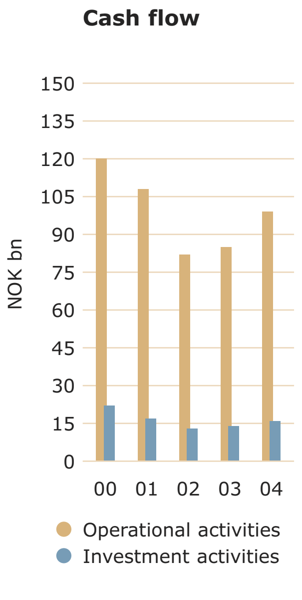
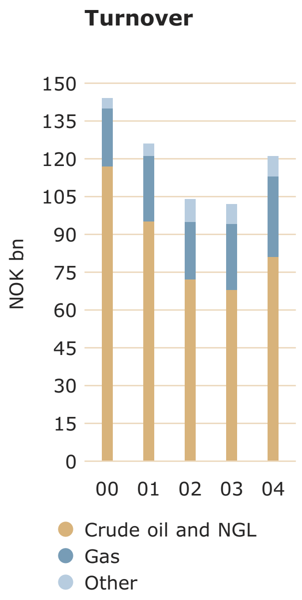
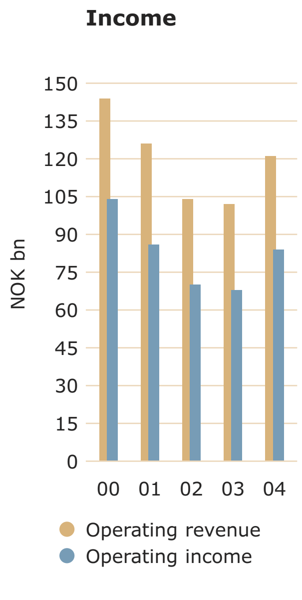
2004

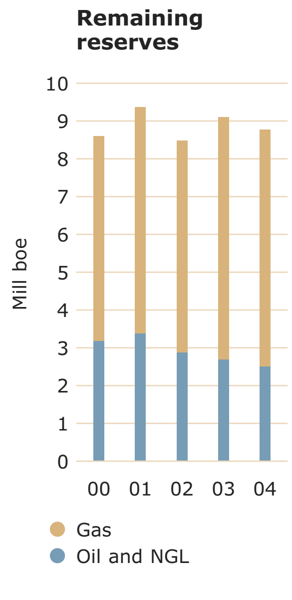
petoro

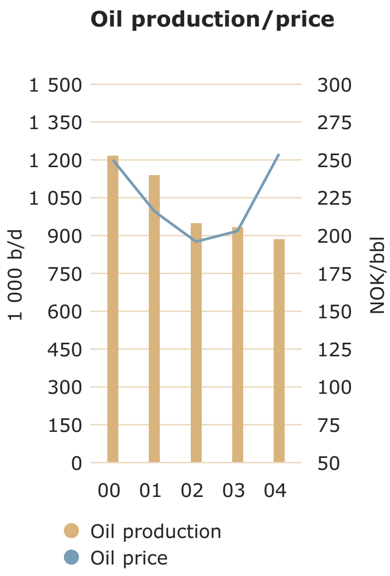
Key figures
for the SDFI

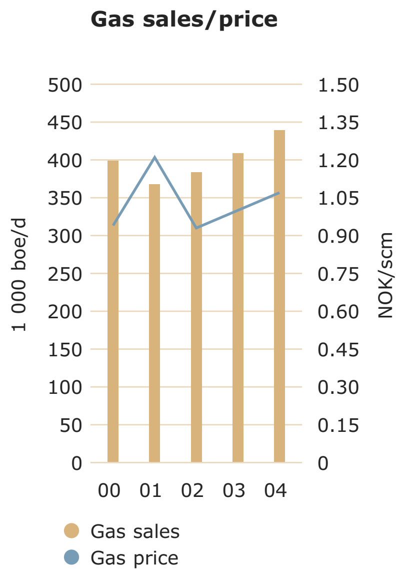


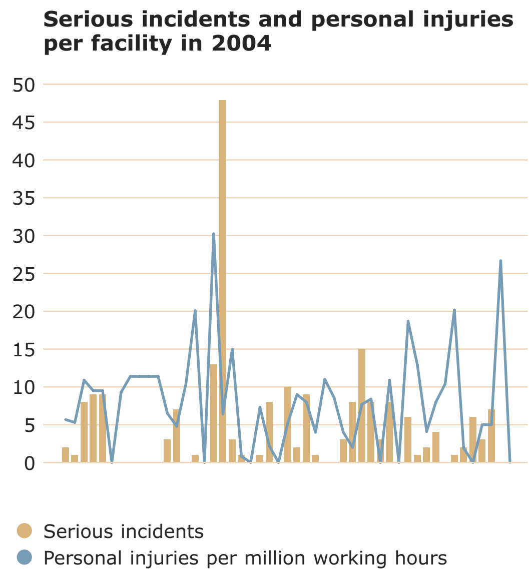












Contents

Carrying **weight**

The oil and gas industry is responsible for securing the energy and raw materials required by the world and for providing good earnings to its owners and the community.

It works closely with governments and under the influence of other interests, such as the fishing sector and environmentalists.

Maintaining the right balance – often on a fine line – is an important skill for all sides in such an interaction. But this balancing act must not be maintained at the expense of taking decisions and pursuing measures to achieve results.

Earnings have not been in short supply over the past year for the oil industry as a whole and for Petoro, which has presented a net 2004 profit of no less than NOK 82.3 billion for the state's direct financial interest (SDFI) in petroleum activities. Oil and gas sales for this portfolio averaged 1.33 million barrels of oil equivalent (boe) per day, on a par with the year before despite the loss of production owing to the Snorre gas leak and strikes.

But neither Petoro nor the rest of the industry is making sufficient new discoveries to ensure corresponding future revenues from the Norwegian continental shelf (NCS). Petoro only managed to replace every third barrel it produced last year. According to the Norwegian Petroleum Directorate, less than half the total volume produced on the NCS in 2004 was replaced with new reserves. Preliminary estimates suggest that the four discoveries made in 2004 contain some 125 million boe – less than eight per cent of production during the year.

The oil industry in Norway has perhaps more stakeholders than in many other countries. This country's close ties between the petroleum sector and politics is natural because the state owns the continental shelf and because the industry is very significant for the national economy and for prosperity. Conflicts of interest also exist around the business, which increase the desire to help shape policy in this area.

Norway has a long coastline and a population which has traditionally made its living from the sea. This means an ingrained understanding that fishing and environmental considerations must carry great weight when determining policies for oil and gas production on the NCS. Developing the Snøhvit field is a case in point.

But the world needs energy. It needs oil and gas. And, by definition, managing natural resources involves interfering with the natural environment. So assessing the impact before starting such interference is also important.

Even before the first well was spudded there in 1980, the Norwegian Sea had been subject to detailed studies of the risk of accidents and spills and their possible impact. A number of investigations and new knowledge have since been added, not least because of the demand for extensive impact assessments.

‘Those of us with management responsibility have to be clearer in terms of risk management and how we communicate and follow up our expectations with the organisations we lead.’

Additional studies may naturally provide information or create uncertainty, which can be used by the various interest organisations in seeking to influence decision-makers. An area of the NCS identified by the industry as one of its most interesting targets, Nordland VI south-west of the Lofoten islands, remains closed. In the meantime, a new impact assessment of the Barents Sea-Lofoten region has been made, and we are waiting for the unified impact assessment for the whole northern part of the NCS to be presented to the Storting (parliament) next year. Hopefully, these new studies will create the necessary basis for making decisions.

The NCS is at a level of maturity where it has become increasingly clear that many of the good fields on the NCS are also turning into old fields.

Petoro has made a substantial commitment to recovering as much as possible from the mature part of the NCS. We have worked to increase volumes and cut costs – in other words, to reduce unit costs - and we have pushed for the adoption of new technology and smarter operating methods which can enhance the efficiency of the business and improve recovery factors. This is a contribution to prolonging the producing life of fields, extending jobs, increasing exploration and improving profitability.

We will continue to pay close attention to our mature licences. However, in order to contribute as part of the petroleum industry to maintaining the Norwegian oil and gas business as a powerful stimulus for growth, employment and value creation for many decades to come, we must also ensure that new discoveries are made. The reopening of the Barents Sea is very positive in that respect.

In parallel with oil and gas operations in the Norwegian Barents Sea, we could see growing production and transport activity in the Russian sector. The challenges this may represent can best be met by Norwegian industry applying its best experience in cooperation with Russian companies. That could make a big contribution to minimising the risk of oil spills in Norwegian waters from activities not under the country's own control.

As part of its licence to drill and produce offshore Norway, the industry must meet the world's strictest environmental and emergency response standards in a go-ahead spirit and with its best expertise.

We can never remove all risk involved in the petroleum business. However, some of the accidents seen on the NCS during 2004 and the first part of 2005 have raised questions about whether the industry has the competence and control required for exploration and production in these environmentally sensitive waters.

Industry needs to take such questions very seriously. And those of us with management responsibility have to be clearer in terms of risk management and how we communicate and follow up our expectations with the organisations we lead.

It is also vital that we as industry people listen to government regulators, fishermen, environmentalists, researchers and others who can help to ensure that things are done properly.

Ultimately, the authorities will determine whether the industry can drill, where it can drill and which rules should apply. That is how it should be.

As a representative of the petroleum industry, however, I hope and believe that the importance of this sector for Norway's prosperity and economic future will weigh heavily in the debate.

Kjell Pedersen
President and CEO

Highlights of **2004**

The tow-out of the Kristin platform (below) in March 2005 was a milestone for a project which attracted much attention in 2004, and which is due to begin production in the Norwegian Sea on 1 October 2005. The little picture (left) is from the official inauguration of Kvitebjørn in 2004. Skrine was the other field to start production during the year. Three new developments were approved – Skinfaks together with an improved recovery project on Rimfaks, the Norne satellites and gas exports from Njord.

Other highlights of 2004 included:

- Net profit for 2004 came to NOK 82 billion, the best result achieved by Petoro for the SDFI in the company's history.
- Favourable market conditions and the company's strong focus on the level of Norwegian offshore costs yielded a high return for the government in 2004.
- Oil and gas sales from the SDFI portfolio averaged 1.33 million barrels of oil equivalent (boe) per day, on a par with 2003 despite strikes and the production shutdown caused by the Snorre gas leak.
- Oil and gas revenues from the SDFI totalled NOK 120.8 billion.
- Licences on the NCS have become more focused on the cost challenge, and a number have drawn up or are developing strategies to improve profitability in the mature phase.
- The gas leak on Snorre was a very serious incident, with a high potential for personal injury and damage to material assets.

Petoro AS
Manager of the SDFI portfolio
Directors' report 2004

Petoro's overall goal is to create the highest possible financial value from the state's direct financial interest (SDFI) on the Norwegian continental shelf, a portfolio which the company manages on behalf of the government.

Net income for this portfolio in 2004 came to NOK 82.3 billion, an improvement of NOK 14.2 billion from the year before. Total operating revenue was NOK 120.8 billion, compared with NOK 101.7 billion in 2003. The board is well satisfied with the financial results for the year.

Petoro served at 31 December 2004 as the licensee for interests in 93 production licences and 11 joint ventures covering pipelines and terminals. The company also manages the government's commercial interests in Mongstad Terminal DA, Etanor DA and Vestprosess DA as well as the shares in Norsea Gas AS. It has the same rights and obligations as other licensees, and manages the SDFI on the NCS on a commercial basis.

As the licensee for the largest portfolio on the NCS, Petoro is uniquely placed to act as a proactive partner over measures to create value, with a particular focus on holistic assessments for achieving efficiency gains, cost reductions and improved petroleum recovery.

With an organisation totalling 60 employees, Petoro is responsible for an extensive and complex portfolio. To ensure effective management of these assets, Petoro sets priorities for its work in the various joint ventures. These are based on the relative value of each joint venture in the portfolio and its various phases (exploration, development and operation), including Petoro's opportunities to contribute to value added.

In order to free the organisation's resources to focus on the interests with the biggest value creation potential in the portfolio, Petoro has concluded business management agreements with certain licence partners. These transfer daily administrative monitoring for small licence holdings. Petoro nevertheless retains formal responsibility for the production licence, including financial management.

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 report are based on NGAAP.

The company's business office is in Stavanger.

THE PORTFOLIO IN 2004

Net income for the SDFI portfolio in 2004 was NOK 82.3

billion, an improvement of NOK 14.2 billion from the year before. Oil and gas sales averaged 1 329 million barrels of oil equivalent (boe) per day, compared with 1 349 million in 2003. Rig strikes during the year and the gas leak on Snorre caused significant revenue losses, which are also expected to have a negative effect for output in 2005. Corrected for the lost production caused by rig strikes and the Snorre incident, the overall volume of sales corresponded to the 2003 figure. Higher gas sales from existing fields offset declining oil production from mature fields.

Income before financial items came to NOK 83.7 billion. Net financial expenses of NOK 1.3 billion reflected net realised and unrealised currency losses related to a strengthening of the NOK exchange rate against the USD as well as the net present value of future removal liabilities.

Total operating revenue was NOK 120.8 billion as against NOK 101.7 billion in 2003. This increase reflects higher oil and gas prices. Cash flow generated from the portfolio came to NOK 81.4 billion compared with NOK 69 billion in 2003.

Revenue for the year from dry gas sales totalled NOK 32.1 billion as against NOK 25.8 billion in 2003. The volume of equity gas sold was 25.5 billion standard cubic metres (scm) or 438 000 boe per day as against 409 000 in 2003. Several fields increased their gas production from 2003, with the Oseberg area accounting for the biggest rise. Bringing Skrine and Kvitebjørn on stream also helped to raise gas output. Troll accounted for 49 per cent of total gas revenues. The average gas price for the year was NOK 1.07 per scm as against NOK 1.00 in 2003. Gas revenues increased by NOK 6.3 billion from 2003.

Total revenue for 2004 from oil and NGL was NOK 80.9 billion, compared with NOK 67.7 billion the year before. The sales volume was 326 million barrels or a daily average of 891 000 barrels. Production of oil and NGL fell by five per cent from 2003, reflecting declining output from a growing number of mature fields as well as reductions relating to rig strikes and the Snorre incident. Oil production from Troll is off plateau, and declined by 14 per cent from 2003. Gullfaks output rose from the year before, primarily as a result of massive water injection. The first full operating year for Grane also yielded

higher revenue from this field. The average oil price for the year was USD 37.57 per barrel, an increase of 31 per cent from 2003. The oil price in Norwegian kroner averaged NOK 254 per barrel in 2004, up by 25 per cent from NOK 203 the year before. Oil and NGL revenue for the portfolio increased by NOK 13.2 billion from 2003.

Total investment in 2004 was NOK 17.8 billion as against NOK 15.3 billion the year before. The largest investments related to Snøhvit, Ormen Lange/Langeled, Gassled, Kristin and Troll Oil.

Exploration-related costs amounted to NOK 624 million in 2004, of which NOK 151 million was capitalised as investment and the remainder recorded as exploration expenses in the income statement. The previous year's exploration expenses totalled NOK 623 billion.

At 31 December, the portfolio's expected oil, NGL and gas reserves comprised 8 772 million boe – a decrease of 319 million boe from the year before. A total of 161 million boe in new reserves were booked during 2004, while production came to 485 million boe. The reserve replacement rate was thereby 33 per cent, giving an average rate of 98 per cent over the past three years. Petoro defines the reserve replacement rate as the addition of reserves (categories 1-3 in the Norwegian Petroleum Directorate's classification system) for the year divided by the year's production. The average for the past three years is a weighted average of the reported reserve replacement for the respective years.

The book value of assets totalled NOK 144 billion at 31 December 2004. These assets primarily comprise operating facilities relating to field installations, pipelines and land-based plants (92 per cent), as well as current debtors.

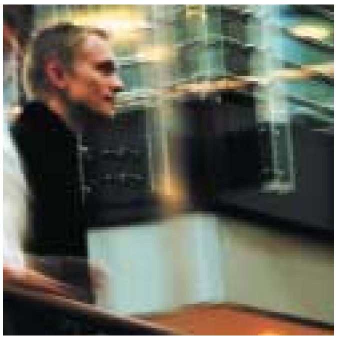
Equity at 31 December amounted to NOK 120.5 billion. Long-term liabilities totalled NOK 15.9 billion, of which NOK 14.9 billion relate to future removal liabilities. Current liabilities were NOK 7.6 billion.

TROLL AREA
Troll Gas produced in accordance with its production permit for the 2003 gas year (1 October 2003-30 September 2004). Time displacements nevertheless meant that output for the 2004 calendar year was below target.

Daily oil production from Troll in 2004 averaged 406 000 barrels. Troll Oil's output was higher than expected because of good well and processing capacity on the Troll C platform.

Two drilling rigs were at work on Troll Oil for most of 2004. The rig strike meant that drilling activities have been displaced to 2005, when three rigs will be employed on the field for most of the year. Petoro gives great weight to maintaining a high level of rig activity on Troll to realise the ambitions for improved oil recovery agreed by the operator and partnership.

Kvitebjørn began producing on 26 September 2004 within both budget and schedule. Rich gas and condensate from this field will be transported in separate pipelines to Kollsnes and Mongstad respectively.



OSEBERG AREA/GRANE
Total production from the Oseberg area exceeded the 2004 target as a result of higher gas sales. On the other hand, oil output from the Oseberg area fields was rather lower than expected – primarily because of lower production from Grane and Oseberg South. Grane has faced particular technical challenges which reduced output substantially during its first year after coming on stream. The field is not expected to reach plateau until the second half of 2005.

Skrine began producing as planned on 3 March 2004. This subsea development of two small gas and condensate fields is tied back to the Heimdal platform for processing.

TAMPEN AREA
Production from the Tampen area met the 2004 target despite substantial challenges on certain fields. Snorre failed to meet its production target, primarily because of problems with sand management and shut-downs caused by strikes and a gas leak towards the end of the year. Although nobody was injured, the gas leak on Snorre was a very serious incident which is being followed up closely by the licensees, including Petoro. These problems on Snorre were offset by generally high gas production in the area as well as good oil output from Gullfaks.

The plan for development and operation (PDO) of the Skinfaks discovery and Rimfaks improved oil recovery (IOR) was sanctioned by the joint venture and submitted to the authorities in December 2004. This project involves a subsea installation tied back to Gullfaks C for export.

NORWEGIAN SEA

Oil production from the area was substantially below target in 2004. This primarily reflected a lower oil volume from Heidrun because of delays to the drilling and intervention programmes. Draugen and Norne also delivered somewhat below expectations owing to technical challenges.

Kristin represents a very challenging development. The operator's latest updates to reserve estimates and production plans indicate a substantial reduction in reserves and a displacement of output. Cost estimates from the operator have also increased from the PDO, mainly because a more extensive drilling programme – with longer wells incorporating horizontal sections – has been necessary to limit the reduction in reserves. Other measures have also been necessary to ensure completion of the field installations and equipment on schedule. The loss of value could be compensated by the discovery of additional reserves in the Tofte formation as well as an upward adjustment in price expectations.

Development of the Ormen Lange field passed an important milestone when the Storting (parliament) approved the PDO in March 2004, with the immediate start-up of construction work at Nyhamna outside Molde in mid-Norway. Efforts have been made to reduce project execution risk by bringing forward certain time-critical activities and associated investment for the work at Nyhamna. The cost framework and schedule are in accordance with the PDO.

The PDO for the Norne satellites was approved by the authorities in July 2004, while the PDO for Njord gas exports was submitted in November.

BARENTS SEA

The Snøhvit development went through a hectic construction phase during 2004. Particularly demanding challenges were faced in completing detailed engineering and achieving satisfactory progress with construction of the process plant in Spain. Significant delays arose, and the level of activity at Melkøya increased. The result has been substantial cost increases related to speeding up activities and transferring work from Spain to Melkøya. Subsea installations were successfully installed during the year. Drilling began in December, a couple of months behind schedule because of the rig strike. A key activity will be to complete as much as possible of the process plant in Spain before this facility is transported to Melkøya in July 2005. The operator is allocating resource to ensuring that residual work being transferred to Melkøya is carried out in a planned way, so that the delay in starting up the plant will be as short as possible.

PRODUCTION LICENCES IN THE EXPLORATION PHASE

Exploration activity in 2004 was lower than expected, and the rig strike resulted in delays and the postponement of planned activities. Seven wells were spudded during the year, two fewer than in 2003.

Two exploration wells were completed in the Norwegian Sea, one of which yielded a discovery in the Linerle project close to Norne. A well near Heidrun proved to be dry. In addition, two exploration wells were spudded in this part of the NCS. The Onyx South West well in PL 255 was not completed by 31 December because of the rig strike.

Of the two exploration wells drilled in the Tampen area during 2004, Epsilon West in PL 057 was completed but proved to be dry. Hydrocarbons were proven by Topas in PLs 050 and 120, and test production was due to be carried out in February 2005.

A well was also drilled near the Varg field with a negative result.

PIPELINES AND LAND-BASED PLANTS

Petoro is the largest partner in pipelines and land-based plants relating to the NCS. An important task in 2004 has been securing the creation and approval of a specific improvement programme for Gassled which can help to secure the opportunities for coordination identified when this joint venture was established. The programme includes measures to reduce costs. In addition comes a focus on action to improve the regularity of the Kårstø plant.

A new plant at Kollsnes to process rich gas from Kvitebjørn was brought into operation when the field came on stream. This facility will also process rich gas from Visund, and was completed on schedule and to budget.

The expansion of the Kårstø plant to receive gas from Kristin is on schedule, and is expected to be completed before the field comes on stream in October 2005.

STRATEGIC FOCUS IN 2005

Petoro succeeded during 2004 in prioritising its resources in those production licences with the biggest value potential and the greatest opportunities for exerting influence. The board is well satisfied with the company's engagement in issues which play a key role for further development of the portfolio and the NCS. Transferring experience and applying best practice occupy a central place in work on identifying new opportunities for enhanced value creation and profitability in the portfolio.

COORDINATION AND FIELD DEVELOPMENT IN CORE AREAS

Petoro contributed to identifying the potential for improved recovery and enhanced efficiency in several mature core areas, particularly the Oseberg, Tampen and Troll areas.

After participatory interests in the Oseberg fields had been balanced, an Oseberg Area Unit was created for all the licences and their collective duration extended to 2031. One outcome is that all licensees have a common incentive and motivation to secure optimal value creation in the area. The strategic Oseberg 2015 project completed in 2004 identified a substantial value creation potential for the area, which will be realised by the identification of resources through increased exploration activity, new and more cost-efficient modes of operation, access to additional processing capacity and the tie-in of new fields.

A new area-based system for strategy development and monitoring was implemented for Tampen in 2004. Petoro has worked actively for the implementation of a good corporate governance system, with the focus on long-term ambitions and expectations of enhanced value creation across fields in the area. The identified potential relates largely to improved petroleum recovery with the aid of increased water and gas injection. In addition, establishing an area-based mode of operation will help to cut operating costs and boost earnings. Petoro has devoted particular attention to increased injection for improving oil recovery from Gullfaks. The Snorre licence's ambition is to increase the recovery factor from today's 45.6 per cent to 55 per cent. The Norwegian Petroleum Directorate's prize for improved oil recovery on the NCS in 2004 went to the Gullfaks licence – the first time this award has been presented to a licence.

The SDFI's 56 per cent interest in Troll is the largest holding managed by Petoro, and the company has been a proactive partner in coordinating work by the field's operators on identifying future value creation opportunities. Troll Future Development has been established as a project to assess the connection between future strategy for improved oil recovery and opportunities for accelerated gas production, and infrastructure use by potential third parties. The company will devote great attention to this project in 2005.

Petoro has also helped to ensure that increased attention is paid to the unit cost challenge on the NCS. A high level of costs combined with declining production leads to rapidly rising unit costs on many fields. High costs also present a challenge for the competitiveness of and future level of activity on the NCS. Petoro has been actively involved in current work on costs by the industry, in part by chairing the Kon-Kraft cost project. The company will be a proactive partner in studying the consequences for the identified cost picture and in specifying measures to reduce unit costs over the next five to 10 years. Petoro makes use in part of analyses which compare cost efficiency between fields on the NCS in order to identify areas for improvement. At the same time, compensating for declining production by taking action which can increase output is important. This could include new wells or other measures for expanding capacity which normally also increase the total reserves recoverable from the fields.

Petoro has been a proactive partner during 2004 in efforts to revise the agreements relating to production licences on the NCS. The aim has been to create a new, unified and simplified set of agreements which ensure good corporate governance and the right incentives for cost efficiency. In the company's view, efforts to formulate clearer rules for allocating costs in joint ventures as well as uniform allocation systems are very important. Petoro has been particularly concerned to ensure that national and international developments in corporate governance are reflected in the way the licensees manage joint ventures on the NCS.

EARLY APPLICATION OF NEW TECHNOLOGY

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

The company has focused attention on the industry's improvement potential from adopting "smart" operation – a collective term for technologies and working methods which permit more efficient operation on the NCS. Information and communication technology (ICT) combined with the best operational practice will provide efficient utilisation of expertise and improve work processes. Smart operation offers opportunities for radical changes in the interaction between installations on land and offshore, and between operators and suppliers. Using real-time data in drilling, production optimisation, reservoir management, production and maintenance could help to cut costs, increase output and improve recovery factors. A big need still exists for further work in this area in order to realise the potential for enhancing cost efficiency and value creation.

Smart operation is relevant in all Petoro's core areas. The company has opted to focus attention on the Gullfaks and Oseberg field centres, but the results could also be applied on other fields. A number of initiatives have been taken by Petoro to speed up developments and contribute to coordination so that holistic solutions are pursued. The company's round-table conferences and speeches have helped to increase the attention paid to smart operation by the industry. Towards the end of 2004, Petoro brought together the major operators on the NCS for a benchmarking process to compare and learn from the use of smart operation on various fields.

The company continued its commitment in 2004 to studying the potential for improved recovery from carbon dioxide injection on Gullfaks. This potential was further studied during the year with the aid of reservoir modelling. Even with increased oil reserves, the economic basis is not sufficient for the big separation and transport costs which a carbon dioxide project would have to bear. The company accordingly took the initiative on a possible wider carbon dioxide solution, and called for an overall project. This has been established by the authorities through the Norwegian Petroleum Directorate, with participation by Petoro, Statoil, Hydro, Shell and ConocoPhillips.

VALUE CREATION IN THE GAS CHAIN

Production, transport and sale of gas on the NCS form an integrated system. Petoro manages major field and infrastructure interests in this chain, where overall assessments are crucial for realising the value creation potential. This lays a sound basis for good management of the government's interests in the gas chain.

Troll plays an absolutely central role in Norwegian gas management. The work done to identify future value creation opportunities will be very important for Norway's gas operations.

Various export options for the Halten/Nordland area have been studied as part of work on the continued development of the gas infrastructure. The basis has been the need to clarify a solution for gas export from Skarv before a possible development decision. Attention has focused on two principal alternatives – a new pipeline towards the UK or expanding capacity in existing Gassled facilities. In addition, a new gas export solution from Statfjord via Britain's Flags system has been studied. A decision on these solutions is expected in 2005.

During 2005, Petoro will carry out assessments relating to resources and possible transport solutions in the Norwegian Sea which are not sanctioned for development. In the longer term, substantial capacity will be available in existing infrastructure – particularly Åsgard Transport and Kårstø. It is therefore important for Petoro that this spare capacity occupies a central place in the assessment of alternative export solutions.

LONG-TERM RESERVE REPLACEMENT

The outlook for the SDFI portfolio is characterised by falling production, few fields in the planning phase and low average reserve replacement. To ensure efficient long-term utilisation of existing fields and infrastructure, exploration activity associated with fields and areas which have or will soon possess spare production capacity will make an important contribution to future value creation.

Petoro seeks to contribute to increased drilling activity by exerting influence in selected production licences and by including an exploration strategy in long-term plans for core areas in order to achieve earlier and larger additional reserves for selected producing fields.

The company does not submit applications in licensing rounds. SDFI participation in new licences is reserved by the government on the basis of the licensing policy in force at any given time. Petoro was given licensee responsibilities in a total of 10 new licences awarded in 2004.

It is nevertheless important that areas with a big resource potential are opened for industrial activity. This will strengthen the competitiveness of the Norwegian continental shelf, retain existing players and attract new participants on the NCS, and thereby increase the value of the government's own interests in the sector.

Bente Rathe
(Chair)

Jørgen Lund
(Deputy chair)

Ingelise Arntsen
(Director)

To continue developing new and existing core areas, the company's commercial focus will remain on the timely phasing-in of exploration activity and proven finds.

HEALTH, SAFETY AND THE ENVIRONMENT

Three undesirable incidents were registered in 2004, but without causing injuries to Petoro employees or contractor personnel working on the company's premises. Sickness absence was again low, with short-term (one-three days) absences of 0.3 per cent and long-term (more than three days) of 1.5 per cent. Total sickness absence came to 1.8 per cent as against 2.7 in 2003. Under an inclusive workplace agreement concluded in January 2004 with the national insurance service, Petoro has drawn up action plans which include measures to keep its sickness absence low.

As part of its efforts to ensure the right HSE focus in production licences and its own activities, Petoro has sought to influence the personal attitudes and involvement of its employees in relation to HSE. In addition to a strong management focus, the company again implemented measures in 2004 to develop positive HSE attitudes. These included special HSE activities at town meetings, organising HSE days and a special HSE seminar.

Overall developments in the HSE area on the NCS were positive in 2004 compared with the year before. Most of the fields and installations in the portfolio satisfy the company's goals for serious incidents and total personal injuries. After improved results in the first nine months of the year, the fourth quarter showed a negative trend. The gas leak on Snorre A also had a large potential for serious harm. This makes big demands for further follow-up in 2005.

HSE results are monitored in accordance with the company's management system, with measures and actions directed at the operators discussed and approved in dedicated HSE meetings. Petoro holds regular bilateral management meetings with the largest operators, where HSE is a fixed item on the agenda and where developments and measures are discussed. The company has also participated in several HSE management inspections on selected fields and installations as part of a systematic monitoring of facilities where results show a negative trend.

The Petroleum Safety Authority Norway carried out an inspection of Petoro's HSE management system in 2004, and gave good feedback to the company in its report.

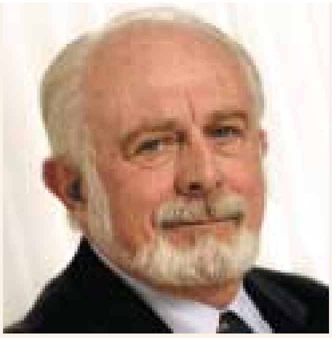
Through the demand for zero discharges to the sea from 2005, the industry faces stringent environmental standards. During 2004, Petoro evaluated alternative measures in the joint ventures. The company believes a substantial reduction in the oil content of produced water discharged to the sea can be achieved within the specified timetable.

As long as accidents, serious incidents and injuries are a fact of life in the oil sector, the industry cannot be satisfied with its results. Petoro will work actively in the licences and with the operators for continued improvements to HSE results in the portfolio. The board would emphasis that HSE work receives great attention in the company.

MARKETS AND SALES

Petoro is responsible for supervising Statoil's marketing and sale of the government's petroleum. The overall objective is to achieve the highest possible combined value for the petroleum belonging to both Statoil and the government, and to ensure an equitable division of total value creation. Petoro focused in 2004 on Statoil's marketing and sales strategy and risks, issues of great significance in value terms, matters of principle and questions relating to incentives.

Jan M Wennesland (Director)



Olav K Christiansen (Director)

John Magne Hvidsten (Worker director)

Elen Carlson (Worker director)

The most important events for gas sales in 2004 related to price revisions as well as to decisions concerning the expansion of the liquefied natural gas receiving terminal at Cove Point in the USA and the construction of a gas storage at Aldbrough in the UK. The bulk of the SDFI's gas is sold on long-term contracts which confer opportunities for price revisions. The parties had the right to request such revisions in several of these contracts during 2004, and commercial discussions were initiated on that basis.

Statoil concluded an agreement on additional capacity of 7.7 billion scm per annum at Cove Point. The SDFI's share reflects the government's volume of LNG from Snøhvit, and has been set on this basis at 10 per cent of the extra capacity. Subject to approval by the US authorities in mid-2006, the new capacity is expected to be operational in the fourth quarter of 2008.

During 2004, Statoil resolved to build a gas storage at Aldbrough together with Scottish & Southern Energy. The SDFI will have 57.7 per cent of a combined capacity of 140 million scm for it and Statoil. Development has begun, and the facility is due to be operational in late 2007.

FINANCIAL RISK

The SDFI is exposed to fluctuations in prices and exchange rates in the global market for oil and gas sales. Such changes will have an effect, large or small, on revenues, operating costs and investments over shorter or longer periods.

Statoil purchases all oil and NGL from the SDFI at market-based prices, while SDFI revenue from the sale of gas to customers reflects its market value. Given that the SDFI forms part of the government's overall risk management, its strategy is to make only limited use of financial instruments (derivatives). Its use of derivatives to counter fluctuations in results caused by changes in raw material prices is undertaken by Statoil through its responsibility for marketing and sale of the government's petroleum.

The bulk of the SDFI's revenue derives from sales of oil and gas, which are denominated in US dollars, euros or pounds sterling. In line with the government's currency strategy, Petoro does not currency-hedge the portfolio's future sales of petroleum. The SDFI's receivables are exposed to exchange rate fluctuations. However, these are regarded as limited in relation to the overall value of the balance sheet.

Since it has no long-term interest-bearing debt, the SDFI is not financially exposed to interest rate changes.

The SDFI's sales are made to a limited number of opposite parties, with all oil and NGL sold to Statoil. Financial instruments relating to gas sales are purchased from other parties with sound credit ratings. For that reason, credit risk in current transactions is regarded as insignificant.

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

CORPORATE GOVERNANCE

The board works to ensure that Petoro observes the principles for good corporate governance which apply at any given time. It emphasises that trust in Petoro and the business as a whole, both in-house and externally, is crucial for the ability to deliver lasting value to owners, employees and society as a whole. Information from the company will be credible, timely and consistent, and its financial reporting will accord with good accounting practice.

The board emphasises that the corporate governance principles will build on and support a sound corporate culture, characterised by long-term attitudes which contribute to value creation. Petoro has established solid in-house procedures to ensure good internal control.

Petoro's values and ethical guidelines provide a very important platform for the company. The board is concerned to ensure that the principles governing the company's commercial operations are applied in accordance with the highest ethical standards and that each employee avoids any conflict between their personal interests and the management of the SDFI.

WORKING ENVIRONMENT AND PERSONNEL

Petoro is a knowledge company, and its personnel have a high level of education and expertise. They have been recruited from the country's leading oil companies and other important enterprises in the oil and gas business, the financial sector and other industries. Petoro's ability to safeguard the government's interests in an effective way depends on being able to attract, retain and develop skilled employees in competition with new and existing players on the NCS. Implementing the company's expertise strategy was accordingly a priority in 2004, and will remain a focus of attention.

Collaboration with Petoro's working environment committee and works council functioned very well in 2004, and lays an important basis for a good climate of in-house cooperation.

Petoro again conducted a workplace climate survey among all its staff in 2004, and plans to implement measures during 2005 in areas with a potential for improvement. The company is concerned to provide equal opportunities for men and woman. Respondents to the 2004 climate survey broadly agreed that both genders are treated equally. The proportion of females in the company's board and management is 43 and 22 per cent respectively. Women account for 34 per cent of total employees. Three women personnel participated during 2004 in the Female Future project run by the Confederation of Norwegian Business and Industry (NHO). Under this national commitment, NHO members are invited to help strengthen the proportion of women in the management of Norwegian companies and on their boards.

PROSPECTS

Strong global expansion and historically high oil prices

characterised 2004. Growth was particularly strong in the USA, Japan and China, but moderate in Europe. At 1 January 2004, oil prices were around USD 30 per barrel. They continued to rise during the spring and summer, and Brent Blend reference crude exceeded USD 50 per barrel in October. The most important reason for this rise was that demand grew significantly faster than expected. Opec, which had previously cut back output, accordingly increased production towards full capacity. Combined with big Chinese demand for oil, the strong global growth created the market conditions which prevailed until the autumn. Oil prices began to decline from the end of October, and fell to around USD 40 per barrel by 31 December. Stocks of crude oil, which had been very low earlier in the year, had returned to a normal level at that date. The average price for dated Brent crude in 2004 was USD 38.2 per barrel.

As with oil, gas prices were high during 2004 because most of the long-term contracts with continental Europe are indexed against crude. Gas prices in the UK were also high because of a tight balance between supply and demand.

The market expects oil prices to remain high in 2005, and similar to the level seen in 2004. Continued good growth in the world economy and a relatively tight balance between supply and demand are factors which underpin this view. The level of prices in the long-term European gas contracts will remain high through 2005 as a result of forecast oil prices. Gas prices in the UK are expected to be above the 2004 level because the market balance remains tight.

During 2004, Petoro was particularly concerned to counter declining production and rising unit costs by focusing on the use of technology and methods for smarter and more efficient operation of fields as well as improved recovery. Without substantial changes and high crude prices, a number of the large oil fields producing on the NCS could become unprofitable during the present decade. This would hit future opportunities for improving recovery while reducing interest in exploration and in developing new fields close to existing infrastructure.

The board would emphasise that a focus on and measures to reduce future unit costs represent a key factor in achieving further progress on the NCS. Unit costs on fields will be critical for future value creation from the SDFI portfolio. During 2005, Petoro will again exploit its unique opportunity to view issues across licence boundaries, to identify and materialise possible synergies between licences, and to promote the application of best practice.

SHARE CAPITAL AND SHAREHOLDER

The company's share capital at 31 December 2004 was NOK 10 million, divided between 10 000 shares. All the shares are owned by the Ministry of Petroleum and Energy on behalf of the Norwegian government.

NET INCOME AND ALLOCATIONS

The government contribution for 2004 was NOK 203 million compared with NOK 220 million the year before. This sum includes VAT, so that disposable revenue was NOK 163.7 million as against NOK 177.4 million in 2003.

The company's operating expenses are covered by annual appropriations over the central government budget. Operating revenue for the year was NOK 162.8 million, comprising a net operating contribution of NOK 163.7 million from the government plus NOK 5 million in other revenue and deferred earnings less a net NOK 5.9 million in capitalised investment.

Operating expenses of NOK 166.7 million for the year, compared with NOK 167.8 million in 2003, related primarily to payroll expenses, administration expenses and the purchase of external services which include ICT and accounting. 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.

Net financial revenue for 2004 was NOK 1 million, relating to interest on the company's surplus liquidity. The figure for 2003 was NOK 2 million.

The loss after financial items came to NOK 2.9 million. The board proposes that this loss be covered from other equity. The company's non-restricted equity totalled NOK 4.7 million at 31 December 2004.

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

Stavanger, 21 February 2005

Bente Rathe Chair	Jørgen Lund Deputy chair	Ingelise Arntsen Director	Jan M Wennesland Director
Olav K Christiansen Director	John Magne Hvidsten Worker director	Elen Carlson Worker director	Kjell Pedersen President and CEO

Corporate **governance**

Petoro's overall goal is to create the highest possible financial value from the state's direct financial interest (SDFI) on the Norwegian continental shelf.

By observing the principles for good corporate governance, the company aims to secure the trust of its owner, employees, the oil industry and other stakeholders as well as the community at large. Its corporate governance principles build on and will support a healthy corporate culture with long-term and value-creating attitudes.

Petoro maintains a high focus on value-based management. Forming an integrated part of its daily activities, the company's values are:

- safeguard human life and the environment
- boldness and innovative thinking
- commercial orientation
- integrity
- collaboration.

The company will create long-term value through a commercial activity which also takes account of the environment and helps to ensure that health and safety requirements are met.

Trust in Petoro as a company and in its activities as a whole are crucial for delivering value in accordance with the principal duties assigned to it. Petoro feels that good corporate governance involves far more than observing regulations and legislation – in-house and externally.

Transparency and good principles for management and control ensure the necessary basis for high value creation, build trust and promote a commercial ethic and sustainable conduct of the business. Petoro is continuously assessing its management structure to ensure that the company operates at all times in accordance with recommendations and best practice.

COMPANY AND MANAGEMENT STRUCTURE

Petoro is a limited company wholly owned by the Norwegian state. Its operations are subject to such legislation as the Act on Limited Companies and the Petroleum Act, and to the government's financial regulations – including the rules on appropriations and accounting. The Ministry of Petroleum and Energy's instruction for financial management of the SDFI and the annual Letter of Award are among the company's topmost governing documents.

The company is the licensee for 93 production licences and 11 joint ventures for pipelines and terminals. Petoro has the same rights and obligations as the other licensees.

Petoro's main duties are:

- to follow up the state's direct interests in the joint ventures in which such interests are held at any given time
- to monitor Statoil's marketing and sale of the petroleum produced from the SDFI in line with the marketing and sales instruction issued to Statoil
- financial management, including accounting, for the SDFI.

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 changes to the articles of association and the annual accounts. The Petroleum Act lays down guidelines on 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
Bente Rathe is chair of the company. Jørgen Lund is the deputy chair, and the other directors elected by the company's general meeting are Ingerlise Arntsen, Olav K Christiansen and Jan M Wennesland. The worker directors are Elen Carlson and John Magne Hvidsten. Directors normally serve for two-year terms. They have no commercial agreements or other financial relations with the company other than the agreements on directors´ fees and contracts of employement for the worker directors. No member of the company's management sits on the board.

The board is responsible for the management of Petoro, which includes ensuring an acceptable organisation of the business. It determines the company's goals, strategy and budgets, and is also responsible for submitting quarterly accounts. The limited company´s own operating expenses are covered by annual appropriations over the central government budget. In addition, the board must ensure that overall management and control systems are tailored to the scope of the business and its risk picture.

The board appoints the president and CEO, and specifies his instructions, authority and remuneration. Petoro's rules of procedure for the board provide guidelines about which issues must be considered by the directors, and form the basis for the board's management of the business.

An annual self-assessment is carried out by the board, which includes an evaluation of its own work and mode of working as well as its cooperation with the company's management.

MANAGEMENT
The president and CEO is responsible for submitting proposals on goals, strategy, budgets and quarterly accounts to the company's board, as well as issues of major financial and strategic significance. Day-to-day management of the company's operations is the responsibility of the president and CEO, who reports monthly to the board on financial progress as well as the status of the business and other conditions of significance for the company.

Petoro's management team comprises the president and CEO, Kjell Pedersen, as well as vice presidents Ellinor Grude, Sveinung Sletten, Olav Boye Sivertsen, Laurits Haga, Dag Omre, John Vemmestad, Tor Skjærpe and Nina Lie.

REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES
The general meeting determines the directors' fees. Neither the directors nor the company's employees are covered by any bonus scheme. The board determines the remuneration of the president and CEO, who in turn determines the remuneration of other members of the company management. More details of actual remuneration paid to directors and to the president and CEO in 2004 are provided in the notes to the Petoro accounts.

CORPORATE GOVERNANCE MODEL
Petoro's governance model builds on relevant Norwegian legislation, its governing documents and overall goals for the business. The internal management and control processes which have been established are intended to ensure that the company pursues its operations in a manner which creates the highest possible value for the owner over time.

The corporate governance model provides guidelines for and an overview of such aspects as the company's overall goals, strategy processes, budgets, balanced scorecard system, decision-making structure and powers of attorney. An integrated system of this kind is intended to ensure a correlation between goals, chosen strategies and operational plans and measures. To secure efficient, unified and high-quality business processes, the model incorporates a planning tool in the form of an annual cycle which includes the annual plans of governing bodies and production licences, the company's core processes, and in-house and external reporting. This forms the framework for the board and management in its planning, monitoring and measuring of the company's activities.

RISK MANAGEMENT AND INTERNAL CONTROL

Identifying and dealing with risk conditions and exposures form an integrated part of Petoro's business processes. The company works systematically on risk management to deal with conditions which could affect its ability reach established targets and implement selected strategies, and its ability to present accurate accounts. Conditions which could reduce trust in Petoro are given weight when considering its risk picture.

Petoro's internal control team is responsible for ensuring that the business is conducted in accordance with the company's governance model, and that the requirements of the authorities are observed. Internal control forms an integrated part of management processes at Petoro and is intended to see that all management information is assessed for integrity and completeness, and that management systems are effective.

The framework for internal control has been shaped to provide a reasonable degree of certainty that targets will be met in the following areas:

- purposeful and cost-effective operation
- reliable accounts reporting
- observance of prevailing legislation and regulations.

TRANSPARENCY AND COMMUNICATION

The board of Petoro has adopted a strategy for communication which will ensure an open dialogue both in-house and externally, so that the company's employees and other stakeholders receive good information about its business operations.

This information is published via the company's web site, press releases, and quarterly and annual reporting of its results.

ETHICAL GUIDELINES

Petoro has established in-house guidelines on business ethics. The board and management believe that the company must have a well-defined ethical framework at all times, which can thereby secure a corporate culture which takes ethics into account. All employees must confirm annually in writing that they have studied and accept Petoro's guidelines on business ethics. Rules on commercial ethics form part of the company's standard contracts with its suppliers.

The company is concerned to ensure that the principles which govern its business operations are implemented in accordance with good ethical standards, and that each employee makes sure that no conflict arises between its own interests and the company's management. Petoro has formalised routines for ensuring that its directors and employees do not trade in shares on the basis of inside information obtained through the company's business activities.

Special routines have been created for dealing with conflicts of interest relating to the company's directors and employees, including an approval system for employees who wish to accept external directorships.

AUDITING

The accounts for the SDFI portfolio are presented on a cash basis incorporated directly in the government's accounts, and in accordance with Norwegian accounting legislation and generally-accepted accounting principles (NGAAP). The Auditor General is the external auditor for the SDFI portfolio, auditing the portfolio's annual accounts and providing an auditor's report.

Petoro's internal audit is a control body and tool for the company's management and board in discharging their responsibility to exercise control pursuant to the Act on Limited Companies, chapter 11 of the Petroleum Act, the company's articles of association, and the government's financial regulations. In addition, the internal audit is responsible for seeing that the company operates within an acceptable risk exposure, in accordance with its object, decisions by the general meeting, the board and the management, and Norwegian legislation, statutory regulations and decisions by government authorities.

Internal auditing is provided partly by the company's own audit function and partly through an external audit contract for the portfolio with Deloitte Statsautoriserte Revisorer. The latter conducts a financial audit of the portfolio's accounts and issues an auditor's report in accordance with Norwegian auditing standards.

The company's own internal auditor works in accordance with instructions determined by the board and directors, and checks that annual plans for the internal audit are implemented in accordance with the board's decision. The internal audit function reports to the vice president finance. To ensure an independent and objective internal audit, the internal auditor can report directly to the president and CEO or to board as and when required.

Erga Revisjon AS is the external auditor for the limited company's own operating accounts, which are presented in accordance with NGAAP.

The board has specified strict guidelines for ensuring independence and objectivity in relation to the company's auditing activities.

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

Safety results variable, little change in discharges

Personal injuries in licences where Petoro is a participant declined from 2003, but serious incidents rose.

After nine months with a positive safety trend in 2004, the fourth quarter turned negative. On the environmental side, total discharges of oil declined despite some increase in produced water discharges as fields mature. This positive trend reflects more efficient treatment.

The frequency of personal injuries requiring medical treatment per million hours worked showed a marked improvement from 2003 for offshore platforms. But the number of serious incidents increased. The gas leak on Snorre in the fourth quarter was a very serious incident, and had a big potential for serious personal injury. No fatal accidents were suffered in 2004.

Most of the platforms and plants in which Petoro is involved met the company's targets for personal injuries and serious incidents. But major development projects, in particular, experienced a number of serious incidents which gave cause for concern.

Figure 1 shows fields in relation to personal injuries (x axis) and serious incidents (y axis). The fields located inside the box at bottom left of the graph met the targets for both these parameters. Those located well outside this box will be subject to various reactions and follow-up by Petoro. The company's top management has visited installations with major safety non-conformances, for instance, in order to understand and discuss what can be done to improve the position. As a licensee, Petoro will also maintain a strong focus on these aspects in its continued monitoring.

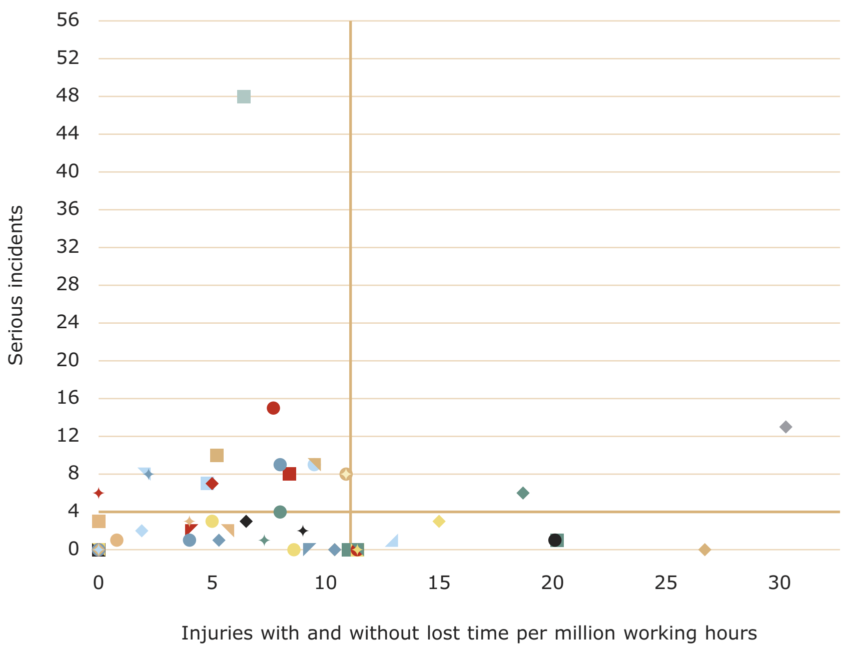
MORE WATER, LESS OIL

Where potentially harmful emissions/discharges are concerned, Petoro has a special focus on discharges to the sea. Oil residues in water which accompanies the flow of petroleum up from the reservoir (produced water) and chemical additives in the oil stream represent the dominant sources of such discharges. See figure 2. The environmental impact factor (EIF) is the best way of expressing the effect of these residues. Since this method does not represent a consistent reporting basis in the industry, however, Petoro has opted to express discharges to the sea as total discharges of oil and produced water.

The goal of zero discharges established by the Storting means that existing installations must have implemented measures by the end of 2005. Licences submitted plans for such action in the summer of 2003. Petoro followed this up by compiling an overview of the consequences of these plans for licences in which the company is a licensee. This survey showed that the proposed measures would yield an overall EIF reduction in the order of 75 per cent if they were all implemented regardless of cost.

As part of Petoro's environmental work in 2004, an external consultant was commissioned to produce a status report on

Figure 1 - Serious incidents and personal injuries in 2004



'But major development projects, in particular, experienced a number of serious incidents which gave cause for concern.'

the work being pursued with environmental measures on the company's most important fields, and to evaluate the technological solutions and implementation plans being applied by the licences.

The conclusion is that the calculated total reduction in the EIF can be achieved. Some of the fields have secured government consent to implement measures in connection with maintenance shutdowns in 2006.

Discussions are still under way between the operators and the Norwegian Pollution Control Authority (SFT) on implementing further measures in cases where the cost efficiency of the action being taken is low – in other words, little environmental effect is achieved for the investment required.

The graphs below embrace all the oil and gas fields in which Petoro is a licensee, and show its share of total discharges/emissions. They also include discharges/emissions from the Kollsnes and Kårstø gas processing plants, and from the Norpipe gas pipeline. The marked decline shown in discharges/ emissions from 2000 to 2002 primarily reflects the sale of licence interests.

Figure 2 shows both total discharges of produced water and discharges per unit of oil and gas delivered. The curve for discharges per unit delivered refers this year to the NPD's official statistics for delivered (exported) volumes of oil and gas for the years shown in the figure. The corresponding key performance indicator (KPI) in earlier annual reports referred to oil company production figures. This means that discharges per unit delivered in this year's report differ somewhat from earlier reports. The same applies to figures 4, 5 and 6.

Oil discharges show a steadily declining trend. See figure 3. The exception was 2003, when the increase reflected a single large acute oil spill. The dominant contributor to oil discharges is droplets suspended in produced water. The marked and virtually steady decline in oil discharges from 2000, despite the opposite trend for produced water discharges, reflects the effect of improved treatment facilities.

CARBON DIOXIDE, NITROGEN OXIDES AND VOLATILE ORGANIC COMPOUNDS

As for the NCS as a whole, emissions of carbon dioxide rose slightly from 2003. See figure 4. The increase was about three per cent, and reflects both higher emissions from fields in a production build-up, such as Grane and Kvitebjørn, and small increases from a number of fields which have entered a mature production phase and have adopted more energy-intensive recovery methods.

Nitrogen oxide emissions showed the same trend as for carbon dioxide. See figure 5. The rather more marked rise from 2003 for nitrogen oxides reflects two factors – more production drilling from mobile units and an upward adjustment in the emission factor on some fields.

Emissions of non-methane volatile organic compounds (nmVOC) showed a marked decline from 2003 both in total and by the quantity of oil delivered. This continued a positive trend which began in 2000, and primarily reflects the installation of nmVOC recovery plants both on the shuttle tankers shipping oil from fields with storage facilities and at tank farms on land.

Figure 2 – Discharges of produced water and the volume of produced water per scm of oil equivalent (oe) delivered

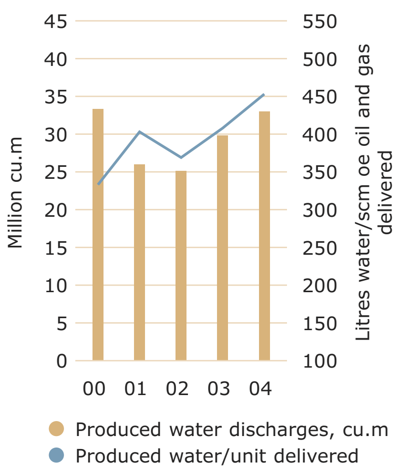


Figure 3 – Discharges of oil to the sea

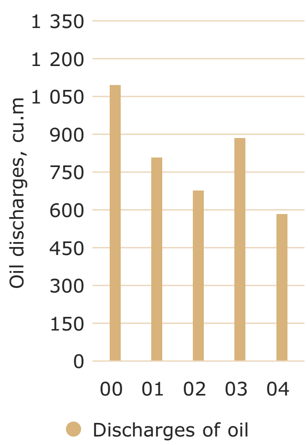


Figure 4 - Carbon dioxide emissions

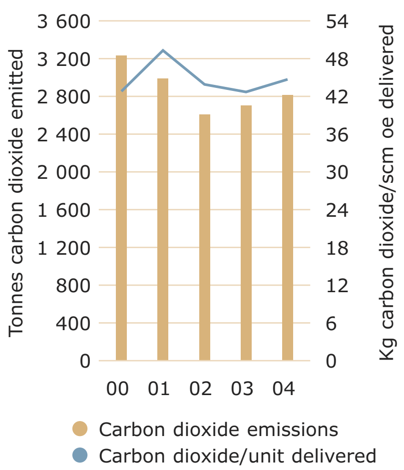
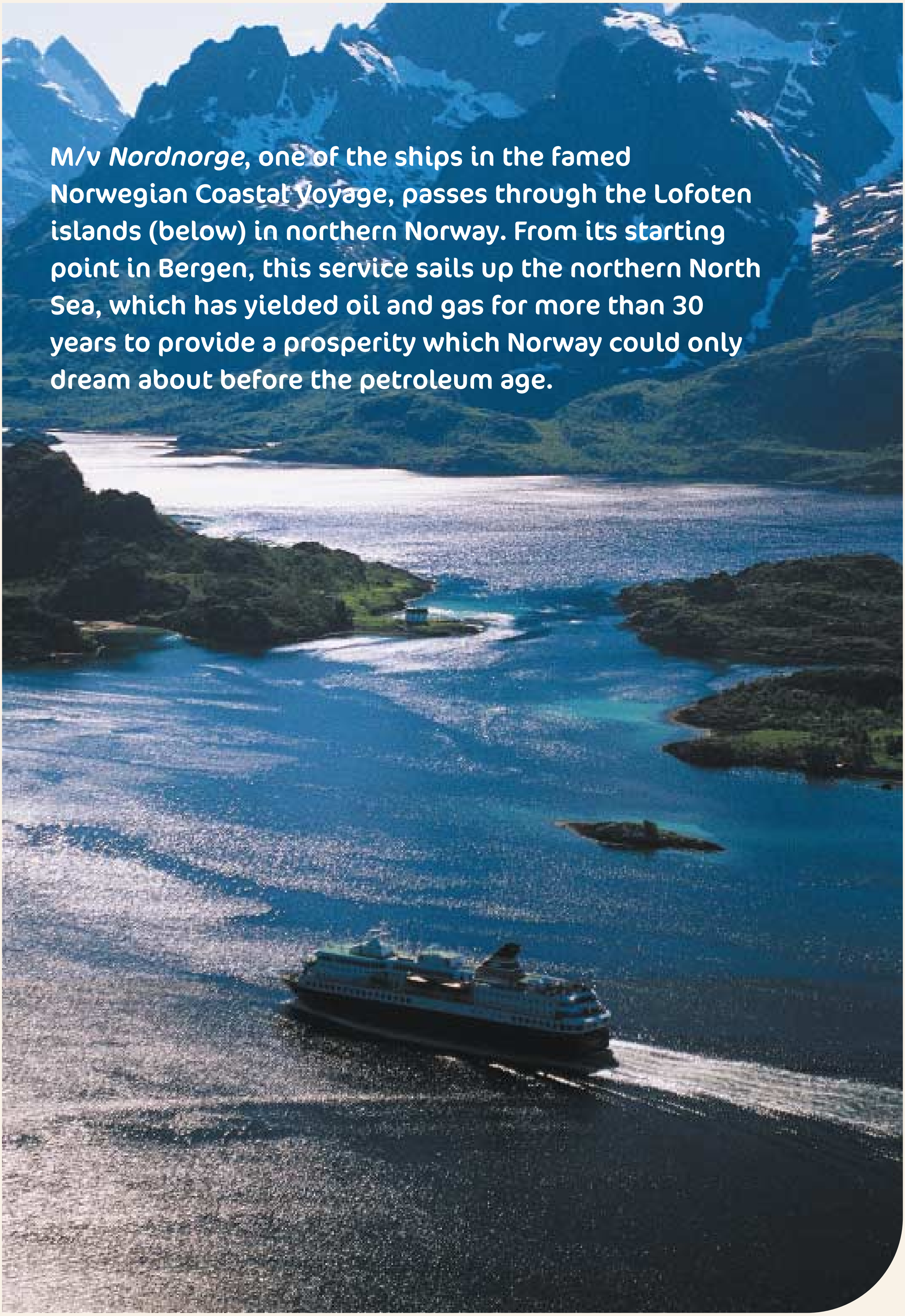


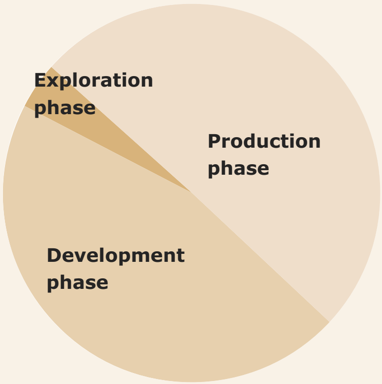
Figure 5 – Nitrogen oxide emissions

Figure 6 – NmVOC emissions

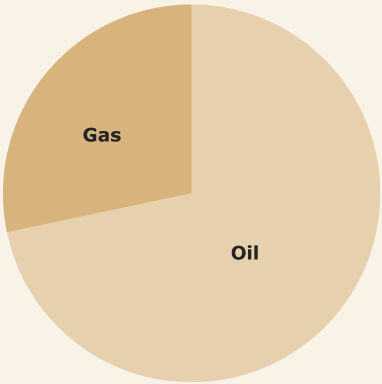


M/v *Nordnorge*, one of the ships in the famed Norwegian Coastal Voyage, passes through the Lofoten islands (below) in northern Norway. From its starting point in Bergen, this service sails up the northern North Sea, which has yielded oil and gas for more than 30 years to provide a prosperity which Norway could only dream about before the petroleum age.

In the wake of **the cash flow**



Cost distribution



Income distribution

Norwegian Coastal Voyage
This unique service provides a transport lifeline along the Norwegian coast. Eleven specially-built ships call daily at 34 ports from Bergen in the south to Kirkenes on the border with Russia in the north. Marketed as "the world's most beautiful voyage," a complete round trip takes 11 days.

This adventure has not ended. From the North Sea, *Nordnorge* and its fellow Coastal Voyage vessels pass areas still in their early development stage for oil and gas. And from the northern edge of Lofoten and beyond lie great virgin regions which will hopefully help to ensure that coming generations of Norwegians will also share in petroleum-based prosperity.

Calculations suggest that the NCS still conceals 30 billion barrels of oil equivalent – an astronomical quantity of oil and gas which represents huge future revenues. These undiscovered resources equal the amount of oil and gas already produced, which in turn matches the volume proven but still to be recovered – in other words, one-third produced, one-third proven and one-third undiscovered.

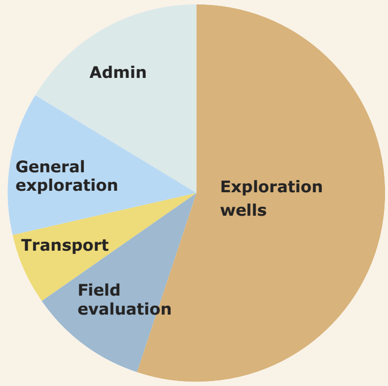
Much of the remaining oil and gas is thought to lie precisely beneath the Norwegian Sea, with a more uncertain proportion in the Barents Sea even further north.

Petroleum faces a long voyage in value terms from the reservoir thousands of metres beneath the seabed until it is converted to money in the market.

During their journey, oil and gas are converted into a huge cash flow which we will be following in this section. That is very much in line with the Petoro name, a compound which reflects the transmission from *pet*roleum to *oro*, the Spanish for gold.

We will also be looking along the way at some central issues in the various phases of exploration, development, operation and sale, and describing our company's focus at each of these stages.

Exploration: **Refill required**



Cost distribution

The northern part of the Norwegian Sea is one of the most interesting – but also among the most controversial – areas for oil and gas exploration on the NCS.

On its way across the Vest Fjord towards the Lofoten chain of islands, *Nordnorge* passes fishing vessels busily hauling in their catch of spring cod. Migrating early in the year from the chill Barents Sea to breed, these fish provide the basis for the famed Lofoten fishery.

Fishermen and other locals are concerned about the potential impact of an oil spill on marine life. But they also fear that the very presence of a drilling rig will damage the perception among European buyers of clean, uncontaminated fish – and among tourists of wild, beautiful and unpolluted nature. And perception is reality.

For its part, the oil industry is worried that exploration on the NCS has failed to yield a world-class find for some time. Discoveries are fewer, smaller and less frequent than in the golden 1970s and 1980s.

While the oil companies accept the Norwegian Petroleum Directorate's view that Norway's undiscovered resources equal production over the past 34 years, they want to be allowed to search where the prospects for finding something are best. And the seas off Lofoten represent just such an area. Moreover, the industry has demonstrated its ability to co-exist acceptably with fishing interests and the natural environment for 40 years.

In the meantime, exploration activity on the NCS has been in decline. Only about NOK 5 billion of the NOK 123 billion spent in these waters during 2003 went on exploring for oil and gas.

That yielded only 23 exploration wells in 2003. The figure for 2004 was even lower, at 17 wells. Of these, nine were wildcats and eight were for appraisal. Plans reported for 2005 cover 25-30 wells – most of them wildcats. Although this marks an improvement, it remains well below activity on the UK continental shelf – where 63 exploration wells were drilled in 2004 and 70 are planned for 2005.

A problem for Norway Ltd is that much of its net revenues from the offshore sector derive from the major discoveries made 15-30 years ago. More recent discoveries make a smaller contribution.

Many of the good fields have yielded twice as much oil and gas as originally estimated – even four-five times as much. But these reservoirs are now beginning to show their age. Gas production will admittedly continue for a number of years, but the more lucrative oil output has been in decline over the past four-five years.

As expectations of major discoveries have been confounded for one licensing round after another, the question of where Norway is to get its resource refill – at the very least to

prevent an abrupt slump in output – has become increasingly relevant. Time is also a factor, since it still takes several years to convert a discovery into a producing field.

Nordnorge is approaching Stamsund on the Lofoten island of Vestvågøy. The impressive mountain ridge known as the Lofoten Wall can be seen through the haze to starboard. It is not far from here to the northern coast of the island, and to the seas beyond which extend south to the producing finds on the Halten Bank and northwards to new opportunities in the Barents Sea.

Geologists have identified structures so close to the Lofoten coast that industry specialists are already talking about opportunities for future production based on drilling from land.

The authorities have recently laid the basis for stepping up exploration activity. One example was an 18th licensing round in 2004 which ranked as the largest since the very first in 1965, and which embraced new areas in the Skagerrak channel between Norway and Denmark. And the 19th round has been brought forward to the first half of 2006. A substantial number of blocks have also been awarded in predefined areas of the NCS, including ones in the Norwegian Sea last year.

What the government has still not done is to reopen the Nordland VI area south-west of Lofoten, which was abruptly closed to drilling in the autumn of 2001 just before Hydro was to spud a first well. Nor have new areas been opened west of Lofoten. At present, the earliest this could happen is when the overall management plan for the Barents Sea and Lofoten area gets submitted to the Storting in the spring of 2006.

PETORO'S FOCUS

Petoro does not apply for new licences on the NCS. Nor does it carry out the type of extensive evaluation required for such applications. If the government opts to award licence interests to the SDFI, Petoro is charged with their management.

After its creation in 1985, the SDFI was awarded large holdings in virtually all Norwegian offshore licences. This policy gradually changed into a more selective approach, with an overall reduction in awards to the SDFI.

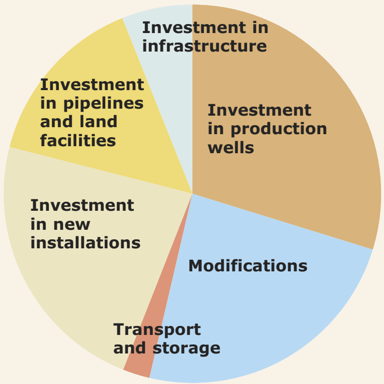
However, the government has made it clear that interests can still be given to the SDFI in new production licences. Ten awards were handed to it in 2004 under the 18th round and in predefined areas.

Petoro has a three-part recipe for long-term access to reserves – making new discoveries in new areas, discoveries as much as possible close to existing installations while these are still in operation, and getting as much oil and gas as possible out of existing fields through early application of technology and new methods for improving recovery.

In order to make new discoveries, the company works for increased drilling activity in selected production licences during the exploration phase. It also acts as a proactive partner in the SDFI's core areas to ensure that exploration strategy is included in long-term operator plans for older licences.

Senior adviser Gunn-Jane Håland in Petoro's commercial department is nevertheless certain that new discoveries represent the biggest potential for future SDFI production.

"Our commercial focus is on contributing to timely phasing-in of exploration activity and proven discoveries in order to continue developing existing core areas and establish new ones."



Cost distribution

Development phase: **Getting to the bottom of it**

We have interrupted our voyage on *Nordnorge* to stand on the northern tip of Stord island south of Bergen on Easter Saturday to see the Kristin platform being towed slowly past on its way to the Norwegian Sea.

Some believe that this will be one of the last new surface installations on the NCS, with virtually all future developments requiring only subsea facilities.

The price tag for this floating unit alone is so far NOK 8.3 billion, while the forecast cost of the whole development stood at NOK 21 billion in March 2005. This project has accordingly made a substantial contribution to total investment on the NCS in recent years. Statoil is operator, while Petoro manages an 18.9 per cent interest.

Norway's offshore investment rose from NOK 52.3 billion for 2003 to NOK 71 billion in 2004, while plans call for almost NOK 90 billion in spending on the NCS in 2005 – a record level.

Ten years ago, the tallest structure ever to be moved across the face of the planet began its towout from the fjords north of Stavanger to the Troll field in the North Sea. Even then, it was clear that the fixed concrete platform design used for Troll A would have to give way to a combination of floaters and subsea installations for future development of the NCS.

Many players now feel that a floater may not be needed either – and that Kristin could be among the last surface installation on the NCS. Future developments can probably take place entirely on the seabed, with installations which can both process the oil and gas and compress them for pipeline export.

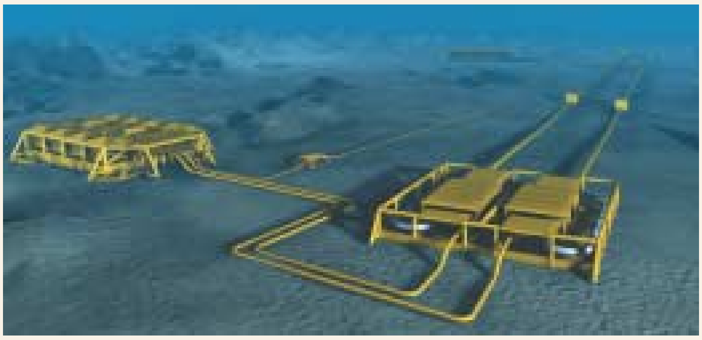
The Snøhvit and Ormen Lange projects now under way represent a kind of intermediate stage, where subsea development is combined with piping to land for processing and export. Located in the Barents Sea, Snøhvit was discovered in 1984 but several efforts to achieve profitable development had to be abandoned. The solution was to focus on the export of liquefied natural gas (LNG) by ship. Adjustments to the policy framework also helped to make the investment sufficiently profitable. Statoil is operator, with Petoro managing a 30 per cent holding.

The development comprises subsea installations offshore, a pipeline to land, and a gas liquefaction plant and export terminal on Melkøya island outside the north Norwegian port of Hammerfest. It is now expected to cost around NOK 50 billion, compared with an original estimate of just under NOK 40 billion. In addition comes the investment in the LNG carriers.

Production is scheduled to start in the autumn of 2006 or spring of 2007. Reserves in Snøhvit have been sold as LNG to the Spanish and US markets. Responsible for marketing both its own and the SDFI's gas, Statoil has secured a bridgehead in North America with a view to further LNG deliveries.

From the bridge of *Nordnorge*, the captain and his crew have been able to follow the complete transformation of Melkøya over the past three-four years. It has been converted from a tranquil island to a pulsating industrial site which has also given substantial industrial and growth impulses to much of northern Norway.

Roughly midway between Melkøya and Easington on the eastern coast of England, the Coastal Voyage passes another island where extensive gas development work is under way. Gosen in Aukra local authority lies in the channel between Molde and Kristiansund, with Nyhamna at its north-eastern corner. This is home to the Ormen Lange receiving terminal and processing plant, and the starting point for the new Langeled gas pipeline to Easington.



Hydro is operator for the Ormen Lange development, which consists on the field of subsea installations in about 1 000 metres of water. The wellstream is piped up the steep Storegga slope and on to the Nyhamna plant. Shell will take over as production operator when the field comes on stream in the autumn of 2007. Petoro manages a 36.48 per cent interest.

Investment in Ormen Lange and Langeled is put at NOK 66 billion, split between NOK 46.5 billion for field and process plant and NOK 19.5 billion for the pipeline.

PETORO'S FOCUS

Where existing developments are concerned, Petoro has concentrated not only on costs and progress but also on conceptual solutions and technology development which could offer synergies for future projects.

The company's involvement on Kristin is an example of the way efforts to keep down unit costs must focus on both expenses and income. Petoro has accordingly been a proactive partner in getting the Tofte prospect drilled and developed, from a conviction that spending money there will contribute to greater overall profitability and value creation.

Petoro has been concerned about the increased cost estimates for Kristin, but is also aware of the substantial technical and geological risks posed by a complex reservoir with high pressure and temperature. A number of new technological solutions have been specially developed and qualified for this field.

A 30 per cent holding in Snøhvit makes it natural for Petoro to focus again on project management and cost control in this development. According to its area manager, John Magne Hvidsten, taking the investment decision before it was fully matured is the principal reason for the problems of delays and cost overruns.

He emphasises that project costs and management on Snøhvit must be kept under surveillance right up to the start of production – and for some time beyond. But he also believes that the development will prove profitable and possibly open the way to new production which yields an even better return.

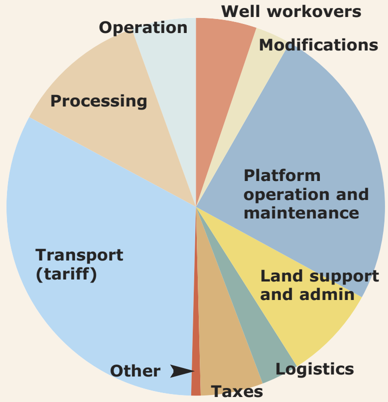
With Ormen Lange, Petoro focused on the future potential on the income side when the development solution was being selected. The choice of concept for this field, which lies in 850-1 000 metres of water, involved combining subsea installations either with an offshore platform or with pipeline transport of the unprocessed wellstream to a land-based plant.

The ability to expand production capacity was crucial for the choice of landing solution, explains Petoro area manager Gunnar H Eide, who represents the company on the Ormen Lange management committee. An offshore platform would have provided a daily gas output of roughly 60 million standard cubic metres, while processing on land boosts that ceiling to 70-80 million and thereby improves profitability.

Development work on Ormen Lange is on schedule, which Mr Eide attributes to good work in the early phase. The choice of concept, the technological solutions and the contract strategy were all subject to more detailed assessment than ever before, he says. With its 36.5 per cent interest, Petoro is a proactive partner in the qualification of technology for the next development phase on Ormen Lange. NOK 750 million has been allocated to qualify and carry out pilot testing with subsea compression as an alternative to a traditional compressor platform.


KRISTIN
6406/2
STATOIL

Production phase: **Signalling more effective operation**



Cost distribution

The captain of the *Nordnorge* can remotely monitor and control the engine room from the bridge. Similar processes are used by ConocoPhillips in its control rooms at Tananger outside Stavanger and on Ekofisk, midway between Norway and the UK.

Signals from bridge to engine room have a much shorter distance to travel than from Stavanger to Ekofisk. But transmission in both cases has sufficient speed, accuracy and information for operators to make better use of opportunities than before. They can take quick and good decisions, and have these carried out fast and efficiently.

In this way, *Nordnorge* can safely manoeuvre into the narrow and spectacular Troll Fjord as a detour from the Raft Sound in the Lofoten islands. Similarly, the right pressure and valve positions to ensure the highest possible production and value creation can be set on Ekofisk.

The secret in Tananger and on the field is that communication utilises a fibreoptic cable which can carry incredible amounts of data. This technology permits a more dynamic working environment, in which multidisciplinary work processes linking personnel on land and at sea are developed with the aid of real-time data. That strengthens collaboration, communication and decision-taking, and produces more effective operation, production and drilling.

Efficiency improvements in this area could yield substantial financial benefits. More than NOK 30 billion was spent in 2003 on operating, maintaining and modifying fields on the NCS. NOK 15 billion of this total was devoted to platform operation and maintenance, NOK 5 billion to land-based support and administration, NOK 3 billion to well maintenance and NOK 2 billion to logistics. In addition comes just over NOK 13 billion invested in modifications during the production phase.

PETORO'S FOCUS

In Petoro's view, a more critical assessment of work operations and better organisation could extend production by a number of years. It is no coincidence that most of its own staff are engaged on work in the licences to maximise value creation where the company manages government assets.

With oil prices at USD 40-50 per barrel, it could be difficult to gain attention for measures to cut operating expenditure. Whether a barrel of oil costs USD 2 or USD 4 to produce appears to carry little weight under today's price regime. In a longer perspective, however, it will be crucial to reduce unit costs early enough to be able to invest in modifications and improvements before the decline in production has proceeded too far and before oil prices suffer another dramatic slump.

The alternative is to shut down the field several years too early, with a lower recovery factor than necessary. Licensees and the community would lose substantial revenues and jobs would disappear sooner than they have to.

Petoro's broad presence in licences on the NCS allows it to see big differences in the way fields are operated, maintained and modified, says Ivar Stapnes. He is an adviser on licence monitoring and head of the company's own cost project.

As the manager of the biggest portfolio of Norwegian oil and gas fields, Petoro uses its overview and insights to identify where individual fields are located in the total cost and efficiency picture.

The company intends to update this overall perception annually, and then hold discussions with operators about which fields require improvement processes in their long-term plans.

Mr Stapnes sees clear differences between operators. "The successful ones set clear targets, master change and are willing to implement it. And they then succeed not only in creating good financial results but also in improving safety and the working environment."

He says that Petoro will be looking for results from the NOK 15 billion spent on modification projects every year, and asks whether the industry is critical enough towards these costs. He believes that a decision to modify must be preceded by better assessments of what can be achieved by operating safely and effectively with existing equipment.

"Conversion is one of the riskiest jobs you can pursue offshore," he points out. "It's not given that the possible safety gain achieved justifies the decision to modify."

Systematic differences also exist between fields, Mr Stapnes points out. "Some have a culture which means they're being modified throughout their producing lives, without any noticeable improvement in safety statistics, regularity or operating costs."

Smart management

The Norwegian Coastal Voyage is under pressure from alternatives such as aircraft, cars and high-speed ferries. Against such competition, efficient operation is important. The same holds true for the petroleum industry, particularly in the mature phase.

One wit has claimed that a modern ship needs only one crew member – and a dog. The dog makes sure that the human touches nothing. The human's job is to feed the dog.

This jest reflects a long-standing discussion in the shipping industry on automation, safety and jobs. A similar debate is now under way in the Norwegian oil industry, as more and more fields enter a mature phase, production declines and the cost of producing each barrel of oil or cubic metre of gas thereby increases.

To a varying degree and from slightly different starting points, the operators on the NCS have begun work on implementing what Petoro calls "smart operation" but which is also known as "e-operation" or "integrated operations".

Whatever the name, the focus is on improving operational efficiency and making production more profitable through the use of new technology, different modes of organisation, changed work processes and active sharing of information.

Land-based teams could be playing a more direct role in daily operations offshore within a few years, and a larger share of the work could be transferred from sea to shore.

A development along these lines does not necessarily mean fewer jobs, but it calls for the right expertise – and perhaps different skills – to be made more easily available. This can give quicker, safer and better decisions on complex issues in drilling and production. The aim is reduced costs and higher production and earnings, which in turn will ensure longer producing lives and jobs.

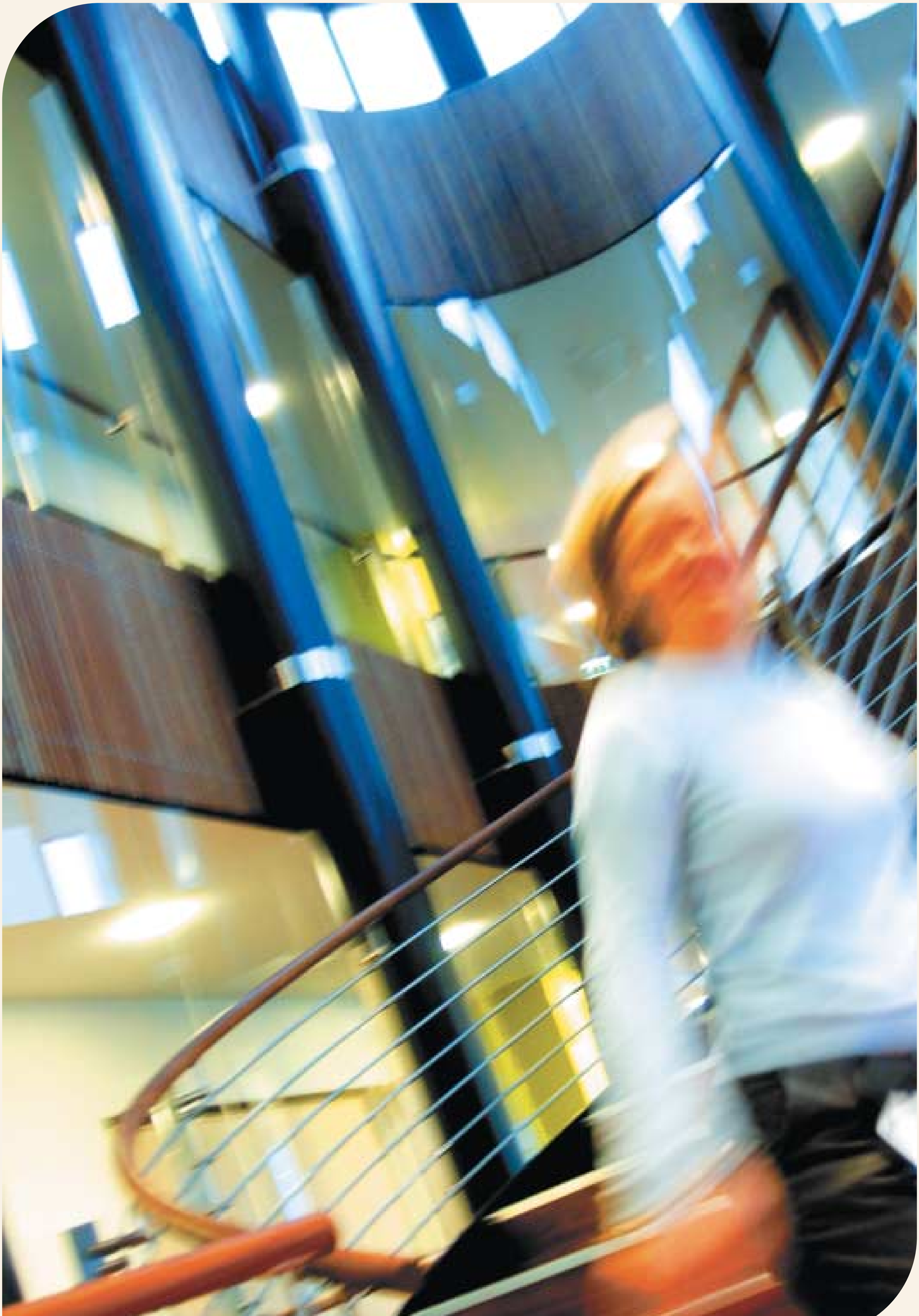
PETORO'S FOCUS

Most things come down to management and the ability – and willingness – to change, says senior adviser RoyRuså at Petoro. He does not want smart operation to be regarded as just a buzzword, but as an essential requirement for achieving optimal production on NCS installations and recovering as much as possible of Norway's petroleum resources.

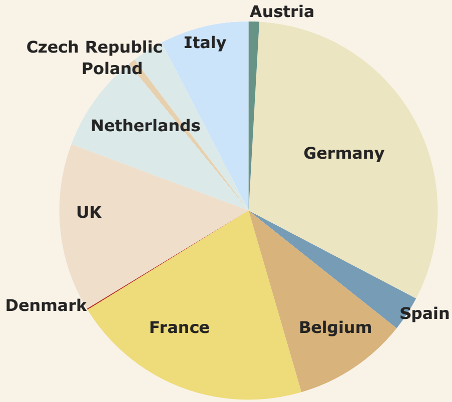
Petoro will work to change attitudes and highlight the fact that smart operation represents not a threat but new opportunities. Mr Ruså believes this is being recognised in a growing number of places. But time is also passing.

"Gains can be made by proceeding more swiftly, but it's too late to adopt new methods when fields move into the tail phase," Mr Ruså says. He notes that a "weather window" exists between a field coming off plateau and entering the final phase, when the financial freedom of action still exists to stay in front technologically.

"The big companies must take the lead. That's why we're pleased that Statoil and Hydro have got to grips with this and expressed their ambitions."



Income phase: **Maintaining national prosperity**



Norwegian gas buyers

We have so far followed the route taken by costs on the NCS. But the biggest cash flow is the income received from buyers of Norwegian oil and gas – like this French chef (below).

The gross sales value of Norwegian offshore production in 2004 was more than NOK 340 billion. That corresponds to the cost of building a major hospital once a week throughout the year.

About 80 per cent of Norway's oil revenues derive from European customers, with the rest coming from the USA and Asia as well as from domestic refining and sales.

While oil is a fully global product, gas has traditionally been transported by pipeline to a regional market – continental Europe and the UK in the case of Norwegian gas. While the growth in liquefied natural gas (LNG), which can be carried by ship, makes gas an increasingly global commodity, pipeline delivery still dominates in Europe.

Norway has about 12 per cent of the European gas market, with Germany, France and the UK as the biggest buyers. See the figure.

Gas demand from continental Europe is expected to continue rising substantially, and the UK's import requirements will also increase sharply as domestic production declines.

The European Union has sought to encourage greater competition with a view to securing energy supplies at lower prices. This has led to changes in contract structures and frame conditions which present new challenges for Norwegian gas sales.

On the supply side, Norway can expect sharper competition over European markets – perhaps particularly in the UK. The main rivals to Norwegian gas are supplies from Russia and Algeria, followed by LNG from west Africa and the Middle East and – eventually – pipeline gas from the Caspian.

"This picture makes it more important than ever to keep down costs in order to stay competitive," says adviser Ole Njærheim in Petoro´s marketing and sales department.

PETORO'S FOCUS

The company's role in oil and gas sales is to monitor the government's marketing and sales instruction, which specifies that Statoil sells both the government's directly-owned petroleum (from the SDFI portfolio) and its own. Petoro's aim in this context is to ensure the highest possible value creation – and to ensure an equitable division of income and expenses.

Norway is in the favourable position that heavy gas investment in fields and transport systems was sanctioned 10-20 years ago, and backed by long-term sales contracts. Taking such decisions would be much more difficult in today's market conditions, Mr Njærheim believes.

The gas sellers are now reaping the rewards of the investment made and the long-term agreements secured. One priority for Petoro is to maintain and, if possible, increase the value of gas already covered by sales contracts. It will also be important to optimise production and be in position with supplies when the short-term spot market demands extra gas – when the weather turns cold in Europe, for instance.

FLOWING FURTHER

To conclude our oil-lubricated journey, it should be noted that the cash never flows through Petoro's own hands. The company monitors and keeps accounts, but the money goes directly into the government's coffers. Most of it is transferred from there to the Government Petroleum Fund, which topped NOK 1 000 billion in 2004 and will probably be used to help pay Norwegian pensions.

The fund was established to avoid the "Dutch disease" – a national economy overheated by injecting too many petro-guilders – and to ensure that today's generation of Norwegians share their financial good fortune with their descendents.

This does not mean that everything is being salted away in foreign securities or put aside for children and grandchildren. According to their self-imposed rules of conduct, Norway's politicians can transfer up to four per cent of the estimated long-term return on the fund to the central government budget every year to benefit present-day Norwegians.

The challenge facing both government and commercial players is to find the right responses to the maturing of the NCS. A growing number of the big fields are heading into the declining part of their life cycle without new major finds having been made over the past decade to replace their production.

For its part, Petoro will work at both ends of the typical production curve – contributing to new finds being made in the early phase and to the highest possible recovery from existing finds in the mature stage. The company hopes thereby to help ensure that the period when oil and gas make a significant contribution to Norwegian value creation and prosperity will last for many decades to come.

SDFI appropriation accounts

Expenses and revenue All figures in NOK million		**Note**	**2004**	**2003**
Removal			0	3
Pro and contra settlements (payments)			98	209
Investment		2	17 324	16 038
Total expenses	**A**		**17 422**	**16 250**
Pro and contra settlements (receipts)	**B**		**(119)**	**(51)**
Operating revenue		3, 4	(120 332)	(101 185)
Operating expenses		5	21 696	17 362
Exploration and field development expenses			543	643
Depreciation		2	14 610	14 092
Interest		6	6 677	6 392
Operating income	**C**		**(76 805)**	**(62 696)**
Depreciation		2	(14 610)	(14 092)
Transfer from Govt Petroleum Insurance Fund		9	(490)	(1 482)
Interest on fixed capital		6	(6 666)	(6 390)
Interest on intermediate accounts		6	(11)	(2)
Sub-total	**D**		**(21 777)**	**(21 966)**
Total revenue (B+C+D)	**E**		**(98 701)**	**(84 713)**
Cash flow (net revenue from the SDFI) (A+E)			**(81 279)**	**(68 463)**

SDFI capital accounts

Items All figures in NOK mill	**Note**	**NOK**	**NOK**	**NOK**
Open account government				(663)
Real investments before write-down			121 270	
Write-down	2, 9		(151)	
Account for real investments	2, 8		121 119	121 119
Total				**120 456**
Open account government 1 Jan 04			542	
Total expenses		17 422		
Total revenue		(98 701)		
Cash flow		(81 279)	(81 279)	
Net transfer to the government			81 401	
Open account government at 31 Dec 04			**663**	**663**
Fixed capital 1 Jan 04			(118 556)	
Investments for the year			(17 324)	
Depreciation for the year			14 610	
Write-down	2, 9		151	
Fixed capital 31 Dec 04	2, 8		(121 119)	(121 119)
Total				**(120 456)**

Stavanger, 21 February 2005

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

John Magne Hvidsten
Worker director

Elen Carlson
Worker director

Kjell Pedersen
President and CEO

SDFI income statement

All figures in NOK million	Note	2004	2003*	2002*
OPERATING REVENUE				
Operating revenue	3, 4, 9, 10	120 807	101 699	103 709
Total operating revenue		**120 807**	**101 699**	**103 709**
OPERATING EXPENSES				
Exploration expenses		473	440	871
Depreciation and amortisation	2, 12	15 656	15 081	15 602
Other operating expenses	5, 9, 10, 11	21 025	17 557	16 870
Total operating expenses		**37 154**	**33 078**	**33 343**
Operating income		**83 653**	**68 621**	**70 366**
FINANCIAL ITEMS				
Financial income		3 542	1 608	1 664
Financial expenses		4 852	2 075	4 613
Net financial items	7	**(1 310)**	**(467)**	**(2 949)**
Net income for the year		**82 343**	**68 154**	**67 417**

**Figures for 2003 and 2002 have been revised to reflect the change of principles for abandonment and removal (note 12)*

SDFI balance sheet

All figures in NOK million	Note	2004	2003*	2002*
Intangible fixed assets		999	1 005	826
Tangible fixed assets		130 869	127 231	126 975
Other fixed assets		10	14	79
Fixed assets	2, 9	131 878	128 249	127 880
Stocks		469	360	308
Debtors	10, 11	11 607	10 627	10 488
Bank deposits		75	113	37
Current assets		12 151	11 101	10 832
Total assets		**144 029**	**139 350**	**138 712**
Equity at 1 January		119 427	120 289	127 723
Paid from/(to) government during the year		(81 401)	(69 005)	(74 852)
Net income		82 343	68 154	67 417
Conversion differences**		161	(11)	
Equity	18	120 530	119 427	120 289
Long-term removal liabilities	12	14 930	13 320	12 838
Other long-term liabilities	13	1 001	618	1 878
Long-term liabilities		15 931	13 938	14 716
Trade creditors		1 679	1 793	1 212
Other current liabilities	10, 14	5 889	4 193	2 495
Current liabilities		7 568	5 986	3 707
Total equity and liabilities		**144 029**	**139 350**	**138 712**

**Figures for 2003 and 2002 have been revised to reflect the change of principles for abandonment and removal (note 12)*

***Relating to conversion difference and settlements after the 2001 sale*

Stavanger, 21 February 2005

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

John Magne Hvidsten
Worker director

Elen Carlson
Worker director

Kjell Pedersen
President and CEO

SDFI cash flow statement

All figures in NOK million	**2004**	**2003**	**2002**
Cash flow from operating activities			
Cash receipts from operations	120 956	101 888	101 878
Cash disbursements to operations	(21 123)	(16 664)	(17 763)
Net financial outflow	(1 013)	(179)	(2 038)
Net cash flow from operational activities	**98 820**	**85 045**	**82 078**
Cash flow from investment activities			
Investments	(16 492)	(14 465)	(13 140)
Cash flow from investment activities	**(16 492)**	**(14 465)**	**(13 140)**
Cash flow from financing activities			
Change in current liabilities	(1 374)	(465)	(1 851)
Change in long-term liabilities	383	(922)	642
Net transfer to the government	(81 401)	(69 005)	(66 082)
Pro and contra from government sale	25	(112)	(1 684)
Cash flow from financing activities	**(82 367)**	**(70 503)**	**(68 975)**
Increase in bank deposits of land-based partnerships	(39)	76	37

SDFI notes

ACCOUNTING PRINCIPLES

Accounts prepared on a cash basis (cash accounting)
Petoro's object is to be responsible for and manage the direct financial interest related to the SDFI portfolio and related operations. The company's overall goal is to maximise the total value of the portfolio.
Petoro is subject to the government's financial regulations. Financial statements for the portfolio are prepared on a cash basis, and expenses and revenues for the SDFI appear in the government's accounts and budgets. Financial statements are also prepared in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP). Petoro maintains separate accounts for all the transactions relating to its licence shares. Revenue and costs relating to the SDFI portfolio are accordingly separated from Petoro's accounts.
Accounts prepared on a cash basis use the gross method to record production licences (PLs) with net profit agreements. In other words, net ingoing payments to the SDFI in a licence in one year are recorded as revenue, and net outgoing payments from the SDFI are recorded as expenses.
The main difference between accounts using the accruals principle and those calculated on a cash basis is that the latter include investments and exclude depreciation. In addition, corrections are made to revenue, expenses and investments for changes in receivables and liabilities. Using cash accounting, realised currency losses/gains relating to operating expenses and revenue are classified as operating expenses and revenue. By contrast, accounts based on the accruals principle show such losses/gains as financial expenses/revenue. They accordingly have no effect on operating income.
In the financial statements prepared on a cash basis, the cost of acquiring gas for resale is recorded net with sales revenue.

Accounts prepared in accordance with the Norwegian Accounting Act (accruals principle)
These accounts are prepared in accordance with the principles in the Norwegian Accounting Act and associated standards (Norwegian generally-accepted accounting principles – NGAAP).

GENERAL RULE FOR VALUATION AND CLASSIFICATION OF ASSETS AND LIABILITIES
Assets intended for permanent ownership or use in the business are classified as fixed assets. Other assets are classified as current assets. Creditors due within one year are classified as current assets. Classification of current and long-term liabilities is based on the same criteria.
Fixed assets are carried at historical cost with a deduction for depreciation. Should the fair value of a fixed asset be lower than the book value, and this decline is not expected to be temporary, the asset will be written down to its fair value. Current assets are valued at the lower of historic cost and fair value. Current liabilities are valued at their face value.

FIXED ASSETS
Fixed assets and investments are recorded in accordance with the principles in the Norwegian Accounting Act and NGAAP. Fixed assets are capitalised at historical cost less accumulated depreciation and write-downs. Expenses for major alterations and renewals which significantly increase the economic life of fixed assets are capitalised. Replacements of fixed assets are expensed.

FOREIGN CURRENCIES
Foreign currencies are translated at the exchange rate on the transaction date. Monetary items in foreign currencies are valued at the exchange rate prevailing on the balance sheet date. Realised and unrealised currency gains/losses are recorded as net financial income or expenses.

STOCKS
Purchased goods are valued in the balance sheet at the lower of historical cost (Fifo) or actual value.
Materials for normal consumption in the operation of oil and/or gas fields are recorded as expenses at the time of acquisition. Materials for drilling wells are capitalised and expensed as a well cost as and when used. Equipment purchases for development projects are capitalised as part of the project investment, while purchases of significant spare parts are capitalised and expensed as and when used in operations.

DEBTORS
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 the SDFI's share of bank deposits in partnerships with shared liability (land-based partnerships) in which the SDFI has an interest.

INCOME TAXES
The SDFI is exempt from tax in Norway.

FINANCIAL INSTRUMENTS
Financial instruments are valued at their market value on the balance sheet date. Unrealised losses relating to financial instruments are recorded as expenses. Unrealised gains are not recorded as income unless the instrument is classified as a current asset, is part of a trading portfolio and is traded publicly or in a non-regulated market (as specified in section 2, sub-section 1 of the Norwegian Stock Exchange Act), and has adequate liquidity and a fragmented ownership structure.

ACCOUNTING TREATMENT OF COSTS RELATING TO FIELD INVESTMENTS
Petoro employs the successful-effort method to record exploration and development costs for oil and gas operations in the SDFI accounts.
Exploration-related expenses are capitalised in anticipation of the drilling results. Should discoveries of oil and gas prove commercial, the expenses are classified as fixed assets in the balance sheet. Expenses relating to wells, field installations and production facilities are capitalised. Expenses incurred by the project organisation for fields under development and development expenses incurred after approval of the plan for development and operation until the start of production from the field are also capitalised.
Costs for dry wells and operational preparations are expensed on a continuous basis. The same applies to the procurement of spare parts in the production phase and expenses relating to repairs and maintenance.
All costs relating to operator charges for research and development are expensed.

DEPRECIATION
Ordinary depreciation of oil and gas production facilities is calculated for each field and field-dedicated transport system using the unit of production method.
The NPD's reserve estimates are applied. These are based on expectations. For depreciation purposes, 85 per cent of the NPD's reserves for fields in production are used. Ordinary depreciation for riser platforms and transport systems used by several fields is calculated on a straight-line basis over the remaining licence period at 31 December 2004.
Other tangible fixed assets are depreciated on a straight-line basis over their expected economic lifetime.

REVENUE RECOGNITION
The SDFI recognises the revenue from its sold share of oil and gas when the products are delivered to the customer.
Revenue from ownership in pipelines and land-based production plants is recognised when the services are rendered to the shipper of petroleum.
Gas and gas borrowing agreements are accrued using the sales method. This means that the borrower records the sale as revenue on delivery to the buyer. At the same time, a provision is made for the expected future cost of producing and possibly transporting the gas to be returned. When lending gas, the lower of production expense and estimated net present value of the future sales price is capitalised as a pre-paid expense.
Current liabilities arising because too much crude oil has been lifted in relation to the SDFI's share of the production partnership are valued at production cost, while current receivables due from the other partners in the production joint ventures are valued at the lower of production cost and fair value.
No significant difference exists between SDFI volumes sold and the SDFI's share of production.

PURCHASE AND SALES BETWEEN FIELDS AND/OR TRANSPORT SYSTEMS
Internal expenses and revenues relating to purchases and sales between fields and/or transport systems in which the SDFI has a financial interest are eliminated.

TRANSFER OF PROPRIETARY RIGHTS BETWEEN LICENCES

In accordance with Proposition no 1 VIII to the Storting concerning the authority to transfer proprietary rights from a group of proprietors which includes Petoro as manager of the SDFI to another group of proprietors, proprietary rights are in some cases transferred (normally on completion) from the licence which has paid an investment to the licence in which the investment has been made. The paying licence then retains the right of use to the capital equipment.

INTERESTS IN JOINT ENTERPRISES

The SDFI's interests in licence joint ventures relating to the production of petroleum from the NCS 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.

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. In accordance with Norwegian accounting standard 13 on uncertain liabilities and contingent assets, and in line with general developments in the industry, Petoro has decided to implement the capitalisation method from 1 January 2004.
The liability is calculated on the basis of information from the respective operators, and is based on existing technology and regulations. Norwegian government requirements and the Ospar convention for the protection of the marine environment of the north-east Atlantic provide the basis for determining the scale of the liability.
With the capitalisation method, the actual value of the removal liability is recorded during the period in which the liability arises. A corresponding amount is capitalised as part of the asset's acquisition cost and depreciated together with this.
Calculated interest – the effect of the time of removal having moved one year closer – is recorded as financial cost.
The net present value of future removal liabilities is capitalised as part of historical cost, and depreciated in accordance with the unit of production method. Riser platforms are depreciated on a straight-line basis.
Changes to the estimated removal costs are capitalised as part of the asset's acquisition cost and depreciated over its remaining economic life.
The effect of implementing this method at 1 January 2004 was NOK 1 044 million, recorded as a positive effect against equity.

CONTINGENT LIABILITIES

Probable and quantifiable losses are expensed.

NOTE 1 – TRANSFER OF ASSETS

During 2004, Petoro performed a portfolio restructuring through sales of its 30 per cent share in PL 037D, and its purchase of 33.6 per cent in PL 309. Both transactions were performed on a professional foundation in accordance with the Ministry of Petroleum and Energy's Guidelines for Portfolio Restructuring.
The sale of a share in PL 037D consists of two discoveries/prospects which can be related to Murchison, where the SDFI is not a licensee. The transaction implies a non-material amount for the SDFI.
Petoro regards entering the additional area (PL 309) around Oseberg as important for maintaining the area perspective there. A balanced ownership structure will increase the opportunity for added value with regard to possible discoveries in PL 309 relating to installations in the Oseberg area. The sale of PL 037D is recorded at actual value and the gain reflected in the SDFI income statement. The acquisition of the share in PL 309 was free of charge.
Pro and contra settlements have occurred and are recorded in the SDFI accounts.
Assets transferred in fields 2004:

Licences	Changes in licence share %
PL309	33.6%
PL037D	(30.0%)

The process of separating the Kollsnes terminal from the Troll licence and including it in the Gassled partnership was also completed during 2003. The operatorship for Kollsnes was transferred to Gassco with effect from 1 February 2004. This transfer is reflected in the accounts from that date. However, investment related to the Kollsnes terminal is still divided by the licensee structure in Troll (SDFI 56 per cent), while operating expenses are now divided by the partner structure in Gassled (SDFI 38.293 per cent).

A review of the calculations used to determine cash payments for transferred assets relating to government sales in 2001 (15 per cent to Statoil) and in 2002 (6.5 per cent to other oil companies) was undertaken in 2004. Outstanding issues relating to the 2001 and 2002 asset sales were resolved during 2004, with an impact on the income statements for 2004. Remaining issues from the 2001 sales which have been clarified are recorded in accordance with the principles applied for the sale and adjusted with reference to this. Issues still remain which could result in alterations to the compensation. The company is in dialogue with the respective buyers to resolve open issues from the 2002 asset sales. Note 18 outlines the impact of the 2001 sales on equity.

NOTE 2 – SPECIFICATION OF FIXED ASSETS

All figures in NOK mill	Historical cost at 1 Jan 04*	Addition 2004	Amorti-sation 2004	Sale 2004	Transfers 2004	Accumulated depreciation 1 Jan 04	Depre-ciation 2004	Book value at 31 Dec 2004
Fields under development								
Kristin	1 601	1 235						2 836
Kvitebjørn	2 305				(2 305)			
Norne satellites	5	293						298
Ormen Lange	429	1 474						1 904
Skinfaks		0			59			59
Skirne	558				(558)			
Snøhvit	2 978	3 806						6 784
Sub-total	**7 877**	**6 809**			**(2 804)**			**11 882**
Fields in operation								
Brage	3 938	159				(3 859)	(115)	123
Draugen	9 943	195				(7 321)	(672)	2 145
Ekofisk II	1 873	369				(679)	(196)	1 367
Frøy	100	17				(100)		17
Grane	4 273	281				(32)	(352)	4 169
Gullfaks	25 455	855				(20 221)	(1 702)	4 388
Heidrun	25 259	712				(13 639)	(1 416)	10 916
Heimdal	2 034	3				(1 985)	(3)	49
Huldra	2 163	20				(1 265)	(468)	450
Jotun	321	1				(253)	(9)	60
Kvitebjørn	94	675			2 305		(17)	3 057
Njord	1 699	30				(1 488)	(58)	183
Norne	8 226	262				(4 982)	(824)	2 682
Oseberg South	4 120	501				(1 372)	(413)	2 836
Oseberg Unit	23 799	829				(21 375)	(607)	2 647
Oseberg East	2 740	52				(1 742)	(178)	872
Skirne	55	108			558		(70)	652
Snorre	14 192	602				(7 657)	(1 002)	6 135
Statfjord North	1 738	15				(1 232)	(124)	396
Statfjord East	1 475	29				(1 197)	(56)	251
Sygna	588	12				(383)	(73)	144
Tordis	2 307	79				(1 837)	(155)	394
Troll Gas	21 623	992				(3 843)	(672)	18 101
Troll Oil	32 319	776				(23 075)	(2 627)	7 394
Tune	1 264	114				(205)	(329)	844
Varg	858	196				(776)	(46)	232
Veslefrikk	4 280	198				(3 130)	(221)	1 127
Vigdis	2 581	274				(1 821)	(219)	815
Visund	4 109	428				(1 443)	(295)	2 800
East Frigg	1	0				(1)		0
Åsgard	19 208	757				(4 264)	(1 457)	14 245
Sub-total	**222 638**	**9 543**			**2 863**	**(131 177)**	**(14 376)**	**89 491**

All figures in NOK mill	Historical cost at 1 Jan 04*	Addition 2004	Amorti-sation 2004	Sale 2004	Transfers 2004	Accumulated depreciation 1 Jan 04	Depre-ciation 2004	Book value at 31 Dec 2004
Pipelines and terminals								
Dunkerque Terminal	178	1				(39)	(6)	134
Etanor	884	89				(127)	(41)	805
Europipe 2	3 306					(614)	(108)	2 585
Franpipe	4 444					(991)	(138)	3 315
Gassled	858	1 418				(76)	(62)	2 138
Haltenpipe	1 145					(338)	(67)	740
Langeled	111	1 151						1 262
Mongstad Terminal	616	8				(544)	(12)	67
Oseberg Gasstransport	755					(104)	(26)	624
Oseberg Transportsystem	2 707	18				(2 208)	(36)	480
Statpipe	6 671	0				(5 029)	(65)	1 577
Troll Oljerør 1 og 2	910	4				(623)	(75)	216
Vesterled	594					(61)	(21)	512
Vestprosess	821	114				(142)	(46)	748
Norpipe	38	5				(31)	(3)	9
Frostpipe	24	5				(24)		5
Tommeliten	189					(189)		
Zeepipe/Europipe 1	16 483					(5 581)	(436)	10 466
Zeepipe Terminal	197	1				(92)	(4)	101
Åsgard Transport	3 857					(569)	(132)	3 156
Sub-total	**44 787**	**2 813**				**(17 384)**	**(1 277)**	**28 939**
Capitalised exploration expenses	490	264	(138)		(59)			557
Total tangible assets	**275 791**	**19 429**	**(138)**		**0**	**(148 561)**	**(15 653)**	**130 869**
Intangible assets	1 007	71	(76)			(2)	0	999
Other assets	185					(171)	(3)	10
Total tangible fixed assets (NGAAP)	**276 983**	**19 499**	**(214)**			**(148 734)**	**(15 656)**	**131 878**
Conversion to cash basis	(18 895)	(2 176)	63			9 200	1 047	(10 759)
Total fixed assets on cash basis	**258 089**	**17 324**	**(151)**			**(139 534)**	**(14 610)**	**121 119**

**Historical costs at 1 January 2004 have been revised to reflect changes to the principles for abandonment and removal (note 12).*

Intangible assets of NOK 999 million relate mainly to LNG sales and processing rights at the Cove Point terminal in USA, together with investments related to the stock of gas in Aldbrough.

Other fixed assets consist of machinery and equipment in Statpipe and Åsgard Transport. The SDFI also owns shares in Norsea Gas AS with a book value of NOK 3.98 million.

NOTE 3 – SPECIFICATION OF OPERATING REVENUE

All figures in NOK million	2004	2003	2002
Troll	32 307	30 754	29 996
Oseberg	20 332	14 617	11 352
Tampen	22 382	18 586	17 278
Norwegian Sea gas	11 392	10 146	8 156
Norwegian Sea oil, North Sea and Snøhvit	25 168	20 564	21 560
Pipelines and land-based plants	8 457	8 119	16 420
Net profit agreements	210	200	316
Other revenue	4 271	2 200	2 944
Elimination internal sales	(3 712)	(3 486)	(4 314)
Total NGAAP	**120 807**	**101 699**	**103 709**
Conversion to cash basis	(475)	(514)	(3 773)
Total – cash basis	**120 332**	**101 185**	**99 935**

Classification by geographical area has been altered by comparison with reporting from previous years. Note that the information has been updated and amended in accordance with the equivalent new organisation. Other infrastructure consist of Frostpipe, Haltenpipe, Zeepipe Terminal, Dunkerque Terminal, Etanor, Vestprosess and Mongstad Terminal. No confirmed loss on sales of petroleum for SDFI operations has been recorded, and there are no unobtainable recordings or remissions of claims.

NOTE 4 – SPECIFICATION OF OPERATING REVENUE BY PRODUCT

All figures in NOK million	2004	2003	2002
Crude oil and NGL included condensate	80 927	67 727	71 798
Gas	32 072	25 803	22 609
Transport, processing and other revenue	7 598	7 969	8 986
Net profit agreements	210	200	316
Total NGAAP	**120 807**	**101 699**	**103 709**
Conversion to cash basis	(475)	(514)	(3 773)
Total cash basis	**120 332**	**101 185**	**99 935**

In accordance with the marketing and sales instruction, all crude oil and NGL are sold to Statoil. Gas is sold mainly to customers in Europe, except for NOK 2 138 million relating to the sale of gas to the USA.

NOTE 5 – SPECIFICATION OF OPERATING EXPENSES

All figures in NOK million	**2004**	**2003**	**2002**
Troll	4 949	5 373	5 746
Oseberg	4 848	4 130	4 201
Tampen	3 197	3 086	3 242
Norwegian Sea oil, North Sea and Snøhvit	3 281	3 135	3 041
Norwegian Sea gas	2 005	1 840	2 114
Gassled and other infrastructure	1 695	1 422	939
Other operating expenses	4 761	2 058	1 901
Elimination internal purchases	(3 712)	(3 486)	(4 314)
Total NGAAP	**21 025**	**17 557**	**16 870**
Conversion to cash basis	671	(195)	894
Total – cash basis	**21 696**	**17 362**	**17 764**

Classification by geographical area has been altered by comparison with reporting from previous years. Note that the information has been updated and amended in accordance with the equivalent new organisation. Other infrastructure consist of Frostpipe, Haltenpipe, Zeepipe Terminal, Dunkerque Terminal, Etanor, Vestprosess and Mongstad Terminal.

NOTE 6 – INTEREST ON FIXED CAPITAL

Interest on the government's fixed capital is included in the accounts. The amount of interest is calculated as specified in Proposition no 1 Amendment no 7 (1993-1994) to the Storting (the Finance Bill) and in item 5.6 in the 2004 Letter of Award to Petoro AS from the Ministry of Petroleum and Energy.

Interest on the government account is calculated as specified in the 2004 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 government's account.

NOTE 7 – NET FINANCIAL ITEMS

All figures in NOK million	**2004**	**2003**	**2002**
Interest and other financial revenu	85	53	96
Currency effect	(1 025)	(186)	(2 672)
Interest and other financial costs	(73)	(45)	(97)
Interest on removal liability	(297)	(288)	(276)
Net financial items	**(1 310)**	**(467)**	**(2 949)**

The currency effect for 2004 relates mainly to net currency loss realised on product sales in USD and EUR.
The increase from 2003 primarily reflects significantly greater currency fluctuations during 2004.

A new method for recording abandonment and removal liabilities was adopted on 1 January 2004. The interest on the removal liability in this year's expenses relates to the rise in the net present value of the future removal liability. See note 12.

The Bank of Norway's closing NOK/USD price was 6.04 at 31 December 2004, compared with 6.68 a year earlier.
These closing prices are applied for converting balance sheet items in foreign currencies at 31 December.

NOTE 8 – CASH BALANCE

All figures in NOK million	2004	2003	2002
Open account government	(663)	(542)	0
Account for real investment	121 119	118 556	117 010
Total	**120 456**	**118 014**	**117 010**
Open account government	663	542	0
Fixed capital at 31 Dec 04	(121 119)	(118 556)	(117 010)
Total	**(120 456)**	**(118 014)**	**(117 010)**

NOTE 9 – GOVERNMENT PETROLEUM INSURANCE FUND

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

NOTE 10 – RELATED PARTIES

The government (represented by the Ministry of Petroleum and Energy) owns 76.33 per cent of Statoil and 100 per cent of Gassco. These companies are classified as related parties to the SDFI.

Statoil is the buyer of the government's oil, condensate and NGL. Sales of oil, condensate and NGL to Statoil totalled NOK 80.9 billion (326 million boe) for 2004 and NOK 67.7 billion (343 million boe) for 2003. The amount and quantity is exclusive of the government's royalty oil.

Statoil markets and sells the government's natural gas at the government's expense and risk together with its own production. The government receives the market value for these sales. The government sold dry gas worth NOK 237 million in 2004 and NOK 255 million in 2003. Statoil is reimbursed by the government for its relative share of costs associated with the transport and processing of dry gas, the purchase of dry gas for onward sale and administrative expenses relating to gas sales. These reimbursements came to NOK 9.3 billion in 2004 and NOK 9.2 billion in 2003.

In addition to the above-mentioned amounts, the SDFI accounts consist of other open accounts/transactions related to long-term liabilities related to the marketing and sales instruction. See note 13.

Open accounts and transactions between Statoil and the SDFI relating to these revenues and costs are recorded as accounts receivable and current debt in the balance sheet, and amount to USD 928 million, EUR 120 million, NOK 68 million and GBP 2 million.

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.

No open accounts existed at 31 December 2004 between Statoil and SDFI relating to the marketing and sales instructions.

NOTE 11 – ACCOUNTS RECEIVABLE

A small provision has been made for bad debts following an assessment of possible losses on accounts receivable from trading in the UK. No losses had been confirmed at 31 December.

Accounts receivable and other receivable are recorded at face value.

Accounts receivable due later than 12 months after the balance sheet date amounted to NOK 1.1 million.

NOTE 12 – ABANDONMENT/REMOVAL

A new method of recording abandonment and removal liabilities, the capitalisation method, was implemented on 1 January 2004.

The removal liability comprises future abandonment 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. Information from the respective operators provides the framework for calculating removal liability.

The net present value of future removal liabilities is capitalised as part of historical cost, and depreciated in accordance with the unit of production method. Riser platforms are depreciated on a straight-line basis.

A positive implementation effect of NOK 1.044 billion was recorded as equity at 1 January 2004. The historical cost of fixed assets increased by NOK 10.571 billion, while accumulated depreciation was up NOK 6.729 billion. The long-term abandonment liability rose by NOK 2.798 billion.

All figures NOK million

Liabilities at 1 January 2004	13 320
New liabilities	295
Actual abandonment	(33)
Write-downs Tommeliten	(235)
Changes to estimates	(69)
Interest costs*	1 652
Liabilities at 31 December 2004	**14 930**

** Interest relating to the removal liability consists of the change in the level of interest to the estimated net present value. This amounted to NOK 1 355 million, while annual interest costs amounted to NOK 297 million. See note 7.*

NOTE 13 – OTHER LONG-TERM LIABILITIES

Other long-term liabilities comprise:

- Prepayment from Electrabel for gas purchases
- Debt relating to the final settlement of commercial arrangements concerning the move to company-based gas sales
- Provision for possible payment of environmental tax relating to the sales of gas to the Netherlands

Liabilities falling due longer than five years total NOK 363 million.

NOTE 14 – OTHER CURRENT LIABILITIES

Other current liabilities include liabilities due no later than 31 December 2005, and 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, such as processing and transport expenses, administration expenses relating to gas sales and so forth
- 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 exposures relating to interest rates, exchange rates and commodity prices. This is primarily because the SDFI belongs to the state and is accordingly included in the government's overall risk management. The SDFI does not have significant interest-bearing debt, and all crude oil and NGL are sold to Statoil. The limited use of derivatives relates to Statoil's sale of the SDFI's natural gas. Derivatives used are swaps, options, forwards and futures, which are all used to hedge future sales revenue. At 31 December 2004, the market value of derivatives was NOK 114 million in assets and NOK 106 million in liabilities. 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.

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 part of the government's 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 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 petroleum, and its exposure in the balance sheet at 31 December 2004 related to one month's outstanding revenue.

INTEREST RISK

The SDFI does not have significant interest-bearing debt, and is not financially 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 are purchased from other parties with sound credit ratings. Credit risk relating to the inability of other parties to meet their financial commitments is normally limited to an amount exceeding the SDFI's liability. Financial instruments are only established with a large bank or financial institution, at levels of exposure approved in advance. The SDFI's credit-related risk during consecutive transactions is regarded as insignificant.

LIQUIDITY RISK

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

NOTE 16 – LEASES/CONTRACTUAL OBLIGATIONS

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

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

All figures in NOK million	**Leases**	**Transport obligations**
2005	1 221	559
2006	641	528
2007	392	491
2008	224	499
2009	181	449
Beyond	427	5 649

In addition to the above-mentioned leasing obligations, the SDFI will also have an obligation under the marketing and sales instruction related to chartering of carriers to ship LNG from the Snøhvit field. These vessels are currently under construction. The capital element in these charters is about USD 520 million over a 23-year period. The charters will be effective from the start of production in 2006.

In connection with the award of a licence to explore for and produce oil and gas, licensees undertake to drill a certain number of wells. Acting on behalf of the SDFI, Petoro was committed at 31 December to participating in nine wells with an expected cost of NOK 366 million.

On behalf of the SDFI, Petoro has also accepted contractual obligations relating to the development of new fields, represented by the expected total development costs. These obligations total NOK 16.6 billion for 2005 and NOK 14.6 billion thereafter, a total of NOK 31.2 billion. In addition, Petoro acting on behalf of the SDFI is committed through approved PL budgets to operating and investment expenses for 2005 which will be on a par with the 2004 figure. Commitments toward third parties amounting to NOK 176 million relate to the SDFI's share in the construction of a terminal at Aldbrough in the UK. Of this, NOK 142 million relates to 2005. Expanding the US Cove Point terminal could result in an obligation equivalent to USD 5 million for the SDFI if the contract is terminated less than 12 months after a precedent agreement.

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 and the UK. Their extent is restricted, and they are considered to be immaterial for the SDFI as a whole.

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 field selected to deliver the gas. Proven reserves exceed total sales obligations.

NOTE 17 – OTHER LIABILITIES

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

NOTE 18 – EQUITY

All figures in NOK million	2004	2003*	2002*
Cash transfers to the Bank of Norway	(520 713)	(439 312)	(370 307)
Capital contribution	9 082	9 082	9 082
Accumulated earnings at 1 Jan	578 732	510 764	443 784
Accumulated transfer of interests in 2001-02	(29 874)	(30 109)	(30 109)
Conversion differences	(84)	(11)	0
Implementation effect, new removal model	1 044	859	422
Net income for the year	82 343	68 154	67 417
Total equity	**120 530**	**119 427**	**120 289**

**Figures for 2003 and 2002 have been revised to take account of the change in the principles for abandonment and removal (note 12).*

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

The capital contribution is the sum paid to Statoil at 1 January 1985 for the assets acquired by the SDFI from Statoil (repaid on debt owed by Statoil to the government). Accumulated earnings at 1 January represent accumulated operating revenue since the SDFI was established on 1 January 1985. Accumulated transfer of interests relates to the sale of 15 per cent of the SDFI's value in 2001 and 6.5 per cent in 2002. The amounts for 2002 and 2003 are shown as the accumulated effect on equity of the NOK 21 339 million and NOK 8 770 million received from the sales in 2001 and 2002 respectively. A retrospective settlement with an accounting effect of NOK 235 million in 2004 was made with regard to the 2001 sale. The effect of this settlement is recorded against equity and the accumulated transfer of assets. The transfer of assets from the SDFI to Statoil in 2001 has been recorded using the pooling of interests method, since it occurred between units under common control. This method implies that assets in the SDFI accounts are reduced by the book value of the transferred assets, with equity as the contra entry.

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

Under intangible assets, the SDFI has recorded sales and processing rights for LNG at the Cove Point terminal in the USA. The SDFI's share of these rights is denominated in foreign currency, but has been converted to and recorded in the accounts as NOK. The share has been converted at the exchange rate prevailing on 31 December 2004, and changes in the NOK figure owing to changes in exchange rates are recorded as a conversion difference in the NGAAP accounts.

NOTE 19 – MARKETING AND SALES INSTRUCTION

The Norwegian government pursues a common ownership strategy to maximise the combined value of its shareholding in Statoil and its own oil and gas interests through the SDFI. This finds expression in the marketing and sales instruction, which specifies terms for selling the government's oil, NGL, condensate and natural gas. The overall aim of this sales arrangement is to achieve the highest possible combined value for petroleum belonging to both Statoil and the government, and to secure an equitable division of the total value creation. Petoro's monitoring of Statoil focuses on evaluation and control through commercial follow-up of strategy and risk, specific follow-up on certain matters and follow-up of specified goals. These controls are intended to verify that transactions are conducted in accordance with the marketing and sales instruction. With effect from 31 January 2004, accounting, budgeting and reporting routines have been implemented which apply under the marketing and sales instruction and which contribute to good control of the marketing and sale of the government's petroleum. Statoil is also closely monitored throughout the year with the aid of on-going dialogue and regular meetings.

NOTE 20 – AUDITORS

The SDFI is subject to the regulations and provisions concerning government financial management, which specify in accordance with the Act on the Auditing of Governmental Accounts of 7 May 2004 that the Office of the Auditor General is the external auditor for the SDFI. The Auditor General submits the final audit report to the board of directors.

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

Deloitte's fee is expensed in the Petoro AS accounts.

NOTE 21 – EXPECTED OIL AND GAS RESERVES

Oil* in million bbl	**2004**		**2003**		**2002**	
Gas in bn scm	**Oil**	**Gas**	**Oil**	**Gas**	**Oil**	**Gas**
Expected reserves at 1 Jan	2 689	1 018	2 876	891	3 376	953
Change in estimates	40	3	65	5	156	(21)
Extensions and discoveries	24	1	84	146	28	2
Improved recovery	70	0	5	0	31	0
Purchase of reserves	0	0	0	0	0	0
Sale of reserves	0	0	0	0	(361)	(22)
Production	(324)	(26)	(341)	(24)	(354)	(21)
Expected reserves at 31 Dec	**2 499**	**997**	**2 689**	**1 018**	**2 876**	**891**

**Oil includes NGL and condensate*

The chart presents the total remaining reserves without regard to estimated production periods and the duration of licences. Information on estimated production periods and current licence durations is given in the overview of government participation interests in section 5.

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

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

Total expected remaining reserves at 31 December 2004 were 8 772 million boe.

Expected reserves in production at 31 December 2004 were 2 335 million barrels of oil and condensate, and 779 billion standard cubic metres of gas.

SDFI overview of interests

Production licence	At 31.12.04 Interest (%)	At 31.12.03 Interest (%)
018	5.00	5.00
018 B	5.00	5.00
018 C	5.00	5.00
028 C	30.00	30.00
034	40.00	40.00
036 BS	20.00	20.00
037	30.00	30.00
037 B	30.00	30.00
037 E	30.00	-
038	30.00	30.00
038 B	30.00	30.00
040	30.00	30.00
043	30.00	30.00
050	30.00	30.00
050 B	30.00	30.00
050 C	30.00	30.00
051	31.40	31.40
052	37.00	37.00
052 B	37.00	37.00
053	33.60	33.60
053 B	25.40	25.40
054	40.80	40.80
055	13.40	13.40
055 B	13.40	13.40
055 C	33.60	33.60
057	30.00	30.00
062	19.95	19.95
064	30.00	30.00
074	19.95	19.95
077	30.00	30.00
078	30.00	30.00
079	33.60	33.60
085	62.92	62.92
085 B	62.92	62.92
085 C	56.00	56.00
089	30.00	30.00
093	47.88	47.88
094	14.95	14.95
094 B	35.50	35.50
095	59.00	59.00
097	30.00	30.00
099	30.00	30.00
100	30.00	30.00
102	30.00	30.00
103 B	30.00	30.00
104	33.60	33.60
107	7.50	7.50
110	30.00	30.00
110 B	30.00	-
120	16.94	16.94
124	27.09	27.09
128	24.55	24.55
128 B	54.00	54.00

Production licence	At 31.12.04 Interest (%)	At 31.12.03 Interest (%)
132	7,50	7,50
134	13.55	13.55
152	30.00	30.00
153	30.00	30.00
169	30.00	30.00
169 B1	37.50	37.50
169 B2	30.00	30.00
171 B	33.60	33.60
172	-	30.00
176	47.88	47.88
185	13.40	13.40
189	-	45.00
190	40.00	40.00
193	30.00	30.00
195	35.00	35.00
199	27.00	27.00
208	30.00	30.00
209	35.00	35.00
237	35.50	35.50
245	-	25.00
248	40.00	40.00
250	45.00	45.00
253	20.00	20.00
254	-	25.00
255	30.00	30.00
256	20.00	20.00
264	20.00	20.00
265	30.00	30.00
275	5.00	5.00
276	37.00	37.00
277	30.00	30.00
281	20.00	20.00
283	20.00	20.00
291	14.26	14.26
309	33.60	-
315	30.00	-
318	20.00	-
327	20.00	-
328	20.00	-
329	20.00	-
331	20.00	-
345	30.00	-
347	7.50	-
348	7.50	-

Net profit licences*
027
028
029
033

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

Unitised fields	At 31.12.04 Interest (%)	At 31.12.03 Interest (%)	Remaining production period	Licence term
Brage Unit	14.26	14.26	2015	2015
Grane Unit	30.00	30.00	2026**	2030
Halten Bank West (Kristin)	18.90	18.90	2024	2033
Heidrun Unit	58.16	58.16	2028	2024
Huldra Unit	31.96	31.96	2012	2015
Jotun Unit	3.00	3.00	2012	2021
Njord Unit	7.50	7.50	2015	2021
Norne Unit	54.00	54.00	2020	2026
Ormen Lange Unit	36.48	36.48	2046	2005/2006***
Oseberg South Unit	33.60	33.60	2030	2031
Oseberg Unit	33.60	33.60	2026	2031
Snorre Unit	30.00	30.00	2029	2015
Snøhvit Unit	30.00	30.00	2035	2035
Statfjord East Unit	30.00	30.00	2016	2009
Sygna Unit	30.00	30.00	2018	2009
Tor Unit	3.69	3.69	2028	2028
Troll Unit	56.00	56.00	2057	2030
Visund Unit	30.00	30.00	2028	2023
Åsgard Unit	35.50	35.50	2029	2027

Fields				
Draugen	47.88	47.88	2016	2024
Ekofisk	5.00	5.00	2028	2028
Eldfisk	5.00	5.00	2028	2028
Embla	5.00	5.00	2028	2028
Gullfaks	30.00	30.00	2027	2016
Gullfaks South	30.00	30.00	2020	2016
Heimdal	20.00	20.00	2006	2021
Kvitebjørn	30.00	30.00	2018	2031
Oseberg East	33.60	33.60	2024	2031
Skirne	30.00	30.00	2009	2025
Statfjord North	30.00	30.00	2018	2009
Tordis	30.00	30.00	2014	2024
Tune	40.00	40.00	2011	2015
Urd	24.55	-	2016	2026
Varg	30.00	30.00	2012	2011
Veslefrikk	37.00	37.00	2014	2015
Vigdis	30.00	30.00	2018	2024

Shut-in fields
Frøy Unit
East Frigg
West Ekofisk
Albuskjell
Cod
Edda

*** Sale of injection gas from Grane to 2033*

**** Ormen Lange licensees have applied for an extension of the licence until 2041*

Pipelines and land-based plants	At 31.12.04 Interest (%)	At 31.12.03 Interest (%)
Frostpipe	30.00	30.00
Oseberg Transport System (OTS)	48.38	48.38
Troll Oil Pipelines I + II	55.77	55.77
Grane Oil Pipeline	43.60	43.60
Kvitebjørn Oil Pipeline	30.00	30.00
Mongstad Terminal DA	35.00	35.00
Gassled****	38.29	38.29
Haltenpipe	57.81	57.81
Langeled******	32.95	32.72
Dunkerque Terminal DA*****	24.89	24.89
Zeepipe Terminal JV*****	18.76	18.76
Etanor DA	62.70	62.70
Vestprosess DA	41.00	41.00
Hammerfest LNG plant (Snøhvit)	30.00	30.00
Norsea Gas AS	40.01	40.01

The SDFI also has intangible fixed assets relating to sales and processing rights for LNG in the USA and gas storage in the UK.

**** *The interest in Gassled including Norsea Gas is 39.50%*

***** *Included in Gassled from 1 January 2003*

****** *Interest adjusted 24 June 2004 in connection with the approval of the unitisation agreement for the Ormen Lange Unit. Government approval given on 2 April of the same year. The northern leg (Nyhamna-Sleipner Riser) is 37.475 per cent, southern leg (Sleipner Riser-Easington) is 28.36 per cent*

SDFI resource accounts

Resource classes 1-8		Recoverable resources: Oil and NGL* mill scm	Recoverable resources: Gas bn scm	Recoverable resources: Oil equivalent mill scm
Resource classes 1-3	Reserves	397	997	1 394
Resource class 4	Resources in early planning phase	59	43	102
Resource class 5	Recovery likely but not clarified	47	38	86
Resource class 6	Recovery not very likely	13	2	15
Resource class 7	Resources which have not been evaluated	78	7	85
Resource class 8	Prospects	57	22	79
Total		**651**	**1 109**	**1 760**

** Including condensate*

Riksrevisjonen
Office of the Auditor General
of Norway

Audit of the accounts for 2004 for the state's direct financial interest in the petroleum activity

Pursuant to Act no 21 of 7 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 in the petroleum activity.

Following its annual audit, the Office of the Auditor General issues a final audit letter (report) which summarises the conclusions 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 October/November, pursuant to section 18 of the Auditor General Act.

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

Hans Conrad Hansen
Director general

Tom Arild Hanekamhaug
Deputy director general

Petoro AS income statement

All figures in NOK 1 000	Notes	2004	2003	2002
Invoiced government contribution	1	163 710	177 419	250 000
Other revenue		712	0	197
Deferred revenue	2	(5 875)	(15 400)	0
Deferred revenue recorded	2	4 279	524	0
Total operating revenue		**162 825**	**162 543**	**250 197**
Payroll expenses	3	74 637	72 751	53 994
Ordinary depreciation	4	4 646	924	295
Administrative fees		3 760	455	11 931
Accounting fees	12	16 868	20 583	29 893
Office expenses	11	10 274	12 204	14 893
ICT expenses	12	12 139	16 103	36 434
Other operating expenses	10, 12, 13	44 374	44 818	87 144
Total operating expenses		**166 699**	**167 837**	**234 584**
Operating income/(loss)		**(3 873)**	**(5 294)**	**15 613**
Financial income		1 010	2 034	3 931
Financial expense		(15)	(10)	(157)
Net financial result		**994**	**2 024**	**3 775**
Net income/(loss)		**(2 879)**	**(3 271)**	**19 388**
Transfers				
Coverage of uncovered loss		0	8 523	0
Transfer to other equity		(2 879)	(3 271)	10 865
Total transfers		**(2 879)**	**(3 271)**	**19 388**

Stavanger, 21 February 2005

Bente Rathe
Chair

Jørgen Lund
Deputy chair

Ingelise Arntsen
Director

Jan M Wennesland
Director

Olav K Christiansen
Director

John Magne Hvidsten
Worker director

Elen Carlson
Worker director

Kjell Pedersen
President and CEO

Petoro AS balance sheet

All figures in NOK 1 000	Notes	2004	2003	2002
ASSETS				
Fixed assets				
Operating equipment, fixtures	4, 12	17 020	15 792	1 315
Total tangible assets		**17 020**	**15 792**	**1 315**
Total fixed assets		**17 020**	**15 792**	**1 315**
Current assets				
Trade debtors		1 200	0	0
Other debtors	5	2 820	3 355	3 105
Bank deposits	6	59 439	73 815	73 296
Total current assets		**63 459**	**77 170**	**76 401**
TOTAL ASSETS		**80 479**	**92 961**	**77 716**
EQUITY AND LIABILITIES				
Equity				
Paid-in capital				
Share capital (10 000 shares at NOK 1 000)	7	10 000	10 000	10 000
Total paid-in capital		**10 000**	**10 000**	**10 000**
Retained earnings				
Other equity		4 716	7 595	10 865
Total retained equity	8	**4 716**	**7 595**	**10 865**
Total equity	8	**14 716**	**17 595**	**20 865**
Liabilities				
Provisions				
Pension liabilities	9	16 875	9 247	3 455
Deferred recording and government contribution	2	16 472	14 877	0
Total provisions		**33 347**	**24 124**	**3 455**
Current liabilities				
Trade creditors	13	5 571	14 021	27 062
Withheld taxes and social security		11 232	13 822	5 591
Other current liabilities		15 613	23 400	20 744
Total current liabilities		**32 416**	**51 243**	**53 397**
Total liabilities		**65 763**	**75 366**	**56 852**
TOTAL EQUITY AND LIABILITIES		**80 479**	**92 961**	**77 716**

Petoro AS cash flow statement

All figures in NOK 1 000	2004	2003	2002
NET CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from this year's operations*	1 767	(2 347)	19 683
Change in debtors	(665)	(250)	(1 079)
Change in trade creditors	(8 449)	(13 042)	16 595
Change in other accrued items	(1 154)	31 556	21 748
Net cash flow provided by operating activities	**(8 501)**	**15 918**	**56 947**
NET CASH FLOW FROM INVESTING ACTIVITIES			
Investments in tangible assets	(5 875)	(15 400)	(1 394)
Net cash flow from investing activities	**(5 875)**	**(15 400)**	**(1 394)**
NET CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue	0	0	0
Net cash flow from financing activities	**0**	**0**	**0**
Net changes in liquid assets	(14 376)	518	55 553
Cash and equivalents at 1 January	73 815	73 296	17 743
Cash and cash equivalents at 31 December	**59 439**	**73 815**	**73 296**

*This figure is obtained as follows

Net income/loss for the year	(2 879)	(3 271)	19 388
Ordinary depreciations	4 646	924	295
Cash generated from operations for the year	**1 767**	**(2 347)**	**19 683**

Petoro AS notes

ACCOUNTING PRINCIPLES FOR PETORO AS

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

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

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

The company had its third full operating year in 2004.

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

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

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

Current liabilities are carried at nominal value.

Debtors
Other debtors are carried at face value.

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

Pensions
The pension plan is treated for accounting purposes in accordance with the Norwegian Accounting Standard for Pension Costs. This standard requires the company's pension plan to be treated as a defined benefit plan. Future pension benefits are calculated on the basis of a straight-line earning of pension benefits and the estimated salary at the time of retirement. Deviations from actuarial estimates are recorded in their entirety this year.

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

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

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

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

NOTE 1 - GOVERNMENT CONTRIBUTION

The company received an operating contribution from the Norwegian government totalling NOK 163.7 million excluding VAT in 2004. The government contribution for the year and deferred recording of revenue, a total of 168.7 million, covered operating costs of 166.7 million. In addition, net investment in 2004 came to NOK 5.9 million. The net loss after financial items was NOK 2.9 million, which is covered from other equity.

NOTE 2 - DEFERRED REVENUE

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

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

Payroll expenses All figures in NOK 1 000	**2004**	**2003**	**2002**
Pay	44 902	44 826	34 216
National insurance contributions	8 875	7 558	6 667
Pensions (note 9)	16 477	15 614	9 235
Other benefits	4 383	4 754	3 876
Total	**74 637**	**72 751**	**53 994**
Employees at 31 December	59	55	52
Employees with a signed contract who had not started to work at 31 December	0	1	5

The company had an average of 57 employees during the 2004 fiscal year as against 55 in 2003 and 40 in 2002.

Remuneration of senior executives All figures in NOK 1 000		**Pay**	**Recorded pension liability**	**Other benefits**
President and CEO	Salary	2 505	1 514	116

The president’s retirement age is 62. He can choose to retire on a full pension upon reaching the age of 60. Should he exercise this right, he must make himself available to the company for 25 per cent of full-time work until the age of 62. Recorded pension liability represents the estimated cost for the year of the pension obligation for the president.

Directors’ fees
Fees paid in 2004 totalled NOK 270 000 for the chair and NOK 955 000 for the other directors combined.

NOTE 4 - TANGIBLE FIXED ASSETS

All figures in NOK 1 000	Fixed fittings, leased building	Equipment, etc	ICT	Total tangible assets
Purchase cost 1 Jan 04	3 075	6 787	7 182	17 043
Additions (purchased)	0	0	5 875	5 875
Disposals	0	0	0	0
Purchase cost at 31 Dec 04	**3 075**	**6 787**	**13 057**	**22 918**
Accumulated depreciation	349	2 462	3 087	5 898
Book value at 31 Dec 04	**2 725**	**4 325**	**9 970**	**17 020**
Depreciation for the year	280	1 542	2 825	4 646
Economic life	11 years	3/5 years	3 years	
Depreciation plan	Linear	Linear	Linear	
Annual rent, non-capitalised fixed assets		406	240	

NOTE 5 - OTHER DEBTORS

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

NOTE 6 - BANK DEPOSITS

Bank deposits comprise NOK 3 317 340 in withheld tax.

NOTE 7 - SHARE CAPITAL AND SHAREHOLDER INFORMATION

The share capital of the company at 31 December 2004 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 the shares have the same rights.

NOTE 8 - EQUITY

All figures in NOK 1 000	Share capital	Other equity
Equity at 1 Jan	**10 000**	**7 595**
Current changes in equity:		
Net income/(loss)	0	(2 879)
Equity at 31 Dec	**10 000**	**4 716**

NOTE 9 - PENSION COSTS, FUNDS AND LIABILITIES

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

Net pension cost All figures in NOK 1 000	**2004**	**2003**	**2002**
Net present value of benefits earned during the year	11 429	12 102	8 516
Interest expense on pension obligation	2 552	595	34
Return on pension funds	(2 447)	(661)	0
Recorded change in estimates	3 814	1 145	0
Employer’s NIC	2 164	1 858	1 206
Net pension cost	**17 512**	**15 039**	**9 756**

Net pension obligation All figures in NOK 1 000	**2004**	**2003**	**2002**
Estimated pension obligations at 31 Dec	56 518	22 619	9 125
Pension plan assets (market value) at 31 Dec	(41 729)	(14 515)	(6 097)
Capitalised pension obligations before employer’s NIC	14 789	8 104	3 028
Employer’s NIC	2 085	1 143	427
Net pension obligation	**16 875**	**9 247**	**3 455**

Financial assumptions:	
Discount rate	6.0%
Expected increase in pay/NI base rate	3.0%
Expected increase in pensions	2.5%
Expected return on plan assets	7.0%

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

NOTE 10 - AUDITOR’S FEES

Erga Revisjon AS is the auditor of Petoro AS. Fees charged by Erga Revisjon to Petoro for external auditing in 2004 totalled NOK 175 000 and an additional NOK 13 875 for consulting services.

In accordance with the Act on Government Auditing of 7 May 2004, the Auditor General is the external auditor for the SDFI.

Deloitte has been engaged as the internal auditor for the SDFI. Deloitte charged NOK 1,6 million for this service in 2004. Deloitte has also performed services relating to partner audits, reviewed pro and contra in connection to the 2002 SDFI sales, and provided services relating to the assessment of changed accounting principles applied for the reserves in the SDFI accounts. Deloitte charged a total of NOK 1.5 million for these services.

NOTE 11 - LEASES

The company has leased office premises from Smedvig Eiendom AS. This lease runs for 11 years after occupancy began in the autumn of 2003. The expected annual rent is NOK 5.4 million.

NOTE 12 - AGREEMENT WITH ACCENTURE

Petoro has concluded an agreement with Accenture covering accounting-related transaction processing and system applications for the SDFI and Petoro AS. This agreement was concluded in 2002 for five years, with an option for a further two years. Fees charged to the accounts in 2004 amounted to NOK 15.6 million. Other purchased services came to NOK 4.4 million, of which NOK 2.2 million is capitalised.

NOTE 13 - RELATED PARTIES

Statoil ASA and Petoro AS have the same owner in the Ministry of Petroleum and Energy, and are accordingly related parties. Petoro purchased services in 2004 relating to cost sharing for the audit of licence accounts, insurance services for the Government Petroleum Insurance Fund, the pro and contra settlement in connection with the disposal of SDFI assets in 2002, and other minor services. NOK 4.4 million was charged to the accounts in 2004 for the purchase of services from Statoil. These services have been purchased at market price on the basis of hours worked. At 31 December 2004, Petoro owed NOK 39 436 to Statoil. This amount is included under current liabilities in the balance sheet.

ERGA REVISJON as

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To the Annual Shareholders' Meeting of PETORO AS

Auditor`s report for 2004

We have audited the annual financial statements of the PETORO AS as of 31 December 2004, showing a loss of NOK 2 879 000. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and present the financial position of the Company as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, in accordance with good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good accounting practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Stavanger, 21 February 2005.
Erga Revisjon as

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


petoro

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