the year, the company has contributed actively to good technical and commercial solutions and exerted considerable influence over important individual issues on the NCS.

Petoro has established a balanced performance management system to ensure systematic and periodic follow-up of the factors which are significant for its ability to create value. In addition to monitoring the profitability of and return on the portfolio, the company's board is concerned to ensure that non-financial management parameters are taken into account when assessing its results. Petoro's operational and financial objectives are supplemented by long-term and qualitative goals for its work with the portfolio.

At 31 December 2003, Petoro was the licensee for interests in 84 production licences and 18 joint ventures covering pipelines and terminals. The company also manages the state's commercial interests in Mongstad Terminal DA, Etanor DA and Vestprosess DA as well as the shares in Norsea Gas AS. It has the same rights and obligations as other licensees, and manages the SDFI on the NCS on a commercial basis.

To ensure effective management of the portfolio, Petoro sets priorities for its work in the various joint ventures. These are based on the relative value of each joint venture in the portfolio and its various phases (exploration, development and operation), including Petoro's opportunities to contribute to value added. In order to free the organisation's resources to focus on the interests with the biggest value creation potential in the portfolio, Petoro concluded business management agreements during 2003 with certain licence partners. These agreements transfer daily administrative monitoring of small individual licence holdings to other partners or operators. Petoro retains formal responsibility for the production licence, including financial management. The business manager must keep within the licence's budget/work programme, and Petoro has the right to issue instructions with regard to the joint venture's decisions. Such agreements are viewed as a flexible arrangement, and assessments concerning which licences should be included in such agreements are regularly reviewed.

Petoro's values and ethical guidelines provide a very important platform for the company. The board is concerned to ensure that the principles governing the company's commercial operation are applied in accordance with the highest ethical standards and that each employee avoids any conflict between their personal interests and the management of the SDFI. Strict requirements are set by the board for independence and objectivity in relation to the company's audit functions, both internal and external.

Administration of the portfolio by Petoro is subject to the accounting regulations for the government. Accounts for the portfolio are prepared on a cash basis and incorporated directly in the central government accounts. In addition, accounts are prepared in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP). Petoro maintains separate accounts for all transactions relating to the participatory interests, so that revenue and expenses for the portfolio are kept apart from operation of the company. The company prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by Petoro and associated resource accounting.

The company's business office is in Stavanger.

Priority areas in 2003

The board is pleased that Petoro succeeded in prioritising the use of its resources during 2003 so that the focus was on production licences which offer the highest value potential and the greatest opportunity to exert influence, and on issues which highlight the company's role on the NCS. Transferring experience and applying best practice have a central place in the work of identifying new opportunities provided by the portfolio for enhanced value creation and profitability.

INTEGRATION AND FIELD DEVELOPMENT IN CORE AREAS

The Tampen and Oseberg areas of the North Sea and the Norwegian Sea represent the most important core areas in the portfolio. Effective integration between the various fields in these areas is crucial for future value creation. Over the past year, Petoro has focused on securing effective area solutions rather than simply optimising individual fields. This has been particularly important for the company's involvement in the Tampen area, where a significant potential exists for improving recovery with the aid of increased water and gas injection. Establishing an area-based mode of operation will also help to increase earnings and reduce operating expenses.

The Norwegian Sea represents an important growth area on the NCS. Challenges in these waters relate to continued development of a large resource potential of gas and liquids. Exploration opportunities are also positive. Barriers to good area solutions relate to differences in incentives because of ownership composition, technical maturity and risk, and organisational challenges.

EARLY APPLICATION OF NEW TECHNOLOGY

Petoro does not develop its own technology, but serves as a proactive partner in getting innovations adopted through the active influence it exerts in the licences. This can help to reduce development and operating costs, and to increase overall financial results from the NCS.

"Smart operation" is a collective term for technologies which permit more efficient operation on the NCS.

Existing solutions for real-time data transfer between platform and land provide opportunities for far more effective use of expertise and better interaction between land and offshore, between installations, and between operator and supplier. Such new solutions could reduce costs, increase production and improve recovery. The potential for smart operation in the SDFI portfolio is judged to be highest in the Tampen, Troll and Oseberg areas. Petoro prioritised such change processes on the main Gullfaks field and the Oseberg field centre in 2003, but wants to extend the results of this work to other fields during 2004.

Work on improved recovery in 2003 paid particular attention to ensuring more circulation and injection on selected fields in the portfolio, and on entrenching such work in action plans for the licences concerned. This applies particularly to utilisation of water injection capacity on the Gullfaks and Snorre fields and to highlighting the need for additional gas capacity for injection and circulation on Oseberg. Heidrun requires increased gas capacity if ambitions to achieve high utilisation of this field's resource are to be realised. Petoro focused on establishing a binding work programme which supports this goal.

In 2003, the company evaluated the potential for improved recovery from injecting carbon dioxide in the Gullfaks reservoir. Studies of the potential for and challenges of using the greenhouse gas on this and other fields will continue in 2004. Carbon dioxide injection would be a trailblazing project which combined environmental gains with improved recovery.

VALUE CREATION IN THE GAS CHAIN

Petoro is responsible for supervising the marketing and sale of the government's petroleum by Statoil in accordance with a marketing and sales instruction adopted by the general meeting of Statoil ASA. The overall aim of this instruction is to achieve the highest possible combined value for petroleum belonging to both Statoil and the government, and to secure an equitable division of total value creation.

Production, transport and sale of gas from the NCS constitutes an integrated system. Petoro manages large interests in fields and infrastructure in this chain, where holistic assessments are crucial for securing the value of the resources. This lays a good basis for managing the government's interests in the gas chain.

Troll ranks as the largest and most valuable licensee position in the portfolio, and plays a crucial role in Norwegian gas management. The production strategy for this field will be highly significant for Norway's gas operations.

Challenges in the portfolio relate particularly to increased gas production from the NCS, the expansion of transport capacity to the UK and the creation of effective export solutions for rich gas from the Halten Bank/Nordland area of the Norwegian Sea.

The bulk of the gas in the portfolio is sold under long-term contracts. In supervising the marketing and sale of the government's petroleum by Statoil, Petoro will support efforts to safeguard the asset value of these contracts.

LONG-TERM RESERVE REPLACEMENT

Future development trends for the SDFI portfolio as currently composed are characterised by declining oil production, rising unit costs and a low average reserve replacement rate. To ensure long-term efficient utilisation of existing fields and infrastructure, the structure of equity interests in resources close to installations is very important.

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

Terje Holm
Worker director

Marte Mogstad
Worker director

After a number of key wells drilled during 2003 proved to be dry, future licensing rounds which include acreage with good profitability and resource potential will be needed. Petoro makes a twofold contribution to the long-term addition of reserves to the SDFI portfolio. When an interest is awarded to the SDFI, the company focuses on selected exploration prospects where it can help to increase drilling activity and thereby ensure that new discoveries are made. It also participates in selected discussions within the industry and with the authorities on achieving Norway's long-term scenario for NCS development.

Working environment and personnel

The company's new offices were officially opened by Norwegian prime minister Kjell Magne Bondevik on 24 October 2003. These premises have been purpose-designed, with an efficient information and communication technology (ICT) infrastructure and office solutions tailored to Petoro's mode of working. This is characterised by interaction across disciplines and areas of activity.

Petoro is a knowledge company, and its personnel have a high level of formal education. The 55 employees have been recruited from the country's leading oil companies and other important enterprises in the oil and gas sector, finance and other industries. This creates diversity and encourages innovative thinking. Petoro's ability to safeguard the government's interests in an effective way depends on being able to attract, retain and develop skilled employees in competition with new and existing players on the NCS. The company's expertise strategy has accordingly been a priority in 2003, and will remain a focus of attention.

Collaboration with Petoro's working environment committee and works council functioned very well in 2003, and lays an important basis for a good climate of in-house cooperation.

Petoro again conducted a workplace climate survey among all its staff in 2003, and plans to implement measures during 2004 in areas with the biggest potential for improvement. The company is concerned to provide equal opportunities for men and woman, and respondents to the 2003 climate survey broadly agreed that both genders are treated equally. The proportion of females in the company's board and management is 43 and 27 per cent respectively. Petoro signed up in 2003 for the Female Future initiative launched by the Confederation of Norwegian Business and Industry (NHO). Under this national commitment, members are invited to help strengthen the proportion of women directors and senior executives in Norwegian companies.

Health, safety and the environment

A total of 19 undesirable incidents were registered in 2003, but without causing injuries to Petoro employees or contractor personnel working on the company's premises. Sickness absence was again low, with short-term (one-three days) absences of 0.3 per cent and long-term (more than three days) of 2.4 per cent. Total sickness absence came to 2.7 as against 1.5 per cent in 2002. Under an inclusive workplace agreement concluded in January 2003 with the national insurance service, Petoro will draw up action plans which include measures to keep its sickness absence low.

The employees have been extensively involved in planning and organising the company's new offices. To support the emphasis given by Petoro to collaboration, flexible and partly open-plan office solutions have been chosen. The company medical service has surveyed the physical working environment, and measures have been implemented to ensure that the new open-plan solutions provide optimum noise and lighting conditions.

As part of its efforts to ensure the right HSE focus in production licences, Petoro has sought to influence the HSE attitudes and involvement of its employees. Special activities for developing positive HSE attitudes were again implemented in 2003. These include focusing on HSE in town meetings, organising HSE days with events for employees and their families, a special road safety day and a seminar on HSE culture in the company.

The NCS is still burdened with negative HSE results and an unsatisfactory trend in this area. A focus on HSE is included in Petoro's daily activities and integrated in the company's work in the individual production licences. Key indicators relating to HSE are incorporated in the company's balanced performance management system, and the

board is particularly concerned with the development of the lost-time injury, medical treatment and serious incident frequencies. The board is not satisfied with the HSE results achieved for the SDFI portfolio in 2003, and will work during 2004 to ensure that the company can make a purposeful and effective contribution to enhancing the focus on safety for offshore personnel.

In view of the stricter environmental standards facing the industry, not least the requirement for zero harmful discharges to the sea from 2006, Petoro performed a cost-benefit analysis in 2003 covering technologies and methods for treating discharges from offshore platforms. The company believes that a substantial reduction in oil discharged to the sea in produced water will be possible by the specified deadline.

The board would emphasise that HSE work receives great attention in the company.

Prospects

The future of Norwegian oil and gas operations was a key subject of public debate in Norway during 2003. Attention focused particularly on the opening of new areas in the Norwegian and Barents Seas and the industry's calls for changes to the tax regime. Petoro backed recommendations from the industry that prospective areas on the NCS must be made accessible for petroleum operations, in a positive partnership with Norway's fishing industry and subject to the strictest standards for environmental protection.

During 2003, the company was particularly concerned to counter declining production and rising unit costs by focusing on the use of technology and methods for smarter and more efficient operation of fields as well as improved recovery. Without substantial changes, a number of the large oil fields producing on the NCS will become unprofitable during the present decade. This will hit future opportunities for improving recovery, including a lower level of interest in exploration and in developing new fields close to existing infrastructure.

The board would emphasise that a focus on, and measures to reduce, future unit costs is needed to achieve further progress on the NCS. Unit costs on fields will be critical for future value creation from the SDFI portfolio. At the same time, the company has a unique opportunity to view issues across licence boundaries, to identify and materialise possible synergies between licences, and to promote the application of best practice.

As the licensee for the largest portfolio on the NCS, Petoro is uniquely placed to act as a proactive partner over measures to create value, with a particular focus on holistic assessments for achieving efficiency gains, cost reductions and improved petroleum recovery. With a small organisation, the company is also responsible for safeguarding the government's interests in the portfolio. Petoro needs to make selective use of leading-edge external expertise to create added value and adopt value-conserving measures. The board wants to ensure that it is provided with sufficient funds and resources in coming years to be able to discharge its demanding responsibilities in line with its mandate and principal objective.

Share capital and shareholder

The company's share capital at 31 December 2003 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government.

Net income and allocations

The limited company's operating expenses are covered by annual appropriations over the central government budget. Operating revenue for the year was NOK 162.5 million, comprising a net operating contribution of NOK 177.4 million from the government less a net amount of NOK 14.9 million relating to capitalised investment.

From its creation on 9 May 2001 until 31 December 2002, Petoro was not liable to VAT. It became liable to VAT on 1 January 2003. The government contribution for 2003, including VAT, was NOK 220 million. That corresponds to a disposable revenue of NOK 177.4 million as against NOK 250 million in 2002.

Operating expenses of NOK 167.8 million for the year, compared with NOK 234.6 million in 2002, related primarily to payroll expenses, administration expenses and the purchase of external services – including ICT, accounting and leading-edge expertise for supervision of production licences in the SDFI portfolio.

Net financial revenue for 2003 was NOK 2 million, relating to interest on the company's surplus liquidity. The figure for 2002 was NOK 3.8 million.

The loss after financial items came to NOK 3.3 million. The board proposes that this loss be covered from other equity. The company's non-restricted equity totals NOK 7.6 million.

Petoro's operating revenue 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.

Stavanger, 24 February 2004

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

Terje Holm
Worker director

Marte Mogstad
Worker director

Kjell Pedersen
President and CEO

CHALLENGES IN SAFETY AND ENVIRONMENTAL PROTECTION

Discharges of produced water from the SDFI portfolio expanded sharply in 2003 as fields on the NCS matured. Petoro nevertheless believes it will be possible to meet the official target of zero harmful discharges to the sea from 2006. The personal injury frequency improved marginally compared with 2002 on offshore installations, but the number of injuries nevertheless exceeded the goal set by Petoro. On the other hand, the company´s goal for serious incidents was met.

Most of the facilities in the SDFI portfolio met Petoro's target for personal injury frequency, defined as the number of lost-time injuries and injuries requiring medical treatment per million working hours. Five platforms and two land-based plants fell short, however, and Petoro accordingly failed to reach its overall goal for this indicator in 2003. On the other hand, its target for serious incidents was met. See the graph under key figures on page 2.

Petoro focused particular attention on discharges to the sea in 2003. Technology adviser Elen Carlson at the company says that the volume of produced water will continue to rise in coming years. But she nevertheless believes that planned measures on the various fields will make it possible to meet the government's goal of zero environmentally-harmful discharges from 1 January 2006.

She emphasises that the partnerships have not sanctioned sufficient action to help ensure zero discharges by this date, but that a process is under way on testing and financially assessing individual measures.

The best expression of the environmental aspect of such discharges is provided by the environmental impact factor (EIF). This offers a standardised method for determining the risk to the environment posed by discharges. It takes account of the volume involved and its potential for causing environmental harm as well as sea currents and dispersal patterns by and around each installation.

"Our own work on this issue shows that it's possible to reduce the EIF on our portfolio by 75 per cent," says Ms Carlson. "We're working now to obtain sanction for and implement measures which can help us to reach this goal in the licences in which we participate. Our broad

Discharges to the sea on the agenda: the older the fields on the NCS become, the bigger the challenges relating to discharges, say Sonja Ytreland (left), Sigurd Omland and Elen Carlson.

"Our broad position in Norwegian offshore operations gives us a unique insight into environmental conditions."

position in Norwegian offshore operations gives us a unique insight into environmental conditions, and we want to be a proactive partner in securing good environmental solutions."

Zero harmful discharges in 2006

Together with colleagues Sigurd Omland and Sonja Ytreland, Ms Carlson emphasises that such work must always take account of both environmental and commercial aspects. All three nevertheless hope that it will be possible to implement measures which reduce the EIF to a level close to Petoro's target.

The work currently under way was initiated after the Norwegian Pollution Control Authority (SFT) announced in the autumn of 2002 that operators and other licensees had until the summer of 2003 to explain their plans for eliminating harmful discharges during 2005.

One of the biggest sources of potential harm to the marine environment is the produced water which accompanies oil coming up from the reservoir. The older a field on the NCS, the higher the proportion (cut) of water in its output. That presents the industry with a challenge which increases year by year. The water must be treated before being discharged, returned to the reservoir if this helps to improve recovery, or injected into other subsurface formations.

Different fields require different solutions. The water cut on Troll West will equal the amount of oil produced in 2004. Since injection is not acceptable, new treatment methods are currently being tried. Troll has a daily oil output of almost 360 000 barrels, and Ms Ytreland says that the biggest challenge is to find a solution capable of handling such large volumes of water.

Progress for chemical consumption

Apart from produced water, the major pollution source offshore is the chemicals used in drilling and production. However, consumption of these substances has shown a positive trend over the past decade as a growing number of operators convert to more environment-friendly substitutes.

Developments over the past four years

Since the EIF has yet to be adopted as the reporting standard, the best way of expressing the development of discharges to the sea over time is the total volumes of oil and produced water discharged. The graphs in this article include all the fields in which Petoro has interests, and show the share of discharges/emissions attributable to the SDFI's holding. Discharges/emissions from Kollsnes, the Norpipe gas pipeline and the Gassco facilities at Kårstø are also included.

Sales of SDFI assets by the government in 2001 and 2002 are the primary reason for the decline in volumes discharged for these years by comparison with 2000.

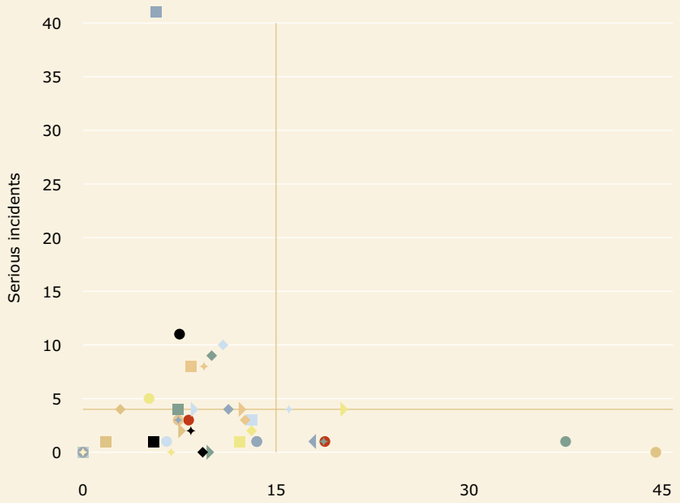
The rise in produced water output means that discharges per unit produced increased even more.

Oil discharges also rose sharply in 2003, reflecting both higher discharges of produced water and a substantial acute spill on the Draugen field.

As with the NCS as a whole, no significant changes occurred in carbon dioxide emissions from the SDFI portfolio in 2003 compared with the year before, while emissions of nitrogen oxides increased slightly.
See the first and second figures on page 22.

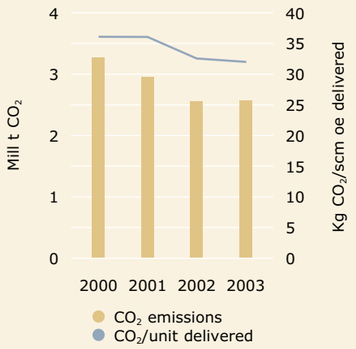
The release of non-methane volatile organic compounds (nmVOC) declined markedly during 2003 in terms of both total emissions and emissions per unit of oil delivered. This primarily reflects the installation of nmVOC recovery plants on shuttle tankers carrying crude from fields with offshore storage facilities.

Serious incidents and personal injury frequency at 31 Dec 03

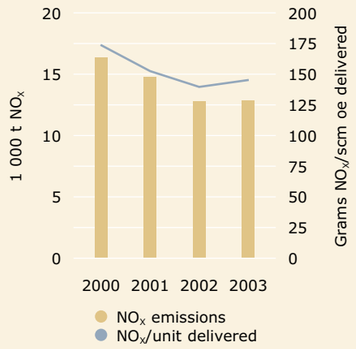


SDFI platforms and facilities below four on the Y axis and to the left of 15 on the X axis met Petoro's target for the personal injury frequency and serious incidents. The others failed to do so.

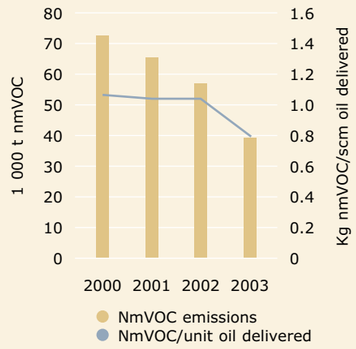
Carbon dioxide emissions



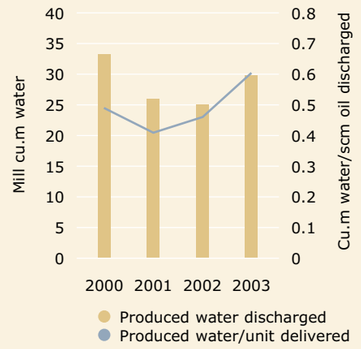
Nitrogen oxide emissions



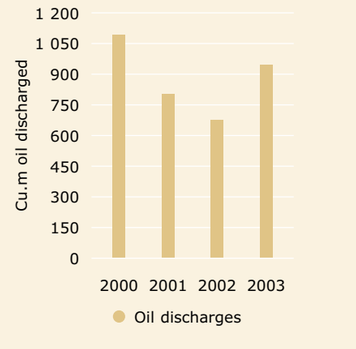
NmVOC emissions



Discharges of produced water



Discharges of oil to the sea



SMARTER OPERATION CUTS COSTS AND ENHANCES RESOURCE USE

The Norwegian continental shelf is one of the world's most expensive areas for pursuing offshore operations. Producing a barrel of oil costs two-three times more than in the US Gulf of Mexico. The daily bill for a rig on the NCS is about USD 30 000 higher than on the UK continental shelf. Extra payroll costs and transport expenses for offshore personnel exceed those in competing countries by a wide margin.

Such figures convey a clear message when comparing the cost of operating on the NCS with other offshore regions.

Smarter operation and remote control of more processes from land are among the responses which could help Norway's oil sector to secure and strengthen its competitiveness.

Norway's Kon-Kraft collaboration between industry, unions and government decided in the autumn of 2003 to establish the cost picture on the NCS. Pursued under the leadership of Petoro chief executive Kjell Pedersen, this project reported in March 2004.

The wide-ranging report identifies the cost position on the NCS and describes how it compares with the position on the UKCS and in other petroleum provinces.

Objective

"Our mandate hasn't been to engage in a dialogue with management and unions on cost-cutting measures, but to describe the cost picture as objectively as possible," says Tor Rasmus Skjærpe, Petoro's technology vice president. He headed day-to-day work in the project team.

Today's picture on the NCS is clear enough. Most of the fields are in a mature phase, with oil production set to decline markedly within a few years. Gas is poised to take over as Norway's most important energy product.

Mature oil production poses formidable challenges. A core requirement is to recover greater value from each reservoir before the cost per barrel produced becomes so high that keeping the field on stream can no longer be justified.

"We must make operations as robust as possible," explains Mr Skjærpe. "That means improving the efficiency of work processes, phasing in marginal fields and exploiting infrastructure such as pipelines, processing facilities and so forth before they have to shut down. But this is a matter of urgency. Per-barrel production costs are set to rise sharply on a number of Norwegian fields from around 2007."

A substantial potential for more efficient operation on the NCS: field value must be enhanced as much as possible, says Tor Rasmus Skjærpe, vice president for technology and ICT at Petoro. He headed work in the Kon-Kraft project team.

"We must make operations as robust as possible."

However, costs are only one factor affecting the level of activity. Other important aspects include legislation, regulations and other fiscal terms as well as access to new exploration acreage.

"From that perspective, a number of pieces must fall into place if we're going to ensure the best possible utilisation of our resources," says Mr Skjærpe.

He emphasises that encouraging international operators to invest their capital on and devote their best human resources to the NCS is also important for its future development. If the competitiveness of the NCS weakens, companies will prioritise other countries and areas.

Expensive

Drilling and well work represent one area which is significantly more expensive on the NCS compared with the British sector. If the various extra costs involved off Norway are added together, daily operating costs for a mobile rig are about USD 30 000 higher than on the UKCS.

"Work-year costs – the total bill for one rig worker – are about twice as high as on the UKCS," notes Mr Skjærpe. "That's not solely because of pay. Basic earnings per person are about the same between the two continental shelves, but Norway has much higher extra payroll costs and travel expenses."

He adds that staffing levels on Norwegian platforms are high, and actually on a par with numbers seen in typical low-cost Third World countries.

Mobile rigs are another area where Norway loses out competitively. Upgrading such a unit to satisfy stricter regulatory standards for working on the NCS can cost in the order of NOK 30-100 million. In reality, no common rig market operates between the NCS and the UKCS.

Operation and maintenance

On the operation and maintenance side, the comparison shows that the NCS is only 10 per cent more expensive than the British sector. But it must then be borne in mind that the UKCS is about seven years ahead of Norway's offshore sector in terms of maturity. Norway also produces from a limited number of large fields, while the UK has a number of small developments on stream.

Norwegian unit costs are thereby rather lower than on the UKCS – but should actually have been even smaller. Compared with the Gulf of Mexico, Norway's offshore unit costs are two-three times higher. This indicates that both the NCS and the UKCS face substantial cost challenges over the next few years, and that both sectors should seek to learn from experience in other mature areas such as the Gulf of Mexico.

Threat

"Unit costs for production on the NCS represent a threat to the level of activity," says Mr Skjærpe. "Something must be done, and quickly. We must succeed in reversing this picture over the next three-five years if we're going to derive full benefit from our infrastructure and installations.

"That's particularly important at a time when we're finding smaller and more complex fields, while facing major challenges in maximising oil recovery from existing developments. Margins in both case are smaller, and we've got to get much more cost-effective than before."

"Smart" or intelligent operation is one of the most important concepts for shifting Norway's oil sector onto the offensive. This involves changing work processes, particularly to take advantage of the opportunities offered by information technology advances.

Today's fibreoptic solutions allow large volumes of data to be transferred in real time between offshore installations and land. In practice, a number of work operations can thereby be controlled and monitored remotely – with all the savings and opportunities for increased value creation which that offers.

The potential for cutting costs and to some extent for improving earnings through more intelligent operation is substantial in every area, from licence administration, procurement and logistics to operation, maintenance, production optimisation, reservoir management and drilling.

Calculations show that an investment of roughly NOK 1 billion in more efficient operation of six selected fields could cut their costs by up to 40 per cent in 2004-08 while boosting output by as much as five per cent.

Complex

One area where intelligent operation could be applied is drilling, a complex activity which requires the application of broad expertise. By integrating the land organisation more closely with offshore operations, knowledge of geology, production and other disciplines can be utilised faster, more effectively and probably with better results during the actual process.

Monitoring important phases in drilling, production and maintenance can be done just as well from land as from an offshore control room. The aim is to take better decisions in order to achieve improved results at a lower cost.

"Unit costs for production on the NCS represent a threat to the level of activity. Something must be done, and quickly."

"Smart operation is one of the most important issues we're pursuing at Petoro," comments Mr Skjærpe. "We know that the potential for better-quality work and lower costs is great. The technology required is by and large available, and we have an infrastructure ready to be used.

"Nevertheless, we see that many licences fail to seize these opportunities. That may be because it's been difficult to demonstrate the cost/benefit effect of these measures, because many offshore industry leaders are reluctant to propose large and difficult change processes – or because knowledge of the possibilities is quite simply lacking.

"Whatever the reason, we must think along new lines. And smarter operation is one way to enhance the competitiveness of the NCS. However, we're seeing a positive trend. Both Statoil and Norsk Hydro are adopting smart operation as a strategic tool to reach their goals. The challenge now is to specify courageous targets for both higher production and lower costs from implementing smart operation."

"Costs are only one factor affecting the level of activity. Other important aspects include legislation, regulations and other fiscal terms as well as access to new exploration acreage."

WHEN EXPERTISE IS ONLY A KEYSTROKE AWAY

Norway’s petroleum industry is no longer divided into land-based and offshore organisations. The use of information and communication technology (ICT) permits remote monitoring and – in the longer term – control of drilling, production and maintenance. BP is one of the companies which has come furthest in this direction.

Several names are applied to such solutions, including intelligent or “smart” operation, e-operation or – as BP would have it – field of the future. Together with companies such as Norsk Hydro and ConocoPhillips, the UK major has come a long way in applying fibreoptics to connect offshore installations with various functions on land in real time.

A range of conditions on the Valhall and Ula platforms in the North Sea are monitored from BP’s Forus office outside Stavanger, including pressure, temperature, vibration, corrosion – in short, most of the significant factors for operating a field. And drilling specialists in the control rooms offshore and on land can see each other via video monitors, further strengthening contact and understanding.

In full command of offshore operations: the experts can follow work on the platform from BP’s control room in Stavanger.

“Smarter operation in the petroleum industry opens possibilities which will be very important for the way we work in the longer term.”

Advantages
Intelligent field operation offers a number of benefits apart from the opportunities for long-term cost reductions provided by moving more work on land. Greater stability can be achieved in offshore processes, for instance, which in turn cuts shutdowns and boosts uptime. The result is higher and more efficient production.

"In addition, this real-time technology makes it possible to provide specialist expertise from land when required," explains chief engineer Paul Hocking at BP. "We can rapidly deploy people like geologists, well technologists or process experts around the clock at the Forus control centre or, for that matter, at another point in our world-wide network."

The smart operation concept also embraces intelligent technology, such as solutions which signal when conditions offshore need to be checked.

Notification
"If we're going to reduce costs and optimise activities, we need systems which provide a notification if something unplanned occurs," says Mr Hocking.

"When heavy vibration or excess temperatures arise, for instance, or when production falls below a certain level, people in the control room will be alerted. That means they don't have to keep a continuous eye on the screens.

"This example illustrates another benefit of more intelligent fields, which is reducing the risk of human error. The more we can leave to technology, naturally under human supervision, the fewer cases of such error we'll experience."

In some cases, monitoring and alarm response are handled directly from land by the equipment supplier. The latter will then take the necessary action to ensure secure and stable operation in consultation with the offshore workforce.

"If we're going to reduce costs and optimise activities, we need systems which provide a notification if something unplanned occurs."

Technology opens many opportunities, but is not always equally easy to adopt. The challenge for both BP and the other companies on the Norwegian continental shelf, where intelligent operation is poised to take off, will be to get their organisation to make full use of these opportunities.

"Smarter operation in the petroleum industry opens possibilities which will be very important for the way we work in the longer term," says Mr Hocking. "Not surprisingly, some people will perceive this as a threat to their own job, while others won't want to change the way they work today. Regardless of such attitudes, we believe that technology will provide a better basis for employees, companies and work operations."

FOCUS ON VALUE CREATION IN THE SDFI PORTFOLIO

Petoro's main objective is to maximise value creation on a commercial basis from the state's direct financial interest (SDFI) on the NCS. This means that the company will generally speaking identify good solutions together with the other companies working off Norway, says commercial vice president Dag Omre.

In addition to licence interests in most parts of the NCS, Petoro has large holdings in the most important transport systems. Its operations are confined to the NCS, and the holdings it manages have a very long-term perspective.

"This puts us in a good position to secure efficient collective solutions within and across geographic areas and along the gas value chain," observes Mr Omre.

Petoro's most important job is to generate value for the government from the portfolio under its management. This involves both creating additional value from these holdings and the way the company safeguards the government's financial interests in negotiations between the various oil companies on the NCS. Mr Omre cites the following examples to show how the company has contributed to added value or to safeguarding the government's interests.

Gullfaks
Through collaboration with the operator and the other partners, Petoro made a positive contribution to a new production strategy on this field, which will mean a substantial expansion in water injection. See the separate article on page 32. That in turn could increase reserves by roughly 100 million barrels of oil.

Gulltopp
Initial plans called for Gulltopp, a Gullfaks satellite, to be developed with a traditional subsea solution. Petoro challenged this view, and collaborated with the licence on choosing the alternative of an extended-reach well drilled from the platform. This could yield savings close to NOK 1 billion.

Ormen Lange
The SDFI's preliminary holding in the Ormen Lange Unit was 36 per cent. Negotiations pursued by Petoro over the division of interests in the field resulted in this proportion being raised to 36.475 per cent, equivalent to almost two billion cubic metres of gas.

Norne
Plans call for a subsea development on Svale and Stær to be tied back to Norne. New negotiations headed by Petoro in 2003 secured an agreement which secures reasonable coverage of the risk faced by the government in this project.

SWILLING OUT THE RESERVES

Boosting water circulation in Gullfaks is washing more oil out of the reservoir. That in turn could extend this field's producing life by five to 10 years, and provide big added value for licensees Statoil, Petoro and Norsk Hydro.

Output from Gullfaks was expected until recently to decline towards 2011-12. The licence is now operating with a production life up 2016, and perhaps even longer. Greater water injection has made an important contribution to that revision.

Very good collaboration between the licensees and the Norwegian authorities led to the decision to expand water circulation by about 50 per cent. Petoro played an important role in that process by making constructive suggestions.

Enhanced water injection could permit the recovery of about 107 million barrels (17 million standard cubic metres) in additional crude from Gullfaks.

Dimension
Recent advances in seismic surveying have made it possible to study reservoir developments in a new dimension – time. By shooting seismic every other year on Gullfaks, and creating models which allow the experts to see and interpret the reservoir over many years, new pockets of remaining oil are constantly being discovered and added to the value of available reserves.

It was spare capacity for production and injection on Gullfaks which indirectly prompted efforts to see whether the recovery factor could be improved. If the licensees had sold that capacity, they would not have had the same opportunities to handle a possible increase in their own production.

"Through discussion in the licence, we resolved to make a commitment here," says Beate Myking, Statoil's head of resource management on Gullfaks. "We're naturally grateful for that today."

Neither she nor senior adviser Jørgen Leiknes in Petoro would exclude the possibility that the field's producing life could be extended even further through various improved recovery measures.

Jewel
Gullfaks is a jewel on the Norwegian continental shelf. On stream since 1986, all its licensees are domestic companies.

A reservoir matures over time, Ms Myking notes. That makes it important to have a regularly updated picture of its development.

Injecting carbon dioxide to improve Gullfaks recovery even further is another possibility being explored by the licensees. But it remains highly uncertain whether this will be sufficiently effective and whether a go-ahead should be given.

Gullfaks: a mature field on the NCS

- ***The original plan for development and operation (PDO) of Gullfaks was approved on 9 October 1981. Production began on 22 December 1986.***
- ***Gullfaks is an oil field and has been developed with three platforms. A and C are integrated production, drilling and quarters installations, whilst B sends its output to the others for processing.***
- ***Oil is exported from Gullfaks A and C by offshore loading to tankers. Processed rich gas is sent via Statpipe for further processing at Kårstø north of Stavanger and for onward transmission to continental Europe.***
- ***The Gullfaks reservoirs lie at a depth of 2 800-3 400 metres.***
- ***Production from Gullfaks is in decline. A substantial potential for improved recovery has been identified, partly by finding and draining pockets of residual oil and partly by increasing gas and water circulation.***

Big added value for Gullfaks: the field's producing life could be extended by five to 10 years, say Petoro's Jørgen Leiknes (left) and Beate Myking from Statoil.

"Through discussion in the licence, we resolved to make a commitment here. We're naturally grateful for that today."

SDFI
INCOME STATEMENT

All figures in NOK mill	Notes	2003	2002	2001
OPERATING REVENUE				
Operating revenue	3, 4	101 699	103 709	125 562
Total operating revenue		**101 699**	**103 709**	**125 562**
OPERATING EXPENSES				
Exploration expenses		440	871	1 265
Depreciation and amortisation expenses	2	14 363	14 855	18 334
Provision for removal	10	1 192	1 461	2 006
Other operating expenses	5	17 557	16 870	17 639
Total operating expenses		**33 552**	**34 057**	**39 244**
Operating income		**68 147**	**69 652**	**86 318**
FINANCIAL ITEMS				
Financial income		1 608	1 664	580
Financial expenses		1 787	4 337	210
Net financial items		**(179)**	**(2 673)**	**370**
Net income for the year		**67 968**	**66 980**	**86 688**

SDFI
BALANCE SHEET AT 31 DECEMBER

All figures in NOK mill	Notes	2003	2002	2001
Intangible fixed assets		1 005	826	13
Tangible fixed assets		123 389	122 619	131 178
Other fixed assets		14	79	17
Fixed assets	2	124 407	123 524	131 207
Stocks		360	308	258
Debtors	4, 9	10 627	10 488	10 581
Bank deposits		113	37	49
Current assets		11 101	10 832	10 888
Total assets		**135 508**	**134 356**	**142 094**
Equity at 1 January		119 429	127 302	156 502
Paid to the government during the year		(69 005)	(74 852)	(115 888)
Net income		67 968	66 980	86 688
Conversion differences		(11)	0	0
Equity	16	118 382	119 429	127 302
Long-term removal liabilities	10	10 522	9 342	9 210
Other long-term liabilities	11	618	1 878	1 006
Long-term liabilities		11 140	11 220	10 216
Trade creditors		1 793	1 212	2 199
Other current liabilities	9, 12	4 193	2 495	2 377
Current liabilities		5 986	3 707	4 576
Total equity and liabilities		**135 508**	**134 356**	**142 094**

Stavanger, 24 February 2004

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

Terje Holm
Worker director

Marte Mogstad
Worker director

Kjell Pedersen
President and CEO

SDFI
CASH FLOW STATEMENT

All figures in NOK million	2003	2002	2001
Cash flow from operating activities			
Cash receipts from operations	101 888	101 878	126 715
Cash disbursements to operations	(16 664)	(17 763)	(18 741)
Net financial outflow	(179)	(2 038)	370
Net cash flow from operational activities	**85 045**	**82 078**	**108 344**
Cash flow from investment activities			
Investments	(14 465)	(13 140)	(16 513)
Cash flow from investment activities	**(14 465)**	**(13 140)**	**(16 513)**
Cash flow from financing activities			
Change in current liabilities	(465)	(1 851)	1 032
Change in long-term liabilities	(922)	642	1 685
Net transfer to the government	(69 005)	(66 082)	(94 548)
Pro and contra from government sale	(112)	(1 684)	0
Cash flow from financing activities	**(70 503)**	**(68 975)**	**(91 831)**
Increase in bank deposits of land-based partnerships*	76	37	0

*Change in accounting principle in 2002: recorded in previous years under cash flow from operating activities. The change from 1 Jan-31 Dec 2002 equals the balance at 31 Dec 2002.

SDFI
RESOURCE ACCOUNTS

Resource classes 1-8		Oil and NGL* mill scm	Gas bn scm	Oil equivalent mill scm
Resource classes 1-3	Reserves	427.52	1 017.82	1 445.33
Resource class 4	Resources in early planning	50.11	32.73	82.85
Resource class 5	Recovery likely but not clarified	32.25	22.20	54.45
Resource class 6	Recovery not very likely	5.83	1.66	7.48
Resource class 7	Resources which have not been evaluated	48.93	3.97	52.90
Resource class 8	Prospects	24.94	25.35	50.29
Total		**589.58**	**1 103.72**	**1 693.29**

* Includes condensate

SDFI
NOTES

ACCOUNTING PRINCIPLES

Accounts prepared on a cash basis (cash accounting)

Proposition no 36 (2000-2001) to the Storting on the ownership of Statoil and future management of the SDFI allocates to Petoro the licensee role for the state's direct financial interest (SDFI) in petroleum operations, and responsibility for managing these assets. The objective is to maximise the total value of the portfolio.

The SDFI is subject to the government's financial regulations. Financial statements for the SDFI portfolio are prepared on a cash basis, and expenses and revenues for the SDFI appear in the government's accounts and budgets. Financial statements are also prepared in accordance with Norwegian generally accepted accounting principles (NGAAP). Petoro holds separate accounts for all transactions relating to their licence shares. Revenue and costs relating to the SDFI portfolio are accordingly separated from Petoro's accounts.

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 revenue 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 investments and exclude depreciation. In addition, corrections are made to revenue, expenses and investments for changes in receivables and liabilities. With cash accounting, realised currency losses/gains relating to operating expenses and revenue are classified as operating expenses and revenue, while accounts using the accruals principle show such losses/gains as financial expenses/revenue so that they have no effect on the operating result.

Accounts prepared in accordance with NGAAP

These 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 classified 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 recorded in NOK partly at the exchange rate prevailing on the final day of the previous month, and partly at the exchange rate on the transaction date. Monetary items in foreign currencies are valued at the exchange rate prevailing on the balance sheet date. Realised and unrealised currency gains/losses are recorded 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.

Materials for normal consumption in connection with the operation of oil and/or gas fields are recorded as expenses at the time of acquisition. Materials relating to well drilling are recorded as stocks and expensed as a well cost when they are used. Purchases of equipment for development projects are capitalised as part of the project investment, while purchases of significant spare parts are capitalised and expensed as they are used in operations.

SDFI NOTES

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

BANK DEPOSITS
Bank deposits include the SDFI's share of bank deposits in partnerships with shared liability (land-based 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 unless the instrument is classified as a current asset, is part of a trading portfolio, is traded publicly or in a non-regulated market (as specified in section 2-1 of the Norwegian Stock Exchange Act) and has adequate liquidity and a fragmented ownership structure.

ACCOUNTING TREATMENT OF COSTS RELATING TO FIELD INVESTMENTS
In addition to ordinary operating expenses, the following are expensed:

- all costs incurred in the exploration phase, except drilling costs
- dry wells
- interest 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
- all costs relating to operator charges for research and development.

Investments are capitalised in accordance with the Accounting Act and NGAAP as follows:

- 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
- investments incurred in the operation phase.

DEPRECIATION
Ordinary depreciation of oil and gas production facilities is calculated for each field and field-dedicated transport system using the unit of production method. The NPD's reserve estimates are applied. These estimates are based on expectations. For depreciation purposes, 85 per cent of the NPD's reserves for fields in production are used. Ordinary depreciation for riser platforms and transport systems used by several fields is calculated on a straight-line basis over the remaining licence period at 31 December 2003. Other tangible fixed assets are depreciated on a straight-line basis over their expected economic lifetime.

REVENUE RECOGNITION
The SDFI recognises the revenue from its sold share of oil and gas when the products are delivered to the customer. Revenue from ownership in pipelines and land-based production plants is recognised when the services are rendered to the shipper of petroleum.

SDFI NOTES

Gas and gas borrowing agreements are accrued using the sales method. This means that the borrower records the sale as revenue 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.

There is no significant difference between SDFI volumes sold and the SDFI's share of production.

PURCHASE 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
A transfer of proprietary rights from the licence which has paid an investment to the licence in which the investment has been made will normally occur on completion. 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.

ABANDONMENT 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.

CONTINGENT LIABILITIES
Probable and quantifiable losses are expensed.

SDFI NOTES

NOTE 1 – TRANSFER OF ASSETS (CASH ACCOUNTING, NGAAP)

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. No purchase or sale of assets was made in 2003.

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 2002 sales between independent parties have been recorded in the SDFI accounts as transaction at the actual price. In accordance with the requirements of NGAAP, Petoro acting on behalf of the SDFI calculated a gain from the 2002 sales which is reflected in the SDFI's income statement.

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 offsetting entry. The subsequent pro and contra settlements of cash flows from the sold assets passed in 2002 and 2003 via the SDFI.

A review of the calculations used to determine the cash payment for the transferred assets has not been completed, and could result in changes to the payment. Petoro acting on behalf of the SDFI is in dialogue with the respective buyers to clarify unresolved issues.

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 that date. Transfer dates varied from buyer to buyer, but fell in 2002 between 2 May and 4 Dec.

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

Field	Interest sold %
Oseberg Unit	17.18
Oseberg South	4.76
Oseberg East	11.80
Tune	10.00
Grane	13.60
Oseberg Transport System	2.40
Gyda	30.00
Heidrun	6.00
Njord	22.50
Fram	30.00
Tambar	30.00
Draugen	10.00
Brage	20.00
Oseberg Gas Transport	1.50

The sales price 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 price 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.

SDFI NOTES

The 2003 NGAAP accounts includes disbursements of NOK 0.2 billion, receipts of NOK 0.1 billion, and an adjustment of the 2002 gain of NOK 0.1 billion relating to transfers of assets in 2002. The account for real investment and fixed capital has been adjusted in 2003 by NOK 21 million relating to write-down of fixed assets in the capital accounts. This amount relates to the sale of a small share in Oseberg Gas Transport where the calculation of gain/loss is made in 2003.

NOTE 2 – SPECIFICATION OF FIXED ASSETS (CASH ACCOUNTING, NGAAP)

All figures in NOK mill	Historical cost at 31 Dec 2002	Addition 2003	Amortisation 2003	Sale 2003	Transfers 2003	Accumulated depreciation 31 Dec 2002	Depreciation 2003	Book value at 31 Dec 2003
Fields under development								
Grane	3 123	0			(3 123)			0
Kristin	346	1 193						1 539
Kvitebjørn	1 730	575						2 305
Norne Satellites	0	5						5
Ormen Lange	0	277						277
Skirne/Byggve	184	374						558
Snøhvit	683	2 295						2 978
Sub-total	**6 065**	**4 720**	**0**	**0**	**(3 123)**	**0**	**0**	**7 662**
Fields in operation								
Brage	3 759	30				(3 674)	(41)	74
Draugen	8 938	237				(6 229)	(510)	2 436
Ekofisk II	1 477	166				(437)	(146)	1 060
Grane	0	825			3 123	0	(30)	3 918
Gullfaks	22 846	821				(17 512)	(1 374)	4 781
Heidrun	22 924	1 276				(11 721)	(1 343)	11 136
Heimdal	1 823	2				(1 773)	(3)	49
Huldra	2 024	25				(697)	(513)	839
Jotun	298	(8)				(215)	(16)	59
Njord	1 634	40				(1 420)	(51)	204
Norne	6 961	599				(3 840)	(803)	2 917
Oseberg South	3 371	266				(924)	(395	2 318
Oseberg Unit	22 283	336				(19 893)	(440)	2 286
Oseberg East	2 447	28				(1 384)	(206)	886
Snorre	12 866	500				(6 202)	(1 006)	6 158
Statfjord North	1 521	109				(1 002)	(147)	482
Statfjord East	1 350	10				(1 005)	(99)	256
Sygna	510	54				(269)	(98)	197
Tordis	1 977	40				(1 451)	(157)	409
Troll Gas	18 963	1 520			22	(2 979	(645)	16 882
Troll Oil	27 595	1 490			(22)	(18 371)	(2 518)	8 174
Tune	1 372	(297)				(3)	(182)	890
Varg	617	62				(604)	(39)	36
Veslefrikk	3 765	175				(2 698)	(177)	1 065
Vigdis	1 850	489				(1 359)	(277)	703
Visund	3 608	251				(1 079)	(282)	2 500
Åsgard	17 972	210				(2 656)	(1 392)	14 133
Sub-total	**194 752**	**9 258**	**0**	**0**	**3 123**	**(109 395)**	**(12 890)**	**84 848**

SDFI NOTES

All figures in NOK mill	Historical cost at 31 Dec 2002	Addition 2003	Amorti-sation 2003	Sale 2003	Trans-fers 2003	Accumulated depreciation 31 Dec 2002	Depre-ciation 2003	Book value at 31 Dec 2003
Pipelines and terminals								
Dunkerque Terminal	177	1				(33)	(6)	139
Etanor	820	63				(86)	(41)	757
Europipe II	3 306	0				(506)	(108)	2 692
Franpipe	4 455	(11)				(853	(138)	3 453
Gassled	0	674				0	(13)	661
Haltenpipe	1 145	0				(283)	(56)	807
Langeled	0	111				0	0	111
Mongstad Terminal	586	29				(532)	(12)	72
Oseberg Gas Transport	775	0	(21)			(78)	(26)	650
Oseberg Transport System	2 684	22				(2 174)	(35)	498
Statpipe	6 670	1				(4 972)	(57)	1 642
Troll Oil Pipeline I and II	908	2				(536)	(87)	287
Vesterled	592	2				(39)	(22)	533
Vestprosess	731	90				(117)	(25)	679
Zeepipe/Europipe I	16 483	0				(5 145)	(436)	10 902
Zeepipe Terminal	197	0				(88)	(4)	105
Åsgard Transport	3 857	0				(437)	(132)	3 289
Sub-total	**43 387**	**986**	**(21)**	**0**	**0**	**(15 879)**	**(1 197)**	**27 277**
Total fixed assets excl capitalised exploration expenses	**244 204**	**14 964**	**(21)**	**0**	**0**	**(125 275)**	**(14 087)**	**119 787**
Capitalised exploration expenses	6 361	319	(136)			(2 671)	(271)	3 602
Intangible assets	828	190	(11)			(1)	0	1 005
Other assets	244	0	0		(60)	(165)	(5)	14
Total tangible fixed assets (NGAAP)	**251 636**	**15 474**	**(168)**	**0**	**(60)**	**(128 113)**	**(14 363)**	**124 407**
Conversion to cash basis	(9 186)	565	(233)	0	60	2 671	271	(5 852)
Total fixed assets on cash basis	**242 451**	**16 038**	**(401)**	**0**	**0**	**(125 441)**	**(14 092)**	**118 556**

Intangible assets of NOK 1 005 million relate mainly to LNG sales and processing rights at the Cove Point terminal in the USA. Amortisation of these rights will start when Snøhvit comes on stream.

Other fixed assets consist of machinery and equipment in Statpipe and Åsgard Transport. The SDFI also owns shares in Norsea Gas AS with a book value of NOK 4 million.

SDFI NOTES

NOTE 3 – SPECIFICATION OF OPERATING REVENUE (CASH ACCOUNTING, NGAAP)

All figures in NOK mill	2003	2002
Troll Oseberg	43 450	43 266
Tampen	18 586	17 265
Norwegian Sea gas	10 146	8 156
Norwegian Sea oil, North Sea and Snøhvit	20 650	25 247
Pipelines and land-based plants	9 954	10 829
Net profit agreements	200	316
Other revenue	2 200	2 944
Elimination internal sales	(3 486)	(4 314)
Total – NGAAP	**101 699**	**103 709**
Conversion to cash basis	(514)	(3 773)
Total – cash basis	**101 185**	**99 935**

NOTE 4 – SPECIFICATION OF OPERATING REVENUE BY PRODUCT (CASH ACCOUNTING, NGAAP)

All figures in NOK mill	2003	2002
Crude oil and NGL*	67 727	71 798
Gas	25 803	22 609
Transport, processing and other revenue	7 969	8 986
Net profit agreements	200	316
Total NGAAP	**101 699**	**103 709**
Conversion to cash basis	(514)	(3 773)
Total cash basis	**101 185**	**99 935**

* Includes condensate

In accordance with the marketing and sales instruction, all crude oil and NGL is sold to Statoil. Gas is sold mainly to customers in Europe, except for NOK 414 million relating to the sale of gas to the USA.

No trade debtors fall due later than 12 months from the balance sheet date.

SDFI NOTES

NOTE 5 – SPECIFICATION OF OPERATING EXPENSES (CASH ACCOUNTING, NGAAP)

All figures in NOK mill	2003	2002
Troll Oseberg	8 873	9 357
Tampen	3 152	3 268
Norwegian Sea gas	1 809	2 098
Norwegian Sea oil, North Sea and Snøhvit	3 355	3 123
Pipelines and land-based plants	1 307	1 725
Other operating expenses	2 547	1 611
Elimination internal purchases	(3 486)	(4 314)
Total – NGAAP	**17 557**	**16 870**
Conversion to cash basis	(195)	894
Total – Cash basis	**17 362**	**17 764**

NOTE 6 – INTEREST EXPENSE (CASH ACCOUNTING)

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.

From 2003, interest on the government account is included in the accounts. The interest rate applied is the rate earned by the government's current account with the Bank of Norway, and interest is calculated on the average monthly balance in the government's account.

NOTE 7 – CASH BALANCE (CASH ACCOUNTING)

All figures in NOK mill	2003	2002
Open account government	(542)	0
Account for real investment	118 556	117 010
Total	**118 014**	**117 010**
Open account government	542	0
Fixed capital at 31 Dec 2003	(118 556)	(117 010)
Total	**(118 014)**	**(117 010)**

NOTE 8 – GOVERNMENT PETROLEUM INSURANCE FUND (CASH ACCOUNTING, NGAAP)

Transfers from the Government Petroleum Insurance Fund relate to the settlement of insurance claims. These amounts are added to investment, operating revenue and operating expenses, depending on type of claim and its accounting treatment in the operator's accounts. Settlements added to investment are subsequently presented as amortisation of write-down in the accounts compiled on a cash basis.

SDFI NOTES

NOTE 9 – RELATED PARTIES (CASH ACCOUNTING, NGAAP)

The government (represented by the Ministry of Petroleum and Energy) owns 81.7 per cent of Statoil and 100 per cent of Gassco. These companies are classified as related parties to the SDFI.

Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL to Statoil totalled NOK 67.7 billion (376 million boe) for 2003 and NOK 71.9 billion (376 million boe) for 2002.

Statoil markets and sells the government's natural gas together with its own production but for the government´s own account. The government receives the market value for these sales. The government sold dry gas directly to Statoil worth NOK 255 million in 2003 and NOK 119 million in 2002. Statoil is reimbursed by the government for its relative share of costs associated with the transport and processing of dry gas, the purchase of dry gas for onward sale and administrative expenses relating to gas sales. These reimbursements came to NOK 9.2 billion in 2003 and NOK 8 billion in 2002.

Open accounts with Statoil relating to these revenue and expense items are included under debtors and current liabilities respectively in the balance sheet, and came to USD 895 million and EUR 102 million as well as negative amounts of NOK 12 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 relating to year-end closing and transactions relating to long-term obligations under the marketing and sales instruction. See note 11.

Open accounts and transactions relating to activities in the production licences are not included in the above-mentioned amounts. Hence, no information has been included with regard to open accounts and transactions relating to licence activities with Statoil and Gassco.

There were no open accounts between Statoil and SDFI at 31 December 2003 relating to the marketing and sales instruction.

NOTE 10 – ABANDONMENT/REMOVAL (CASH ACCOUNTING, NGAAP)

Provision for the estimated cost of future abandonment and removal of production installations is made in accordance with the unit of production method. 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 abandonment and removal expenses for installations in production at December 2003 are estimated to be NOK 17 billion. The accumulated provision for future abandonment and removal at 31 December amounted to NOK 10 522 000 against NOK 9 342 000 a year earlier.

In accordance with the cash accounting principle, NOK 2.9 million has been disbursed for removal under the legal requirements relating to Frøy.

NOTE 11 – OTHER LONG-TERM LIABILITIES (NGAAP)

Other long-term liabilities comprise:

- prepayment from Electrabel for gas purchases
- compensation to gas buyers in connection with buy-out for stock liabilities
- debt relating to the final settlement of commercial arrangements owing to the transfer to company-based gas sales.

Liabilities falling due longer than five years total NOK 137 million.

SDFI NOTES

NOTE 12 – OTHER CURRENT LIABILITIES (NGAAP)

Other current liabilities include liabilities due no later than 31 December 2004, and comprise:

- provisions for accrued unpaid costs accrued by licence operators in the accounts at November
- provisions for accrued unpaid costs at December, adjusted for cash calls in December
- other provisions for accrued unpaid costs not included in the accounts received from operators, such as processing and transport expenses, administration expenses relating to gas sales and so forth
- current share of long-term liabilities.

NOTE 13 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CASH ACCOUNTING, NGAAP)

The SDFI makes very limited use of financial instruments (derivatives) to mange risk exposures relating to interest rates, exchange rates and commodity prices. This is primarily because the SDFI belongs to the state and is accordingly included in the government's overall risk management. The SDFI does not have significant interest-bearing debt, and all crude oil and NGL are sold to Statoil.

Currency risk exposure for the SDFI at 31 Dec 2003 was limited. Future cash flows from the sale of petroleum are mainly in foreign currencies. This currency risk is not hedged.

Prices for future sales of petroleum are not hedged.

The limited use of derivatives relates to Statoil's sale of the SDFI's natural gas. Derivatives used are swaps, options, forwards and futures, which are all used to hedge future sales revenue. These derivatives usually have a maturity of three years or less. Most derivative transactions take place in the over-the-counter (OTC) market.

At 31 December 2003, the market value of derivatives was NOK 27 million in assets and NOK 10 million in liabilities.

The SDFI's operations also involve a limited credit risk. Derivatives are purchased from other parties with sound credit ratings. With OTC derivatives, the other party is typically a large bank/financial institution, a large oil company or a trading company. The SDFI does not expect any material losses to arise in the event of any default on these agreements. Futures and listed options have insignificant credit risk, as they mainly are listed on New York Mercantile Exchange or the International Petroleum Exchange in London.

Credit risk relating to debtors is limited owning to the number of other parties and the fact that they are all required to have sound credit ratings.

The SDFI accordingly regards its credit risk exposure as not significant.

NOTE 14 – LEASES/CONTRACTUAL OBLIGATIONS (NGAAP)

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

Transport obligations represent obligations relating to the sale of gas, and mainly comprise transport and inventory liabilities in the UK and continental Europe. The SDFI's share in land-based plants and pipelines is generally higher than or equal to the transport share. Hence, no obligations are calculated for these systems.

SDFI NOTES

All figures in NOK mill	Leases	Transport obligations
2004	866	744
2005	269	949
2006	167	1 004
2007	137	929
2008	75	924
Beyond	202	11 681

In addition to the above-mentioned leasing obligations, Petoro acting on behalf of the SDFI has chartered carriers to ship LNG from the Snøhvit field. The capital element in this charter is about USD 440 million for a 20-year period. The charter will be effective from the start of production in 2006.

In connection with the award of a licence to explore for and produce oil and gas, licensees are obliged to drill a certain number of wells. At 31 December, Petoro acting on behalf of the SDFI is obliged to participate in four wells with an expected cost of NOK 225 million.

Petoro acting on behalf of the SDFI has also entered into contractual obligations relating to the development of new fields, represented by the expected total development costs for the field. These obligations total NOK 9.9 billion for 2004 and NOK 23.9 billion for 2005 and thereafter, a total of NOK 33.8 billion. In addition, Petoro acting on behalf of the SDFI is committed through approved production licence budgets to operating and investment expenses for 2004 which will be on a par with the 2003 figure.

In connection with sale of the SDFI's oil and gas, Statoil has issued a limited number of warranties to vendors and owners of transport infrastructure. Their extent is limited, and they are considered to be immaterial for the company´s operations.

The SDFI and Statoil deliver gas to customers under common gas sale agreements. SDFI gas reserves will be used in accordance with the SDFI's share of production from the field selected to deliver the gas. Proven reserves exceed total sales obligations.

NOTE 15 – OTHER LIABILITIES (NGAAP)

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

NOTE 16 – EQUITY (CASH ACCOUNTING, NGAAP)

All figures in NOK million	2003	2002
Cash transfers to the Bank of Norway	(439 312)	(370 307)
Capital contribution	9 082	9 082
Accumulated earnings at 1 Jan 03	510 764	443 784
Transfer of interests in 2001-02	(30 109)	(30 109)
Conversion differences	(11)	0
Net income for the year	67 968	66 980
Total equity	**118 382**	**119 429**

The cash transfer to the Bank of Norway is the amount which the government has received from the SDFI (payments from the SDFI less 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 represents accumulated operating revenue since the SDFI was established on 1 January 1985.

SDFI NOTES

Accumulated transfer of interests relates to the sale of 15 per cent of the SDFI's value in 2001 and 6.5 per cent 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 received from the sales in 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 implies 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.

Under intangible assets, the SDFI has recorded sales and processing rights for LNG at the Cove Point terminal in the USA. The SDFI's share of these rights is denominated in foreign currency, but has been converted and recorded in the accounts in NOK. The share has been converted at the exchange rate prevailing on 31 December 2003, and changes in the NOK figure owing to changes in exchange rates are recorded as a conversion difference in the NGAAP accounts.

NOTE 17 – MARKETING AND SALES INSTRUCTION (CASH ACCOUNTING, NGAAP)

The Norwegian government pursues a common ownership strategy to maximise the combined value of its share-holding in Statoil and its own oil and gas interests through the SDFI. This finds expression in the marketing and sales instruction, which specifies 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 to both Statoil and the government, and to secure an equitable division of the total value creation.

NOTE 18 – EXPECTED OIL AND GAS RESERVES (CASH ACCOUNTING, NGAAP)

Oil* in mill bbl	2003		2002		2001	
Gas in bn scm	**Oil**	**Gas**	**Oil**	**Gas**	**Oil**	**Gas**
Expected reserves at 1 Jan	2 876	891	3 376	953	4 510	1 157
Change in estimates	65	5	156	(21)	(113)	(20)
Extensions and discoveries	84	146	28	2	90	37
Improved recovery	5		31		11	
Purchase of reserves						
Sale of reserves			(361)	(22)	(697)	(200)
Production	(341)	(24)	(354)	(21)	(425)	(21)
Expected reserves at 31 Dec	**2 689**	**1 018**	**2 876**	**891**	**3 376**	**953**

* Oil includes NGL and condensate.

Expected reserves represent the estimated value of resources in 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.

Total expected remaining reserves at 31 December 2003 were 9 091 million boe.

Expected reserves in production at 31 December 2003 were 2 381 million barrels of oil and condensate, and 577 million standard cubic metres of gas.

The table above presents total remaining reserves, without regard to the length of licence periods. Based on total production in 2003, remaining reserves equal 18 years of production.

SDFI OVERVIEW OF INTERESTS

Unitised fields	At 31.12.03 Interest	At 31.12.02 Interest
Brage Unit	14.26	14.26
Grane Unit	30.00	30.00
Halten Bank West (Kristin)	18.90	18.90
Heidrun Unit	58.16	58.16
Huldra Unit	31.96	31.96
Jotun Unit	3.00	3.00
Njord Unit	7.50	7.50
Norne Unit	54.00	54.00
Ormen Lange Unit	36.48	36.00
Oseberg South Unit	33.60	33.60
Oseberg Unit	33.60	33.60
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
Fields		
Draugen	47.88	47.88
Ekofisk	5.00	5.00
Eldfisk	5.00	5.00
Embla	5.00	5.00
Gullfaks	30.00	30.00
Gullfaks South	30.00	30.00
Heimdal	20.00	20.00
Kvitebjørn	30.00	30.00
Oseberg East	33.60	33.60
Skirne/Byggve	30.00	30.00
Statfjord North	30.00	30.00
Tordis	30.00	30.00
Tune	40.00	40.00
Varg	30.00	30.00
Veslefrikk	37.00	37.00
Vigdis	30.00	30.00
Shut-in fields		
Frøy Unit		
East Frigg		
West Ekofisk		
Cod		
Edda		

Pipelines and land facilities	At 31.12.03 Interest	At 31.12.02 Interst
Oil pipelines		
Frostpipe	30.00	30.00
Oseberg Transport System (OTS)	48.38	48.38
Troll Oil Pipelines I & II	55.77	55.77
Grane Oil Pipeline	43.60	43.60
Kvitebjørn Oil Pipeline	30.00	30.00
Land-based plants for oil		
Mongstad Terminal DA	35.00	35.00
Gas pipelines		
Gassled**	38.29	-
Europipe II***	-	45.01
Franpipe***	-	60.00
Oseberg Gas Transport (OGT)***	-	49.28
Statpipe***	-	33.25
Vesterled***	-	60.00
Zeepipe***	-	55.00
Åsgard Transport***	-	46.95
Haltenpipe	57.81	57.81
Langeled****	32.72	-
Norne Gas Export	54.00	54.00
Draugen Gas Export	47.88	47.88
Grane Gas Pipeline	30.00	30.00
Heidrun Gas Export	58.16	58.16
Kvitebjørn Gas Transport	30.00	30.00
Troll Gas Pipeline	56.00	56.00
Land-based plants for gas		
Dunkerque Terminal DA***	24.89	39.00
Zeepipe Terminal JV***	18.76	26.95
Emden Terminal JV***	-	25.00
Etanor DA	62.70	62.70
Vestprosess DA	41.00	41.00
Kollsnes	56.00	56.00
Snøhvit gas liquefaction plant	30.00	30.00
Norsea Gas AS	40.01	25.00

In addition, the SDFI possesses intangible fixed assets relating to sales and processing rights for LNG in the USA and gas storage in the UK.

** The participatory interest in Gassled including Norsea Gas is 39.5%.

*** Included in Gassled from 1 January 2003.

**** In accordance with the joint operating agreement for Langeled at 3 December 2003. This interest will be adjusted in connection with the official approval of the joint operating agreement for the Ormen Lange Unit in 2004. Northern leg (Nyhamna-Sleipner Riser): 37.475%. Southern leg (Sleipner Riser-Easington): 28.360%.

SDFI
APPROPRIATION ACCOUNTS

Expenses and revenue All figures in NOK mill	**Notes**	**2003**	**2002**
Removal		3	87
Pro and contra settlements (payments)		209	1 977
Investment	2	16 038	12 808
Total expenses		**16 250**	**14 872**
Pro and contra settlements (receipts)		**(51)**	**(294)**
Operating revenue	3,4	(101 185)	(99 935)
Operating expenses	5	17 362	17 764
Exploration and field development expenses		643	1 011
Depreciation	2	14 092	14 571
Interest on fixed capital	6	6 392	6 363
Operating income		**(62 696)**	**(60 226)**
Depreciation	2	(14 092)	(14 571)
Transfer from Govt Petroleum Insurance Fund	8	(1 482)	(285)
Interest on fixed capital	6	(6 390)	(6 363)
Interest on intermediate accounts	6	(2)	0
Total revenue		**(84 713)**	**(81 737)**
Cash flow (net revenue from the SDFI)		**(68 463)**	**(66 866)**

SDFI
CAPITAL ACCOUNTS ON A CASH BASIS

Items All figures in NOK mill	**Notes**			**2003**
Open account government at 31 Dec 03				(542)
Real investment before write-down			118 956	
Write-down	1,2		(401)	
Account for real investment	2,7		118 556	118 556
Total at 31 Dec 03				**118 014**
Open account government at 1 Jan 03			0	
Total expenses		16 250		
Total revenues		(84 713)		
Cash flow		(68 463)	(68 463)	
Net transfer to the government			69 005	
Open account government at 31 Dec 03			**542**	**542**
Fixed capital at 1 Jan 03			(117 010)	
Investment for the year			(16 038)	
Depreciation for the year			14 092	
Write-down	1,2,8		401	
Fixed capital at 31 Dec 03	2,7		(118 556)	(118 556)
Total at 31 Dec 03				**(118 014)**

Stavanger, 24 February 2004

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

Terje Holm
Worker director

Marte Mogstad
Worker director

Kjell Pedersen
President and CEO

PETORO AS
INCOME STATEMENT

All figures in NOK 1 000	Notes	2003	2002	2001
Invoiced government contribution	1	177 419	250 000	50 000
Other revenue		0	197	0
Deferred revenue	2	(15 400)	0	0
Deferred revenue recorded	2	524	0	0
Total operating revenue		**162 543**	**250 197**	**50 000**
Payroll expenses	3	72 751	53 994	5 980
Ordinary depreciation	4	924	295	33
Administrative fees		455	11 931	17 344
Accounting fees	12	20 583	29 893	4 507
Office expenses	11	12 204	14 893	238
ICT expenses		16 103	36 434	239
Other operating expenses	10,12,13	44 818	87 144	30 792
Total operating expenses		**167 837**	**234 584**	**59 061**
Operating income/(loss)		**(5 294)**	**15 613**	**(9 061)**
Financial income		2 034	3 931	538
Financial expenses		(10)	(157)	0
Net financial result		**2 024**	**3 775**	**538**
NET INCOME/(LOSS) FOR THE YEAR		**(3 271)**	**19 388**	**(8 523)**
Transfers				
Transferred uncovered loss		0	0	(8 523)
Coverage of uncovered loss		0	8 523	0
Transfer to other equity		(3 271)	10 865	0
Total transfers		**(3 271)**	**19 388**	**(8 523)**

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Deputy chair

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Director

Olav K Christiansen
Director

Terje Holm
Worker director

Marte Mogstad
Worker director

Kjell Pedersen
President and CEO

PETORO AS
BALANCE SHEET AT 31 DECEMBER

All figures in NOK 1 000	Notes	2003	2002	2001
ASSETS				
Fixed assets				
Operating equipment, fixtures, fittings, office machines, etc	4,12	15 792	1 315	216
Total tangible fixed assets		**15 792**	**1 315**	**216**
Total fixed assets		**15 792**	**1 315**	**216**
Current assets				
Other debtors	5	3 355	3 105	2 026
Cash and bank deposits	6	73 815	73 296	17 743
Total current assets		**77 170**	**76 401**	**19 770**
TOTAL ASSETS		**92 961**	**77 716**	**19 986**
EQUITY AND LIABILITIES				
Equity				
Paid-in capital				
Share capital (10 000 shares at NOK 1 000)	7	10 000	10 000	10 000
Total paid-in capital		**10 000**	**10 000**	**10 000**
Retained earnings				
Uncovered loss		0	0	(8 523)
Other equity		7 595	10 865	0
Total retained earnings	8	**7 595**	**10 865**	**(8 523)**
Total equity	8	**17 595**	**20 865**	**1 477**
Liabilities				
Provisions				
Pension liabilities	9	9 247	3 455	666
Deferred recording of government contribution	2	14 877	0	0
Total provisions		**24 124**	**3 455**	**666**
Current liabilities				
Trade creditors	13	14 021	27 062	10 467
Withheld taxes and social security		13 822	5 591	1 316
Other current liabilities		23 400	20 744	6 060
Total current liabilities		**51 243**	**53 397**	**17 843**
Total liabilities		**75 366**	**56 852**	**18 509**
TOTAL EQUITY AND LIABILITIES		**92 961**	**77 716**	**19 986**

PETORO AS
CASH FLOW STATEMENT

All figures in NOK 1 000	2003	2002	2001
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from this year's operations*	(2 347)	19 683	(8 490)
Change in debtors	(250)	(1 079)	(2 026)
Change in trade creditors	(13 042)	16 595	10 467
Change in other accrued items	31 556	21 748	8 042
Net cash flow provided by operating activities	**15 918**	**56 947**	**7 992**
NET CASH FLOW FROM INVESTING ACTIVITIES			
Investment in tangible fixed assets	(15 400)	(1 394)	(249)
Net cash flow provided by investing activities	**(15 400)**	**(1 394)**	**(249)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue	0	0	10 000
Net cash flow provided by financing activities	**0**	**0**	**10 000**
Net change in liquid assets	518	55 553	17 743
Cash and cash equivalents at 1 January	73 296	17 743	0
Cash and cash equivalents at 31 December	**73 815**	**73 296**	**17 743**

*This figure is obtained as follows:

Net income/loss for the year	(3 271)	19 388	(8 523)
Ordinary depreciation	924	295	33
Cash generated from operations for the year	**(2 347)**	**19 683**	**(8 490)**

PETORO AS
NOTES

ACCOUNTING PRINCIPLES FOR PETORO AS

Description of the company's business
Petoro AS was established by the Ministry of Petroleum and Energy on behalf of the Norwegian government on 9 May 2001. The company's object is to hold responsibility for and to attend to the commercial aspects related to the state's direct involvement in petroleum activities on the NCS, and all activities related hereto.

The state is the majority shareholder in Statoil ASA and owner of the SDFI. On that basis, Statoil handles marketing and sales of the government's petroleum. Petoro is responsible for supervising the way Statoil discharges its responsibilities under its marketing and sales instruction.

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

The company had its second full operating year in 2003.

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.

Bank deposits
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 actuarial estimates are recorded in their entirety this year.

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 revenue in the accounts. The contribution applied to investment for the year is accrued as deferred recording of revenue.

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

PETORO AS NOTES

NOTE 1 - GOVERNMENT CONTRIBUTION

The company received an operating contribution from the Norwegian government totalling NOK 177.4 million excluding VAT in 2003. NOK 167.8 million of the government contribution for the year covered operating costs. In addition, net investment in 2003 came to NOK 14.9 million. The net loss after financial items was NOK 3.3 million, which is covered from other equity.

NOTE 2 - DEFERRED REVENUE

The contribution received by Petoro from the government is primarily applied to meeting current operating expenses. Where new capital spending is concerned, part of the contribution received is applied to the capitalised investment. Under Norwegian accounting standard NRS 4, contributions applied to investment must be capitalised on a gross basis. The asset is booked at acquisition cost and depreciated over its economic life. The contribution is treated as deferred recording of revenue and entered as a provision in the balance sheet. The contribution is recorded as revenue as the investment is depreciated, and specified as operating revenue in the income statement.

NOTE 3 - PAYROLL EXPENSES, NUMBER OF EMPLOYEES, BENEFITS, ETC

Payroll expenses Figures in NOK 1 000	**2003**	**2002**
Pay	44 826	34 216
National insurance contributions	7 558	6 667
Pensions (see note 8)	15 614	9 235
Other benefits	4 754	3 876
Total	**72 751**	**53 994**

Employees at 31 Dec	55	52
Employees with a signed contract who had not started work at 31 Dec 2002	1	5

The company had an average of 40 employees during the 2003 fiscal year as against 40 in 2002.

Remuneration of senior executives Figures in NOK 1 000		**Pay**	**Recorded pension liab**	**Other benefits**
President and CEO	Salary	2 171	1 590	128
	Holiday pay paid	248		

The president's retirement age is 62. He 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. Recorded pension liability represents the estimated cost for the year of the pension obligation for the president.

Director's fees

Fees paid in 2003 totalled NOK 270 000 for the chair and NOK 962 500 for the other directors combined.

NOTE 4 - TANGIBLE FIXED ASSETS

Figures in NOK 1 000	**Fixed fittings leased building**	**Equipment, etc**	**ICT**	**Total tangible fixed assets**
Purchase cost 1 Jan 03	0	1 347	296	1 643
Additions (purchased)	3 075	5 440	6 886	15 400
Disposals	0	0	0	0
Purchase cost at 31 Dec 03	**3 075**	**6 787**	**7 182**	**17 043**
Accumulated depreciation	70	920	262	1 251
Book value at 31 Dec 03	**3 005**	**5 867**	**6 920**	**15 792**
Depreciation for the year	70	619	235	924
Economic life	11 years	3/5 years	3 years	
Depreciation plan	Linear	Linear	Linear	
Annual rent, non-capitalised fixed assets		422	1 300	

PETORO AS NOTES

NOTE 5 - OTHER DEBTORS

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

NOTE 6 - BANK DEPOSITS

Bank deposits comprise NOK 3 052 932 in withheld tax.

NOTE 7 - SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2003 comprised 10 000 shares with a nominal value of NOK 1 000 each. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government.

NOTE 8 - EQUITY

Figures in NOK 1 000	**Share capital**	**Other equity**
Equity at 1 Jan	**10 000**	**10 865**
Current-year changes in equity:		
Net income/(loss)	0	(3 271)
Equity at 31 Dec	**10 000**	**7 595**

NOTE 9 - PENSION COSTS, FUNDS AND LIABILITIES

Figures in NOK 1 000

The company has a collective pension plan covering a total of 55 people. This plan gives the right to defined future benefits. These depend primarily on the number of years of pensionable earnings, the level of pay at retirement and the size of national insurance benefits. The obligations relating to pensions are funded.

	2003	**2002**
Net present value of benefits earned during the year	12 102	8 516
Interest expenses on pension obligation	595	34
Return on pension funds	(661)	0
Recorded change in estimates	1 145	0
Employer's NIC	1 858	1 206
Net pension costs	**15 039**	**9 756**

	2003	**2002**
Estimated pension obligations at 31 Dec	22 619	9 125
Pension plan assets (market value) at 31 Dec	(14 515)	(6 097)
Capitalised pension obligations before employer's NIC	8 104	3 028
Employer's NIC	1 143	427
Net pension obligation	**9 247**	**3 455**

Financial assumptions:	
Discount rate	6%
Expected increase in pay/NI base rate	3%
Expected increase in pensions	2.5%
Expected return on plan assets	7%

Commonly-used assumptions in the insurance industry are applied as the basis for actuarial assumptions concerning demographic factors. Changes to estimates are recorded in the income statement in their entirety.

PETORO AS NOTES

NOTE 10 - AUDITOR'S FEES

The external auditor for Petoro AS at 1 January 2003 was Deloitte. An extraordinary general meeting held on 24 November 2003 elected Erga Revisjon as the new auditor for Petoro AS. In accordance with the Act on Government Auditing, the Auditor General is the external auditor for the SDFI. Deloitte has been engaged as the internal auditor for the SDFI.

Fees charged to the Petoro AS accounts for external auditing in 2003 totalled NOK 100 000 to Erga Revisjon and NOK 255 928 to Deloitte for regular auditing of the financial accounts. In addition came the following consultancy fees paid to Deloitte:

Internal audit activities for the SDFI accounts	NOK	1 632 729
Participation in partner audits	NOK	740 989
Audit of pro and contra in connection with disposals	NOK	586 469

NOTE 11 - LEASES

Petoro moved into new offices in the autumn of 2003. The company has leased office premises from Smedvig Eiendom AS. This lease runs for 11 years after the year in which occupancy begins. The expected annual rent is NOK 5.1 million.

NOTE 12 - AGREEMENT WITH ACCENTURE

Petoro has concluded an agreement with Accenture covering accounting-related transaction processing and system applications for the SDFI and Petoro AS. This agreement was concluded in 2002 for five years, with an option for a further two years. Fees charged to the accounts in 2003 amounted to NOK 20.5 million. Other purchased services came to NOK 9.8 million, of which NOK 6 million is capitalised.

NOTE 13 - RELATED PARTIES

Statoil ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly related parties. Petoro purchased services in 2003 relating to cost sharing for the audit of licence accounts, insurance services for the Government Petroleum Insurance Fund, the pro and contra settlement in connection with the disposal of SDFI assets in 2002, and other minor services. NOK 1.57 million was charged to the accounts in 2003 for the purchase of services from Statoil. These services have been purchased at market price on the basis of hours worked. At 31 December 2003, Petoro owed NOK 46 211 to Statoil. This amount is included under current liabilities in the balance sheet.

The company has no transactions with other related parties.

ER 1998 *Erga Revisjon as*

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To the Annual Shareholders' Meeting of PETORO AS

Auditor`s report for 2003

We have audited the annual financial statements of the PETORO AS as of 31 December 2003, showing a loss of NOK 3 270 544 for the company. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway. Good auditing practice require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and present the financial position of the Company as of December 31, 2003, and the results of its operations and its cash flows for the year then ended, in accordance with good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good accounting practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Stavanger, 24 February 2004.
Erga Revisjon as

Sven Erga (not to be signed)
State Authorised Public Accountant (Norway)
Note: The translation to English has been prepared for information purposes only.

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