

ANNUAL  
REPORT  
SDFI AND  
PETORO  
**2009**



# ENHANCING VALUE FROM THE NCS



The Norwegian government has large holdings in oil and gas licences on Norway's continental shelf (NCS) through the State's Direct Financial Interest (SDFI). These are managed by Petoro AS. The company's most important job is to help ensure the highest possible value creation from the SDFI – value which benefits the whole of Norway.

In recent years, Petoro has been able to transfer an annual cash flow in the order of NOK 100 billion or more to the government.



# A NORWEGIAN ICON



**This annual report celebrates a 100-year-old product which has become a national symbol to Norwegians – the glass jar known as a Norgesglass.**

The first of these containers, which gets its name because the word *Norge* (Norway) is embossed on the side, was manufactured in 1908 – when the country was still a young nation. At that time, the Drammen Glassverk glassworks found it was overproducing window glass and decided to use the spare capacity to make jam jars. The design was inspired by Britain's Kilner jar, produced by John Kilner & Co.

Revolutionising food storage in Norway, this product was quite simply a highly practical innovation. It meant that the great majority – long before the fridge and the freezer appeared on the market – could preserve valuable autumnal food supplies for long periods in a simple way. A total of 112 635 of the jars were produced in 1909. Millions subsequently found their way to Norwegian kitchens and larders before production ceased in 1978.

The idea behind this jar was simple. On the NCS, the challenges are extensive and complex. Petoro is responsible for managing the government's interests there, which it does in close collaboration with its partners. The Norgesglass symbolises the preservation of nature's fruits, while providing a reminder that something must be created before it can be preserved. So it also serves as a tribute to all who sow and fertilise.



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# PETORO IN BRIEF

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**PETORO'S PRINCIPAL OBJECTIVE**  
 is to create the highest possible financial value from the state's portfolio on the basis of sound business principles.  
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**THE SDFI PORTFOLIO IS THE BIGGEST ON THE NCS**

The Norwegian government has large holdings in oil and gas licences on Norway's continental shelf (NCS) through the State's Direct Financial Interest (SDFI). As the largest portfolio of petroleum reserves on the NCS, this represents about a third of the country's total offshore reserves and more than a quarter of its overall oil and gas production. Petoro manages the portfolio.



Petoro was founded on 9 May 2001 as a consequence of the partial privatisation of Statoil and on the basis of a mandate from the Storting (parliament) to manage the SDFI on commercial principles. In recent years, the company has been able to transfer a net annual cash flow in the order of NOK 100 billion or more to the government. This represents one of the three main inputs to the government's pension fund – global, also called the oil fund.

**ENHANCING VALUE TOGETHER WITH OTHERS**

Petoro has its office in Stavanger, with 65 employees today who cover a broad range of expertise and experience. During recent years, the company has built up its own sub-surface

team. Petoro's relatively small organisation is characterised by good collaboration in-house and with other companies, the authorities and external sources of expertise. Combining a goal of the largest possible financial value creation with a very large portfolio in international terms and a limited team means that Petoro must work in a very special way to make a positive difference.

The main arenas for its operations are the individual production licences and projects. It also monitors Statoil's sale of the government's oil and gas.

Petoro was a licensee in 137 production licences at 31 December 2009, including 37 producing fields. Statoil is the operator for more than 80 per cent of SDFI production. As the manager of Norway's largest licence portfolio, Petoro occupies a unique position on the NCS. Adding reserves profitably is crucial for future financial value creation from the SDFI's holdings. Embracing 6.8 billion barrels of oil equivalent, these interests represented the largest remaining reserves on the NCS and were on a par with Statoil's portfolio.

**MORE GAS THAN OIL**

While oil production from the NCS has been declining in recent years, gas output has remained unchanged. It now outstrips oil production, and this differential is set to grow substantially.

The NCS is in a mature phase, with oil output declining as recovery costs increase. Substantial petroleum resources still remain off Norway, and the mature fields provide a backbone for further development of the SDFI portfolio. Petoro is a proactive partner in strengthening exploration activity, adopting new technology, enhancing production efficiency and boosting profitability – not least for small discoveries.

**IMPORTANT FIELDS  
IN THE BARENTS SEA**  
Snøhvit

**IMPORTANT FIELDS  
IN THE NORWEGIAN SEA**  
Ormen Lange  
Åsgard  
Heidrun  
Draugen  
Kristin  
Norne

**IMPORTANT FIELDS  
IN THE NORTH SEA**

Troll  
Oseberg  
Kvitebjørn  
Gullfaks  
Snorre  
Grane  
Ekofisk  
Visund  
Tordis/Vigdis

**PETORO'S  
KEY DUTIES**

Management of the government's holdings in those partnerships where such interests exist at any given time.

Monitoring Statoil's sale of the petroleum produced from the SDFI, as specified in the sales and marketing instruction.

Financial management, including accounting, for the SDFI.



# ADAPTATION

**As both an industry and a nation, we can look back on the Norwegian oil business with justified pride. Few petroleum nations have got so much out of their oil and gas as we have – financially, in terms of expertise, and as the basis for industrial development at home and the export of knowledge-based goods and services.**



"Even more radical thinking along new lines is needed to develop the many small fields whose contours we can see".

A Chinese proverb says that those who waste today by talking about yesterday's triumphs will have nothing to boast about tomorrow. Translated to the Norwegian continental shelf (NCS), I would say that we must do things differently if we are to have just as much to boast about in the next chapter of our offshore history as in the one we have completed.

Reservoirs such as Troll (10 000 million barrels of oil equivalent – boe), Gullfaks, (2 500 million boe) and Heidrun (1 300 million boe) permitted the kind of development solutions and costs with which we are familiar. A total of 20 discoveries were made on the NCS in 2009. That is a gratifying and impressive figure, but their average size was 40 million boe – 0.4 and three per cent respectively of the original reserves in Troll and Heidrun. The biggest discovery in 2009 was a 10th the size of Gullfaks.

Almost 60 per cent of our total estimated recoverable reserves – about 50 billion boe – remain to be produced. That provides a good basis for substantial continued value creation and exciting assignments for a long time to come. But it is important to appreciate that a large proportion of the remaining barrels and cubic metres cannot bear yesterday's investments, solutions and costs.

At the same time, the big mature fields and installations are also crucial in many respects for future value creation. That is partly because they still contain substantial oil and gas volumes. But an important, if time-critical, interdependency also exists between mature fields and new discoveries. Many of the latter will depend for their profitability on access to nearby installations for processing and transport. Similarly, the mature installations will eventually need new volumes of oil and gas to justify the cost of continued operation.

Viewed independently, the mature fields depend primarily for their value creation and economic

life on improving oil recovery. The most important measure in that respect is drilling wells. But the number of wells per rig on three of our most significant fields was more than 50 per cent higher during the first five years after 2000 than in the next five. Such a low drilling pace means that these fields could be shut in before the number of wells needed to produce the planned quantity of oil and gas can be drilled.

That would involve not only the loss of revenue from the main field, but also of opportunities to develop prospects in the vicinity.

Petoro represents big interests in the large fields, and wants to be a proactive partner for adaptation. It will discuss with the operators and the other partners what can and should be done to boost the pace of drilling, and to maintain progress with other projects and measures which can help to boost reserves.

One requirement may be to reduce costs. Examples could include modifying and enhancing the efficiency of old rigs and other equipment. Their replacement with radically simpler, cheaper and more flexible solutions must also be considered. At the same time, we must be realistic about the size of additional reserves which might be recovered through drilling from the main platforms. Substantial investment could also be needed in equipment for subsea production on parts of the main field which would otherwise be hard to tap.

In addition, we must identify what new and advanced methods for improved recovery could give us. Petoro, for example, is performing analyses together with Statoil and its partners on testing nanoparticles as additives to injection water in one of the Heidrun wells. The particles are programmed to block parts of the formation which have already been drained, and thereby force the injection water into reservoir sections where more oil could still be driven out.

Adapting the way we manage our mature fields is both important and time-critical. Even more radical thinking along new lines is needed to develop the many small fields whose contours we can see. New concepts and methods will be needed to ensure profitable development. Area solutions combined with a larger degree of industrial thinking – “assembly line” field developments – could be one route. Key concepts are simpler, cheaper and more standardised.

Efficient operation is another requirement for extending field lifetimes. As the leading operator

on the NCS, Statoil has taken important and constructive steps here by integrating operations and through its new operations model. More such steps must be taken in the time to come.

Let me move to another area where adaptation appears to be the order of the day – the international gas market. The combination of financial crisis with reduced European gas demand and more profitable access to large shale gas deposits in the USA has created a new market balance and concern among other gas producers and exporters.

In my view, we will see a continued rise in global – and European – demand for gas after a limited period with a weak market balance. An important reason for this, I believe, is that consumers, politicians, scientists and even perhaps climate and environmental activists will come to see that greater use of gas is one of the most far-reaching, available and effective measures for reducing global greenhouse gas emissions – at least in the short and medium terms.

The other reason for my faith in Norwegian gas, in particular, is that the world's largest offshore “gas machine” of pipelines, platforms and land-based plants has made us a very competitive supplier to energy-hungry north-western Europe.

Maintaining a competitive position of this kind is challenging, because the gas we are to deliver in the future will also derive increasingly from smaller fields, in deeper water and/or at greater distances from the market. Ultimately, product prices will determine what volumes we can sell in the market and thereby how much value will accrue to the Norwegian community from our petroleum activity.

What counts most for those of us charged with getting the greatest possible value out of the remaining resources is lower costs, greater efficiency, a focus on every barrel which can be produced, creativity and an actual willingness to invest in a late phase of the business.

From that perspective, there is little new in principle in the way we should think about managing our oil and gas. But a different reality means that we must develop new methods for putting our thoughts and plans into action.

Adaptation, in other words.



**KJELL PEDERSEN**  
President and CEO



# KEY FIGURES 2009

**Net income for the State's Direct Financial Interest (SDFI) in 2010 came to NOK 100.7 billion, compared with NOK 159.9 billion the year before. Total operating revenue was NOK 154.2 billion, compared with NOK 214.6 billion in 2008. Cash flow transferred to the government amounted to NOK 97 billion, compared with NOK 155.4 billion the year before. Production averaged 1 074 000 barrels of oil equivalent per day (boe/d), a reduction from 2008.**

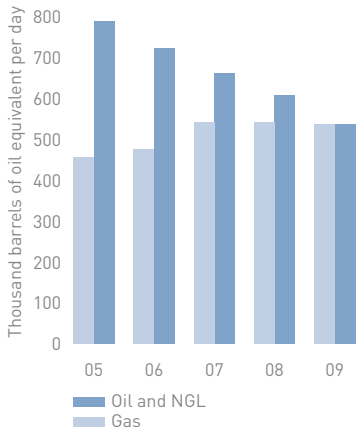
## FINANCIAL DATA (in NOK million)

	2009	2008	2007	2006	2005
Operating revenue	154 186	214 585	167 724	174 979	152 683
Operating income	103 964	157 843	114 493	129 833	113 069
Net income for the year	100 662	159 906	112 641	128 467	113 172
Cash flow from operating activities	120 050	175 548	132 203	146 616	122 181
Cash flow applied to investment activities	23 592	19 948	19 871	19 887	19 661
Net cash flow	96 992	155 420	112 281	126 213	99 175

## OPERATIONAL DATA

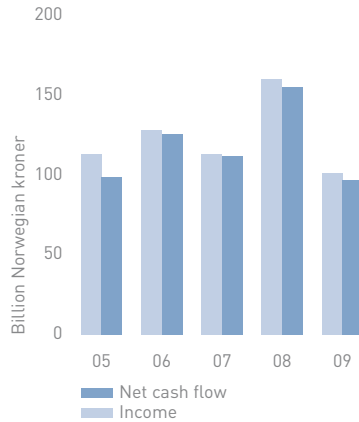
	2009	2008	2007	2006	2005
Production oil and NGL (1 000 barrels per day)	537	607	661	723	788
Production dry gas (million scm per day)	85	86	86	75	72
Oil, NGL and dry gas production (1 000 boe per day)	1 074	1 148	1 202	1 198	1 244
Remaining reserves (million boe)	6 786	7 354	7 736	8 080	8 420
Reserve replacement rate (three-year average in per cent)	(3)	18	28	26	95
Reserves added (million boe)	(176)	36	105	97	177
Oil price (USD per barrel)	60.53	97.99	71.44	64.50	53.03
Oil price (NOK per barrel)	380	528	418	412	344
Gas price (NOK per scm)	1.95	2.40	1.63	1.92	1.47

**PRODUCTION**



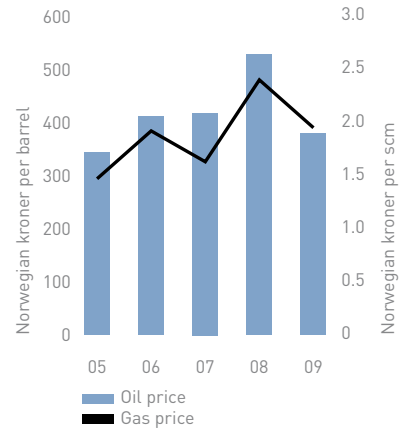
Total production from the SDFI portfolio declined by six per cent from 2008 to an average of 1 074 000 boe per day. The output of liquids (oil, NGL and condensate) declined by nine per cent compared with 2008, while gas production was on a par with 2007 and 2008. Measured in oil equivalent, gas output was at the same level as liquids production.

**INCOME AND CASH FLOW**



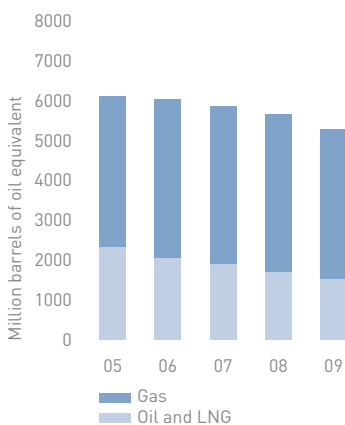
Net income for 2009 was NOK 100.7 billion, 37 per cent lower than the year before because of a substantial decline in oil and gas prices from the record levels in 2008. Reduced oil production helped to cut income even further. Cash flow, transferred in its entirety to the government, was NOK 97 billion, a reduction of NOK 58.4 billion from the year before.

**OIL AND GAS PRICES**



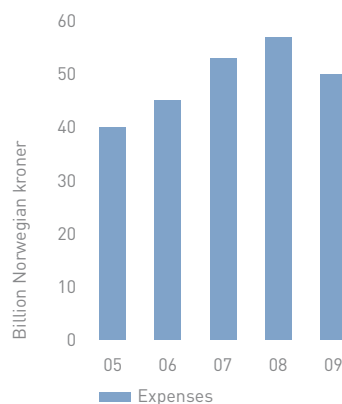
The price of oil from the SDFI portfolio averaged NOK 380 per barrel in 2009, compared with NOK 528 the year before. In US dollars, the average was 60.53 per barrel – down by 38 per cent from 2008. Gas fetched an average price of NOK 1.95 per scm in 2009, compared with NOK 2.40 in 2008.

**REMAINING RESERVES**



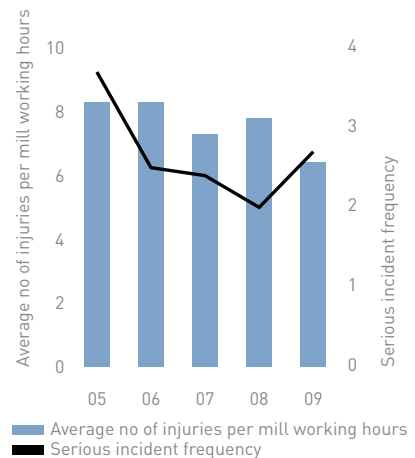
The portfolio's estimated remaining oil, condensate, NGL and gas reserves totalled 6.8 billion boe at 31 December, down by 568 million boe from the year before. In addition to production for the year, this decline reflects downgraded estimates for a number of producing fields. However, improved recovery from Gullfaks, Oseberg and Troll made important positive contributions to remaining reserves.

**EXPENSES**



Total operating expenses were NOK 50.2 billion, 11 per cent lower than in 2008 because of a reduction in the cost of gas purchases. The cost of operating fields, pipelines and land-based plants was on a par with 2008. Exploration activity was again high in 2009, with 23 wells completed and a quadrupling of proven resources. Spending on exploration rose by about 10 per cent from the year before.

**SAFETY**



The fatal accident on Oseberg in May 2009, when a scaffolder was killed, overshadowed HSE results for the year. These showed a worsening for serious incidents from 2.0 incidents per million working hours in 2008 to 2.7. Personal injuries per million working hours improved from 7.8 to 6.4 over the same period.

# HIGHLIGHTS 2009

## MARKET DEVELOPMENTS

What began as an international financial crisis in 2008 developed into the deepest economic depression the world has experienced since the 1930s. A substantial rise in costs during recent years combined with a sharp drop in oil prices in the second half of 2008 created great uncertainty for players in the petroleum sector.

A desire for cost cuts and capital discipline, combined with technical and organisational constraints at operators, contributed to a number of development and modification projects on the Norwegian continental shelf (NCS) falling behind the original plans in 2009. Petoro worked actively with operators and partners to drive profitable projects forward and to secure decisions at the right time.

Petoro is concerned that the industry must maintain a good balance between the immediate requirement to reduce costs on the NCS and the long-term need to pursue profitable projects which can meet an anticipated growth in demand for oil and gas.

Petoro has also pointed to the danger that major fluctuations could mean a permanent reduction in supplier capacity, particularly in the fabrication sector, which could contribute to future market pressure and renewed cost rises.

## CHALLENGING GAS MARKET

Conditions in the European gas market were challenging in 2009. The main reason was bigger imports of liquefied natural gas as a result of increased LNG production and expanded shale gas output in the USA. Weak economic development also reduced demand for gas.



## FURTHER DEVELOPMENT OF GULLFAKS

As the only partner in Gullfaks in addition to operator Statoil, Petoro plays an important role in further development of the field to ensure that it remains on stream towards 2030. Both substantial upgrading of all old drilling rigs and modification of the facilities to produce with lower reservoir pressure will be significant for securing profitable recovery of the remaining reserves. Petoro is also considering advanced injection methods to achieve a further increase in the recovery factor on Gullfaks.

## SNORRE 2040 AND OIL EXPORTS

Snorre is one of the fields on the NCS with the largest remaining oil reserves, which makes it important for value creation in the SDFI portfolio. To identify optimum development and drainage for the field up to 2040, a project has been launched to analyse such aspects as reservoir potential, the producing life of the existing infrastructure and cost trends.

Petoro has initiated its own

studies of the sub-surface in order to make an active contribution to this project, and as the basis for a choice of direction this summer. The work includes an assessment of uncertainty in the reservoir base and a concept for possible new large-scale infrastructure in the area.

One component in the long-term solution is a new oil export system. However, this will not be in place before the partners in Statfjord are expected to cease production from Statfjord A, which is currently used by Snorre A to process and export its oil. The Statfjord and Snorre licensees have accordingly agreed on a new medium-term solution, with final processing of oil from Snorre A on Snorre B before transfer to Statfjord B for export.

Petoro led the commercial negotiations with Statfjord on behalf of Snorre, and the financial terms of this agreement are substantially better for Snorre and Petoro than the present solution.

## DEVELOPMENT OF VALEMON

One of Petoro's ambitions is to contribute to a timely



phasing-in of new resources. It has devoted particular attention in this context to Valemon, which lies in the Gullfaks/Kvitebjørn area and ranks as a possible field development, and believes that the right start-up date would be the autumn of 2014. The company has based its assessment on the results of its own work on sub-surface conditions as well as on a platform concept and execution plan.



#### ÅSGARD

In connection with an Åsgard project for pressure boosting on Midgard/Mikkel, Petoro contributed actively during 2009 to establishing subsea compression as a competitive alternative to a development based on a traditional platform solution. Subsea compression involves developing new technology which could also be applied on other fields in the SDFI portfolio.

Petoro has also concentrated in its own work on identifying the right point when compression must be in place.

#### BETTER EXPLORATION RESULTS

Nineteen new licence interests were secured by Petoro during 2009, including seven in the 20th licensing round, nine from the awards in predefined areas (APA 2008) and three as carve-outs. A large proportion of these new holdings are located in the Norwegian and Barents Seas, and could represent substantial additional reserves for the SDFI in the longer term.

A number of promising discoveries were made in 2009, which could contribute to long-term growth in reserves for the SDFI. Exploration activity was at the same level as in 2008, but with substantially better results. Of the 23 exploration and appraisal wells drilled during the year, 13 yielded discoveries. Their total estimated recoverable volume is roughly four times higher than the corresponding figure for 2008.

#### INVESTMENT REMAINED HIGH

Investment on the NCS reached one of its highest-ever levels in 2009, and is expected to remain high in 2010. Further development of capital spending depends on global economic trends, the level of oil and gas prices, and the level of activity in the petroleum sector – including the opening of new areas of the NCS. Uncertainty prevails over both world economic developments and petroleum prices. The sharp rise in prices for input factors experienced in recent years is expected to reverse.



#### ADVANCED INJECTION METHODS

Petoro pursued work on its own account in 2009 related to advanced injection methods for improving recovery on the NCS.

This included in-depth studies of new bright water technology on Heidrun, Gullfaks and Snorre, which have been passed to the partnerships for assessment and testing. Plans are being drawn up for a pilot on Heidrun in 2010.

It was decided in 2009 to conduct feasibility studies for chemical injection on Snorre and low-salinity water injection on Heidrun. Petoro has performed its own sub-surface work to support these activities, and passed the results to the partnerships for these fields. The company also helped to develop success criteria for pilots and decision criteria for further full-field implementation of advanced water injection.

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Nineteen new licence interests were secured by Petoro during 2009  
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OUR INDUSTRY HAS  
LONG BEEN INNOVATIVE.  
BUT WHAT IS HAPPENING  
ON STANDARDISATION?





**"The simpler things  
are, the less control  
and monitoring we'll  
need"**

**TOR RASMUS SKJÆRPE**  
Vice president for licence  
management



# IMPROVEMENT AND STANDARDISATION

**What the Norwegian continental shelf needs is change, say Tor Rasmus Skjærpe, vice president for licence management. "That is also what we need in 2010, and everyone agrees with that. All we now have to do is to show that we can deliver."**

He lists five areas where the petroleum industry should concentrate its improvement efforts:

- faster and simpler well operations
- greater decisiveness on project execution
- standardisation of work processes and equipment
- shared project organisations for small fields
- simplified tie-backs to existing infrastructure.

"We've been talking about standardisation for a long time," Mr Skjærpe notes. "The time is now right to take the step and actually do it. Norway's oil industry has traditionally been characterised by large, groundbreaking projects able to support customised solutions for each field. The picture in 2010 is characterised by many small discoveries and high costs. That calls for simpler solutions and innovative thinking by both operators and contractors."

As a good example of a positive step in relation to tomorrow's challenges, he cites Kongsberg FMC's catalogue of standardised subsea equipment. In many ways a copy of the Ikea approach, this concept gets his enthusiastic endorsement.

"It presents various kinds of hardware at fixed and competitively reduced prices. That's possible because the products are standardised and mass produced. Standardisation also yields big savings in terms of documentation,

inspection and other production aspects. Ikea has been copied by a number of industries with great success, and it's now the oil sector's turn to learn."

New work processes must also be explored. The normal practice so far has been to approach a field development sequentially – surveying, drilling, evaluating and constructing. Where small fields are concerned, doing several jobs simultaneously is important in order to save time and money. It must also be possible to mature a number of discoveries in the same category on an "assembly line" basis.

Petoro has played an active role on Valemon, where Statoil is operator, to influence development plans. One option for this field is to start drilling wells in 2012-13 and, based on their results, design and install a production platform to come on stream in 2016. Petoro has wanted to study a solution with parallel development activities, which would mean production could start in 2014. Both options have now been assessed, with a decision due in the first half of 2010.

To maintain today's production profile up to 2020, about 100 projects will need to be matured and sanctioned over the coming decade – a rate of 10 small developments every year. In such conditions, the old method of working is no longer adequate.

"A condition for stepping up the pace is to stop advancing in fits and starts," Mr Skjærpe >>

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Troll is the backbone of Norwegian gas exports.

notes. "We must create a plan for parallel development activities on a set of small fields, establish a new and efficient work process, and ensure continuity."

The goal is to reach a point where many small discoveries in licences with different partners can be developed by a common project management. That calls for changes in mindset and mode of working. Oil companies used to having their hands on the wheel and a high level of control must establish a form of collaboration where they relinquish development control to one operator in the area. Equipment, work processes and contracts need to be simplified.

"The simpler things are, the less control and monitoring we'll need," Mr Skjærpe points out.

Simplification is also a universal desire in the supplies industries. Aker Solutions maintains that it can cut costs by 20-30 per cent through simplifying, standardising and coordinating development projects. Reductions on this scale

could help to make a number of projects profitable, which would speed up developments and boost the level of activity in the industry.

"Statoil is now working on a 'fast-track' project for the Tampen/Oseberg region of the North Sea, where work processes, specifications and requirements will be simplified," Mr Skjærpe says. "That's very positive."

Diversity of views and discussion among licence partners are also important for securing forward-looking and profitable solutions. Mr Skjærpe wants not only the operator but also all the licensees to get involved and cooperate on developing new and more efficient work processes and technical solutions.

"Constructive debate from active and bold licensees is something we need more of," he maintains. "Given that Statoil operates 90 per cent of SDFI production, diversity and active partners are particularly important for securing the right decisions.

Petoro and Total are working closely together in the Åsgard licence to ensure that subsea compression is studied as an alternative to a platform-based solution.



“We sometimes carry out our own studies, and collaborate on other occasions with our partners over joint assessments. Companies such as ExxonMobil, ConocoPhillips and Total have a unique breadth of experience from operations worldwide, combined with an impressive research capacity. They have specialist expertise on organisation, technical solutions, cost issues and many other relevant disciplines. We co-operate well with all these players.”

Petoro and Total have worked closely together in the Åsgard licence to ensure that subsea compression is studied as an alternative to a platform-based solution.

“We consider it our job to help bring forth new technology,” Mr Skjærpe says. “Two equally good solutions for compression are now being evaluated, and we’re satisfied with that.”

“It’s important that the operator has a culture for curiosity, and makes it possible for the partners to be involved in the discussion at an early

stage and to exert influence from the start. If we’re going to develop new technology and better work processes, ‘we know best’ attitudes must be avoided. Alternative views mustn’t be regarded as noise. We’ve seen on numerous occasions in Norwegian petroleum history how important it is for players to challenge each other and to compete over developing the best solutions.”

Read more about the collaboration with Total on the following pages.

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 “It must also be possible to mature a number of discoveries in the same category on an ‘assembly line’ basis”  
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# A FRUITFUL COLLABORATION

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**The big, well-capitalised international players on the Norwegian continental shelf (NCS) play a number of important roles. One of the most important is to help develop and quality assure new technology. Petoro works closely with a number of these companies, and France's Total ranks among its key partners.**

Ekofisk is one of the largest fields on the NCS, and a very important revenue source for all its licensees.



"Norway's oil industry needs companies with sufficient resources to challenge the dominant player and propose alternative solutions," says Tor Rasmus Skjærpe, Petoro's vice president for licence management. "In this way, international participants help to enhance diversity."

"It's important to challenge, not in order to be difficult but to ensure we get the best solutions," says Gunnar W Syslak, deputy managing director at Total E&P Norge AS.

"We have a team in Stavanger which can conduct studies to support decision processes in the licences, and we also have opportunities to involve our head office for quality control. The latter can also participate in studies with us. But we can't devote the same resources to every field. So we play a role together with other large companies on the NCS."

Petoro has given Total the responsibility, for instance, for following up the SDFI's five per cent interest in Ekofisk, where the French group is the largest licensee. When Petoro was created, the Storting (parliament) gave it the opportunity to enter into this type of business manager agreement. The business manager operates by and large independently, but reports back to Petoro at least once a year.

An operator wants to have both hands on the steering wheel itself, and challenging one in a licence takes both time and resources. A big partner will be able to devote its own resources and technological expertise to studying alternative solutions which can contribute to increased value creation. Work in the Ekofisk licence is a case in point for Total.

Asked how the companies collaborate in a licence like Ekofisk, Mr Syslak explains that they work closely with the operator, and challenge where they find it necessary. "We're currently working on the reservoir model, for example, with a view to clarifying the potential for long-term value creation through improved recovery and the use of new technology. At the same time, we do our own studies of future development concepts. About 25 people in our organisation are engaged in this work. In addition,

we conduct studies in certain cases with head office in France. Our collaboration with operator ConocoPhillips is pursued in a positive spirit. Differing strategies and priorities will always be found in a licence. It's important to respect this and create a dialogue so that we can arrive at the best solutions."

He emphasises that Petoro also makes important contributions as a partner, and that the company can devote resources to demanding issues and reach decisions on differing solutions. But he would have liked to see Petoro given funds for research and development.

One of the projects in which Petoro and Total have collaborated closely with Statoil as operator is Åsgard compression, where a subsea compressor is under consideration as a possible alternative to a platform-based unit. That would require a technical advance, but would be important for the future. The companies will cooperate to see whether it is feasible.

Asked whether the players on the NCS are sufficiently willing to change, Mr Syslak agrees that change is necessary and everyone must contribute.

"On the UK continental shelf, fields are now being developed with 12-15 million barrels of recoverable reserves. We must have almost twice that volume on the NCS to be profitable. This means that we must develop new technology and find novel solutions. We now have a dominant player on the NCS, who naturally views these waters from its own perspective. There's some danger that internal priorities will take precedence over the NCS as a whole. Good follow-up in the licences is therefore important, so that the overall picture is taken into account and the best solutions found."

Asked whether the oil industry is too conservative, however, he says that the picture is complex. "We're undoubtedly affected by a little conservatism. At the same time, the industry comprises high-tech companies which are constantly developing new solutions."

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**GUNNAR W SYSLAK**  
Deputy managing director, Total  
E&P Norge AS.





WHAT DOES  
THE NCS NEED  
TO MAINTAIN  
PRODUCTION  
AND ACTIVITY?



# TECHNOLOGY IS THE KEY

**The Norwegian continental shelf (NCS) has been a success story for 40 years, notes Jan Rosnes, vice president for technology and ICT. "This must be maintained, but by other means. That includes changed frame conditions for research and development."**



**"Most of the answers needed are technology-related – technology combined in an intelligent way with competent people. Integrated operations (IO) are a case in point."**

**JAN ROSNES**  
Vice president for  
technology and ICT

Most of the answers needed are technology-related – technology combined in an intelligent way with competent people, Mr Rosnes emphasises. "Integrated operations (IO) are a case in point."

"To get the full benefit of IO, we need well-organised work processes. This depends just as much on human expertise as on technology. We were making good progress with this on the NCS, but developments have stagnated recently."

During the first phase, IO was about achieving good and efficient collaboration between the producing field offshore and operations on land, he points out. "In future, it'll involve securing good and efficient processes between operations centres and various centres of expertise on land. That means relations not only between operator and contractor but also between the various contractors."

IO is a case of becoming more efficient and enhancing quality, Mr Rosnes explains. "A company like Halliburton can participate in an operations centre while being simultaneously connected to other in-house centres in completely different parts of the world. That provides immediate access to its own expertise when a problem occurs."

Increased use of IO in maintenance also creates big opportunities. Maintenance is expensive, and the potential for savings substantial.

"You can attach a sensor to a unit which indicates its status, and let an expert anywhere in the world monitor developments," explains Mr Rosnes. "That allows you to maintain it when required rather than in accordance with a predetermined plan. That can both cut costs and avoid unwanted production shutdowns."

Many smaller projects will be faced in the future, both on existing fields and with new discoveries, he points out. A system must be developed where it pays to help the neighbours. The current approach on the NCS is based on one contract for each kind of service, with every contractor being paid for its part of the job and the operator coordinating activities and contractors. This approach has worked well for the big fields because there has been enough work to fill the time of several large teams. The small fields may not offer full-time jobs for each discipline. That calls in turn for multiskilling. Given that different skills are usually delivered by different companies, greater collaboration among contractors will be required. A kind of "joint venture" could be envisaged, with a number of companies joining forces, or a model where one company takes on the role as the main contractor.

"That demands a willingness to change among companies both large and small, with the latter perhaps finding it easier to adapt," says Mr Rosnes. "But the model could yield big benefits through more efficient work processes and better capacity utilisation. It could mean new ways of operating on the NCS."



He also highlights research and development (R&D) as an area where a new approach is needed. The history of the NCS is characterised by large and complex projects where innovative and groundbreaking technology was developed along the way – a model which functioned well when the fields were large and future revenues could sustain them. That is no longer the case for the many small discoveries which are now going to be developed.

“This calls for a stronger commitment to R&D by oil companies, contractors and government,” Mr Rosnes maintains. “We need better, cheaper and more efficient equipment for discovering, developing and operating new fields to meet tougher environmental standards. Technology and standardisation are keys to further profitable development.”

The NCS is the world’s most effective offshore area in terms of limiting greenhouse emissions, with the lowest emissions per unit produced. Further improvement is nevertheless required, and developing and applying new technology will make an important contribution.

Norway’s carbon tax and ban on gas flaring explain the low emissions from the NCS. In addition, the companies now have to buy emission allowances for every tonne of carbon dioxide emitted, and thereby pay twice as much as other industries.

“We’re knocking our heads against the ceiling now,” admits Mr Rosnes. “The cost of further emission reductions offshore is very high, and it would be considerably cheaper to make such cuts elsewhere. The petroleum industry has therefore proposed the creation of a fund financed by our carbon taxes as a possible instrument. Measures must be implemented where they’re most effective.

“We will be carrying on for another 30-40 years, and still need people with strong qualifications in various disciplines. We can offer many exciting jobs, also for people who want to work on environmental issues. Remember that the Norwegian petroleum industry is the best in the world at this.”



**JAN ROSNES**  
Vice president for technology and ICT

**PETORO HAS IDENTIFIED FOUR PRIORITY TECHNOLOGY AREAS:**

<p><b>ADVANCED INJECTION METHODS</b> Injection to improve recovery has so far largely involved water and gas. More use must also be made in the future of chemicals which offer greater efficiency than the traditional methods.</p>	<p><b>DRILLING AND WELL TECHNOLOGY</b> This means drilling more wells, and securing cheaper rigs and other equipment.</p>
<p><b>SUBSEA TECHNOLOGY</b> Seabed compression is needed to safeguard recovery factors for subsea-completed wells. This technology is being considered for use on the Åsgard and Ormen Lange fields.</p>	<p><b>INTEGRATED OPERATIONS</b> IO is about adopting modern technology and developing a network between industrial plants, operations centres and experts who do not necessarily need to be physically close to each other. The idea is that the best expertise will be available regardless of distance.</p>



**“Now’s the time, while the fields are still producing and yielding a good return, when we have the financial strength to implement improvement measures which really make a difference.”**

**ROY RUSÅ**

Vice president for projects and strategy



# NEW SOLUTIONS — FASTER

**The NCS needs well-capitalised, innovative and impatient companies, says Roy Ruså, vice president for projects and strategy. “We face novel challenges which require new solutions.”**

“We must accept that we’re dealing with a mature continental shelf,” Mr Ruså emphasises. “Yesterday’s solutions aren’t tomorrow’s. We know the challenges and have many of the answers. It’s time to move from words to deeds.”

He identifies a number of factors which will be highly important in the years to come.

“The big oil companies are good, and particularly good at operating large fields. But the level of costs will be more decisive in the future. The big producing fields are set to remain important for many years, but their residual oil is harder to locate and recover in a profitable way. Recoverable reserves per well are a lot smaller than before – perhaps 20-50 times lower than a decade ago – while well costs have become very much higher.

“The smaller companies have contributed to the mapping of remaining resources. Today’s discoveries are typically much smaller than they used to be. Combined with a doubling in the level of costs over the past four years, the lower volume in each field means that recovering these resources in a profitable way presents a challenge. Many of the new discoveries lie close to the big fields, and could be developed when capacity in the latter becomes available.”

Mr Ruså emphasises that the level of costs will be decisive. “Neither our investment decisions nor the production phase will be as financially

robust as they once were. Part of the answer lies in greater coordination, more flexibility and better work processes. New operational models must be adopted. Such processes are under way, but I feel the necessary sense of urgency is lacking here.

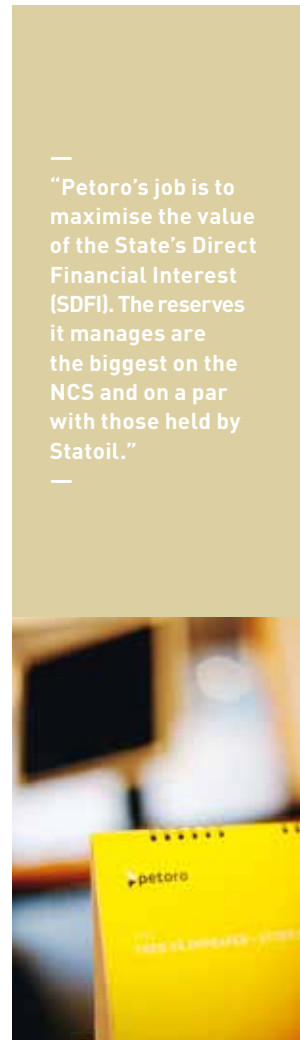
“Now’s the time, while the fields are still producing and yielding a good return, when we have the financial strength to implement improvement measures which really make a difference.”

Petoro’s job is to maximise the value of the State’s Direct Financial Interest (SDFI). The reserves it manages are the biggest on the NCS and on a par with those held by Statoil.

Cooperation between licence partners means that each player has the potential to affect development solutions for more barrels than it actually owns. Petoro’s ambition is to influence the strategic agenda, Mr Ruså notes.

Asked what must be done to make progress, he says that the industry needs the organisational capacity and financial strength to bear new developments. “We require coordination and collaboration to pursue projects across licences and company interests. The big players must be more flexible and pragmatic – but so must the small ones.”

Interaction between operator and contractor could also improve, Mr Ruså maintains. “Can we think along novel lines over expertise





sharing? We may need to get better at learning from each other. The NCS led the way in off-shore technology a number of years ago. We now have something to learn ourselves – from Petrobras in Brazil, for instance.

“It’s naturally interesting for the NCS that big efforts are now being devoted to improved recovery from Saudi Arabian fields and to developing deepwater solutions off Brazil. Why must we repeat a pilot project on advanced injection methods which BP has already done?”

Innovative thinking is also needed for framing contracts, he says. “Contractors are compensated for hours spent, but not for novel ideas.

The consequence is that these companies, which often have the best practical knowledge of equipment, installation and work processes, don’t propose efficiency improvements because they’re penalised rather than rewarded for them. We’ll all lose out if contractors fail to become sufficiently involved in improvement processes.”

Recovery factors for subsea-completed wells are 20 per cent lower than for platform wells, Mr Ruså points out. Necessary measures in this area include lighter, simpler and cheaper drilling and intervention vessels. About 70 per cent of the work carried out today from expensive rigs could be done from a monohull which





is both easier and less expensive to operate.

"We've now got to build rigs with a simpler standard than the newbuildings which have come on the market recently," he says. "Many of the latter are so advanced and heavily equipped that we only need them in exceptional circumstances."

Developing and maturing resources in parallel is one way of speeding up activity on the NCS. Norwegian fields have so far been developed sequentially, but the country no longer has giant fields capable of sustaining such stand-alone projects.

Asked to identify the consequences of this position, Mr Ruså say that greater use must be made of industrial thinking on the NCS. "Parallel development of several fields would allow us to spread the cost as widely as possible. For the same reason, we must drop customised solutions in favour of standardisation.

"We're at a crossroads and need renewal. More dynamism is necessary. Profitability and efficiency aren't only about technology development, but also a matter of more debate and greater adaptability. We've shown earlier that we can do it, and we can do it again. But we must increase the pace."

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“This is a prospective area, and we have great expectations for the well.”

**JAN TERJE MATHISEN**  
Area manager



## A **BIRD IN THE HAND,** MANY IN THE BUSH



**“The Barents Sea is complex, nuanced and challenging. There’s still much to explore.”**

**JAN MORTEN HOLMBOE**  
Geologist

# THE FAR NORTH IS STILL PROMISING

**The industry already has a card up its sleeve in the form of the world's northernmost liquefaction plant for Snøhvit gas. Giving priority to exploration to find supplementary resources for further development of this field is important. Goliat is under development, and the rest of the Barents Sea offers huge opportunities. Only about 80 wells have been drilled in an area many times larger than the Norwegian North Sea.**



**JAN MORTEN HOLMBOE**  
Geologist

"The debate about continued exploration in the Barents Sea has a tendency to be affected by black-and-white thinking," comments geologist Jan Morten Holmboe. "Either the companies are very optimistic, or they believe these waters contain nothing at all. The truth probably lies somewhere in between. The Barents Sea is complex, nuanced and challenging. There's still much to explore, and prospects definitely exist for interesting discoveries."

Petoro would like to see greater exploration activity in this part of the NCS than has been the case over the past year. Only one well was drilled in 2009, on the Bjarmeland Platform in a licence operated by Statoil. But the results were disappointing.

"The rig has now been directed south again," says area manager Jan Terje Mathisen. "We consider that a bit worrying, and would have preferred to see higher activity and more aggressive drilling plans for these waters. Work will now be very scattered and selective."

Nine new licences were awarded in the Barents Sea under the 20th licensing round in 2009. Petoro is a partner in three of these. Perhaps the most promising of the licences lies on the Lopp Ridge, where a first well is due to be drilled during 2010.

"This is a prospective area, and we have great expectations for the well," says Mr Mathisen.

While the petroleum sector would like to have

even more areas – and large ones – put on offer, including in the Barents Sea, the question is whether the industry only wants to skim off the cream.

"The Norwegian government has established a policy of taking one step at a time," Mr Mathisen points out. "It wants a gradual and systematic identification of the resources. For their part, the oil companies say that they need more diversified information in order to crack the code and put the pieces into place."

"We must remember that the Barents Sea covers a huge area, and that all geological periods from the Tertiary as the youngest to the Permian as the oldest are represented," Mr Holmboe adds. "A great many different plays are available, and a lot left to explore."

Petoro worked actively in the Snøhvit licence during 2009, both on decisions about upgrading the existing land-based plant at Melkøya and on launching studies to look at opportunities for expanding it.

"We supported the operator in planning and executing extensive modification work at the Melkøya facility during the autumn," Mr Mathisen reports. "The goal was to reach design capacity, and the plant was producing in line with that level by 31 December.

"The turnaround meant that a large number of people would be working on the site simultaneously. We collaborated closely with operator



The Snøhvit gas liquefaction plant is the world's most northerly of its kind, and delivers energy to customers worldwide.

Statoil in the planning phase. Our proposals included a special review of health, safety and the environment with the workforce before the shutdown began.”

Petoro is concerned to ensure further development of Snøhvit and the surrounding resources in the Hammerfest Basin. It will be important to develop the smaller discoveries while Snøhvit is still in a phase where this would be sufficiently profitable for everyone concerned and capacity is available at the Melkøya plant.

“We’ve proposed a high level of exploration activity now, along with a parallel study of a second Snøhvit train,” explains Mr Mathisen. “We need an estimated 10-15 billion cubic metres of additional gas reserves to justify

the latter. Extra resources have already been proven in the area, and it’s now important to secure enough of these to justify a development project.”

He adds that an infrastructure is starting to take shape in the far north with Snøhvit and Goliat. “More discoveries and further developments could permit additional progress with these facilities, while providing a catalyst which opens new perspectives. One example could be supplying electricity from the grid to expand the Melkøya plant, with further opportunities for power deliveries to offshore fields such as Goliat as part of an environmental commitment.”

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**JAN TERJE MATHISEN**  
Area manager





The Kårstø processing plant is one of the most important hubs in the Norwegian gas machine.



# OPTIMIST ABOUT GAS

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**Clouds loom over the European gas market at present, for complex reasons. These include the financial crisis, a world recession and oversupply from greater liquefied natural gas (LNG) capacity and higher US shale gas output. Despite these challenges, Petoro believes the inherent advantages of gas will ensure its competitiveness and a bright future.**

“Although the market has weakened in the short term, we believe that the balance between supply and demand will gradually improve over the next two year,” says Laurits Haga, vice president for marketing and sales. “Driven by rising demand, that’ll boost the market price for gas.”

Despite its fundamental confidence in the long-term trend, Petoro acknowledges that great uncertainty prevails about developments in gas demand. Analyst forecasts have changed substantially in recent years. The biggest uncertainty relates to economic trends. It is also unclear how various energy and environmental policy measures in the European Union will affect the competitiveness of gas, particularly for power generation.

Uncertainties also prevail on the supply side, primarily over future output of shale gas – mainly in the USA – and its cost. The outlook for LNG production is also unclear.

“Investment in the energy sector in general, and for gas in particular, has a long horizon,” observes Mr Haga. “That makes predictable frame conditions important for taking the right investment decisions.”

Frame conditions in gas markets will influence the views of the various players about future prices, which rank in turn as an important factor in development decisions on the NCS.

“The industry is accustomed to managing

traditional risks such as volume, costs and prices,” says Mr Haga. “Today’s new factor is that governments are assessing measures related to climate and the environment which introduce novel risks for investors. These actions more or less directly affect demand and price formation, and include taxes, subsidies, carbon pricing, the scope of nuclear energy and so forth.”

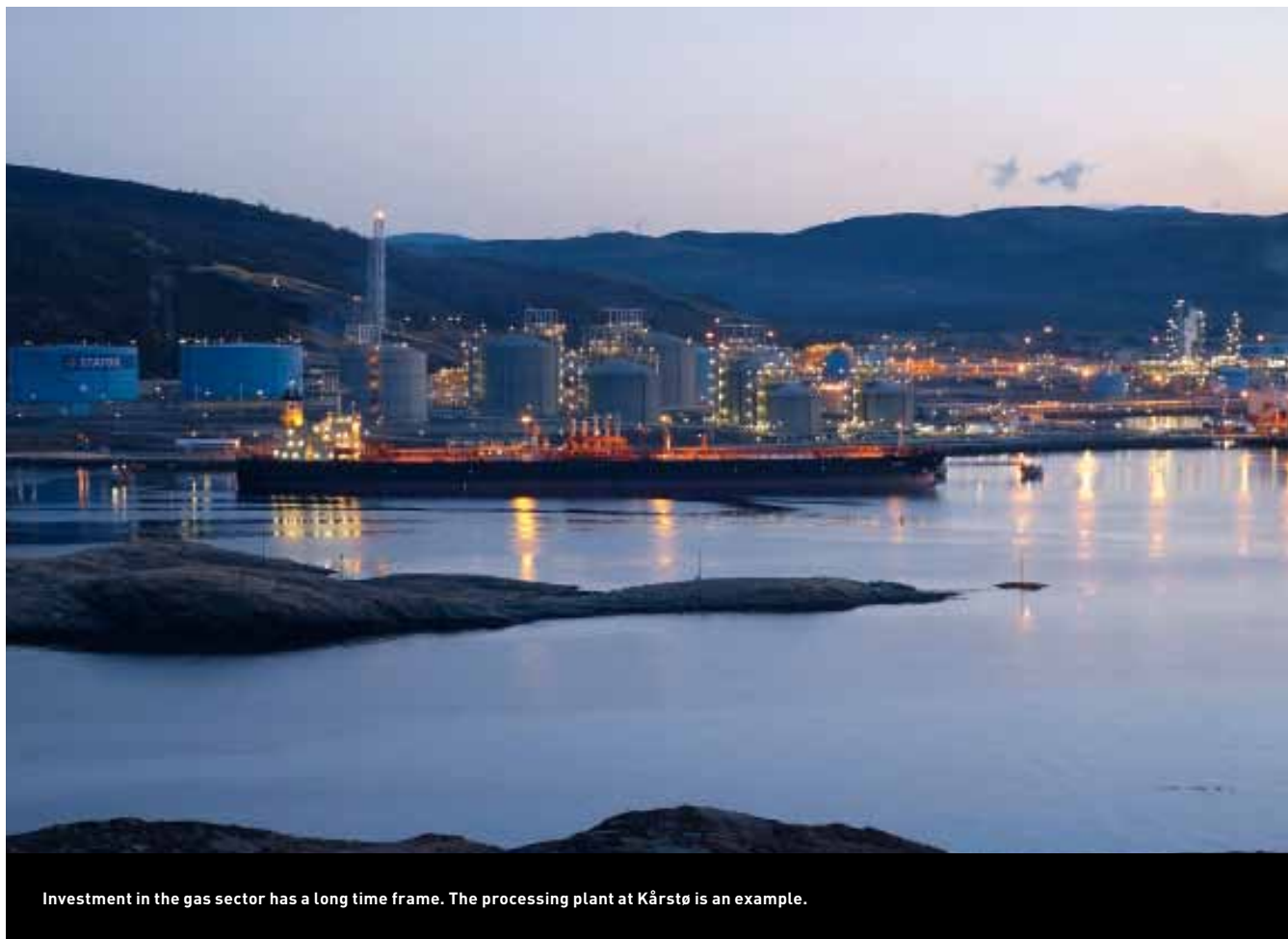
Predictable frame conditions are also important for players planning to invest in power generation. Most countries will need new electricity capacity, and the most important options are nuclear, coal with or without carbon capture, gas and renewables such as wind or solar energy. Political agreement has prevailed in Germany on phasing out nuclear power, but the latest signals from politicians suggest that this goal could be abandoned. This would affect demand for gas in the electricity sector. Similarly, political signals from the UK suggest that it will also make a future commitment to nuclear energy.

“We support the efforts to reduce greenhouse gas emissions,” notes Mr Haga. “Renewable energy has a big potential, but generating power from sun and wind depends on highly variable weather conditions. Such energy sources must therefore be combined with weather-independent supplies to ensure stable power deliveries.”

Some European countries are planning wind turbines capable of generating 20-40 per cent



**LAURITS HAGA**  
Vice president, marketing and sales



Investment in the gas sector has a long time frame. The processing plant at Kårstø is an example.



Gas could interact with renewable energy sources in the future.

of the electricity required in their domestic market. That would result in zero emissions, but wind speeds are usually low in very cold weather. That means wind turbines are least effective when the heating requirement is at its greatest, and calls for flexible capacity – gas-fired, for instance – to ensure enough electricity.

A study by the Econ Pöyry consultancy concludes that an expansion of 40 billion cubic metres in annual Norwegian gas exports to the rest of Europe would cut coal consumption and thereby reduce carbon emissions by 90 million tonnes per year. That corresponds to twice the annual Norwegian figure for such emissions.

According to calculations by the reputable Wood Mackenzie analysis and consulting company, British carbon emissions would have fallen by about 30 million annual tonnes if coal were replaced with gas in the power sector.

Carbon emissions could be eliminated by using capture technology for flue gases, with subsequent storage. However, Petoro does not believe such solutions will be commercial until after 2020.

Gas is the most environment-friendly of the fossil fuels, and releases only half as much carbon dioxide as coal. So this energy source could build a bridge to and be part of a low-emission society.

“A number of factors must fall into place for this to happen, but one of the most important is a high carbon price,” says Mr Haga. “That’ll provide the right incentives to invest in gas-based power generation and phase out coal-fired capacity. We’re fundamentally optimistic about the place of gas in Europe’s future energy picture. A development which also aims to promote action on climate and the environment can’t avoid this commodity.”

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**“Petoro is fundamentally optimistic about the place of gas in Europe’s future energy picture. A development which also aims to promote action on climate and the environment can’t avoid this commodity.”**

**LAURITS HAGA**

Vice president, marketing and sales



A close-up portrait of Sonja Samsonsen, a woman with short dark hair and blue eyes, wearing a black turtleneck. She is looking directly at the camera with a slight smile. The background is blurred with warm, bokeh light spots.

**“We’re approaching our 10th anniversary. It’s time for a thorough review in order to clarify how we’re going to move forward as an organisation.”**

**SONJA SAMSONSEN**

Vice president, human resources and expertise development



# DRIVE AND COMMITMENT

**Petoro is keen to ensure that it chooses the right course and comes across as clear, recognisable, committed and vigorous.**

A major organisational development (OD) programme was pursued by the company during 2009 to strengthen its commitment and drive even further. This work aimed to identify the tools and methods required to meet new challenges and changes in the world at large.

"We're approaching our 10th anniversary," observes Sonja Samsonsen, vice president for human resources and expertise development. "It's time for a thorough review in order to clarify how we're going to move forward as an organisation. The aim has been both to confirm our strengths and to define how we'll go on developing. The competitive picture on the Norwegian continental shelf has changed. We face a different world, which influences our role. The new conditions make the challenger role clearer, but also make it more demanding because we no longer have two large Norwegian companies to play off against. We must do more work on our own account in the licences."

Petoro has 65 employees with varied backgrounds and expertise. A number of them are veterans with broad experience from various sides of the oil industry, while the number of younger personnel has gradually increased. The question is how the company should unite its forces to become a good challenger and partner, and to deliver even better results. What creates enhanced vigour, commitment and energy?

"That's a big and open question," responds Ms Samsonsen. "We included the whole organisation

in seeking an answer. This is an area where the management can't simply attend a seminar and come back with the solution. Each of us must participate and be involved in generating forward motion."

The OD work has been pursued in part with the aid of what Ms Samsonsen describes as "café dialogue". "We chose this format because significant new conversations are often generated and good ideas developed in informal meetings.

"Everyone had an opportunity to contribute. We quickly secured a great many specific proposals and ideas on the topics which people wanted to discuss. This approach also has a social and network-building dimension."

She explains that the purpose of the café dialogue was to address important issues related to involvement and job satisfaction. "It was used to identify the topics we should continue to pursue during the year through the OD programme. We think it's important to build on what we're good at. A key element in the dialogue was to become more aware of the way our organisation, culture, values and attitudes contribute to creating results collectively, and of how we can build on these aspects to get even better. We wanted to search for the good stories, find the basis for the good results, and strengthen that."

New ideas were raised and some subjects crystallised. The key terms were collated and their common denominators became the principal topics.

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 "The new conditions make the challenger role clearer, but also make it more demanding because we no longer have two large Norwegian companies to play off against. We must do more work on our own account in the licences."  
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The work was systematised in several stages, including the climate survey, communication and collaboration, job satisfaction, initiatives and influence, the performance culture, and corporate culture and values.

"We've asked who we are and where we want to go," explains Ms Samsonsen. "That's contributed to increased awareness of a number of basic issues. We now have to take stock and get on the track of change and movement. Do we have more vigour? Have we become better at being inclusive? Are we reinforcing the good stories and promoting the positive results."

"The best indicator that results are being achieved in this area is provided by the well-being of the people around you, by whether they want to contribute and have the energy to give that little extra."

"It's now 2010, and up to us to deliver. We hope our stakeholders and society in general will notice the results in the form of a more vigorous, visible and distinctive organisation."

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"Organisational development has been pursued in part with the aid of what Ms Samsonsen describes as 'café dialogues'.

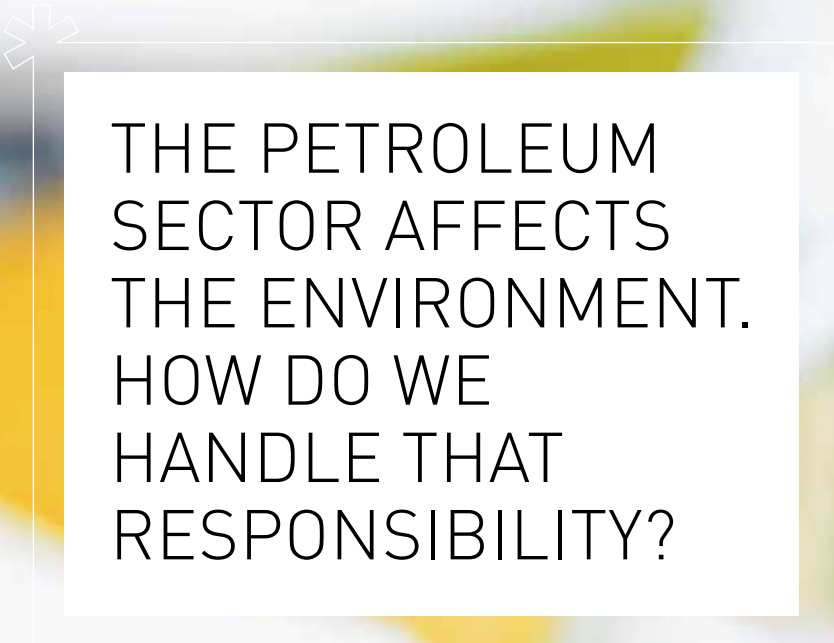
"We chose this format because significant new conversations are often generated and good ideas developed in informal meetings."  
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THE PETROLEUM  
SECTOR AFFECTS  
THE ENVIRONMENT.  
HOW DO WE  
HANDLE THAT  
RESPONSIBILITY?



**“The environment is an issue which arouses commitment. People are very energetic about it, and everyone wanted to participate.”**

**BRITT BJELLAND**  
Senior advisor



# ENVIRONMENTAL AGENTS

**Petoro also wants to be an active partner on environmental issues. While 2009 was devoted to building expertise and investigating where the company might make a difference, the goal this year is to contribute to change. The whole organisation is involved through a dedicated environmental team.**

Bringing together people with varied backgrounds from the finance, technology, marketing and licence management departments ensures that challenges are addressed from different angles.

“The environment is an issue which arouses commitment,” says team chair Britt Bjelland. “People are very energetic about it, and everyone has wanted to participate. The challenge is to get all the activities implemented.”

Emissions to the air are the priority for 2010. An objective has been formulated: power from shore to the Norwegian continental shelf, providing the economics are acceptable.

“We’ve identified Snøhvit, the Midgard compression project on Åsgard and Valemon as possible candidates for power from shore,” Ms Bjelland explains. “These are only possibilities at the moment – a great deal of uncertainty and much work remains before we can make any recommendations. Powering the NCS from shore will be costly.”

A key job for the environmental team is to identify the most cost-effective instruments for achieving the government’s climate targets.

Asked whether Petoro supports a carbon fund, Ms Bjelland explains that the company wants to be a prime mover in establishing a cost-effective solution of this kind or other and better climate policy instruments. “We must assess alternatives and specify the preferred model for a



The most important instrument for reducing carbon emissions in the short term is enhancing energy efficiency, both offshore and on land.



carbon fund. That calls for collaboration with licence partners, the government and industry organisations.

"Assuming that a carbon fund is achieved for the NCS, we've proposed assessing power from shore for Midgard compression. Operator Statoil is basically positive to the idea. But this is also on the drawing board – much remains to be done before a project can be realised."

The most important instrument for reducing carbon emissions in the short term is enhancing energy efficiency. That applies both offshore and on land. A number of measures have already been implemented, but a big potential remains for further cuts.

"Energy efficiency and optimisation mainly form part of long-term plans in the licences at present," Ms Bjelland points out. "We must now ensure specific activities which show up in licence work programmes and budgets. Systems for good energy management need to be established. Licences and operators must be measured on their performance in this area."

Petoro administers large petroleum resources, which also makes it a big polluter. Asked whether this represents a serious dilemma, Ms Bjelland says the company is very conscious that the oil sector is one of the major contributors to emissions.

"That calls for responsible action on reducing emissions from all producing fields as well as from future projects. Our big portfolio and ability to see entire areas as a whole mean that we can promote cost-effective environmental measures across a number of licences."

The environmental team has also worked on discharges to the sea. Produced water volumes are growing in a mature offshore sector, and a number of measures to improve recovery will help to boost the quantity even further.

"This is again about identifying the best and least energy-intensive technological solutions for achieving the goal of zero harmful discharges of produced water to the sea," says Ms Bjelland.

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One of the main jobs for the environmental team is to identify the most cost-effective instruments for reaching the government's climate targets.

# SAFETY IN 2009

## INCIDENTS UP — AND MORE SERIOUS

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**One fatal accident was suffered in the SDFI portfolio during 2009. A scaffolder died during the removal of scaffolding on Oseberg. Two serious incidents with the potential to become a major accident occurred. One was at the Kollsnes gas terminal, where 12 cubic metres of condensate leaked out. The other happened on Ekofisk, when a vessel collided with a platform.**

Petoro's main parameter for following up health, safety and the environment in the SDFI portfolio is expressed by the serious incident frequency (SIF) per million working hours. This measurement parameter is intended to ensure that attention is given to the risk of incidents which can cause major accidents.

The company also follows up the personal injury frequency (PIF) as a secondary parameter. A worsening in the SIF figures was registered in 2009, while the PIF improved. Serious incidents were recorded across a broad spectrum of the industry. Dropped objects and incidents related to crane and lifting operations dominate these statistics.

The SIF was 2.7 in 2009, compared with 2.0 the year before. Petoro's SIF goal for 2009 was 1.8.

Petoro participated in HSE-related management inspections on selected fields and installations during 2009. The company works to

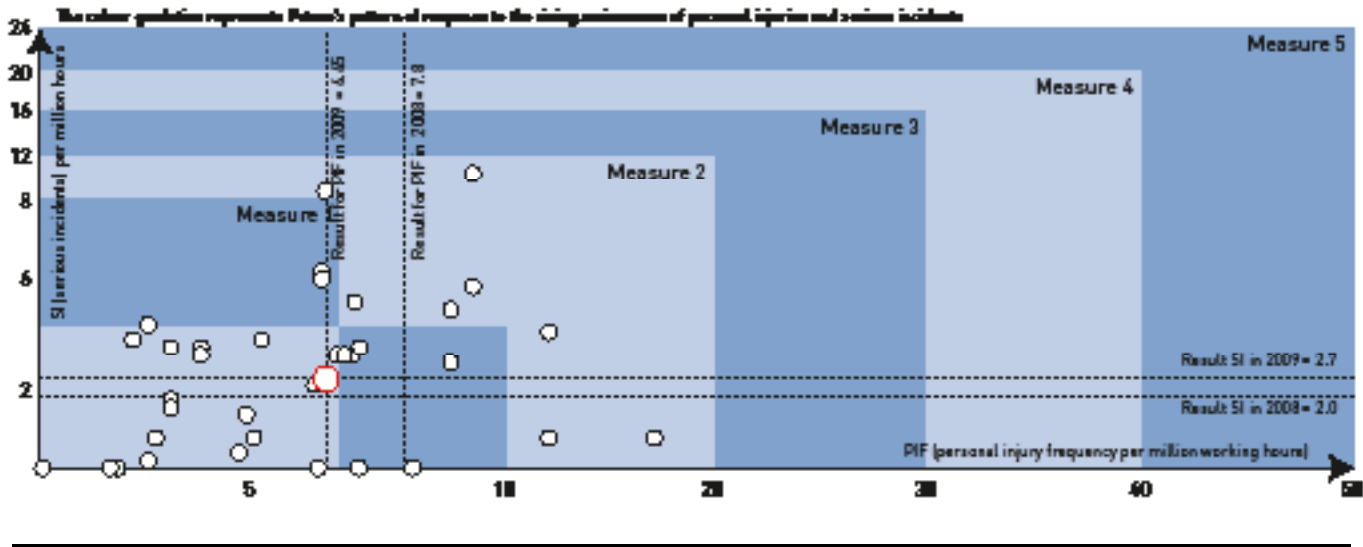
influence operators and the rest of the industry to achieve reductions in the number of personal injuries and serious incidents. As a result of the negative trend for the SIF, both Statoil as operator and the Norwegian Oil Industry Association (OLF) have adopted additional measures and programmes which are expected to yield positive results.

The Petroleum Safety Authority Norway (PSA) followed up the attention paid by Petoro's executive management and board to preventing major accidents. An extension of the PSA's audit in 2008, this aimed to assess changes and improvements. No requirements for further measures at the company were identified by the PSA.

### ACROSS AREAS AND LICENCES

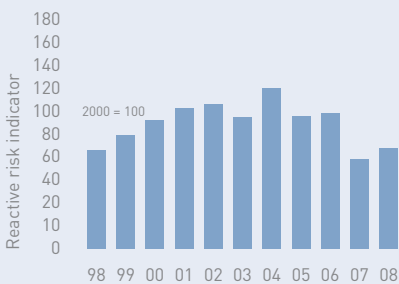
Health and safety are a line responsibility, which is followed up in the management committees of the licences. To disseminate experience and share expertise between its own staff, safety and health are in focus at regular management-level meetings and among Petoro's area teams. The executive management also holds regular bilateral meetings with the biggest operators where HSE is a key topic. In addition, Petoro's HSE manager is a driving force and resource in cross-licence work on following up results and measures. Statistics from the various installations clarify good and less positive results, and make it possible to identify lessons which can be transferred to other installations and licences. These results also lay the basis for Petoro's decisions on follow-up and action. As in previous years, the company participated during 2009 in a number of inspections on fields and installations as part of its compliance responsibility and role as a visible and demanding partner with a focus on safety work.

**SERIOUS INCIDENTS AND PERSONAL INJURY FREQUENCY** Source: PSA/Trends in risk level 2008



- Installations in the SDFI portfolio
  - ..... Results for personal injuries and serious incidents
  - Average for 2009
- Measure 1:** Challenge in licences ■ Consider meeting at field/area level. **Measure 2:** Meeting at field/area level ■ Assess operator measures and implementation ■ Consider doing own analysis. **Measure 3:** Perform own analysis ■ Call field manager after each SI ■ Consider meeting at management level ■ Consider requesting partner inspection. **Measure 4:** Hold meeting at management level ■ Initiate and execute partner inspection ■ Consider meeting at company level. **Measure 5:** Hold meeting at company level ■ Consider meeting with Petroleum Safety Authority Norway

**RISK INDICATOR FOR MAJOR ACCIDENTS**



**DEVELOPMENTS ON THE NCS**

The level of risk in the petroleum industry has remained stable, with the figure which illustrates risk indicators for major accidents showing a downward trend since 2002.

On behalf the industry, the OLF had set a goal that there should be no more than 10 hydrocarbon leaks larger than 0.1 kilograms of gas per second in 2008. Twelve such leaks were recorded, but the statistics here also show a declining trend since 2002.

Similarly, serious personal injuries have developed positively in recent years. Their frequency was 0.86 per million working hours in 2008.

**Petoro** aims to be a proactive partner in efforts to reduce the scale of personal injuries and undesirable incidents on the NCS. Interests in a large number of licences put the company in a special position to work on safety and health. By participating actively and learning in each licence, Petoro contributes to a transfer of experience between licences, areas and operators. The goal of this work is to influence the operators and the industry to make continuous improvements to the level of offshore safety.



# REDUCED EMISSIONS TO THE AIR DISCHARGES TO WATER DOWN

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## **Emissions to the air and discharges to the sea declined in 2009. This primarily reflected lower production of oil and gas.**

In line with the general trend on the Norwegian continental shelf (NCS), total production for the SDFI has declined somewhat in recent years. Output measured in oil equivalent fell by six per cent from 2008 to 2009. This development affects the level of emissions/discharges in the portfolio.

The SDFI portfolio was largely unchanged during 2009. Figures at 31 December form the basis for the emission/discharge calculations. At that time, the SDFI embraced 137 production licences with 37 producing fields. In addition came interests in 14 joint ventures operating pipelines and terminals.

### **NATURAL ENVIRONMENT**

The development of emissions/discharges related to SDFI holdings is presented in this report as absolute annual amounts and as the amount per unit produced. The latter provides

a representative view of the historical trend, unlike the absolute figures alone.

Graphs and figures are derived from operator reports to the Norwegian Oil Industry Association (OLF) and the Norwegian Climate and Pollution Agency (KLIF) in 2009. All emission/discharge figures are related to the SDFI portfolio and calculated from total volumes for the installations. Only emissions/discharges covered by the reporting requirements in the information duty regulations are included.

The reported emissions/discharges are not allocated by ownership of production, but related to the point of release. Emissions/discharges from downstream processing of oil and gas in plants without an SDFI holding are not included in this accounting. Similarly, processing of all oil and gas in plants with an SDFI holding is included, even if the SDFI has no equity interest in the upstream fields delivering the petroleum.

**Greenhouse gases** are a collective term for the six substances covered by the Kyoto protocol: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride. Carbon emissions account for the bulk of greenhouse gases, or about 82 per cent measured in tonnes of carbon equivalent.

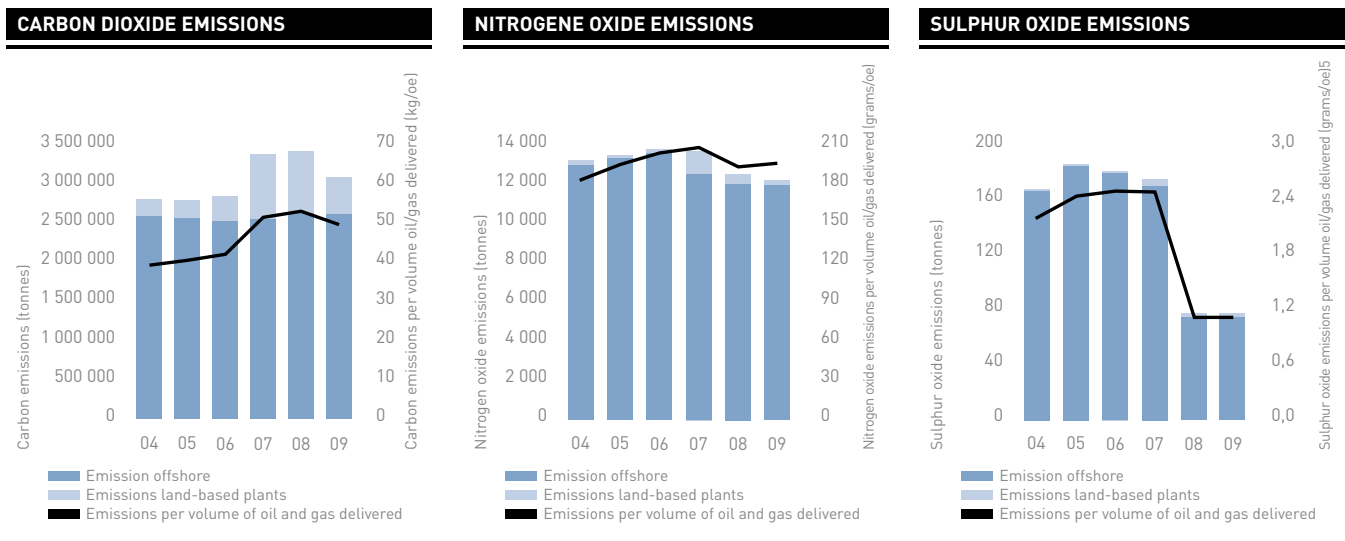
**Carbon equivalent** is a unit which designates the effect a specified volume of a greenhouse gas has on global warming, converted to carbon dioxide emissions with a corresponding impact. Other greenhouse gases have a different

warming potential, and their emissions are accordingly expressed as carbon equivalent in an environmental accounting.

#### **Carbon tax and emission trading:**

The carbon tax and the Emission Trading Act are the key tools for reducing Norwegian carbon emissions. At 1 January 2009, the tax was NOK 0.45 per litre of oil and NOK 0.45 per scm of gas. Allowances are freely tradable permits to release greenhouse gases. One allowance corresponds to one tonne of carbon emissions. The price of an allowance is determined by supply and demand in the market.

**Climate Cure:** Norwegian greenhouse gas emissions are to be cut by 15-17 million tonnes up to 2020. The Climate Cure 2020 is a group of government agencies appointed to assess ways and means for meeting this target. They were to assess expected future allowance prices, review international climate-policy goals and instruments, and assess the need for new such instruments in Norway. Their report was completed in February 2010. It will form the basis for the government's climate policy assessments.



**Figure 1** Annual carbon emissions and emissions per volume of oil and gas produced from the SDFI  
**Figure 2** SDFI nitrogen oxide emissions and emissions per volume of oil and gas produced  
**Figure 3** SDFI sulphur oxide emissions and emissions per volume of oil and gas produced

**REDUCED CARBON EMISSIONS**

Carbon emissions in 2009 were 3.1 million tonnes, down almost 10 per cent from the year before. Emissions offshore were at the 2008 level. Roughly half the emission decline relates to reduced flaring at the Snøhvit plant on Melkøya. A change to the SDFI's holding in the Kårstø processing plant also cut portfolio emissions. The Åsgard and Troll fields each accounted for 12 per cent of the SDFI's carbon emissions in 2009, with Oseberg contributing a further 10 per cent. All these fields released rather less carbon dioxide than in 2008 because production fell.

**NITROGEN OXIDE EMISSIONS FELL FURTHER**

Emissions of nitrogen oxides from the SDFI portfolio declined by 300 tonnes compared with 2008 to 11 800 tonnes. The bulk of the reduction came from the Melkøya and Kårstø plants. Snøhvit cut its emissions substantially through

lower flaring, while the Kårstø reduction reflected the smaller ownership interest. Nitrogen oxide emissions also declined for the oil and gas business overall from 2008.

Norway's target under the Gothenburg protocol is to reduce national nitrogen oxide emissions to 156 000 tonnes in 2010. That compares with 176 000 tonnes in 2008, with the oil and gas industry accounting for 29 per cent. That was 20 000 tonnes above the target, but 11 000 tonnes down from 2007. Part of the measures which led to this reduction were funded by the industry's nitrogen oxide fund, with which many of the players in the oil and gas industry are affiliated. Despite the measures implemented by the fund, it is uncertain that Norway will reach its nitrogen oxide target in 2010.

**SULPHUR OXIDE EMISSIONS STABLE**

After a sharp reduction from 2007 to 2008,

Figure 3: The process industry is the dominant source of sulphur oxide emissions in Norway, with the metals sector as by far the largest contributor.

**Nitrogen oxides** are flue gases released when burning oil and gas. They cause acid precipitation and boost concentrations of ground-level ozone. Emissions can damage ecosystems and vegetation, and are harmful to human health.

**The Gothenburg protocol**, which came into force in 2005, focuses on various gases which cause pollution, over-fertilisation and the formation of ground-level ozone. These are sulphur dioxide, nitrogen oxides, ammonia and non-methane volatile organic compounds (nmVOC). Norway's obligation under the protocol is to cut emissions by 2010 to 156 000 tonnes of nitrogen oxides and 23 000 tonnes of ammonia.

**Industry's nitrogen oxide fund**  
 Founded in 2008, this operates on the full-cost principle. All payments made to the fund are applied to the cost-effective reduction of nitrogen oxide emissions.

the SDFI's share of sulphur oxide emissions remained stable in 2009 and totalled 73 tonnes.

Norway's target under the Gothenburg protocol is to keep the release of sulphur oxides to 22 000 tonnes in 2010. National emissions have been below this figure since 2006. The oil and gas industry accounted for about three per cent of Norwegian emissions in 2008, and total sulphur oxide emissions from the NCS were reduced by almost 100 tonnes in 2009.

#### NM VOC EMISSIONS DOWN

Total emissions of non-methane volatile organic compounds (nmVOC) on fields in the SDFI portfolio were 10 900 tonnes in 2009, down two per cent from the year before. That included the amount released by the Oseberg Transport System (OTS) for the first time, which boosted emissions from land-based plants.

Sources of nmVOC are unburnt hydrocarbons and diffuse process emissions as well as oil storage and loading. Offshore loading of crude accounts for 60 per cent of the SDFI's total nmVOC emissions.

The SDFI's share of nmVOC emissions from the latter source was reduced by 1 000 tonnes to 5 800 tonnes in 2009. This reflects a corresponding decline in oil loading. The SDFI's share of nmVOC emissions from loading on Gullfaks declined by 850 tonnes in 2009, which accounted for a large proportion of the overall reduction. Substantial cuts were also achieved on Norne, Heidrun and Draugen, primarily as result of lower production and loading activity.

Under the Gothenburg protocol, Norway has undertaken to cut its nmVOC emissions to 195 000 tonnes in 2010. The 2008 figure was 170 000 tonnes, which is well below the commitment. Oil and gas operations accounted for 31 per cent of the total emissions. Measures adopted by the industry in recent years are largely responsible for Norway continuing to meet its obligations.

#### PRODUCED WATER DOWN

The SDFI's share of produced water discharges amounted to 33.5 million cubic metres in 2009, down two per cent from the year before. This corresponded to the decline in petroleum output.

Gullfaks and Troll accounted for almost 60 per cent of overall produced water discharges from fields in the SDFI portfolio.

The water cut – share of overall liquids production – now accounts for about 60 per cent of the total, on a par with 2008. Having risen by 50 per cent since 2003, the water cut is expected to continue growing in the years to come.

It was 85 and 73 per cent respectively on Gullfaks and Troll, which helps to explain the high level of produced water discharges. Troll ranks as the largest source of low-level radioactive waste in the North Sea. These naturally occurring materials are carried from the reservoirs in the production stream and discharged with the produced water. The operator is working to find a way of reducing this discharge.

#### SUBSTANTIAL CUT IN OIL DISCHARGES

The average concentration of oil in produced water on fields in the SDFI portfolio fell substantially in 2009, while the overall volume of produced water also declined from the year before. Total oil discharges were 395 tonnes, down from 450 tonnes in 2008.

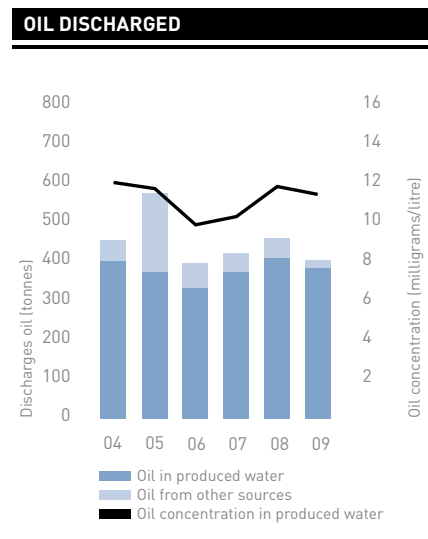
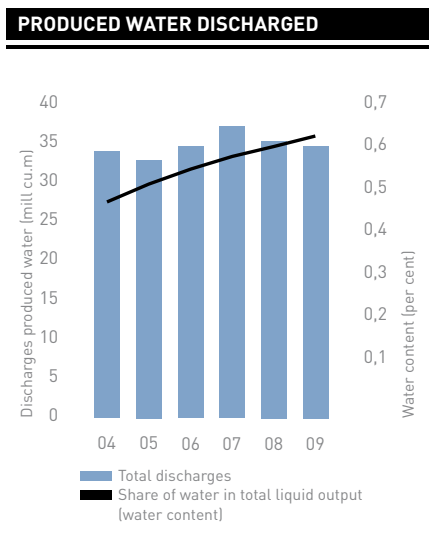
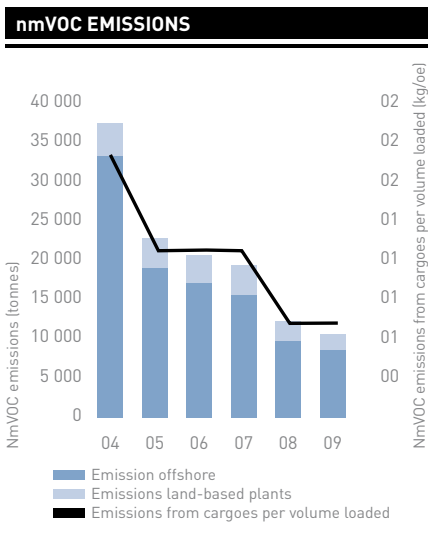
Oil is primarily discharged to the sea in produced water. Other sources include water from drainage, displacement and jetting of separators, and acute spills. Displacement water is the largest of these, accounting for 40 per cent of the SDFI's oil discharges from sources other than produced water.

Heidrun, Grane, Oseberg South and Kristin had oil concentrations in 2008 above the official limit of 30 milligrams of oil per litre of produced water released to the sea. During 2009, all the fields in the SDFI portfolio were below this ceiling.

**Sulphur oxides** are a collective term for a series of compounds, with sulphur dioxide as the one formed in the largest volume from combustion of sulphur-containing substances – primarily oil and coal – and from a number of industrial processes. Since sulphur monoxide and sulphur

trioxide form through subsequent chemical processes, these three gases are often equated in emission terms. Sulphur oxides cause acid precipitation, which acidifies rivers and damages buildings and other infrastructure. Inhaling these gases also harms the human respiratory system. Along

with nitrogen oxides, ammonia and nmVOCs, sulphur dioxide emissions are covered by the Gothenburg protocol. Norway's annual emissions of this gas are required to be below 22 000 tonnes in 2010.



**Figure 4** SDFI's annual nmVOC emissions and emissions per scm of cargo loaded. **Figure 5** SDFI's discharges of produced water, and water cut. **Figure 6** Total discharges of oil to the sea, and oil concentration in produced water.

The bulk of the discharges came from Gullfaks and Troll, which accounted between them for 50 per cent of the volume. While the water cut was high on both these fields, the oil concentration in produced water discharged to the sea was relatively low in 2009. No major acute oil spills occurred on fields in the SDFI portfolio during the year. The collective volume of small spills related to the SDFI's portfolio came to 3.6 tonnes, down by 90 per cent from the 2008 figure.

**STABLE DISCHARGES OF HARMFUL CHEMICALS**

The Norwegian oil industry is "best in class" for environment-friendly use of chemicals, and its goal is zero discharges of environmentally-harmful substances. The zero discharge philosophy was launched in 1997, and the trend on the NCS has been very positive since then. Environmentally-harmful chemical discharges have been cut by more than 99 per cent.

Chemicals remain necessary on the NCS for technical and safety reasons, but they are used on the environment's terms. Drilling operations represent the part of the business with the biggest need for chemicals, and account for about 75 per cent of chemical consumption in the SDFI's portfolio.

Official regulations divide chemicals into green, yellow, red and black categories, with the last two designated as environmentally harmful. Virtually all chemicals used on the NCS now fall into the yellow and green categories. Discharges of such substances have remained stable since 2005 at just under 25 000 tonnes per year. However, an increase occurred during 2009 in the SDFI portfolio owing to higher drilling and well activity on Heidrun, Ormen Lange and Gjøa with the associated use and discharge of chemicals.

Figure 4: Emissions from the Oseberg Transport System (OTS) facility at Sture near Bergen have not been included in earlier years. They have been incorporated this year from Sture for 2003 to 2008. Emissions from Sture in 2009 are reported under the OTS. Both are included under emissions from land-based plants.

**nmVOC:** non-methane volatile organic compounds is a collective term for gases given off during loading and discharging of crude oil.

NmVOC reacts with nitrogen oxides under the influence of sunlight to produce ground-level ozone. High levels of the latter can be harmful for human health, vegetation and materials. NmVOC also influences the greenhouse effect by forming carbon dioxide when it reacts with the air.

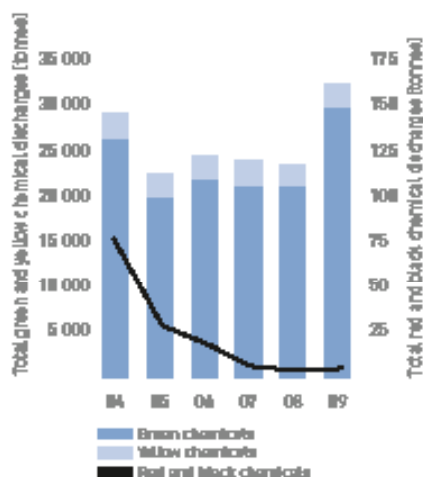
Like nitrogen oxides, ammonia and sulphur dioxide, nmVOC is covered the Gothenburg protocol. Norway is required to limit its emission of nmVOC to 23 000 tonnes in 2010.

**Industry collaboration:** Operators of NCS fields with offshore loading established a collaboration in 2002 to coordinate technology adoption and fulfil emission standards set by the Norwegian authorities in an appropriate and cost-effective manner. Total nmVOC emissions were cut by 43 000 tonnes from 2004 to 2005 through the installation of reduction technology.

Black and red chemicals still used on the NCS consist by and large of thread compounds, corrosion and deposition inhibitors, emulsion breakers and cement components. Discharges of black chemicals continued to approach zero in 2009 on fields in the SDFI portfolio, and were cut by 70 per cent to 200 kilograms. Eight fields in the SDFI portfolio released black chemicals in 2009, compared with 12 the year before.

Generally speaking, black chemicals are discharged from older installations with hydraulic systems which have no fluid return line. Such products have largely been replaced by more environment-friendly chemicals, but a good deal of older substances still remain in the hydraulic systems. Discharges of black hydraulic fluids are expected to continue declining gradually as newer and more environment-friendly substitutes are adopted.

**CHEMICAL DISCHARGES**



Troll accounted for 85 per cent of black chemicals released in the SDFI portfolio during 2009, but the bulk of the discharge reduction also occurred on that field.

Discharges of red chemicals increased from three to six tonnes in 2009. As in 2008, 25 fields in the SDFI portfolio released such substances. The main reason for the increase was deposition problems on Varg, with a resulting rise in the consumption of chemicals to overcome the problem. Varg accounted for 60 per cent of red chemical discharges. Excluding this extraordinary requirement for deposition inhibitors, these discharges would have continued to approach zero for the SDFI portfolio in 2009.

**How oil in water is analysed:** After freon and the IR method were phased out in 2002, ISO-9377-2 was introduced as a new standard for analysing dispersed oil in water. Also known as the oil index, it was adopted in response to requirements from the KLIF and the Oslo-Paris convention for the protection of the north-east Atlantic (Ospar). The

method originally quantified hydrocarbons with boiling points corresponding to the C<sub>10</sub>-C<sub>40</sub> fractions. It was modified in 2007 to ISO-9377-2 (Mod), which also includes the more volatile C<sub>7</sub>-C<sub>10</sub> fractions. This change means that results up to 2006 and from 2007 are not directly comparable. However, ISO-9377-2 (Mod) will theoretically yield somewhat higher results for

the concentration of oil in water, depending on the proportion of light fractions in crude oil from each field. With effect from 2007, the official requirement for the maximum permitted oil concentration in discharge water (monthly average) is 30 mg/l.

**ENVIRONMENTAL ASSESSMENT OF CHEMICALS IN ACCORDANCE WITH THE KLIF'S CATEGORIES**

The operator companies assess chemicals on the basis of their environmental properties.

As a general rule, substances are classified as follows:

- Black: chemicals which basically cannot be discharged. Permits are given in special cases.
- Red: chemicals which pose an environmental hazard and should therefore be substituted. Permits are awarded on condition that special priority is given to identifying substitutes for these substances.
- Yellow: chemicals in use but not included in any of the other categories. Normally permitted without specific conditions.
- Green: chemicals on the list from Ospar covering substances considered to pose little or no risk (Plonor). Permitted without specific conditions.

Categorisation	Category
Water	Green
Chemicals on the Plonor list	Green
Hormone-disruptive substances Substances which are thought to be or are harmful to genes or reproduction. Hazard labelling Rep1, Rep2 or Mut1, Mut2	1 (Black) 1.1 (Black)
Chemicals found on the priority list in White Papers no 25 (2002-2003) and no 21 (2004-2005)	2 (Black)
Biodegradability less than 20 per cent and log Pow equal to or greater than five	3 (Black)
Biodegradability less than 20 per cent and toxicity EC50 or LC50 equal to or less than 10 mg/l	4 (Black)
Two out of three: biodegradability less than 60 per cent, log Pow equal to or greater than three, EC50 or LC50 equal to or less than 10 mg/l	6 (Red)
Inorganic and EC50 or LC50 equal to or less than one mg/l	7 (Red)
Biodegradability less than 20 per cent	8 (Red)
Other chemicals	Yellow

See the appendix to the information duty regulation.

**Low-level radioactive waste:** The Norwegian oil and gas industry generates about 25 tonnes of solid hazardous waste per year which has an enhanced content of naturally occurring radioactive substances. This waste is characterised as low specific activity (LSA) scale or naturally occurring radioactive materials (Norm). LSA is deposited as scale and slag in process and production equipment, and is unwanted for production reasons. Not all deposition is radioactive, but some of the waste gives off radiation above the background level. However, the doses involved are insignificant. Those received by offshore workers in connection with LSA work are less than one per cent of natural background radiation in Norway. Low-level radioactive deposition in the oil and gas industry is more a waste challenge than a health and working environment problem.

**The Ospar convention:** The Oslo-Paris convention for the protection of the marine environment of the north-east Atlantic (Ospar) was adopted in 1992 to replace the earlier Oslo and Paris conventions. Through the work in its group for the oil and gas industry, member countries exchange experience of regulating the industry, agreements, procedures and approaches. Ospar forms the basis for national legislation on discharging drill cuttings.

# CORPORATE GOVERNANCE

**Petoro manages substantial assets on behalf of the Norwegian state. The portfolio of the State's Direct Financial Interest (SDFI) embraces a third of Norway's oil and gas reserves. Total production is expected to lie at a level of roughly one million barrels of oil equivalent (boe) per annum until 2015. That responsibility makes stringent demands on integrity and depends on the trust of the owner and the community.**

Petoro's principal objective is to create the highest possible financial value from the state's portfolio on the basis of sound business principles. The board gives weight to good corporate governance in order to ensure that the state's portfolio is managed in a way which maximises financial value creation, and creates the basis for confidence in the company by the owner, the employees, the oil industry and other stakeholders as well as the rest of the community.

The company's governance system builds on the Norwegian code of practice for corporate governance to the extent that the code's recommendations are relevant to Petoro's business. Tailored to the nature of the business, the governance system satisfies the requirements for corporate governance specified in the government's financial regulations. That includes taking account of wider social considerations pursuant to White Paper no 13 (2006-2007) on active and long-term state ownership, as well as of Petoro's responsibilities and obligations for health, safety and the environment on the Norwegian continental shelf (NCS).

Petoro has clear guidelines on commercial ethics which specify the principles which will govern its business operations and employee behaviour. The company's values base and ethics are rooted in its guidelines on business ethics, which were reviewed and revised in 2009. These guidelines cover a number of wider social considerations, including:

- requirements for ethical behaviour in relation to compliance with legal provisions, statutory regulations or guidelines
- expectations that the individual will contribute to a good and inclusive working environment which protects health and safety

- a requirement that the business is pursued in a sustainable manner, which minimises negative impacts on the natural environment
- the responsibility of the individual to ensure that no conflict arises between their personal interests and the management of the SDFI or the interests of Petoro AS
- zero tolerance for corruption or other malpractices
- consequences for breaches of the guidelines.

All employees sign an annual confirmation that they have studied and accepted these guidelines. Rules on business ethics also form part of all standard contracts with the company's suppliers.

Petoro continuously receives information which is not publicly available and which is subject to a duty of confidentiality. As part of its corporate social responsibility, information systems and data are secured against unauthorised access. Instructions have been developed for handling information received which is clearly "inside information" within the meaning of the Norwegian Securities Trading Act.

Petoro's values were established in 2002 and are integrated in its commercial activities. Against the background of changes in external conditions and the composition of the workforce in recent years, Petoro initiated a process in 2009 with broad involvement by the organisation to renew the company's values. The purpose of these values is to provide the company and its employees with a common foundation for attitudes and behaviour in Petoro.

The company's current values are:

- **SAFEGUARD HUMAN LIFE AND THE ENVIRONMENT**  
– the business is organised to avoid ill health for or injury to people  
– Petoro protects the environment wherever it conducts its business
- **BOLDNESS AND INNOVATIVE THINKING**  
– employees think along innovative lines and are adaptable – boldness and stamina are important for securing improvement
- **COMMERCIAL ORIENTATION**  
– Petoro seeks in all its activities to increase the financial value of the port folio by acting as an orderly and constructive partner and by striking a balance between immediate and long-term business goals
- **INTEGRITY**  
– employees display the highest ethical standards in their work
- **COLLABORATION**  
– employees collaborate to improve results, and value the expertise and experience of other people

**THE BUSINESS**

Petoro is a limited company wholly owned by the Norwegian state. Its main duties are defined by the Ministry of Petroleum and Energy.

The objects of the company are, on behalf of the state and at the expense and risk of the state, to hold the responsibility for and to attend to the commercial aspects related to the state's direct involvement in petroleum activities on the Norwegian continental shelf, and business associated herewith.

Petoro's overall objective is to maximise financial value from the state's oil and gas portfolio on the basis of sound business principles.

The company has three main duties:

- management of the state's participatory interests in the joint ventures where the state has such interests at any given time
- monitoring Statoil's marketing and sale of the petroleum produced from the state's direct participatory interests, pursuant to the marketing and sale instruction issued to Statoil
- financial management, including preparation of budgets and keeping of accounts, of the state's direct participatory interests.

Petoro's operations are subject to the Norwegian Act on Limited Companies and the Norwegian Petroleum Activities Act, and to the government's financial regulations – including the rules on appropriations and accounting. Its activities are governed by the Ministry of Petroleum and Energy's instruction for financial management of the SDFI and the annual letter of award.

The company's principal strategies are area development, maturing reserves and early application of new technology. Work on a revision of this strategy has been initiated by the board. The previous strategy process was in 2006. Since then, the NCS has experienced a number of major changes which are all significant for the commercial development of the SDFI portfolio. Important developments include the merger between Statoil and Hydro's oil and gas business, a big increase in the level of activity driven by higher oil prices, a sharp rise in costs and a recognition of the need to pay greater attention to climate change. This provides the backdrop to the current consideration and revision of Petoro's strategy. The board emphasises that the strategy chosen will position the company for future value creation. The present work rests on the consideration that the company's principal objective of creating the highest possible commercial value from the portfolio remains unchanged and determines the direction of the revised strategy.

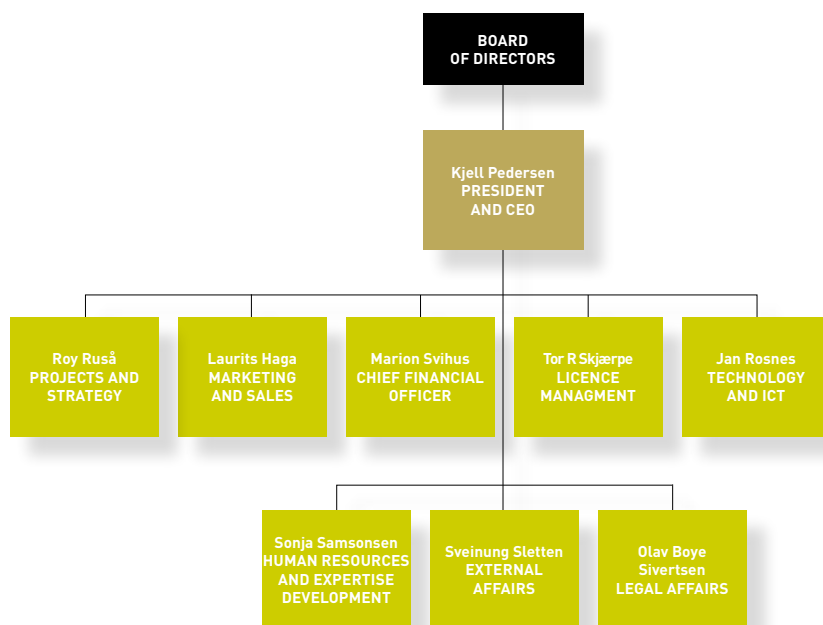
Petoro is the licensee – with the same rights and obligations as the other licensees – for holdings in 137 production licences and 14 joint ventures and companies for pipelines and terminals. The SDFI participates in 35 producing fields, of which the 10 largest account for about 80 per cent of the portfolio's value. Petoro is an active partner, which contributes through overall assessments and a purposeful commitment to maximising the value of the portfolio. This work is oriented towards areas and assignments in which the company, on the basis of the portfolio and in collaboration with other players on the NCS, can best contribute to achieving this goal. Petoro has worked actively for the implementation of good governance, and cooperates with its partners on further development of good performance management processes in selected licences.

Through article 11 in Petoro's articles of association and the marketing and sale instruction issued to Statoil, the government has made Petoro responsible for monitoring that Statoil



performs its duties in accordance with the instruction. As the majority shareholder in Statoil and the sole owner of Petoro, the government exercises a common ownership strategy through the marketing and sale instruction approved by the general meeting of Statoil.

The company has internal instructions for dealing with inside information received by Petoro. These apply to the company's board, employees, auditor, advisors or others in a relationship with the company who receive information expressly defined as "inside information" within the meaning of the Securities Trading Act. A special system has also been established for approving external directorships held by employees.



**PETORO ORGANISATION CHART**

Petoro presents separate accounts for SDFI portfolio transactions, which form part of the government's accounts and are audited by the Auditor General of Norway. Cash flows generated from the portfolio are transferred to the government's own accounts with the Bank of Norway. From 2009, Petoro also reports cash flows from petroleum activities on the NCS to the government in accordance with the regulation implementing the Extractive Industries Transparency Initiative (Eiti) in Norway, which came into force on 1 July 2009.

The limited company's own operating expenses are covered by annual appropriations over the central government budget, which are presented as operating revenues in the accounts of the limited company.

**GENERAL MEETING**

The Ministry of Petroleum and Energy, in the person of the minister, represents the government as sole owner and serves as the company's general meeting and highest authority. The annual general meeting is held before the end of June each year. It considers matters as specified by Norwegian law, including amendments to the articles of association and approval of the annual accounts. The Petroleum Activities Act lays down guidelines for issues to be considered by the company's general meeting. The general meeting elects the board of directors, with the exception of the worker directors, and the company's external auditor.

**BOARD OF DIRECTORS AND ITS WORK**

Petoro's board comprises seven directors, of whom five are elected by the general meeting. Two are elected by and from among the company's employees. Three of the directors are women. Directors are elected for two-year terms. They have no commercial agreements or other financial relations with the company apart from the directors' fees established by the general meeting and contracts of employment for the worker directors.

The board has overall responsibility for the management of Petoro, including ensuring that appropriate management and control systems are in place, and for exercising supervision of the day-to-day conduct of the company's business. The work of the board is based on rules of procedure which describe its responsibilities and mode of working. The board met 11 times in 2009.

As an appendix to the instructions for its work, the board has adopted supplementary provisions for matters to be considered by it. An annual schedule of meetings has been established for the work of the board, with the emphasis on considering strategies, budgets and interim results. The board utilises a balanced scorecard system as a key instrument for monitoring results. This embraces financial/operational, organisational and relational aspects. The performance management model also covers both short- and long-term goals, quantitative as well as qualitative, and is well adapted to the company's challenges.

The board continuously considers major investment decisions within the portfolio, follow-up and consideration of activities in the licences, and monitoring of gas sales – including an assessment of the overall risk picture. The

board has chosen to organise its work related to compensation through a sub-committee. No other committees have so far been established by the board. In the event of conflicts of interest, the practice has been for the director concerned to abstain from consideration of the matter by the board.

An annual self-assessment is conducted by the board, embracing an evaluation of its own work and mode of working and of its collaboration with the company's management.

### **RISK MANAGEMENT AND INTERNAL CONTROL**

Risk management in Petoro supports the company's strategy and goals. The board undertakes an annual review of the company's most important risk areas and its internal control. In this review, the board gives weight to the risks and opportunities which Petoro itself can influence through its own measures within the frameworks available to it. The company works continuously on maturing and developing risk management in line with principles for integrated management and the development of the company's risk picture. These principles build on an internationally recognised Coso/ERM framework for internal control and the in-house team in the company.

Identification and management of risk form an integrated part of Petoro's business processes. The company works with risk management to handle conditions which could affect its ability to reach specified targets and to implement chosen strategies, as well as those which could affect its ability to submit accurate accounts. Risk management is an important tool for reducing uncertainty in Petoro's strategy and performance monitoring processes and for creating understanding of the risk picture across the business.

The internal control function at Petoro is charged with ensuring that the business is conducted in accordance with the established governance model and that requirements specified by the government are observed. This function forms an integrated element in Petoro's management processes, and is responsible for ensuring that integrity and completeness are assessed for all management information and that management systems are effective.

The framework for internal control has been formulated to provide a reasonable level of assurance that goals will be met in the following areas:

- purposeful and cost-effective operation
- reliable reporting of accounts
- compliance with applicable law and statutory regulations.

Petoro's internal audit function is provided by an external audit company, which audits the internal control systems in accordance with a plan approved by the board.

Guidelines have been adopted by Petoro to facilitate internal reporting of conditions in the business which are open to criticism. Whistleblowers who want to preserve their anonymity or who do not wish for other reasons to raise the matter with their superior can notify the internal auditor.

### **REMUNERATION OF THE BOARD AND SENIOR EMPLOYEES**

The general meeting determines the remuneration of directors. The board determines the remuneration of the president and CEO. The chief executive determines the remuneration of the other members of the company's senior management. The board has specified guidelines for the remuneration of senior executives in Petoro pursuant to the frameworks specified in the guidelines for state ownership – attitudes on executive pay. Details of the actual remuneration paid in 2009 to directors, to the president and CEO, and to the management team as a whole are provided in the notes to the annual accounts.

### **INFORMATION AND COMMUNICATION**

The Petoro board has established a communication strategy to ensure that an open dialogue is pursued both in-house and externally, so that the company's employees and other stakeholders are well informed about its business activities.

Information is published via the company's website, through press releases and in the interim and annual reporting of its results. Petoro's annual report is prepared in March/April and provides a broad description of its operations, the directors' report and annual accounts, as well as coverage of health and safety and the impact of the business on the natural environment and other wider social considerations.

### **AUDITOR**

The Auditor General is the external auditor for the SDFI portfolio pursuant to the Auditor General Act. It checks that the company's management of the portfolio accords with the decisions and assumptions of the Storting (parliament), and audits the annual accounts for the SDFI portfolio. On the basis of this work, the Auditor General submits its report in a final auditor's letter.

In addition, the board has resolved that the company will appoint an external audit company to serve as the internal auditor for the SDFI. The internal auditor conducts a financial audit of the portfolio's accounts and submits an auditor's report pursuant to Norwegian auditing standards and cash accounting principles, including the RS800 standard on auditor's reports for special-purpose audits. The contract with the external auditor company was put out to tender in 2009. After a competitive bidding round, the auditing assignment was awarded to Deloitte. This contract covers both financial auditing and Petoro's internal auditor function. The company's function for receiving notification of irregularities (whistle-blowing) is discharged by the internal auditor.

Erga Revisjon AS has been selected by the general meeting as the external auditor for Petoro AS.

# EXECUTIVE MANAGEMENT OF PETORO

**[2] TOR RASMUS SKJÆRPE [1950]**  
 Vice president licence management  
**Education:** MSc engineering, Norwegian Institute of Technology (NTH).  
**Career:** Long experience of Norwegian oil and gas operations, most recently as head of Petoro's technology department and before that as head of Norsk Hydro's operations in the Tampen area of the North Sea.

**[4] LAURITS HAGA [1954]**  
 Vice president marketing and sales  
**Education:** Economics degree.  
**Career:** Long experience from the Norwegian and international oil and gas business. Held a number of management posts with Mobil and was head of the gas division in ExxonMobil Norway before joining Petoro.



**[1] JAN ROSNES [1965]**  
 Vice president technology and ICT  
**Education:** MSc petroleum engineering, Stavanger University College.  
**Career:** Broad experience from project and strategy work with Shell in Norway and the UK and with Statoil, among others. At Petoro, has been vice president for projects and strategy and asset manager for the Tampen and Oseberg areas

**[3] OLAV BOYE SIVERTSEN [1951]**  
 Vice president legal affairs  
**Education:** Law degree.  
**Career:** Broad experience as legal affairs officer at ExxonMobil, head of the legal affairs department for Mobil Norway, and in posts at the Norwegian Petroleum Directorate, Ministry of Petroleum and Energy, and Ministry of Labour and Local Government. International experience from Mobil's US business.

**[5] KJELL PEDERSEN [1952]**  
 President and CEO  
**Education:** MSc petroleum technology, Norwegian Institute of Technology (NTH).  
**Career:** Has had a long international career, holding a number of leading posts both upstream and downstream in Exxon and ExxonMobil.

**[6] ROY RUSÅ [1956]**

**Vice president projects and strategy**

**Education:** BSc petroleum, Rogaland Regional College.

**Career:** Long experience of the Norwegian oil and gas business from Statoil and Baker Hughes Inteq. Previously headed Petoro's technology and ICT department.

**[7] SONJA SAMSONSEN [1971]**

**Vice president human resources and expertise development**

**Education:** Business economics degree, Norwegian School of Management; English and personnel management courses, Stavanger University College.

**Career:** Long and broad experience of HR and personnel management from the shipping and international oil industries, most recently as human resources manager for Halliburton.



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**EXECUTIVE  
MANAGEMENT  
OF PETORO  
2009/2010**  
—

- Jan Rosnes
- Tor Rasmus Skjærpe
- Olav Boye Sivertsen
- Laurits Haga
- Kjell Pedersen
- Roy Ruså
- Sonja Samsonsen
- Sveinung Sletten
- Marion Svihus

**[8] SVEINUNG SLETTEN [1953]**

**Vice president external affairs**

**Career:** Broad experience from both oil companies and the media. Has been manager public affairs for BP and Amoco, editor-in-chief, Statoil and Noroil Publishing House, and journalist with Stavanger Aftenblad and others.

**[9] MARION SVIHUS [1956]**

**Chief financial officer**

**Education:** MSc in business economics, Norwegian School of Economics and Business Administration, Bergen.

**Career:** Long experience from Statoil, where she held a number of senior management position in the fields of economics, analysis, finance and strategy. Also eight years of experience from the banking and financial sector.

# BOARD OF DIRECTORS OF PETORO

**[2] PER A SCHØYEN [1947]**

Director

Years of election/re-election: 2007/2011

Occupation: Partner, KLUGE Advokatfirma DA, Stavanger

Education: Law degree, various management programmes.

Career: Partner at Kluge since 2005. With Esso/ExxonMobil 1977-2004, head of corporate affairs from 1989, other positions in Norway and abroad. Also deputy judge and assistant police attorney.



**[1] ARILD STAVNEM [1965]**

Director – elected by the employees

Years of election/re-election: 2008/2010

Education: MSc engineering, Heriot Watt University

Career: Various posts, most recently as head, engineering department, Draugen, Norske Shell 1981-1998, project manager, drilling and well technology, Snorre B development, Saga Petroleum 1998-2000, business development, Norsk Hydro, 2000-2002, senior advisor, licence management department, Petoro, 2002-.

**[3] GUNNAR BERGE [1940]**

Chair

Years of election/re-election: 2007/2011

Other directorships: University of Stavanger, Western Norway Regional Health Authority.

Education: Technical college, 1957-58, Trade union college, 1966, and various courses. Skilled plate worker.

Career: Director-general, Norwegian Petroleum Directorate, 1997-2007, minister of local government, 1992-96, minister of finance, 1986-89, member of the Storting (parliament) for Rogaland, delegate to the UN general assembly, a number of important posts in the Norwegian Labour Party, including parliamentary leader and key committee posts in the Storting and party organisation, industrial worker in the 1950s and 1960s.

**[4] HILDE MYRBERG [1957]**

Deputy chair

Years of election/re-election: 2006/2011

Occupation: Executive vice president, Orkla

Other directorships: Chair, Orkla Asia Holding AS, director, Orkla Brands AS, Salvesen & Thams AS, Sapa AB, REC AS.

Education: Law degree, MBA from Insead.

Career: Head, market sector, Hydro Oil & Energy, 2002-06, and otherwise held a number of posts in Hydro, including business development for Hydro Energy, head of marketing activities in the power area, corporate legal executive and board secretary.

**[6] MARI THJØMØE [1962]**

Director

Years of election/re-election: 2007/2011

Occupation: Chief financial officer, Norwegian Property ASA.

Other directorships: Oslo Børs VPS, Seilspport Maritimt Forlag AS.

Education: MBE, Norwegian School of Management, 1987, authorised financial analyst, Norwegian School of Economics and Business Administration, 1992.

Career: CFO/acting CEO, Norwegian Property ASA, 2009-2010, Executive vice president, KLP Forsikring, 2005-2008, senior vice president, Statoil 2000-2005, section head and other posts, Norsk Hydro ASA 1988-2000. Director, Oslo Stock Exchange 2006-2009, Norgani Hotels AS, 2009-2010 and Aksje Norge foundation 2001-2005, and chair, Norwegian Investor Relations Association, 2000-2005.



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**BOARD OF DIRECTORS  
OF PETORO  
2009/2010**

Arild Stavnem  
Per A. Schøyen  
Gunnar Berge  
Hilde Myrberg  
Nils Henrik Von der Fehr  
Mari H. Thjømøe  
Kristin Johnsen  
—

**[5] NILS HENRIK VON DER FEHR [1960]**

Director

Years of election/re-election: 2005/2011

Occupation: Professor of community economics, University of Oslo.

Education: Economics degree.

Career: Has held a number of academic posts at the University of Oslo, and also lectured at the Universities of Heidelberg and Oxford. In addition, he has held a number of public and private posts, including member/chair of several official committees.

**[7] KRISTIN JOHNSEN [1961]**

Director – elected by the employees

Years of election/re-election: 2008/2010

Occupation: Advisor, technology, Petoro AS.

Education: MSc engineering.

Career: A number of years of experience from ExxonMobil and Statoil with various reservoir technology evaluations related to field development and producing fields.

# DIRECTORS' REPORT 2009

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**Petoro manages the State's Direct Financial Interest (SDFI), which represents about a third of Norway's total oil and gas reserves. The company's principal objective is to create the highest possible financial value from this portfolio.**

Net income for the portfolio in 2009 came to NOK 100.7 billion, compared with NOK 159.9 billion the year before. Total operating revenue was NOK 154.2 billion, compared with NOK 214.6 billion in 2008. Cash flow transferred to the government amounted to NOK 97 billion as against NOK 155.4 billion the year before. Production totalled 1 074 000 barrels of oil equivalent per day (boe/d), which was somewhat lower than the 2008 figure of 1 148 000 boe/d.

## INCOME, COSTS AND RESERVES

The main reason why net income for 2009 declined by 37 per cent was a substantial reduction in oil and gas prices from the record level achieved in 2008. Lower oil production meant that the result was further reduced. Overall oil and gas sales for the year came to 1 147 000 boe/d, a reduction of four per cent from 1 199 000 boe/d in 2008. Further maturation of the portfolio meant that oil production continued to decline in 2009. Gas output was on a par with 2008.

Income before financial items came to NOK 104 billion. Net financial expenses of NOK 3.3 billion comprised net realised and unrealised currency losses related to a strengthening of the NOK against the USD during the year.

Revenue for the year from dry gas sales totalled NOK 70.3 billion as against NOK 90 billion in 2008. The volume of equity gas sold was on a par with 2008, at 31.1 billion standard cubic metres (scm) or 536 000 boe/d. Troll alone accounted for 36 per cent of total gas revenue.

The proportion of gas deliveries from this field declined from 2008 owing to the build-up of production from Ormen Lange and Snøhvit. The average gas price for the year was NOK 1.95 per scm, down 19 per cent from 2008.

Total revenue for the year from oil and natural gas liquids (NGL) was NOK 73.7 billion, compared with NOK 112.8 billion the year before. The sales volume totalled 202 million barrels, or a daily average of 554 000 barrels. Production of oil, NGL and condensate fell by nine per cent from 2008. This decline was expected, and reflected reduced output from the mature oil fields. The average oil price for the year for the SDFI portfolio was NOK 380 per barrel, compared with NOK 528 the year before. The oil price in US dollars averaged USD 60.53 per barrel, a fall of 38 per cent from 2008.

Total investment in 2009 was NOK 22.2 billion as against NOK 21.3 billion the year before. The biggest spending in 2009 related to Troll, with a high level of drilling activity and the start-up of new projects as the most important factors. Increased drilling costs also contributed to the rise in investment for the SDFI portfolio from 2008.

The cost of operating fields, pipelines and land-based facilities was NOK 15.3 billion, on a par with 2008. Basic operations and maintenance accounted for about 70 per cent of these expenses, and was lower than the year before. Spending on well maintenance rose by 70 per cent from the 2008 level, primarily as a result

<sup>1</sup> All figures are based on the accounts compiled in accordance with the Norwegian Accounting Act.

<sup>2</sup> Sales of entitlement oil, NGL and gas in 2009 totalled 1 091 000 boe/d compared with 1 147 000 boe/d the year before.

<sup>3</sup> One billion scm of gas equals one million scm oe, which corresponds to about 17 200 boe per day (17.2 kboed).

of the general rise in costs. The reduction in operating and maintenance costs reflected lower activity, and could not be attributed to enhanced efficiency.

Exploration-related costs amounted to NOK 2.2 billion, of which NOK 1.2 billion was capitalised as investment related to possible and confirmed discoveries and NOK 1.1 billion was expensed as exploration costs for dry wells. Correspondingly, exploration expenses totalled NOK 2 billion in 2008, of which NOK 1.5 billion was expensed. A total of 23 exploration wells were completed during 2009, compared with 26 the year before. Hydrocarbons were proven in 13 of the 2009 wells. New resources corresponding to 100-165 million boe were proven for the SDFI, about four times the 2008 figure.

At 31 December 2009, the portfolio's expected remaining oil, condensate, NGL and gas reserves comprised 6 785 million boe – a decrease of 568 million boe from the year before. Petoro reports the portfolio's expected reserves on the basis of categories 1-3 in the classification system used by the Norwegian Petroleum Directorate (NPD).

New reserves totalling 119 million boe were added to the SDFI in 2009. The most important contributions to the increase in recoverable reserves were made by improved recovery from Gullfaks South, Oseberg, Troll, Oseberg South and Snorre. At the same time, reserves were downgraded by 296 million boe in all for a number of producing fields. This produced a net decline of 176 million boe in reserves. The biggest downgrades were on Ormen Lange and Heidrun, and accord with the NPD's assumptions.

The net reserve replacement rate for 2009 was thereby negative, and the average replacement rate for the portfolio over the past three years was also negative at three per cent. The corresponding rate for 2006-08 was a positive 18 per cent.

#### **BOOK ASSETS AND EQUITY**

The book value of assets totalled NOK 192.1 billion at 31 December 2009. These assets comprise operating facilities related to field installations, pipelines and land-based plants, as well as current debtors.

Equity at 31 December amounted to NOK 144.6 billion. Long-term liabilities totalled NOK 39 billion, of which NOK 37.3 billion related primarily to future removal liabilities. These

liabilities are calculated in accordance with an established industry standard based on existing technology. Great uncertainty exists both over the removal estimates and over the timing of removals. Current liabilities, which comprise provision for costs incurred but not paid, were NOK 8.4 billion at 31 December.

Petoro served at 31 December as the licensee for the government's interests in 137 production licences and 14 joint ventures covering pipelines and terminals, including the interests in Mongstad Terminal DA and Vestprosess DA. It also managed the shares in Norsea Gas AS and Norpipe Oil AS. Etanor DA was incorporated in Gassled during 2009.

#### **STRATEGY FOR PETORO**

The board has initiated a reassessment of Petoro's strategy. Three strategic choices were made in the previous major strategy process: area development, maturing reserves and early application of new technology. These strategic choices were operationalised through the creation of area, technology and reserve maturation strategies, with the associated organisation and recruitment to support them.

Since 2006, the NCS has experienced a number of major changes which are all significant for the commercial progress of the SDFI portfolio. Important developments include the merger of Statoil and Hydro's oil and gas operations, many new players on the NCS, a big increase in the level of activity driven by higher oil prices, a strong rise in costs and an increased focus on climate changes. These developments form the basis for the current review and revision of the company's strategy. The board emphasises that the strategy chosen will position Petoro for future value creation. The present work rests on the consideration that the company's principal objective of creating the highest possible commercial value from the portfolio remains unchanged and determines the direction of the revised strategy.

#### **PETORO'S CONTRIBUTION TO ADDED VALUE**

Petoro contributes through its work to safeguarding asset value and to creating added value for the SDFI. Specific results of the company's work are reflected in a wide range of activities. These span from its role as lead negotiator on behalf of the Snorre partnership in discussions with Statfjord over the cost of processing, storing and loading petroleum from the Snorre field to technical analyses which influence important investment decisions on a number of the fields in which Petoro is a licensee.



An annual assessment is conducted of the results achieved by Petoro in individual projects. Its contribution is estimated to have generated added value in the order of NOK 1-3 billion per year.

#### **BUSINESS AREAS IN THE SDFI PORTFOLIO**

Management of the SDFI portfolio is organised in three business areas – Troll, Tampen/Oseberg and the Norwegian/Barents Seas. Management of participatory interests in non-field-specific pipelines and land-based plants is treated as a separate area.

The Troll business area embraces the producing Troll, Kvitebjørn Visund, Ekofisk and Jotun fields, the Gjøa and Vega developments and a number of production licences in the exploration phase.

Total production from the business area in 2009 averaged 372 000 boe/d, down by 10 per cent from the year before. Output from Kvitebjørn has been good since it came on stream in January 2009. The field experienced a lengthy shutdown for repairs to its gas pipeline. Troll made a substantial contribution to liquids production from the area. However, market conditions resulted in lower gas output from Troll and reduced offtake of gas from the area compared with 2008.

Operating expenses for the area came to NOK 2.1 billion. After several years of growth, these costs showed a decline in 2009. That reflected lower repair costs for Kvitebjørn and postponed spending on well workovers for Troll.

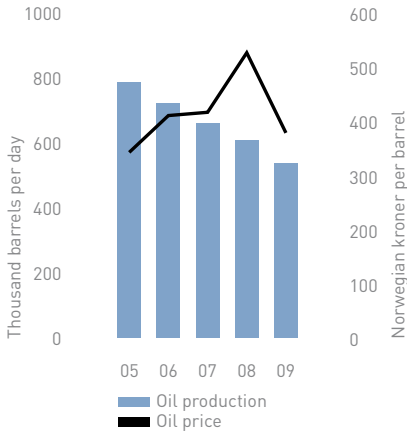
Capital spending in the Troll area increased from NOK 7.6 billion in 2008 to NOK 9 billion. That primarily reflected the Gjøa and Vega developments as well as important Troll projects such as the living quarters on the Troll A platform, a new pipeline to Kollsnes, Troll B gas injection, Troll C low-pressure production and the O2 subsea template.

The Troll partnership has worked for a considerable time on a long-term plan to improve oil recovery from the field and to facilitate maximum value creation from its gas on the basis of the current ceiling for permitted production. A plan for development and operation (PDO) of a new gas pipeline to Kollsnes, new production tubing and a new compressor on Troll A was originally submitted to the authorities in June 2008 but amended in January 2009. This change to the PDO eliminated the replacement of producing tubing on Troll A because of a large increase in forecast costs.

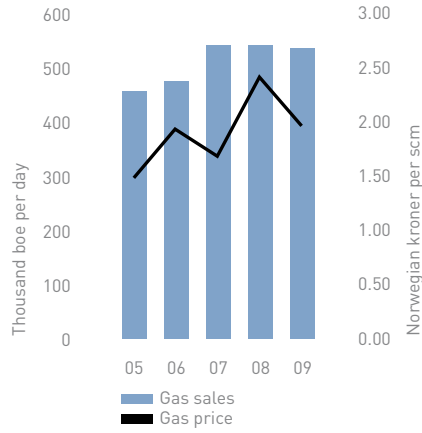
A number of measures under assessment could form the basis for investment decisions in coming years and contribute to increased value creation. New wells on Troll boosted reserves in 2009. The net reserve addition for the Troll area during the year was 26.9 million boe.

Three exploration wells were drilled in the area during 2009, with discoveries in the Titan prospect on Visund and in a segment of Kvitebjørn. The Peon discovery was also successfully delineated.

**OIL PRODUCTION/PRICE**



**GAS SALES/PRICE**



**RESERVE REPLACEMENT RATE**



Petoro is concerned to secure optimum value creation from Troll by ensuring a good balance between oil and gas reserves. It is important that the long-term ambition for increased oil production can be realised at the same time as opportunities for improving gas recovery from the area are taken care of. Access to rig capacity and efficient drilling are crucial in this context. Completion of the Gjøa and Vega developments and timely decisions on such discoveries as Valemon are also important for long-term value creation.

The Tampen/Oseberg business area embraces 21 producing fields, and is dominated by four large ones: Oseberg, Gullfaks, Snorre and Grane. Three of these big fields and a number of the smaller ones are in a late phase, and activities in the area reflect the challenges posed by mature fields with declining production and rising costs per barrel. The existing fields still contain large reserves, and work is therefore under way to identify measures which can boost the recovery factor, reduce costs and extend the producing life of aging installations.

Total production from the area in 2009 averaged 279 000 boe/d, about 15 per cent lower than the year before. Liquids accounted for 81 per cent of this total. The most important gas producers were Gullfaks and Oseberg, and the level of gas offtake was governed by the value potential of injection for improved oil recovery (IOR). Production from Grane was good in 2009 as a result of new wells, high regularity and output from existing wells. Two new subsea

developments were brought on stream during the year – Tune South tied back to Oseberg and Rev tied back to Amanda on the UK continental shelf.

Operating expenses for the area came to NOK 5.3 billion in 2009, a decline from the year before. The main reasons were lower activity with well workovers and production modifications, and substantially reduced costs for the purchase of injection gas for Grane.

Capital spending in this part of the North Sea remains high and came to NOK 5.2 billion in 2009. That was on a par with the year before. The biggest investments related to drilling and modifications, and were directed in part at IOR. Development costs accounted for about 10 per cent of the total. Drilling of new wells on Gullfaks, Oseberg and Snorre suffered big delays, primarily because of operational problems with mobile rigs and platform rigs on Gullfaks as well as delays to rig upgrading on Oseberg.

The reserve addition for the area was high in 2009, and corresponded to 79.1 million boe. Improved recovery from existing fields made the biggest contributions.

Studies and planning were initiated for the biggest projects, Hild, Valemon and C&M. Ensuring that new and future discoveries are phased into the existing infrastructure in a timely manner is important. Although Tampen/Oseberg ranks as a mature area, exploration activity there is substantial – particularly close to existing fields. A total of 11 exploration wells

were completed in 2009. These resulted in five interesting discoveries, including three oil finds under consideration for development. Two potentially large gas discoveries were also proven, and these are under evaluation for possible appraisal in 2011.

Snorre and Gullfaks are very important for value creation in the SDFI. Petoro has given priority to work on the projects Snorre 2040, including a new export solution for Snorre A, and Gullfaks 2030. The latter includes an upgrading of all the drilling facilities. These projects aim to ensure optimum development of the remaining reserves. The Oseberg partnership decided in 2009 to upgrade two drilling rigs. Assessments related to the potential for increased water and gas injection and for advanced injection methods have played a key role in the work of identifying new IOR measures.

The Norwegian/Barents Seas business area embraces nine producing fields on the Halten Bank and one in the Barents Sea, plus 28 discoveries which include 18 under evaluation. Exploration activities are pursued in the Norwegian Sea both in deep water and close to existing infrastructure, and in parts of the Barents Sea.

Production in 2009 derived primarily from the Åsgard, Ormen Lange, Heidrun, Draugen, Norne, Kristin and Snøhvit fields. Total output from the area averaged 422 000 boe/d, up about five per cent from 2008. While a number of the fields produced less in 2009 than the year before, that was offset by the build-up of production from Ormen Lange. Gas production increased overall and now accounts for more than 50 per cent of the area's output.

Four new wells on Ormen Lange came on stream in the autumn of 2009, and plateau production was reached. Substantial modifications were made to the Snøhvit gas liquefaction plant on Melkøya. A number of delays occurred following the start-up after this turnaround, but production at 31 December was in line with planned capacity. Yttergryta was brought on stream in January 2009 and is tied back to Åsgard for processing and export.

Operating costs for the area in 2009 were NOK 5.4 billion, on a par with the year before. Costs for basic operation and support activities rose, while environmental taxes declined.

At NOK 7 billion, total capital spending for the area was significantly higher than in 2008

because of a high level of activity on Ormen Lange and substantial drilling expenditure on Heidrun.

Nine exploration and appraisal wells were completed in the area during 2009, with five yielding discoveries. The appraisal well on Ormen Lange proved gas, but the volume was substantially smaller than expected. Reserves in the area declined in 2009 owing to large downgrades to reserves in Ormen Lange and Heidrun.

Petoro undertook the lead negotiator role on behalf of the Norne partners concerning a possible phasing-in of Marulk. The company ranks as the only party to these talks who is represented in Norne alone.

Gassled is a joint venture comprising gas infrastructure and terminals on or in association with the NCS. Day-to-day operation is handled by Gassco. The SDFI's revenues from Gassled in 2009 were NOK 11 billion, while capital spending and operating costs came to NOK 1.1 billion and NOK 1.9 billion respectively. The Gassled partners are concerned with regularity and plant integrity in order to ensure stable gas deliveries to customers in continental Europe and the UK. Regularity at Gassled's export points to the markets was 99.6 per cent in 2009, compared with 99.78 per cent the year before. Gassled is paying great attention to the level of operating expenses, and Petoro has been a prime mover in achieving lower basic operating costs. The latter have been reduced by NOK 500 million per annum from 2009 through a defined improvement programme in 2004-09. In line with the target, this saving represents a reduction of 20 per cent excluding electricity and the effect of price rises over and above the rate of inflation.

Petoro is actively involved in planning new projects in order to influence the choice of technical solutions through to concept selection. A priority in 2009 was to ensure good execution of the sanctioned modification and upgrading projects at the Kårstø plant.

#### **MARKETING AND SALE OF THE PRODUCTS**

All oil and NGL from the SDFI portfolio is sold to Statoil, which is responsible for marketing all the natural gas together with its own gas as a single portfolio but at the government's expense and risk. Petoro is responsible for monitoring that Statoil's sales of the SDFI's petroleum achieve the highest possible overall value, and for ensuring an equitable division of

total value creation and expenses. Petoro concentrates in this work on Statoil's marketing and sales strategy and risks, issues of great significance in value terms, matters of principle and questions relating to incentives.

Energy market developments in 2009 were affected by major fluctuations in the world economy and a substantial increase in oil prices over the course of the year. From a level of USD 40 per barrel at the beginning of 2009, Brent Blend spot prices rose to USD 78 by 31 December. This yielded an average price of roughly USD 60.53 per barrel. Oil price changes in Norwegian kroner were somewhat smaller because the USD exchange rate weakened during the year from NOK 7 per USD to NOK 5.78.

About 90 per cent of the SDFI's gas production is sold under long-term contracts in which the price of gas is largely calculated on the basis of the price for oil products, subject to a time lag of several months. Oil prices below USD 60 per barrel in the last part of 2008 and the first months of 2009 meant a weaker price trend for gas sold under such contracts during the year. The rest of the gas is sold in the spot market, and the main goals for these sales are to ensure delivery regularity under existing commitments, bring available supplies to market at attractive prices, and maximise value creation for the gas portfolio.

Gas sold to the UK is primarily priced in accordance with market quotations which reflect the balance between supply and demand. That balance weakened in this gas market during 2009, primarily because LNG imports increased as a result of expanded global production of that commodity and of shale gas in the USA. An additional factor was weak economic growth, which reduced gas demand. Overall, these conditions led to declining spot prices for gas. The average gas price for the SDFI portfolio in 2009 was NOK 1.95 per scm, compared with NOK 2.40 the year before.

Petoro's goal in the overall value chain is to ensure maximum value creation for the gas portfolio – including realisation of the value potential in the long-term sales contracts. Petoro wants to ensure that available gas is sold in the market at the highest price, and that the flexibility in the production plants is exploited to optimise delivery times.

Petoro has also checked that petroleum sales to Statoil's own facilities are made at their

market-based value. In addition, checks have been made to ensure that the SDFI is being charged an equitable share of costs and receives its equitable share of revenues.

## HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

A tragic fatal accident occurred in the SDFI portfolio when a scaffolder died during the disassembly of scaffolding on Oseberg. Two very serious incidents with the potential to become major accidents also occurred. One was a large leak at the Kollsnes gas plant, where about 12 scm of condensate escaped between a pipeline flange and a valve. The other involved a collision between a vessel and a platform on Ekofisk.

Petoro's principal parameter for monitoring developments in HSE performance in the SDFI portfolio is the serious incident frequency (SIF), which expresses the number of such incidents per million working hours. This is intended to focus attention on the risk of incidents which could lead to major accidents. The company also follows up the personal injury frequency. A worsening in the number of serious incidents was recorded in 2009, while the personal injury frequency improved. Dropped objects and events related to crane and lifting operations are the dominant causes of serious incidents.

The SIF was 2.7 in 2009, compared with 2.0 the year before.

Petoro participated in several HSE management inspections on selected fields and installations during 2009. The company works with the operators and the industry as a whole to achieve a reduction in personal injuries and serious incidents with long-term consequences. As a result of the negative trend for the SIF, both Statoil as operator and the Norwegian Oil Industry Association (OLF) have adopted additional measures and programmes which are expected to yield positive results in the future.

The Petroleum Safety Authority Norway (PSA) audited Petoro in 2008 for the attention devoted by the executive management and the board to preventing major accidents. As a follow-up to this, a new audit was conducted in 2009 to assess changes and improvements implemented after the previous check. The PSA has not so far indicated any need for further measures on Petoro's part.

No major oil spills occurred from the fields in the portfolio during 2009.

### **ATTRACTIVE WORKING ENVIRONMENT AND INTERESTING ASSIGNMENTS**

Petoro's ability to make a difference is determined by its employees. The company accordingly wants to offer an appealing and stimulating working environment which attracts people with the right expertise and positive attitudes. A management job is to help ensure that each employee achieves the professional and personal development needed to achieve both company goals and individual targets and job satisfaction.

Petoro gives weight to being an attractive employer. Its human resources policy aims to ensure diversity and equal opportunities, expertise development and good work on HSE. Over the past two years, the company has strengthened its organisation through new recruitment. Petoro had 65 employees at 31 December 2009, up by four from 2008. The workforce is also expected to increase somewhat in 2010.

Collaboration with the company's working environment committee (AMU) and works council (Samu) lays an important basis for achieving a good working environment. Work in these bodies functioned well in 2009. The board thanks all employees for their commitment and the results achieved during the year.

### **EXPERTISE**

Opportunities for professional and personal development will help to attract, develop and retain good employees. Learning and expertise development goals with associated plans are drawn up each year at company and individual level. One of the company's shared targets in

2009 was to enhance knowledge about and consciousness of specific climate and environmental issues.

Another of Petoro's collective measures in 2009 was the implementation of an organisational development programme with the focus on energy, commitment and drive. The goal was to continue developing the ability and opportunities of the organisation and each employee to take the initiative and contribute to behaviour which enhances vigour. This extra energy will help to support Petoro's goals for increased value creation.

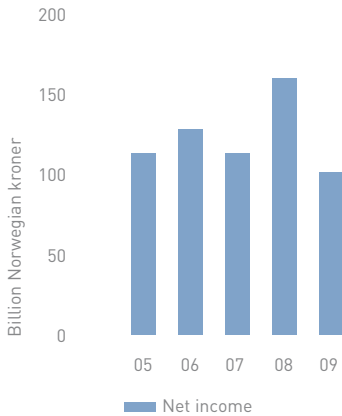
### **SICKNESS ABSENCE**

Petoro has an inclusive workplace (IA) agreement, and gives weight to close follow-up of employees on sick leave, as well as making arrangements to ensure that such absences are as short as possible for the individual. Sickness absence in Petoro was 1.79 per cent in 2009, a marginal decline from 1.91 per cent the year before. These are very good results.

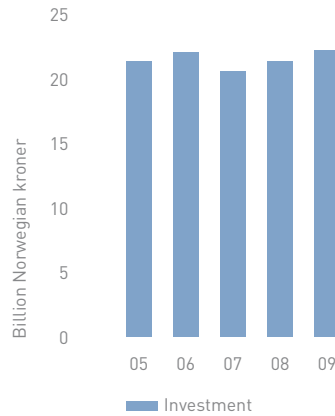
A health profile survey of the workforce in 2009 also produced very positive findings. These show that the constant attention paid to healthy lifestyles and to leadership which promotes health in order to create a good working environment make important contributions to preventing sickness absence. Keep-fit sessions during working hours were another measures implemented in 2009.

The company had three employees on maternity leave at 31 December.

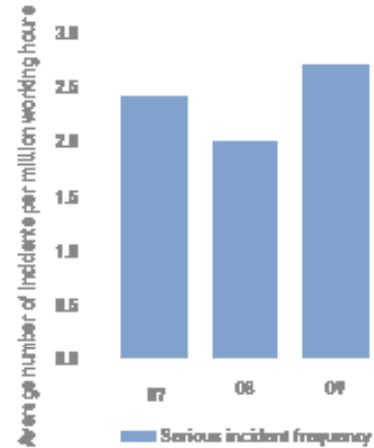
**NET INCOME**



**INVESTMENT**



**SERIOUS INCIDENT FREQUENCY**



**ETHICAL GUIDELINES**

Petoro is committed to maintaining high ethical standards and a good reputation. The high ethical standards observed by each employee are essential for creating trust both externally and internally. The company has developed ethical guidelines which apply to its whole workforce, and which embrace such issues as confidentiality, possible conflicts of interest and the receipt of gifts and services.

Its HSE declaration commits Petoro to establishing a good physical and mental working environment for all employees. Actions or attitudes which conflict with this goal are not accepted.

**EQUAL OPPORTUNITIES**

Petoro gives weight to equality between the genders in terms of opportunities for professional and personal development, pay and promotion. The company facilitates a good balance between work and leisure for its employees through flexible customising of working hours. Women accounted for 35 per cent of the total workforce in 2009, compared with 33 per cent the year before, and for five out of six new appointments. This reflects the priority given by the company to maintaining a balance between the genders in the various professional categories. When determining pay and in pay negotiations, Petoro is conscious that men and women must be treated equally. No systematic or significant differences exist between male and female pay.

Women accounted for 42 and 22 per cent of the company's directors and executive management respectively, unchanged from 2008.

Petoro is concerned to develop female leadership talent, and to facilitate the development of women to take advantage of management opportunities in the company. One measure in this context is the offer of a management development programme. Petoro contributed a participant during 2009 to the OLF's programme for developing female leadership talent in the oil and gas industry.

**DISCRIMINATION**

Petoro highlights its desire for a good gender balance, age distribution and diversity in the workforce through its recruitment advertising. Applicants with different cultural backgrounds are urged to apply for vacant posts. The company also assesses opportunities for dealing with language issues when recruiting new personnel, such as offering them Norwegian lessons.

Arrangements have been made by Petoro to ensure easy physical access to its offices.

**RESEARCH AND DEVELOPMENT**

Petoro/the SDFI contributes to research and development (R&D) through its interests in production licences on the NCS. The SDFI meets its share of R&D costs in accordance with its participatory interest in the respective production licences, and the funds are managed by the respective operators. This contribution is in the order of NOK 500-600 million per annum, and represents an estimated 30 per cent of R&D expenses in the production licences with SDFI interests.

The company also works for the early application of new technology, with a focus on

the issues of advanced injection to improve recovery, integrated operation, drilling and well technology, and subsea solutions. A substantial commitment was made in several of these areas during 2009.

A strategic project was pursued on advanced water injection methods to secure IOR. The biggest efforts were focused on Heidrun, Gullfaks and Snorre. Petoro's commitment influenced the decision to conduct a pilot test of low-salinity injection on Snorre.

Petoro has also done its own work and been the prime mover for studying and testing subsea compression on Ormen Lange and Åsgard.

#### **CORPORATE GOVERNANCE**

The board gives weight to good governance to ensure that the government's portfolio is managed in a way which maximises long-term value creation. That includes following up wider social considerations as specified in White Paper no 13 (2006-2007) on active and long-term state ownership. The company's management system is based on the Norwegian code of practice for corporate governance to the extent that the code's recommendations are relevant to Petoro's business, and contributes to maximising value creation for the state by concentrating attention at all times on attainment of targets by the company and on the risk picture.

Petoro seeks a corporate culture characterised by commitment and vigour within a good internal control regime. The company's values base and ethical code are rooted in its guidelines on business ethics. As part of its corporate social responsibility (CSR) and in addition to the duties incumbent on it, Petoro will conduct its business in a sustainable manner which minimise negative impacts on the natural environment. One anti-corruption rule is that employees, in connection with their work for the company, must not accept remuneration from anyone other than the company. As part of Petoro's CSR, its information systems and data are secured against unauthorised access.

#### **WORK OF THE BOARD**

The board held 11 meetings in 2009. An annual meeting plan has been established for the board's work, with the emphasis on the consideration of strategy, budgets and interim results. A key instrument used by the board to monitor performance is measuring against established goals (balanced scorecards). The board considers major investment decisions in the portfolio as well as following up and considering the commercial business, including monitoring Statoil's duties under the marketing and sales instruction. It also monitors the company's overall risk picture. The board ensures that control systems have been established and that the business is conducted in compliance with the company's values base and guidelines on business ethics. Instructions issued by the board for its own work and that of the chief executive include taking care of CSR in relation to the company's duties and mandate. The board has chosen to organise work related to compensation arrangements in a sub-committee. Conflicts of interest are a fixed item on the agenda at board meetings, and directors with such a conflict withdraw from the board's consideration of the relevant issue. The board conducts an annual evaluation of its own work.

Each director and the board as a collective body seek to strengthen their expertise in various ways. These include participation in courses and conferences and generally following developments in the area. The board also conducts a study trip during the year, either in Norway or in a country relevant to Petoro as a petroleum producer.

Petoro's board comprises Gunnar Berge as chair, deputy chair Hilde Myrberg, Mari Thjømøe, Per Arvid Schøyen and Nils-Henrik M von der Fehr as the other shareholder-elected directors, and with Kristin Johnsen and Arild Stavnem as directors elected by and from among the employees.

#### **RISK**

Risk management form an integrated part of performance and profit management in Petoro, and is closely related to the company's strategy

and commercial processes. In assessing the company's risks, the board gives weight to the risks and opportunities which Petoro itself can influence through its own action within the frameworks available to it. Principles for risk management in Petoro build on the internationally recognised Coso/ERM framework for internal control and in-house expertise.

The board assesses the risk picture and the need for compensatory measures on a continuous basis. It paid particular attention in 2009 to following up risk posed by the uncertainty over global economic development. That includes risk in the gas market related to uncertain price trends for and oversupply of this commodity. Petoro is also finding that maintaining planned progress in projects represents a demanding task. The risk that reserve growth will be low as a result of postponed projects and lack of exploration in time-critical areas puts future production targets for the SDFI portfolio under pressure.

The labour market continues to be tight where critical expertise is concerned, particularly with regard to sub-surface work. It is important for Petoro to be perceived as an appealing employer in order to attract and retain the best personnel.

Petoro monitors Statoil's marketing and sale of petroleum from the SDFI. Statoil has identified risks in activities which fall within the marketing and sale instruction. These are identical with the risks identified by Petoro, and are followed up in contact meetings with Statoil. Financial instruments used to hedge future gas sales are related to forward contracts and sales for future delivery managed by Statoil pursuant to the marketing and sale instruction.

Further details of risk management and internal control are provided in a separate presentation of corporate governance in this annual report.

## PROSPECTS

The board notes that substantial changes have occurred in the outside world during the past few years, which will affect the future

development of the SDFI portfolio. Prompted by a desire to make Petoro's role clearer, the board has initiated a revision of the company's strategy in light of these external changes and expectations for the future. The revised strategy will be determined by the summer of 2010.

Petoro must relate to uncertain economic trends after years of strong growth in demand for oil and gas. That resulted in a high level of prices and a consequent high level of activity on the NCS, with associated cost increases. The oil industry experienced record rig rates, material prices and pay levels.

The uncertainty in the world economy affects expectations of future oil and gas prices. Prospects of weakened results and greater pressure on liquidity mean that the companies have seen a need to secure their financial flexibility. Operators have taken a number of initiatives to cut both costs in their own activities and prices for the goods and services they buy from suppliers. Statoil is the dominant player on the NCS and operates about 90 per cent of production from the SDFI portfolio. This means that the choices made by this company have great significance for the further development of the NCS and the SDFI. In addition to being the biggest operator on the NCS, Statoil has plans for substantial international growth. That will affect the disposition of its resources, its business opportunities and its technology commitment.

The board of Petoro is concerned that the industry maintains a good balance between the immediate need to reduce the level of costs on the NCS and the long-term requirement for steady development of profitable projects which can help to meet a future rise in demand for oil and gas.

Pressure on margins highlights the need for change on the NCS in response to a development characterised by many small discoveries combined with mature fields where production is declining. Exploiting tested technology and standardised solutions will be important in achieving profitable development of the small finds. Given its position and substantial



portfolio, Petoro will play an important role in the process of identifying good development solutions which can be utilised in a number of projects. The board also believes that Petoro will be an important player in developing good commercial solutions across the various partnerships and for the tie-back of new discoveries to existing fields.

The board finds that Petoro's role as a partner has become more demanding. Contributing to optimum solutions by challenging the operator with alternative assessments and proposals makes heavy demands on the company's own expertise and capacity. On commercial issues, Petoro must take care of the government's interests in competition with the priorities set by other companies. As a result, the board has resolved on a change to the way the company prioritises its resources in order to strengthen the commitment to commercial negotiations and technical work devoted to the most important fields. This reinforcement has demanded strict prioritisation of assignments within small changes to available operating resources.

The board is concerned about the environmental challenges on the NCS which influence the debate about the further development of Norway's petroleum industry. Great uncertainty exists over the climate policy instruments to be applied to the petroleum sector and the consequences these will have for the SDFI portfolio.

The board expects oil prices in 2010 to be higher than in 2009 on the basis of an anticipated increase in demand for oil driven by a recovery in the global economy. On the supply side, an Opec adjustment to the level of production represents a source of uncertainty. Output from the SDFI's portfolio is not expected to increase in coming years, but the shift from oil to gas will continue. Gas demand in north-western Europe is expected to develop weakly as a result of uncertainty about future consumption. At the same time, the volume of gas available to Europe is likely to increase. That reflects a further growth

in global LNG production, combined with a reduction in demand for that commodity in the USA because of the availability of unconventional gas. Economic developments will also affect the shaping of environmental and climate policies, and thereby the future competitiveness of gas. The level of gas prices in the spot market is expected to be low in 2010.

#### **PETORO AS – SHARE CAPITAL AND SHAREHOLDER**

The company's share capital at 31 December 2009 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.

Petoro's business office is in Stavanger.

#### **PETORO AS – NET INCOME AND ALLOCATIONS**

Administration of the portfolio by Petoro is subject to the accounting regulations for the government. The company 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. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. The company prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by Petoro and associated resource accounting. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP). All amounts cited in this directors' report are based on NGAAP.

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. The government contribution for 2009 was NOK 252 million, compared with NOK 242 million the year before. Since this sum includes VAT, disposable revenue was NOK 201.6 million as against NOK 193.6 million in

2008. Recorded income, including financial income, for 2009 was NOK 208.1 million, compared with NOK 202.1 million the year before.

Operating expenses were NOK 207.2 million for the year, compared with NOK 195.8 million in 2008. These expenses related primarily to payroll and administration expenses and to the purchase of external services. The purchase of leading-edge expertise relating to supervision of production licences in the SDFI portfolio accounts for a substantial proportion of the company's operating expenses. Petoro's payroll expenses increased as a result of new recruitment within its priority areas. In addition, several studies were initiated in late 2009 to strengthen the company's commitment to priority fields. The board devoted attention in 2009 to the company's overall resource position, and continues to believe that greater financial flexibility is required. Within the approved budget frameworks, a cautious strengthening of the

company's resources has been implemented in critical disciplines.

Net income after net financial income came to NOK 0.7 million. The board proposes that this income be transferred to other equity. The company's equity position is good, and it has little exposure to financial risk. Its non-restricted equity totalled NOK 25 million at 31 December.

Pursuant to section 3, subsections 3 and 2a, of the Norwegian Accounting Act, the board confirms that the annual accounts for the portfolio and the company provide a true and fair picture of the company's assets and liabilities, financial position and results of the business, and that the annual accounts have been prepared under the assumption that the company is a going concern.

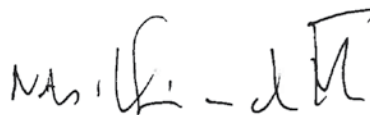
Stavanger, 19 february 2010



**Gunnar Berge**  
Chair



**Hilde Myrberg**  
Deputy chair



**Nils-Henrik M von der Fehr**  
Director



**Per Arvid Schøyen**  
Director



**Mari Thjømøe**  
Director



**Arild Stavnem**  
Director\*



**Kristin Johnsen**  
Director\*



**Kjell Pedersen**  
President and CEO

\*Elected by the employees



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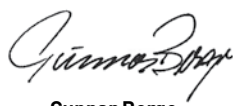
## SDFI APPROPRIATION ACCOUNTS

All figures in round NOK	Notes	2009
Investment	2	23 596 660 233.11
<b>Total expenses</b>		<b>23 596 660 233.11</b>
Operating revenue	3, 4	(156 123 519 082.54)
Operating expenses	5	33 709 840 329.09
Exploration and field development expenses		2 391 119 296.48
Depreciation	2	15 268 079 202.13
Interest	6	6 469 307 749.18
<b>Operating income</b>		<b>(98 285 172 505.66)</b>
Depreciation	2	(15 268 079 202.13)
Transfer from Government Petroleum Insurance Fund	8	(35 354 606.79)
Interest on fixed capital	6	(6 456 170 660.00)
Interest on intermediate accounts	6	(13 137 089.18)
<b>Total revenue</b>		<b>(120 057 914 063.76)</b>
<b>Cash flow (net revenue from the SDFI)</b>		<b>(96 461 253 830.65)</b>


## SDFI CAPITAL ACCOUNTS

All figures in round NOK	Notes	NOK	NOK	NOK
Open account government 31 Dec 09				(519 915 771.65)
Fixed assets before write-down			151 209 575 514.17	
Write-down	2, 8		(187 629 118.00)	
Fixed asset account	2		151 021 946 396.17	151 021 946 396.17
<b>Total</b>				<b>150 502 030 624.52</b>
Open account government 1 Jan 09			(10 582 708.61)	
Total expenses		23 596 660 233.11		
Total revenue		(120 057 914 063.76)		
Cash flow		(96 461 253 830.65)	(96 461 253 830.65)	
Net transfer to the government			96 991 752 310.91	
<b>Open account government at 31 Dec 09</b>			<b>519 915 771.65</b>	<b>519 915 771.65</b>
Fixed assets 1 Jan 09			(142 880 994 483.19)	
Investments for the year			(23 596 660 233.11)	
Depreciation for the year			15 268 079 202.13	
Write-down			187 629 118.00	
Fixed assets 31 Dec 09			(151 021 946 396.17)	(151 021 946 396.17)
<b>Total</b>				<b>(150 502 030 624.52)</b>

Stavanger, 19 February 2010



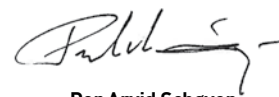
**Gunnar Berge**  
Chair



**Hilde Myrberg**  
Deputy chair



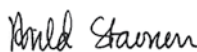
**Nils-Henrik M von der Fehr**  
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Director



**Mari Thjømøe**  
Director



**Arild Stavnem**  
Director\*



**Kristin Johnsen**  
Director\*



**Kjell Pedersen**  
President and CEO

\* Elected by the employees

## SDFI INCOME STATEMENT

All figures in NOK million	Notes	2009	2008	2007
<b>OPERATING REVENUE</b>				
Operating revenue	3, 4, 8, 9, 11	154 186	214 585	167 724
<b>Total operating revenue</b>		<b>154 186</b>	<b>214 585</b>	<b>167 724</b>
<b>OPERATING EXPENSES</b>				
Exploration expenses		1 084	1 536	621
Depreciation, amortisation and write-down	2	18 970	17 915	17 946
Other operating expenses	5, 8, 9, 10	30 167	37 292	34 664
<b>Total operating expenses</b>		<b>50 222</b>	<b>56 742</b>	<b>53 231</b>
<b>Operating income</b>		<b>103 964</b>	<b>157 843</b>	<b>114 493</b>
<b>FINANCIAL ITEMS</b>				
Financial income		4 642	9 851	4 316
Financial expenses	12	7 944	7 788	6 169
<b>Net financial items</b>	7	<b>(3 302)</b>	<b>2 063</b>	<b>(1 852)</b>
<b>Net income for the year</b>	19	<b>100 662</b>	<b>159 906</b>	<b>112 641</b>



## SDFI BALANCE SHEET AT 31 DECEMBER

All figures in NOK million	Notes	2009	2008	2007
Intangible fixed assets		742	1 404	1 132
Tangible fixed assets	18	172 304	168 666	157 042
Financial fixed assets		908	4	4
<b>Fixed assets</b>	<b>2</b>	<b>173 954</b>	<b>170 075</b>	<b>158 178</b>
Stocks		1 270	951	744
Trade debtors	9, 10	16 700	29 207	25 227
Bank deposits		127	154	150
<b>Current assets</b>		<b>18 097</b>	<b>30 311</b>	<b>26 121</b>
<b>Total assets</b>		<b>192 051</b>	<b>200 385</b>	<b>184 299</b>
Equity at 1 January		141 781	136 998	136 748
Paid from/(to) government during the year		(96 992)	(155 420)	(112 281)
Net income		100 662	159 906	112 641
Translation differences*		(802)	297	(110)
<b>Equity</b>	<b>19</b>	<b>144 649</b>	<b>141 781</b>	<b>136 998</b>
Long-term removal liabilities	12, 18	37 313	36 576	27 465
Other long-term liabilities	13	1 724	1 858	1 657
<b>Long-term liabilities</b>		<b>39 037</b>	<b>38 434</b>	<b>29 123</b>
Trade creditors		1 493	2 790	2 611
Other current liabilities	9, 14	6 872	17 381	15 567
<b>Current liabilities</b>		<b>8 364</b>	<b>20 170</b>	<b>18 178</b>
<b>Total equity and liabilities</b>		<b>192 051</b>	<b>200 385</b>	<b>184 299</b>

\* Relating to translation difference and the winding-up of Etanor DA in connection with its transfer to Gassled.

Stavanger, 19 February 2010

  
Gunnar Berge  
Chair

  
Hilde Myrberg  
Deputy chair

  
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Director

  
Per Arvid Schøyen  
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Mari Thjømøe  
Director

  
Arild Stavnem  
Director\*

  
Kristin Johnsen  
Director\*

  
Kjell Pedersen  
President and CEO

\* Elected by the employees

## SDFI CASH FLOW STATEMENT

All figures in NOK million	2009	2008	2007
Cash receipts from operations	156 123	217 350	163 712
Cash disbursements to operations	(36 074)	(41 800)	(31 590)
Net interest payments	1	-2	80
<b>Cash flow from operational activities</b>	<b>120 050</b>	<b>175 548</b>	<b>132 203</b>
<b>INVESTMENT ACTIVITIES</b>			
Investments	(23 592)	(19 948)	(19 871)
<b>Cash flow from investment activities</b>	<b>(23 592)</b>	<b>(19 948)</b>	<b>(19 871)</b>
<b>FINANCING ACTIVITIES</b>			
Change in working capital in the licences	20	987	377
Change in under/over calls in the licences	487	(1 164)	(342)
Net transfer to the government	(96 992)	(155 420)	(112 281)
<b>Cash flow from financing activities</b>	<b>(96 485)</b>	<b>(155 596)</b>	<b>(112 246)</b>
Increase in bank deposits of partnerships with shared liability	(27)	(4)	86

## ACCOUNTING PRINCIPLES (Norwegian Accounting Act)

### GENERAL

Petoro's object, on behalf of the government, is to be responsible for and manage the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum operations on the Norwegian continental shelf (NCS) and associated activities. The company's overall goal is to maximise the total financial value of the portfolio on a commercial basis.

Petoro served at 31 December 2009 as the licensee on behalf of the SDFI for interests in 137 production licences and 14 joint ventures for pipelines and terminals. The company also managed the government's commercial interests in Mongstad Terminal DA and Vestprosess DA, as well as the shares in Norsea Gas AS and Norpipe Oil AS. Petoro has the same rights and obligations as other licensees, and manages the SDFI on the NCS on a commercial basis. The company maintains separate accounts for all transactions relating to its participatory interests, so that revenue and costs from production licences and joint ventures are kept separate from the operation of the company. Cash flows from the portfolio are transferred to the central government's own accounts with the Bank of Norway. Petoro prepares separate annual accounts for the SDFI, with an overview of the participatory interests managed by the company and associated resource accounting.

Administration of the portfolio is subject to the accounting regulations for the government. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act.

The principal difference between the profit based on the Accounting Act and on a cash basis is that the latter includes cash payment for investments and excludes depreciation. Adjustments are also made for accruals of income and expenses on a cash basis, with a corresponding adjustment to debtors and creditors in the balance sheet. Realised currency loss/gain related to operating expenses and income is classified on the cash basis as operating expenses and income. The accounts based on the Accounting Act show realised currency loss/gain as financial expenses/income, and these items are accordingly not included in the operating profit.

### ACCOUNTING PRINCIPLES

The SDFI's interests in limited companies and partnerships with shared liability relating to the production of petroleum are included under the respective items in the income statement and balance sheet in accordance with the proportionate consolidation method for the SDFI's share of income, expenses, assets and liabilities. The same applies to undivided interests in oil and gas operations, including pipeline transport, which are not organised as companies.

Dividend from the shares in Norsea Gas AS and Norpipe Oil AS is recorded as a financial item. In addition, revenue and expenses from production licences with net profit agreements (relates to licences awarded in the second licensing round)

are recorded as other income using the net method for each licence.

The SDFI's participation in Statoil Natural Gas LLC (SNG) was treated in earlier years as a joint venture and recorded in accordance with the proportionate consolidation method. With effect from 1 January 2009, this activity has been treated as an investment in an associate and recorded in accordance with the equity method. This means that the SDFI's share of the equity is recorded in the balance sheet under financial fixed assets and its share of the profit/loss is recorded as operating revenue/expense in the income statement.

### Principles for revenue recognition

All oil, NGL and condensate from the SDFI is sold to Statoil, and all gas is sold by Statoil at the SDFI's expense and risk. The SDFI records 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 recorded when the service is rendered.

Gas swap and borrowing agreements where settlement takes the form of returning volumes are accrued as a general rule using the sales method. This method means that the sale is recognised in the period when the volumes are lifted and sold to the customers. At the same time, a provision is made for the associated production costs in the event that the SDFI has lent/borrowed gas. When lending gas from the SDFI, the lower of production expense and estimated net present value of the future sales price is capitalised as a pre-paid expense at the date of the loan. Furthermore, the SDFI's share of location swaps related to the purchase or sale of third-party gas is recorded net as operating revenue. The SDFI's share of time swaps is recorded gross.

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 receivables due from the other partners in the production partnerships are valued at the lower of production cost and fair value.

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

Internal expenses and revenues relating to purchases and sales between fields and/or transport systems in which the SDFI is both owner and shipper are eliminated, so that only costs paid to third parties appear as net transport costs.

### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction. Monetary items in foreign currencies are valued at the exchange rate prevailing on the balance sheet date. Unrealised currency losses and realised currency gains and losses are recorded as financial income or expenses.

### Classification of assets and liabilities

Assets intended for ownership or use over a longer period are classified as fixed assets. Other assets are classified as current assets. Debtors due within one year are classified as current assets. Similar criteria are applied for classifying current and long-term liabilities.

### Tangible fixed assets

Tangible fixed assets and investments are carried at historical cost with a deduction for planned depreciation. Expenses for major alterations and renewals which significantly increase the economic life of fixed assets are capitalised. Fixed assets under construction are carried at historical cost.

Fixed assets leased on terms which largely transfer the financial risk and control to the company (financial leasing) are capitalised under tangible fixed assets and the associated lease commitment is recognised as a commitment under long-term interest-bearing debt at the net present value of the leasing charges. The fixed asset is subject to planned depreciation, and the commitment is reduced by the leasing charge paid after deduction of calculated interest costs.

Each time the accounts are made up, assets are reviewed for indications of a fall in value. Should the recoverable value be lower than the book value, and this decline is not expected to be temporary, the asset is written down to its recoverable value.

The SDFI does not take up loans, and incurs no interest expenses associated with the financing of development projects.

### 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. This means that the acquisition cost is depreciated in line with the relationship between volume sold during the period and reserves at the beginning of the period. Investments in wells are depreciated in line with the reserves made available by the wells drilled.

Petoro determines the reserve base for depreciation purposes on the basis of estimated remaining reserves per field, which are adjusted downwards by a factor calculated as the relationship between the Norwegian Petroleum Directorate's sum of low reserves in production and the sum of basis reserves in production for oil and gas reserves respectively. This reserve adjustment totalled 71.7 per cent of expected remaining oil reserves in 2009, while the corresponding figure for gas fields was 82.4 per cent. The reserve estimates are revised annually. Possible changes affect only further depreciation expenses.

Ordinary depreciation for land-based plants and transport systems as well as for riser platforms used by several fields is calculated on a straight-line basis over the remaining licence period at 31 December.

Other tangible fixed assets are depreciated on a straight-line basis over their expected economic lifetime.

### Exploration and development costs

Petoro employs the successful-efforts method to record exploration and development costs for oil and gas operations by the SDFI in the SDFI accounts. This means that expenses related to geological and geophysical surveying are expensed. However, expenses related to exploration drilling are capitalised in anticipation of evaluation. Such expenses are expensed should the evaluation show that the discovery is not commercial. Considerable time can elapse between the drilling of a well and a final development decision. Capitalised exploration expenses are accordingly assessed quarterly to determine whether sufficient progress is being made in the projects so that the criteria for capitalisation continue to be met. Dry wells in production licenses or those where progress is insufficient are expensed.

Expenses relating to development, including wells, field installations and production facilities, are capitalised. Costs for operational preparations are expensed on a continuous basis.

### Maintenance expenses

Expenses related to repair and maintenance are expensed on a continuous basis. Expenses for major replacements and renewals which significantly extend the economic life of the tangible fixed assets are capitalised.

### Research and development

Research and development expenses are expensed on a continuous basis. In addition to spending on direct research and development in each partnership, the operator also charges expenses for general research and development to the partnership in accordance with the size of exploration, development and operating expenses in the partnership. The utility value of general research and development for the NCS must be documented by the operator.

### Abandonment and removal expenses

Under the terms of a licence, the authorities can require the licensees to remove offshore installations when their production life comes to an end. The estimated fair value of liabilities for removal and clear-up is recorded in the accounts in the period when the liability arises, normally when wells are drilled and installations are built and ready for use. The liability is capitalised as part of the acquisition cost of wells and installations, and depreciated together with this. Changes to estimated removal costs are recorded and capitalised in the same manner and depreciated over the remaining economic life of the assets. The discount rate applied when calculating the fair value of a removal liability is based on the interest rate for Norwegian government bonds with the same maturity as the removal liability.

### Intangible fixed assets

Intangible fixed assets are carried at their fair value at the time of acquisition. They are amortised over the expected contract period or their expected economic lifetime.

**Stocks**

Stocks of spare parts and operating materials are valued at the lower of acquisition cost in accordance with the Fifo principle or net realisable value. Spare parts of insignificant value for use in connection with the operation of oil or gas fields are expensed at the time of acquisition. Spare parts of significant value are recorded as stock at the time of acquisition and expensed when they are used in operations. Petoro accepts the assessments made by operators regarding which materials should be capitalised and which expensed.

**Debtors**

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

**Bank deposits**

Bank deposits include cash, bank deposits and other monetary instruments with a maturity of less than three months at the date of purchase. Cash flows from oil and gas sales are transferred to the government on a daily basis. Booked bank deposits accordingly include the SDFI's share of bank deposits in partnerships with shared liability in which the SDFI has an interest.

**Current liabilities**

Current liabilities are valued at their face value.

**Taxes**

The SDFI is exempt from income tax and royalty in Norway. The SDFI is registered for VAT in Norway. Virtually all the SDFI's sales of oil and gas products from its activity take place outside the geographic area to which Norway's VAT legislation applies (the continental shelf and exports). The SDFI invoices these sales to the buyer free of tax. At the same time, the SDFI can deduct possible VAT incurred on invoiced costs which are relevant to its activity.

**Financial instruments**

Since the SDFI is included in the government's overall risk management, only limited use is made of financial instruments.

Such 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 recorded as income if all the following criteria are fulfilled: the instrument is classified as a current asset, is part of a trading portfolio with a view to onward sale, is traded on an exchange, an authorised marketplace or similar regulated market outside Norway, and has a good ownership spread and liquidity. Valuations are based on a portfolio assessment where this is regarded as the most sensible approach given the nature of the financial instruments, and where the portfolio is balanced in volume and time.

The valuation rules for fixed assets are applied to financial instruments not classified as current assets.

**Contingent liabilities**

Probable and quantifiable losses are expensed.

**NOTE 1****ASSET TRANSFERS AND CHANGES**

Nineteen production licences with SDFI participation were acquired in 2009, including carve-outs. Participatory interests in nine production licences were formally awarded by the Ministry of Petroleum and Energy on 23 January 2009 in connection with the awards in predefined areas (APA) for 2008. Participatory interests in seven production licences were formally awarded by the Ministry of Petroleum and Energy on 30 April 2009 in connection with the 20th licensing round on the NCS. In addition, carve-outs took place in production licences 038, 102 and 169 during 2009.

The following production licences were relinquished in 2009:

- production licence 281 was relinquished with effect from 14 June
- production licence 315 was relinquished with effect from 20 August
- production licence 329 was relinquished with effect from 18 June

Petoro entered into an agreement on 17 December 2008 on the incorporation of the Norne and Kvitbjørn gas transport systems in Gassled and the transfer of rights to future income from Etanor DA to Gassled with effect from 1 January 2009.

The conclusions of an expert assessment related to the re-termination of the Grane unit were received by Petoro on 12 December 2008. These led to a reduction in the SDFI's holding in the Grane unit to 28.9425 per cent with effect from 1 January 2009.

Petoro entered into an agreement in December 2009 on acquiring a 30 per cent interest in production licence 158 in the Norwegian Sea, which includes part of the Hasselmu discovery. This agreement is currently awaiting government approval.

No transactions took place in 2009 related to pro and contra settlements.

**NOTE 2 SPECIFICATION OF FIXED ASSETS**

All figures in NOK million	Historical cost at 1 Jan 09	Accumulated depreciation 1 Jan 09	Addition 2009	Write-down 2009	Disposal* 2009	Transfers 2009	Depreciation 2009	Book value at 31 Dec 09
Fields under development	4 694	0	3 601	0	0	0	0	8 295
Fields in operation	324 130	(195 416)	17 122	0	(36)	23	(17 075)	128 748
Pipelines and terminals	57 065	(23 471)	649	0	0	0	(1 825)	32 418
Capitalised exploration expenses	1 664	0	1 794	0	(593)	(23)	0	2 842
Other fixed assets	163	(162)	0	0	0	0	0	0
<b>Total tangible fixed assets</b>	<b>387 716</b>	<b>(219 050)</b>	<b>23 165</b>	<b>0</b>	<b>(628)</b>	<b>0</b>	<b>(18 900)</b>	<b>172 303</b>
Intangible assets	1 520	(116)	79	0	(725)	0	(16)	742
Financial fixed assets	4	0	1 087	(183)	0	0	0	908
<b>Total fixed assets (NGAAP)</b>	<b>389 240</b>	<b>(219 166)</b>	<b>24 331</b>	<b>(183)</b>	<b>(1 353)</b>	<b>0</b>	<b>(18 915)</b>	<b>173 954</b>
Translation to cash basis	(44 654)	17 460	(734)	(5)	1 353	0	3 647	(22 932)
<b>Total fixed assets on cash basis</b>	<b>344 587</b>	<b>(201 706)</b>	<b>23 597</b>	<b>(188)</b>	<b>0</b>	<b>0</b>	<b>(15 268)</b>	<b>151 022</b>

\* When net addition investments and change in removal liability are negative, they are shown as a disposal.

Fixed assets for the Snøhvit field include a capitalised long-term financial charter for three ships used for LNG transport from the field. These vessels will be depreciated over 20 years, which is the duration of the charter.

Intangible assets of NOK 742 million relate mainly to rights in the gas storage facility at Aldbrough, which began commercial operation in 2009. This provides a combined capacity for the SDFI and Statoil of 140 million scm, of which the SDFI's share is 48.3 per cent. The amount invested will be depreciated on a straight-line basis over the estimated 20-year economic life.

Financial fixed assets of NOK 908 million include:

- Capacity rights for regasification of LNG at the Cove Point terminal in the USA, with an associated agreement on the sale of LNG from Snøhvit to Statoil Natural Gas LLC (SNG) in the USA, have been reclassified with effect from 2009 as a financial fixed asset. Changes in SNG's operations mean that this activity is now assessed as an investment in an associate and recorded in accordance with the equity method. See also note 11.
- Machinery and technical equipment in Statpipe and Åsgard Transport. These are depreciated over five years. The SDFI also owns shares in Norse Gas AS with a book value of NOK 3.98 million, and a shareholding in Norpipe Oil AS.

**NOTE 3 SPECIFICATION OF OPERATING REVENUE BY CORE AREA**

All figures in NOK million	2009	2008	2007
Troll	47 101	64 574	54 154
Tampen/Oseberg	37 348	60 892	53 238
Norwegian and Barents Seas	53 193	66 047	47 943
Gassled and other infrastructure	13 378	11 310	10 740
Net profit agreements	770	2 222	1 718
Other revenue	6 975	13 774	4 377
Elimination internal tariff income	(4 579)	(4 235)	(4 447)
<b>Total operating revenue</b>	<b>154 186</b>	<b>214 585</b>	<b>167 724</b>

**NOTE 4 SPECIFICATION OF OPERATING REVENUE BY PRODUCT**

All figures in NOK million	2009	2008	2007
Crude oil and NGL*	73 676	112 753	98 486
Gas	70 284	89 999	57 827
Transport and processing revenue	9 557	8 962	8 890
Other revenue	(102)	648	803
Net profit agreements	770	2 222	1 718
<b>Total operating revenue</b>	<b>154 186</b>	<b>214 585</b>	<b>167 724</b>

\* Includes condensate.

In accordance with the marketing and sales instruction, all crude oil and NGL are sold to Statoil. Virtually all the gas is sold to customers in Europe.

**NOTE 5 SPECIFICATION OF OTHER OPERATING EXPENSES**

All figures in NOK million	2009	2008	2007
Troll	7 257	7 933	8 486
Tampen/Oseberg	7 948	9 396	9 318
Norwegian and Barents Seas	11 202	9 987	8 106
Gassled and other infrastructure	2 678	1 664	3 527
Other operating expenses	5 662	12 547	9 674
Elimination internal purchases	(4 579)	(4 235)	(4 447)
<b>Total other operating expenses</b>	<b>30 167</b>	<b>37 292</b>	<b>34 664</b>

Other operating expenses primarily comprise the cost of purchasing gas for onward sale.

**NOTE 6 INTEREST**

Interest on the government's fixed capital is recorded in the accounts compiled on a cash basis. The amount of interest is calculated as specified in Proposition no 1 Appendix no 7 (1993-94) to the Storting (the Finance Bill) and in item 5.6 in the 2009 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy.

Interest on the government's fixed capital is charged to operations in order to take account of capital costs and to provide a more accurate picture of resource use. This is a calculated cost without a cash flow effect.

The accounts compiled on a cash basis include an open account with the government for the difference between recording by chapter/item in the appropriation accounts and liquidity movements.

Interest on the open account with the government is calculated as specified in item 5.7 in the 2009 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy. 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 open account with the government.

**NOTE 7 NET FINANCIAL ITEMS**

All figures in NOK million	2009	2008	2007
Interest	20	28	28
Other financial revenue	42	64	66
Currency gain	4 580	9 758	4 222
Currency loss	(6 430)	(6 298)	(5 052)
Interest costs	(99)	(240)	(23)
Interest on removal liability	(1 414)	(1 250)	(1 094)
<b>Net financial items</b>	<b>(3 302)</b>	<b>2 063</b>	<b>(1 852)</b>

**NOTE 8 GOVERNMENT PETROLEUM INSURANCE FUND**

The SDFI has received transfers from the Government Petroleum Insurance Fund which relate to the settlement of insurance claims. These amounts are added to investment, operating revenue and operating expenses, depending on the type of claim and the accounting treatment in the operator's accounts.

**NOTE 9 CLOSE ASSOCIATES**

The government, represented by the Ministry of Petroleum and Energy, owns 67 per cent of Statoil and 100 per cent of Gassco. These companies are classified as close associates of the SDFI.

Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL to Statoil totalled NOK 73.7 billion (corresponding to 202 million boe) for 2009 and NOK 112.8 billion (222 million boe) for 2008.

Statoil markets and sells the government's natural gas at the government's expense and risk, but in Statoil's name and together with its own production. The government receives the market value for these sales. The government sold dry gas directly to Statoil to a value of NOK 271 million in 2009 and NOK 373 million in 2008. Statoil is reimbursed by the government for its relative share of costs associated with the transport, storage and processing of dry gas, the purchase of dry gas for onward sale and administrative expenses relating to gas sales. These reimbursements amounted to NOK 10 billion in 2009 and NOK 17 billion in 2008. In addition came costs associated with the activity in the USA. Open accounts with Statoil totalled NOK 9.5 billion in favour of the SDFI, converted at the exchange rate prevailing at 31 December.

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.

**NOTE 10 TRADE DEBTORS**

A small provision has been made for bad debts following an assessment of possible losses on debtors from trading in the UK. No losses were confirmed during the year.

Trade debtors and other debtors are otherwise recorded at face value.

**NOTE 11 INVESTMENT IN ASSOCIATE**

The SDFI's participation in Statoil Natural Gas LLC (SNG) in the USA has been treated with effect from 1 January 2009 as an investment in an associate, which is recognised in accordance with the equity method. At the time it was established in 2003, the investment was recorded as an investment in intangible fixed assets at an original acquisition cost of NOK 798 million. This activity has been treated in earlier years as a joint venture and recorded in accordance with the proportional consolidation method.

SNG has its business office at Stamford in the USA and is formally owned 56.5 per cent by Statoil Norsk LNG AS, which reflects the SDFI's ownership interest under the marketing and sale instruction. The remaining 43.5 per cent is owned by Statoil North America Inc. As a result of the merger between Statoil and Hydro's petroleum business in 2007, the profit/loss is allocated in accordance with a skewed distribution model which gives 48.4 per cent to the SDFI.

Statoil consolidates its holding in SNG with other US operations, and uses SNG as a marketing company for gas sales in the American market. Pursuant to the marketing and sale instruction, the SDFI participates in SNG with regard to activities related to the sale of the government's LNG from Snøhvit.

All figures in NOK million	2009
Opening balance financial fixed assets (adjusted share)	999
Net profit/(loss) credited before write-down	88
Write-down	(183)
<b>Closing balance financial fixed assets</b>	<b>904</b>



**NOTE 12 ABANDONMENT/REMOVAL**

The liability comprises future abandonment and removal of oil and gas installations. Norwegian government legal requirements and the Oslo-Paris (Ospar) convention for the protection of the marine environment of the north-east Atlantic provide the basis for determining the extent of the removal liability.

The liability is calculated on the basis of estimates from the respective operators. Great uncertainty relates to a number of factors underlying the removal estimate, including assumptions for removal and estimating methods, technology and the removal date. The last of these is expected largely to fall one-two years after the cessation of production. See note 21.

Interest expense on the liability is classified as a financial expense in the income statement. The discount rate is based on the interest rate for Norwegian government bonds with the same maturity as the removal liability. An extrapolated interest rate derived from foreign rates is applied for liabilities which extend beyond the longest maturity for such bonds.

The estimate for removal costs has been increased by NOK 1.8 billion as a result of changes to future estimated costs from operators and alterations to cessation dates. Estimates for removal expenses include operating costs for rigs and other vessels required for such complex operations. An increase in the discount rate reduces the liability by NOK 2.4 billion

All figures NOK million	2009	2008	2007
Liability at 1 Jan	36 554	27 465	29 202
New liabilities	95	0	883
Actual removal	(150)	(492)	(81)
Changes to estimates	1 804	4 594	(2 653)
Changes to discount rates	(2 403)	3 737	(981)
Interest expense	1 414	1 250	1 094
<b>Liability at 31 Dec</b>	<b>37 313</b>	<b>36 554</b>	<b>27 465</b>

**NOTE 13 OTHER LONG-TERM LIABILITIES**

Other long-term liabilities comprise:

- debt related to financial leasing of three LNG carriers delivered in 2006
- debt relating to the final settlement of commercial arrangements concerning the move to company-based gas sales.

Three financial leasing contracts were entered into in 2006 on the delivery of three ships for transporting LNG from Snøhvit. These contracts run for 20 years, with two options for five-year extensions. The future discounted minimum payment for financial leasing totals NOK 1 031 million. Of this, NOK 131 million falls due for payment in 2010, NOK 502 million in the subsequent four years, and the residual NOK 608 million after 2014.

Other long-term liabilities falling due longer than five years total NOK 300 million.

**NOTE 14 OTHER CURRENT LIABILITIES**

Other current liabilities falling due in 2009 comprise:

- provisions for 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
- current share of long-term liabilities.

**NOTE 15 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The SDFI makes very limited use of financial instruments (derivatives) to manage risk. This is primarily because the SDFI is owned by 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. Instruments used to hedge gas sales relate to forwards and futures. Eliminations are made where legal rights are available to counterclaim unrealised loss and gain, or where paid and capitalised deposits/margins exist which reflect the market value of the derivatives. At 31 December 2009, the market value of the financial instruments was NOK 2 189 million in assets and NOK 696 million in liabilities. The comparable figures at the end of 2008 were NOK 2 698 million and NOK 2 155 million respectively. The figures include the market value of unlisted instruments. When calculating unrealised loss/gain for 2009, a portfolio assessment was made for the trading business in the UK. Long-term derivative contracts with industrial customers in continental Europe related to Norsk Hydro Energy contain an unrealised gain which is included in the figures above. The unrealised gain for the trading portfolio is substantially higher than the unrealised loss, and the overall portfolio has accordingly been recorded at zero.

**Price risk**

The SDFI is exposed to fluctuations in oil and gas prices in the world market. Statoil purchases all oil and NGL from the SDFI at market-based prices. SDFI revenue from gas sales to end users reflects market value. Based on the arrangement relating to the marketing and sales instruction together with the SDFI's participation in the government's overall risk management, the SDFI's strategy is to make limited use of financial instruments (derivatives) to counteract fluctuations in profit and loss owing to variations in commodity prices.

**Currency risk**

The most significant part of the SDFI's revenue from the sale of oil and gas is billed in USD, EUR or GBP. Part of its operating expenses and investments is also billed in equivalent currencies. When converting to NOK, currency fluctuations will affect the SDFI's income statement and balance sheet. The SDFI does not make use of currency hedging in relation to future sales of the SDFI's petroleum, and its exposure in the balance sheet at 31 December 2009 was largely related to one month's outstanding revenue.

**Interest risk**

The SDFI is primarily exposed to credit risk through financial leases. It has no other interest-bearing debt exposed to interest rate fluctuations.

**Credit risk**

The SDFI's sales are made to a limited number of parties, with all oil and NGL sold to Statoil. In accordance with the marketing and sales instruction, financial instruments for the SDFI's operations are purchased from other parties with sound credit ratings. Financial instruments are only established with large banks or financial institutions at levels of exposure approved in advance. The SDFI's credit-related risk during consecutive transactions is accordingly regarded as insignificant.

**Liquidity risk**

The SDFI generates a significant positive cash flow from its operations. Internal guidelines on managing the flow of liquidity have been established.

**NOTE 16 LEASES/CONTRACTUAL LIABILITIES**

All figures in NOK million	Leases	Transport capacity and other liabilities
<b>2010</b>	5 852	1 047
<b>2011</b>	3 686	1 062
<b>2012</b>	1 569	1 025
<b>2013</b>	609	867
<b>2014</b>	253	822
<b>Beyond</b>	130	7 824

Leases represent operation-related contractual liabilities for the chartering/leasing of rigs, supply ships, production ships, helicopters, standby vessels, bases and so forth as specified by the individual operator. The figures represent cancellation costs.

Transport capacity and other liabilities relate to the sale of gas, and consist mainly of transport and storage liabilities in the UK and continental Europe as well as terminal capacity liabilities relating to the Cove Point terminal in the USA. The SDFI's share of installations and pipelines on the NCS is generally higher than or equal to the transport share. Hence, no liabilities are calculated for these systems.

In connection with the award of licences to explore for and produce petroleum, licensees may be required to undertake to drill a certain number of wells. Petoro was committed at 31 December 2009 to participate in 17 wells with an expected cost to the SDFI of NOK 1.1 billion. Of this, NOK 531 million is expected to fall due in 2010.

The company has also accepted contractual liabilities relating to the development of new fields, represented by field development costs. These obligations total NOK 1.4 billion for 2010 and NOK 0.6 billion for subsequent periods, a total of NOK 2 billion. The SDFI is also committed through approved licence budgets to operating and investment expenses for 2010 which will be at the same level as the 2009 figure. The above-mentioned liabilities for 2010 are included in this total.

In connection with the sale of the SDFI's oil and gas, Statoil has issued a limited number of warranties to vendors and owners of transport infrastructure relating to operations in the USA, the UK and continental Europe. Warranties issued in connection with trading operations are provided as security for the financial settlement.

The SDFI and Statoil deliver gas to customers under common gas sale agreements. SDFI gas reserves will be utilised in accordance with the SDFI's share of production from the fields selected to deliver the gas at any given time.

**NOTE 17** OTHER LIABILITIES

The SDFI could be affected by possible legal actions and disputes as a participant in production licences, fields, pipelines and land-based plants, and in the joint sale of the SDFI's gas together with Statoil. The SDFI is involved in current disputes relating to issues in joint ventures in which Petoro is a licensee. Provisions have been made in the accounts for issues where a negative outcome for the SDFI portfolio is thought to be more likely than not.

**NOTE 18** SIGNIFICANT ESTIMATES

The SDFI accounts are presented in accordance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP), which means that the management makes assessments and exercises judgement in a number of areas. Changes in the underlying assumptions could have a substantial effect on the accounts. Where the SDFI portfolio is concerned, it is presumed that assessments of reserves, removal of installations, exploration expenses and financial instruments could have the largest significance.

Recoverable reserves include volumes of crude oil, NGL (including condensate) and dry gas as reported in resource classes 1-3 in the NPD's classification system. Only reserves for which the licensees' plan for development and operation (PDO) has been sanctioned in the management committee and submitted to the authorities are included in the portfolio's expected reserves. A share of the field's remaining reserves in production (resource class 1) provides the basis for depreciation. A share of oil and gas respectively is calculated annually for the portfolio to represent the relationship between low and basis reserves. This common share is used to calculate the depreciation basis for each field. The downwardly adjusted basis reserves which form the basis for depreciation expenses have great significance for the result, and adjustments to the reserve base can cause major changes to the SDFI's profit.

Reference is otherwise made to the description of the company's accounting principles and to notes 12 and 15, which describe the company's treatment of exploration expenses, uncertainties related to removal and financial instruments.

**NOTE 19** EQUITY

All figures in NOK million	2009	2008	2007
Equity at 1 Jan	141 781	136 998	136 748
Net income for the year	100 662	159 906	112 641
Cash transfers to the government	(96 992)	(155 420)	(112 281)
Items recorded directly against equity	(684)		
Translation differences	(118)	297	(110)
<b>Equity at 31 Dec</b>	<b>144 649</b>	<b>141 781</b>	<b>136 998</b>

Equity at 1 January includes a capital contribution of NOK 9.1 billion paid to Statoil on 1 January 1985 for the participatory interests acquired by the SDFI from Statoil. It otherwise includes accumulated income reduced by net cash transfers to the government.

Items recorded directly against equity relate to the winding-up of Etanor DA on its transfer to Gassled. This transfer was resolved in a company meeting on 24 November 2009.

**NOTE 20** AUDITORS

In accordance with the Act on the Auditing of Governmental Accounts of 7 May 2004, the Office of the Auditor General is the external auditor for the SDFI. The Auditor General issues a final audit letter (report) concerning the SDFI accounts and budget, which is first published after the government accounts have been submitted and when the Auditor General's annual report, Document no 1, is submitted to the Storting (parliament).

In addition, Deloitte AS has been engaged by the board of directors of Petoro AS to perform a financial audit of the SDFI as part of the internal audit function. Deloitte submits its audit report to the board in accordance with Norwegian auditing standards.

Deloitte's fee is expensed in the Petoro accounts.

**NOTE 21 EXPECTED REMAINING OIL AND GAS RESERVES**

Oil* in mill bbl, gas in bn scm	2009		2008		2007	
	oil	gas	oil	gas	oil	gas
Expected reserves at 1 Jan	1 703	898	1 886	930	2 047	958
Corrections for earlier years**					(1)	(1)
Change in estimates	(83)	(34)	(26)	(0.4)	(26)	0
Extensions and discoveries			1	0.3	4	0
Improved recovery	87	5	64	(0.4)	104	3
Purchase of reserves						
Sale of reserves						
Production	(196)	(31)	(222)	(31)	(241)	(31)
<b>Expected reserves at 31 Dec</b>	<b>1 511</b>	<b>839</b>	<b>1 703</b>	<b>898</b>	<b>1 886</b>	<b>930</b>

\* Oil includes NGL and condensate.

\*\* Vega's reserves in 2006 were inaccurately reported, and were corrected in 2007.

The SDFI added 119 million boe in new reserves during 2009. Improved recovery on Gullfaks South, Oseberg, Troll, Oseberg South and Snorre made the most important contribution to the increase in recoverable reserves. At the same time, a number of changes made to estimates, including the downgrading of reserves in producing fields, corresponded to a decline of 296 million boe. This yielded a net reduction in reserves of 176 million boe. Ormen Lange and Heidrun accounted for the largest downgradings in reserves.

At 31 December 2009, the portfolio's expected remaining oil, condensate, NGL and gas reserves totalled 6 785 million boe. This represented a reduction of 568 million boe from the end of 2008. Petoro reports the portfolio's expected reserves in accordance with the NPD's classification system and on the basis of resource classes 1-3.

The net reserve replacement rate for 2009 was thereby negative at 45 per cent, compared with a positive nine per cent the year before. The average reserve replacement rate for the portfolio over the past three years was negative at three per cent. The corresponding figure for the 2006-08 period was positive at 18 per cent.

**NOTE 22** SDFI OVERVIEW OF INTERESTS

Production licence	At 31 Dec 09 Interest (%)	At 31 Dec 08 Interest (%)
018	5.0000	5.0000
018 B	5.0000	5.0000
018 C	5.0000	5.0000
028 C	30.0000	30.0000
034	40.0000	40.0000
036 BS	20.0000	20.0000
037	30.0000	30.0000
037 B	30.0000	30.0000
037 E	30.0000	30.0000
038	30.0000	30.0000
038 C	30.0000	30.0000
038 D	30.0000	-
040	30.0000	30.0000
043	30.0000	30.0000
043 BS	30.0000	30.0000
050	30.0000	30.0000
050 B	30.0000	30.0000
050 C	30.0000	30.0000
050 D	30.0000	30.0000
050 DS	30.0000	30.0000
051	31.4000	31.4000
052	37.0000	37.0000
052 B	37.0000	37.0000
052 C	37.0000	37.0000
053	33.6000	33.6000
053 B	25.4000	25.4000
054	40.8000	40.8000
055	13.4000	13.4000
055 B	13.4000	13.4000
055 C	33.6000	33.6000
057	30.0000	30.0000
062	19.9500	19.9500
064	30.0000	30.0000
074	19.9500	19.9500
074 B	19.9500	19.9500
077	30.0000	30.0000
078	30.0000	30.0000
079	33.6000	33.6000
085	62.9187	62.9187
085 B	62.9187	62.9187
085 C	56.0000	56.0000
089	30.0000	30.0000
093	47.8800	47.8800
094	14.9500	14.9500
094 B	35.6900	35.6900
095	59.0000	59.0000
097	30.0000	30.0000
099	30.0000	30.0000
100	30.0000	30.0000

Production licence	At 31 Dec 09 Interest (%)	At 31 Dec 08 Interest (%)
102	30.0000	30.0000
102 C	30.0000	-
103 B	30.0000	30.0000
104	33.6000	33.6000
107	7.5000	7.5000
107 B	7.5000	-
107 C	7.5000	-
110	30.0000	30.0000
110 B	30.0000	30.0000
110 C	30.0000	30.0000
120	16.9355	16.9355
120 B	16.9355	16.9355
124	27.0900	27.0900
128	24.5455	24.5455
128 B	54.0000	54.0000
132	7.5000	7.5000
134	13.5500	13.5500
152	30.0000	30.0000
153	30.0000	30.0000
153 B	30.0000	30.0000
169	30.0000	30.0000
169 B1	37.5000	37.5000
169 B2	30.0000	30.0000
169 C	30.0000	-
171 B	33.6000	33.6000
176	47.8800	47.8800
185	13.4000	13.4000
190	40.0000	40.0000
193	30.0000	30.0000
193 B	30.0000	-
195	35.0000	35.0000
195 B	35.0000	35.0000
199	27.0000	27.0000
208	30.0000	30.0000
209	35.0000	35.0000
237	35.6900	35.6900
248	40.0000	40.0000
248 B	40.0000	40.0000
250	45.0000	45.0000
255	30.0000	30.0000
256	20.0000	20.0000
263 C	19.9500	19,9500
264	30.0000	30.0000
265	30.0000	30.0000
275	5.0000	5.0000
277	30.0000	30.0000
277 B	30.0000	30.0000
281	-	20.0000
283	20.0000	20.0000

	At 31 Dec 09	At 31 Dec 08
<b>Production licence</b>	<b>Interest (%)</b>	<b>Interest (%)</b>
309	33.6000	33.6000
315	-	30.0000
318	20.0000	20.0000
318 B	20.0000	20.0000
318 C	20.0000	-
327	20.0000	20.0000
327 B	20.0000	20.0000
328	20.0000	20.0000
329	-	20.0000
331	20.0000	20.0000
345	-	30.0000
348	7.5000	7.5000
374 S	20.0000	20.0000
393	20.0000	20.0000
394	15.0000	15.0000
395	20.0000	20.0000
396	20.0000	20.0000
400	20.0000	20.0000
402	20.0000	20.0000
402 B	20.0000	-
423 S	20.0000	20.0000
438	20.0000	20.0000
439	20.0000	20.0000
448	30.0000	30.0000
448 B	30.0000	30.0000
461	20.0000	20.0000
473	19.9500	19.9500
479	14.9500	14.9500
482	20.0000	20.0000
487 S	20.0000	20.0000
488	30.0000	30.0000
489	20.0000	20,0000
502	33.3333	-
504	3.0000	-
506 S	20.0000	-
511	20.0000	-
516	24.5455	-
522	20.0000	-
527	20.0000	-
532	20.0000	-
536	20.0000	-
537	20.0000	-
538	20.0000	-
<b>Net profit licences*</b>		
027		
028		
029		
033		

\* Production licences where the SDFI is not a licensee, but has a right to a share of possible profit.

<b>Unitised fields</b>	<b>At 31 Dec 09 Interest (%)</b>	<b>At 31 Dec 08 Interest (%)</b>	<b>Remaining production period</b>	<b>Licence term</b>
Brage Unit	14.2567	14.2567	2025	2015
Gimle Unit	24.1863	24.1863	2030	2023
Grane Unit	28.9425	30.0000	2030	2030
Halten Bank West Unit (Kristin)	19.5770	19.5770	2029	2027
Heidrun Unit	58.1644	58.1644	2036	2024
Hild Unit	30.0000	30.0000	2024	2012
Huldra Unit	31.9553	31.9553	2012	2015
Jotun Unit	3.0000	3.0000	2015	2015
Njord Unit	7.5000	7.5000	2022	2021
Norne Unit	54.0000	54.0000	2021	2026
Ormen Lange Unit	36.4750	36.4750	2027	2040
Oseberg Area Unit	33.6000	33.6000	2052	2031
Ringhorne East Unit	7.8000	7.8000	2020	2030
Snorre Unit	30.0000	30.0000	2030	2015
Snøhvit Unit	30.0000	30.0000	2038	2035
Statfjord East Unit	30.0000	30.0000	2020	2024
Sygna Unit	30.0000	30.0000	2020	2024
Tor Unit	3.6874	3.6874	2029	2028
Troll Unit	56.0000	56.0000	2057	2030
Visund Unit	30.0000	30.0000	2039	2023
Åsgard Unit	35.6900	35.6900	2031	2027
<b>Fields</b>				
Draugen	47.8800	47.8800	2029	2024
Ekofisk	5.0000	5.0000	2029	2028
Eldfisk	5.0000	5.0000	2027	2028
Embla	5.0000	5.0000	2020	2028
Gjøa	30.0000	30.0000	2028	2028
Gullfaks	30.0000	30.0000	2030	2016
Gullfaks South	30.0000	30.0000	2030	2016
Heimdal	20.0000	20.0000	2013	2021
Kvitebjørn	30.0000	30.0000	2045	2031
Rev	30.0000	30.0000	2017	2021
Skirne	30.0000	30.0000	2013	2025
Statfjord North	30.0000	30.0000	2020	2026
Tordis	30.0000	30.0000	2019	2024
Tune	40.0000	40.0000	2013	2032
Urd	24.5455	24.5455	2023	2026
Varg	30.0000	30.0000	2020	2021
Vega	40.0000	40.0000	2022	2035
Veslefrikk	37.0000	37.0000	2020	2015
Vigdis	30.0000	30.0000	2020	2024
Yttergryta	19.9500	19.9500	2013	2027
<b>Shut-in fields</b>				
Albuskjell				
Cod				
Edda				
Frøy Unit				
West Ekofisk				
East Frigg				



**Pipelines and land-based plants**

	<b>At 31 Dec 09</b>	<b>At 31 Dec 08</b>	
<b>Oil pipelines</b>	<b>Interest (%)</b>	<b>Interest (%)</b>	<b>Licence term</b>
Frostpipe	30.0000	30.0000	
Oseberg Transport System (OTS)	48.3838	48.3838	2028
Troll Oil Pipeline I and II	55.7681	55.7681	-
Grane Oil Pipeline	42.0631	43.6000	-
Kvitebjørn Oil Pipeline	30.0000	30.0000	-
Norpipe Oil AS (interest)	5.0000	5.0000	-
<b>Oil - land-based plants</b>			
Mongstad Terminal DA	35.0000	35.0000	-
<b>Gas pipelines</b>			
Gassled**	38.4590	37.8920	2028
Haltenpipe	57.8125	57.8125	2020
Mongstad Gas Pipeline	56.0000	-	2030
<b>Gas - land-based plants</b>			
Dunkerque Terminal DA	24.9984	24.6298	-
Zeepipe Terminal JV	18.8449	18.5671	-
Etanor DA***	-	62.7000	-
Vestprosess DA	41.0000	41.0000	-
Kollsnes (gas processing plant, operation)	38.4590	37.8920	2028
Snøhvit gas liquefaction plant	30.0000	30.0000	-
Norsea Gas AS (interest)	40.0060	40.0060	-

The SDFI also has intangible fixed assets relating to gas storage in the UK and financial fixed assets related to an associate in the USA (SNG).

\*\* The interest in Gassled including Norsesea Gas is 39.55%.

\*\*\* Norne gas transport, the Kvitebjørn gas pipeline and Etanor DA were included in Gassled with effect from 1 January 2009.



Executive officer  
Stig Allan Snähre, +47 21 54 08 81  
Our date                      Our reference  
18.02.2010                      2009/02052 - 3  
   Filing code  
   680 OED  
Your date                      Your reference

The State's Direct Financial Interest  
c/o Petoro AS  
P.O. Box 300 Sentrum  
4002 Stavanger  
NORWAY

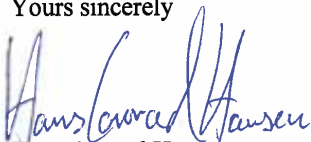
### **Audit of the 2009 accounts of the State's Direct Financial Interest**

Pursuant to Act no 21 of the 7th of May 2004 relating to the Office of the Auditor General (Auditor General Act), the Office of the Auditor General of Norway is the auditor for the State's Direct Financial Interest.

Following its annual audit, the Office of the Auditor General will issue a final audit letter (Report) which summarizes the conclusion of its audit work. The audit letter will first be made public when the Office of the Auditor General has reported the results of the audit to the Storting (Parliament) in the beginning of October, pursuant to section 18 of the Auditor General Act.

The board of directors and possibly the annual general meeting of Petoro AS will be briefed on the results of the audit for the year.

Yours sincerely



Hans Conrad Hansen  
Director General



Tom Hane Kamhaug  
Deputy Director General

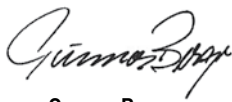
## PETORO AS INCOME STATEMENT

All figures in NOK 1 000	Notes	2009	2008	2007
Invoiced government contribution	1	201 600	193 600	177 600
Other revenue	1	3 201	3 806	987
Net deferred revenue recorded	2	57	[1 367]	181
<b>Total operating revenue</b>		<b>204 857</b>	<b>196 039</b>	<b>178 769</b>
Payroll expenses	3,10	108 395	92 712	82 171
Depreciation and write-down	4	4 513	3 812	3 632
Administrative fees	13,16	2 744	2 435	2 817
Accounting fees	15	19 077	16 702	14 113
Office expenses	14	8 613	8 439	8 110
ICT expenses	15	14 202	18 064	12 629
Other operating expenses	12,15,16	49 610	53 639	62 066
<b>Total operating expenses</b>		<b>207 154</b>	<b>195 802</b>	<b>185 537</b>
<b>Operating income/(loss)</b>		<b>(2 297)</b>	<b>237</b>	<b>(6 768)</b>
Financial income	5	3 194	6 035	6 953
Financial expenses	5	[223]	[877]	[422]
<b>Net financial result</b>		<b>2 971</b>	<b>5 158</b>	<b>6 531</b>
<b>NET INCOME/(LOSS)</b>		<b>674</b>	<b>5 395</b>	<b>(237)</b>
<b>Transfers</b>				
Transferred to/(from) other equity		674	5 395	[237]
<b>Total transfers</b>		<b>674</b>	<b>5 395</b>	<b>(237)</b>


# PETORO AS BALANCE SHEET

All figures in NOK 1 000	Notes	2009	2008	2007
<b>ASSETS</b>				
<b>Fixed assets</b>				
Operating equipment, fixtures, etc	4	8 932	8 989	7 622
<b>Total tangible fixed assets</b>		<b>8 932</b>	<b>8 989</b>	<b>7 622</b>
<b>Total fixed assets</b>		<b>8 932</b>	<b>8 989</b>	<b>7 622</b>
<b>Current assets</b>				
Trade debtors		0	1 068	1 507
Other debtors	6	8 387	10 183	4 102
Bank deposits	7	119 735	96 295	85 393
<b>Total current assets</b>		<b>128 121</b>	<b>107 546</b>	<b>91 002</b>
<b>TOTAL ASSETS</b>		<b>137 053</b>	<b>116 535</b>	<b>98 624</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
<b>Paid-in capital</b>				
Share capital (10 000 shares at NOK 1 000)	8	10 000	10 000	10 000
<b>Retained earnings</b>				
Other equity	9	28 750	28 076	22 681
<b>Total equity</b>		<b>38 750</b>	<b>38 076</b>	<b>32 681</b>
<b>Liabilities</b>				
<b>Provisions</b>				
Pension liabilities	10	55 756	31 725	24 653
Deferred revenue government contribution	2	8 932	8 989	7 622
<b>Total provisions</b>		<b>64 688</b>	<b>40 714</b>	<b>32 275</b>
<b>Current liabilities</b>				
Trade creditors	16	10 904	11 492	13 223
Withheld taxes and social security		6 339	5 741	8 095
Other current liabilities	11	16 373	20 512	12 350
<b>Total current liabilities</b>		<b>33 616</b>	<b>37 745</b>	<b>33 668</b>
<b>Total liabilities</b>		<b>98 304</b>	<b>78 459</b>	<b>65 943</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>137 053</b>	<b>116 535</b>	<b>98 624</b>

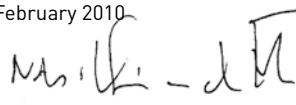
Stavanger, 19 February 2010



**Gunnar Berge**  
Chair



**Hilde Myrberg**  
Deputy chair



**Nils-Henrik M von der Fehr**  
Director



**Per Arvid Schøyen**  
Director



**Mari Thjømøe**  
Director



**Arild Stavnem**  
Director\*



**Kristin Johnsen**  
Director\*



**Kjell Pedersen**  
President and CEO

\* Elected by the employees

## PETORO AS CASH FLOW STATEMENT

All figures in NOK 1 000	2009	2008	2007
<b>LIQUID ASSETS PROVIDED BY/USED IN OPERATING ACTIVITIES</b>			
Provided by operations for the year*	5 187	9 207	3 394
+/- Change in trade debtors	1 068	439	(1 473)
+/- Change in trade creditors	(588)	(1 731)	2 797
+/- Change in accrued items	22 229	8 165	10 845
<b>Net change in liquidity from operating activities</b>	<b>27 896</b>	<b>16 081</b>	<b>15 563</b>
<b>LIQUID ASSETS PROVIDED BY/USED IN INVESTING ACTIVITIES</b>			
- Invested in tangible fixed assets	(4 456)	(5 179)	(3 450)
<b>Net change in liquidity from investing activities</b>	<b>(4 456)</b>	<b>(5 179)</b>	<b>(3 450)</b>
<b>LIQUID ASSETS PROVIDED BY/USED IN FINANCING ACTIVITIES</b>			
+ Proceeds from share issue	0	0	0
<b>Net change in liquidity from financing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net change in liquid assets	23 440	10 903	12 113
+ Cash and cash equivalents at 1 January	96 295	85 393	73 280
<b>Cash and cash equivalents at 31 December</b>	<b>119 735</b>	<b>96 295</b>	<b>85 393</b>
* This figure is obtained as follows:			
Net income/(loss)	674	5 395	(237)
+ Ordinary depreciation and write-downs	4 513	3 812	3 632
<b>Provided by operations for the year</b>	<b>5 187</b>	<b>9 207</b>	<b>3 394</b>

# PETORO AS NOTES

## ACCOUNTING PRINCIPLES

### 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 be responsible, on behalf of the government, for managing the commercial aspects of the State's Direct Financial Interest (SDFI) in petroleum activities on the Norwegian continental shelf, and activities related hereto. The state is the majority shareholder in Statoil ASA and the owner of the SDFI. On that basis, Statoil handles marketing and sales of the government's petroleum. Petoro is responsible for monitoring that Statoil discharges its responsibilities under the applicable 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.

### Classification of assets and liabilities

Assets intended for ownership or use in the business for a longer period are classified as fixed assets. Other assets are classed as current assets. Debtors due within one year are classified as current assets. Similar criteria are applied for classification of current and long-term liabilities.

### Fixed assets

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.

### Debtors

Trade debtors and other debtors are carried at face value.

### Bank deposits

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

### Pensions

The company's pension scheme for employees is a defined benefit plan. The capitalised obligation relating to the defined benefit plan is the present value of the defined obligation at 31 December less the fair value of the plan assets, adjusted for unrecorded change in estimates. The pension obligation is calculated annually by an independent actuary on the basis of a linear earnings method and expected final pay. The pension plan is valued at its expected fair value. The net book obligation includes payroll tax.

Net pension expense is included in payroll expenses and comprises pension rights earned over the period, interest charges on the estimated pension obligation, expected return on pension plan assets, the recorded effect of

estimate changes and accrued payroll tax.

Changes made to estimates as a result of new information or changes in actuarial assumptions in excess of the larger of 10 per cent of the value of the pension plan assets or 10 per cent of the pension obligations are recorded in the income statement over a period which corresponds to the employees' expected average remaining period of employment.

### Current liabilities

Current liabilities are assessed at their face value.

### Income taxes

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

### Operating revenue

The company receives an operating grant from the government for services provided to the Ministry of Petroleum and Energy in accordance with the company's object. This operating grant is appropriated annually by the Storting (parliament). The operating contribution is presented in the accounts as operating revenue. The contribution applied to investment for the year is accrued as deferred revenue and specified as a liability in the balance sheet. The deferred contribution is recorded as income in line with the depreciation of the investments and specified as deferred revenue in the income statement.

### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction. Receivables and liabilities in foreign currencies are recorded at the exchange rate prevailing at 31 December.

### Cash flow statement

The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term liquid instruments.

## NOTE 1

### GOVERNMENT CONTRIBUTION AND OTHER INCOME

The company received an operating contribution from the Norwegian government totalling NOK 201.6 million excluding VAT in 2009. The net profit after financial items was NOK 0.7 million, which it is proposed to transfer to other equity. Other revenue primarily relates to invoicing of services provided to operators of joint ventures and other joint venture partners.

## NOTE 2

### DEFERRED REVENUE

The change in deferred revenue recorded in the income statement comprises deferred revenue related to NOK 4.5 million in investment made during 2009 as well as NOK 4.5 million in depreciation and write-down of investment made during the year and in earlier years.

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

<b>Payroll expenses</b> (all figures in NOK 1 000)	<b>2009</b>	<b>2008</b>	<b>2007</b>
Pay	68 293	63 803	56 691
Payroll taxes	10 745	8 555	7 767
Pensions (note 10)	26 312	17 478	15 482
Other benefits	3 045	2 876	2 231
<b>Total</b>	<b>108 395</b>	<b>92 712</b>	<b>82 171</b>
Employees at 31 Dec	65	61	56
Employees with a signed contract who had not started work at 31 Dec	1	2	5
Average number of work-years employed	63	58	54

<b>Remuneration of senior executives</b> (all figures in NOK 1 000)	<b>Pay</b>	<b>Recorded pension</b>	<b>Other benefits</b>
President and CEO	3 155	2 641	267
Management team (eight people)	12 541	4 717	977

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 employment until the age of 62.

Two other members of the management team have the opportunity to retire on a full pension upon reaching the age of 62. Four more can opt to retire upon reaching the age of 65 on a reduced pension for the first two years. Recorded pension obligation represents the actuarially-estimated cost for the year of the pension obligation for the president and the rest of the management team.

**Directors' fees**

Fees paid in 2009 totalled NOK 311 000 for the chair and NOK 1 010 000 for the other directors combined.

**NOTE 4 TANGIBLE FIXED ASSETS**

All figures in NOK 1 000	<b>Fixed fittings</b>	<b>Equipment, etc</b>	<b>ICT</b>	<b>Total</b>
Purchase cost 1 Jan 09	3 998	8 496	20 246	32 740
Additions	24	132	4 300	4 456
Disposals	-	-	-	-
Purchase cost 31 Dec 09	4 022	8 628	24 546	37 196
Accumulated depreciation 1 Jan 09	1 640	6 063	16 048	23 751
Reversal of accumulated depreciation	-	-	-	-
Depreciation and write-downs for the year	416	988	3 110	4 513
Accumulated depreciation 31 Dec 09	2 056	7 051	19 158	28 264
<b>Book value at 31 Dec 09</b>	<b>1 966</b>	<b>1 577</b>	<b>5 388</b>	<b>8 932</b>
Economic life	Until lease expires in 2014	3-5 years	3 years	
Depreciation plan	Linear	Linear	Linear	

Operational leasing contracts include the hire of cars as well as office equipment and machines. The initial hire period is three-five years.

**NOTE 5 FINANCIAL ITEMS**

Financial items (all figures in NOK 1 000)	2009	2008	2007
Financial income			
Interest income	2 908	5 846	3 802
Currency gain	286	190	87
Other financial income	-	-	3 065
Financial expenses			
Interest expenses	10	492	367
Currency loss	213	384	55
Other financial expenses	0	1	0
<b>Net financial items</b>	<b>2 971</b>	<b>5 158</b>	<b>6 531</b>

**NOTE 6 OTHER DEBTORS**

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

**NOTE 7 BANK DEPOSITS**

Bank deposits total NOK 119.7 million, including NOK 55.9 million in withheld tax and pension plan assets.

**NOTE 8 SHARE CAPITAL AND SHAREHOLDER INFORMATION**

The share capital of the company at 31 December 2009 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, and all have the same rights.

**NOTE 9 EQUITY**

(All figures in NOK 1 000)	Share capital	Other equity	Total
Equity at 1 Jan 09	10 000	28 076	38 076
Change in equity for the year			
<b>Net income</b>	<b>0</b>	<b>674</b>	<b>674</b>
<b>EQUITY AT 31 DEC 09</b>	<b>10 000</b>	<b>28 750</b>	<b>38 750</b>

**NOTE 10 PENSION COSTS, ASSETS AND LIABILITIES**

The company is legally obliged to have an occupational pension plan pursuant to the Act on Mandatory Occupational Pensions. The company's pension plan complies with the requirements of this Act.

The company has pension plans covering all its employees, which give 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.

Net pension cost (all figures in NOK 1 000)	2009	2008	2007
Present value of benefits earned during the year	19 645	14 427	13 427
Interest expense on pension obligation	5 334	4 349	4 728
Return on pension plan assets	(3 618)	(3 474)	(4 671)
Recorded change in estimates	1 700	142	85
Payroll tax	3 252	2 034	1 913
<b>NET PENSION COST</b>	<b>26 312</b>	<b>17 478</b>	<b>15 482</b>



<b>Capitalised pension obligation</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Estimated pension obligation at 31 Dec	101 864	122 500	83 818
Pension plan assets (market value)	(55 161)	(56 652)	(53 510)
Net pension obligations before payroll tax	46 703	65 849	30 308
Unrecorded change in estimates	2 163	(38 044)	(9 928)
Payroll tax	6 890	3 920	4 273
<b>Capitalised pension obligation</b>	<b>55 756</b>	<b>31 725</b>	<b>24 653</b>

The following financial assumptions have been applied in calculating net pension cost and obligation:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Discount rate	5.4%	4.3%	5.0%
Expected return on plan assets	5.7%	6.3%	6.0%
Expected increase in pay	4.5%	4.5%	4.0%
Expected increase in pensions	1.4%	2.0%	1.6%
Expected change in NI base rate	4.25%	4.25%	4.25%

The actuarial assumptions are based on common assumptions made in the insurance business for demographic factors.

#### **NOTE 11 OTHER CURRENT LIABILITIES**

Other current liabilities relate almost entirely to provision for costs incurred but not invoiced and holiday pay.

#### **NOTE 12 AUDITOR'S FEES**

Erga Revisjon AS is the elected auditor of Petoro AS. Fees charged by Erga Revisjon to Petoro for external auditing in 2009 totalled NOK 0.2 million.

In accordance with the Act on Government Auditing of 7 May 2004, the Auditor General is the external auditor for the SDFI. Deloitte AS has also been engaged to conduct a financial audit of the SDFI as part of the company's internal audit function. Deloitte charged NOK 1.3 million for this service in 2009. Deloitte has also performed other services, including partner audits, totalling NOK 2.2 million.

#### **NOTE 13 BUSINESS MANAGEMENT AGREEMENTS**

To ensure efficient resource utilisation with an organisation totalling 65 employees, Petoro sets priorities for its work commitments in and between the interests it manages in the various joint ventures. This prioritisation reflects the significance of each joint venture to the overall value of the portfolio and risk assessments related to the various phases in a joint venture (exploration, development and production). To permit such prioritisation, Petoro has concluded business management agreements with licence partners such as Statoil Petroleum AS, Talisman Energy Norge AS, Total E&P Norge AS, Norwegian Energy Company ASA, E.ON Ruhrgas Norge AS, Det Norske Oljeselskap ASA and BG Norge AS. These agreements delegate daily administrative supervision of selected production licences in the portfolio. Petoro nevertheless retains the formal responsibility, including responsibility for on-going financial management of the interest in the production licence.

#### **NOTE 14 LEASES**

The company entered into a lease with Smedvig Eiendom AS for office premises in the autumn of 2003. The remaining term of the lease is six years, with options for a further two periods of five years each. Rent for the year was NOK 8.6 million, which includes all management and shared expenses.

#### **NOTE 15 SIGNIFICANT CONTRACTS**

Petoro has entered into an agreement with Upstream Accounting Excellence (UPAX) on the delivery of accounting and associated ICT services related to the SDFI accounts. This five-year agreement was entered into in 2008, with delivery starting on 1 March 2009. ErgoGroup is the sub-contractor for ICT services. The recorded accounting fee for UPAX in 2009, including the transfer project, was NOK 15.5 million. Other services purchased from the contractor totalled NOK 0.3 million.

#### **NOTE 16 CLOSE ASSOCIATES**

Statoil ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly close associates. Petoro purchased services in 2009 relating to business management agreements, cost sharing for the audit of licence accounts, insurance services for the Government Petroleum Insurance Fund and other minor services. NOK 3.1 million was recorded in 2009 for the purchase of services from Statoil ASA. These were purchased at market price on the basis of hours worked. At 31 December 2009, Petoro had no outstanding accounts payable with Statoil ASA. NOK 5.9 million has been invoiced for services rendered to Statoil ASA under the arm's-length principle, based on hours worked by Petoro personnel and contract staff. Petoro had no open accounts with Statoil ASA at 31 December 2009.


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Statsautorisert revisor

medlem av Den norske Revisorforening

To the annual general meeting of Petoro AS

### Auditor's report for 2009

We have audited the annual financial statements of Petoro AS at 31 December 2009, showing a profit of NOK 674 000. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption and the proposal for allocating the profit. The financial statements comprise the income statement, the balance sheet, the cash flow statement and the accompanying notes. The rules of the Norwegian Accounting Act and Norwegian generally accepted accounting principles have been applied to produce the financial statements. These financial statements are the responsibility of the company's board of directors and president. Our responsibility is to express an opinion on these financial statements and on the other information pursuant to the requirements of the Norwegian Act on Auditing and Auditors.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, and evaluating the overall presentation of the financial statements. To the extent required by good accounting 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 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 give a true and fair view of the financial position of the company at 31 December 2008 and of the results of its operations and its cash flows for the year then ended in accordance with Norwegian generally accepted accounting principles
- 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 bookkeeping practice in Norway
- the information in the directors' report concerning the financial statements, the going concern assumption and the proposals for allocating the profit are consistent with the financial statements and comply with the law and regulations.

Stavanger, 19 February 2010  
Erga Revisjon AS

Sven Erga  
State authorised public accountant (Norway)

Note: the translation from Norwegian has been prepared for information purposes only.

## PETORO'S FINANCIAL CALENDAR 2010

<b>6 May</b>	First quarter report
<b>30 July</b>	Second quarter report
<b>4 November</b>	Third quarter report

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**THE NORGESGLASS JARS ON THIS PAGE HAIL FROM HOLMEEGENES FARM IN STAVANGER**

This market garden, which cultivated both flowers and vegetables, also produced a good deal of preserves. When Stavanger Museum took over the movables from Holmeegenes in 2007, a large number of Norwegian-produced Kilner jars were discovered – including examples from the 1910s and 1920s with their contents intact.



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